Jim Armstrong: Hello and welcome to Market Insights. Thanks for joining us today. I’m Jim Armstrong with Fidelity.

So 2020 is almost in the books, and I’m sure I’m not alone when I say how much I’m looking forward to getting into 2021. Of course, we can’t know for sure what 2021 will bring, but I think you will agree there is something about a new year that just kind of feels like a fresh start. That’s what we’re going to be talking about today. Some of the biggest market movers of 2020 and what they might mean for 2021, among them, of course, the pandemic, potential vaccines, an election that is still playing out in some ways, the potential for more government stimulus, and, of course, as always, we will be talking about how all of that might apply to your investments, to your end of year financial planning and your upcoming year financial planning potentially as well.

For today’s webcast, we are happy to be joined again by Jurrien Timmer who is going to be talking about his latest observations and analysis of our economy’s big picture. And, of course, it’s also great to have Leanna Devinney join us again as well. She will be talking about how she and her team of Fidelity representatives work with customers building plans during times just like these.

Remember, also, that the views and opinions in this webcast are those of our speakers. This discussion is for educational purposes and should not be considered investment advice. Leanna and Jurrien, great to have you here, as always.

Leanna Devinney: Great to be here. Thank you.
Jurrien Timmer: Nice to see you all after a week off.

JIM: That’s right. We had our little extended Thanksgiving break, but it is great to be back in the swing of things.

To that end, Jurrien, we will start with you. It’s Tuesday, December 8th, and I think as has almost become custom, a lot of us have been looking at the markets recently and thinking that they still feel disconnected from reality. I know you have said in the past that markets do take the future into account, but they don’t necessarily do it perfectly. I would love to get your sense of this idea that we are hearing a lot of, that the economy is in a bubble, right, a bubble that was created and protected by government interventions. What do you make of that?

JURRIEN: I mean, there is some truth to that in that a massive amount of liquidity has been injected into the financial system through the CARES Act through the Federal Reserve, and that has allowed the market in a way to kind of anticipate more the better days that hopefully lie ahead. And so we saw that very sharp rebound back in March, of course, even though the world was sort of still falling apart around us, and that continued during April and even into May and June.

Now, it turns out that the economy did actually rebound very sharply, much more so than I think most people had expected, but there is a sense of, you know, the economy kind of fell off a cliff. It went from 100% to 20% as the economy locked down. It’s back to like 70%. But that last 30%, you know, how long will it take to get there. And I think that’s really the big question right now. And, you know, there is the fiscal bridge, if you will, which was very much necessary and continues to be necessary. Now, there is the hope of the vaccine. But the markets, you know, are more rational than I think a lot of people think.

And actually, maybe if we pull up this chart here, you can see a really healthy broadening in what we call the tape, you know, to use a very old term from the Wall Street days. If you remember back in March, April, May, June, the leadership in the market, which normally coming out of a recession would be small caps, value stocks, more cyclically economically sensitive stocks, that did not happen. It was the big tech companies, you know, large cap growth stocks that really kind of ran with this, and that kind of left a lot of people a little bit uncomfortable saying this isn’t a real rally. It’s an illusion, if you will, created by policy decisions.

But if you look at the last month or so, look at that orange line at the bottom there, that’s the Russell 2000 value, so that’s small caps, cyclically oriented stocks. They have really caught up to large cap growth stocks. And so the market has become much broader now, and that actually is a good sign. And the vaccines, of course, have a lot to do with it because it does create, you know, at least the potential that in 2021 things will start to get back to more normal, and then that 30% gap that’s still out there in the economy can close, and it allows the market to kind of look past current, you know, renewed lockdowns and surging COVID cases.
So I think that’s really what’s going on in the market right now.

JIM: Thank you for that.

Leanna, I want to turn to you and get your sense of that same question, this talk of a bubble, right, whether or not we are in one, whether or not it will pop soon. I know that you have mentioned that that idea is dominating a lot of conversations that people are having with their Fidelity representatives these days, and you have mentioned that you are hearing from a lot of folks who are maybe putting off making decisions because of that uncertainty. Is that correct?

LEANNA: It is correct. And I would say the theme is that a lot of our clients, and it’s human nature, we are often waiting to hear of more bad news, and then we may put off some important financial planning decisions in the meantime, and that point is what’s not a great idea. So clients may not say the word bubble, but they do still feel that disconnect, like we have mentioned before, from Main Street versus Wall Street. And I have heard often clients this year saying they just want to wait until certain events are over. So if it’s the election, or now that the election is over, it’s 2020, I need to wait until 2020 is over to make some potential changes. So we like to talk about what to do instead of waiting. And you have heard this before, but it always comes down to reviewing your financial plan, taking a look at what your income is, what your savings and accounts look like, your expenses, and how you are invested.

So I do like to show this chart, because it illustrates what could happen if we wait versus not wait. So this is showing a $10,000 investment in the S&P 500 index over the course of 40 years. So you can see if you stayed invested, the original investment grew to almost $1 million when left alone. If that investment was pulled out and missed the best five days of growth, it grew to shy of $600,000. But hold that money out for the best 50 days, and the growth stopped at $68,000. So, of course, I always need to note that past performance does not guarantee future results, but I do like to highlight this chart and show that through many poor market events this chart was going, the past 40 years had many elections, wars, viruses, recessions. So we can see the power of staying invested. That’s why at Fidelity when we do talk about focus on time in the market, it’s not trying to time the market. It’s staying invested in the market. And I hate to yes.

JURRIEN: I just wanted to add we have done about 35 of these weekly shows, and they are really bringing me back to back in March, you know, days where the market would be down 5%–10%. Imagine selling on those days and then to see the next day it being up 10%. That happened almost on a weekly basis back then.

LEANNA: It did. Some of those best days were right after. So it’s an important slide to show.

JIM: Jurrien, I’d love your sense of, you know, Leanna was just talking about things that investors, that people might be waiting to have happen before they make a decision that they feel like they need to make. I love your sense, Jurrien, of how much you think the economy might need to see
more stimulus, more government intervention, because it strikes me that that could be something that people are waiting for along with maybe a more widespread access to the COVID vaccine, things like that.

JURRIEN: I think there is a general sense in the market that more, and I guess I call it a policy bridge, more of—every time the COVID cases rise, and, of course, it’s a very big problem right now across the country, whenever that happens and governments impose renewed restrictions in terms of how much the economy can open, when that happens, you need to extend the policy bridge because, obviously, people are losing their jobs, restaurants are closing again, gyms, bars, whatever it may be, and so that then requires that the policy bridge, both fiscal and monetary policy, to be extended so that people and, therefore, the markets, because the markets are a reflection of the economy, of course, have a bridge to the other side of the pandemic. And, of course, this has been the case all throughout this most interesting year, and it was always the tension of, okay, are COVID cases growing or shrinking? How much policy bridge is needed for that? And then we went into the election, remember, and there was the sense of we need more—another tranche of fiscal relief through the CARES Act and that didn’t happen because politics kind of took over. And now there are some encouraging signs that actually there will be another tranche maybe even in the next few weeks just to kind of, again, bridge that gap to the other side. And, of course, now we have the promise of vaccines as well.

But I wanted to show this chart. What I shared earlier was the economy went from 100% to let’s say 20%, and now it’s back to 70%. And the question is, how long does it take to get from 70% back to 100%, back to where we used to be? This is actually an interesting dataset from Bloomberg that shows various high frequency activity, daily activity indicators, and you can see that kind of falling off a cliff in the spring, and then returning, you know, to about 70%, but now the numbers are coming down again in terms of the economy because, again, the COVID cases are rising, renewed restrictions are being put in place.

But I think the market is looking past all of this. Like normally, you would say, okay, this doesn’t bode well for the economy and, therefore, it doesn’t bode well for the market. And with the vaccine news in play, the market is looking past this and onto potentially brighter days in 2021. So one example was last Friday we saw the unemployment report came in worse than expected, and the markets didn’t really blink because the markets are already looking past that. And so, again, the markets always discount the future, not always correctly, but they always look ahead, and that’s something that we need to really keep in mind as investors because things don’t always seem to make sense, but in many ways they actually do.

JIM: Got it.

Leanna, I would like to turn back to you now. Sort of thinking about all of the elements that Jurrien was just describing there, I know that the idea or the concern over interest rates comes to mind for a lot of people, particularly folks who are in retirement, folks who are approaching retirement, or
LEANNA: It is. There is a lot of concern around low rates and what effect they really have. I would say just pinpointing especially those who are in or approaching retirement, and you are planning to switch from you have saved, you have maximized, now how do we spend. So this chart shows just that. It shows the green, those are accumulating and saving for retirement, and then you have the blue and the yellow are approaching and living. So for the green, the clients we work with, often the theme is out of sight, out of mind. My paycheck comes in, I put a portion to long term savings and retirement, so if when we give guidance to those in the green, it’s how do we establish a plan to hopefully potentially try to max out those contributions, make sure that you are at least contributing to your employer’s match, and then also a big part of our conversation is that emergency savings, either starting one, maintaining it, or enhancing emergency savings. The blue is when we really start planning for what to do when that paycheck goes away, and we have to live off of our savings. So many clients are used to a steady paycheck for most of their lives and then it’s how do I shift that mentality to not receiving that paycheck anymore but living off life savings?

So today, to answer your question, when we are in that low interest rate environment, I’m seeing a lot of similarities to how people react when the stock market is turbulent and there are uncertainties. So I hear from clients they are just going to wait until rates go up, or they may stay longer in cash than they would, or they are not trying to seek out more yield. So clients will wait to take action, and then, in turn, they sit in cash waiting for interest rates to rise instead of potentially building up other investments.

So what do I tell my clients? I say no matter if you are saving, you are transitioning, or in your retirement, having a plan that first has that liquidity and that emergency fund, and then second would be the intermediate and long-term goals. So that first emergency fund, I say it with a smile, my husband and I are moving to the suburbs this week, and, of course, our roof is leaking in our condo, so we needed our emergency fund to get that fixed after the many storms that we have seen. But that’s the importance of having that liquid flexibility, not having to take from investments. So the intermediate plan that we hope for, that’s for goals of more 3 to 7 years, and the long-term is 7 plus years. So no matter what phase you are in, having those three things.

JIM: Having that emergency fund to dip into versus pulling out of retirement is huge. Sorry about your roof, too. That’s unwelcome news across the board.

I would like to stay with this chart, though, and have you, if you could, talk a little bit more about strategies for folks who are looking to build or develop cashflow once they are in or very close to retirement. What are some of the actionable steps, the things people can do if they are in that situation right now?
LEANNA: For the approaching and living in retirement. What I hear a lot, again, we’re in a low interest rate environment, but also we can tend to be nostalgic about days of having a pension. When my grandfather retired, it was, okay, I go collect my pension, I go to the Social Security office, and my lifestyle is now paid for. So that’s changed a lot. Gone are the days of pension largely, and also Social Security isn’t going to cover all of your retirement expenses. So we help with how do you build a cashflow when you have stopped collecting that paycheck, and what does that look like? So it’s a bit of a loaded question and answer, but I just want to answer with some key areas to help.

So first, it comes down to what do my personal and financial goals look like for retirement and beyond. Then it’s completing a retirement income plan to determine how we will make our money last through that lifestyle we want. So this plan will include what our expenses look like. What are the essential expenses that we can’t live without? What is the discretionary? So we want to make sure that your income in retirement is consistent to pay at least those essentials at a minimum and beyond.

We are also going to look at what Social Security will be and how much of your investments, your savings that you will need to take from to pay for that lifestyle. So then we believe in implementing a plan that has the appropriate mix of stocks, bonds, and cash. We talk about diversified plans and portfolios often. And once that plan is in place, we believe in setting up regular reviews with a financial professional to make sure you still stay on track.

So you can see it’s a big answer, but that’s where we believe and help our clients plan for retirement and beyond, and making sure that you have ample guarantees, flexibility, and growth.

JIM: That makes sense. Thank you for that big answer, but it’s also a really big question that needs a lengthy answer like that. So thank you for that.

Another big question for you, Jurrien. There is no way we’re going to get finished with the webcast without talking at least a little bit about the 2020 elections. I would love for you to talk a little bit more about your sense of what’s to come in 2021. We still have two Georgia runoffs that may swing the balance of who is in control of the Senate. That has implications as well. But again, I want to also return to this idea of the markets pricing in a really rosy 2021, an optimistic 2021. So maybe you could overlay that with the election analysis, too. That would be great.

JURRIEN: Yes. Sure. This chart shows the presidential cycle which historically has suggested that the first two years of a president’s term tend to be up, but below average, and then the last two years tend to be above average. So I try to juxtapose that against what I’m seeing in the markets today. And what I’m seeing is that the market, you know, correctly anticipated back in the spring that the economy would recover, and so the disconnect that appeared to be there really wasn’t there to the degree. And right now, I think the market is expecting that that, again, that remaining 30% gap that we talked about earlier, that that will be closed in 2021 because of ongoing fiscal,
because of the vaccines. And so, ironically, that suggests that 2021, when the economy actually could potentially go back to full capacity, may not actually produce that interesting of a year in the stock market because a lot of this was already anticipated and priced in in 2020. So I hope that kind of makes sense.

So my sense is that 2021 will be an okay year. It will be an up year. But there will be more going on below the surface of the market than at the surface. So not a big move, I think, in the headline averages, whether it’s the Dow Jones you look at or the S&P or the NASDAQ. But there will be ongoing rotation inside the market between growth and value, small caps and large cap, U.S. stocks versus non U.S. stocks. By the way, non U.S. stocks remain a very good way to diversify because valuations, the PE ratios outside the U.S. are far lower than in the U.S. So there is a lot to do in terms of portfolio construction. There will be a lot that goes on. But I think at the surface level of the market, as this chart already suggests, 2021 may be more like a pause after a really crazy 2020.

JIM: Got it. Okay. Well, we will continue to have these conversations into 2021, I hope, so we can see how that pans out.

In the meantime, though, thank you both, as always, for sharing your knowledge, tremendous insights for our viewers. And to our viewers, of course, thank you as well.

If you need help or just have questions about maybe building or updating your financial plans, remember that you can always call Fidelity to speak to one of our representatives. You can also visit our website or download the Fidelity app and check that out if you haven’t already. Those are great ways to continue getting your questions answered.

Again, huge thanks to Fidelity’s Leanna Devinney and Jurrien Timmer. And once again, thank you for joining us. Stay safe, be well, and we hope to see you right back here again next week.
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