

# Insights Live: Navigating the markets' ups and downs

May 11, 2023

## TRANSCRIPT

### SPEAKERS:

Jim Armstrong Lars Schuster Christine Thorpe Gina Gillespie

Views expressed are as of 5/11/2023 and are based on the information available at that time, and may change based on market or other conditions. Please read the last page of this transcript for important additional information.

**Jonathan Lamothe:** Hello, everyone and welcome to the latest *Insights Live: Navigating the Market's Ups and Downs*. My name is Jonathan Lamothe, Vice President of Digital Education here at Fidelity. And today I am honored to introduce this timely and important topic. We have a lot to get through today, and we truly want to thank everyone for taking some time out of your day to join us and engage with us on this really important topic. Our panelists are very excited to begin today's discussion.

But before we do, I would like to mention that Fidelity does not give legal or tax advice, and nothing we discuss today should be interpreted as legal or tax advice. The information we are providing is going to be general in nature, and it may not apply to your situation. So if you have legal or tax questions about your specific situation, we do encourage you to talk to your tax professional or attorney. So with that, I'm going to turn it over to our moderator for the day, Mr. Jim Armstrong. Jim? It's all yours.

**Jim Armstrong:** Jonathan, thanks so much, and thanks again for everybody who's taking time out of their day to be with us today, especially to those of you who submitted questions when you registered because those really did help shape the discussion that we're going to have today. Our panelists are going to do a deep dive on where the markets could be headed and what that might mean for each of us. We'll talk about what strategies could help grow and protect your wealth in uncertain markets like these. And we'll talk about the environment for bonds and why that could be particularly strong over the next few years.

We also know that people have tons of questions about the federal debt ceiling and what that might mean for each of us as investors, so we'll touch on that as well. So obviously, a ton to cover. Let's dive right in. And I'd love it if each of the panelists could just spend about a minute or so introducing themselves and telling the audience a little bit about the perspective that you'll bring to today's show. And Gina, if you could start us off, that'd be great.



**Gina Gillespie:** Sure. That sounds great, Jim. My name is Gina Gillespie. I'm a Vice President, Financial Consultant. And as a financial consultant, I work within our Investor Center in Burlington, Massachusetts. I meet with investors, just like yourselves, on a daily basis, talking about concerns that you may have and how to build a plan specifically for yourself. So that's the perspective I'm going to share with you all today. Lars, I'll kick it over to you.

**Lars Schuster:** Yeah, thanks, Gina. Good afternoon, everyone. Good morning, depending on where you are in the country. I'm Lars Schuster, and I'm an Institutional Portfolio Manager with Fidelity Strategic Advisors. We're the lead portfolio manager for most of Fidelity's managed accounts. As a member of the investment team, I'm responsible for delivering Strategic Advisors' managed account investment philosophy, process, and ongoing activities to a wide range of investors. Christine, let me turn the baton to you.

**Christine Thorpe:** Great. Thanks, Lars. And great to be with everyone. So I'm Christine Thorpe. I'm an Institutional Portfolio Manager for Fidelity's Fixed Income Separately Managed Accounts. And really, in my role, my job is to provide our investment teams' perspectives and market outlook with our clients to help them better understand how we're positioning our portfolios.

**Jim Armstrong:** Great, again, thank you all—for all three of you to take time out of your schedules to be with us today. Gina, let's start off with you, with probably the biggest understatement that we're going to have today—it's been a bumpy start for 2023. Investors have had a lot on our minds—worried about the health of the overall economy in general, concerns about the banking sector, market volatility underlying all of it. So again, reflecting on that theme of answering customer questions, I'd love to hear the types of things that clients are bringing to you and your team. What are their concerns? What are their questions these days?

**Gina Gillespie:** You're right, Jim. These are things that we're hearing from all angles. And if I had to give you, maybe, the most highlighted points that we hear on a daily basis, I think one is clients continue to hear that a recession is coming, from all different angles. And it's a really concerning term to them. And I think a big reason is because they are anticipating maybe another market downturn, in their mind. So they're coming in and asking questions.

The market volatility that they saw last year had been really difficult to stomach, oftentimes because this term of asset allocation—diversifying the types of investments you have because at different times they could do better than others—asset allocation didn't work. We saw the downturn in stocks and bonds at the same time. So that was really challenging. And so it leads into the concern of our economy, the health of the economy, what types of investments are we looking at going forward? Are they positioned properly? That's a big question.

I think another thing it leads into is the role of cash—the role of cash within your plan. And right now, short-term rates being so high, it appears that it could be a really good place to park a sum of money. And so clients are coming in asking questions like, should I do this? Tell me more about if

it's a good idea for me, specifically. And then, lastly, you said it in the introduction, that I think the debt ceiling—that's a big concern to clients, as well as stress on banks and how this could affect their plan. And we've seen this in the last couple of months. So those are probably the biggest highlights, I'd say.

**Jim Armstrong:** No, thanks for that. I think that sets up the next 40 minutes or so of our discussion perfectly well. We're going to touch on everything that you just mentioned. But the very first thing you talked about, appropriately, was recession and concerns of recession. So Lars, I'd love to turn it over to you. What's the data telling you? What are you seeing in terms of the business cycle and where we are now?

**Lars Schuster:** Yeah, sure thing, Jim. And this notion of recession—it's been on the minds of many for, really, some time now—really going back maybe even 12 months. It's really understandable, just given the news flow. We've seen continual announcements of various corporate layoffs, certainly issues at several banks more recently, higher prices for everyday goods and services.

But despite all these negatives that have come up in the press and the headlines, the U.S. economy has continued to grow, just, albeit, at a slower pace. So what we would call this is late-cycle expansion. And a lot of the things that we look at to really just understand where the economy may be in what we call the business cycle is really quite normal for this maturing economic growth scenario. So I put up a visual here for all of you, just to bring it to life a little bit of some of the things that are actually quite normal at this stage of the business cycle.

The top left here is an identifier of corporate profits. This is a key driver of stock markets, in our view, over time. And what you can see of that green line there is that it's really been at a very high level for some period, but it's beginning to roll over. It's beginning to slow. And it's slowing from very, very strong results a year ago.

Now, you shift over to the right—another squiggly line here. It's something around what's called, credit creation or bank lending. It's actually a senior loan officer survey where, every few months or so, banks will fill out a survey of whether they're more willing or less willing to lend to consumers and individuals and businesses. And the line moving northward means that banks are starting to close up their wallets, and that is just a very normal part of a maturing business cycle, where banks are just a little less willing to lend.

You shift out of the bottom left, a measure of inventory. So usually, when you're getting to a slower part of the cycle, consumers are buying a bit less of goods and inventories begin to pile up on store shelves. And that line is actually only beginning to increase. It's actually at fairly healthy levels that we've seen over the last couple of years. And I think the big kicker here is on the bottom right, and probably a key reason why the economy has continued to slowly grow over the last 12 months or so. And that's the fact that we've had a very healthy jobs market.

So this is highlighting jobless claims. It's at very, very historic lows. But over the last four or five months or so, it's just begun to tick up. So we're starting to see some cracks in the job market but certainly nowhere near a level we were at previous recessionary-type episodes. I think the final thing I'd note about this notion of a late-cycle dynamic is something that's not on the slide, and it's around the Federal Reserve. And the Federal Reserve raises short-term interest rates, and they've certainly done that in abundance over the last 16 months or so. And it's all been in the name of trying to bring down overheated growth and tamp down inflation. So look, the punch line here is that, certainly, recession risks have risen, but we are still slowly growing as an economy, and something that would be quite normal at this phase—this late-cycle expansion phase.

**Jim Armstrong:** So Lars, your answer, which is excellent, by the way. Thank you for that walk through—touched on the banking sector and credit creation a little bit. Gina also mentioned that in specific. So Christine, let's turn to you now for maybe a couple of minutes, deeper dive on the banking sector in specific. What are you seeing there?

**Christine Thorpe:** Yeah, certainly, Jim. And I'd say it's no surprise that this is top of mind for everyone, just given what we've seen in the headlines recently. And really, even apart from the slowdown in credit and lending that Lars was highlighting, we're certainly seeing some areas of the banking sector remain under pressure, just as the fallout from some of those really high-profile bankruptcies have continued.

Now, within the U.S., I'd say it's really been contained to just a few specific regional banks that have had things like either really notable geographic concentrations or higher levels of uninsured balances. And so now, the market is really taking a look at their asset liability mix on the balance sheet. Now, a lot of that instability and volatility with some of those, again, very specific regional names has really been in contrast to the stability that we've largely seen from some of the nation's largest banks, which we oftentimes will refer to as the money centers.

Overall, I'd say they've pretty much been a source of stability through this period of stress. And really, part of that's because coming out of the global financial crisis, we did implement, in the U.S., stricter regulatory requirements for these systemically important banks. So as a result, they typically have had higher levels of capital. They typically have more liquidity. And they've even been subject to ongoing stress tests.

And then, just even apart from some of those regulatory requirements they've been subject to, just in general, they typically have had a higher level of insured balances from depositors. They've typically had a more diverse deposit base. And so for all of these reasons, in general, we would expect them to be less subject to any type of bank-run activity. The last point is we have seen their Q1 earnings come out. And by and large, we really haven't seen any indication that, again, these money centers have been pretty adversely impacted by some of the instability in the, again, specific regional banks.

**Jim Armstrong:** That's interesting. I think you're telling a story of what can be heard as a pretty robust overall financial sector, banking sector. But I'm thinking of Lars's comment a couple of minutes ago talking about the headlines that we see and how heavily they can weigh on our minds as investors, even in the face of factual evidence to the contrary.

So Gina, I want to go back to something we talked to you a couple of minutes ago—this idea of customers coming to you with concerns, let's say, about the banking system, in specific. How do you answer those questions? How do you get them less concerned, if possible?

**Gina Gillespie:** Yeah, so Jim, it's a really good question because I think people come in and they hear sensationalized information on the news. And then they think, well, how does it affect me? So traditionally, that's what clients want to know. Does it affect me or how does it affect me? So the first thing that I'll take a step back is—what do you have currently in a bank deposit or a certificate of deposit or CD per bank? So FDIC insurance per bank is \$250,000. And so we talk through to review. And do you have more than you would be covered at that one bank? Or is it meant to be in cash or CDs?

So I think we found two things. Sometimes clients say, it's here for whatever reason. I had a client, not too long ago, came in and said, I just sold a property. I deposited it into a bank because I thought that's just the right thing to do. And then two weeks later, this starts to happen. Now I'm really concerned and I have more than what I'm FDIC-insured. What can I do?

So then we'll talk through to say, OK, what's the purpose of this money? So first thing is, what is the purpose of it? Should it be in cash, CDs, or things of that nature? And if it's meant to, Fidelity has over 20 bank relationships. So in one account here at Fidelity, you could have multiple different certificates of deposit or CD or bank deposits that are all FDIC-insured because it's under the limit, and it falls in different banks. So when clients and I will talk about this, or investors, we really want to make sure they're looking at two things. Does it affect me personally? And then sometimes it's just translating what's been happening in the market, and that can kind of give them maybe a little comfort as well.

**Jim Armstrong:** Yeah, super useful. I appreciate that. Lars, we'd love to turn back to you for just a moment too, again, talking a bit more about recession as a part of the business cycle. It's called a cycle for a reason. It's cyclical. Certain things follow other things. Talk a little bit about, maybe, the timing, perhaps, of the next recession and whatever you can tell us.

**Lars Schuster:** Yeah, people might see the visual that we post on Fidelity.com every month and this progression of the business cycle. And look, recession is a natural progression of that cycle. And in my experience, Jim—you highlighted one of the two questions that I tend to get at this point over cycles, which is, when will it happen, i.e., when will the next recession happen? And how bad will it be?

So let's tackle the first one—when will it happen? Look, forecasting the exact timing is really, really difficult. There are all sorts of different indicators that some may point to as being very reliable indicators of future recessions. One that maybe some of the viewers on today's session have heard is something called an "inverted yield curve." It's very wonky here for most, but it's when very, very short-term interest rates or yields are actually higher than very, very long-term interest rates.

And that's a bit abnormal. Usually you see quite the opposite. And historically, that signals that some recession is soon to follow. But historically, that can be anywhere from a few months to a couple of years or so. And in the meantime, the economy can continue to grow and markets can do OK. So, for example, the yield curve actually inverted late last October. And since then, both U.S. and international stocks are up double digits.

The second thing, maybe, I'd highlight is a visual showing here, for all of you, which is—when you think about how bad the next recession may be, I would first point to the fact that no two recessions are alike. Just think about the last couple we've had—one that felt more like a natural disaster and a shutdown of the economy for a very short period of time, and one, back in 2008, that was more of a global credit crisis.

Now, I'm here to say that I don't know exactly what the next recession will bring. But I think when people hear that word, it evokes memories of double-digit unemployment and substantial stock market declines. And I think when we look at where we are today, there's actually quite a high and strong starting position for several different indicators that we would look at. And I mentioned a few earlier—things like corporate profit margins. But also, you can think about household balance sheets. It's just a lot less debt on household balance sheets than there were 15 years or so ago. So it's possible that the next U.S. downturn could be a bit milder because of these higher and stronger starting positions.

And then lastly, what does it mean for markets and my investments? And there's this feeling that every recession is going to be a significant decline, just because those are the last couple of instances we've seen. But when we look back to 1950 and the last 11 recessions that we've gone through here in the United States, looking at the U.S. stock market, you see these blue and orange columns. There are five blue columns. That's when stocks actually were positive during recessions.

So again, not every recession is alike. Very difficult to time these things. And sometimes they actually can have surprising results. I think most important is for investors that where we manage their critical assets here at Strategic Advisors, most of our clients have time horizons or goals that are 5, 8, 10, 15, 20 years in the distance. The next recession will probably not be the last recession they go through. It is quite a lot of time that can pass, and markets can continue to grind higher over that long-term, in my view.

**Jim Armstrong:** Just—great perspective to have. Thanks. That historical lookback really can help you take a bit of a breath and help you situate where you are in terms of the much, much bigger

picture, so thank you for that. But Christine, we know that investors are not just concerned about stocks. They're very much interested, in many cases, about bonds, about fixed income. Last year was, in terms of bonds, a year for the record books, and not at all in a good way. How has the bond world shifted in the past year or so?

**Christine Thorpe:** Yeah. And Jim, you're right. Really, 2022 was a historically challenging year for fixed income and, I think, certainly, a surprise to a lot of investors to see how badly bonds did fare. Within fixed income, I'd say the most common benchmark we look at is the Bloomberg US Aggregate Bond index. And just for context, that was down 13% last year, making it, by far, the worst year on record for that index, which goes all the way back to the mid-1970s. Even just for comparison, the worst year we've seen, prior to last year, was 1994, when bonds were down 3% just over the course of that year.

So we have to remember that, for a fixed income portfolio, the total return is really going to be a combination of the yield or income coupled with any capital gain or loss. And so when we began last year, we had really little yield at all in fixed income. In fact, the yield on the AG was just around 1½%. So over the course of the year, as the Fed really aggressively tightened, like Lars highlighted, where we went—rates went up over 4¼%, we had really significant price declines with bonds and not really any cushion to offset that.

Now, 1994, that I mentioned—a similar type of year where the Fed was super aggressive, so we had pretty big bond price declines. But the difference was, back then, we had a lot of yields. So the starting yield on the AG was just shy of 7%. The good news is—fast forward to today. It's a very different picture. So now the yield on the AG, just through the end of April, is more than double where we were at the start of last year. So even if the Fed continues to throw in a few more rate hikes, we've got, now, additional yield or cushion that's going to offset—help offset, at least—some of those price declines.

And in fact, that's what we're seeing help drive some of the positive total returns that we're seeing in fixed income. The last point I would just make, Jim, is—I do think it's important to understand that bond yields are now, really, the highest they've been in well over a decade. So from our perspective, this still makes it a pretty attractive entry point for fixed income.

**Jim Armstrong:** You mentioned a couple of times there, the Federal Reserve, Christine. So there's no way I'm letting you go without a follow-up question, asking you about where we are in the current rate hike cycle. What do you see coming next, if anything?

**Christine Thorpe:** Yeah, so Jim, I think so far this year, we haven't been off the hook. I mentioned all the rate hikes the Fed did last year. Well, even into this year, we've seen about 75 basis points in total, in terms of hikes coming from the Fed. And even at the latest meeting this month, Chairman Powell did reiterate that, just given the overall strength of the labor market, the fact that the banking stress seems to be largely contained at this point and inflation that's still running fairly

hot—even if it is starting to come down—that a pause was really premature at this point. He really did not definitively signal when the Fed might actually start to pause its hikes and really confirm that the Fed's going to remain data dependent here. So they're going to be looking at all the latest inflation and unemployment prints and really make these decisions in a meeting-to-meeting basis.

From our perspective, we cannot predict when the Fed is going to feel like the rate hikes are significantly or rates are significantly high enough to really slow the economy and be in a restrictive phase. But we do think we are starting to approach at least the end of the Fed hiking cycle. The Fed tightening policy does work on a lag, so it takes a while for all the effects of these rate hikes to start to ripple through the economy and really be felt. But I think, just as Lars was highlighting, we are starting to see some pockets of slowdown, some places where credit is getting tighter.

And so, because of all of this, our base case—it's possible we could see some type of mild recession in the second half of the year. But even with that, we still don't anticipate or think it's likely that the Fed is going to start cutting rates, even though that is what the market is starting to price in. So again, we're really starting from this strong point, where unemployment is at the historically low levels, real wage growth is still occurring.

And so, for all of this—because that inflation story still remains fairly sticky, we think rates could stay fairly high for the time being. But I'd say we're similar to the Fed, so we're going to be data dependent. We're looking at the same prints that they're looking at. And as we look under the hood at all that data, that's going to help us assess how much further monetary tightening really remains.

**Jim Armstrong:** The other side to higher interest rates is, of course, higher yields on things like money markets and CDs. Those have really been, certainly over the past handful of months, a bright spot for a lot of savers. A lot more money flowing into products like that. But that—I really think, Gina, brings up the question, how does somebody figure out how much money they're supposed to keep and invest in cash? I know it's something that my wife and I try to figure out all the time—how much is too much? We want an emergency fund, but should that other money be deployed more actively? We also help her mom, my mother-in-law, with the same thing. And deep into retirement, she's trying to figure out how much cash is supposed to be in cash?

**Gina Gillespie:** Jim, I think it's a really good question because there's not a one-size-fits-all. And so if you have these conversations and you're in these different phases of your life—maybe you talk to a friend, a loved one—your situation could be vastly different, and maybe the answer is very different. So I'll give you a couple of rules of thumb that can help. And I always take a step back and start off with, well, if you're working, like, Jim, like you said you are, usually, while you're working, the rule of thumb is three to six months of expenses set aside in cash or a money market or a liquid asset pool. And really, the term of three to six months should be around how long do you think it would take you to find new employment? Want to make sure you can pay all the necessary bills that you have in that time frame.

So some clients may come in with a very specialized role. And they said, if I lost my job, it would take me longer than that, so they may keep more than that three- to six-month buffer. While you're retired, it's different. It's more like 12 to 18 months is the standard to keep in cash or a money market or a very liquid investment that you can get your hands on. And it's really there for unexpected things that may come up. You don't have cash flow anymore like you did while you were working, so it's good to have an extra buffer there.

So like you said, your mother-in-law may have something very different of a situation than you and your wife. So clients will come in and they'll bring up things like—I have some short-term expenses I owe. I'd also keep those in cash. I need a new roof on my home or an expenditure that's just more of a niche thing than a every-year thing. I know I have a new car I need to purchase or things that I know are coming up—I also add into that short-term bucket for them.

And then sometimes, I'll have individuals who maybe have different situations. I own many rental properties or other unexpected things. There could be more coming in. So I will say, when you look at that short-term number, just know it's really—the idea of it is the role of cash can help to keep your other investments invested if it's an inopportune time to sell them, in my mind.

**Jim Armstrong:** So once you get to that number, the dollar amount or the percentage of the whole, whatever it happens to be—the natural follow-up is, what do I do with it? Where do I put it today that's going to have my money be working the hardest for me, taking advantage of these high rates?

**Gina Gillespie:** That's a good question because I think you look on any type of yield today and you say, wow, a money market looks really appealing. I have liquidity. I don't have to lock it up for a specific period of time. And some of those interest rates are really similar to locking it up for maybe two or three years. You could even get more interest.

So why would you? And that's the question that I think people have today—I'm going to keep more money in cash. That seems like the best place. We've heard Lars. We've heard Christine say, today, that it's not always—when you're looking at those, if we see yields or we see interest rates come back a little bit, which is very natural, the first thing to adjust are those money markets or the cash positions. They're made of very short-term instruments.

So if we see that change, all of a sudden, now, we're not getting the same yield. So you have liquidity as a benefit, but the downside is that it's not locked in for any period of time. So for a lot of investors, who maybe have intermediate-term goals or still want to preserve or keep money safe, it's a really great time to look at fixed income. Could be individual CDs. It could be individual fixed income or bonds, CDs, or FDIC-insured bonds. We want to look at credit quality. And the interest or the yields—we know what we'll get right on those maturities. It's a great time to look at those asset classes.

Then, on the flip side, if we find that it's really long-term money—money that we don't need for a long period of time—I still think it's a great opportunity to look at stock investments or stock and bond long-term asset allocation accounts because if we don't need to touch those, that's where we'll see, probably—most likely, we'll see better growth over the long term. So cash—as much as it looks really appealing today, that can change very quickly, and that's what I'm spending a lot of time with clients, just trying to understand that piece of it.

**Jim Armstrong:** Got it. And again, intellectually, I'm with you for the entire ride. I understand everything you just said. But then there's that emotional component, too. And Lars, I'd like to ask you about this as well—this idea that, OK, I understand everything that Gina just laid out. Makes sense to me. And I fear that a recession is coming, and I don't know what's ahead. So I just want to sit in more cash than I'm, quote unquote, "supposed to." What would you say to somebody who has that argument?

**Lars Schuster:** Yeah, it's very understandable. And I'm glad you used the word, "emotional," because it is. You're not losing anything in the short-term in your mind when you're sitting in cash versus maybe seeing the rockiness in the markets, the volatility that comes about. So it's a very common refrain, in my experience, to hear that from investors during these episodes where markets are more volatile or the economy is slowing.

But look, I'll be honest. Cash can be helpful, as Gina just laid out. It can be helpful as an element of safety and liquidity for short-term goals, but I think having large balances in cash for longer-term focused goals doesn't allow you to potentially outpace inflation and make progress to those long-term goals. You just lose some purchasing power over time because, while cash yields may feel pretty high right now, they are actually not outpacing inflation.

The other refrain that I tend to hear often is that cash can be helpful as "dry powder" to invest in things when things begin to improve. And I think that this is also, to some degree, true. In fact, for clients in our long-term focused portfolios, we've risen, increased the element of liquidity, marginally, in client portfolios while diversifying client accounts for those future opportunities. Downturns do provide opportunities.

But it's not a lot, because consider this wave of flows that you've just noted, Jim, that have gone into things like money markets over the last six to eight months or so, and individuals really waiting for that attractive entry point. Yet—but those entry points never feel obvious in real time. And historically, they come at moments when things really feel bad.

So consider last summer. Here we are—we see the U.S. maybe entering a recession. We heard that in the news flow. We had high inflation. China was still in a zero-COVID world. Europe was facing an energy crisis, and the output of the Russia-Ukraine conflict. And what happened? Well, since late September, U.S. stocks are up more than 10%, 15%; international stocks up more than 25%. And that's measured by the S&P 500 and the MSCI All-Country World Index.

So really missing out on some of these market recoveries that can happen at moments when it just doesn't feel like it should occur—that's what—just staying invested for the long-term can be very, very powerful. So just consider the fact that if you do miss some of those recoveries that really can happen unexpectedly, they can have a big impact on long-term results. And what I'm showing here is how, oftentimes, the best days in the market happen when things feel the worst.

And what we have here is just looking at the 50 best days in the market—the U.S. stock market—going back to 1980, so a very long-term history. And you'll see in blue there, the biggest piece of the pie, that about 50% of the best days in the market occurred when you were already in a bear market, so in other words, a period where stocks had already declined 20%, sort of like what we saw last year. So look, it can be stressful when markets fall, and it can be really tempting to want to abandon a strategy for that emotional connection that cash can deliver. But just missing out on a handful of these good, good days that happen in the market can really have a long-term impact.

**Jim Armstrong:** Again, great perspective. I wish, for my personal sake, 1980 didn't count as long-term, but I'll deal with that in my own time. That's fine. Christine, we'd love to turn to you and talk about another potential headwind that we know clients have been asking a lot about. We mentioned it off the top of the show—the federal debt ceiling. Talk about things tops on the list of things we can't control. But what are you seeing there? How is that developing, and how might it affect us as investors?

**Christine Thorpe:** Sure, and Jim, gosh, we have no shortage of interesting headlines to discuss today. But what I'd offer for the debt ceiling is—the debate that we're seeing unfold is something we've seen before, probably most notably back in 2011 and then again in 2013. So in our seat, just like everyone else, I'd say we're definitely watching those political developments really closely.

Now, just for context, the federal debt ceiling was last raised in December of 2021 by \$2½ trillion to \$31 trillion. And that amount was expected to last until July of this year, but we all know now, we ran out or exhausted that back in January of this year. And so the debt ceiling is really the legal limit on the total amount of debt outstanding that the government can really incur. So as a result, the Treasury Department has all these accounting tools at its disposal that they call, really, extraordinary measures to help us avoid a default.

Now, tax receipts are down relative to last year, in part, probably—no surprise, again—just given the tough capital markets we saw last year. That certainly reduced capital gains receipts coming in. But really, the result of that is that it has increased, or potentially has increased, the x-date, or the date by which the Treasury will have exhausted all of its extraordinary measures. And so Secretary Yellen from the Treasury—she's come out and notified lawmakers that it's possible we could reach that x-date by early June.

Now, the divisions between the Republican-led Congress and the Democrats in the White House and the Senate have really made this difficult, just given how politicized this topic has become.

But I will say, just given the implications for the overall U.S. economy, we would expect the deal is going to get done. No guarantee, but that is our expectation. And that's historically what has always happened in all the prior debates, even though sometimes these deals don't come through until the 11th hour.

Now, as we near this potential x-date in early June, it's suddenly possible, Jim, we might see additional market volatility just as investors grow increasingly concerned about the potential for default, just given the timetable that Secretary Yellen has laid out. We're really seeing this, probably right now most acutely, in those Treasury bills that are maturing in June. Right now, investors are demanding, basically, higher yields for those maturities relative to the Treasury bills that are going to mature in May. But, Lars, as we've seen this play out before. I'm curious—any historical perspective that might be helpful to share here?

**Lars Schuster:** Yeah, and you laid it out pretty well, Christine, that events like this are tricky. That goes without saying. In my experience working with investors, I'm always trying to really distinguish between what's news and what's noise. And historically, debt ceiling episodes, including the ones that you mentioned here using so-called extraordinary measures by the U.S. Treasury, are often noise.

Now, we actually just published an article on Fidelity.com/viewpoints today on this topic. And there's a chart in there that many of you may find interesting. And what it shows is that, on average, when you go back to 1980, there's several episodes of debt ceiling periods where extraordinary measures have been used—on average, stocks actually modestly rise the few months before and after those debt ceiling deadlines.

Now, there have been just a couple of episodes that have generated more volatility. So it's certainly the exception and not the rule that we see a morass of volatility during these periods. Now, 2011 is the most striking example. In that time, we saw stocks actually move down about 15 or so percent in the week just leading up to the August 2011 deadline. Yet, as you noted, Christine, the situation was eventually resolved. And within just a few months, we began to see stocks recover.

I think the other interesting point to make about all of this, though, is during that same period in 2011, when stocks actually had more volatility and decline, U.S. Treasuries actually rallied. So this notion of diversification can be very important during some of these episodes because, during that episode, they acted as shock absorbers for well-diversified portfolios. And maybe the higher yields that we have today may provide a little offset, should we actually see some volatility resume over the next few weeks or months.

**Jim Armstrong:** So you mentioned their large, well-diversified portfolios. And that brings me to my next question that I wanted to hear from Gina on this idea that—we often suggest to investors and to clients—to build a plan that meets their specific goals and needs and timetables, stick with

that plan, even during times of volatility like the ones we're experiencing now. Really hard to do in a lot of cases. So I'm curious what you say to folks who come to you and your team, Gina, and say, hey, I built this plan, but I'm still nervous?

**Gina Gillespie:** Yeah, that's very common. And I think, Jim, it's a really good question because I think the times in which I find that a financial consultant or a relationship with a client is most—I don't want to say, important, but it really can come into play when we're really clients need to hear from somebody what their situation looks like and how they're doing. So we talk about running through financial plans, and I'll explain a little bit more about what is that, what does it mean, because there could be investors on this call that work with a financial consultant or don't and have seen a cash flow analysis or maybe not, so I'll talk through that.

Clients who tend to—who have a consistent income or have a financial professional to talk to, though, I would say, have a better ability, maybe, to stomach some of these pieces or a diversified strategy where you have a lot less ebbs and flows. And so I'll talk about that a little bit more. The last couple of years—I specifically talked about last year—have been really hard for conservative investors, even with diversified strategies.

So what do I do? An investor would come into the office, and I'd say, OK, let's look at your scenario or situation. Some of these people have—are continuing to work, and they may be approaching a goal where they need some of these funds. So I reassess our total plan. When do you want to—it oftentimes is, retire? But it could be another goal in place. How much cash flow do we need? And where are we getting those cash flow? And where are we getting it from?

And we run through analysis. And we back-test this analysis. And these financial plans, or cash flow analysis, can give us an idea or an indicator—are we on track? Individuals who can see that they may still be on track or that they are, if they're retired—so they still have enough funds to get where they want to be for their goals—that can make us feel better. Although my account value may be a little less than before, I'm still on track to reach those goals. So really looking at specific scenarios for you can be very helpful.

I will say that, the last few quarters, I had a lot of clients who came in, and you'll say, how about we stick some money aside? So we talked about cash positions or other things—just for a period of time, just until I feel comfortable. Once I'm more comfortable, I'm very happy to deploy it back into a strategy. But I think you heard from Lars and Christine—and I think seeing some of those charts—some of the best days or quarters can follow some of the worst.

So a lot of the conversations I was having about that came last year, and it was generally at the end of the summer—beginning of the year, beginning of the fall. And if we look over the last two quarters, I'll ask clients, how do you think you've done? The ones who have stayed invested—oftentimes, we'll pull up their accounts, and they say, wow, I guess I've done a little better than I thought. So I think going to talk to a financial professional, going to talk to a financial consultant

and look at your scenario can very much help the psyche and the emotional part of investing, getting through these wild—or these volatile times—can really, really give more comfort, I think, for individuals, and that's what I'm here for.

**Jim Armstrong:** Excellent. Thanks for that. As we start to wrap up, I want to tie up a couple of loose ends of the conversation so far. So Christine, I'll turn to you. For clients who are ready for it, inflation and volatility together may have actually created some potential opportunities. And it'd be great if you could talk a little bit about bond opportunities for clients in that position.

**Christine Thorpe:** Sure. Yeah, and Jim, for all the doom and gloom we talked about last year in fixed income, that's actually set us up for the potential for a better return year this year, like we're seeing. So overall, I'd say fixed income really has become more attractive just as an asset class. I think you've heard us all say, a couple of times now, that yields and fixed income are really at, again, that highest point over the last 10 to 15 years. So I've been fond of saying that we're finally putting income back into fixed income because we know that that's a big, big reason why investors look to have an allocation to bonds within their portfolio.

The other piece is—again, just from a performance perspective—in addition to those yields, if we get any type of price appreciation in bonds—so say the Fed really does start to pause in their hiking policy or they really start to even perhaps start to cut rates, we could see total returns within fixed income that exceed the returns you would get just from yields. The other point is—and Gina is well familiar with this—is just many clients also use bonds in their portfolio as a stabilizer and a source of diversification.

So last year, again, like you've heard, that relationship, where there's typically a negative correlation between U.S. equities and U.S. Treasuries—that correlation really broke down last year. And the source of that was because the Fed moved so aggressively to raise rates, to try to bring down inflation. Well, as the Fed starts to normalize policy, we would expect some of that—more historical relationships between equities and bonds to return. And so, once again, there's that potential that fixed income could serve as more of a stabilizer within portfolios.

More specifically, for our core team, we've really been focused on diversifying client portfolios across the major U.S. investment grade sector. So think of things like U.S. Treasuries, U.S. corporate bonds, and also agency mortgage-backed securities. A big part of what we've been focused on, in addition to that diversification piece, is just thinking about how much interest rate sensitivity or taking in portfolios, particularly given that we are—we anticipate, at least—we're nearing the end of the Fed's hiking policy, and so we want to make sure we're really able to lock in yield—as much yield as possible—given we could start to see rates come down at some point.

In terms of corporates, we've been pretty selective. Valuations are still pretty close to what we would consider fair value. And there just haven't been too many attractive primary market deals,

so we've been pretty cautious there. The one area we have added to are agency mortgage-backed securities. This is a sector that's cheapened pretty significantly over the last couple of months.

And I would just offer up—the U.S. mortgage market is in a really different place than it was before the global financial crisis. So mortgage underwriting standards are a lot stricter than they used to be. Most homeowners are locked into pretty low mortgage rates, and, overall, housing prices have remained pretty stable.

**Jim Armstrong:** Excellent. It has been so fascinating to pick your three brains for the past 45 minutes or so, so thank you for your time. Before we go, though, I'd love it if each of you could just spend a moment or two giving your few key takeaways that you'd like to leave viewers with. And Christine, we can start back up with you.

**Christine Thorpe:** Yeah, well, I think just continuing the thread—I'm excited about fixed income. We think it's a really compelling time to be investing in the asset class, just, again, given the high yields that we're finally seeing and that potential for diversification. Again, we're probably in the final innings of the Fed hiking policy. Hard to predict how quickly these yields are going to last. But the opportunity to invest is still there. And market volatility is likely not going away. But for us, as sort of professional managers, this can create a lot of opportunities, just given our research capabilities and our trading platform.

**Jim Armstrong:** Yeah, Lars how about you?

**Lars Schuster:** Yeah, I've mentioned a few times the notion, Jim, that, certainly, recession risk may be on the rise, but it's not here yet. And we've seen a resiliency from consumers. We've seen a resiliency, actually, in corporate earnings, coming here through the first-quarter corporate earnings season has actually surprised to the upside. So thinking about the potential for recession sometime in the future here—just know it won't be the last one we see either. Historically, they happen every five years or so. And it's important, in my mind, to also keep in mind they tend to be very short-lived. And most important, they provide investment opportunities. So those opportunities can be those things can really help our portfolio growth over time.

**Jim Armstrong:** Got it. All right. Gina, bring us home.

**Gina Gillespie:** Jim, I've been working with individual clients at Fidelity for over a decade, and I will say market volatility hits very differently when you're in or you're approaching retirement. So my biggest takeaway is that you should have an income plan as well as an investment plan, and have someone to talk to and have a financial professional to help to create these strategies. Then make sure they align with your goals. And I think that's really critical to have someone to talk to. And for those really critical assets that you have, the assets that you want to ensure that you have there for you, throughout that retirement, have an investment team—a professional and an investment team to help you make those decisions.

**Jim Armstrong:** Excellent. I really just want to thank the three of you, again, for taking time out of what I know are very busy schedules to spend this hour with us, so thanks again for that. For folks watching, of course, thank you again for your time. If you're looking for more timely market updates and insights on other financial planning topics, go ahead and subscribe to the *Insights from Fidelity Wealth Management*<sup>SM</sup> for exclusive invitations to future wealth management webinars and, of course, access as well to our weekly newsletter.

If you've got questions about anything we touched on here today in this discussion, please feel free to reach out to your Fidelity representative. Again, a final big thank you to all of our panelists. Thanks for joining us. And we look forward to speaking with all of you again very soon.

## Important Information

### **Investing involves risk, including risk of loss.**

Views expressed are as of 05/11/23, based on the information available at that time, and may change based on market or other conditions. Unless otherwise noted, the opinions provided are those of the speaker or author and not necessarily those of Fidelity Investments or its affiliates. Fidelity does not assume any duty to update any of the information.

#### **Past performance is no guarantee of future results.**

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

#### **Annuity guarantees are subject to the claims-paying ability of the issuing insurance company.**

**You could lose money by investing in a money market fund. An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Before investing, always read a money market fund's prospectus for policies specific to that fund.**

*Current and future portfolio holdings are subject to risk.*

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.

Interest income earned from tax-exempt municipal securities generally is exempt from federal income tax and may also be exempt from state and local income taxes if you are a resident in the state of issuance. A portion of the income you receive may be subject to federal and state income taxes, including the federal alternative minimum tax. You may also be subject to tax on amounts recognized in connection with the sale of municipal bonds, including capital gains and "market discount" taxed at ordinary income rates. Market discount arises when a bond is purchased on the secondary market for a price that is less than its stated redemption price by more than a statutory amount. Before making any investment, you should review the relevant offering's official statement for additional tax and other considerations.

The municipal market can be adversely affected by tax, legislative, or political changes, and by the financial condition of the issuers of municipal securities. Investing in municipal bonds for the purpose of generating tax-exempt income may not be appropriate for investors in all tax brackets or for all account types. Tax laws are subject to change, and the preferential tax treatment of municipal bond interest income may be revoked or phased out for investors at certain income levels. You should consult your tax advisor regarding your specific situation.

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

There is not always a chronological, linear progression among the phases of the business cycle, and there have been cycles when the economy has skipped a phase or retraced an earlier one. Please note that there is no uniformity of time among phases, nor is there always a chronological progression in this order. For example, business cycles have varied between one and 10 years in the U.S., and there have been examples when the economy has skipped a phase or retraced an earlier one.

Indexes are unmanaged. It is not possible to invest directly in an index.

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.

The Bloomberg U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, mortgage-back securities (agency fixed-rate pass-throughs), asset-backed securities and collateralised mortgage-backed securities (agency and non-agency).

**Fidelity® Wealth Services and Fidelity® Strategic Disciplines are advisory services offered by Fidelity Personal and Workplace Advisors LLC (FPWA), a registered investment adviser, for a fee.** Discretionary portfolio management services for Fidelity Wealth Services provided by Strategic Advisers LLC (Strategic Advisers), a registered investment adviser. Brokerage services provided by Fidelity Brokerage Services LLC (FBS), and custodial and related services provided by National Financial Services LLC (NFS), each a member NYSE and SIPC. FPWA, Strategic Advisers, FBS and NFS are Fidelity Investments companies.

Fidelity does not provide legal or tax advice. The information herein is general and educational in nature and should not be considered legal or tax advice. Tax laws and regulations are complex and subject to change, which can materially impact investment results. Fidelity cannot guarantee that the information herein is accurate, complete, or timely. Fidelity makes no warranties with regard to such information or results obtained by its use and disclaims any liability arising out of your use of, or any tax position taken in reliance on, such information. Consult an attorney or tax professional regarding your specific situation.

Fidelity advisors are licensed with Fidelity Personal and Workplace Advisors LLC (FPWA), a registered investment adviser, and registered with Fidelity Brokerage Services LLC (FBS), a registered broker-dealer. Whether a Fidelity advisor provides advisory services through FPWA for a fee or brokerage services through FBS will depend on the products and services you choose.

Since 9/30/22 through 5/9/23, U.S. stocks as represented by the S&P 500 Index are up more than 15%, while international stocks as measured by the MSCI All Country World ex U.S. Index rose 25%.

## FIDELITY WEBCAST SERIES

The Fidelity Investments and pyramid design logo is a registered service mark of FMR LLC.  
Fidelity Brokerage Services LLC, Member NYSE, SIPC, 900 Salem Street, Smithfield, RI 02917  
© 2023 FMR LLC. All rights reserved.  
1087082.1.1