

# Fidelity Viewpoints®: Market Sense

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## TRANSCRIPT

### SPEAKERS:

Heather Hegedus Jurrien Timmer Ryan Oldham

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**HEATHER HEGEDUS:** Hey there, everybody. Thank you so much for making the time today to join us for another episode of *Market Sense*. I'm Heather Hegedus with Fidelity. So February is off to an eventful start already. We have seen volatility in both directions, both up and down, with investors weighing AI concerns. But on the other hand, we have approximately 300 companies that have reported quarter 4 earnings, and about 79% are beating estimates by about 8 percentage points. So that's positive news.

It's also a big week right now for economic data reporting, and we're watching that. And to talk about potential investor takeaways today, we are joined, as we often are, by Fidelity's Director of Global Macro, of course, Jurrien Timmer. We're also excited today to welcome to the show a new face, Ryan Oldham. He's a Fidelity Portfolio Manager and Research Director here who has long standing experience investing in the gold space. And he's joining us today to unpack the remarkable run that we have seen as of late in gold and silver and what's changed following the recent pullback from record highs.

And we developed this topic for today's show based on both the timeliness of it, but also your viewer questions. We have received dozens and dozens of viewer questions on this topic. So I'm so excited to dig into these questions and get them answered for you today. And welcome to the show, Ryan. It's good to see you.

**RYAN OLDHAM:** Thank you very much. Happy to be here.

**JURRIEN TIMMER:** Great to see you both, and a pleasure, Ryan, my longtime colleague, to welcome you on the show.

**RYAN:** Thanks.

**HEATHER:** Yeah, it's about time, Ryan. Today is Tuesday, February 10. Before we start talking gold, I just want to get caught up quickly on the latest market headlines, always plenty to talk about, Jurrien. We need to talk about that tech sell-off last week. But then there was that remarkable rally on Friday.

So as I said, up and down, lots of movement lately. What do you think this pullback was about? What's going on with the Mag 7 as of late? And is there a risk that could pull the whole market down?

**JURRIEN:** So that has been one of my concerns over, really, the last few years. One concern was rising interest rates, and the other one was what we call concentration risk, that obviously the Mag 7 have been just these powerhouses of stocks, quintupling in price since the bull market started in 2022. But the top 10 stocks are 40% of the market. So if they ever went down, the S&P 500 index as it probably would go down with it, even if the majority of stocks go up.

Fortunately, that has not happened. And hopefully, it won't. And what we're seeing, really, for the first few weeks of the year is a very resilient market where we are seeing rotation away from the Mag 7 into industrials, financials, other areas of the market. But it's happening in a rising market. So the Mag 7 peaked out in October, November of last year. They have gone nowhere since then. But they haven't gone down in a meaningful way, either.

And in the meantime, the rest of the market, the 493, if you will, have been making new highs. And about 70% of stocks in the S&P are in uptrends. And we were all looking at the headlines last week about AI and who are the winners and losers. And were the hyperscalers spending too much money on CapEx, and were the software stocks going to become commoditized by all of these algorithms?

And very quietly, out of the blue on Friday, the Dow Jones hit 50,000. And it's just—it's a very nice thing to see that the market is broadening in a way that is not what we would call a zero-sum game. So it's good news for investors. We don't know if it will continue, but hopefully, it will. And the market, as you mentioned earnings, is leaning on the fact that earnings are growing at about 12%, 13% per year. The five-year rate of change is 15%, 14%. And the estimates for 2026 and '27 keep rising. So that's a very strong fundamental momentum that the market is rallying on.

**HEATHER:** So now more people are paying attention to the S&P 493, as you said.

**JURRIEN:** Yes.

**HEATHER:** We've woken up a little bit. Ryan, I want to bring you into the conversation now and talk about the other big topic that's been in the headlines lately, and that's gold. So again, a big thank you to all of our viewers who wrote in after registering for the show on Fidelity.com. A lot of them asked, Ryan, about using gold as a hedge against inflation.

So, Cindy, Mark, Steven, Teresa, Leonard, we see you. Thank you so much for your questions. You all had that same question. Ryan, we saw this surge then. Since then, there's been this modest pullback. What has been the key driver behind all of this?

**RYAN:** Sure, yeah. No, happy to talk about it, and thank you again for having me on. I think the message I want to get across today, where I start with, is that I'm pretty—moderately bullish on the three-to-five-year view. But I think we need to start from the fact that animal spirits have been pretty strong. Gold has really surged the last little bit, and it's been on extreme side.

I see gold, if we unpack this, as driven by three things, real rates—and I'll define these things as we go—systemic risk, and geopolitics. The fundamental, it's imperfect. But inflation and rates together are real rates. And so when I talk about real rates it's really like the headline rate you see on the news minus inflation. This is the fundamental driver for gold.

Then geopolitics and systemic risk are how I think about the multiple and driver of sentiment. In the systemic risk category, a driver over the last couple of years has been central banks and the weakness in the dollar. The surge began about three years ago when central banks shifted from the dollar, starting when Russia's foreign reserves were frozen. Even before trade wars, policy uncertainty, central banks have been shifting for a while now.

In emerging market economies, if I was them, I understand what they're doing. They're shifting away from the dollar because they saw what happened to China. And they've been big buyers for their central bank reserves to not be stuck in the US currency as a reserve. So this large institutional buying has really put a floor underneath prices.

A second driver for momentum has been the interplay of inflation and rates. We talked about that already. And the third one would be the ongoing political uncertainty presenting in different ways—Fed independence, social cohesion in the United States, global trade tensions, armed conflict.

Overall, the US stepping away from its leadership globally is obviously good for gold. Gold demand is partly due to many investors' view/perception that the world could become increasingly fractured versus the America of post-World War II to present, which has been really largely built on institutions.

**HEATHER:** So there hasn't been a single driver. There's been three main drivers that you just pinpointed. And I know, today, we're going to try to do our best to unpack what might be more long-term themes, Ryan, versus what might simply be fears.

One thing we did want to talk about, though, is what is happening with the US dollar right now. And Jurrien, you've been writing a lot about that. So I wanted to turn to you about that and talk about what the gold rally might mean for the dollar being the world's primary reserve currency.

Gold prices typically rise when the US dollar weakens. Can you explain that and explain the potential implications of this for the economy and for investors?

**JURRIEN:** Yeah, and so just to echo on what Ryan was saying—and I agree with him as to what the drivers are—so the driver he mentioned, the big one, is the dollar standard that was in existence during and following World War II, the Bretton Woods accord and, really, since then, it's really been the dollar as the primary Reserve currency around the world. And that position has been eroding. And it's been eroding against other currencies, but also against gold.

So if you think about it, currencies are—the gold people would say it's "soft money," and gold is hard money. It's a hard currency. And so one has been taking market share of the other. So if you think about global central bank reserves, and you have currencies like the yen, the euro, the dollar, the Chinese yuan, et cetera, and you have gold, gold is taking market share.

Gold is now the second-largest reserve asset in the world behind the dollar and ahead even of the euro. And so one is replacing—not replacing. That's a strong word. But one is taking market share for the other. So it would make sense that the two are different sides of the same coin. The dollar goes down, the gold goes up.

And there's another element, and Ryan hit on this, as well. And that is that we're living in a world where a lot of countries have a lot of debt. And the US certainly is trying to outgrow the debt, and it's doing so by running very large deficits and issuing a lot of treasuries, et cetera. Japan has been doing the same thing. Even Europe is kind of going in that direction.

And that is causing the global money supply to accelerate, as well. And again, think of it as "fiat" money, as the crypto and gold people like to call it, and hard money. And so it's sort of a battle between the two. And that's where the dollar sort of gets caught up in.

**HEATHER:** Jurrien, it seems to me this isn't just circumstance. From what you have been describing and what Ryan has been describing, these are real signals about investors' feelings about what is happening in the world. Is that concerning to you? And if so, how do we get back to a more normal environment?

**JURRIEN:** I don't know that we will, although someday, we will call what we now think of as an abnormal environment, probably as the new normal environment because these things take time, and we get used to them. But it is a new world order, if you will, from dollar exceptionalism, if you will, to now different spheres of influence. You can call it that.

And you can think of it as, let's say, China gets blamed for weaponizing its rare-earth minerals because it mines 70% of them. And that gives them an advantage on the geopolitical world stage. China could argue that the US is doing the same thing with its dollar reserves, that it's weaponizing them. And in Russia, you saw that when it invaded the Ukraine, that dollar assets were frozen.

So I don't think that we're going to go back to the old unipolar world order. And I think the multipolar world order is probably here to stay. And then, on top of that, I mentioned the fiscal side. We call it fiscal dominance, where fiscal policy becomes so "dominant," for the lack of a better word, because the debt levels are so high—and that has to do with demographics, et cetera—that countries have to do something to pay for that debt and to kind of inflate their way out of the debt. And that is also a new normal that I don't know is going to change anytime soon.

So fortunately for investors, there are ways to mitigate that, to diversify around that. But I do think that is the new reality of the day. And that's why gold has been running now, for about three, four years straight, at two very high levels.

**HEATHER:** Well, speaking of diversification, a lot of the viewer and listener—I should mention listener because we're also a podcast—questions that we have gotten in advance of this episode had to do with buying gold as a potential portfolio diversifier and an opportunity, as well. But Carlos, for example, asked, how do you invest in mining stocks? Milko wanted how to position a portfolio with gold.

Ryan, you'd probably be the person to answer this for us. Can you talk about some of the different ways investors can get some exposure to gold, if they are curious about it?

**RYAN:** Sure. No, happy to. Look, the first place to start is probably gold and gold bullion. Historically, you get the price, right? If gold prices go up, that's the return you get. It can be clumsy. At scale, it's hard to own gold due to the storage and security. Imagine 80 bars of gold in your house. You would start to worry about it a little bit.

**HEATHER:** You'd need a better alarm system, for sure, if you have that.

**RYAN:** You'd need a better alarm system, yeah. Big fees. So there's physical limits to actually owning gold and gold bullion. You can offset that by owning an ETF that will own physical gold. So you get a lot of the attributes of the physical gold without being able to touch it and use it as a doorstop. But you have liquidity. So you're able to get in and out of a gold ETF with a lot of the same attributes.

And then you could also use a futures portfolio product to do the same thing at, generally, a lower cost with more liquidity. But that brings some systemic risk of what if there's a weird movement in the forwards. And then, ultimately, and what I do mostly, obviously, as a portfolio manager, is buying the actual gold equities.

Gold equities come with them a set of challenges. Obviously, if you're bullish on gold, sometimes the gold stocks don't go up one for one with the gold price. They have the concept of operating leverage. You're also subject to management decisions and capital allocation.

But with skill and study, you can do quite well with gold equities because of the operating leverage concept, where when gold prices go up, they often go up more. So that's the ways you can generally buy gold.

**HEATHER:** And can you talk a little bit more about individual gold stocks, which seems to be probably what a lot of our viewers and listeners are writing about and wondering about? Can you talk about each type of gold company investors can consider? Because I know there's a wide range here and a wide range of business models, and with that comes varying levels of risk. So could you walk us through those levels of risk with each option?

**RYAN:** Yes of course. So you can start at the top, the least risky—and these offer the lower risk—would be the streaming and royalty companies. They have no operating leverage. But they get a piece of the industry's volume growth, and they participate in price with no capital or production cost exposure.

Effectively, what they do is, over the long run, over many, many years, they've financed the industry and in exchange have gotten a royalty on gold mines around the world. They're very well diversified. And again, it's sort of like they just sit there and collect checks from the industry. So that would be the lowest-risk place to play.

Then next would be the senior miners—largest-cap producers, they're diversified assets, sometimes diversified jurisdictions, more mature, and often have to acquire to grow. These would be the larger-cap producers. Then you have the intermediate and junior companies. They have less assets. They're a little more concentrated. Sometimes they're less mature. You can often find, if you do the right work, a high-growth asset that's very attractive with a low cost structure. But they can be a little more risky, on average, versus the seniors.

And then, finally, and some might say most interesting, depending on how you view the world—

**HEATHER:** Or scary.

**RYAN:** Or scary—you have the exploratory/development companies. There's a wide range of them. You can get a rank exploration company that really just has land in a place, often a jungle in a place you've never heard of, and they're looking for gold.

Next would be a development asset, which is a pre-development asset, like a mine plan, where it's a plan to build something. And then last would be, in this category, the lower risk of these type would be a development asset, where they have a plan, they found the gold, and they're building the asset. But this category would be the highest risk of the gold-mining industry.

**HEATHER:** OK, so various levels of risk, but the overall theme does seem to be that there is some element of risk. So given how volatile this space can be, Jurrien, how should investors think about potential gold allocation? What are the main considerations to think about in terms of your portfolio mix?

**JURRIEN:** So that's a question I get very, very often, wherever I happen to be, at client events. And I always have to hedge my answer by saying that it's different for everyone. It depends on your risk, tolerance, et cetera.

But let's give a generic answer here, that if you start with a 60/40 portfolio, what are you solving for when you think about gold, or you're interested in gold? Generally, as Ryan said earlier, it's a loss of purchasing power. So if real rates, after inflation, go down, like happened in 2020 during COVID—rates went to 0%, inflation went to 9%, so that's a very sharp loss of purchasing power—that's generally when hard assets or hard currencies like gold do very well.

And so where in a portfolio would you want to own that? It wouldn't necessarily be against stocks. And again, this is just my personal opinion. So this is not investment advice. But stocks can do well with inflation because they collect earnings. They produce earnings in nominal terms. And they can benefit from that.

But bonds generally do not do well. So if you start with a 60/40, personally, I would look at the 40 and say, let me take a little sliver out of that and put it in "hard currencies." And again, that could be commodities in general. It could be gold. It could be crypto. It could be a bunch of different things.

But again, it depends. Then you have to measure for volatility, how much upside is there. And bonds generally are not that volatile, although they were in 2022. But that's something you want to sit down with a financial advisor and say, OK, if I had 5%, what would that do to my portfolio if gold all of a sudden goes down 20%? I mean, it almost did that just recently. And so those are the questions you want to ask. But the primary question is, out of what bucket do I want to take assets, the 60 or the 40, and then put it in gold.

**HEATHER:** What bucket do I want to hedge against? That makes total sense. We already talked about gold. We're a little bit tight on time, Ryan, but we can't forget about silver, which you call gold's companion. It's also been hitting new highs. And historically, those two metals tend to rally together. What's been going on in that space? And how do those two differ from an investment standpoint?

**RYAN:** Sure, yeah. I mean, I can cover this quickly. If you think gold is risky, let's talk about silver. Silver's the black sheep of the family, like Cousin Eddie in National Lampoon's Christmas Vacation. Might be a lot of fun, but he might blow up your house. Silver's the second derivative of gold. It's kind of like an option on gold.

What it really is is they kind of travel together in a ratio. When speculative fervor is strong, the ratio narrows. When speculative fervor subsides, the ratio expands. So at the bottom of a cycle, silver will—and in an up cycle, silver will always move more, right?

And the reason is it doesn't have the institutional support of gold. Gold is 99% held by central banks. Silver is a fraction, obviously, within the 1%. So it's always going to be a lot more speculative of a metal. It just doesn't have the backing.

It is more of an industrial metal. 58% of silver demand comes from industrial applications, like solar panels, battery technology, et cetera. But it really is the more operating leverage, levered play on precious metals and purchasing power, versus gold being the real blue chip version of that.

**HEATHER:** And what about copper?

**RYAN:** I mean, copper, we could talk a whole day just on copper.

**HEATHER:** Maybe we'll have you back.

**RYAN:** Yeah. Copper's the industrious civil engineer cousin to gold and silver that goes into industrial projects. We call copper Dr. Copper because the price of copper often reflects what's happening in the real economy. It goes into housing, it goes into AI spend. It goes into EVs. It goes into grid hardening.

All of those things, all the themes we're talking about in the industrial economy, copper is a major player in. And again, we can talk about it for days because there is an interesting story happening in copper, on top of the fact that there's a supply deficit.

**HEATHER:** And then, lastly, what would you say to viewers who wrote in and felt a little bit of FOMO because this gold rally has been going on since, what, last June, so wondering if they missed the precious metals bandwagon and too late to get in on it?

**RYAN:** Yeah, I mean, look, there's no doubt every metal medal carries its own risk. And there's been a ton of momentum that's been behind gold and silver. But in the long run, if we're talking about protecting purchasing power and reducing long-term portfolio volatility, then, yeah, I can have a compelling case for your portfolio.

But I think you have to go back to what I said and, to some degree, what Jurrien said, which is that, yes, long-term tailwinds, a lot of the things that are happening, it's hard to see them kind of subsiding. But this recent rally—call it \$3,500 to \$5,500—is more procyclical than the sort of longer-term inflation forces, right? So yes, gold is known as an excellent diversifier. But I think you need to separate the timelines. And if you're thinking about protecting your portfolio and a portion of your 60/40 allocation, totally.

But if you're like, I want to just chase this momentum, that's a totally different decision. So I think people should think about those two decisions when they think about it because what we saw a couple weeks ago with the sudden change in direction of where the market thought the Fed appointment would go, is it sort of changed the dynamics of gold and silver very quickly. And I can't call those directions. I sort of know that the three-to-five-year story is positive longer-term, but who knows what happens in the short term.

**HEATHER:** Well, I think you gave our audience a terrific sense, Ryan, of just how complex this can be to navigate and, given the various levels of risk in the space, why active management by somebody like you who studies this for a living—you've been doing this for decades—might be a good way to go about this whole thing. But fantastic, timely conversation. Jurrien, what are you watching this week? We have time for a really quick question for you on a Timmer's Take.

**JURRIEN:** Just wrapping up earnings season. We got the payrolls tomorrow. But other than that, the market, I think, is in a good place.

**HEATHER:** All right, thank you to both of you. We could have gone on for a while. We got to get Ryan on again, Jurrien. Where have you been hiding this guy? He was fantastic.

**JURRIEN:** He's amazing. He's amazing.

**RYAN:** Thank you.

**HEATHER:** And hopefully, we answered as many of our viewer and listener questions as possible. So before we go, we always love to leave you guys with a resource. And if you want to research the latest stock pricing and performance, as well as investment ideas like gold or silver or copper, you can use Fidelity's free screener for that, stock screener. You can head to [Fidelity.com/FidelityETFScreeener](https://Fidelity.com/FidelityETFScreeener). And you will need to log in with your Fidelity username and password to access that, and then the URL will take you there.

On behalf of Jurrien Timmer and Ryan Oldham, I'm Heather Hegedus. Thanks so much for your time. Remember, we are on live Tuesdays at 2:00 Eastern and also wherever you get your podcasts.

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