

# Fidelity Viewpoints®: Market Sense

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## TRANSCRIPT

### SPEAKERS:

Jim Armstrong Jenn Sirois Jurrien Timmer

**Jim Armstrong:** Hello and welcome to Market Sense. Thanks for joining us today. I'm Jim Armstrong with Fidelity. Regular viewers will notice the name change from Market Insights to Market Sense, and may be a bit of a refresh to our look and feel as well, but rest assured, our goal remains the same: to try to get you up to speed on the markets and on the economy and then help you make choices about your investments based on that. So with that said, markets have peaks; markets have valleys, and if you're watching this webcast, you're among the many people who are just trying to make sense of what's happening and what's about to happen and figure out what it means to you. I would say you're definitely in good company if you're starting to question how much longer our current conditions will last. Maybe said another way, when might things slow down or maybe head in the other direction again? So that's what we're going to be talking about today—if in fact our current bull market might be ready to turn a bit bearish. And if so, what can we do to prepare for it? To have the discussion, we are joined by Jurrien Timmer, who'll be sharing what he's been thinking as he continues to study market trends; and then, Jenn Sirois is here as well to talk about how investors can put all the pieces together. Jenn, Jurrien, great to have you here again. Thanks for coming back.

**Jenn Sirois:** Hey everyone, thanks for having me back. It's great to be here.

**Jurrien Timmer:** Great to see you guys again.

**JIM:** Jurrien, it is Tuesday, May 11th, so let's start with where we are right now. I mean, again, like all weeks, it seems like so much happened over the past few days—among the things coming to mind, though, the sort of shocking news in last week's jobs report, for one thing. So maybe you could start us off by talking about what that's meant to the markets and what it might mean to us as investors.



**JURRIEN:** Yeah, you know, like chapters in a book, right? We've been kind of highlighting every step along the way here, you know, from obviously the pandemic and the surges and then the election and then, you know, kind of the breaking of that curve, and that curve in the US, at least, continues to come down, which is great to see, of course. Then the reopening, and then, you know, the markets pricing that in, and then the inflation that comes from, you know, the lack of inventories, the supply bottlenecks. And we're obviously wondering what comes next, and in recent weeks, we talked about, you know, the peak reopening, where a lot of the good news - maybe all the good news - is priced in even though that good news is still unfolding, you know? We've talked about earnings - the earnings data from the first quarter are just off the charts good. But, again, a lot of that is priced in, so today and yesterday, we see the markets actually going down, even though things are looking up. And so, you know, I showed this chart here to kind of highlight where we are now in the market. So last Friday, we had the unemployment report, and it came in far below expectations. So fewer jobs were added than economists expected, and, you know, the number was completely kind of out of sorts against other indicators that we're seeing that really shows the economy is reopening—more people traveling, et cetera, et cetera. So it's a little bit of a disconnect, and a lot of people are worried actually that it's going to produce more inflation because maybe people don't want to go back to work. Maybe employers are not offering enough in terms of wages to do it. So that could be actually a supply side to this story in terms of people not going back rather than a demand side where businesses aren't strong enough. So the number of unfilled jobs or hard to fill jobs is actually going up very rapidly. But what this means for the markets is that, you know, it puts the Fed yet again right back into the crosshairs because the Fed, of course, is telling us that it's going to be very, very slow in reducing its asset purchases. It's going to wait a long time before raising rates because there's still a big unemployment gap out there that needs to be closed. So in this chart here, I show the gap between the unemployment rate and what is considered full employment. And right before the pandemic, that was at -1, meaning the economy was actually kind of beyond capacity a little bit, and then during the pandemic, that spread rose to 10%, which is a huge—I mean, that's one of the worst ratings we've ever seen. It's closed very quickly, and it's gone down to 1.6%, but now, you can see it's leveling off a bit. And so if that gap remains unfilled, and it causes the Fed to stay, you know, lower for longer, as we call it, even though inflation is creeping higher, and it is—you know, that puts the market on notice that maybe we're going to have some inflation that's beyond just the transitory inflation. And what does that mean for stocks and what we're seeing today and yesterday is that the so-called long-duration growth stocks—stocks that have, you know, good earnings growth for a long time—those stocks tend to be very sensitive to changes in interest rates. And interest rates and inflation expectations are on the move, and therefore, we are seeing that rotation. So I'm not surprised by this. I mean, we've talked about this in the last weeks, and I think we'll talk about it today—that we are at that point in the cycle, even though the long-term outlook remains, in my view, very constructive. We are at that point in the cycle where maybe the market needs to take a breather, and I think perhaps that's exactly what we're doing right here.

**JIM:** So, Jenn, based on that, I want to bring you into the conversation. You know, when we as investors sort of tried to make financial plans in the face of future uncertainty, it's difficult, right? We don't know where to go. We don't know even the right questions to ask. What are you and the folks on your team hearing about today's conditions the way Jurrien just described them?

**JENN:** Yeah, it's a great question, Jim. I would say the last year plus—so since last March, emotions are running pretty high. And completely understandable, given everything that has transpired and expected, so this translates into uncertainty when it comes to investments. I am hearing from families, "Is today the day that the market takes a turn?" That's a very common comment, and they're either convinced the market is ready to have another large correction or they're waiting for it, but they're unsure what steps to take. So no one has a crystal ball. None of us knows really what's going to happen, but what we can do is just prepare for what may come. And I think that's really the most important point here. So financial planners—excuse me. Financial planners like myself—our mantra doesn't really shift. It's the best course of action is to stick with your plan. We can see enough research showing that investors who stick with a disciplined long-term investment strategy tend to outperform those who jump in and jump out of the market. Taking the long view, Jim, can be very challenging. Again, those emotions—especially during challenging times like we've experienced in the last year. But we can show over time that those that take their money out of the market making an attempt to minimize losses in fact end up doing the exact opposite. Missing a handful of returns, as we can see on the slide here—missing even just a few of the best days of recovery can have a really large impact on overall returns. So it's really your emotions—the excitement when the market's up. I mean, who doesn't love that? But then also the fear when the market is down. Those emotions can have real influence on your investment decisions, leading you to buy high and sell low, miss rapid recoveries, much like we saw back just a year ago in 2020.

**JIM:** Yeah. Lots of lessons learned from 2020. Jurrien, go ahead.

**JURRIEN:** I was just add—you know, I've been doing this for 36 years, and it is almost impossible to trade the market in that way, because not only—even if you can capture the high point in the market and you sell at the highs, you then have to buy at the low. And it's almost impossible to do, and so I don't recommend it. It's much better to have a good plan and to stick with it, and to rebalance when you have big periods of volatility. That always makes sense.

**JIM:** Jurrien, I'd love to pick your brain a little bit, too, just because we know you're a big student of history—a self-described geek when it comes to history. What can you tell us about what might be coming based on what's happened in the past—particularly about a decade or so ago?

**JURRIEN:** So, you know, as I tend to say, figuring out what's going to happen in the economy is only half the story. Understanding what is priced in is just as important, right? So you could be—you could pick a stock and correctly anticipate that that's going to be a great stock. But if it's already priced in, right? If people already are paying through the nose in terms of valuation for that stock, it's already in the price. So then you have to be incrementally even more right than what

is discounted. And so that's why I'm always looking at—what are the markets saying? As opposed to—what am I thinking the markets should do? And so I've looked at many analogs. It's kind of one of the things I do. And one of the analogs that we've used over the past year or so when we've had these webcasts is the 2009 bottom, which came out after the global financial crisis, or the great recession, as it's called. And I highlight—I've been highlighting this over the past year to show that, you know, price bottoms before earnings, because the market anticipates the future. Not always correctly, but it is always anticipated. So remember, you know, nine months ago, or even a year ago, the markets were already going up even though the world was kind of falling apart around us. And a lot of people were scratching their heads saying "this doesn't make any sense. The markets are disconnected. It's all this or that." Well, actually, the markets were doing exactly what they always do. And that was to discount a recovery, and so in this chart, you see the current recovery in the black line, and the Karen earnings track, which is now starting to improve dramatically overlaid against the same thing back in 2009. Remember, March 2009 was the bottom after a 57% decline. You know, that is a big, big decline. But back then, price bottoms about 6 to 9 months before earnings, and by the time earnings flipped from negative to positive, market was already up about 75%, just like it is today. It's up 84% at the same exact point in time. But if you look at that pink line, you can see there was a correction there. It was just a correction. The market kept making new highs after that, but it was still a three month long 15% correction, which is not insignificant. And if you think about what happened back then, that was April 2010. That's when QE1—so the Fed's first bout of quantitative easing or asset purchases—ran out. So back then, when it did QE, it had an expiration date. And so I'm okay, we're starting out and we're going to end here, and the markets kind of had a little tantrum because they were—the markets were afraid that the liquidity was going to run out. And guess what? That's the conversation we're having right now at exactly the right—at exactly the same point in the cycle that we were back then. So the Fed either—the theory is that they're going to take the punch bowl away too soon, and the liquidity environment's going to dry up, or they're going to take the punch bowl away too late and then inflation creep will set in and then we're going to have higher inflation. So the Fed is kind of in a tough spot here because they're trying to manage the term, and just like you and me can't really trade the markets at turning points, the Fed is no better at it than anyone else. And so that's what the narrative is right now. But the point is that that was a pause that refreshed, and my guess is that if we get a period of indigestion, if you will, it'll be the same thing.

**JIM:** So with that said, and looking at that chart gives you a lot to think about as an investor. Jenn, if someone walks into you and says, "Jenn, based on that, what should I do to get prepared?" What do you tell them?

**JENN:** Well, Jurrien, I love your comment there—the period of indigestion. I think that describes a lot very quickly. So Jim, one of the keys to successful investing is really learning how to balance your comfort level with risk over your time horizon. I think that just sums it up right there. But it's why you hear industry professionals like myself talk about diversification all the time. The primary goal is not to maximize returns—it's to limit the impact of volatility on your portfolio, your investments by balancing that risk and reward. None of it will promise either a profit or guarantee

against loss, but what it might bring to the table is a little bit more comfort. Can I sleep at night? So the chart that we have here really shows six sample investment portfolios ranging from very conservative—that's the 100% yellow one—two very aggressive—the one in the top right. The two different shades of blue, there. The goal here is really to choose an allocation that you're comfortable with and have either a process on your own to maintain or where someone—a professional is helping you regardless of what the market brings. And in general, what you're saving for and how long you're saving it for and what you're investing for—all of those things help shape the appropriate level of risk that you want for your investments. All investments carry some level of risk, so finding that right mix, whichever little pie here on the screen feels comfortable to you—you want to really make sure that you're weighing the trade-offs. Am I being too aggressive and possibly taking too much risk? Am I being too conservative and not taking enough? You especially want to consider that if you're young and you invest too conservatively, you might run the risk that your investments don't keep pace with inflation. On the other end of the spectrum, if you invest too aggressively maybe when you're a little bit older, you may end up leaving your savings exposed to that market volatility, potentially eroding your assets at a point in life where maybe you don't have time to recoup them. So diversification and being comfortable, Jim—I think those are my key takeaways for you.

**JIM:** And I also want to revisit an idea—

**JURRIEN:** I mean, if you're worried that we're at a point in the market where you don't know what's going to happen, you know, from here, after the huge run up, it might be that, you know, you're not exactly in one of those pie charts—that you've drifted from that. And so that would be a good time to call Jenn and say, you know, I'm not as set up as I should be.

**JENN:** It's amazing, Jurrien, how the market can push and pull you in different directions in a very short amount of time. So having that process to rebalance—to bring yourself back to the little pie chart that you're focusing on is going to be important over the long term. So—but I'm sorry, Jim, I didn't mean to interrupt. I think you had another question.

**JIM:** No, rebalancing is super valuable, so thanks for touching on that. That's great. I just wanted to go back to something else that you both had talked about just a minute or two ago—this idea of sticking with a plan when you have it. I think—I'm thinking of immediate lessons learned just from last year. We saw in 2020 when the market bottomed, a lot of people went to cash. They got very nervous. They tried to stop losses by getting out of the market entirely, and Jenn, I think this speaks to the slide you put up a couple of minutes ago. When you're out, you have the potential to miss some of those immediate rebounds, and then you can't get that back, necessarily, right?

**JENN:** Yeah, that's true. So, Jurrien, if you don't mind, I'm going to steal a page from your history book here. But while nobody's going to tell you—or at least no one who's talking to me—is saying market downturns are fun, they are normal. So on average, if we look at the—if we go back in history, since 1926, stocks have dipped into bear market territory just about every six years, and losses average 40—that's four zero—40%. So it can be pretty unsettling, but history does show that over time, they recover and they deliver some of those long-term gains, so—in fact, some of the best times, Jim, for you to invest in stocks is when things seem to be the worst. So, for example, last March, last April of 2020, I actually had a number of families boldly take the step—and I say boldly, but—of investing some of their cash. They believed in the market long term, and that was going to grow for them, so—and I would say fast-forward today, their comment is “I wish I had invested more”. So continuing to invest even when the market dips can be good for your portfolio. Another thing that I often times suggest is even when emotions might say otherwise, continue to invest consistently, dollar cost average, by making regular contributions to your accounts every pay period over an extended period of time. That's dollar cost averaging. This is a great time to make sure that you're continuing to add to your retirement accounts, so your 401(k) or 403(b) through work. Perfect opportunity to dollar cost average for your paycheck, and you're buying larger amounts of shares for a smaller dollar price, if you will. That's dollar cost averaging at its best. So—but, Jim, I'll say both of those strategies do take a little bit of nerve—some commitment. But over time, they can certainly prove beneficial, and we always tell you history—no guarantee of the future, but it's useful to see the rebounds that follow even after some of those significant corrections. And we can see all of that here on the chart. Sorry, I should have referenced that earlier. But it certainly speaks to what we've just been chatting about.

**JIM:** No, that's great. And I think that's part of the—frankly, I think part of the value of this weekly webcast is that we're here every week to talk people through it as it's happening in real time with the—hopefully that calming voice of, hey, we've been through this before. Let's see if it's going to happen going forward. So with that said, I know I haven't left with very much time here, Jurrien, but another question that Jen is telling us she's hearing a lot—we're hearing a lot—is what's to come with inflation. So, I know in our limited time left, could you give us your current thinking there?

**JURRIEN:** So inflation is what we're all talking about. It's what everyone is worried about or asking about, and if you look at this chart—you look at the bottom panel, right? So the reason we're talking about this is A: the economy is reopening, we have all these supply bottlenecks, you know. There is no wood, there's no nothing. So everything got disrupted during COVID, but there's also this huge, you know, policy response—fiscal and monetary, so the money supply is growing by leaps and bounds. That's the blue line in the bottom panel. And historically, more often than not, when money supply is growing, inflation follows. Right? And so the intuitive conclusion is we're going to have inflation. And what does that mean for my portfolio? It's not quite that simple, though, because demographics are playing a very important role here in the markets—you know, the population is aging, the labor force is starting to shrink, so if we take that same chart that we just add that gray line into the bottom, that's the growth in the labor force. You know, the last

time money supply growth was expanding and inflation followed, that was during the 70s. The labor force was growing, and that—you can imagine that's inflationary. More people working have money to spend. They're going to buy more stuff. This time around, the money supply is growing, inflation is still down there, and the labor force is actually shrinking. So demographically, there's a big headwind that's deflationary, and so to me, I see why inflation could be making a comeback, but to me, it is not a foregone conclusion by any means.

**JIM:** Fantastic perspective there. And thank you, again, for explaining that in a way that I can understand it, which is no mere feat. So thank you for doing that. I appreciate it. Thank you, Jen, as well, for being here today, too. A quick note for our viewers: thanks for watching, and if you need help with your financial planning or just have questions about what we have to offer, visit Fidelity's website or download the Fidelity app on a mobile device. Those, again, are really good ways to continue to explore our planning solutions, and maybe also get some answers to your questions and learn more about what we talked about today, for example. Again, huge thanks to Fidelity's Jenn Sirois and Jurrien Timmer. Next week, the three of us will be back to take a fresh look at how much risk you might be taking on by keeping more cash than you need in your accounts. See you then.

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