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

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TRANSCRIPT

SPEAKERS:

Jim Armstrong Leanna Devinney Jurrien Timmer

Jim Armstrong: Hello and welcome, again, to Weekly Market Insights. I'm Jim Armstrong with Fidelity. Thank you for making time to be with us.

A lot of us are now at the point where we're trying to move forward and develop new routines, new expectations of what life like this is supposed to feel like. We're adjusting and some parts are easier than others. Today we're going to be talking about the concerns we're hearing from you, including a closer look at your questions about the government stimulus, the CARES Act, as well as about job losses, and all of it is with an eye towards the question underneath all the other questions, when might this all come to an end. Of course, that's largely unknowable, but we're studying the market and we do have some insights to share. Remember, the views and opinions in this webcast are those of our speakers. The discussion is for educational purposes and should not be considered investment advice.

Now during today's update, we're going to hear from Jurrien Timmer. As Fidelity's Director of Global Macro, Jurrien is constantly thinking about the bigger picture, offering his analysis on what we're all seeing happen. We're also joined by Leanna Devinney. She holds a Certified Financial Planner designation here at Fidelity, meaning she works one-on-one with customers helping them build financial plans for themselves and for their families under all kinds of circumstances. Jurrien, Leanna, thank you again for joining us remotely via video once more. I hope the sheltering in place is going as well as can be expected for both of you.

Jurrien Timmer: Yeah. It's day 41 of Groundhog Day and my lion and I are happy to be here.

JIM: The rainbow lion helps for sure. Leanna, how about you?

Leanna Devinney: It's been great. I've completed three puzzles so far. Good things.

JIM: Making good use of the time. That's great.

All right. It's Tuesday, April 7th. Leanna, let's start with you. We're hearing from some of our customers this sense of an acceptance of this new normal to their home lives, to their work routines, to their financial plans. And, in fact, this week Jurrien is using the phrase holding pattern to kind of describe what he's seeing in the market. We'll talk more about that in a minute. But first, I'm just curious what you're hearing from customers.

LEANNA: You're right. And as we're settling into this new norm, the past week we have heard relief from many clients and we're seeing some positive days in the market as a response to the stimulus package. We've also been hearing stories of family video conferencing, game nights, and staying active, which has really been refreshing. I don't want to discount, though, hearing from those impacted from layoffs or loss of income, so we'll talk later on how that impacts a financial plan. But first I do want to share some perspective on the markets.

I like to show this chart as we can look back at economic events that we may remember well, so the Great Financial Crisis, dot com bubble, Black Monday in 1987, and those are what we call bear markets, and that's when there is a negative 20% downturn from the high. We actually see that on average every six years. And so while we've been seeing positive news and the market rebuilding, clients are still asking when will this bear market be over. Again, this chart is helpful to gain perspective. While we don't know that answer, we can look back and say, well, historically, how long have bear markets lasted. And so, again, they happen on average every six years, but the average duration can last 22 months when we look at the history of bear markets. And we've even seen shorter bear markets like 1987. That was four months. And while it felt very hard at that time, it was shorter. So while we don't know the answer of how long, we do know that having a customized plan for your goals that you can stay invested through is really important.

This next chart, it will show the past 20 years and it highlights those challenging times that I just listed, like the tech bubble and financial crisis that we saw, but it shows during those time periods the best days. That's shown in blue here. You can see a lot of times these best days are right in line with the poor days. The past few weeks, we've seen a lot of up days. We've also seen some poor days. We may look back and call those days the best days. It really speaks to the importance of having an investment plan that we can stick to.

JIM: That's great. That context is super helpful. Thank you for that.

Jurrien, I want to turn to you now. I think a lot of people agree with you when you say, as you have, that what's happening now kind of feels different to them from other downturns. I'm hoping you can talk more about that specifically through the lens of this really great chart that you built that compares what's happening now to 1987 and 2008.

JURRIEN: Yeah. In many ways, this is obviously an extremely unique cycle in terms of how this downturn came to be. But in other ways, when you look kind of technically at the charts, which is what I've done here, there is actually—the market is following I wouldn't say predictable, but it's following a traditional playbook of how bear markets sort of unfold. First things first. Usually, a recession and a bear market happens either because you have a supply shock, think of the oil embargo in 1973, or it's the traditional imbalances that build in an economy where there is too much leverage, the economy overheats, you get inflation, the Federal Reserve raises rates, and that kind of gets everything to slow down. We're not really seeing any of that. I mean, if we have a supply shock, it's a reverse supply shock because now all of a sudden, we have too much oil. But it's this sudden sort of heart attack, this sudden stop in the economy because everyone is sort of sheltering in place and we're all working from home and restaurants are closed and hotels are closed and airplanes aren't flying, so it's very, very unusual in that sense. But when you look at the chart, bear markets do follow a certain pattern, especially when there is some leverage built up in the system, as has been the case this time around, mostly through kind of hedge funds and those types of players. What you get is you get a change in the narrative in the market. Markets are always discounting the future, so they are pricing in what the consensus thinks is the future, and many times that's correct, but sometimes that's wrong, as is the case now when you get this sudden shock. And so then the market has to reprice. It goes down in a price discovery process. And then when you have leverage involved, the margin calls come, and then you will get this sort of selling crescendo.

What I show here in this chart is the '87 crash and kind of the crashing phase of the global financial crisis. That happened in October of '08 after Lehman went under and the market basically fell out of bed. That's the phase where you get the indiscriminate selling, you get the margin calls. It looks to me, and we don't really know in real-time, so I don't want to be making any forecasts here, but it looks to me like that phase in this decline ended two weeks ago on March 23rd when, again, the indiscriminate selling kind of reached a crescendo. And then what happens next is you get a base-building process. You get a rally where typically it's 20% or more. We're already up 26% from the low. Instead of down 35%, which was where we were two weeks ago, we're actually down 20% as of today, which is another example of being a buy and hold investor with a diversified portfolio. If you blink, in a week's time or two weeks' time, it can make a lot of difference, and that's why it's so important not to panic and kind of sell at the bottom, which unfortunately a lot of people do. We're in that base-building phase. That doesn't mean that the final lows are in place. It's unknowable. But it's no longer that one-way street down and that's what we're seeing in the price action right now.

JIM: Now last week we saw another, frankly, devastating jobs report, another six million Americans filing for unemployment. Now, Jurrien, you're saying we're sort of in what you're describing as a holding pattern. I'm just curious how you would explain what that means to those of us who are curious about what happens next.

JURRIEN: Yeah. On the surface, it doesn't make a lot of sense to see these devastating economic numbers like jobless claims, and we're about to go into earnings season for the first quarter and those numbers are going to be really awful as well. But the market is already ahead of that. Right? Markets discount the future. It's not always a knowable future. But they are discounting, whether it's uncertain or not. And so at down 35%, which is where we were a couple of weeks ago, a lot of bad news was priced in, and then came the policy response, right, the fiscal policy, the CARES Act, the Federal Reserve through monetary policy, really unprecedented amounts of relief and stimulus and liquidity provided by the government. And so you have those two things already happening. And then, really, what the market was looking for is some glimmer of good news on the coronavirus front, which now we seem to be getting. Right? Italy, France, Spain have already peaked in terms of their growth rate. It looks like New York is getting a little better. And so this, I think, explains why we have this very sharp rally the last few days.

We're at that point where everyone knows the economic numbers are going to be horrific, but it's already been discounted, and that's why those numbers don't have the power to move the markets much lower. Now having said that, I do think that now that we have some glimmers of hope that the apex of the coronavirus is being reached, the conversation will shift towards the exit strategy, like, okay, so now we have a handle about how much worse it can get and for how long and how deep the contraction will be, but what is the recovery going to look like. People talk about a V or a U. We're talking more about like a swoosh, you know, like a sharp decline and a gradual return, because, obviously, the economy can't be let turn down too quick without the medical response in place, otherwise the risk is that there's a whole other outbreak. But the longer it stays shut, the more lasting the damage will be in terms of layoffs and businesses closing. That will be a very delicate balance to bring the economy back online but to do it in a thoughtful delivered way, so that if there are new outbreaks, and I'm sure—I'm not sure, but there likely will be here and there—that they are going to be isolated enough that they can be treated locally without, again, this massive global lockdown that we've been in for the last so many weeks.

JIM: That's great. And that gets me right to what I wanted to ask you, Leanna, about is this idea of this sort of contradiction where the markets might be having up days, but the reality for many people that you're talking to every day is the fear of a job loss or a furlough or actually having to deal with a job loss or a furlough. What are folks coming to you and talking about with regard to that?

LEANNA: Yeah. It's really hard. I know it's impacting many directly, or we're even hearing young adults that are impacted and having to move back with their parents or kids home from college early and it's impacting spending for many. It has caused a question of how will this impact my long-term goals? Am I able to retire? What we suggest is taking the time to review your plan and see how the loss of income or changes may impact the goals. We offer many tools to help review your plan, review your savings and spending, and the specific goals that you have. This slide shows one of our tools. It's called the Planning and Guidance Center. It's actually showing the outcome of an analysis. In the Planning and Guidance Center, we'll take a look at retirement planning,

investment strategy, and it also provides an action plan. What we do is we first understand your full financial picture and then we're able to run an analysis and show the impact on different outcomes. For example, if you did have to change your spending, what would the outcome be on your goal? If we had a loss of income for several months or years, what would that look like? Or if we had to work longer. All of these are examples of how your plan can be impacted. This tool is accessible to clients to review and do it on your own, or you can work with a financial planner. But what I love most about the tool is it really allows clients to make an informed decision and to see how this challenging time can impact your specific plan.

JIM: And perhaps get some answers to their short-term questions about how to wrap their heads around what's happening. That makes a lot of sense.

Leanna, I also wanted to ask you a couple of questions about the CARES Act. I know we covered that in detail last week, but we're continuing to get a lot of questions from our customers about that. I wanted to focus on some of the questions we're hearing most about, which the first is definitely RMDs, those required minimum distributions, the payments you have to take out from your retirement accounts generally when you reach the age of 72. That's a really big question. And the other is people taking – drawing on their retirement funds. Can you walk us through the latest on that?

LEANNA: Absolutely. Clients have been relieved to hear that there has been some of the retirement rules relaxes with the CARES Act. The first to start is the required minimum distributions, acronym RMD. Some also call this minimum required distribution, MRD. Not to be confusing, they are the same. But for 2020, there are certain plans in retirement accounts that these were waived and suspended. Those were 401Ks, 403Bs, 457 plans, IRAs, so SEP IRAs, simple IRAs, and traditional IRAs that can be waived.

JIM: They can be waived, not automatically. Right? That's a possibility.

LEANNA: Exactly.

JIM: Got it. Can you talk a little bit, Leanna, about why somebody might want to skip a distribution this year? Why is that potentially a good option for someone?

LEANNA: It's really an opportunity to stay invested if your specific situation allows. For clients that don't need their RMD, it may be worthwhile to waive it. For clients that do need their RMD to cover their expenses, this is an opportunity to potentially look at using a different account, such as a savings account or a rainy-day fund, but only if your specific situation allows.

JIM: Got it. Now, Leanna, what about people who might need money to get them through a job loss or a furlough or something like that, maybe they're thinking about using their retirement savings? What does the CARES Act offer those folks potentially?

LEANNA: The CARES Act offers eligible participants or owners from an IRA to take a distribution up to $100,000 in those accounts without incurring the 10% penalty that you typically would have if you were under age 59 1/2. But to qualify, there are several conditions. First, you or your spouse or a dependent would have to be diagnosed with COVID-19 or experience hardships because of the pandemic, so like what we described, layoff, loss of income, or reduced hours to mention. You're able to take that $100,000 penalty-free, but you still would have to pay income tax on the distribution. One of the benefits is that it could be spread evenly over three years versus paying the tax back in one year. Another big benefit is the distribution that you take can be repaid within three years. Again, if your situation allows, then that's a big benefit because it has you to be able to still focus on your retirement goal and have a potential less impact on your overall plan by taking that withdrawal. The one other I just want to mention, for those that have a loan on their workplace plan, this is also, through the CARES Act, able to be delayed one year.

JIM: Got it. Great. Thanks for that. And one more quick note. When a big piece of legislation like the CARES Act passes, we do our due diligence at Fidelity when it comes to learning exactly how the changes affect you. One of the things we do is wait for guidance to come from government agencies like the Treasury Department or the IRS. And once we have a better sense of how the CARES Act does affect you, we update our resource center page on our website. That's a great idea to go back and check that often and there you'll find updates. Again, the Fidelity resource center is right on our homepage.

Jurrien, last week and this week, I know you've said we're at the phase of sort of still having more questions than answers. In your mind, what are the big questions or the one question that you have looking forward over the next few days? What's on your mind right now?

JURRIEN: In terms of the price action, we've now rallied about 26% from the lows, which is pretty impressive. There are going to be investors or speculators who are going to sort of lean into this rally and try to sell, sell here probably around these levels. If the market is in technically as good a shape, let's put it that way, as I think it might be, then that selling will be easily absorbed and the market will kind of be resilient through that. And so kind of on a very short-term basis, that's one thing I'm looking for in terms of identifying whether that crescendo that we saw a few weeks ago of selling was actually what I call an internal bottom where most of the stocks that were going to be sold have been sold and it's actually a really interesting opportunity, especially for active managers, to kind of go through the rubble and pick good stocks that have gone down as much as bad ones. But to my earlier point, I think really the main focus now, again, it looks – and I don't want to be too optimistic on this – now that it looks like the growth rate of new virus cases is starting to crust a little bit, I think the conversation will be – will go to what does the other side of this look like. It won't be easy, but the market is always looking forward. And, of course, there are many other questions that are much more longer-term.

The government is playing a huge role right now and it's a great thing that they are, but it's almost like a wartime footing in terms of deficit spending, the monetization of those deficits by the

Federal Reserve. We really have to go back to the early 1940s to find a period where there was such a dramatic increase in spending by the government. From 1941 to 1946, the Federal Reserve increased its balance sheet tenfold because it was buying up the war bonds or war debt that the government was issuing to build up to the war. Again, we're obviously not in a traditional war, but you could argue we're in kind of a war against an invisible enemy. And so we're just kind of thinking in those terms of, okay, what is that going to look like? What is the economy going to look like a couple of years from now when the government just has a larger footprint than it used to? Again, there are more questions than answers. But, really, the most pressing one, assuming that we get this COVID-19 thing somewhat under control, is how does the return happen, how does the government allow people to go back out to dinner without risking another outbreak. I think we'll see a lot of work on that. I'm sure as we continue this series in the coming weeks, we'll have a lot more to say about that.

JIM: Yeah. For sure. That's very much a question, I think, on all of our minds. Jurrien and Leanna, thank you again for your expertise and for taking time to speak with us today. And thank you in the audience for watching. Fidelity continues to work to protect you and our associates while helping to make sure that your financial services needs can still be met. We're taking a lot of enhanced steps to serve you online and on the phone, and we have expanded the number of transactions that you can do in both places. Of course, you can log onto Fidelity's website as well as to our app to view your accounts and make a wide range of transactions. As Jurrien suggested, we'll be back here next week, so feel free to bookmark this page so you can navigate back here easily to hear what's going on then. Again, thank you to Fidelity's Jurrien Timmer and to Leanna Devinney. And thank you once again for joining us. Stay safe and we'll see you next week.

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