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TRANSCRIPT

SPEAKERS:

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HEATHER HEGEDUS: All right. Hello there, everybody, and thank you so much for tuning in for another episode of *Market Sense*. I'm Heather Hegedus with Fidelity.

This week, investors are going to once again be focused on earnings as major tech companies prepare to report their results. Markets are going to be watching whether recent weakness in chip stocks persists and whether rising Middle East tensions continue to put pressure on energy prices. But despite all of this, major indexes remain strong. Right now, the S&P is still up about 9% year to date, once again illustrating this market's just incredible resilience.

So joining us as he often does every week to help us break down these headlines and make sense of the markets, we are thrilled to be joined, as we often are, by Jurrien Timmer. Of course, he is Fidelity's Director of Global Macro, matching me today in his summer colors.

We are also pleased to welcome today to the show John Dance, who manages Fidelity's Emerging Markets Fund. Really excited to pick John's brain today, because emerging market stocks have been one of the top-performing asset classes for 2026, up roughly 17% year to date. If you're watching us, you see that on your screen right now. That's, of course, as measured by the MSCI Emerging Markets Index. So we are super excited to be talking to John today about this momentum happening within this asset class, and how investors might want to think about this space.

Hello there, gentlemen. And John, is g'day. The appropriate way to greet you, because you're Australian?

JOHN DANCE: G'day works all the time, Heather. Thanks for having me. Jurrien, good to see you, as well.

It's a pleasure to have John on the show. He's one of our big brains, and I always love to listen to what he has to say.

HEATHER: So with that, today is Tuesday, July 21, and Jurrien, want to start off with you and talk to you quickly about last week's chip sell off, which was the big headline of last week, leading to chip stocks entering a bear market. That was triggered, Jurrien, by some investors wondering whether the AI build out can keep achieving and accelerating and delivering the increasing demand for chips.

Separately, last week, we also—got that news about that Chinese AI lab that reportedly outperforms a lot of the competition here in the United States. Might have investors wondering, Jurrien, whether this chip sell off represents possibly something even more than just a temporary setback for AI stocks. How are you interpreting all of this?

JURRIEN TIMMER: So, of course, this is the question that everyone is asking every day. Is the boom over? Has it turned into a bubble, and is the bubble bursting? And certainly, if you look at some metrics, you look for instance, at semiconductor-linked ETFs, either in South Korea linked to the KOSPI index, which has been front and center in the semiconductor boom, or just here in the US, they've attracted a lot of flows, and a lot of that is what we would call fast money, people just jumping on the train because prices are moving up.

And since June 2, which is the last time that the S&P 500 made an all-time high, the semiconductors or just the AI space in general is down about 15%. And the KOSPI Index, which is the Korean index, is down 22%. And so people are asking the tough questions, the Chinese AI models versus the US, and how much money do the US models need, still, to build out that infrastructure, and how much is too much? What is the return on investment?

I actually welcome all these questions because to me, the critical questions being asked all the time tells me that this is not a bubble, because during bubbles, nobody is asking the tough questions. Everyone is just riding along.

And for me, one of the more constructive things that's happening in the market right now is that it is rotating. It is broadening, but it's broadening in a good way. And we've talked about this over the years that one of the risks that I am not concerned about, but that I'm conscious of is what we call concentration risk, where the top companies are so big that if they decide to move down, it's going to drag the market down with it, even if more stocks actually go up than down.

And so for me, it's heartening to see that since that June 2 peak, the S&P is down about 0.5% even though the AI names are down 15%, and so that's a good outcome. And the S&P Equal Weighted Index, where you don't have that capitalization-weighted bias, is up 2% since then. And the names that are not involved with AI, so the S&P 500 ex-AI, is up about 5%.

So to me. This is a really good outcome, that the market can rotate because things don't always go up all the time, but that the market can rotate and broaden in a relatively constructive way without it being a 20% decline or something like that. So, so far, so good.

HEATHER: So the rotation is a healthy reset in valuations, and possibly even an attractive entry point, a buying opportunity for some investors.

All right, John I want to talk to you—

JURRIEN: I could well be, yes.

HEATHER: Yeah? OK. I want to talk to you about AI, as well, John, and chips of course, on the emerging market space in a minute. But first of all, just because you're new to *Market Sense,* I thought maybe we should start by having you introduce yourself, by telling our audience in just a few sentences about your unique background, which I think has really prepared you for your role as a portfolio manager here, covering the emerging market space. And you've got that charming Australian accent, so tell us where you've lived in the world and how that's prepared you for your role here.

JOHN: Yeah, so thanks, Heather. Look, I've been at Fidelity almost 20 years to the week. My first ever meeting, actually, internally, was with Jurrien when I flew over here. And he told me all about all these different amazing charts that he puts together. It's still in the back of my mind, one about Napoleon going to Moscow that he showed me.

So yeah, as you can tell, I'm from Australia, originally. I started at Fidelity in Hong Kong. I then moved to London, back to Hong Kong, and then moved here in January 2020 to expand and see more of Latin America and the Middle East, but COVID led to me just seeing the bottom of my basement a little bit more, I guess, with everybody else for the first couple of years of that. So I've been in the US now around six years.

HEATHER: Around six years. I'm sorry that it started during the pandemic, but—and Jurrien, I want to hear about that chart sometime, with Napoleon. But it sounds like you've just had some terrific experiences, John, just like Jurrien, through the years, thanks to Fidelity.

When we talk about emerging markets, we are talking about dozens of countries across the globe. And up until last year, emerging markets, as I had mentioned at the top of the show, had a relatively long stretch of underperformance in comparison to US stocks. And that has really changed. So what changed, and what do you think is driving this recent success for EM?

JOHN: Yeah, look, I think of emerging markets as having 80% of the world's population and representing something like the mid-20s percent of global market cap. And what that breadth gives you is lots and lots of different opportunities. I think what has recently driven performance in the more recent history this time around has been what we talked about a little bit earlier, which is the demand for AI, the fact that a large part of what we're seeing in terms of the production of semiconductors, be it memory or leading edge logic chips, a lot of that happens in my markets.

And so as a consequence of that, there's giant ecosystems that have been built around those two areas in Korea and in Taiwan. So that's one of the large drivers. But given the breadth, there's been a whole bunch of other things going on, as well. The weakening of the US dollar has made markets such as mine more interesting, especially in other areas like materials. Obviously, a large part of the world's energy is produced in emerging markets. And then there's just this continued growth in the demand and demographics of the middle income in places like India, places like China, places like the Middle East becoming global principalities. So there are all these different drivers, the principal one being, as we talked about, just continued resurgence in interest in intelligence contained within silicon.

HEATHER: We had a list on the screen, for people just listening to us as a podcast, of all of the countries that are considered or classified to be within the emerging markets umbrella. It includes both developed countries, but also countries in the EU. And another thing that makes this field so fascinating, that makes EM so fascinating, is the companies inside the asset class are so different. We're talking about a grocery store chain in Poland, semiconductors in Taiwan. I mean, it's truly the definition of diversification. Would you agree?

So I have to imagine navigating that even just the different time zones as a portfolio manager is challenging. I don't really know when you sleep, when you're trying to keep track of all of these time zones. But with so much variation, what specific characteristics or fundamentals are you looking for when you are talking to some of these companies? What's the common thread that you're looking for?

JOHN: Yeah, Heather, you're correct in saying the sun never sets on emerging markets, so I sleep when I can. I also have two small children, so I've learnt that I'm a professional black belt napper now.

HEATHER: Yeah, you're used to sleep deprivation.

JOHN: Correct. What I'm really looking for, I call bottoms up. So I'm looking stock by stock and I call what I try and do structural growth investing, which is really superior business models. Think of that Munger-Buffet sort of moat idea of high quality businesses, fantastic management, great products and services. But I really need them married to improving customer value propositions. So by that, I mean improving value for money, making things cheaper, making things better, a combination of both, and continuous focus on that improvement for your customers. And I think that keeps a company ahead of their competitors, and it keeps them less looking in the rear view mirror, and more thinking about what they can do to make their customers' lives better.

I think I get lots of opportunities, like you mentioned, just given the geographic diversity of the markets in which I'm looking to find those sorts of companies. And the strategy for me, which makes the most sense, is really getting boots on the ground, meeting management teams, making sure that I understand what the opportunity sets in these different markets are and going from there.

So I was in Greece last week on a holiday, which is in emerging markets, even though it's one of the better performing countries in Europe. And I got to meet some companies at the end of the holiday as a result. And it really helped being there the week before to understand the environment in which they're operating. So that's sort of what I try and do, maybe less on holiday and more just generally, is making sure that myself and the team are out there meeting companies and finding the ones that meet the criteria that I sort of spoke about earlier.

HEATHER: That is real commitment, John, even on your holiday. But yeah, bottom up investing, it sounds like you're looking at those individual companies closely. You're really digging into their books rather than making bets on the trajectory of any particular country.

JOHN: Correct. Look, I have to consider the macro, and that's why it's great to get to speak to Jurrien and read his weekly newsletters and things like that internally for the intelligence that he brings to the table, because the thing about emerging markets is while there is huge amounts of growth and development and exciting rising middle income, we also have large swathes of geopolitical risk. We run the gamut when it comes to degrees of inflation. I have everything from deflation in places like China to hyperinflation in places like Turkey and everything in between.

So the macro matters. I'm really trying to avoid the bad outcomes from a macro perspective, which allows me to spend most of my time focused on finding those better businesses.

HEATHER: Well, speaking of the macro, Jurrien, let's involve you in this conversation, as well. Investors might think about opportunities outside of the US and worry about potential volatility and geopolitical risks in some of these developing nations. So I'm wondering from you, as our Director of Global Macro, how do you think about emerging markets and the risks that are involved?

JURRIEN: So I kind of divide the world into three spheres. There's the US, North America, there's what we call the IFA Index, which is the non-US developed market. So think Europe, Japan, Australia, New Zealand, Canada, countries like that. And then there's emerging markets, which you can think of China as, of course, a major component of that, India, Latin America. And then the new, more recently the AI semiconductor space, Korea, Taiwan. I was just in both countries a few weeks ago, and just really interesting to see what's happening there.

So I like to paint the world with a broad brush, especially these days, when the US has dominated the landscape. Since 2014, it's been really the Mag Seven or the large cap growth segment in the US that has dominated. And so I'm particularly interested in diversifying away from that because those companies are issuing stock now. They're buying back fewer shares.

And then so you have then the developed markets, which are a little bit more predictable. Japan, sort of an export story. Europe is more of a value, more financials. And then EM is really, really interesting because it's so different.

And this is why I've always been of the view that active management for EM is really a very useful tool because you have the deep value in China, you've got the growth story in India, you've got the commodity story in South America, and now you have the semiconductor story. And if you're just buying one index, what exactly is moving at that time? So having someone kick the tires of all these companies, as John does, and his team, is very useful because that is where the potential growth is in the future, at a time when the US has really dominated the global landscape for so long.

HEATHER: Well, John, let's bring you back in. Jurrien just mentioned semiconductors, and I did want to drill down into some of the themes that we are seeing in these emerging markets, and AI probably being the biggest one right now that you are spending a lot of time on, talking about, of course, like I said, the physical hardware side of the AI movement, so the things that make up a data center, chips, memory. And some of those things are manufactured in the US by foreign companies, many from emerging markets, but a lot of that's being manufactured outside of the US. And that makes emerging markets a form of the AI play, an important part of the AI build out, as well.

There's only a handful of companies, though, that have dominated this build out right now outside of the US. Can you talk about that and how concentrated that is?

JOHN: Yeah, look, I think about Korea and Taiwan as parts of the broader Western ecosystem when it comes to semiconductor manufacturing. And we're now seeing a bunch of companies in both markets, over half a trillion dollars or more, some beyond that. And the reason why they're getting to that size is that the demand for memory and the demand for leading edge semiconductors is continuing to grow.

I think we are all finding—I am, at least in my life, use cases for AI, and the use case continues to grow. And I find that at home. I find that in my day at work. And I think it's happening in a manner that's non-linear. And as a consequence, it's caught some people by surprise. But the ecosystems transcend those businesses and go very far down the production curve.

There's a second layer of this, as well, which you mentioned earlier, Heather, around Chinese models. And I think of the Chinese ecosystem in AI as somewhat separate and endemic to what we see in the West because of some of the restrictions on their access to leading edge semiconductors. They are going it alone in terms of how they think about what they need to build in their own stack.

So we hear about the five layer cake of AI, from models to DCs to chips to power. They're trying to be relevant to themselves, and therefore, I guess, able to export it in the future across all of those layers. And the simple way I think about it is that the United States is long the capability for semiconductors and short power.

China is the opposite. They're very long power. They're adding a Germany a year to their power grid, but they don't have access to those very leading semiconductors. So they're trying to move in a different path to what we're seeing from the rest of the world, and time will tell as to which one produces the better AI that we all end up using, or if they're both relevant. But at the moment, we're so early in this phase of growth, I think that both are relevant and exciting places to look at.

HEATHER: Jurrien, we mentioned off the top of the show—we can bring you back in—that emerging markets have been a top-performing asset class for 2026. But when it comes to asset allocation, do we even think about them as a diversifier? Because John is talking about how right now, a lot of this EM is AI stocks. So how might investors think about EM and the role that EM can play in a portfolio?

JURRIEN: So it, of course, varies depending on which time frame you're looking at. But right now, it is fairly correlated because AI is moving the needle in the US and it's moving the needle, certainly, in Korea and Taiwan, and to some degree in China. So it depends on which region you look at. It used to be that India was the big star of the show, and it's been pretty quiet over there.

China is actually completely uncorrelated as a country market, the MSCI China Index, to the S&P 500. And of course, if you then go to Latin America and you think about commodities, commodities are a volatile asset class, but they've been completely uncorrelated as well. So for EM, it really depends on where within EM you're looking, because parts of it are going to be very correlated as part of that momentum trade, that is, the semiconductor AI build out theme, and then other parts are going to be completely uncorrelated. So again, active tends to be better in a highly fragmented ecosystem like EM than just taking a passive approach.

HEATHER: Active investing versus passive. And somebody like John, who as you put, John and his team, who can kick the tires a little bit and can do the traveling, it just makes more sense. They can do a lot more than an investor like you or I could do, unless we have unlimited miles, I guess, to travel.

JOHN: We're getting close.

HEATHER: I can only imagine the points you have racked up, John.

JURRIEN: And I would just add, and not to put words in John's mouth, but what I've always heard from especially our EM portfolio managers is that they're not looking so much as I'm buying this country and I'm not buying that country. They're buying stocks, and the stock could be anywhere. It could be in any industry. And you build up a nice organic portfolio that is less about regions and sectors and more just about finding the next winners. But again, John, I'll let you speak to that.

JOHN: No, I think you're exactly right, Jurrien. The diversification benefit I get from first principles because of my philosophy is really important to understand.

Like you mentioned, the supermarket, the managers of the supermarket in Poland wake up every day thinking about how to grow their sausage sales, literally, and they don't spend any time thinking about leading edge semiconductors in Taiwan. And the Taiwanese leading edge semiconductor companies aren't really thinking about energy production in Brazil.

And so I get a natural economic diversification, which leads hopefully over time to financial diversification as a consequence of spreading the resources across these different opportunities around the globe. And they run the gamut, as Jurrien mentioned, in terms of the types of exposures. As long as the themes, as I mentioned, are good businesses getting better, I can find that in Brazil. I can find that in Mexico. They're in India, they're in China, they're in Korea. Some of them are the flavor of the month at the moment, and some of them are less regarded and hopefully will be more exciting in the future.

HEATHER: The true definition of bottom up investing, it sounds like.

And before we go, John, I just wanted to close by asking if you have any final thoughts on where you see emerging markets going from here, given the strong rally that we saw this year. Do you think this rally is durable, and is this going to continue on this trajectory, or are we still going to be talking about EM at the end of the year? And do you think this is a long term opportunity, potentially, for investors?

JOHN: Look, I would hearken back to the last two long periods of growth that emerging markets have had in the '90s, and then in the early 2000s, when China joined the WTO. I think that we're in one of those periods now. I'm meeting more companies with lots of opportunities.

What we're seeing really is a globalization of some of these businesses. We're seeing an increased demand within emerging markets to trade with each other. And we're seeing new, fantastic businesses being stood up by creative entrepreneurs who have access to technology and are finding it easier to get access to capital and starting businesses with large TAMs with the rising middle class in their home markets. So for me, I think that this is a long run story, and I think there's lots of opportunities to come as a consequence.

HEATHER: Terrific. Well, you've piqued my interest, John. And I lost track of the time, because we are past the 20 minute mark, but this has just been such a fascinating conversation. Before we go, we like to end the show, though, with Timmer's Take, where we get Jurrien's take on what he's watching in the week ahead. So, Jurrien, quickly, can you give us a quick idea of what's on your mind right now?

JURRIEN: Two words, earnings season. We're just getting started. Expectations are super, super high, and we'll see if they get beat and what the companies are saying about how much they're spending on AI and how much of a result they're seeing from it. So that's really the focus of the day.

HEATHER: All right. We've got to leave it at that. But Jurrien and John, just a terrific, super timely discussion and terrific insights, context, and perspective from both of you. Truly appreciate you both making the time. And I know that you both are so busy with your jobs, your day jobs.

For everybody out there watching and listening, we always like to leave you with a resource at the end of the show. Today's resource is our Portfolio Manager Insights page on Fidelity.com, which is Fidelity.com/PMInsights, again, PM for Portfolio Manager. And on that page, you will find articles and videos from portfolio managers just like John talking about the sectors and asset classes they're thinking about these days and what's on their radar and on their minds, as well.

All right. On behalf of Jurrien and John, I'm Heather Hegedus. Hope to see you right back here next Tuesday. Remember, we're on Live Tuesdays at 2:00 Eastern. And also next week, Jurrien, I know another Timmer's Take thing that you're going to be watching is next week's July Fed meeting. We're going to be talking with one of our *Market Sense* all-time favorite guests, Julian Potenza, one of our star bond portfolio managers here at Fidelity, as we watch that Fed meeting closely. All right. Have a great rest of your week, everybody. Take care.