Monthly Market Podcast December *(TRANSCRIPT)*

LARS: Hello, I'm Lars Schuster, institutional portfolio manager with Fidelity Strategic Advisors Incorporated. Welcome to the Fidelity Investment Insight podcast series. To help us understand the current market environment, I'm joined today by Dirk Hofschire, senior vice president of asset allocation research with Fidelity Investments. Welcome to the program, Dirk.

DIRK: It's great to be here.

LARS: So Dirk, as we're getting close to wrapping up another year, what are some of your views of what's been going on in the markets most recently?

DIRK: Well, sure, it's been sort of an exciting finish to the year here. We had the U.S. elections and a huge initial reaction, sort of a sharp and swift move in the markets almost immediately after the election results here in the U.S. U.S. stocks in general have been going up. U.S. bonds in general have been going down, as yields have risen, and a lot of that sort of reflects some enthusiasm on the part of investors that maybe growth is going to pick up in the U.S., and that has a large part to do with some of the policies the people are hopeful about that have been espoused on the campaign trail or coming out of Washington D.C. now as potentials for 2017: tax reform, tax cuts, lighter touch on regulation for corporations, maybe some stimulus through infrastructure spending. And so as stocks are up, it's benefited some of those sectors like small caps and financials and industrials that would benefit the most from some of those potential changes in policies, but it hasn't been all positive across the board. So as rates have gone up, obviously bonds gone down, the dollar's also strengthened a lot, so it hasn't been as good for international equities and especially in some of those areas like emerging markets and Mexico that may be on the front lines of some of the anti-trade rhetoric that we saw during the campaign. So you put it together and it is a big reaction to the election, quite a movement in asset prices really here in the last few weeks of the year.

LARS: So post-election hasn't been great for everything for investable assets, but given the reaction in the markets, what are investors to think of it?

DIRK: Well I think when you kind of think about putting a wrap here on 2016, there's a lot that we don't know going into next year, and so we really are sort of guessing as to what some of those policy changes might be. So one of the things I like to focus on always is thinking about what do we know, and that goes back to some of the business cycle. When you think about when we came into this year, we really anticipated two big things were going to happen: one, we were going to get some stabilization in the global economy, and secondly, we were going to see inflationary pressures start to pick up. So as we think about this, those trends have actually become apparent as the year has unfolded, and they actually became apparent well before the November election. So, globally, China's had a lot of stimulus. Its growth has improved. You've seen leading economic indicators around the world tick up. The worst of the trade industrial global recession we saw last year has really come to an end, and commodity prices have recovered. In the U.S., we've continued to have a nice expansion, we've got tighter labor markets, wages have started to accelerate. So the interesting thing about 2016 is that at midyear we actually had all-time-low bond yields and not much of this good news about the economy had really been reflected in asset prices. But since midyear, and again, way before the election, bond yields have been moving up, inflation indicators have been rising, so I think the story for 2016 is going to end up being that the markets got comfortable, that global and U.S. growth is okay, inflation risks are maybe a little bit higher than people had expected.

LARS: So that's the wrap-up for 2016. What about looking ahead to 2017, around the cycle, the business cycle, around the markets? What are some of your views there?

DIRK: So a couple big things. I think the first is we're going to carry forward those trends that I just mentioned about growth and inflation here to start 2017, and especially that there are some inflation risks to the upside as we push later and later into the business cycle. The second thing is this policy side. There's obviously tremendous uncertainty. The Trump election victory I think has just widened the distribution of potential outcomes, and there is growth upside, maybe more than they otherwise would have been, and that could end up being good for stocks. But there's a lot of other things that can happen as well, and we have to keep in mind where the economy is cyclically today. We're now below five percent unemployment. You have to wonder how much we can boost growth at this phase of the cycle, how much inflation we might get, and then how much the Federal Reserve may decide to start hiking interest rates on the other side, as well as all the policy risk you have in places like Europe, with a lot of elections next year, and China. So you put this all together from an asset allocation standpoint, I think we will start 2017 hoping that growth does pick up and kind of expecting inflation to pick up. The U.S. should stay in expansion but it'll be later in the cycle with a lot of policy uncertainty. So what we would say is this is not necessary the time for big cyclical tilts. We'd stick kind of closer to what our strategic positioning among different asset categories would be, have a lot of diversification, and on the margins, be a little bit concerned about the potential pickup in inflation.

LARS: Well, thanks very much for your comments today Dirk.

DIRK: My pleasure.

LASRS: We appreciate your insight regarding the current market environment and look forward to speaking with you in the very near future.

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