

The State of the Market

Review & Outlook

February 2019

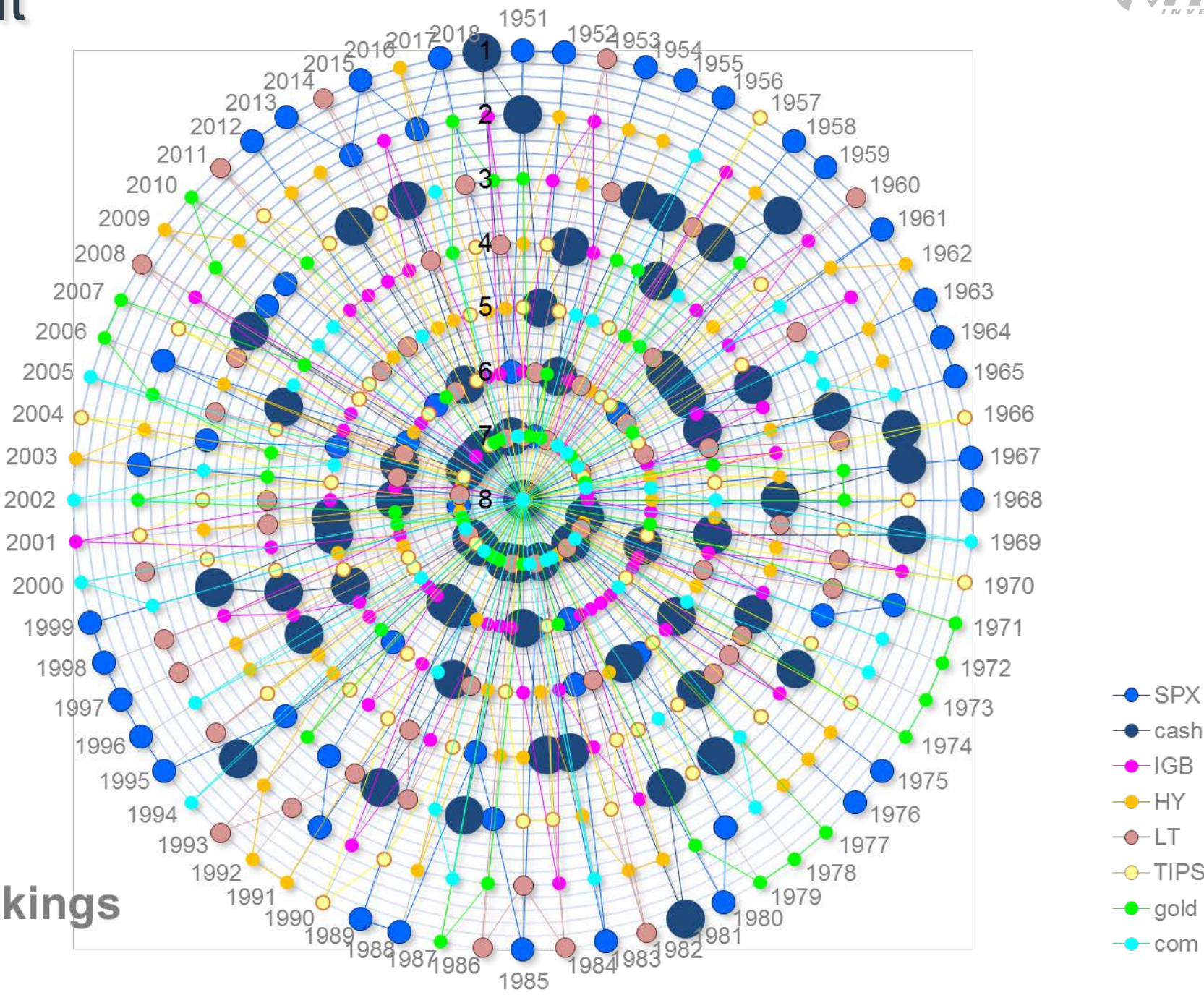
Jurrien Timmer
Director of Global Macro
@TimmerFidelity



Cash was King in 2018



A Rare Event

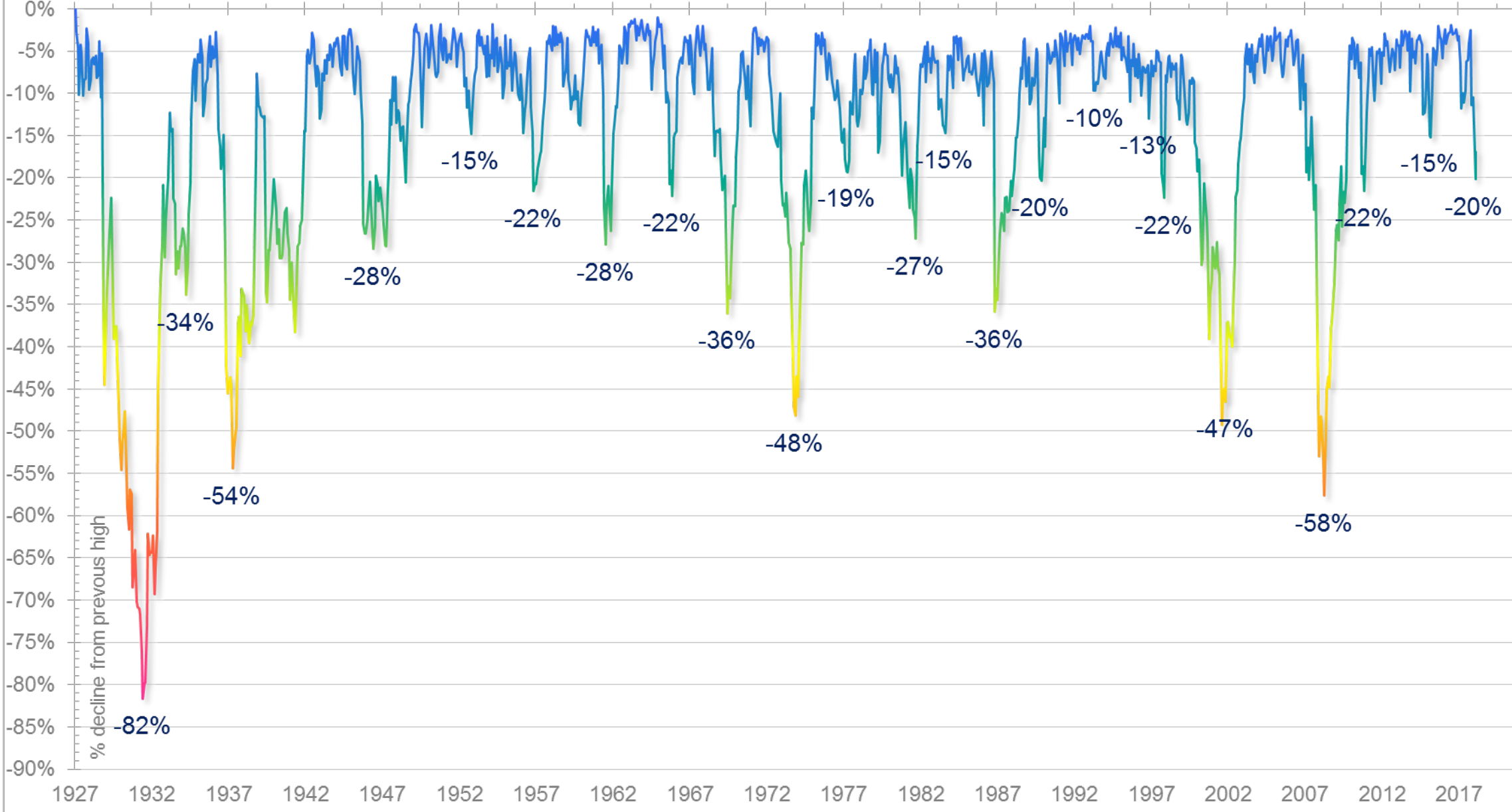


S&P 500 Drawdowns

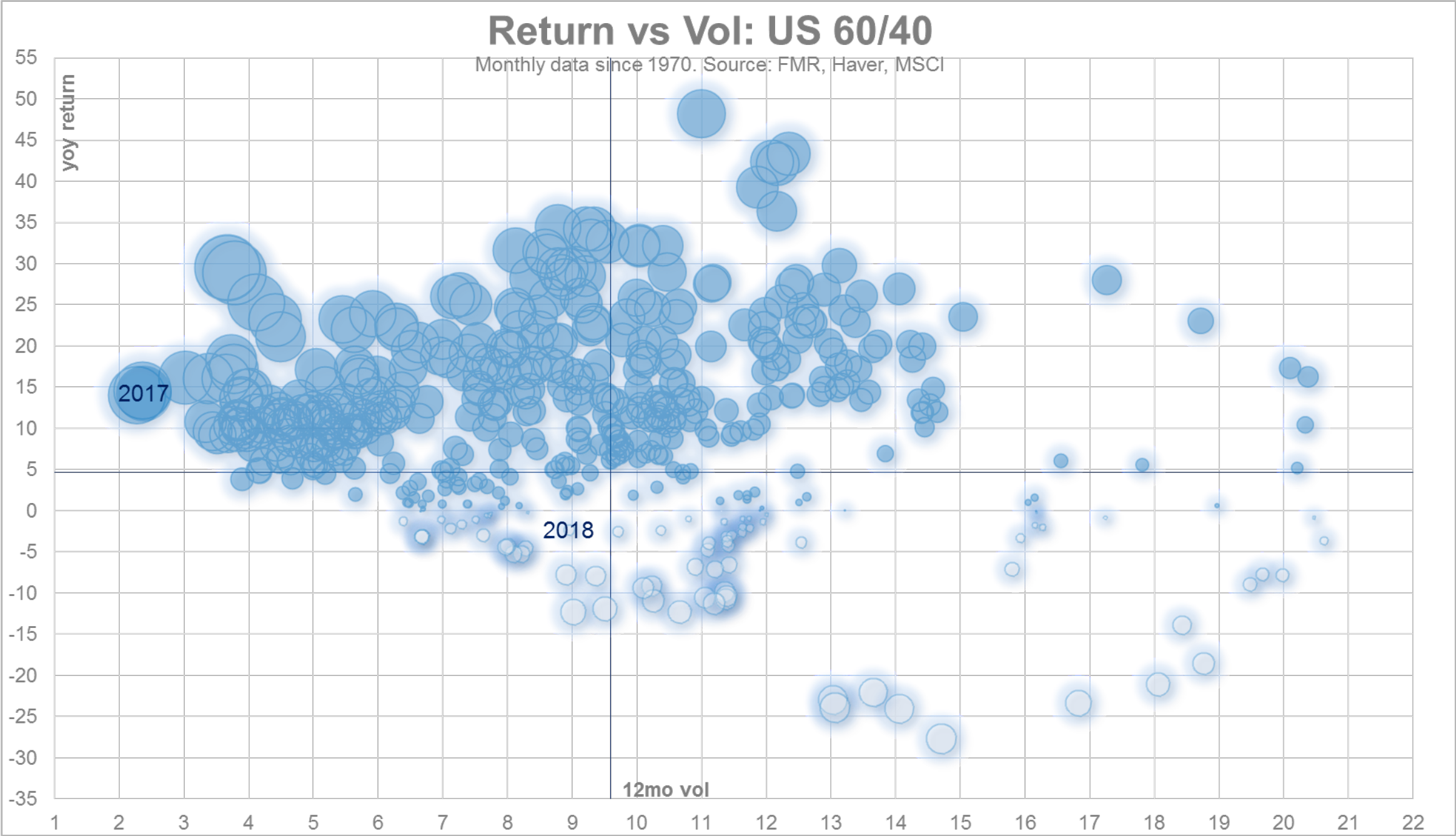


S&P 500 Index Drawdowns - from 2 year highs

Weekly data. Source: Bloomberg. Drawdowns are based on intraday data



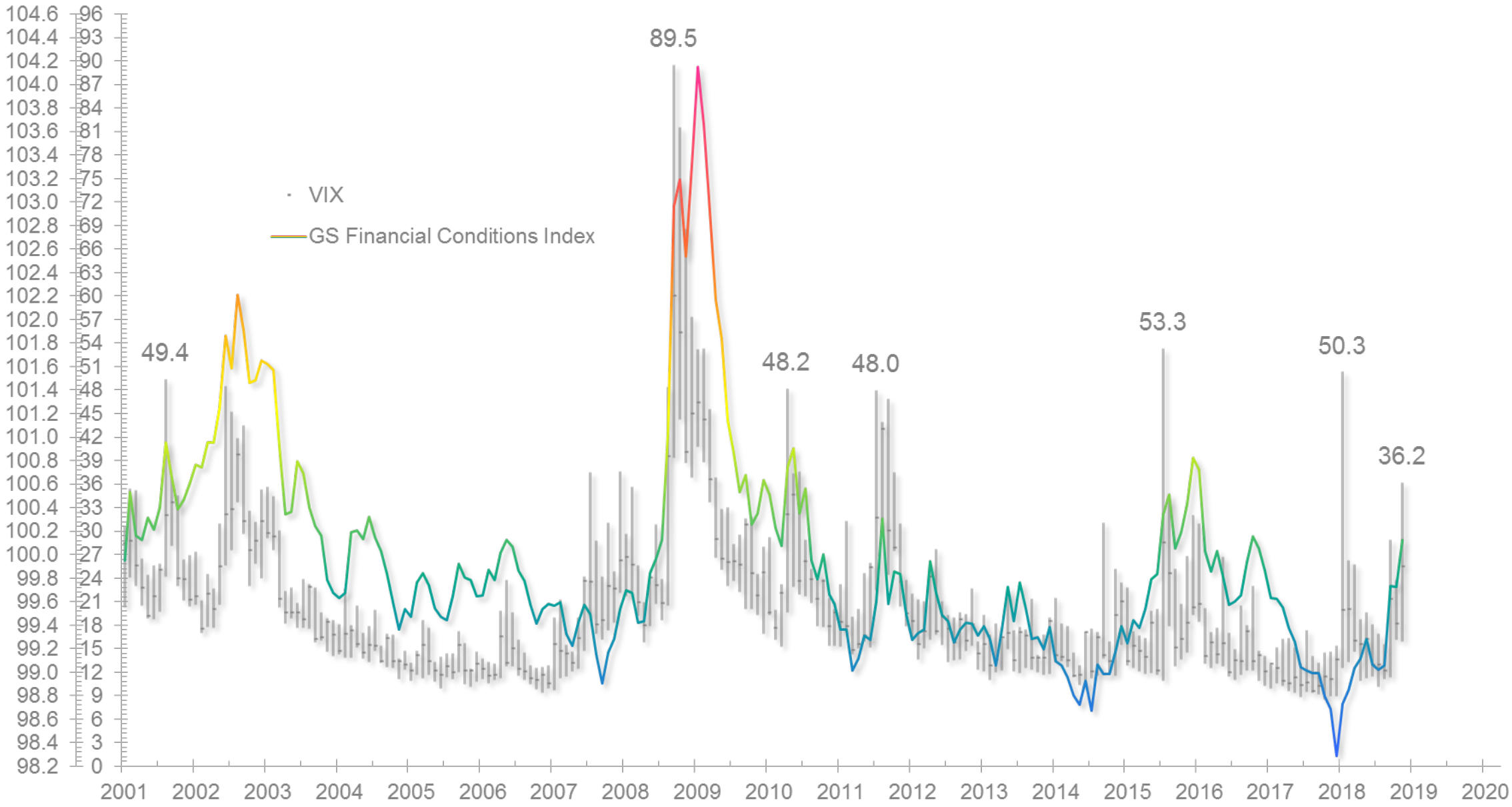
A More Normal Risk/Reward



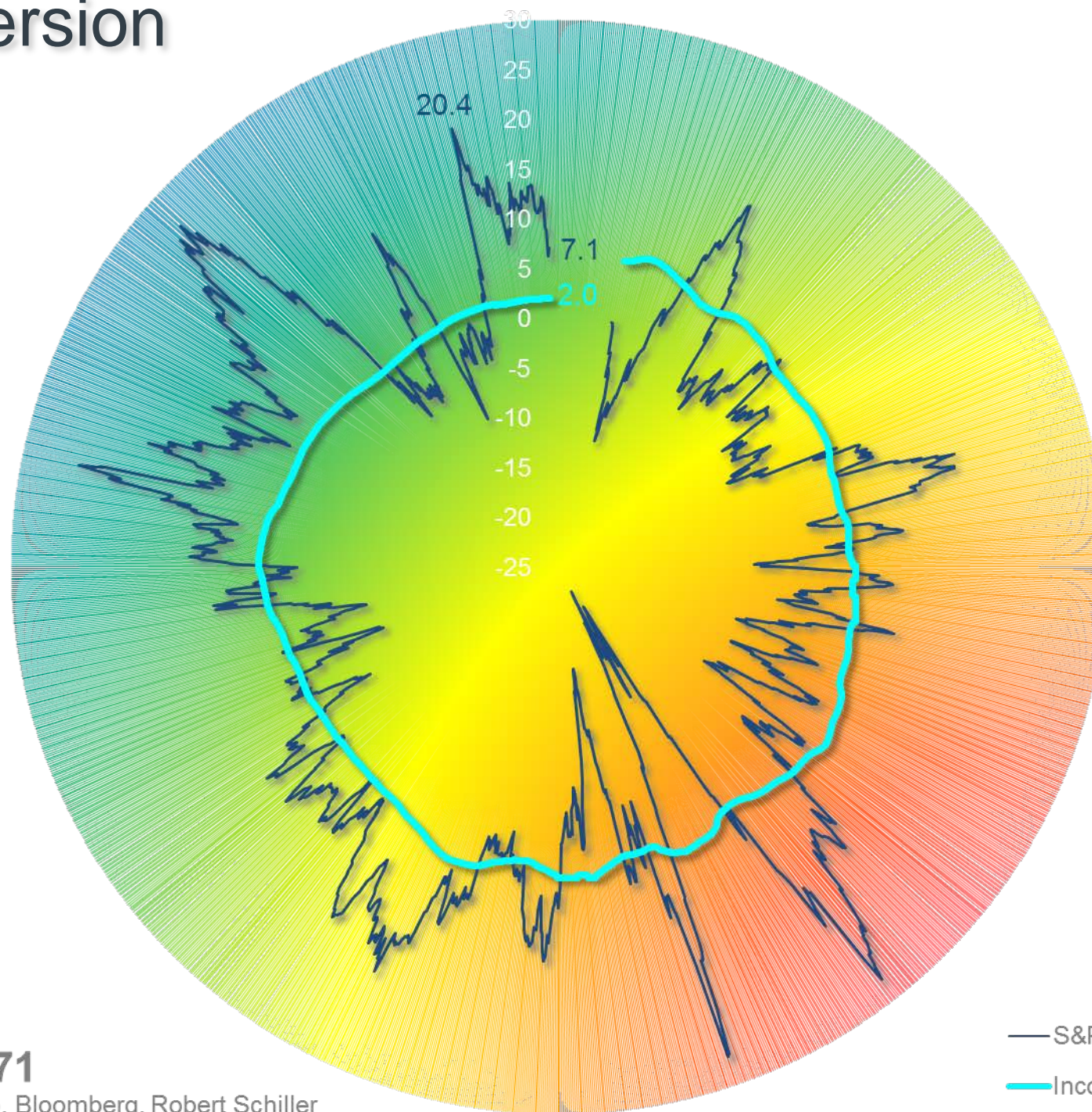
The Return of Vol

Liquidity Conditions & Volatility

Source: FMRCo, Bloomberg, Haver. Monthly Data.



Mean Reversion



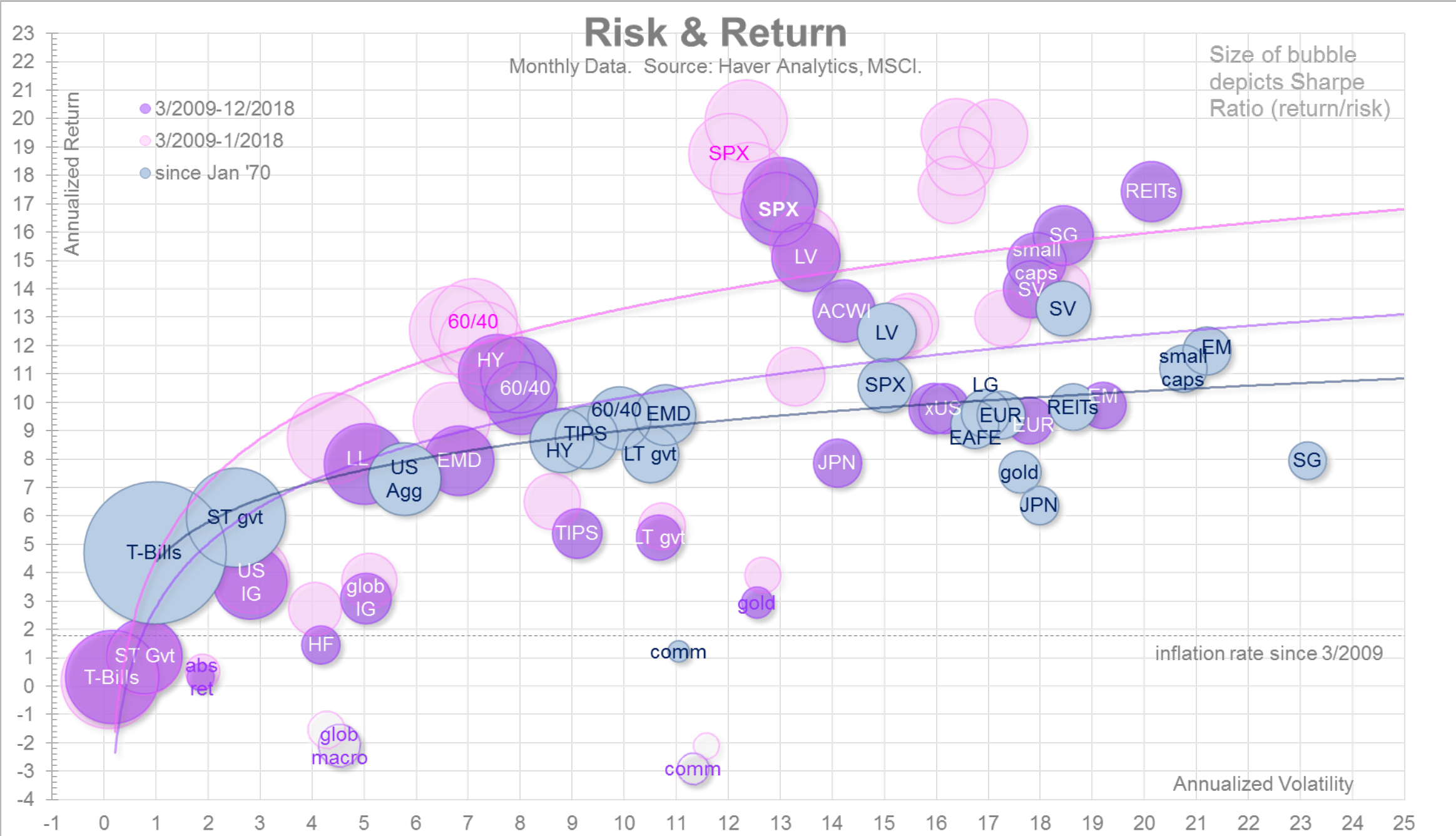
Dividend & Price Returns since 1871

monthly data. Source: FMRCo, Bloomberg, Robert Schiller

— S&P 500 Price Return (5yr ann)

— Income Return (5yr ann.)

A Return Towards Normal

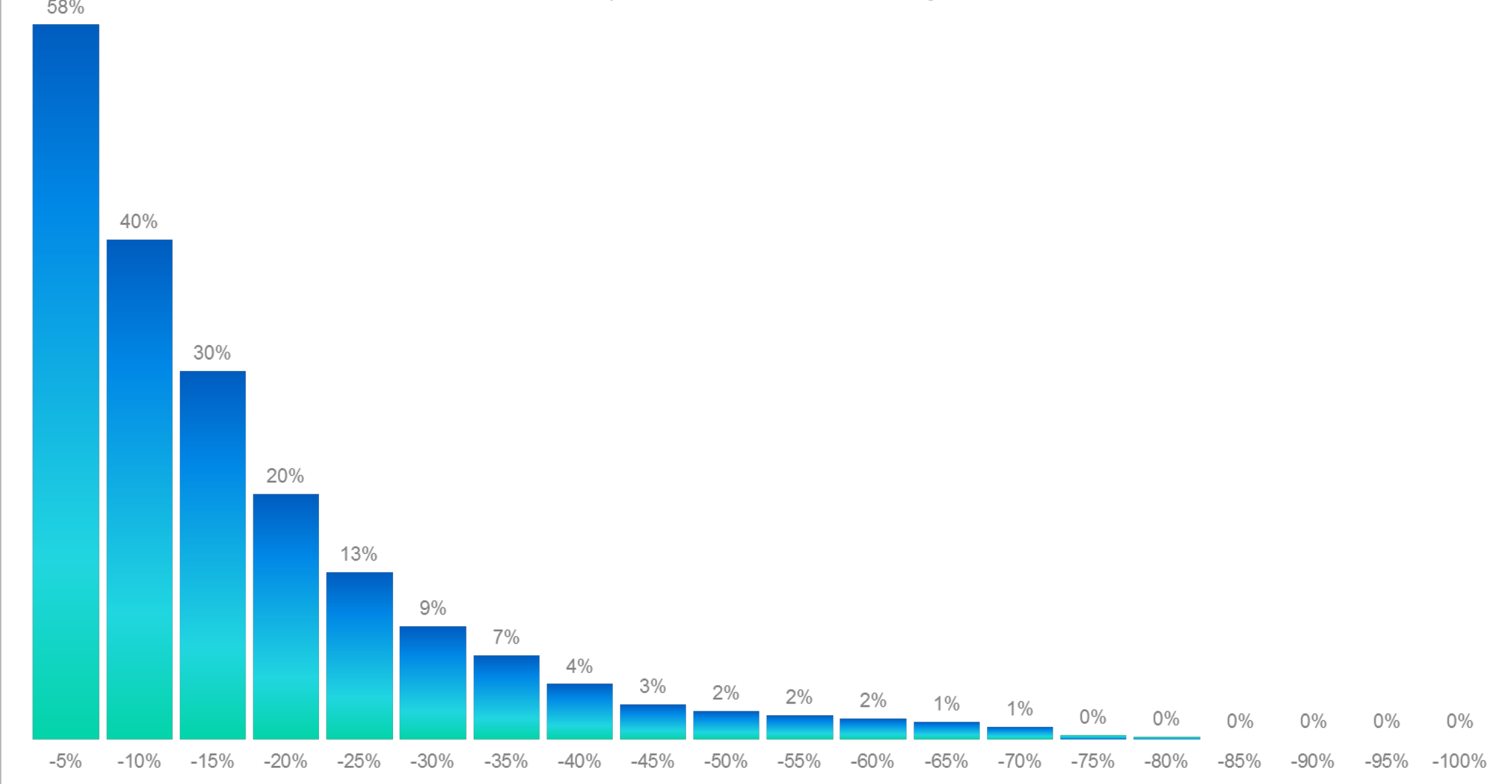


Odds of a 50% Decline: 2%

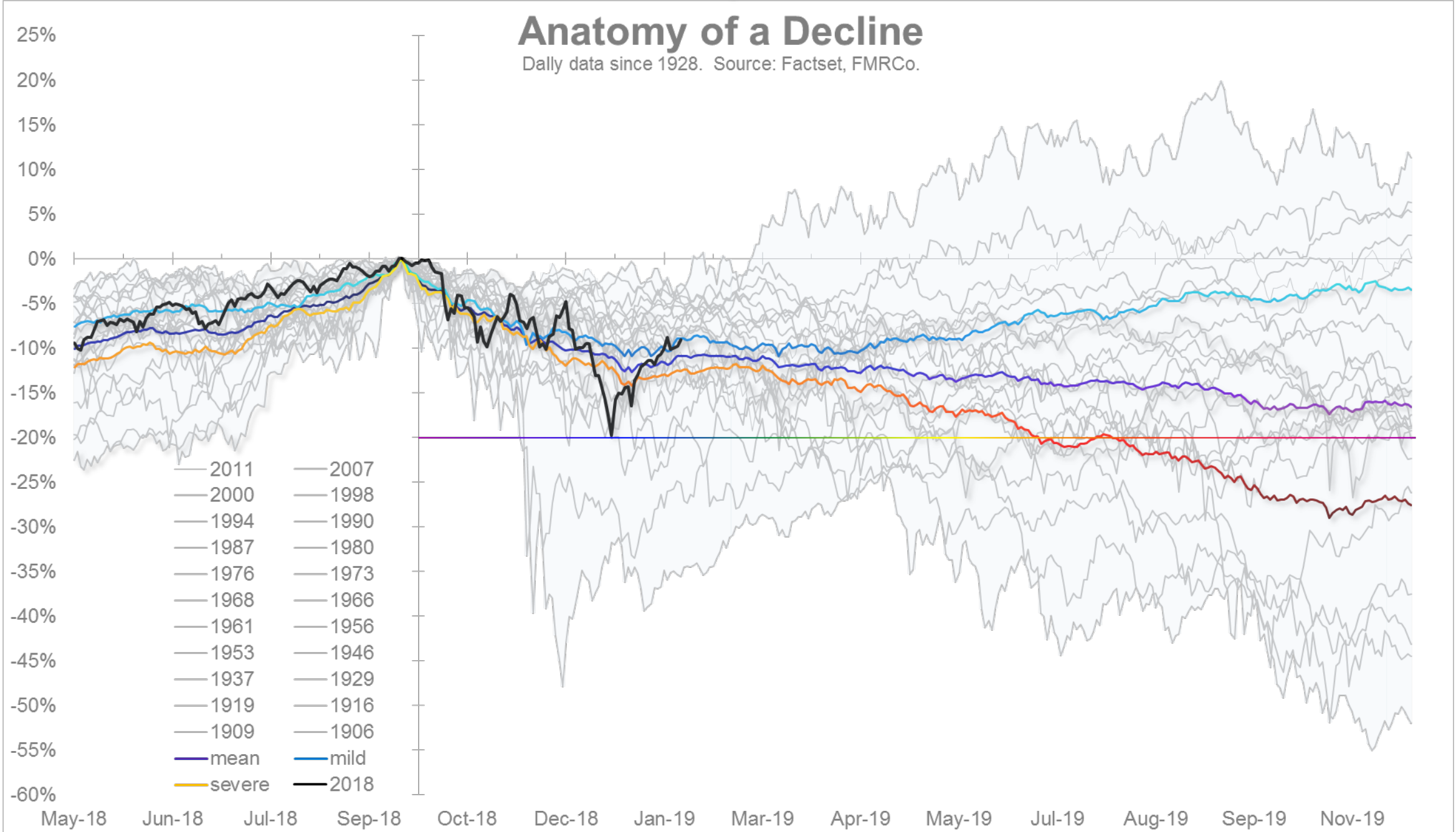


Odds of a Decline

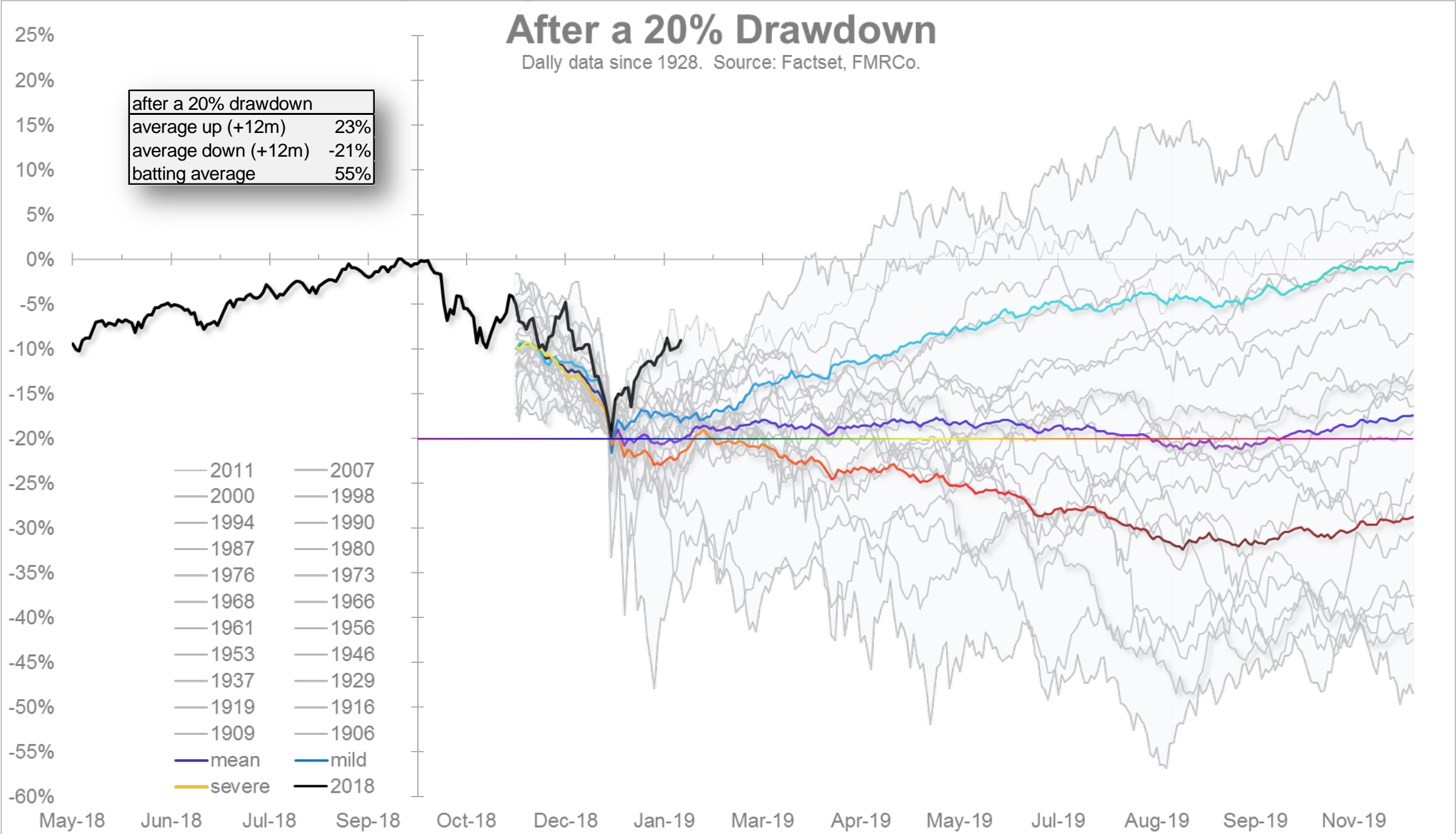
Daily data since 1900. Source: Bloomberg



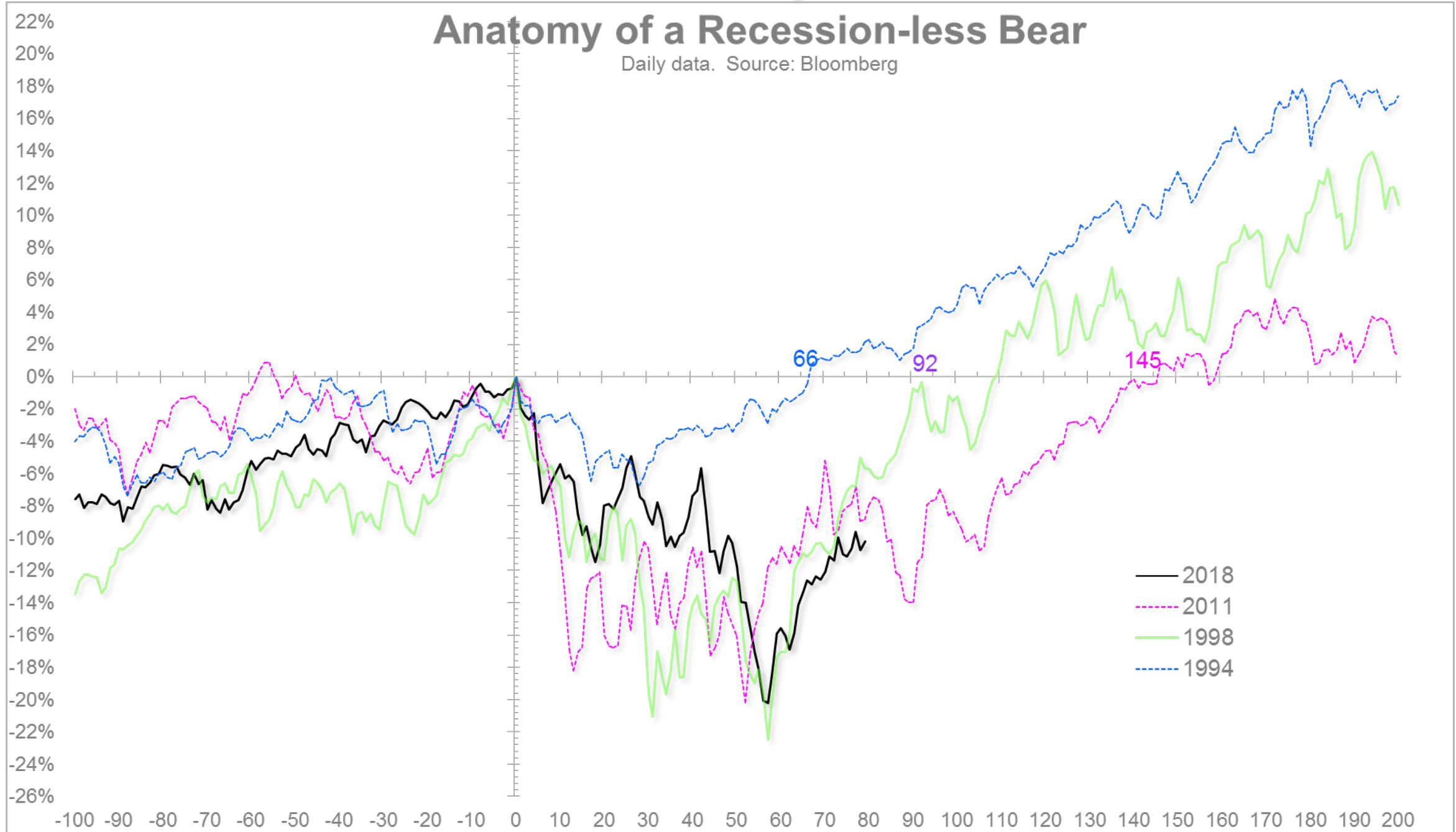
Not All Bears Are Created Equal



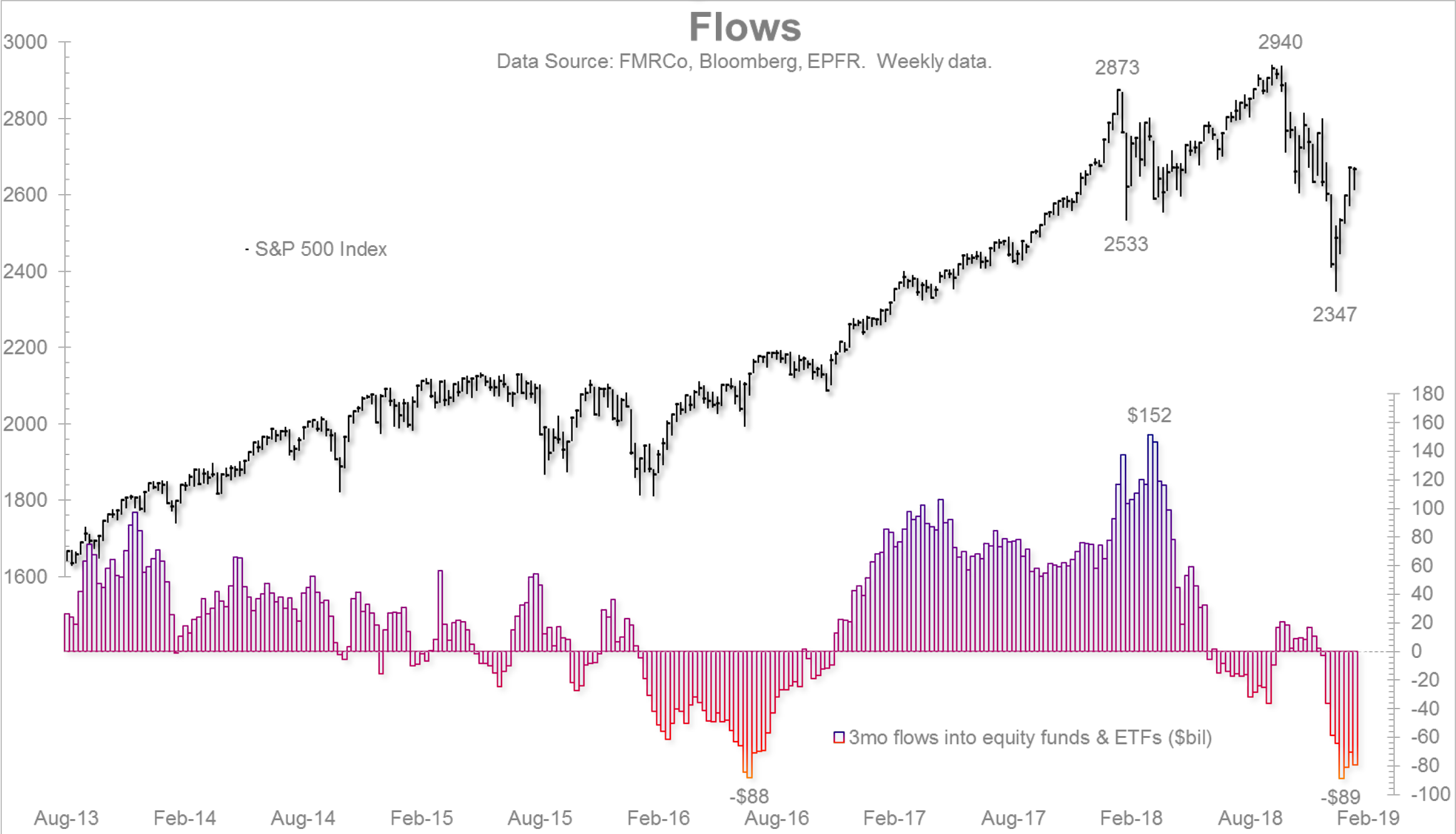
Context is Everything



Mild Bears Can Reverse Quickly



The Public Sold the Low, Again



Best Case

$$E \text{ 👍} + r \text{ 👍} = P/E \text{ 👍} = P \text{ 😊}$$

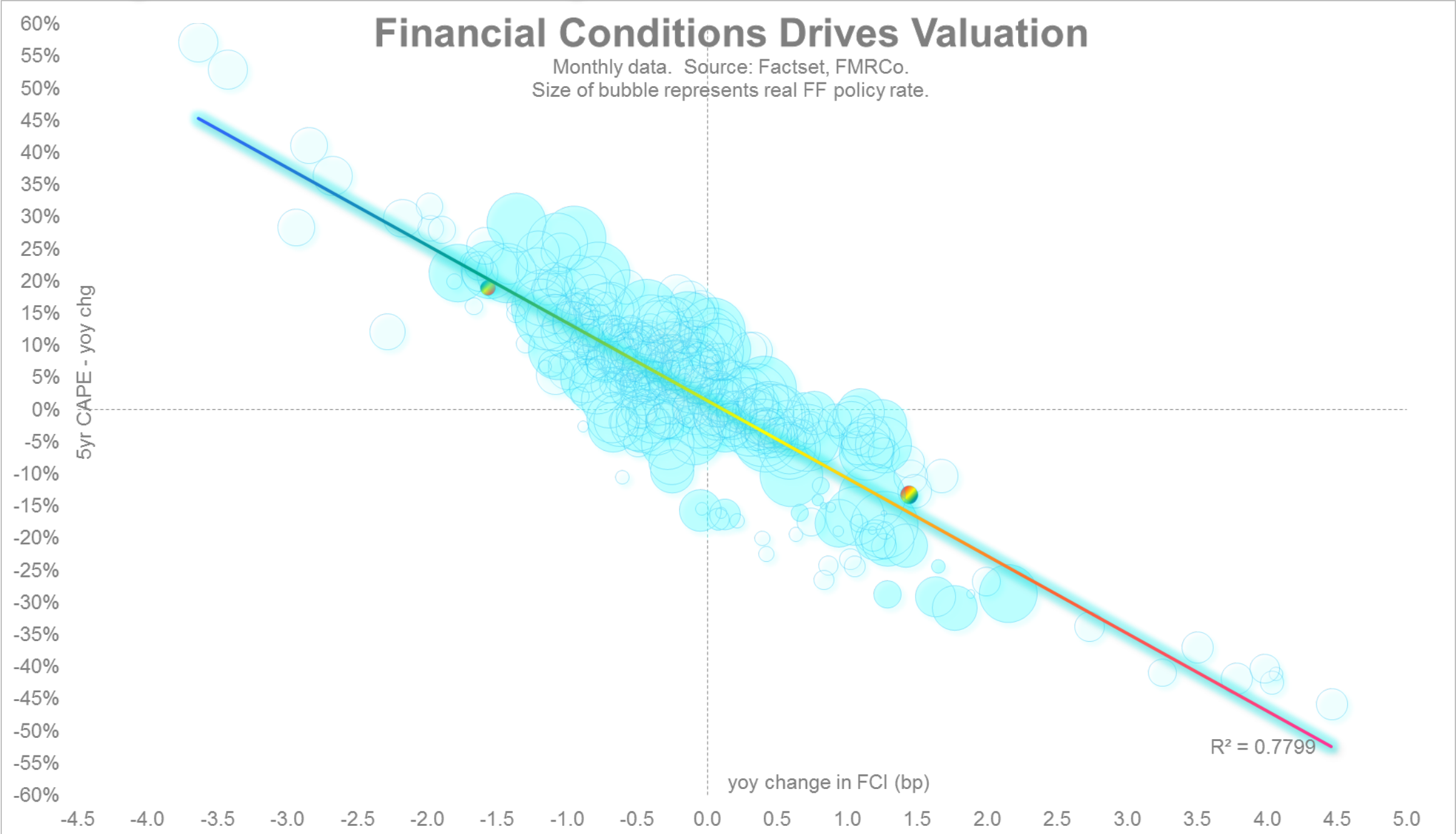
Worst Case

$$E \text{ 👎} + r \text{ 👎} = P/E \text{ 👎} = P \text{ ☹️}$$

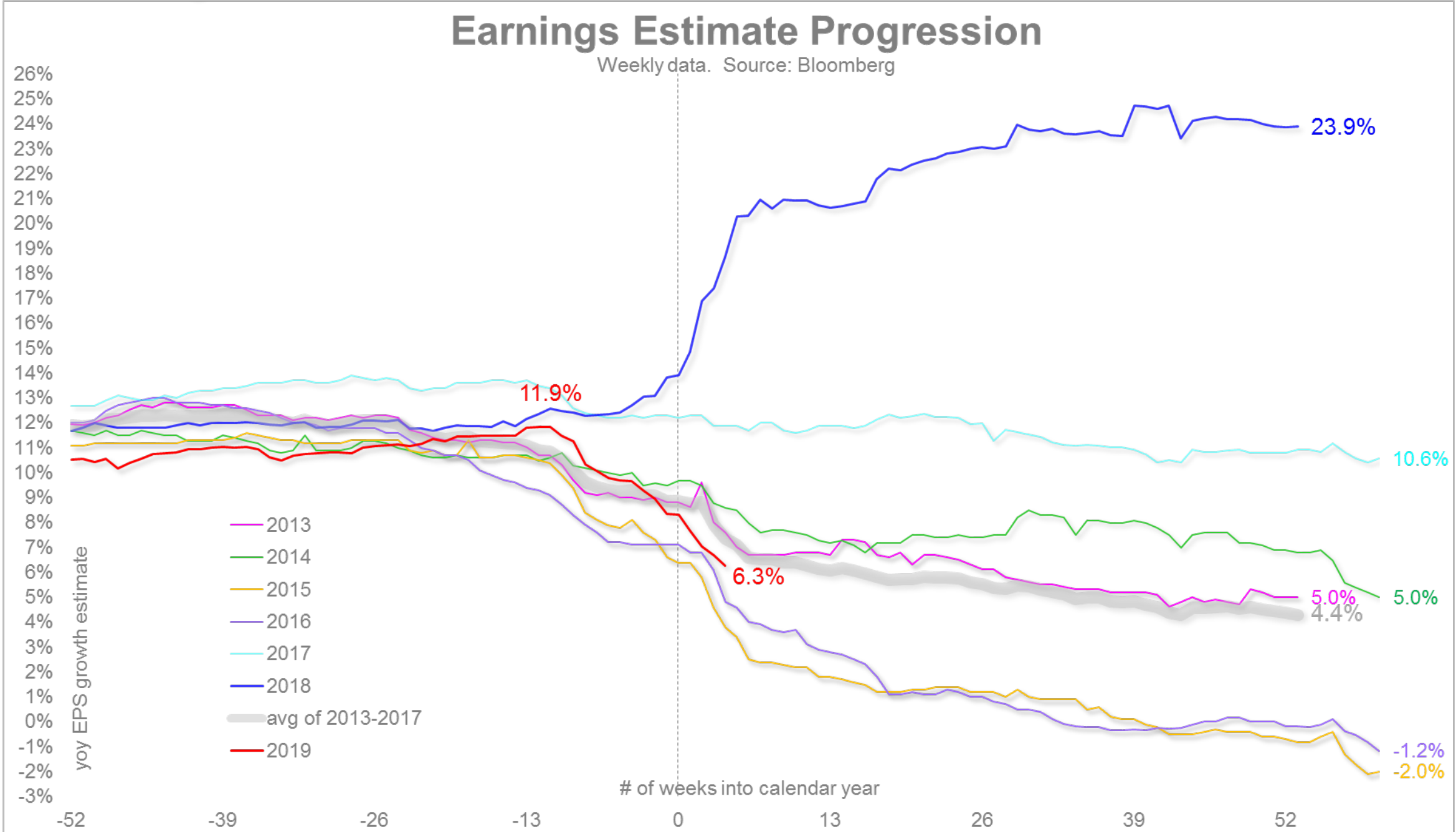
Currently

$$E \text{ 👍} + r \text{ 👎} = P/E \text{ 👎} = P \text{ 😐}$$

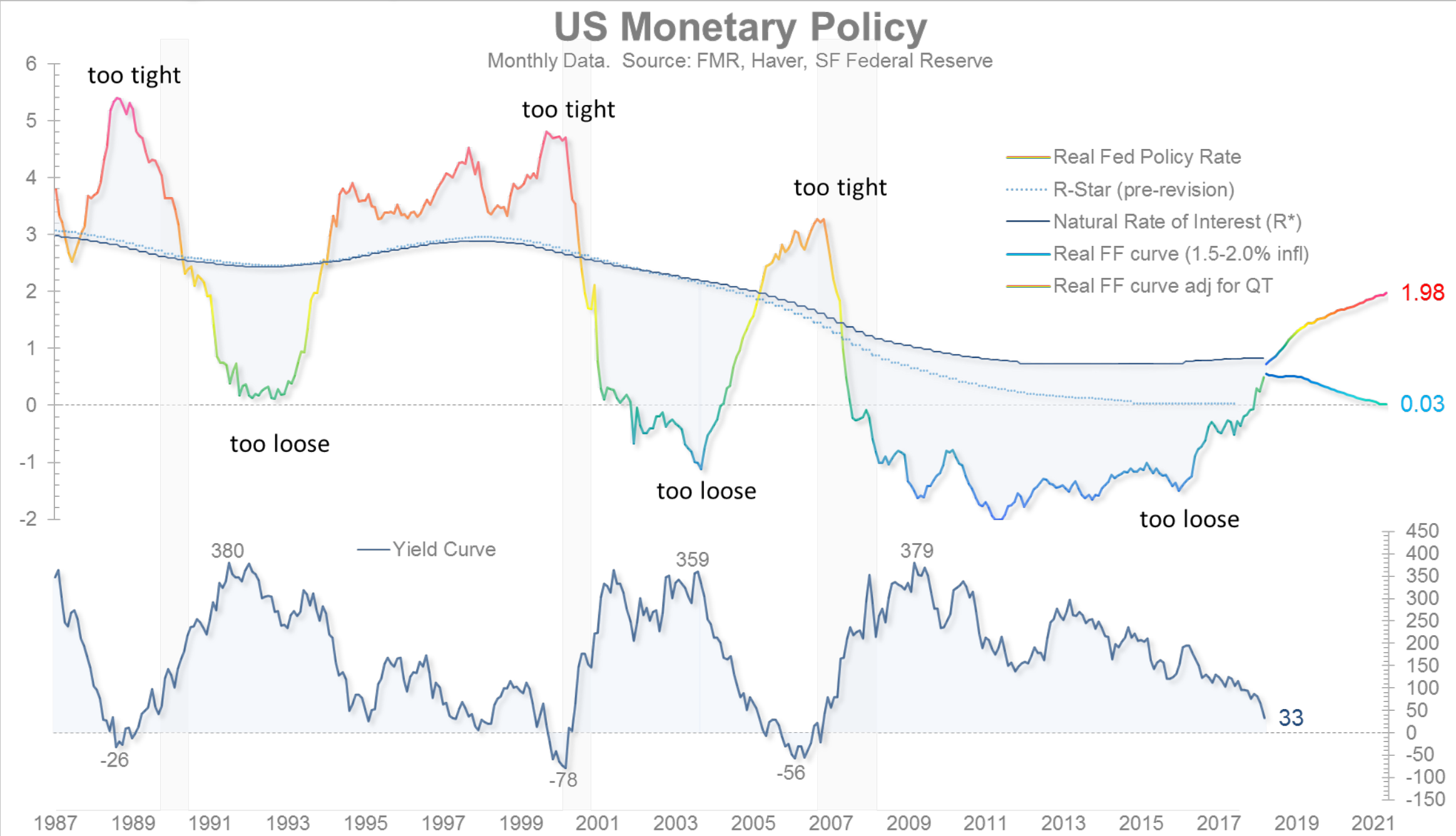
A Significant De-Rating



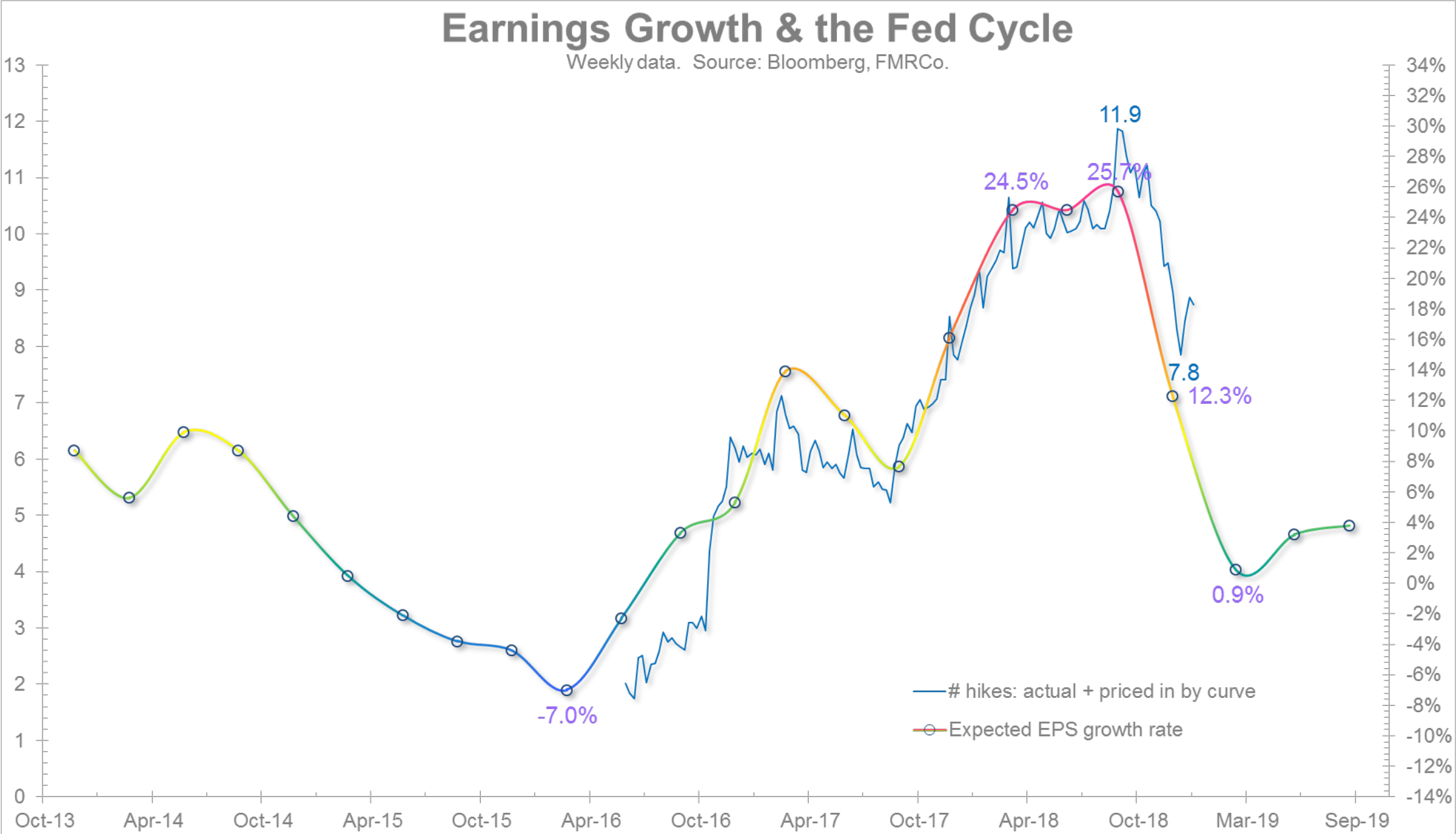
Earnings Estimates



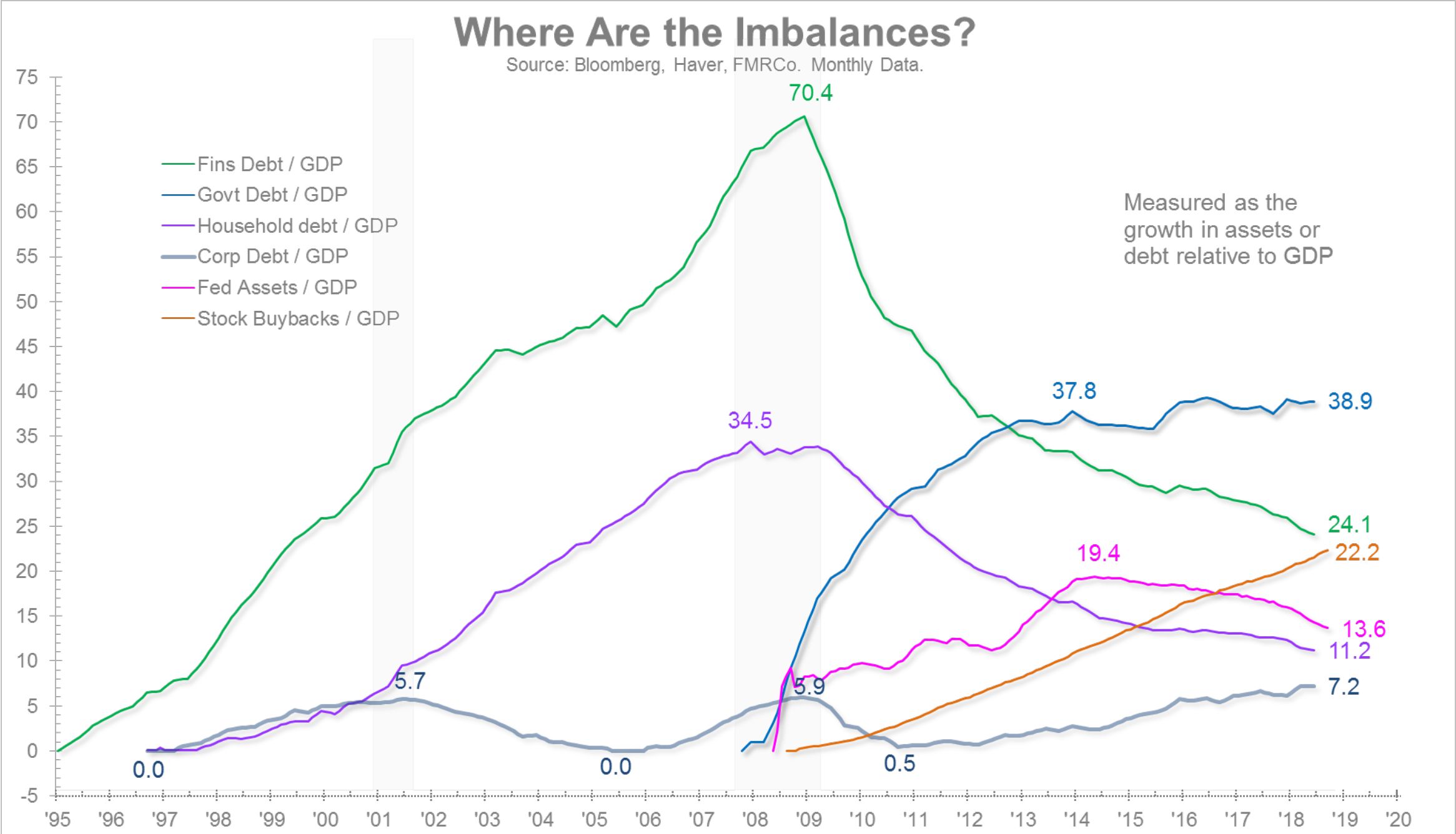
Too Tight? Depends on QT



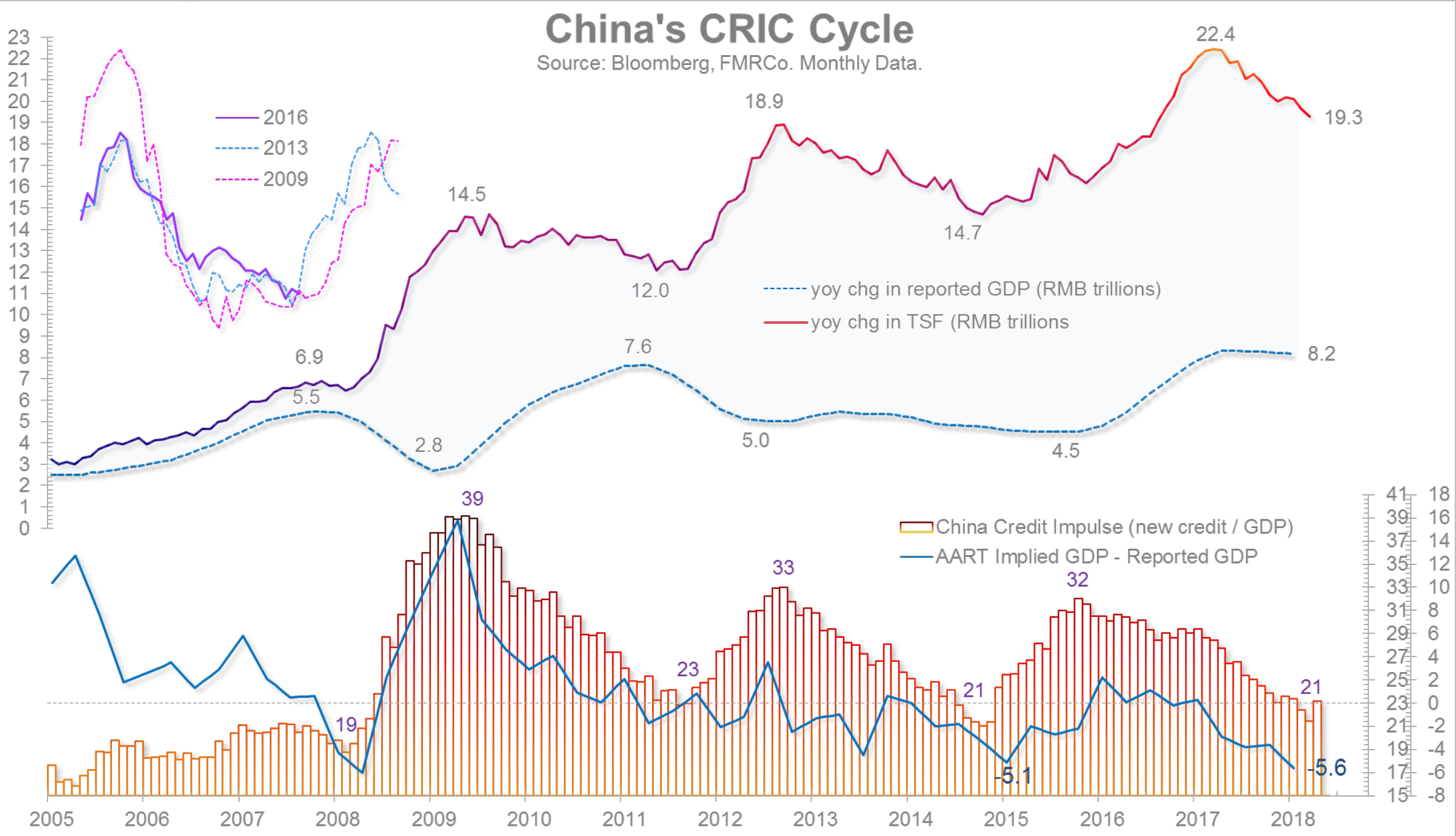
The Case for Rate Cuts



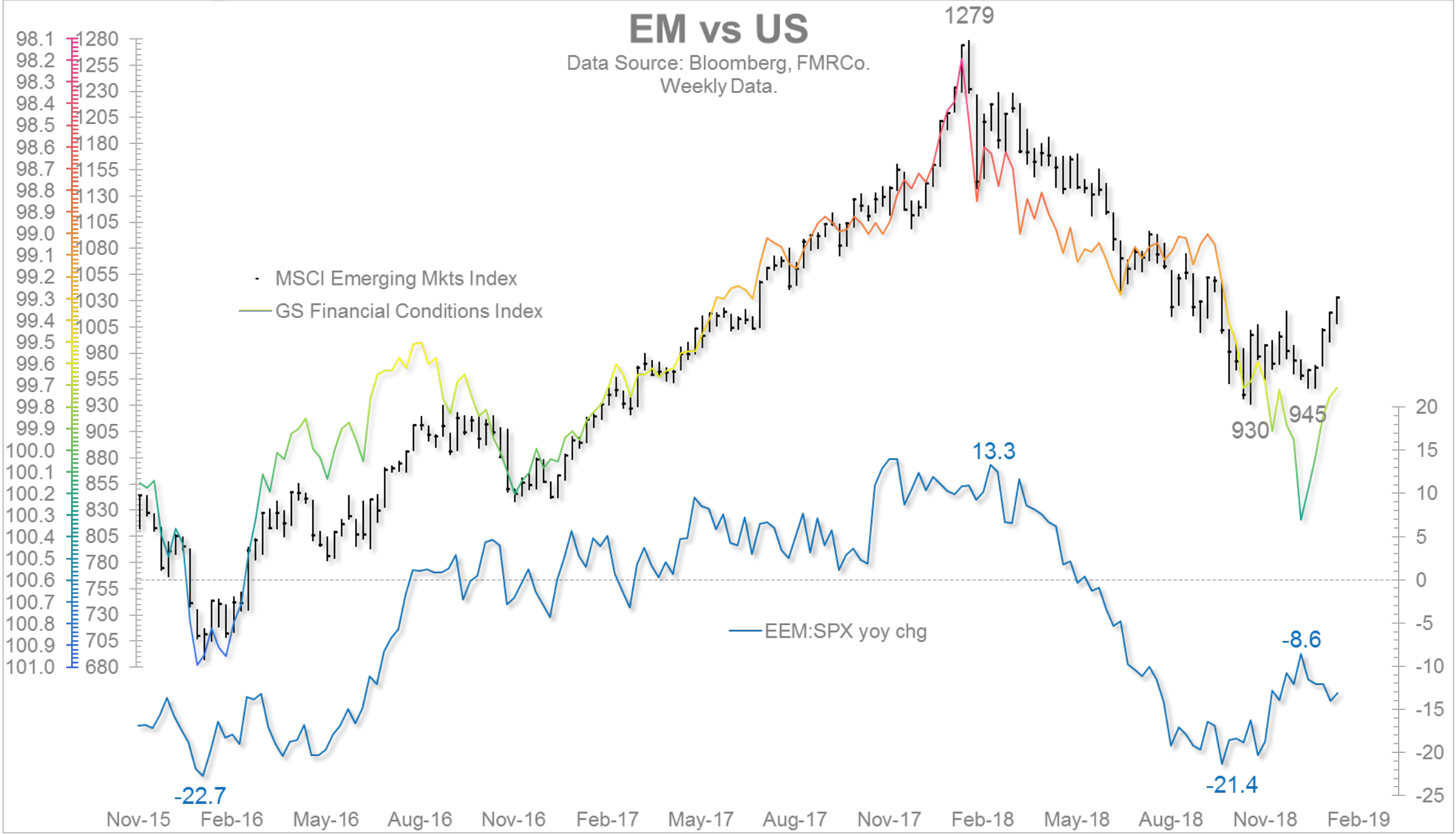
Where Are the Imbalances?



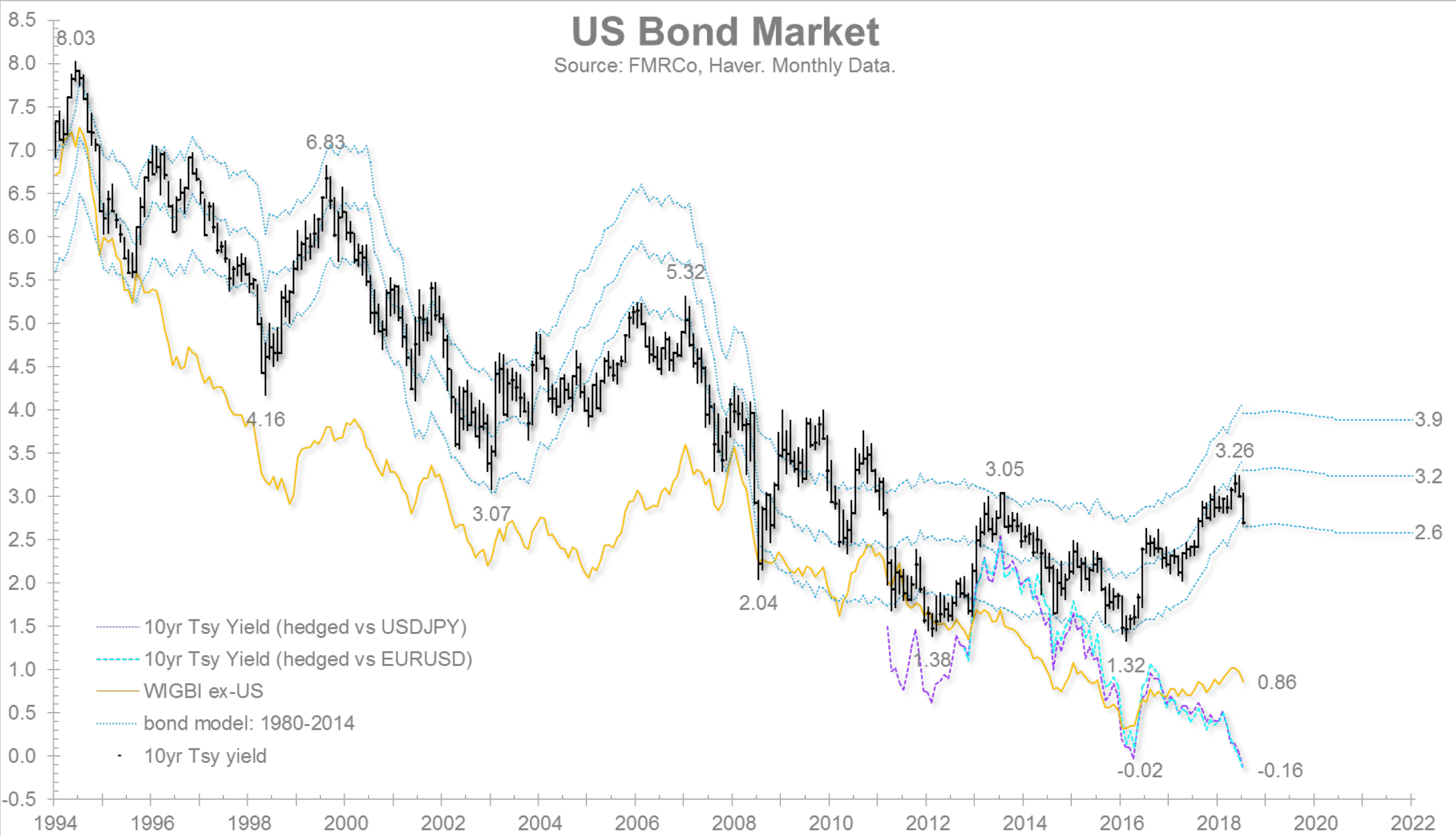
Waiting for China's Reflation



Convergence in 2019?



Bonds Look Rich Here

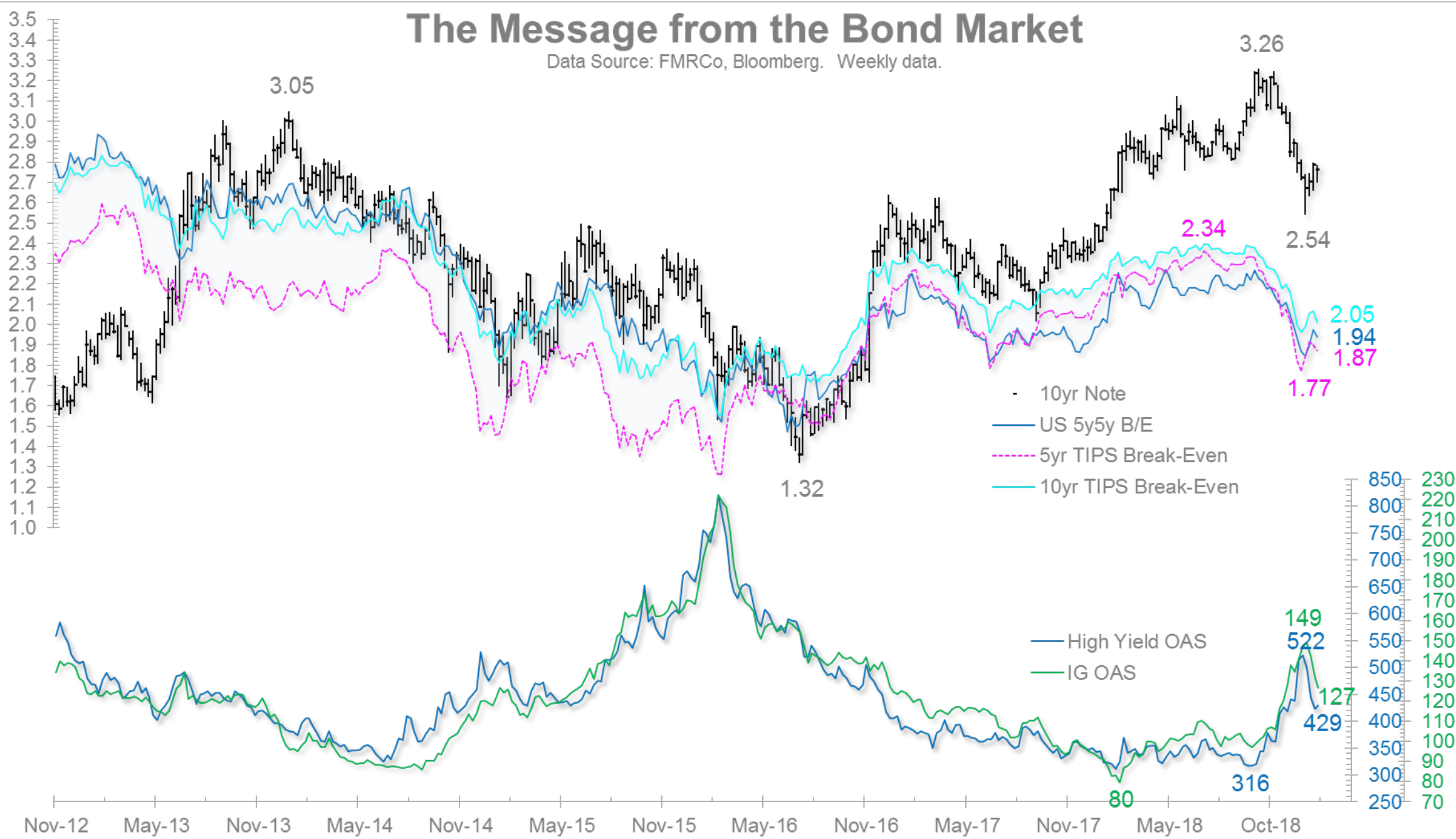


Credit & Inflation Offer Better Value Now

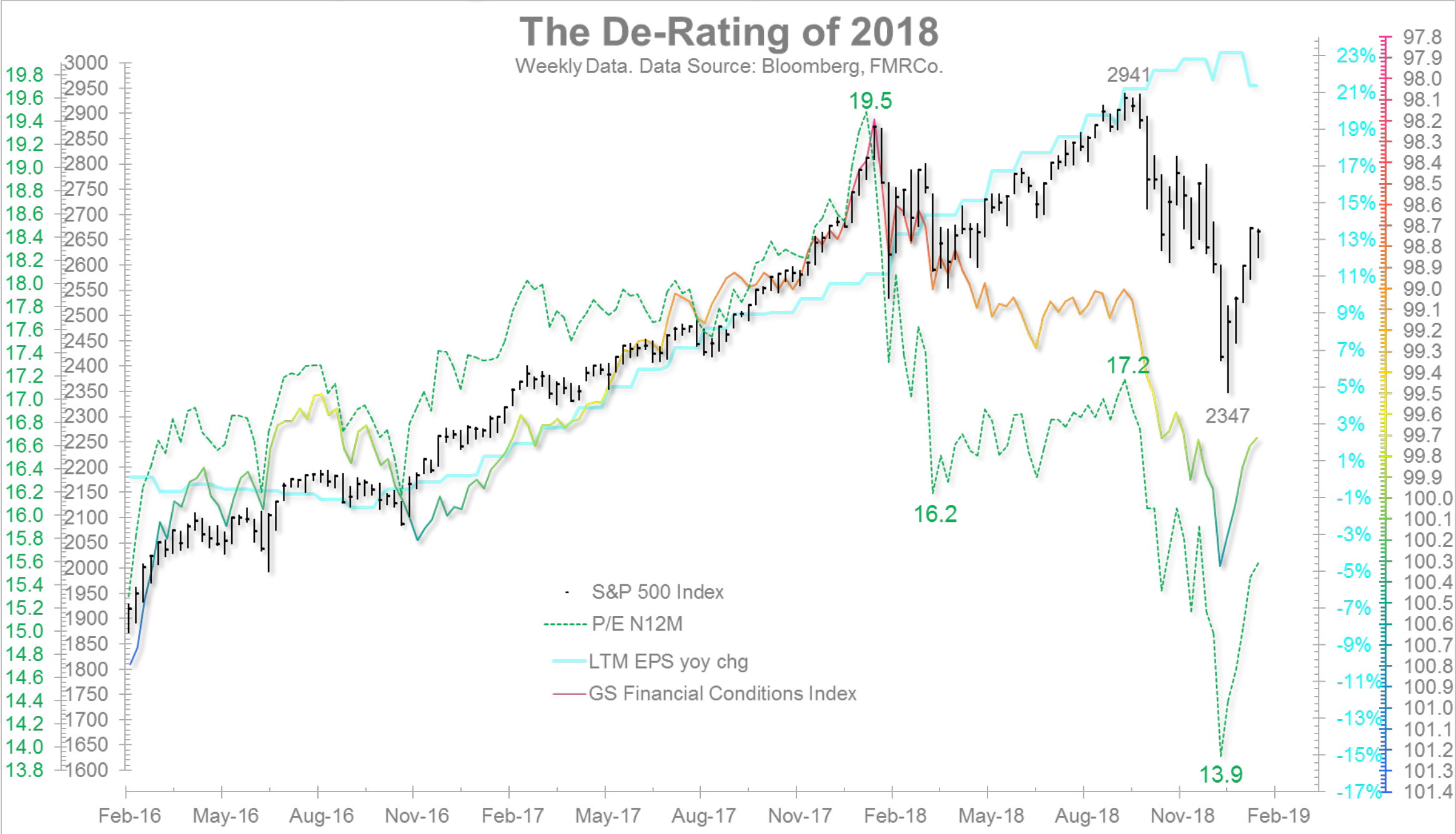


The Message from the Bond Market

Data Source: FMRCo, Bloomberg. Weekly data.

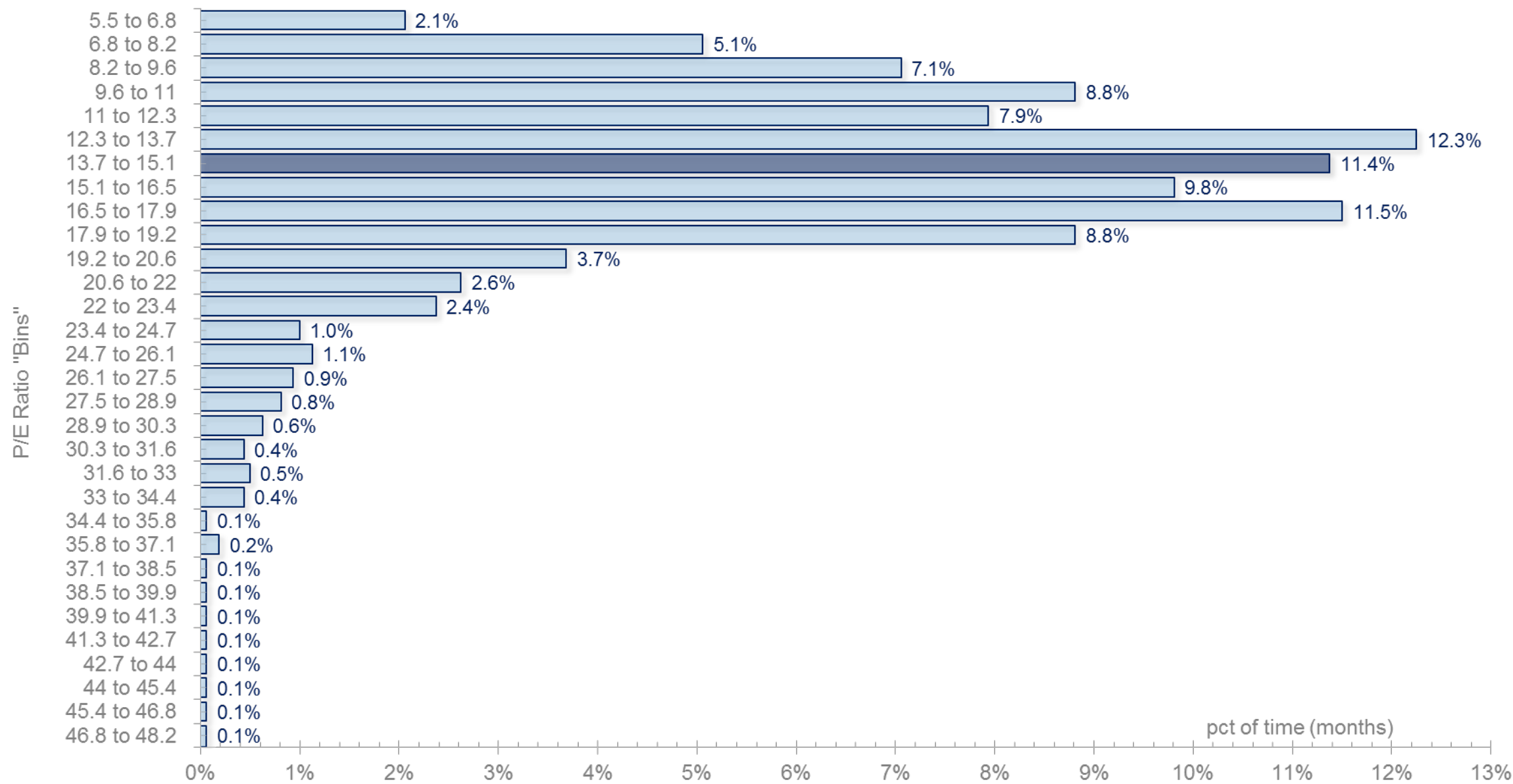


A More Compelling Value Proposition



Valuation

Source: FMRCo, Robert Schiller, Haver Analytics. Monthly Data from 1871.



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Here's what a trade war will do to stock prices



Anti-trade policies lead to less growth and more inflation
Fidelity director of global macro Jurrien Timmer says anti-trade policies lead to less growth and more inflation and will increase pressure on valuations.



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Is a storm brewing? Here's the latest from @TimmerFidelity & more: go.fidelity.com/f22st



REPLAY 476.3K viewers

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