Fidelity Viewpoints®: Market Sense

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TRANSCRIPT

SPEAKERS:

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Jim Armstrong: Hello and welcome to Market Sense. Thanks for being with us today. I'm Jim Armstrong with Fidelity.

The Great Resignation. We were saying earlier, it almost sounds like it could be the name of a movie of some kind, but in reality, it's actually a new phenomenon that's kind of been unfolding slowly and then kind of a bit more rapidly over the past year or so. People really have been feeling stuck and one of their ways to get unstuck is start to look for a new job, transition out of a job, or quit altogether. And obviously, those decisions have huge consequences for us as individuals, but they also have really big consequences for the economy as a whole.

So, that's what we're talking about today and to have that conversation, we are happy once again to be joined by Fidelity's Jurrien Timmer. Jurrien will be providing his big picture perspective on the trend of this Great Resignation as well as some insight into what's going on in the markets and the economy overall. As usual, lots of things in motion right now and he's going to try to touch on as many of them as he can in the next twenty minutes.

We are also joined by Leanna Devinney. She and her team have had many conversations with customers and clients over the past few months about the Great Resignation, essentially, even if they're not calling it that, big choices that people are making in their lives, and we're going to be talking about that right now. So, Jurrien and Leanna, thank you.

Leanna Devinney: Thank you. Glad to be here.

Jurrien Timmer: Nice to see you on a kind of stormy Boston day today.

JIM: Yeah, not a great day in the Northeast. Hopefully if you're watching from other parts of the country, your weather is a bit better. Also kind of rocky out in the markets too and we'll talk about that in a second.

So, today is Tuesday, December—oh, slow down. Tuesday, September 28th. Leanna, I'd like to start with you right now actually because you, you know, you have a handful of real customer stories that you can share from people who, you know, you and your team are working with building financial plans. They're coming to you and saying, you know, to paraphrase, I'm done with work or I'm done with this job. What are some examples of you hearing that story

LEANNA: Yeah, and I have many, and I didn't know the title of the Great Resignation, but it really is fitting to a lot of the conversations that we've been having this year.

So, a few examples just even recently that come to mind. First, this is pretty common but a client whose employer is in his old home state, it was in Massachusetts, through the pandemic was able to work remote like many of us and traveled to different states. And one in particular, he wanted to stay there and travel there, but when his employer was back to work and he realized he wasn't ready to go back to the nine to five in the office, he came in saying, can I retire now or at least slow down? I want to move here and start spending more time with family.

So, we did just that. We went through an analysis to see, can he, in fact, retire? And he could. So, it was exciting and he ended up relocating and now is working part-time in Florida.

So, another one, similar, but in his later 50's, is an empty nester, and the day to day of his job, they weren't ever going back to work and it was going to be 100% virtual, and it just—he just kind of lost that motivation there. So, the pandemic kind of—he thought, can I retire early? So, we did a lot of scenario planning and for that one, we really had a plan for healthcare costs, so we'll talk about that a little later, retiring in his late 50's, being able to cover that gap. But again, he was able to. So, we went through full planning and making sure he had a diversified portfolio to retire early.

And then also common, just a last one, is we're seeing a lot of job shifting. So, I think it's being home and now a lot of time and reflection has had many thinking, do I really want to be doing this as my career the next twenty-thirty years?

And so, I had a husband and wife last week told me that the wife did a complete career switch and she's now in health and wellness and went back to school to be a personal trainer. So, we're seeing just a lot of different types of planning and I think where we can come in and add value is make sure that your financial lifestyle is supported and the goals that you have can happen.

JIM: Thank you for sharing those. I think the big takeaway is if you're watching this webcast now and you're contemplating a move like that, you're certainly not alone, right? A lot of other people are in your exact shoes or have been or are about to be, which brings me to Jurrien. I want to

come back to Leanna in just one second to talk about those financial considerations but before we do, I want to kind of take a step back and look at the big picture because we're talking about millions and millions of Americans quitting their jobs altogether or moving to new jobs, coming out of the labor force for a little bit. That's got big implications, right?

JURRIEN: Yeah. I mean, it's really a pretty incredible picture if you look at this chart. I'll explain the chart a little bit here. The gray line is the line that I've been following a lot and it shows you what we would call the unemployment gap, right, the number of unemployed people relative to how many unemployed people there normally are just because of frictions in the economy, people moving, et cetera, et cetera. So, there's always some unemployment. It's called, you know, full employment, if you will.

And you can see, of course, during the pandemic, that the spread between the unemployed and full employment went to ten percentage points which of course is huge, right? I mean, that's far greater than what we saw during the financial crisis which is to the left of the chart.

And it's, you know, that gap has mostly closed. It's still about 0.9 percentage points. And, you know, the Fed was kind of saying—and we'll get to the Fed in a moment as well—saying that, you know, we're going to stay very accommodative in our policy until everyone is back, back at their job, right?

But what you see is that orange line is the ratio of unemployed to the number of job openings or job openings relative to the unemployed. And you can see that on that basis, the gap has completely closed. We're back to pre-pandemic levels. But it's really astounding because there are 8 million people who are unemployed and there's 11 million job openings.

And you know, these are huge numbers, as you indicated. And you can see in the bottom panel, the purple bars there, that's the quit rate. So, there are 4 million people leaving their jobs. And so, I've never seen anything like this before.

Normally, coming out of a crisis, the Fed would stay very accommodative because companies are going to be very slow to rehire people because they have kind of PTSD from all the strains from a recession. That's not what's happening. There's plenty of demand for workers, for employees, more so than there was pre-pandemic. But I think, you know, to what Leanna is saying, I think, for years and years, we do the same thing, we don't really question it, and then you're forced to have this reset where for eighteen months you're like, is this really what I want to do? And we're seeing this in kind of the hospitality sector. I'm hearing it anecdotally from, you know, a contractor has a job, he's trying to hire subcontractors, and pre-pandemic, he would pay someone fifteen bucks and now he has to pay twenty-five bucks.

I think people are just reassessing kind of their quality of life and what they had to do to get relatively low wages. And I think the implication for the markets and the economy is that, you

know, if we're looking at inflation—and that's not today's topic—but this would be an area where I would look to, to say, you know, maybe we are going to have more sticky inflation because, you know, companies are going to have to offer more wages to get these people back and that's a fairly sticky thing. That's not going to go away, you know, in a year.

So, I think there are some macro implications and I think with the Fed now kind of announcing that it's going to announce a taper probably in November, I think maybe the Fed is recognizing as well that, you know, there are some real interesting structural things going on here.

JIM: Thank you. That's a perfect segue into the other question that I wanted to ask you as a follow-up. You know, to the extent that the markets or the economy as a whole, the health of the economy, is figuring into people's decisions about whether or not to leave their jobs or to quit entirely, I was hoping you could just sort of catch us up on the health of the economy at the moment. I know over the past few weeks, you had been sort of predicting—or history was helping you predict a bit of a wobble. And frankly, a wobble is kind of happening today as we speak, as a matter of fact.

But talk about sort of where we are, if you could, with all the different factors.

JURRIEN: Yeah, no, absolutely. So, we all know that September/October is that timeframe where there can be some seasonal weakness. And you can see in this chart that that purple line is essentially the average of about a hundred years' worth of weekly returns. And I've overlaid that against the S&P 500. And you can see that around this time, we tend to have a wobble in the market and it starts early September. There is an initial low late September, then a rebound, then another low kind of early to mid-October. And guess what, that's exactly what's happening, almost to the day.

JIM: Yeah.

JURRIEN: It's like, you can't make this stuff up.

And there's a number of reasons why investors may be worried. One is news out of China with this—in the property sector and whether that may or may not be systemic to the financial markets. But the Fed's taper, of course, is a big one and we're seeing that even in the last few days. You know, interest rates are resetting higher. The ten-year treasury yield is now up to a whopping 1.52%. I mean, still pretty low by historical standards but it's a little bit of a taper tantrum. You know, we saw that earlier in the year as well.

And you know, we've had these large cap growth stocks really dominate the market and a rise in interest rates tends to hurt them disproportionately because they are considered long duration stocks. So, I think people are coming up with kind of reasons or maybe even excuses to say, well, this is that spooky time of year, maybe I'll get out now and ask questions later. But from my

perspective, you know, as you can see from the chart, it really is just a wobble and I certainly would not be wanting to make any dramatic changes in my asset mix just because we have this seasonal period.

And remember, the best returns seasonally come right after this window, so they tend to follow the worst return. So, just bear that in mind as well.

JIM: Valuable perspective. Thank you for bringing that up, Jurrien.

Leanna, I wanted to come back to you. Talk a little bit more about the Great Resignation, in particular some of those financial considerations you were talking about just a moment or so ago. So, sort of play the role of someone sitting across from you or a member of your team saying, I'm ready to do this, I'm ready to make this happen. What are some of the things you would suggest they keep in mind maybe before they do

LEANNA: Absolutely. So, I'd say, first, this decision can make a big impact. Of course, emotionally, there's a change that could happen, but financially.

So, before making a decision, I would really encourage you to sit down with a trusted financial professional that you have because if there's a loss of income or a change of income, it can make a big impact on your long-term picture, now and your long-term picture.

So, first, if you did decide to leave your job, there's a handful of things. First, knowing your employer's policies. So, a lot of times there are some important dates. If it's bonus, cutoff, vesting; if you're not fully vested in your plan, what the percentage and schedule of vesting looks like is really important. Same goes for stock options and profit sharing.

Vacation. I was just speaking with someone last week that I was like, if you don't use it, you lose it, versus some others are able to potentially get a payout for vacation. So, just understanding, what is the vacation policy that you have? Is there a certain date with that as well?

This third bullet point is a really big one, health insurance. So, we talked about the gentleman who wanted to retire early but there was now going to be a loss of—or a gap of healthcare coverage. So, really understanding your options there, if you're paying out of pocket, if there's Cobra, if there's supplemental plans. Healthcare is one of the largest, if not the largest expense we see for retirement. So, if it is a change, maybe you can get on a spouse's plan or, again, other options, but I'd really stress that one.

And then the last one, just other benefits that there are. So, if it's a signing bonus, relocation bonuses. Sometimes we see that if you don't stay through a certain date, then you end up having to pay it back. So, just a lot of things to keep in mind before making that decision.

JIM: And a lot of it, right, has to do obviously with how long you've been at your current employer. That vesting one, the first one you mentioned, sticks out to me because, you know, you look at your account balance online, for example, and there's a number there but you might have to dig a little bit deeper to see that you're only vested, you only earned maybe 40%, 60%, 80% of it and you leave and you—have you ever had that happen to people

LEANNA: Exactly, yes. Very often. So, that account balance can sometimes be tricky. So, it's typically over the course of years. Three to five years we see is the most common vesting schedule. So, just making sure to know what your schedule looks like and what the percentage is.

JIM: And speaking about the—thank you for that—speaking about those retirement accounts as well, Leanna, can you talk a little bit about maybe what to do with those in either case? You're leaving a current job to go a new one or you're getting out altogether. I think it's not uncommon for a lot of us to end up with multiple accounts and it can be challenging to juggle them.

LEANNA: It is. And I see this very often, especially for the retirement accounts, the 401(k)s, 403(b)s, accounts like that. So, I'll start there.

Typically, what I see very often is clients have many different employer sponsored plans because even pre-pandemic, we would have different jobs throughout our career. And so, what happens so often is you leave a company and you just say, oh, I'll set it and forget it. But what I see is that sometimes how we're invested in that 401(k) or 403(b) is very different than what we had—really, what we thought we signed up for. So, maybe someone had a 401(k) in their 20's. They're not married or whatever it entails, it's high risk, and now they're fifty years old and they say, well, wait a minute, I didn't sign up for all that risk.

So, you have options with your 401(k) and 403(b). You could keep it in the plan. You can roll it over into an IRA. I see a lot of clients do that because it really stresses that unified plan that you can create that aligns with your goals that you have.

The other ones, HSA and FSA accounts. So, for these, those are health savings and flexible spending accounts. Depending on the HSA, you may be able to leave the money right in that or you can roll it over into your new employer or an individual HSA account. There are options there.

And then the flexible spending, this comes up. It's generally a use it or lose it policy. And so, that money can end up being forfeited. So, we have a colleague we work closely with who says that at the end of the year, he typically buys a nice pair of prescription sunglasses or eyeglasses with that FSA account.

JIM: That—yeah, that—I was at the eye doctor two or three years ago as well towards the end of the year and the place was swamped with people. And I said to the doctor, what's going on here?

And she said, it's FSA money. It's people who have this money that they need to spend by 12/31, so everybody's getting the extra pair of glasses or whatever they need to spend it down.

LEANNA: Yes. FSA season, shopping season.

JIM: Exactly, for medical stuff, for sure.

Hey, Jurrien, before we go, I wanted to sort of pivot just a little bit and talk about what you see happening in the coming days with the markets, the economy at large, just because, as we mentioned, I feel like we say this all the time, so many moving parts right now. You mentioned China. The debt ceiling is once again in the news. Earnings season looks to be a good one but that's potentially a market mover as well. And the backdrop to all of it is COVID and the Delta variant.

JURRIEN: Yes. So, as usual, there are a number of balls in the air, you know. I think that the Fed is probably the biggest one right now. So the Fed, rightfully, is concluding that the economy is no longer in a crisis. Obviously, we still have a major health pandemic on our hands but as you can see from this chart which shows the number of—the percentage of hospital beds in the US occupied by COVID patients, that's the gray bars, you can see that, you know, the Delta variant was a huge wave. I mean, it was a lot bigger than I was expecting.

I thought the US was going to look more like the UK where they had a big wave in new cases but not in hospitalizations. But in the US, we actually did see a big surge. We went from 2% of hospital beds being occupied by COVID patients to 14%. That's short of the third wave which was over the winter and that was 18.4%. But still, that's still a very big wave.

But if you look at that blue line, that is—it's an index of how locked down the US economy is. This data comes from Goldman Sachs and it's just a measure of how open or closed the economy is. And look at how that line really barely went up even though we had a massive wave in COVID cases and hospitalizations. And what that tells me, obviously, is a very good story, because it shows that the world is learning to cope with the pandemic without necessarily having massive economic repercussions, right?

So, the economy stayed relatively open even though this wave went up and, you know, the good news is you can see that wave is starting to crest now. So, hopefully, and I'm no medical expert, but it looks like maybe that Delta wave is starting to subside now.

And again, with the economy not having to have locked down, that bodes really well that maybe, you know, at least economically speaking, we're going to be on a more consistent, better track.

But that is, of course, that feeds into monetary policy, right? So, the Fed, like I said, rightfully concludes that we don't need these emergency measures because the emergency economically speaking seems to have passed.

And so, the Fed I think wants to raise rates in 2023. It just had its FOMC meeting last week. It updated the so-called dot plot. Maybe we'll save that for another episode. But it wants to start raising rates. Rates are at zero. But before it raises rates, it needs to reduce its asset purchases which is $120 billion per month, get them all the way down to zero, and it needs to do that between now and 2023. That's only a year, year and a half away.

JIM: Not far, right.

JURRIEN: Yeah. So, it needs to get going. And I think this is what the market is focused on because it's going to be that removal of liquidity that could drive interest rates maybe a little bit higher. And then, you know, we have earnings season, as you mentioned. We had massive increases in earnings growth the first couple of quarters. Maybe the bloom is a little bit off the rose there. So, there are a number of balls in the air that the market has to navigate here.

JIM: All of which we will continue to cover over the coming weeks and months thanks to you and Leanna. So, thank you again for being here and making time to be with us today.

For our viewers, thank you for watching. Just another reminder, if you need help with your financial planning, building, or updating your current plan, you can certainly visit Fidelity's website, download the Fidelity app, and continue getting your questions answered that way as well as certainly feeling free to give us a call, to reach out to somebody who can help you with the questions that you have.

Again, thanks for making time to be with us today and we hope to see you right back here next week.

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The Goldman Sachs Effective Lockdown Index combines two prominent measures of lockdowns and social distancing—the government response stringency index constructed at Oxford University and the Google global mobility reports—into an Effective Lockdown Index (ELI) which reflects both policy settings and on-the-ground behavior.

The government policy stringency index combines seven policy measures: 1) school closings, 2) workplace closings, 3) public event cancellations, 4) closure of public transportation, 5) public information campaigns, 6) internal movement restrictions and 7) international travel controls for over 73 countries. The daily policy stringency index ranges in value from 0 to 100, with higher values indicating more stringent policy.[2]

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