Fidelity Viewpoints®: Market Sense

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TRANSCRIPT

SPEAKERS:

Heather Hegedus Jurrien Timmer

HEATHER HEGEDUS: Hello, there, and thank you so much for joining us today for *Market Sense*. It is Tuesday, March 4, many dubbing this Tariff Tuesday. I'm Heather Hegedus with Fidelity.

So welcome to March, everybody. You know, February was a pretty choppy month for the markets. And so far, March looks like it might bring more of the same. It's still early, though. But after touching new all-time highs a few weeks ago, US stocks are currently down right now for the year. And we've got a lot to watch right now. We've got additional tariffs that went into effect today, a possible government shutdown that could happen next week. We've also got a Fed meeting later this month. And some of that seems to be weighing on the markets.

So to talk about what this all might mean for investors, watching this all alongside me is Jurrien Timmer, of course, Fidelity's director of global macro. And Jurrien, we are so fortunate today to have a one-on-one session with you. We want to answer some of the viewer questions that people wrote in that they specifically were looking for you to address, so I'm so excited to pick your brain for an entire 20 minutes today. And we picked a good day for it, right? So thanks for joining us.

JURRIEN TIMMER: Thank you very much. Great to see you.

HEATHER: And first of all, before we delve into this deeper conversation on tariffs and a potential government shutdown and the market headlines, I have to start off by congratulating you, Jurrien. Congratulations are in order because you're celebrating 30 years with Fidelity this month. So congratulations, my friend. And it's actually been four decades, actually, that you've been in the business. But what a ride.

I know we have a picture of you in the early 2000s, so not quite at the beginning of your Fidelity career. But first of all, I love the tie in the picture. Would you be willing to take us in the wayback machine for us? Tell us what was going on in the markets in 1995 when you came to the scene, and what was driving the market, and what were the risks back then?

JURRIEN: Yeah. So anyway, it's great to be here. And I'm actually in my home island of Aruba right now for Carnival. I had to cook for my whole extended family the last few days. But yeah. So I had been in New York for a different company, a Dutch bank, for 10 years. And that ran its course. And then I joined Fidelity exactly 30 years ago as a chartist in the fixed income group, so very bond centric, which is good, because it's easier to—it makes markets easier to understand when you understand how the bond market works and the interplay of interest rates.

And back then, actually, was a very bond-centric period because in 1994, Alan Greenspan, the then-chair of the Fed, had done a very significant rate hiking cycle. It created the worst bond bear market on record at the time. And in some ways, that reminds me very much of just a few years ago in 2022, when the Fed raised rates from 0 to 5, very big bond bear market. It caused the stock market to wobble. And then in '23 and '24, the stock market came roaring back, just like it did in '95, when I joined.

So even though history is always different, it only rhymes. But in this particular case, there were definitely some similarities. And for the people watching the show just over the last couple of years, I've often mentioned that 1994 cycle as one of the analogs.

HEATHER: Yeah, you've been through it all. You've seen tops. You've seen bottoms. You've seen booms. You've seen recessions. You've seen bubbles. I was curious—what were some of the biggest market moments that have really stuck out in your mind or that have stayed with you through the years? And is there anything that really surprised you as well about how the market has evolved in the last 30 to 40 years of your career?

JURRIEN: Yeah. It's actually amazing. I don't feel this old, but having gone through four decades, I've seen some stuff, you know? So I went—I lived through the '87 crash. Then in 1990, we had the savings and loan crisis. It was a mini recession, let's say. Then 1994—that rate cycle that I mentioned. 1998 was long-term capital management blowing up.

And then, of course, we had the dot-com bubble in 2000. Then we had the housing crisis and the Global Financial Crisis in 2008. That's still the—that's really still the big one. And then we had the Eurozone debt crisis in 2010, 2011. And then we had, of course, COVID in 2020.

So we lived through a lot of things. And one thing I've learned is that every time I think it can't get any crazier than this, it actually does. And so maybe I've just become cynical in my medium to old age.

But basically, really, nothing shocks me anymore. And you grow a little bit detached from it. And you just—when it happens—and, of course, we have people looking for guidance and wondering what to do. It's just to maintain that detachment and say, OK, we've seen this before. Maybe not exactly in the same way.

But to that point, with all these different cycles and these different crises over time, booms and busts, one thing I've learned from fact is that every single time, no matter how scary it looks, the market did eventually come back and went on to new all-time highs. And so that is a lesson not only in the markets, but in life, that things do get better. And it means we have to persevere and be disciplined not overreact emotionally and have a plan that will guide us through these periods.

And so if there's ever a lesson from the market, it's that the markets do always recover. Sometimes slowly, sometimes quickly. COVID was very, very quick. The Financial Crisis was pretty slow. But they do always recover.

HEATHER: Some things, for sure, to keep in mind, to look for that light at the end of the tunnel when you're in that moment. So of those big market moments that you just hit on, you mentioned '94 and Fed Chair Greenspan. I'm wondering if any of those moments—perhaps in '94, did any of those moments feel similar to where we are right now, or is this sort of uncharted territory where we find ourselves today, Jurrien?

JURRIEN: It's always a combination of uncharted territory and familiarity, right? So, again, history doesn't repeat, but it does rhyme. No analog is perfect, right? So it's never exactly like way back then or this particular cycle. But market behavior is a subset of human behavior. And humans kind of—they do the same thing. Maybe not the day after they just did it, but certainly, generationally, you tend to see a bubble. And so human behavior does tend to move in cycles.

And so what I try to do as a market scholar or what-have-you is to learn from, OK, when have we seen this particular component before? So, OK, the AI stocks. Does that look like 1999, when we had the dot-com boom? How the Fed is acting—does that look like '94?

And oftentimes, there are two or three different cycles where we can borrow bits and pieces from, all the way back to even before I was working at Fidelity. So one of them was the late '60s. There are actually some similarities. There and during COVID, I looked a lot at the 1940s, which is a time, obviously, during World War II, when monetary policy was subordinated behind fiscal policy.

And so that's kind of how we put the puzzle, the mosaic, together. And you have to be creative about it because it's never exactly the same, or it's never entirely different.

HEATHER: Never entirely different. OK. Let's talk about where we are right now, then, Jurrien. You've been talking for months about how this maturing bull market—it continues to mature but sort of hang on. But lately, we have seen some sideways volatility, as today—case in point. And that can be a hallmark of the later stages of a bull market. So I know I've asked you this before, but I don't know if your answer has changed since we last asked you this question. So does it now feel like we might finally be getting to the end of this bull market?

JURRIEN: I don't think so, but let's unpack the anatomy of a market cycle, if you will. So I think of a cycle as having chapters, right? So bull markets typically begin when it seems like the news couldn't get any worse. That happened, certainly, during COVID in March of 2020, back in October of 2022, when the current cyclical bull market started. Certainly, things looked dire. The Fed was raising rates. Inflation was a problem. It still is, in many ways.

But that first chapter is when the market goes from discounting things getting worse to discounting things getting less worse. So the markets are always operating on a rate of change basis. And the other thing to remember is that price always anticipates the future. Not always correctly, but it does always discount the future. And the market's always in a mode—in a place of price discovery. And that price discovery can happen quickly. It can happen slowly.

And so back then, the market started to eye, OK, maybe things are going to get less bad from here. And so price will always—not always, but it generally bottoms before earnings do, sometimes by a few quarters, sometimes by a year or more. And during that phase, it can be confusing for investors because the price of stocks will go up, so the Dow, the S&P, the NASDAQ.

But the fundamental news about the economy, about rates, or about earnings is still getting worse. And a lot of people are left scratching their heads saying, this doesn't make any sense. And it doesn't make sense until you realize that the market's always pricing in the future.

So during that early chapter—early phase, those early chapters, the market tends to go up a lot without support from earnings. Then about two to four quarters later, the earnings start to kick in, just like it did a year and a half ago in the third quarter of 2023.

And then the baton gets passed. We've talked about that a lot, from the PE phase to the earnings phase. And that's where we are right now. So earnings are growing double digits, very, very solid earnings growth. But now we're getting into the later innings or chapters.

And by that, I don't mean to suggest that the market is on the cusp of ending a bull market. But you get into the second half of the bull market, and other things start to matter, right? Because now you have earnings. That is carrying the load. But by this time, the PE side has maybe gotten stretched, which certainly has been the case this time. And the interest rate side starts to maybe cause some wobbles.

And that's been the case, really, for the last couple of years, where—when the 10-year treasury yield starts to go above 4 and 1/2, the market doesn't like that because the stock market needs to compete with the bond market for dollars. And if the bond market is getting to attractive yields, the stock market needs to pay attention to that.

And, of course, we're adding to that, things like tariffs and other parts of the new administration, immigration, et cetera. And again, those headlines start to matter more because the earnings have already come in, and the PE is sort of passing the baton.

So the median bull market is 30 months. We are at 29 months. But the median is a median of a very dispersed set of outcomes. And so I don't want anyone to think just, you know, we have one month to go. Like, that's not how to think of it because at this point, various key metrics will have an impact, including where interest rates and inflation go.

HEATHER: OK. So the median bull market—30 months. We're at 29 months, but that's, like you said, not to say one month, and then it's up. So many factors at play here. And one of those factors may be tariffs that went into effect today.

Just to recap for folks who haven't been listening or watching this morning to the headlines, it includes 25% tariffs on imports from Mexico and Canada and an additional 10% levy on China, bringing the total tariff rate on Chinese goods now to 20%.

As you can imagine, reaction was swift across the globe. China responded immediately, announcing retaliatory tariffs. Canadian Prime Minister Trudeau also is threatening the same. What do you think, Jurrien, could be the impact of these escalating trade barriers on the stock market, on investors, and on the economy?

JURRIEN: Well, I mean, this is, obviously, a very serious matter. And we're living through it right now. Most economists would argue that a trade war—and I don't want to say that we're in a trade war yet, but it certainly seems to be moving in that direction, potentially—but that a trade war is—nobody wins a trade war. It only has losers.

Maybe some countries lose more than others or lose less than others, but it's still a lose-lose proposition because it could increase inflation while decreasing growth. And decreasing growth and increasing inflation is called stagflation. And nobody wants to see stagflation. You don't want to see weaker growth and higher interest rates or higher inflation because that doesn't do good things to the valuation of either bonds or stocks.

But just to dial back for a moment, the election was, of course, in November. It was very decisive. And the market-friendly components of the incoming policies were quickly discounted. So, oh, less regulation, extended tax cuts. Who's going to be against that?

So that part of the incoming red wave, if you will, got discounted very quickly. And I think the market was sort of hoping, crossing their fingers, that the tariff stuff was bluff, that—

HEATHER: A game of chicken.

JURRIEN: —it was a negotiating tactic, and even if tariffs were to be implemented, they could be unimplemented very quickly because, again, it's part of the art of the deal. And that could still happen, of course. I mean, this could end tomorrow. We don't know.

But what I'm sensing is that that big rally we saw at the end of the year—the market was sort of taking the glass half full approach and saying, well, we don't know about the tariffs, but we're just going to hope for the best. And what we're seeing now is that the tariffs actually are happening. And as a result, the entire post-election rally has been unwound. Now it's like it's never happened.

And so that doesn't mean the market was wrong or right. But there's no way around making assumptions. And that, I think, was generally the assumption that the market made. And, of course, the market looked back to 2017, when there were tariffs as well. But they didn't break the economy. They didn't break the market.

And, again, I don't want to say this is the start of a trade war. Again, all of this could end tomorrow. But it's happening. And it's hard for the market to ignore that it actually is happening now. And I think that's what the reaction is that we're seeing.

HEATHER: OK. Well, thank you for breaking that down. And I think perhaps we will get a little bit more clarity tonight from the president as he delivers his first speech to a joint session of congress tonight. So we'll be watching that closely as well.

But along those lines, Jurrien, we often say here on *Market Sense,* investors shouldn't be making decisions based on 24-hour news cycles, right? I'm just curious if things feel perhaps slightly different to you this time, given the news cycle is so much faster these days. Things are changing so much more quickly than ever, it feels. And some of these developments do have not just a significance on the stock market, on one day in the stock market, but could also have some economic significance.

So I'm wondering if, in the late stage of a bull market, does it still make sense to ignore all the news cycle headlines?

JURRIEN: Yeah. So very little money is made on chasing short-term headlines, because you just end up getting whipsawed all the time. And again, for the bad headlines we saw yesterday and today, we might see a great one tomorrow that takes the S&P up 2% in one day.

And so I think for investors like you and me and everyone watching—it's just important to have a long-term plan—stocks are long duration assets—and to not make emotional decisions. And if your portfolio is overly affected by the headlines, maybe that's an opportunity to sit down with your advisor to make sure that you actually have the portfolio that you should be in, given your age and your years to retirement or whatever.

And so having—there's no bulletproof portfolio, but having a portfolio where the risk and the goals are in balance is very important. And not making emotional decisions is probably the most important thing. And we all do it, right? I mean, we're humans. It's in our nature to do so.

But investing is math, right? It's kind of cold-hearted, and it requires some detachment. And so we have to sort of live through these moments. And remember, the market—even though the stock market over the long term goes up 10%, 11% per year on average over the long term, it only rises about 60% or 70% of the time.

So that means 30% to 40% of the time, the market goes down, even though it still delivers those returns. And so how we behave and react or not react during that 30% to 40% is probably the most important thing to getting from here to there in retirement.

HEATHER: Investor behavior could certainly be another episode of *Market Sense*. But another thing that might be on investor's radar at this very moment in time, Jurrien, could be the issue of fiscal responsibility. We just went through this right before Christmas. Folks may have blacked that out a little bit, but that happened right before the holidays, that we ultimately averted a government shutdown.

But this current federal government spending plan expires a week from this Friday, March 14 now. And the absence of a new plan to continue funding government operations would trigger that shutdown. So normally, this kind of a scenario is something that the market tends to shrug off. I know you've said that before here. But with the issue of government funding tending to come up more and more and more, it feels like, is there a potential risk that it could pose to the markets or investors at some point down the line, if not now, then in the future?

JURRIEN: So, yeah. So just a history lesson on shutdowns—it's kind of ironic that we even have to talk about that. But fiscal cliffs, the debt ceiling being reached, and then if a debt ceiling is not reached or the impasse of a debt ceiling is not managed, you get, potentially, a shutdown.

And the irony in that is that congress spends the money, and if they spend more money than the government takes in, it's up to the treasury to finance that debt, which might include having to issue more debt, as has been the case in recent years. And if the debt ceiling doesn't allow for that, it needs to be changed.

But the money has already been spent by congress, which has been elected by the people. And so it's—it tends to be political theater, especially when different parties are in charge of—whether the Senate, the White House, the House of Representatives.

And right now, of course, the Republican party controls all three of these. And so it shouldn't be an issue, but—and historically, whenever it has happened, it has been short lived because, again, the government doesn't really have a choice. The money has been spent. You can't unspend it.

And so that's why the market tends to look through these things, because they tend to be short lived. It tends to be theater and not really anything substantive. If you don't want to raise the debt ceiling, then don't spend the money in the first place.

But, again, we're in a time where disruption seems to be part of the vibe. I mean, we're seeing it everywhere in Washington and elsewhere. And so I wouldn't put it past the current political system for—to actually have another shutdown. But again, historically, the market has looked through it because, again, the market is a long-duration asset, and these are short-duration events.

HEATHER: Well, it's certainly something we'll be watching for folks and talking about next week on *Market Sense*. I can't believe 20 minutes has already gone by. It's flown by talking to you, my friend. But I thought maybe a nice way to end this might be for you to leave us with some words of wisdom that you have from four decades of watching the markets that you want to impart the audience with. What do you think?

JURRIEN: Well, one of the main things I learned in 1995, 30 years ago—I was hired by the then-chairman Ned Johnson. And he instilled in me the concept of kaizen, which is the Japanese concept that Fidelity uses. And it's about small improvements over time, not only in investing, but in life, in work. So you don't have to hit that home run. You can just hit singles. And if you do that consistently enough, you're going to get places.

And I've been doing it 30 years, and here we are talking about it. So that notion of kaizen, of compounding maybe modest incremental efforts, but over a long time—that really makes a difference. And that, I think, is as good a metaphor for investing as I can think of.

HEATHER: Awesome. I love it. Kaizen. Everybody go look it up. And nobody I would rather be watching these developments with than you, Jurrien, so thank you so much, as always, for your expertise, for lending us your insights, and your unique take on things. We really appreciate it.

And we also always like to leave our audience at the end of a show with a resource. As Jurrien mentioned earlier, it's always a good idea to have a plan, stick with a plan. And sometimes that means looping an advisor into that discussion and into that conversation.

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Again, terrific conversation today, Jurrien. On behalf of Jurrien, I'm Heather Hegedus. Thank you so much for the pleasure of your time today. And we'll see you back here next week. Remember, we're always on Tuesdays at 2:00, live, Eastern. Take care, everybody.

[1]USA Today: February 28, 2025, https://www.msn.com/en-us/money/other/stock-market-breathes-a-quick-sigh-of-relief-over-inflation-data/ar-AA1zZGI8?ocid=entnewsntp&pc=U531&cvid=0d57037cda1242bde64bb9e5b7876a16&ei=12

[2]Associated Press: February 28, 2025: https://www.msn.com/en-us/money/other/consumers-cut-spending-by-most-in-four-years-last-month-even-as-inflation-fell/ar-AA1zZjGd?ocid=BingNewsVerp

[3]Bloomberg: March 3, 2025: US Car Prices Are Poised for $12,000 Surge on Trump's New Tariffs—Bloomberg

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