John Sweeney: Welcome everyone. And thank you for joining us here, live, at Starbucks headquarters in Seattle, and for those of you tuning in on the web. The theme for our discussion today is Turning Points. If you've been following the market over the last few weeks, you know it feels like we may have reached a turning point. Volatility has certainly spiked. And as we speak, the Federal Reserve is meeting, and they're expecting to announce tomorrow afternoon whether they're going to raise interest rates or stand still. So there's another market-moving event that could be just around the corner.

So let's recap what's happened this year. We spent much of the year with the S&P 500 trading in a narrow range, and it's ended roughly flat. Then, August happened. The Dow has had its biggest point drop ever, dropping 1000 points in a single day. Volatility hit levels not seen in years. And the S&P is down about 3% through this afternoon's trading session. Options contracts suggest that volatility could remain elevated for months. Internationally, the story has been similar. Gains from the early part of the year have reversed in Japan and Europe. And China, which had a huge run up in the first half of the year, has lost 60% since June. And while the year has turned rocky, it's important to keep these events in perspective. Since the bull market in the US started in March of 2009, each of these markets has posted dramatic gains, with the S&P climbing from under 700 to roughly 2000 today. So the recent dip, while dramatic, has done little to undo the gains of recent years.

And, as usual, the reasons for the recent market action are complex. Three big headlines are in front of the media today: a slowdown in China, the world's second-largest economy; uncertainty about monetary policy in the US; and a dramatic drop in the prices for oil and other commodities. And at the same time, the bond market -- usually the staid and dependable part of our portfolio -- faces serious questions. Bond prices rise when rates fall, and rates have been falling for a long time. That's been a big challenge for investors looking to their portfolios for income, but it's created positive returns for bond-fund investors. But tomorrow, the Fed may announce the first rate hike in nearly a decade, and bond investors have to wonder what will a new rate regime means for their portfolios?

So, there's a lot for us to talk about. We want you to join in the conversation as well. So ask questions or comment using #FidViewpoints, and follow me on Twitter @SweeneyFidelity.

Before the event, we asked you some survey questions – and I want to look at two answers that you provided for us.

First, as of this afternoon, the year-to-date return for the S&P 500 was down 3%. We asked you what you think the full year return for the S&P 500 will be…and here's what you said. 41% said you thought the S&P 500 will be up 0 – 5% by the end of the year, 26% thought it would be flat, with another 18% thinking its going to continue in the negative territory and be down 5% by the end of the year.

And we also wanted to know where do you think -- what do you think will happen at tomorrow's Fed meeting? Will the interest rates remain flat? Will they actually rise? We're seeing results that say more than a third of you say no change in September. More than 50% think they're going to raise by 25 basis points. And very few think they're going to raise by a rate more than 25 basis points.

So, I'm going to start with each of you. Just a quick yes/no. Are they going to stand pat tomorrow at the Fed, or are they going to raise? What do you think? I'll start with you, Ken Leech, joining us from Southern California where you oversee about half a trillion dollars in assets for Western Asset Management. Ken, what do you think?

Ken Leech: We don't think they're going to go. We think it's a close call, but we don't think they're going now.

John Sweeney: OK, Fergus Shiel, joining us from Boston where you manage about $9 billion in domestic equities for Fidelity Investments. What do you think?

Fergus Shiel: I think it's going to go up.

John Sweeney: You think it's going to go. Nelli Oster, joining us from San Francisco, where you're a global-investment strategist for BlackRock. What do you think?

Nelli Oster: We think December is more likely.

John Sweeney: December is more likely. Marc Seidner, joining us from Southern California where you're a managing director at PIMCO and a CIO. What does PIMCO think?

Marc Seidner: Well, you have to differentiate, John, between what they will do and what they should do.

John Sweeney: OK.

Marc Seidner: What will they do? They'll probably stand pat, as Ken said. What should they do? They should be raising interesting rates.

John Sweeney: OK. And lastly, to the far left, Sammy Simnegar, joining us from Fidelity in Boston, where he manages international portfolios for Fidelity. What do you think, Sammy, is going to happen tomorrow?

Sammy Simnegar: Nothing.

John Sweeney: Nothing. All right. So, the consensus here around the table seems to suggest not much. Ken, I'll come back to you. And give us the why, and what data are they going to be looking at?

Ken Leech: Well, we would agree that they should be raising rates, but before the end of the year. And then we think that that's a likelihood. I think the recent turbulence which you alluded to, and some of the challenges internationally, along with the fact that inflation is still very, very subdued, ultimately will cause them to delay and not move tomorrow.

John Sweeney: OK. Fergus, how about your perspective?

Fergus Shiel: Well, I think there's been a lot of noise and a lot of carry on about this interest-rate rise. And we've been hearing about it in the media for months and months. It's a story that'll never go away. But I think, in fairness to the Fed, they've been extremely careful, and they've been very careful about their messaging. And this has gone on for about a year or so. So, I think it's perhaps not so much about whether rates go up tomorrow, but more about what's the signal for how is the Fed going to act over the next year or two. They've laid the groundwork. They've had it out there in the marketplace that rates can go up. And to some extent, it seems to me that, if they don't put them up, they become the boy that cried wolf.

So if they're going to be taken seriously, I think that they can't just keep dragging the conversation on without there being some sort of resolution. The more key factor is what's the outlook? Do they intend to raise rates quickly, or slowly and deliberately? I think it's probably going to be slowly and deliberately. And I also think that if they put it off too much longer, they start to run into the political calendar of the presidential elections next year. And the Fed is nothing if not politically astute, and I don't think they're going to want to be placed in a position where either one party or the other says they're trying to favor a specific outcome to the US elections by moving rates. So if they're going to do it, I think it's going to be now. And they've had it out there for about nine months. If not now, when?

John Sweeney: OK. Nelli, your perspective?

Nelli Oster: Considering the economic data, arguably, the Fed could have already moved by now. If we look at the labor market especially, the recovery has been quite strong, unemployment rate at 5.1%. Job creation over the last two and a half years almost six million positions filled -- that's more than in the prior 13 years put together before that. So, arguably, they may have already missed their opportunity given the recent market volatility, which was spurred by some other concerns over global growth and Chinese growth especially. Given that, early in the year, we had less volatility and we had very accommodative monetary policies from the EC with

the European Central Bank, and the Bank of Japan supporting the markets. So we think that, economically, they could move already. But most likely, that's going to happen by the end of the year.

John Sweeney: Great. Marc, your perspective?

Marc Seidner: Nelli said much of what I would comment on. The Fed takes their dual mandate very seriously. And from an employment perspective, with the unemployment rate having fallen from over 10% to just north of 5%, they have the justification to raise interest rates from an employment perspective alone. But inflation has been perplexingly low, and that is a question that many ponder. Why isn't there observable inflation in major economic statistics? Why hasn't inflation emerged yet, given the decline in unemployment rates and the hiring that's taken place in the labor force? And they will probably use that as a reason to stand pat for at least another period of time, probably until at least December, at which they'll be able to assess if the incoming data continues to be strong and if there are signs that inflation is picking up. The breakeven inflation rate on inflation-protected bonds is telling us that inflation is going to be well below their 2% target for much of the coming horizon, 5 to 10 years from now. And that's a signal they can't ignore.

Add to that increasingly volatility from overseas, from China, and from other areas of the globe. There's just a heightened uncertainty. We put probability at less than 50% that they move tomorrow. The market probability is actually about 30%. And so, it's quite interesting that your crowd, or the survey respondents, actually think that there's a higher probability. It's 54%, if I remember your statistics, saying that there would be a hike of 25 basis points tomorrow. So the group that's listening in is a little bit more hawkish than this panel, and in the market. And I will tell you that the person who responded more than 1% rise in interest rates tomorrow -- the 1.2% responded in that matter -- I'd like to meet them, because I'd really like to have a conversation with them.

John Sweeney: They're looking for income on their portfolios, aren't they?

Marc Seider: Yeah, they would like some income. They're tired of six years of repressed savings rates.

John Sweeney: I think you're right. Sammy?

Sammy Simnegar: So I'll give you the bull case and the bear case.

John Sweeney: Good.

Sammy Simnegar: The bull case is, we just had the Jewish holidays, so it's the new year for us. And we have a tradition that we're supposed to buy our wives clothing and jewelry. So this year, my wife asked for a Tesla. So that's the bull case for interest rates going up, OK? The bear case is, inflation is low. The unemployment rate -- while the headline number looks like it's low, if you look at the white collar versus blue collar, or college education/without college education, it's highly bifurcated. You have many, many different things going on. There's a lot of global volatility. The dollar has been extra strong. You know, we're actually importing deflation. The internet and the excess capacity built out into China, which we'll talk about later, to me suggests that long-term interest rates are likely to stay low.

And then, finally, from a stock-picking perspective, and with all due respect, I think it's much ado about nothing. A company like Starbucks, which I own -- Starbucks, right? So, if you think about it, their growing comp's mid-single-digits. They're rolling out square footage. They're growing earnings 13, 14, 15, 16 percent. And, you know, I've been here since this afternoon. I'm kind of jittery because a lot of free Starbucks this afternoon. They might actually beat their quota based on what I consumed today, but that's a different discussion.

So the point is that, you know, for many of the stocks that I hold -- and I think many of us hold -- whether its healthcare names, consumer-discretionary names, even if rates go up to 100 BPS, 150 BPS, I really don't think it's going to move the needle, especially with gasoline prices being where they are, oil prices where they are. There's a lot of money that's gone into consumers' pockets. So I'm really not spending a lot of time thinking about it.

John Sweeney: So Tesla is the new bling for your wife, is that right?

Sammy Simnegar: I hope not. Sweetie, please don't...

John Sweeney: So let's talk about global growth. Where is the growth in consumer-discretionary stocks coming from? Is it domestically, in the US? Is it from overseas? Where do you see that growth coming from?

Sammy Simnegar: I mean, it's a combination of both, you know? You have certain categories where there's a lot of growth that's under-indexed to China. For example, when we look at Nike or Starbucks or other companies, their sales in China relative to the potential is significantly well below what it could be. As an example, Starbucks has 22,000 stores globally. I just studied up Starbucks before I came, so... About half of them are outside the US, and half of them are in the US. Now, there's about 1000 stores in China -- so, one-tenth the number of stores. But China's population is four times that of the US.

John Sweeney: Right.

Sammy Simnegar: Anyone know what's the biggest market for Starbucks in the world, in terms of cities? Which city has the most number of Starbucks? Seoul, Korea -- 284 stores as of last count. So I'm bringing up examples of companies that have massive runways for growth, and that are being underappreciated. Companies like Mead Johnson Nutrition, with baby formula and so forth -- again, they've taken up prices a lot, and now there's companies coming, undercutting them, and they're going to be under some pressure. So I think it's a stock picker's market, and, you know, there's going to be great opportunities to generate money for shareholders.

John Sweeney: Great, good. We talked about China as being one of the other big factors. You mentioned it a little bit. Nelli, can I turn to you and ask about China? It's the world's second-largest economy, but how important is it to global growth? And how much should it affect the minds of US investors?

Nelli Oster: It's a very good question. So, obviously, China is the second-largest economy in the world. And with the recent growth concerns over China, whether their 7% is going to go down to 6.9% or even below that this year; nobody really knows what's really going on with those numbers. The impact of that has really sort of resonated around the global markets, especially those that have either large commodity exposure -- you can think of Brazil, Australia, some of these countries that have really suffered from the expectation of lower demand from a country that is shifting away from infrastructure investment into more of a consumer-driven economy. And those countries that export a lot to China otherwise, like European companies, especially Germany, where we actually think that right now there's some value, potentially, in that space.

The other channel through which it does affect the global markets is through sentiment. So, especially right now that there's expectations for the Fed to hike, we do expect the volatility in the global equity markets to continue at heightened levels, especially relative to the recent years in history. And as a result, that type of sentiment shifts can have a big impact, not just on the local equity market but also globally.

John Sweeney: Ken, do you have a perspective on China and what's going on there? And how are you looking at the opportunity?

Ken Leech: I think Nelli is on point. The big change in sentiment in the markets has really been the change in people's sentiment and outlook for China. If you think about four months ago, if we were in this room talking about the global economy, everyone was optimistic. The US stock market was good. Europe was good. China's stock market was racing, and yet the Chinese data was weak even then. I mean, I don't think the global growth dynamic has changed that dramatically in terms of the actual statistics, but certainly the way that market mood shifts are so spectacular.

At that time, when people would talk about China, you'd look at the weak data and you'd go, boy, China looks like it's slowing. Maybe there's a challenge. Maybe we should be nervous. And yet, people were saying no, no, what you're missing is that China has tremendous willingness and laws to stimulate. They've cut interest rates. They've cut reserve requirements. They're willing to do fiscal stimulus. Historically, they've had a lot of

levers to pull. Maybe that's the benefit of not having the democratic challenges we all know in the United States, with the wrangling in Washington.

And here we are, four months later, and now the stock market is down. Pessimism is abundant. Nelli just laid out the case for all the challenges in the commodities space, as well. But, from our perspective, Chinese growth, by the end of the year, should turn out to be manageable. The stimulus that people were talking about then still, we think, feeds through. And so, the difference now is that if Chinese growth turns out to be OK that's bullish, whereas four months ago that might have been considered bearish. So I think, from our perspective, markets are too pessimistic.

What changes in China mean for stock picking

John Sweeney: So, Fergus, from your perspective, Nelli talked about a shift from an infrastructure investment in China to one in consumer discretionary. What opportunity does that create for domestic stocks that might be exporting to China?

Fergus Shiel: Well, the easy answer would be to say, if you're selling machinery or something into China that has been part of this huge infrastructure build over the last 10 or 15 years, then things perhaps look a little tough for you, at least in the short term. However, if you're selling consumer products into China, it's quite different. I mean, Sammy brought up Starbucks, and I think Starbucks comps in China and Asia Pacific were like 11% last quarter. What's wrong with that? Nothing. Apple seems to be well able to sell phones in there. Nike seems to be able to sell. So, this transition of China from an infrastructure economy to a consumer-driven economy is something that perhaps had to happen anyway. It's happened to most developed economies, and now it's happening to them.

The problem is, it doesn't happen just with a waving of a stick. It takes time. It takes time to make this transition, and it takes time to transition away, and to work down inventories in places where perhaps inventories have been built up on the infrastructure side. So if you're trying to sell copper or coal into China,

you're choking. But if you're selling tennis shoes, business seems to be quite all right. And the consumers there are ready, willing, and able to spend. Chinese consumers are all over Europe because Europe's, I suppose, on sale these days with what's happened with the euro. There doesn't seem to be any massive pullback or a massive recession in China.

The last thing I'd say about China is, it's this huge, mysterious object that everyone always points to. But to Ken's point, I don't know how much has really changed. But we try to think of it as, oh, there's been some massive shift there. But I don't know. Nobody really knew how fast they were growing last year. Nobody really knew how fast they were growing any year. They just gave an official number that people all doubted. And now they're giving another official number that people are doubting, but it's really, actually, very difficult to put your finger on how fast were they growing, how fast are they growing. If they slow down a bit, well, you know, with an economy that size -- when you're the second-largest economy in the world -- you can't think that you're going to grow 8% a year forever. You're just not. You have to slow down. But slower growth can be just fine. And I think there's going to be a lot of opportunity for companies attacking the consumer market in China.

John Sweeney: Excellent. So, Marc, can I turn to you? So, the Chinese government is a big buyer of US government debt. As they try and prop up their own financial system, they focus on domestic issues. And when they try and right the ship that they have in China itself, what does that mean for their interest in US government securities?

Marc Seidner: So, the reports through the month of August were that China was selling a lot of Treasuries. And just to broaden it out a little bit, China has gone from really a source of global stability to a source of global uncertainty. And that's really the problem that's emerged over the course of the last six weeks. We have tended to have a below-consensus view on Chinese growth. We didn't think it was seven, seven and a half. We thought it was more six, six and a half. Our view over the next 12 months is, it's probably somewhere between five and a half and six and a half percent. But we still don't even know if the reported numbers are really accurate, of what is going on in the underlying economic trends.

So China is a leader of global growth, and the certainty around which you could account for China as a leader of global growth has become more uncertain. And then we had this little event on August 12th where the stability of the Chinese currency, or the Chinese policy, which was really to run a rather stable currency-- we all checked our Bloomberg's that night and realized that the Chinese had devalued their currency by 5% or so. And that was quite a surprise and quite a shock. Now, there's two interpretations of what the Chinese are trying to accomplish. One is the positive interpretation, which is they are trying to create a more open capital account which allows them to become part of the global-reserve-currency basket, the IMF, the strategic reserve. But there's a more nefarious interpretation, which some still have, which is this is China attempting to devalue their currency so that they can go back to a mercantilist, export-led model, and export deflation to the rest of the world. And this is one of the concerns of that the Fed and other central banks have, that we really don't know what the new policy is. We don't know whether or not it is a deflationary policy that will, to use a well-worn phrase, "beggar thy neighbor," and try to steal market share from other countries in the region and globally.

With regard to their purchase of Treasuries, how they manage their currency matters. If they allow their currency to continue to devalue, they will have to buy more Treasuries, and China will continue to be a stabilizing force. If they manage at a slower pace of devaluation, and there are capital flows outside of the country, they are going to have to sell more and more of their significant holdings of Treasuries. And that was one of the interesting observations about the month of August from an asset-allocation perspective, from a market perspective. With the S&P down as much as it was, and with a thousand-point day, bonds didn't really work. So bonds were not the anchor to windward in August that they should have been. Treasuries didn't provide positive returns to offset or to ride ballast for negative returns of an equity market, and China was part of the question.

But there's a broader and sort of more significant question: at this level of valuation, this level of interest rates, and at this point in the Federal Reserve cycle, are bonds breaking down in terms of their role as a diversifier across a broad portfolio? We don't have the answer, but I think we need to pay close attention to determine what that answer is.

John Sweeney: That's really interesting. Ken, Nelli, do you have a perspective on the role that bonds are playing in a client's portfolio today?

Ken Leech: Well, I agree. I mean, bonds have been really the ballast of portfolios -- the perfect way, as Marc put it. And bonds have been the antidote to the weakness in the equity prices and fixed income. You know, if you own high-yield or corporate bonds, having a complement of Treasuries which really protects you in the risk-off periods, has been beneficial. And August was the first month we've seen in probably -- what did you say, Marc? -- in several years where that really did break down pretty meaningfully. And we would agree that the likelihood is that the Chinese selling had a meaningful part in that.

John Sweeney: Interesting. Nelli, your perspective?

Opportunities today

Nelli Oster: Yeah, looking at the bigger picture, overall we actually still prefer equities over fixed-income instruments, especially based on valuations today; and considering the environment of growth in the US that is, while slow, still positive; and the inflation environment, which is quite muted, but again, still positive. So the Fed is likely to start hiking, if not tomorrow, by the end of the year. And as a result, we think that there are more opportunities in the equity space.

Having said that, in the US, especially if we focus on earnings over the business cycle rather than the latest earnings or the next forecasted earnings, overall valuations in the US equity markets are no longer cheap. In fact, they're quite fully valued. So as a result, within the US equity market, we're quite selective. So we tend to have more cyclical exposure -- more towards technology companies, a little bit of a preference for financial companies, for example -- while we're more cautious on companies that are likely to be more vulnerable to rising rates. So these are the high-dividend payers like utility companies, some telecom companies, and also companies that have seen good price momentum. So, effectively, that have seen good returns over the last six to nine to twelve months, because generally speaking, when volatility rises -- and we're in that environment today -- it tends to be the case that there's price-trends breakdown. And once you have those

price trends breaking down, these tend to be the securities that tend to underperform the market. So this is where we start getting into some of the consumer names, for example, in the US -- both consumer-discretionary and consumer-staples companies.

The other thing that we have in terms of portfolio allocation is, we're actually underweight US equities relative to international equities. So we like Europe and Eurozone, more specifically, and Japanese equities relative to the US. That's partially based on relative valuations, but partially due to the growth trends that we're seeing -- different geographically -- and especially earnings-growth trends, which tend to be more positive today in Europe and in Japan. And also, the overall policy: so while in the US -- presumably followed by the Bank of England -- the central bank is looking to hike rates soon, in Europe and in Japan the monetary policy continues very accommodative. They're running very large asset-purchase programs today, that they could even be upping in the coming months. And this is likely to be a tailwind for equities in those geographies, and help with the investor sentiment.

John Sweeney: Sammy, you have a point of view?

245 Summer Digital Signage Clip

Sammy Simnegar: Yeah, I completely disagree with the notion that the US is very expensive. I think it's one of the cheapest markets in the world for a few reasons. Number one, everyone just talks about the headline P/E. The headline P/E is completely irrelevant. And the reason is, the question is how much of that earnings gets converted into free cash flow? What's the discount rate? How broad is the market? Brazil, for example, trades at a 10 or 11 P/E, and the discount rate is 14% risk-free. So, you have a negative earnings yield if you look at it that way. Whereas the S&P is trading at, let's say, 17 times, 6% earnings yield, versus the 2% 10-year Treasury. You're getting a positive spread, first of all.

Second of all, the S&P basically buys back or pays dividends equal to 5% of the market cap every year. So the dividend yield is called two, two and a half, and the buy back two and a half percent on the shares. So the natural total return of the S&P is 5% that they give back to you every year.

Finally, you know, everyone looks at the long-run P/E. Again, you have to look at everything compared to the discount rate. We've never had interest rates as low as they are today. Now, the global growth outlook is also relatively poor. But having said all of that, I think you always have to take it into context.

Russia -- everyone says Russia is a very cheap market. Yeah, because it trades at seven or eight times earnings. Well, first of all, you don't know which asset is going to be confiscated when. You don't know how much money is being siphoned off. You don't know how much cash you're actually generating. Therefore, there should be a massive discount rate associated with those cash flows, because they're not real. They're fictitious.

So, the US -- real earnings, real accounting, real cash flow, real governance. So I think that's not to be underestimated in the global marketplace.

John Sweeney: So this from a guy who manages international portfolios.

Sammy Simnegar: That's right. I have a very large exposure to not only direct US stocks, but to European companies such as Wolseley and Ashtead that are geared to US construction; such as companies like Tata Consultancy; and others who have a lot of business in North America, and are tied into to US dollar. So I'm just saying that, you know, I call it like it is, and this is what I'm seeing today.

John Sweeney: So, the listing venue is not necessarily where they're making their earnings, and you're focused on the earnings and where they're generating earnings. Is that right?

Sammy Simnegar: That's correct.

John Sweeney: Good. Nelli, you have a rebuttal?

Nelli Oster: I think one of the challenges for US equities today is where margins are today. So if we're in an environment where rates are going up and wages are still going up, and increasingly so, arguably, margins for US companies are going to start coming under pressure. And they're going to be in a tough environment to generate earnings growth as a result. Because if, generally speaking, the growth environment is so positive that the Fed will hike rates, that will make it harder for them to generate revenues. On the other hand, if this wage growth and rate hikes actually come through, that will also compress their margins. So overall, this type of earnings-growth estimates that we're seeing in the markets, especially for 2016 today, may actually need to come down from here, especially if we continue seeing strength in the US dollar, and a pressure in the commodity space -- energy space, especially -- which was the main drag for US companies' earnings in the first half of the year.

John Sweeney: So let me go back to something you said earlier. You said that you like technology companies. I would assume that companies that are investing in technology will do so as a way to offset or replace or reduce the cost of labor, to try and keep a cap on some of those wage-inflation pressures. Is that right?

Nelli Oster: Yeah, it's an interesting thing. If we look at the capital-expenditure trends over the last few years, they've actually been relatively soft by historical standards. So arguably, companies that want to retain their competitive edge will need to be investing more into technology, in the coming months and years. So this will help revenue streams for technology companies.

But there's another reason why we like tech companies, which is that, in our view, they tend to be a little bit more hedged towards rising rates than some other more debt-laden companies such as utilities companies. So tech companies today are sitting on record amounts of cash. And they're starting to deploy that cash into higher dividends and share buybacks. So not only are they directly impacted from the rate hikes by having to pay less in interest, but they can also increase dividends into an environment where some of the traditional high-dividend payers like utilities are likely to come under pressure.

In addition to that, generally speaking, valuations are still quite reasonable, and earnings growth is very strong. So, overall, we're actually quite constructive on the tech space.

John Sweeney: Interesting. So, Fergus, can I turn to you? Sectors -- Nelli likes technology. What about you? What sectors are you finding attractive?

Fergus Shiel: I'm not a big sector person. I mean, take, for instance, something like technology. I don't know what it means. I mean, if you think of technology, you have Facebook on the one hand. You have companies like Paychecks that are deemed to be technology companies, at least in terms of the way we often designate these things. And yet, they're quite different companies and quite different investment prospects. So I think you have to go stock by stock, and take a look, and see.

One thing that I'd like to come back to, though, a little bit is this whole idea that the US market is expensive or cheap, and the idea of margins. I think earnings growth in the US over this cycle has been reasonable, but it has come on the back of margins. And I think that's part of the reason why the multiple is so low, given that we have very low interests rates. You'd imagine multiples should be higher, but I think that the world is looking at US earnings in general, and saying, "If you're going to get earnings by cutting costs, we're not going to pay you a very high multiple."

So let's say you're right, and that now, all of a sudden, margins come under pressure, so earnings come under some pressure. But if margins are coming under pressure because more money is being dealt out into the economy in terms of paychecks, in terms of money into people's pockets, perhaps end demand picks up. And if end demand picks up, then perhaps the top lines of companies pick up.

And where I'd pause at is if the top line, if earnings growth starts to become a function of top line growth, and less of a function of the diminishing costs, that you'll actually see a rising PE multiple in the US. So I think there's a multiple argument to be made in the US, particularly if interest rates stay relatively benign.

And the last thing I'd say about US equities is, as long as the dollar stays strong, it's a pretty nice target for everybody else around the world who has money to invest, and you can come to the US, you can buy big, liquid companies with considerable yields. I mean, the S&P, you must remember, is yielding around about the same amount as the 10-year government bond, except the S&P yield actually grows, because dividends grow over time. But you can find many large cap US companies, which you can invest in very liquidly. You can get a yield of over 3%, and it's a yield that actually grows, it's very competitive. Obviously it's the US bond market, but when you throw in the idea of some sort of capital appreciation through the rising currencies, I think the US market must look pretty attractive to somebody who's not dollar-based, but sitting somewhere else.

John Sweeney: So Ken and Marc, I'm going to turn to you. I want to get the case for bonds. So we've heard three points of view on why equities, either European or domestic, might be attractive, but make the case for bonds. It doesn't have to be government bonds, but what part of the bond spectrum should investors be thinking about?

Ken Leech: Boy, you get on a panel of, you know, stock investors, all the time, you have to make the case for bonds, always a -- yeah, you've seen so many articles, you know, throw -- you know, bonds need to be tossed, etc. But I think, you know, one point I'd pick them for is you look at the US bond market, and you look at it from a US investor, we all look at 10-year Treasury at 230, you say, 230, boy that's such a low rate, that's kind of crazy, it seems low, we need to be cautious and defensive and, you know, we agree that over long periods of time, you know, we would expect inflation to eventually stabilize and go up, but you know, look at it, if you're a global investor, it's an interesting, you know, really disparity of the way you look at it. The US, you look at it, you say hey, that looks too low, if you're a German investor and you can take it on 72 basis points, say wait a minute, if I saw that, and I buy the US, I'd pick up, you know, a tremendous amount of yield, and I get a better currency that's going up, instead of one that's going down, this looks like a bargain, it looks like a bargain in Japan, it looks like a bargain, you know, all over the world. And so I think that the stronger dollar, and the relative interest rate differential in the US versus others probably means that new interest rates are going to be very slow to go up, and I would -- I would agree with Fergus that, you know, the message of the Fed is really not whether they move rates up, we would say that that's -- they're trying to inch rates up, right? That's

all we're talking about, 25 basis points, for Pete's sake, zero or 25, and maybe someday 50, this is a -- this probably is a very slow process. So I think bonds is part of a balanced portfolio, by the role they've always played, and you know, I think in a world that's got plenty of volatility and plenty of risk, you know, somebody should hold their complement of bonds.

John Sweeney: OK. So Marc, I've got a question here from one of our viewers on the web, and he said he's interested in currency. So tell me how much currency weighs into your decision as a bond investor, what's the math behind it, and how do you, as an investor, take that into account, given some of the things that Ken's saying, where if you're a German investor, if you're a Japanese investor, the US bond market actually looks relatively attractive to what you can get in your home currency.

The role of bonds

Marc Seidner: Yeah, so let me just -- let me answer that in -- start by building a little bit on what Ken said, which I would tend to agree on -- agree with, and build upon. Let's -- let's remember that the case for bonds, part of it is the -- the demographic environment that we exist in. Right? We are an aging country, we are an aging society, we are an aging world. And the older investors get, the more they need the safety and security of income. And so, maybe bonds, as we talked about earlier, there's still this great debate of whether or not bonds will provide that anchor to windward in a volatile market environment, which they didn't do in August, which they have done historically. Let's see the next bout of volatility, how bonds behave. But the -- the second role that bonds play in a portfolio is income. And providing income that pays bills, and allows for a continuation of a standard of living. And that's the role that we should focus on bonds in the period to come. We'd agree that interest rates are not going to go up dramatically, they're going to go up gently, they're going to go up modestly. The Federal Reserve does not want to engineer a significant spike in longer term yields, or shorter term yields. And so, the income earning potential is still there. But we also should recognize that what we -- as Ken said, we all sort of gravitate and focus on the nightly news, and CNBC tells us where, and Bloomberg tells us where the 10 year Treasury is. The 10 year Treasury's an important benchmark bond, but it is a very small part of the bond market, really, in all honesty. And the right approach for fixed income investors should be a much more global-oriented portfolio, trying to look for income generating securities, which can be --

which can run into currencies. Now specific to currencies, one of our most investable themes over the course of the last 12 months has been this idea that, to what we've been talking about, that the United States economy continues to do well, whether you like the stock market or not, you -- I think there's still a general consensus that the US, once again, is emerging as the leader of global economic growth, not from a growth rate perspective, but relative to potential, relative to expectations, relative to near-term experience, the US economy is doing quite well, and you compare and contrast that to other areas of the world where you're seeing growth decline, you have the Federal Reserve that's about to embark on a tightening cycle, whether it's tomorrow, again, we don't know, but it's sometime probably before the end of this year. Compare and contrast that with other global central banks, where there have been 40-plus easing actions by other global central banks. This is an environment where there's strong growth, and the Federal Reserve's about to start raising interest rates, that is still dollar positive. And the dollar -- trends in the dollar tend to last a lot longer, and are way more significant in terms of magnitude, than anybody predicts. And while we look back and we say that the dollar's appreciated versus most global currencies by 25% since this time last year, and some say that's an awful lot. Previous experiences are appreciations of 50, 75, 100% that last not 12 months but 24, 36, even 48 months. So, we're still in early innings, potentially, of the dollar appreciation story.

So that means two things. If you want to invest globally, think about hedging your exposures, because the dollar strength can make a big difference in terms of returns. And if you're going to invest in a portfolio, you should look to be overweight dollars and long dollars in your portfolio. Now, the composition has shifted. It was for a while that it was -- it made sense to be long dollars versus Europe and Japan, because they were embarking in aggressive quantitative easing programs, on August 12th, that shifted, with China devaluing their currency and the potential for knock-on effects to other Asian neighbors, the right strategy is really to be long dollars versus China and other Asian currencies at this point. So the dollar plays an important part, it's been a -- or currencies play an important part of our investment strategy and thesis, owning dollars through this theory of differentiated economic and financial market outcomes has been an important part of our investment strategy, and we would continue to suggest that investors overweight dollars in their portfolios.

John Sweeney: Nelli, can I go back to something you said about Europe? You said you like Europe as a continent, per se, you talked about the euro zone. What about the euro as a currency? Is that a help or a hindrance to European equities?

Nelli Oster: It's a good question. So again, I'm actually building on these comments. So the strong US dollar, he already talked about the hedging, but it's actually one of the main headwinds this year for US corporates. On the other hand, in Europe, with the euro somewhat weaker, and we expect it to continue, so especially if the European Central Bank actually increases its monetary accommodation, it has to reverse impact on European exporters earnings. So these, especially the sort of German auto companies, for example, that have been hit quite hard recently. So we do think there is that sort of impact to it as well. What's also interesting is that there's this other trend, in addition to obviously the Asian currencies and potential competitive devaluations, are the commodity currencies. So in fact these other countries, like Brazil or Russia, etc., where the currencies have depreciated, not just a couple of percent that we've seen for the Chinese Yuan, but much more than that. And that's again, you know, something that on a relative basis, when you look at a basket of currencies, actually translates into a stronger dollar today.

John Sweeney: Great. Sammy, do you see things differently? How do you like Europe? You also run a portfolio that's emerging market, so what do you see developing in the rest of the world?

What international monetary policy means for stocks

Sammy Simnegar: I think that we think it's very simple that when someone prints money, then you want to necessarily buy that continent. It's not that simple. The domestic companies get creamed because as a dollar-based investor, we're long only, so we can't hedge. As a dollar-based investor, if it's a German utility, and the euro now is depreciated by 30%, and by the way, their field costs are in dollars, or whatever it might be, they have problems. And on the other hand, if you're an exporter, there's translation versus transaction. If there's a German company like BMW that actually manufactures in Germany, and then exports to the US, or exports to other countries, yes they benefit. But, if you're a company, let's say like Toyota or Honda, where you're reasonably matched in terms of your production and consumption, which by the way, if you're a good and

responsible company, that matches assets and liabilities and revenues and costs, that's exactly what you should do. So, the globally competitive companies have very little benefit from currency devaluation, from an economic perspective, because they already are matched. It's the ones that have been really late to the game, but there are really good pockets of opportunity. For example, in Europe, the luxury companies. By definition, if you're Louis Vuitton, or you're Cartier, which is owned by Richemont, or you're Burberry, it's a little bit different, because it's a UK company, your entire heritage and your entire aura is European manufactured. And therefore, you keep the cost base there, and then you export to the US and other countries, and you actually benefit disproportionately relative to other companies.

So, I'm focused, you know, in terms of the sectors that benefit, I think consumer discretionary, we did talk about healthcare is another place it benefits, because they have a lot of dollar-based revenues, and then also I would highlight technology. We have to always distinguish between the stock market and the market of stocks, where many of us fish in and look for ideas.

John Sweeney: Yeah. So you're looking for specific opportunities, specific price points, and that creates buying opportunities.

Sammy Simnegar: Yes.

Nelli Oster: And actually, I was going to add to that, we also need to distinguish between the stock market and the local economy. And this becomes very important, especially in a place like Japan, where the stock market indices are very heavily concentrated on exporting companies. So when the Bank of Japan has been driving down over the longer term, or in recent years, the value of the yen, yes that has translated as a -- as extra help for exporting companies in Japan, but that has also increased import prices, and as a result, slowed down the domestic Japanese economy. So there is that distinction between the local economy and the stock market that you want to think about.

John Sweeney: Right. So, we got a question here from Brad on the web, and he wants to know, are there types of bond funds that would offer positive returns in a rising interest rate environment. So, Marc, can I start with you?

Marc Seidner: So sure. So, a couple examples of bond funds that would provide positive returns in a rising interest rate environment. First and foremost, well, not first and foremost, but one possible area would be floating rate bank loan funds. Right, where you have coupons that are linked to short-term interest rates, so as interest rates rise, the coupon on those bonds go up. Now many of them have floors, which is a technical comment I won't get into very much, so you don't get quite as much bang for your buck initially, but you'd expect some protection in terms of not having as much direct interest rate exposure as bond yields, or as short-term interest rates rise, or as bond yields rise. And they tend to be high-yield companies, but they're senior, and secured, and protected by first liens on assets. So, senior secured, floating rate bank loan funds would be one area that I would posit. Another area is a new breed of bond funds called unconstrained bond funds, I happen to be the manager, so take this all with a grain of salt, the PIMCO unconstrained bond fund, but that's a group of portfolios that aren't wedded to interest rate risk as the main source of their return, they look for a diverse opportunity set amongst the bond market, the global bond market that we talk about, the market of bonds, not the bond market. Those bonds should fare well as interest rate -- or those funds should fare well as interest rates rise. And then one other, a little bit more esoteric area that I think is incredibly inexpensively priced, are closed end funds that are linked to corporate bonds. Whether they be investment grade or high-yield. They tend, as a class, to trade at 10 and 15% discounts to net asset values, so there's a significant cushion built in that's protective. And they also tend to have 7, 8, 9% dividend yields, which gives you, the investor, a lot of protection against rising interest rates. So, senior secured bank loan funds, unconstrained bond funds, or closed end funds that are linked to corporate bonds that trade at significant discounts than at asset value.

John Sweeney: Let me talk about the unconstrained bond funds. So where are you seeing opportunities within that portfolio? A, what asset classes do you get to fish in, and then B, where do you see overweights?

Marc Seidner: So we get to fish in the global market. We tend to be underweight most high-quality developed market bonds. In fact, we're outright short US interest rates. And if you look at the NAV of our fund, it tends to be -- we have our best days when interest rates rise. So we have a portfolio that is positively correlated to rising

interest rates, rather than the opposite, which is negatively correlated, and that's -- that's by design in this increasingly uncertain environment. As we look globally, there's opportunity in Europe, given the European Central Bank's quantitative easing program and some of the attractive yields in European peripheral bonds, we continue to like Italian and Spanish bonds. In fact, we even like Greek bonds, although that was a little bit of a nail biter early in the summer, our view all along was that it was in everyone's best interests, both the Europeans and the Greeks, to come to conclusion, come to agreement, that doesn't solve the problem, but kicks the can down the road a little bit further. And that's exactly what ended up happening after quite a long 4th of July weekend for -- for many of us. So there are plenty of opportunities. And then there's increasing opportunity in emerging market bonds, which as an asset class, have really been -- have really underperformed even since 2013, and the taper tantrum here in the United States, we find local yields in the Mexican bond market, and increasingly Brazil, as an investable destination for bonds. And then you add to that a little bit of corporate credit risk, in both the investment grade and high-yield market, we end up with a diversified global portfolio that we hope will generate 3 to 4% return over the coming market cycle with traditional fixed income type volatility.

John Sweeney: Great. We got a question here around commodities, and that was one of the big three factors that we saw weighing on the market. Particularly oil prices have come down precipitously in the last 12 months or so, due to a combination of overproduction in some of the oil producing countries, but also, due to some of the technology advances that have made it less expensive for particularly US oil producers to produce oil at prices that we haven't formerly seen. Let me get your perspective on oil as one commodity, if I can. How important is that to the global economy? And are there other commodities that you see that are also under pressure? Anyone, Ken, do you want to take that one?

Ken Leech: Yeah, I'm glad it's -- to start with that, I think, you know, we saw oil decline pretty precipitously in the fourth quarter of last year, and obviously that gets to the point and, you know, the question, you know, is it a supply problem, is it a demand problem? Obviously it's a combination of both. I think, you know, demand weakness obviously was a major component, but there was a lot of questions around supply, OPEC, maybe the Saudis, and political pressures, etc. Again, you know, whatever part of the news cycle you're in, you're talking about

different points, but I think the broader question as we've gotten to this summer, and oil has re-weakened after having stabilized in the second quarter, is really the broad based weakness across all commodities. And I think you really have to look at the broad based weakness and say to yourself, that's not specifically a supply problem, you know, that that's, you know, a one-off. That shows that global demand is weak, and there's two ways to take that. And one, of course, is why the markets have been so violent. You know, it -- if you have a weakness in global demand, and that's what commodity prices, when they're falling, is a warning sign of, you know, there's the glass is half empty way to take that, which is global demand is falling and you need to be nervous, and you need to get out of risk assets, and we saw a lot of equity market, not just the US, but around the world, as people really started to worry about that challenge. The glass half full aspect of it, I think which is where we come out on this commodity price thing, is that the lower inflation rate suggests that the -- the ramp for more policy accommodation, more monetary easing, is -- is -- is really provided, and central banks can continue to be more aggressive in their accommodation, Nelli's talked about Europe maybe increasing their -- their quantitative easing program, we think we'll see more from Japan, we've seen it all around the world, the Fed, whether they move rates up, it's going to move at an incredibly slow pace. So, we think that a broad-based commodity, we can just suggest that we've had a downshift in global demand, and it's more of a demand problem than a supply problem. If we're right that the global recovery, even though it's a two step forward, one step back kind of process, which it's been for the last several years, it's still ongoing, and that's our strong belief. Then we think commodity prices generally, and oil prices specifically, will stabilize and that's an opportunity.

John Sweeney: So Fergus, if oil prices are down, that means that we as consumers who don't have an electric car, Sammy --

Sammy Simnegar: I don't have one.

John Sweeney: -- still -- you don't have one? You're looking at it. Yeah, I still have to go to the gas pump and fill up my tank every month. Theoretically, the price that I'm paying for gasoline is lower. How much of that actually drops to the bottom line in a consumer's pocket, and what are they doing with that extra money? Are they actually

spending it on something meaningful? Are they saving it? What are they doing with it, and is that creating an opportunity for you as an investor?

245 Digital Signage Clip

Fergus Shiel: Well I've seen estimates that say that, you know, the average American household is probably saving around 1,200/ $1,300 a year on lower gasoline prices. I suppose it depends on where you live, how far you drive, all of this kind of thing. But that seems about right. One of the things that has been, there was the belief, at least, I'd say, you know, six to nine months ago, that that would just drop straight into people's checking accounts, and they'd run out and spend it. But one of the things you've seen is that the rate of spending hasn't been quite as high as people anticipated. And there seems to be a certain amount of savings going on, on the part of consumers. But, I think that's understandable, if you think about the -- sort of the washing that American consumer -- that many American consumers have gone through over the last 20 years. You know, they've -- there hasn't been much wage growth, there has been creep in underlying inflation, and so the buying power of many consumers has been eroded. So, if they initially get a $1,200 bonus, it doesn't surprise me that initially, they will save a certain amount of that. But I doubt if over the long-term, they'll save that money. So if rates -- sorry, oil prices stay low, and if the consumer continues to benefit to the tune of say, 1,200 bucks a household, I think eventually it does get -- it does start to get spent. And I wouldn't be -- you're starting to see some signs of retail pick up, you've already seen restaurants pick up pretty strongly. So there is some propensity to spend, now you're starting to see retail pick up. We'll see what happens this holiday season, but the early signs look kind of all right. Without reading too much into it, you go back again to looking at companies that can actually benefit, and the consumer has shown, even last year where the -- you know, where holiday shopping maybe wasn't quite as good as we thought, is if you had the right product, people bought it. I mean, there's no problem, you know, selling iPhones. Even though the price point is relatively high, if people wanted them, they would pay. So, I think the availability of money is there, and if a company comes to market with the right products, there can be surprises to the upside.

John Sweeney: Nelli, do you have a perspective on commodities?

Will oil rebound?

Nelli Oster: Yeah. So when it comes to commodities and oil prices specifically, I think there's a bunch of different factors that we look at. So supply is one of them, where arguably, as was already mentioned, the global markets are oversupplied currently. So the US shale oil producers are producing at a multi-decade high right now. And much as we've seen news over the rigs being taken offline, given that these producers, a lot of them are actually more efficient than before, that hasn't directly translated into a drop in supply. And in the Middle East, the OPEC cartel, led by Saudi Arabia, is really quite aggressively trying to defend their market share. So as a result, over the last couple of meetings, they've refused to cut their production target to support prices. So that's the supply side. When it comes to the demand side, that's always just something that affects the broader commodities. We talked about China before, that's been one of the sort of main concern drivers recently. But there's also a couple of other factors that I think recently have been driving oil prices. One of them is the strength in the US dollar. So generally speaking, to the extent that you have commodities that are denominated in US dollars, when you see strength in the US dollar, you see softness in these commodity prices, and that's what we've seen. Another trend that was mentioned before on -- or is inflation, and inflation expectations. So commodities, you know, more strategic long-term holding in an investment, investors' portfolio, have been often there to help diversify the portfolio. Because they, as a real asset, tend to behave differently in different inflationary scenarios from traditional financial assets. Now, today, inflation is slow, and if we look at inflation expectations, the 10 year break even, so that's derived from the TIPS, or Treasury Inflation Protected Securities. Prices have really dropped by roughly 50 basis points, or half a percent. Half a percentage point over the past 12 months. So, to the extent that the inflation expectations are very low, there's less need for inflation hedge in people's portfolios. And then finally, most recently, there's been this sort of volatility in the markets that has affected risk assets more broadly. And this is not just oil prices, but commodities more specifically that tend to be higher risk. So generally speaking, when you see higher volatility, these are assets that tend to see more fluctuations in their prices as well. So those are kind of the factors that we focus on right now. In terms of where we're going from here, we don't see any immediate rebound in oil prices. That would probably have to wait until next year, and most likely would come from the demand side, rather than the supply side, given the competitive environment today.

John Sweeney: So we've got a question here from Twitter, it says that given the Chinese pursuit to make the Yuan a reserve currency, and is there a possibility that the Chinese government is stockpiling gold? And what impact might that have on the price of gold? We haven't talked about gold as, you know, an inflation hedge, but do any of you see opportunities there? Would any of you like to comment on that?

Sammy Simnegar: I think I can talk about gold and the other commodities, if that's OK.

John Sweeney: Great.

Sammy Simnegar: I mean, if you look at the correlation between gold and the US dollar, is negative 0.9. So if you're bullish on the dollar, you're going to be bearish on gold. That's just the way it works. So to me, that's kind of -- that's how I think about it. If you're bearish on the US, then you want to be long gold. If you're bullish on the US, you don't want to be long gold. On the other commodities, I would say I think there's a few things I think worth mentioning longer term. We're talking about, when we talk about oil prices near-term, I mean there's lots of things that matter, inventory, shale and so forth. But on a 5 to 10 year view, if you look at supply and demand, on the demand side, so the miles per gallon in the US right now for new cars is around 35. By EPA, by 2025, they're supposed to be about 55. So, 35 to 55 miles per gallon. We have hybrid cars, we have electric vehicles, so there's a real case that demand for oil in the United States and gasoline, over the next 5 to 10 years, will be significantly lower than where it is today. Number two, as President Obama said today in the business round table, he turned to all the executives and he said, all of you guys I'm sure are less -- are more efficient today than you were 10 years ago, and certainly 20 years ago. And so this path to having lower carbon emissions and so forth is here to stay. And that's one thing I agree with them, I think that's happening. So that's on the demand side. On the supply side, with shale being profitable at $50 or $60, to me that means there's going to be a cap. So Saudi is defending market share, Iran is going to be exporting oil. So, from a supply demand perspective, I don't see anything really clearing. And moving oil prices higher over the next three to five years. On other commodities, we have to step back and think about what caused the bull market in commodities. It was a Chinese super cycle. What did China do? China went, just to give perspective, in 2004, China was consuming about 4 million cars, the SAR, right, was 4 million. By 2014, it was 20 million. So

they increased 6 million in -- in a decade. Just to put that into perspective, that's how much the US does in one year. So in China, over a decade, produced an entire ecosystem of what the US does every year. That's gargantuan when you think about it. The second thing is to think about iron ore prices, and what happened to iron ore. When I was an analyst 10, 12 years ago, iron ore prices were $20, they went to 180, and now they're at 50. Why? Because China consumed two thirds of all the iron ore produced in the world. And most of that iron ore came from Australia and Brazil. And what's happened is, as iron ore prices have come down, the currencies have come down, the cost curve has come down. So now, all of that's really flowing through the economies, not only developed markets -- I'm sorry, emerging markets are feeling the pain, so are developed markets. The Canadian dollar, the Aussie dollar, any other big -- Norway, the Norwegian krone, they're all getting crushed, because of the commodity exposure. So what's happening is, whereas in the last decade, China was about a third of growth in global GDP, and the US was 17%. So China and the US together were 50% of the growth of global GDP. And if you actually included the emerging markets that were selling into the China complex, probably China's effect was double. So it might have been maybe two thirds of global growth, when you think about the secondary effects. So, and so therefore the supply side was there to sustain 8 to 10% GDP growth in China, and global growth of 5, 6%. And now, things have massively slowed down, so we have the accumulation of excess supply. And I think that's what's creating lower commodity prices, deflation, very low interest rates, and I think that's really the, you know, overarching theme of what's happening in the commodity markets, in my view.

John Sweeney: So, oil companies make up a significant portion of the top 10 stocks in the S&P 500. So what does that mean when commodity prices drop, obviously that put pressure on the amount that they can sell their products for. What does that mean? Does that have a really significant impact on the earnings for US oil companies?

Sammy Simnegar: It does. Part of the problem with US companies is they don't have the currency to offset it. If you're in Russia, if you look at the Russian ruble versus the oil price, literally the correlation is one for one. For every dollar the oil price moves, the Russian ruble devalued. So Russian ruble-based revenues are flat during the time period that oil prices were down 50%. In the US, we don't have that luxury, right? And so, what's happened is oil prices have gone from 100 to call it 50, and stock prices have gone down 50%, but if their costs are 50 and

they're selling at 100, now they've gone to, you know, basically break even. And then they have debt to service, and other things. So, if you look at what's being discounted in a lot of the E&Ps, it's still 70 or $80 oil longer term. Which if that doesn't materialize, we're going to have more problems and more bankruptcies, and more opportunities for our friends here on the fixed income side to make money, high-yield side.

John Sweeney: Excellent. Good. Can I ask a question? Fergus, this is directed to you from Victoria on the web, she said, can you comment on the issue of companies buying back shares, and paying dividends?

Fergus Shiel: Well, a share buyback is the exact same thing as a capital investment. And it should be looked at that way by companies. I think companies are a little bit too blithe in buying back shares just to reduce their capital outstanding, or just because they happen to have cash on their balance sheet. Now, if a company, for instance, was going to build a new manufacturing plant that say, cost 500 million bucks, they'd look at it, they'd analyze it, they'd see what's the return going to be. And that's the exact same way they should approach their own share buybacks. So at times, when their own stocks are cheap, or cheap relative to their growth prospects going out over the foreseeable future, or the future that they can at least foresee with some level of certainty, at the times when their stocks are cheap, then yeah, they should absolutely buy back their shares, if they have the wherewithal to do it. But they shouldn't just buy back their shares just for the sake of buying back their shares. I mean very often, companies, and you see this sometimes with cyclical companies, they buy their shares at the top of the cycle, because that's when they happen to have some money in their pocket. It's the exact wrong time to buy stocks. So buying back shares is not necessarily a good thing, it can be either a good thing or a bad thing, depending on the price you pay. And the offset to that is if you want to return money to shareholders, you can pay dividends. The thing about share buybacks that's good, if they make sense at the price you're buying them, is you actually reduce the capitalization, you can drive the long-term earnings per share growth. On the other hand, the good thing about dividends is it actually puts cash in people's pocket, and if you can grow your dividend stream over time, so it's not so much the actual yield of the dividend, but the fact that the dividend grows, investors tend to value that pretty highly, because there's all sorts of vagaries in accounting, but the one thing that people understand is cash in their pocket. And many companies at various points in times have dividends that they can't even sustain. But if you can grow your

dividend over time, and do it with earnings that you've -- that have inured to the company through its own operations, that's typically deemed to be a pretty valuable thing by companies, because it seemed to be a repeatable stream, and it can do very well for share prices.

John Sweeney: Marc, how do you think about capital structures?

Marc Seidner: So, it's a great question. And the group of investors that are affording the opportunity for significant share buybacks and significant dividend payments are bond investors, right? Because we're the ones who are willing, there will be 600 or so billion in high-grade corporate issuance this year. There was 50 billion alone last week after a sort of respite through a volatile August. And while you can't say that all of it is going to share buybacks and dividends, a good amount is, and companies responding exactly right to the incentives that are put in front of them, if you're an investment grade borrower, an investment grade company, and you can borrow at a 10 year Treasury plus 100 basis points, or 1%, that's a 3.5% all in borrowing cost, let's say. And that's -- and that's pretax, you get to write off the interest expense, and you can buy back your stock that probably has a 2.5 or 3% dividend yield, and has a -- and you've got an ROE expectation that's much higher than that, it's the exact right response to the incentives that are being provided. And I'm sure Ken would agree that the challenge is for us, as fixed income investors, to exercise the right amount of discipline, and only let that -- and police that activity as much as we possibly can by not lending money recklessly and being very cautious on who we're willing to lend money to. And importantly, what the use of funds is for the new issuance in the corporate bond market. But $600 billion being directed exactly at these activities, because of the incentives that are being provided by extraordinarily low interest rates. So maybe it is time for the Fed to start raising interest rates.

Opportunities in corporate bonds

John Sweeney: So Ken, can I ask you, how do you put $600 billion worth of corporate issuance to work? I mean, is there enough correct allocation of capital to be able to do that efficiently?

Ken Leech: Well, you know, and to Marc's point, I mean you know, as a corporate bond investor, you know, when you've got this kind of deluge of companies borrowing because, as you said, the all-in cost of borrowing really, even

as investment grade spreads have widened, um, which is the spread between the investment grade corporate bond and the Treasury yield, the fact that Treasuries are so low makes the after tax cost of borrowing pretty low, as you said. So from our perspective, as we invest our clients' money in corporate bonds, selectivity is absolutely crucial. So, when you think of stock buybacks and extra dividends, and mergers and acquisitions, which get the smiles from all the equity people, that actually gets the frowns from we bond people. So one of the places that we actually like, this may sound counterintuitive to some, is bank debt. And the reason is, from that -- exactly the reasons, when you think of banks, a lot of people would argue that gee, bank regulation has been pretty tough, and there's a lot of maybe negative unintended consequences of bank regulations. But one of the beneficiaries of this regulatory regime is -- are bond holders, senior bank bond holders. Because if you're a bank, and you want to do M&A, you want to get into new risky business, you want to issue some more dividends, you want to do a stock buyback, well you'd better get 17 regulators to sign on the dotted line or it's not going to happen. So, when I started my career, I think which, you know, two or three years ago, you know, banks were actually the lowest yielding of all corporate bonds. This is hard to believe in today's environment, I mean, you know, Glass-Steagall, the deal was that banks got to borrow a low rate, you knew, you know, you don't buy an electric utility bond because the management's greater, the balance sheet's greater, you buy it because the government's going to make sure you get your coupon. So, it used to be the same with banks, you know, the banks were -- no way the banks get in trouble. And of course, the deregulation of banks, and everything we've been through, now people are very, very nervous about banks, but when you think about banks, we're really kind of going back to that utilization of bank concept, heavy regulation, the entire policy regime of all our regulators is not to let banks get in trouble, or let society get in the trouble that comes from weak banking. So from our perspective, that is a bright spot.

John Sweeney: Too big to fail is the mantra, right?

Ken Leech: If they can't fail, that's good for a bond holder.

John Sweeney: Interesting. Good. We have a question from our audience. It's a bit of a social question, but what effect will the displaced persons going into Europe be on European economies? Anybody have a perspective on how significant that's going to be?

Sammy Simnegar: One of the big problems in Europe and in particular Germany and Italy is demographics. You know, Japan's the absolute worst on the planet, followed closely by Russia, Germany, Italy, and so forth. So, from a demographic perspective, if you get young educated people going into the workforce where you have labor shortages, it could be very positive for long-term GDP growth. Because the productivity, and more consumers and so forth. So, it could be a positive. From what I've seen so far, a lot of the people who are leaving are engineers, are college grads that are looking for a better life. And so, I do think if they're able to incorporate them, I saw today in the paper, you know, SAP in Germany are starting apprenticeship programs to get people to get people back to work, and try to -- I don't know, I think it could be very positive if it's done in a correct and proper way, and getting people integrated as soon as possible, and helping them get acclimated. So I think it could be a positive.

John Sweeney: Great. Nelli, you had a perspective?

Nelli Oster: I think one of the challenges, so for those of you who wondered where my accent is from, I'm originally from Finland, so I follow quite closely the press over there, and Finland has also taken some of the refugees in. I think one of the challenges is the political discussion, and the bipolarization on what to actually do. So you may remember that in the European Union, there's 17 different nations. And most of them with multi-party systems, which is why some of the decision making processes, when it comes to fiscal policies, have been quite slow. And that's why some of the sort of European debt crisis and the issues related to Greece more recently have dragged on for so long. One of the concerns, one of the potential concerns of this, is that the discussion polarizes even further, especially in countries that are already under strain, and face slowing growth. And we've seen sort of that play over time, since the financial crisis in various forms, and this could basically just add to it as well.

John Sweeney: So Greece, the countries we call the PIGS, right? Portugal, Ireland, Greece, Spain, already had unemployment problems, to add population to those folks who are struggling to find jobs for their own domestic --

Nelli Oster: And you don't actually have to go to southern Europe, even Finland is actually, you know, up north, one of the only -- we're the only Nordic country that's actually part of the euro, is actually, has its own economic problems as well. So the political discussion is going quite heated on this topic.

John Sweeney: Interesting. We have a question here from David on the web. He asks about real estate, and we haven't talked about real estate at all. When you think about real estate, obviously there are many different forms, there's domestic, there's international, there's residential, there's corporate and commercial. Anybody see opportunities in real estate? I know that in Seattle, the folks I've talked to here locally feel like there's quite a demand in the housing market, and a house goes on the market on Thursday night, and on Tuesday they accept all the bids, and the house essentially closes on Tuesday. It's certainly not that way in every market around the world, but what do each of you think about real estate?

Marc Seidner: I mean we have a -- we have, and continue to have a pretty optimistic view on housing and real estate generally. I mean we -- after we're finally getting to a point in the post-financial crisis period in which they're -- and there has been for a couple years now, and continues to be excess demand for housing versus the amount of supply that's being created. And so, that is part of -- that's part of household formation, that's part of economic expansion, that's a part of pent up demand that's being finally unleashed by a period of above trend economic growth. And so, we continue to believe that housing and housing-related assets continue to look quite attractive across the domestic spectrum in the United States, and then when you go internationally, given some of the challenges that have existed in Europe, both from a financial perspective, from a budgetary perspective, from the social perspectives, there are -- and from the management of bank balance sheets, and the deleveraging that's being required that is, as Ken said, making banks safer, there's still the disposition of a number of attractive distressed assets that look attractive to us. So it's an interesting barbelled opportunity set of US housing related opportunities, given demand exceeding supply, and the global opportunities where there's still pockets of distress, and mispricing or misvaluation from our perspective.

John Sweeney: Great, OK. Well thank you. We've got about a minute and a half left here, I just want to run down the aisle, if I can, and if you can leave our investors with one last closing thought, how should they be thinking about the markets for the next six months, as you think about, whether it's a Federal Reserve announcement tomorrow, whether you think of interest rate changes, rising volatility, Sammy, can you leave our investors with one final thought?

Sammy Simnegar: Yeah. I would say don't get caught up in the noise, put away money every single month, don't look at the markets.

Marc Seidner: You know, I'll build upon what Sammy just said. And sort of, to be specific, I wouldn't look at August at the anomaly. I think August will become more of the rule, I would expect higher volatility as we progress, as economies emerge, as these divergent trends continue, as central banks continue to do different things, and head off in different paths, so expect higher volatility. It's a period where active management, I think, does make a difference and can be more nimble than most investors. So consider active management, and don't get wedded to ideas, don't get wedded to positions. Review your portfolio regularly, think about your portfolio regularly, and capitalize on some of the opportunities that will come out of this volatility.

John Sweeney: Nelli?

Nelli Oster Yeah, we also say that it's not timing the market, but rather to time in the market that matters, because timing the market is very difficult on a tactical basis. So, we still advise investors to stay invested. Even through the sort of high periods of volatility that we expect from here with the Fed rate hikes. In terms of thinking about sort of progression from here, and its impact on the equity market especially, if we look at the cycle since -- hike cycles, rate hike cycles, since the 1970s, it's tended to be the case that yes, the equity market is negative, and down in the first three months after the first hike, but if you look over the next sort of -- if you look over 6 or 12 months, the returns are actually positive, even if more muted. Two factors that we focus on is first, current valuations, so to the extent that we've seen some of this correction that tends to

actually make the response more benign, historically, when you've seen equity markets down in the 12 months leading up to the first rate hike, they actually tend to perform better than if the valuations have been creeping up. The second thing that makes us a little bit more concerned are inflation expectations. So generally speaking, if inflation is rising, the impact through real rates is actually lower than through the nominal rates. And we're actually seeing the opposite today. So that's something that we're watching very closely, in addition to the sort of market volatility.

John Sweeney: Fergus, final thoughts?

Fergus Shiel: I wouldn't disagree with anything that's been said. I think that if you're investing for the long-term, it's not that you shouldn't think about the next six months, but you should just think tactically about it, and if that's -- that should be maybe 10% of what you think about, and 90% should be about what's longer term. But that's the first thing I would say. The second thing I would say is I think sometimes, the opportunity in a time of rising volatility, it allows you perhaps ask the most important question of yourself as an investor, and that is, what sort of risk am I comfortable taking? If you can't sleep at night, that's not a good thing. So, if you need to take a little bit off the table, do so. But if you do that, do it with a plan and with an idea of when are you going to reinvest, and why, and what are you looking for? Because all too often, people do something to make themselves comfortable in the short-term, and then they never come back and reapply. So it's a two-step decision. The first step is, I really want to sleep at night, so perhaps I'm selling, you know, 5% of my holdings, 10% of my holdings. The second part of that has to be along the lines of, and just when am I going to put it back? And if you can't answer the second question, then be very wary of just acting on the first part.

John Sweeney: Ken, you get the last word.

Ken Leech: Yeah, I would say, since, you know, that really, we're in an extraordinary period of time, from a policy perspective. I mean, when you think back, monetary policy, you know, there's QE, buying bonds, negative interest rates, things that would have seemed just impossible to imagine 5 or 10 years ago, we never went into a crisis, we've never come out of one, we're seeing policy experimentation on an extraordinary scale. I

think you really have to be somewhat humble about your ability to predict how this is all going to turn out. I think people here might say would you bet your life savings that we can't have deflation? Which you might have, many years ago, would you bet your life savings we can't have, you know, tremendous inflation? I think there's a wide range of outcomes, very difficult to predict, given the extraordinary nature of the times we're living in. I would urge people not only in terms of the saving, and being able to sleep at night, and things that our other panelists have said that are very wise, I would stress diversification. Because you really don't know what's going to happen, and you do need to have parts of your portfolio that can weather whatever circumstances happen to prevail.

John Sweeney: Great. Well, I want to thank all of our panelists for joining us this afternoon here in Seattle. I want to thank all of those of you who've joined us on the web, I hope you enjoyed the discussion. We encourage you to spend time talking with your Fidelity investment professional about these topics. There's more information available, we mentioned *Bloomberg* as our media sponsor of this event, their September 28th issue will feature some of the remarks here from our panelists. You'll also have content from this program available live on Fidelity.com over the next few days. And for our latest insights, please sign up for our Viewpoints weekly email. And again, you can follow me on Twitter, @Sweeneyfidelity. And as always, your feedback is very important to us. Please complete the survey at the end of this broadcast, and tell us what you think. Thank you, that concludes our live national broadcast, and have a great day.

Before investing, consider the funds' investment objectives, risks, charges, and expenses. Contact Fidelity for a prospectus or, if available, a summary prospectus containing this information. Read it carefully.

The views and opinions expressed by the speakers are their own and do not necessarily represent the views of Fidelity Investments or its affiliates. Any such views are subject to change at any time based on market or other conditions, and Fidelity disclaims any responsibility to update such views. These views should not be relied on as investment advice, and, because investment decisions are based on numerous factors, may not be relied on as an indication of trading intent on behalf of any Fidelity product.

Neither Fidelity nor the speakers can be held responsible for any direct or incidental loss incurred by applying any of the information offered. Please consult your tax or financial adviser for additional information concerning your specific situation.

As with all your investments through Fidelity, you must make your own determination as to whether an investment in any particular security or securities is consistent with your investment objectives, risk tolerance, financial situation, and evaluation of the security.

Past performance is no guarantee of future results.

Diversification and asset allocation do not ensure a profit or guarantee against loss.

Stock markets are volatile and can fluctuate significantly in response to company, industry, political, regulatory, market, or economic developments. Investing in stock involves risk, including the possible loss of principal.

Foreign markets can be more volatile than U.S. markets because of increased risks of adverse issuer, political, market, or economic developments, all of which are magnified in emerging markets. These risks are particularly significant for funds that focus on a single country or region.

In general, the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities.) Fixed income securities also carry inflation risk, liquidity risk, call risk, and credit and default risks for both issuers and counterparties. Unlike individual bonds, most bond funds do not have a maturity date, so holding them until maturity to avoid losses caused by price volatility is not possible.

Any fixed income security sold or redeemed prior to maturity may be subject to loss.
High yield bonds involve greater price volatility and risk of default than investment grade bonds.

The commodities industry can be significantly affected by commodity prices, world events, import controls, worldwide competition, government regulations, and economic conditions.

Floating-rate loans generally are subject to restrictions on resale and they sometimes trade infrequently in the secondary market, and as a result may be more difficult to value, buy, or sell. A floating-rate loan might not be fully collateralized, which may cause the floating-rate loan to decline significantly in value.

The gold industry can be significantly affected by international monetary and political developments such as currency devaluations or revaluations, central bank movements, economic and social conditions within a country, trade imbalances, or trade or currency restrictions between countries.

You cannot invest directly in an index.

The S&P 500® Index is a market capitalization–weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance. S&P 500 is a registered service mark of Standard & Poor’s Financial Services LLC.

The Shanghai Stock Exchange Composite Index is a capitalization-weighted index. The index tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange. The index was developed on December 19, 1990 with a base value of 100. Index trade volume on Q is scaled down by a factor of 1000.

The EURO STOXX 50 Index, Europe's leading blue-chip index for the Eurozone, provides a blue-chip representation of supersector leaders in the Eurozone. The index covers 50 stocks from 12 Eurozone countries.

The Nikkei-225 Stock Average is a price-weighted average of 225 top-rated Japanese companies listed in the First Section of the Tokyo Stock Exchange. The Nikkei Stock Average was first published on May 16, 1949, where the average price was ¥176.21 with a divisor of 225.

Fergus Sheil manages Fidelity Capital Appreciation Fund, which invests in some of the securities mentioned in this discussion. As of August 30, 2015, the fund held shares of Starbucks Corp. representing 1.878% of assets, Facebook Inc. Class A, 0.204%, and Apple, Inc. 3.5%.

Sammy Simnegar manages Fidelity International Capital Appreciation Fund, which invests in some of the securities mentioned in this discussion. As of August 30, 2015, Wosleley PLC represented 0.506% of assets, Starbucks Corp. 0.387%, Nike Inc. Class B 0.400%, Burberry Group PLC 0.438%, Novartis AG 1.6%, Novo Nordisk A/S series sponsored ADR 1.6%, Alibaba Group Holding Ltd. sponsored ADR 0.400%, Tencent Holdings Ltd. 0.9%, Tata Consultancy Services Ltd. 0.446%. Simnegar also manage the Fidelity Emerging Markets Fund, which invests in some of the securities mentioned in this discussion. As of August 30, the fund held shares of VIPShop Holdings Ltd ADR representing 0.455% and Tata Consultancy Services Ltd. 0.9%.

The stocks mentioned are not necessarily holdings invested in by FMR LLC. References to specific company stocks should not be construed as recommendations or investment advice.

Fidelity is not recommending or endorsing any investment by making it available to its customers.

S&P 500 is a registered service mark of Standard & Poor’s Financial Services LLC.

Certain investment firms whose funds are available through the FundsNetwork® program for Fidelity were offered the opportunity to participate in this event. Fidelity considered a variety of factors when making the final firm selection. Firms may compensate Fidelity for participating in this event, including reimbursement for expenses.

Fidelity Brokerage Services LLC, Member NYSE, SIPC, 900 Salem Street, Smithfield, RI 02917