Weekly Market Insights: New Developments, What to Consider, and Top Questions Answered

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TRANSCRIPT

SPEAKERS:

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Jim Armstrong: Hello. And thank you for joining us today for Weekly Market Insights: New Developments, What to Consider, and Top Questions Answered. I'm Jim Armstrong with Fidelity.

Over the past few weeks, we have seen governments, businesses, families, and individuals, all of us, change our behavior in ways that are affecting our global economy and affecting our daily lives. While the markets are expected to remain volatile in the short term, today we're also talking about the light at the end of the tunnel. We're going to be discussing pending help from the government and what we're thinking comes next. We're talking, of course, about what it all means to you, your family, and your financial plans. Thank you, again, for making time to be with us here today. Remember, the views and opinions in this webcast are those of the speakers. The discussion is for educational purposes and should not be considered investment advice.

During today's update, we'll hear from Jurrien Timmer. Jurrien is Fidelity's Director of Global Macro. And we will also be joined by Leanna Devinney. She holds the Certified Financial Planner designation here at Fidelity.

Jurrien and Leanna, thank you both for being here and joining our webcast via video. This is something we've obviously never done before, but it's certainly become the reality for a lot of us these days. Thank you, again, for taking time out of your schedules to be here.

Jurrien Timmer: Yeah. Thanks for having me.

Leanna Devinney: Thank you. Great.

JIM: All right. Let's get started. It's Tuesday, March 24th. Jurrien, I know you're thinking about two big questions right now, and they are when will the growth rate of new COVID-19, coronavirus cases, when will they peak, and will the current policy responses being discussed at the federal level be enough to help us get to the other side of this crisis? It feels like, over the past couple of days, you might be getting closer to answering those questions. Is that right?

JURRIEN: That's correct, at least we hope so. What we know is that countries in the Far East, China, South Korea, Japan, were hit first, and they contained the COVID-19 virus breakout by obviously very firm measures, which we're doing in the U.S. as well with the various lockdowns and everyone is working from home and practicing social distancing. Those countries all got ahead of the curve. If you look at the growth of the number of cases, it follows a bell curve distribution, and so they're kind of on the other side of this. And then now this is flaring up in Europe, especially Italy and also Spain. Italy seems to be at the peak of the bell curve now. We've seen some encouraging data points that the rate of growth in the virus or in the number of new cases is starting to come down. That doesn't mean that the number of cases are coming down but the rate of growth. That is an important distinction because once that growth rate starts to peak, people like myself and us and investors in general can start to get a handle on how bad is it going to be not only for the health care system in terms of hospitals being overloaded but also in terms of the economic hit. Right? This is a massive demand shock, almost like the economy is having a heart attack. At least we'll know kind of at what point we can start looking to the other side.

The encouraging news is that it seems—and maybe it's too early to tell, but it seems that Italy is peaking. And from what I read in terms of the experts is that the U.S. is about two weeks behind Italy. That gives me some hope that in the next couple of weeks, the U.S. will reach its peak in growth rate as well. That, obviously, by definition means that the next two weeks are going to be very difficult because the number of cases are rising exponentially, but at least we get some sense of what's on the other side of this. Of course, the policy response, as you indicated, is extraordinarily important as well. We already know that the Federal Reserve, our central bank, is all in, as we say. It's basically throwing everything at this problem. It's doing really a heroic job in keeping liquidity going and keeping sort of the plumbing of the markets operational. And then, of course, we're also waiting on the fiscal side. Right now, that's being hammered out in Washington as we speak. From what I'm hearing is we could see a $2+ trillion package, bipartisan package come out that, again, will buy time for those people who are affected through job losses or businesses shutting down because basically nobody is on the street. It's the growth rate in new cases and it's the policy response. We're finally starting to get close to getting a handle on where that is happening and to what degree so that we can start bridging the gap to the other side of this very serious episode.

JIM: Excellent. Welcome. Welcome news to hear for sure. I want to turn to Leanna now. Leanna, I'm curious to what extent customers—and I'm sure you're meeting with customers pretty much every day of the week right now—what are they bringing to you in terms of their concerns and their questions? What are you hearing from them? And then what are you saying to answer those questions?

LEANNA: Yeah. Absolutely, Jim. Thank you. We are speaking with our clients every day. We're four weeks into this volatility, and really that sentiment has stayed. The questions are when is this going to end. I'm also hearing statements that they say this feels really different. Many of our clients are concerned and nervous. I do like to show this chart often because it does help provide some perspective, and maybe that hopeful light at the end of the tunnel you referred to, to show that declines like this and recessions and corrections and even intra-year declines are actually very normal. While it does provoke anxiety and there is are a lot of emotions that come with investing, what we see is staying the course is critical. In times like these, clients will tend to want to deviate from their plan and they act on emotions and fear instead of really looking at the financial plan they have and why we invested in the first place, you know, tied to specific goals. That is what we're hearing and that is how we're responding as well.

JIM: Let me follow up real quickly on that, Leanna. I understand sort of intuitively the logic behind that stay the course message, but I've got to imagine you're hearing from people who say I'm just really reacting to what's happening in the world right now. Stay the course is hard for me to hear. What do you say to those people?

LEANNA: Yeah. We do appreciate it because, you're right, clients will say I know I'm not supposed to go to cash. I know I should stay the course, but this feels different and this is becoming nerve-wracking daily. What we do know is that it's very hard, but what's challenging is if we do jump out and go to cash, the challenge is when to get back in. No one knows that answer. And so often, again, speaking historically, we see some of the best days can follow some of the worst. If we do jump out and we wait, we are missing opportunity for that rebound and coming back. That's what I'd say there.

JIM: Got it. Thanks. You bring up a great point that I want to switch back to Jurrien to ask about. What can you tell us about a bear market, Jurrien, a market that's down 20% from previous highs? And what's to come next? Can history teach us anything about where we are right now?

JURRIEN: Yes. I mean, cycles are obviously always different. History tends to rhyme more than repeat. But I've looked at bear markets going back to the 1800s, actually, and the average decline in a bear market is about 35%. And guess what? As of the low yesterday, our market is down 35%. So far, this has been an average decline, although certainly living through it feels anything but average. But bear markets can be anywhere from 20% to 50%. You know, 2008 was a 57% decline, but that was a major financial crisis. You know, 1929 was an 86% decline. That, of course, was the Great Depression, a whole different comparison there. But we are at the levels where we have reached the average drawdown, if you will, for the S&P 500. Now every bear market is associated with a recession, but many are. Even though we probably won't know officially from the NBER, which is the governing body that proclaims whether we're in a recession or not, we won't probably hear for several months whether we are in one, but I feel pretty comfortable saying that we are very, very likely in a recession. Again, as I said earlier, it's sort of like a heart attack. Hopefully it will be short, but it's steep. We're about to see the evidence of that with the earnings reports that will be coming out in the next few weeks. They're going to be really, really shocking. But, again, markets discount the future, at least the known future, and, of course, the future is not always known right now. It's not known. But as I mentioned earlier, we're starting to get enough data points now that we can start sort of peering past the abyss to the other side. But markets discount the future. And the fact that we're down 35%, pricing in basically a 30% to 40% earnings decline over a couple of quarters, tells me that a lot of bad news has been priced in. That's a very important thing to consider when we watch the markets unfold as they do.

JIM: How does your analysis change? I appreciate everything you just said, but I'm curious about how that analysis changes adding a pandemic into the mix. What does history tell us when there has been a pandemic and how the market has to respond to that because that's different than a typical bear market.

JURRIEN: Yeah. So, 2008, for instance, was a balance sheet recession. Right? That was a cycle where households had too much debt with a housing bubble, the banks had way too much exposure to the economy, and corporations had too much debt as well, so that was a very unique case. 2000, which was the dot com bubble bursting, was really valuation. It was a very mild economic recession, but the markets still went down 50%, 53% actually, because valuations were at bubble levels and then we found out that what we felt were earnings was really more of an illusion. Those were the days where companies were putting up very questionable earnings math. And so that was a unique thing. You know, '87 was not even a recession. The economy just kept going, but it was still a 33% decline. You know, 1974 was a 48% bear market, and that was deep because we had stagflation, price controls under President Nixon. We had the oil embargo, and then the Fed, because inflation was a problem, kept raising rates all throughout the bear market, and only when it stopped in October of '74 did the market actually start to recover.

Every cycle is different, but they all share similarities. Certainly, in this case, we have a health emergency. I mean, that is very unique, of course. But we also have an oil price war between Saudi Arabia and Russia that also comes into the mix. That was completely out of left field as well. That put us into sort of a reverse oil shock, which is significant because the U.S. is now the largest oil producer in the world, so that has an effect on company earnings and also it has an effect on our credit markets because energy, the marginal players in the energy field are heavy users of the high yield bond market, and so that actually created what we called contagion—not the viral kind, but a market contagion, if you will—that made it spread from an earnings question to all of a sudden the bond market, the credit markets, the commodities market. That actually is a little reminiscent of '08, although I think the differences far outweigh the similarities.

JIM: Jurrien, I wonder if you can shift a little bit now to talking about Fidelity's perspective during a market like this one. I know that that's a question we've gotten from a lot of people, sort of what's on Fidelity's mind right now.

JURRIEN: Yeah. You know, as Leanna already alluded, our message is always the same. Right? You need to have a good plan, a solid plan where you are optimizing your goals versus the amount of risk that you're willing to tolerate and some sort of diversified portfolio generally is the right approach. This chart here shows a 60/40 portfolio, 60% stocks, 40% bonds. I mean, our clients' portfolios may very well look different than that, but they're generally based on this theme. If you're in that kind of portfolio, you're probably doing the right thing right now. And then the only other thing to do other than to patiently rebalance is to just stick with your plan and not be that person who ends up selling at the bottom. As Leanna said, if you're trying to time the market, you need to get two things right. You need to sell at the top and then buy at the bottom. Even if selling at the top is doable, buying at the next low is near impossible just because of how volatile markets are and how quickly we see very large up-days following large down-days. Even today we're seeing an up 6% day. Have a good plan, stay the course, and then when it's time to rebound, get in touch with your account person at Fidelity and look at that.

JIM: Leanna, talk a little bit about that, if you would, please, how to approach this current situation, looking at it through the lens of someone's personal planning perspective.

LEANNA: Absolutely. I know I'm going to be echoing a lot of what Jurrien just said because it is as simple as that. I have two core financial planning beliefs. It all starts with having a financial plan, and the second is being able to stick with that financial plan no matter where we are in the economy. Again, that can be the hard part. What we do at Fidelity is we build and implement financial plans for our clients based on your specific goals, if it's retirement, saving for college, that second vacation home, it's customized to you. Fidelity's core philosophies, it all starts with that mix of having the investments be equities, bonds, and short-term investments, often cash. That's what Jurrien's chart just showed there. That's called asset allocation. That's based on, again, a client's risk tolerance, the goals they have, their time to reach those goals. And then we ensure we're diversifying that portfolio across the board, so we don't overexpose anywhere, and then rebalance. That's a mechanism to help manage the risk and the ups and downs we can see in the markets over time. Those few things, having that plan, sticking with that plan, but making sure that you're well diversified and in the appropriate mix for you, that is really our core financial planning philosophies.

JIM: Now, in times like this, I'm sure you're hearing about people who want to pull out of the market entirely, or at least in some form, they want to move to cash entirely, or at least in some form. They might need to or feel they need to dip into longer term investments, like their retirement accounts, to make ends meet at the end of any month. What kind of counsel to you give people in those situations or who are experiencing that?

LEANNA: It's definitely a stressful time. It may not be affecting you as an individual. But we are hearing stories of family members, friends, loved ones who may potentially have layoffs in the future or going to part time, and with that is saying how do I meet the expenses and bills. At Fidelity, what we do is we'll help you go through and discuss the alternatives you have. You have plenty of resources here. But I'd say just in a general sense, we first would recommend looking at more of a rainy-day fund, emergency fund for liquidity that you may have. But for clients that don't have that and are asking potentially to take from their retirement account, we want to use that as a last resort because you can't take a loan for retirement and it can have a significant impact on the long-term goals, but we would want to go over those options because it may be worthwhile to explore taking from other non-retirement accounts first. If that's not available, we may take a look at potentially a credit card with very low interest rate or even zero there that you can pay off in the short term. Another option would be a home equity line of credit. If all of those options are exhausted, we would look at your retirement plan, 401k or 403b, and see if there is a potential loan option because that can sometimes serve far better than withdrawing from the 401K altogether, because when we take out of a 401K, we are paying taxes on that and oftentimes a penalty if we're below age 59.5, and that's 10%. If we need to take out $10,000 to pay for bills per se and we're paying 20% to taxes and 10% penalty, now that's $7,000. I said a lot there but know that you have the resources here at Fidelity for us to help you navigate some of those tougher decisions. Just know we are here for you.

JIM: Excellent, Leanna. Thank you. That's a great message to end on. Unfortunately, we're at time for this week. There is a lot more to discuss, but the good news is we can come back next week and continue the conversation. Thank you both for taking time out of your schedules and speaking with us today. We appreciate it.

JURRIEN: Thank you.

LEANNA: Thank you.

JIM: Thank you for watching. During this unprecedented time, Fidelity is taking the steps needed to protect you and our associates while helping to make sure that your financial services needs can also be met. We're taking enhanced steps to serve you online, and on the phone, and we've expanded the number of transactions that you can do in both places. You can log onto our Fidelity website as well as to our app to view your accounts and to make a wide range of transactions. One final note, this webcast was recorded on Tuesday, March 24th, and our goal is to make it available as an on-demand replay right in this same space for the next several days. And then next week, the three of us will be back here for another Weekly Market Insights webcast talking about the latest developments and how they might impact your plans in a few days. We'll follow that cadence for the foreseeable future, webcasts updated weekly, so feel free to bookmark this particular page so you can navigate back here easily. Again, huge thanks to both Leanna and to Jurrien, and thank you for joining us. We'll see you next week.

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