TRANSCRIPT

Income and inflation: Getting more out of fixed income

Presenters: Danielle Fox and Pete Stringfellow

Pete Stringfellow: My name is Pete Stringfellow. I work as a national brokerage coach here for Fidelity Investments. And I work a lot with Danielle Fox. Danielle Fox is one of our fixed income regional brokerage consultants. And we today will be talking a little bit about income and inflation and really looking at how to get more out of fixed income. So with that, Danielle, she has been with Fidelity for some time now. Danielle, I'll let you give us the breakdown of your career here. But largely Danielle has been an expert and a specialist, really a subject matter expert, within the fixed income space for what, Danielle? Over 20 years?

Danielle Fox: Yes. Well, a lady never tells. But more years than I would care to admit. But yes, let's call it 20.

Pete Stringfellow: Well, Danielle, what do you have for us today?

Danielle Fox: Okay. Well, thanks so much for making the time today. Pete and everyone else that's helped out with putting on these events. I know there's a lot of work behind the scenes. And grateful to all the Fidelity clients that are making time out of their day to attend the session. So hopefully I can end on a high note. I know there were two really good sessions before me. As Pete mentioned, my background is in the fixed income space. I've been fortunate enough to work at Fidelity for 23 years. The majority of those in the fixed income space. And I think as a result my brain is maybe wired a little bit differently. So in terms of how I think about the markets and things of that nature. So my goal is really a few things. One, hopefully take some complicated terms, explain them in plain English. Additionally, give you some potentially alternative ways to think about things as you maintain your investment strategies. And finally, answer any questions that you guys have along the way as we go through. I know Pete is going to do a good job of helping facilitate that. We've known each other long enough that we can interrupt each other and it's going to be okay. And we'll still be friends after this.

So why don't we go ahead and take a peek at the agenda? Now one thing I want to make note as I go through the comments in the session today. Pete mentioned that you can download the presentation. Some of these slides are pretty busy. One of the goals that I have in the session is to really focus on one or two key takeaways from a potentially busy slide. Now that gives you a chance in Q&A to potentially ask something that I didn't cover as a key takeaway. But I'm really going to focus on some of those key takeaways. So definitely focus on downloading the slides if you haven't done so already.

So as the title of this presentation would indicate, we'll start off with talking a few words about inflation. And then really transition into an overview of the bond market. Many folks on this session may have some familiarity with the equity market. So what's similar, what's different? And then we're going to put this to work. How can we take this context and information around inflation and really put it to work in certain parts of the website? So we'll go through a handful of different areas that I know I spend time talking about in client meetings. I'm here in the greater Boston area and meet with clients virtually around some of these topics. And then embedded throughout that we'll focus on some Q&A.

So let's start with the $64,000 question. What the heck is going on with inflation? And here's one of those really busy slides to start. And what are some of the key takeaways? So couple things. One, the Fed has acknowledged that inflation is more persistent than maybe they initially thought. Transitory was the word that I guess was subject to a lot of definitional debate for a while. And if you look at the market reaction to the

Fed saying, "You know what, inflation is sticking around longer than we thought," the bond market has really started to look ahead and say, "All right, what's the Fed going to do later this year, potentially as soon as March?" And you'll notice the second bullet point under the second category is two to four rate increases. We're probably somewhere close to three rate hikes already priced into the bond market. So again the exact timing of when that starts could be up for debate. Could be as soon as March, as late as June. Again the liftoff is potentially up for debate. But the bond market is definitely pricing in a change in policy.

And that's another key takeaway to have, which is bond market yields -- and when I talk about bond market yields I'm usually referencing the Treasury market as your proxy if you will. Bond market does tend to move in anticipation of the Fed changing rate. So there's going to be a slide later on where we talk about is it worth waiting until the Fed does something. The Fed does not like surprising the market. They're very apt to telegraph to the market their intentions. So if you and I both know the Fed is going to raise rates at some point this year, then the bond market is already looking at it. So again there's a lot going on in terms of some of the data points. Again if you've downloaded the slides you'll have those. Big headlines around inflation and things of that nature. But let's think about it as all right, well, what is the bond market doing with all that data that we've got.

So why don't we go ahead and look at some of those trends that we were talking about? So again lots of information embedded on this chart. Couple things that I would point out. And this was something that I was taught very early on when I started working on the trading desk over at Fidelity Capital Markets, is there's a really strong correlation, a really strong relationship in a positive way, between short-term interest rates -- which we'll use the two-year Treasury as the proxy for that, which is that olive green-colored line -- and the federal funds rate, which is the rate that the Federal Reserve is raising and lowering and the one that everyone's worried about changing.

So there tends to be a positive relationship between short-term interest rates and what the Federal Reserve is doing with interest rates. So one thought around that is not all rates are going to move in the same direction at the same time and by the same magnitude. And you can see that in this chart going back to 1992. One other theme that I would encourage you to think about as you think about trends in the Treasury market is the further you go out, the more it becomes about the economy. And the fundamentals of how the domestic economy is doing. And it's not that the Fed isn't important. But that's information and data that kind of starts to take over. So as I think about key takeaways with this, short-term interest rates are really highly correlated historically to what the Federal Reserve is doing. So as an investor, depending on where you're investing along the yield curve, the Fed may have more or less importance depending where you are in terms of maturity. So couple trends to keep in mind.

So as we think about that, as it relates to inflation, why don't we go ahead and perhaps take a peek at the next slide. Everyone's number is different. I know as we were preparing for this Pete and I were talking about how we consume goods and services. And it's going to be different for every single individual. And it really prompted us to take a peek at well, how is inflation calculated. So on the right-hand side under the relative weighting you'll see when we talk about the CPI or consumer price index, it's a basket of different goods and services. Shelter, you'll notice, is a huge component and I believe the largest at 32 percent. So that's rent, things of that nature, housing costs. Shelter is your biggest component. So the relative weighting is saying how much is it worth as a component of CPI. And then what's happened between 2020 and 2021 as it relates to the change?

So I know I see this even though I'm not driving as much working from home more often than not. But gasoline is up 50 percent. You see that every time you go to the pump. Every time I go to Whole Foods down the street groceries cost more. So things that we use with regularity are going up at high clips. However, they're not necessarily huge weights in the CPI calculation. So when we talk about inflation, everyone's number is different because we interact with the economy in different ways. So we thought this would be kind of an interesting sneak peek at what's going on.

Now as we think about inflation going forward and Pete was mentioning that Denise had shared a little bit about this in the previous session. Fidelity's view is the 7 percent inflation number in December is not likely to be replicated in perpetuity. We're hoping for some moderation of inflation as we go into the second half of the year. But doesn't mean it's necessarily going back to 2 percent, which is the Federal Reserve's goal. Maybe it's somewhere in between, closer to 4 or 5 percent. But we are expecting that the first quarter is where you hit the peak of inflation.

Now as I think about inflation as it relates to fixed income investing, before we move away from this, this is one of my key points that I would want to take away, aside from all this great data that's here. And this is something that, full disclosure, I eat off the menu, I'm a fixed income investor myself, I own individual bonds, mutual funds, a little bit of everything in the bond space. But when I think about myself as an investor with my own money and I buy bonds, I'm not thinking about trying to meet or beat inflation. That is not a goal I have with my bonds. If it happens it's because I was lucky, not because I was good. What I'm really trying to do, and how I view success in the bond market, is I'm trying to narrow the gap between what cash pays, which is unfortunately a number close to zero, and what I perceive inflation to be, what my inflation number is. And it might not be 7 percent given how I consume things, but I'm just trying to narrow that gap between 7 and 0 and make it something smaller. So it's incremental improvement to my overall long-term asset allocation. I expect equities to beat inflation over the long run. And if I believe that then I don't need my bonds to do it. It's just about incremental improvement.

So as we go forward, it's something that I've come to terms with over the last 20 years as how I define success in the bond market. And again this is one of those things as I talked about in my opening comments. If you're thinking about having an alternative view or being challenged to think through how you think about bonds fitting into your portfolio, I just wanted to offer that out as some context.

So I guess with that we can not belabor the point of inflation because I know it's all a number higher than we want it to be and think through the bond market itself. So why don't we go ahead and -- I'm sorry, Pete. Was there a question that came in?

Pete Stringfellow: Yeah, I actually did want to throw one question out to you. And it pertains to the comments you just made. So I think a lot of our clients look at the forecast of rate hikes. And they think why would I buy bonds if rates are going up. Could you just segue from the comment around like I'm buying bonds not to necessarily beat inflation, but segue from that into why would I buy bonds if I think rates are going to go up?

Danielle Fox: And there's a good slide coming up about the direction of rates. So I'll slightly pause that. But that being said, one of my other core beliefs is if you think about having a call on interest rates. What you just mentioned is talking about the direction of change, right? Up. Then there's the second and third layer, and this was something many of the folks that I used to work on the trading desk with would have to have opinions on for positioning, which is the speed of that change, and then the magnitude of it. And what we're going to see later on is just because we think the Fed is going to raise rates let's say somewhere between two or four times, the outcome that you're thinking is going to happen may not necessarily be the case. The bond market is not generally a great predictor of interest rates. So that's part of the punch line for later on. So I'll revisit that punch line. But that's my thought. But one of my core beliefs is you buy bonds to keep your wealth, not to create new wealth. So you got to go back to why are you doing it in the first place. It's to stay wealthy, not get wealthy. And bonds still serve a role even when you don't know the exact trajectory of where things are going. Even though you might have a hunch, your hunch might not be 100 percent correct. So anyhoo, my two cents on that.

So if we want to take a step back and say, "All right, well, what is a bond and how does it work?," this is a nice visual representation of what happens when you own bonds. Whether it's individually or a basket of them through a fund, this is what's going on within a mutual fund or an ETF. But if you think about individual bonds, what you'll notice is it's really about -- like if I think about all those bullet points the reason I would look at individual bonds and why I look at them personally is I place a high value on knowing exactly what I'm getting and when I'm getting it. So there's this predictability piece. In a world of uncertainty -- we just talked about some of it. Introducing predictability can be awfully helpful. So when I think about individual bonds it's about placing assets in something where there's a high degree of predictability. So all of these other things are attributes of individual bonds. But if I had to boil it down to one thing that would be it.

So that's an individual bond. But let's take a 64,000-foot view and say, "All right, well, what does the bond market look like?" And especially if you're historically very comfortable with the equity market but the bond market has kind of felt like a bit of a black box over the years, this sets some context. So what are some of the key takeaways here? Bond market is big. It's complicated. It's fragmented. All of that provides some job security for me in that I get to explain it and discuss strategy with clients. But the other thing that comes along with this, if you notice, looking at Ford as an example, there's one stock. Ticker symbol F. But there's nearly 500 line items of individual bonds. Each one of those has different characteristics. So there's a bit of a learning process over time and we'll talk about some learning resources that can help you understand and evaluate some of those different characteristics. But it's a very fragmented market with a lot of complexity to it. So sessions like this are the beginning of a long-term -- as Pete mentioned, the university style sessions where you can continue to advance your learning over the years. So very complicated market but that's why we do sessions like this.

So as I talked about, one of my core beliefs is you buy bonds to stay wealthy, not get wealthy. When you look at this chart one of the things that's really important is giving an investment enough time to do its job. And the idea of fixed income is really twofold. Income and preservation is a dual objective if you will of bonds. And this is using not necessarily individual bonds but more on the mutual fund side and looking at investment-grade bonds, so higher quality bonds, in orange, and saying, "All right, if I own a fund or some type of investment and I look at negative returns, can I see the forest through the trees? Can I give an investment enough time to do its job?"

Odds are if you take a long-enough-term view, in this case let's say three years or longer, your odds of success in the bond market are quite high. And again it's all about being able to see the forest through the trees. And when I get clients that ask questions about bond funds or things of that nature I'm like, "Just because you can sell it every day at four o'clock doesn't mean you should." So it's again about being able to say, "Has there been any change to my financial situation or my asset allocation where I need to make a change?" Otherwise patience is a virtue that will sometimes get tested.

So with that, this is where I want to go back to the question maybe, Pete, that you posed earlier with the next slide, which is we all know where the bond market is going. So my first boss when I worked on the trading desk, he was really full of isms. Like really good one-liners. And one of them is the bond market is a terrible predictor of interest rates but a very good predictor of credit risk or default risk. So as I take a look at that first half of that statement, this is trying to show you okay, using the 10-year Treasury, not necessarily the fed funds rate, which is the rate that the Federal Reserve is talking about raising and lowering, but the actual trajectory of interest rates at the 10-year Treasury is the green line. And then the bettors in the futures market are the blue line. So bond market thinks okay, rates are going up. And sometimes they do but they don't necessarily move in that speed and magnitude that I talked about. And in some cases they move in the exact opposite direction. So in order to have a successful call on interest rates it's not just direction and getting that right but the speed and the magnitude of the change. So when I look at this chart and I think about my own strategy, it's that I want to have a strategy that works in a changing interest rate environment, acknowledging that the word changing may mean rates do nothing, rates go up, rates go down, that a variety of outcomes are accounted for. Because even though I might have opinions on things, this is looking at professional money at risk betting on where rates are going, and more often than not being wrong in some way, shape, or form. So if you feel like you've been wrong about interest rates, don't worry, there's plenty, that is not a table of one. That party is very full.

So again bond market not a great predictor of interest rates. So again focus on the strategy that works in a changing interest rate environment.

Pete Stringfellow: Yeah, so Danielle, if I could sum that comment up it makes me think like okay, if I'm looking to get invested in bonds or if I am invested in bonds I need to look at that exposure through the lens of being strategic and long-term. That suffice to say?

Danielle Fox: Yes, 100 percent. And if you think about we're talking about interest rates going up, and maybe there's two, three, four rate increases this year, but then what happens after that? As you talk about your long-term view. How far out are you willing to project? And the longer-term you go, the less certainty there is. So again it's about if I go into this eyes open in the right way, I just want to have a strategy that works in a changing rate environment, because I'm going to live through and invest through a multitude of interest rate cycles.

Pete Stringfellow: Yeah, and it seems that that strategy, it would make a lot of sense to apply the strategy to your personal circumstances and situation as much as economic or market environment circumstances.

Danielle Fox: Hundred percent. Right. That was something when I worked on the desk and I would have clients that would call up and say, "Hey, where does value exist in the bond market right now?" I'm like, "Does it really matter if it's longer-term or shorter-term than the investment need that you have? I can tell you that information. But if it's longer-term than what you're comfortable investing for then it's completely worthless." Because you got to be able to hold on to the investment for that holding period in order to reap the benefit and if you can't do that then it doesn't matter where value exists.

Pete Stringfellow: Yeah, and I imagine dependent upon where you're looking within the sub-asset-classes of the bond market, there's a really important consideration to give to the exposures that you're actually getting.

Danielle Fox: Correct.

Pete Stringfellow: Across sub-asset-class. I think this slide does a great job of helping us visualize that.

Danielle Fox: This is along with the last slide about how the bond market is a terrible predictor of interest rates, this is another one of my favorites. And if there's questions about what some of the acronyms stand for, throw something in Q&A so that we can ask that and explain it, because there are a lot in there. But one other truth that I learned very early on working in our capital markets area. I talked about shorter-term interest rates correlated to the Fed. The other big one when I think about correlations or relationships is that the lower in credit quality I go, the more bonds start to act like stocks. So if part of your objective in owning fixed income is to have an asset that diversifies you from the volatility or potential volatility of the equity market, then all of that stuff on the left-hand side, HY is high yield, emerging markets is foreign junk bonds, non-investment-grade, the lower in credit quality you go, the more things start to look like equities. So let's say at the start of the financial crisis you decided to diversify from equities and you bought a high yield bond fund. Yeah, your asset allocation changed, but your correlation didn't necessarily. So when you think about diversification, these different sectors if you will of the bond market are going to take turns providing leadership. And so is it something you want to do on your own? Or do you want to have something broadly diversified where you're allowing someone else to make those decisions on your behalf? There's pros and cons to each. But quality is king when you think about diversification from the volatility of the equity market. Now granted, it means less income and not keeping up with inflation as much and all of those things. But again it goes back to that preservation objective. So there's a lot of good data on here but the key takeaway is the lower in credit quality you go, the more bonds act like stocks.

Pete Stringfellow: Got it. So I've got a question for you. Might be a little bit of a curveball. Came from the audience here. Tied to TIPS. So we'll see TIPS, they're about the middle of the chart. So Treasury inflation-protected securities. Now as I'm looking at the returns here, just going back the last three years, I'm looking at the TIPS returns and I'm thinking wow, 2021 underperformed in TIPS compared to 2020 and 2019. Yet we saw a lot more inflation in 2021. Could you give us your thoughts, Danielle, on why and whether or not TIPS are a good opportunity?

Danielle Fox: Sure. I will say as we go into the demo section I can always pull up there's some Viewpoints that are somewhat recent that opine on this as well and get into the inner workings of that. That being said, so if you think about the TIPS market, and it's the only inflation-protected type of bond that's really readily available. It's a relatively small part of the Treasury market. If you think about how big our deficit is and all this debt that we have outstanding, the TIPS market is probably somewhere near $1 trillion. Which sounds like a lot, but it's really small. So relatively speaking that can become, if it gets popular, a crowded trade pretty quickly. So as people start to worry about inflation ramping up in 2019, 2020, money starts flooding in. And prices can only go, they can't go up in perpetuity forever. There's got to be some moderation. So when you look at these performance numbers it's not just about the income that's being generated that's tied to inflation. But it's also what's happening to the appreciation. And some of that, a bond can only go up so much for so long. And so you're seeing that performance, that positive price appreciation staggered over multiple years. So if it becomes more about the income piece then that's a somewhat smaller component. So that would be my initial take on it.

Pete Stringfellow: I love that response because it's almost like okay, so wait, in 2019 there was potentially a lot of perception out there that inflation might be driven. And so you had some folks making that play I imagine.

Danielle Fox: Yeah. And even though inflation necessarily didn't exist in the form of CPI or things like that, think about all the retirees that we talk to where they're helping grandkids try to save for college and they see inflation there or health care in retirement. Everyone's inflation is different. And if you're worried about certain expenses escalating at rates that are above what the CPI reports then these types of investments can become popular to have some hedging if you will.

Pete Stringfellow: I like it. So we must have a plant out in the audience. Because just now the question came through of Danielle, why would I look at individual bonds versus bond funds, and really what are the advantages and disadvantages of one to the other.

Danielle Fox: It's as if someone saw the presentation.

Pete Stringfellow: Shocking. It's shocking.

Danielle Fox: All right, so one of the things I talked about with individual bonds is if I place a big emphasis personally -- and this is a subjective evaluation. If the idea of knowing exactly what I'm getting and when I'm getting it is of high importance, that's where individual bonds can be really helpful. Because I know I'm getting semiannual interest payments. I know how much I paid today. And I know when it comes due. And I know what I'm getting. Now the asterisk is provided the issuer remains solvent, which I do not want to diminish as a risk. But it's about knowing what you're getting and when you're getting it. So set maturity date. Fixed. There's a lot of knowns. You know what your yield is. And then the other thing is if we talk about interest rate changes, there's an inverse relationship between prices and yields. So as interest rates go up, generally bond prices will fall. But if I know that a bond is coming due on a certain date, gains and losses will ultimately go to zero because the bond comes due. Again assuming solvency. If I'm going to buy a bond mutual fund or a bond ETF one thing could get into -- for example, I was never a credit analyst, definitely don't want to be one, that is not my skill set. So I got to protect myself from myself a little bit. So a great example of where bond mutual funds can be helpful or an ETF where you get the intraday liquidity or the ability to place a protective order on it is in sub-asset-classes that might carry more default risk or more complexity to it where I might not be able to do it myself, and the value of management and delegation is really important.

So some folks will make a determination based on the quality of the bonds as a driver. Again it also gets into personal preference around that predictability piece. But then there's another piece where it's like I like the idea of just saying, "I don't want to worry about this, let someone else do it." And having liquidity either during the day with an ETF where it trades like an equity or having daily liquidity at four o'clock is enough for me. And I don't need to see what's under the hood. So part of it is personal preference. When you buy a mutual fund, just like a stock fund or a stock ETF, you are accepting an unknown rate of return because it is a perpetual investment. So that's why I talk about predictability. If limiting downside but also capping upside is of interest to you then the left-hand side individual bonds is probably a better idea. But if you're saying, "You know what, this is not my skill set, I want the exposure, I'm willing to accept unknown rates of return, higher upside, potentially higher downside," then the green section on the right might be a better fit. And don't take this in isolation. I talked about I own both segments. And it's not a one size fits all type thing, it could be a combination.

Pete Stringfellow: That makes a lot of sense.

Danielle Fox: Yeah, hopefully that helps the questioner.

Pete Stringfellow: Yeah, I think it does, Danielle. And one add-on question to that would be what do you tell a client if they sit down with you and say, "Danielle, bond funds, I don't like the idea of buying a bond fund if my perception is that rates are going up." What do you say to that type of a client?

Danielle Fox: Yeah, and so that goes back to that slide we talked about the holding period. A couple things. One is there's different Morningstar categories. Short-term, ultrashort, intermediate, long-term. So there's different time horizons. One thought is also before you start chasing returns and things of that nature, because that usually doesn't end up well, think about your own personal comfort level and how long do I think I can actually own this investment and ride things out. Do I have emergency funds set aside and things of that nature where if I needed to access principal I could use other sources? But a big thing is always trying to have your personal holding period willingness match up with how the fund is invested. So if you're looking at you know what, I don't know if I want to go out much further than three years, then buying a mutual fund or an ETF that's invested for eight years on average, you and the fund manager are not aligned in terms of how you judge and evaluate success. So when you think about matching up an investment to your own personal time horizon that's a great way to mitigate but not eliminate the risk of interest rates.

Pete Stringfellow: Okay. Well, I know we want to transition into putting the rubber to the road here. So I tell you what, I'm going to stop sharing my screen here, Danielle. And if you'd like to get into a live demo here. My mind initially goes to the comment you made earlier about some of the thought leadership out there related to the current state of the market. Maybe you could help our viewers here piece together, visualize like a process of where they can get information around the current state of things. And from there take a perspective, identify some opportunities, on identifying them how do they actually research them?

Danielle Fox: Sure. So I'm using a demonstration account. So everything here, this is also a good place because now you don't have slides to reference. Sheet of paper, take some notes as we're going along. I'm going to go over about five different areas. But again if questions come in and we need to redirect things by all means, Pete, feel free to do so. Everything here is available to you. I'm not using anything special. This is plain old Fidelity.com. I'm signed in. And the first thing I want to start with is really addressing some of the comments that Pete talked about. A lot of what I'm going to focus on today is under the news and research section of Fidelity.com. So if I'm looking at the green banner at the top if I hover over news and research eventually we're going to end up under fixed income bonds and CDs. But before we go there I'm actually going to pop into the learning center, which many of you may have discovered previously if you're attending sessions like the one we're doing today. So news and research and learning center.

Now Pete and I have worked here long enough, we know the website is massive and it's not always about knowing the answer but knowing where to find it. So I think what we want to do here is show some tips and tricks to continue your education and then also reinforce process. So first off, within the learning center it's been redesigned and there's some different things that you can focus on whether it's live webinars or on-demand recorded sessions. But here on the left-hand side if I come under investment products you'll notice I've clicked on this in the past. Fixed income bonds and CDs is a section that I can focus on. So I can search by different types of topics. If I want to. Maybe today's session has inspired you to want to dive deeper. But I can start with basic articles. I can work my way up into more advanced topics. And there's also videos and webinars that we record and keep archived in perpetuity. This is meant to be evergreen. So if you're ever interested in any topic this is a great place to come.

For example I talked a little bit about individual bonds and maybe you want to look at the idea of a ladder, the bond investment strategies article could be a good place to start. So lots of different ways to interact with the learning center in terms of articles, videos, and one-hour sessions like webinars. So definitely encourage you to come in here. There's always a lot of different content. And there's always multiple ways to get into pages like this on Fidelity.com. One of them is the learning center. So news and research, learning center, and under investment products fixed income bonds and CDs.

As I transition to our fixed income page and talk through process I'll show you one other place where you can access some of this content. So let's go ahead and do that. So let's go to news and research, fixed income bonds and CDs. So just as you think about the overview and the layout of Fidelity.com, you'll notice that there's an investment products section that has a fixed income delineation. That's more hey, what types of bonds, it's more high level. The news and research section is I want to get into the weeds. Or I want to get into the details.

So let's go ahead and leverage news and research, fixed income bonds and CDs. So as I mentioned, there is a way to access, and I'm just going to reorganize my other screen here for a second, there is a way to access some of the learning center content from this page as well. One of the areas that exists, underneath the 800 number here on the right-hand side, I'm just going to scroll over a little bit, it's probably just stopped rotating, but we have this carousel. Oh. It's still rotating. That has five different windowpanes to it. And once it stops scrolling you can actually thumb through it left and right using the arrow buttons here. But if we have any new content or new sessions that are going to be in the webinar space or new videos you'll oftentimes see it highlighted there. So I tend to thumb through this pretty regularly for my own education.

You'll notice that I've obviously clicked on it. We talked about TIPS earlier. We have a Viewpoint that gets into TIPS investing. There's some pieces on inflation and stagflation. So it's a great way to see timely content without having to do a lot of mouse clicks. So that fixed income carousel is available on the right-hand side below the 800 number. And it'll initially be rotating when you first come to the page. So that was one of the five things that I wanted to cover. I go through that pretty regularly.

One other thing that I do when I come to this page, and all I've done is news and research, fixed income bonds and CDS, is come in and look at the yield chart. So it's a bit busy. But what I like about it is it answers the question all right, what does the bond market look like today, what does success look like in the bond market today. Excuse me. And what's nice is it's really well organized. If some of the vocabulary and nomenclature is a bit new to you. So if I think about this it's not only organized by time, as I see going from left to right, but it's largely organized by default risk. The risk that an issuer doesn't pay me back. So FDIC-insured CDs. US Treasurys which are the full faith and credit of the government are listed at the top. And then it starts to move down in credit quality.

Now everything here is investment-grade by rating. But remember I talked about the bond market historically not a great predictor of interest rates. Very good predictor of default risk. So the cream does not always rise to the top. So when you look at this chart, especially as you start to look at say corporate bonds or municipal bonds which are not the full faith and credit of the US government, you'll notice that this chart has two views to it. One is I can look at it by the highest yield. The other is by the median yield. And I can toggle back and forth between the two. I can pop out the chart so I can look at it side by side. But if I believe the view that the bond market is a good predictor of default risk, the highest-yielding security isn't necessarily the one that I want to own per se. It might be something that is -- Ronald Reagan famously said, "Trust but verify." So the bond market might be pricing in a rating change that the issuer may be dropped in credit quality. So it's a way to get a sense of what the bond market looks like, but as you go down this chart the idea of toggling between highest and median yield could be of benefit so that you're getting a better sense of what does success look like in the bond market today. Each of these yields is a link that if I click on it will run a search using some narrow parameters around time horizon in that specific credit quality. And what you'll notice is when I do that, and I can do that as an example here with let's say the 1.9 percent for two years, that yields are going to start to drop pretty quickly. So it's focusing on yield to worst. It doesn't take much for yields to get to 175 and really start to move lower from there. So cream doesn't always rise to the top, but it is a way to get a sense of what the bond market looks like.

Pete Stringfellow: Danielle, could I ask a question? If you'll just jump back forward into that page that you were on.

Danielle Fox: Oh, the results page? Sure.

Pete Stringfellow: Yeah. Just in the results page. So we had a question come up from some folks related to paying premium. And paying premium on a bond. And how you might go about calculating whether or not that premium is reasonable or whether or not it's overpriced. So I noticed here that the bond at the top is a premium bond and just below is another premium bond that is trading at a higher premium. So maybe you could just talk a little bit to premium bonds, what they are, and why they're not something to be afraid of.

Danielle Fox: Yes, okay. These are really good questions. And one thing I would take a look at. Like for example here's a bond, these two bonds right here are very different. One is trading at a discount and one is trading at a premium. And a lot of it -- and they have similar maturities, similar credit ratings. So there's a lot of similar attributes. But the thing that's quite different is the coupon. So when you think of coupon what does that mean? It's cash flow. So your yield that you see, the right-hand side, is taking into account the inflow and outflow of money over the life of this bond. So it takes into account a premium or discount that I pay today as well as semiannual interest payments totaling up to that annual coupon. So I'm getting half of it every six months. So if I asked you, Pete, the rhetorical question over the next two years what would you rather get paid, 0.7 percent or 4.75 percent, what would you say?

Pete Stringfellow: I'd probably lean toward 4.75.

Danielle Fox: Right. So that's cash flow that goes into your account and drops into your pocket that you can either spend, reinvest, buy equities and rebalance. It gives you all this flexibility. If you think about -- and this gets into preferences -- why are you buying bonds, well, I might be buying bonds to create cash flow for use. So if I want to use that money I might prefer the 4.75 percent over 0.7. So part of it is also -- and this gets into that subjective evaluation that I talked about, about how much do you value predictability. Well, if I'm worried about inflation, if I'm thinking about creating cash flow for use as I approach retirement, I might place a preference on that higher coupon. And yeah, I got to pay up for it. But the yield helps equalize that because it takes into account the inflow and outflows and it's a whole complicated time value of money calculation, I won't bore you with the details. But personally when I run searches for my own bonds I do tend to focus on higher coupons. Even though I'm still working and gainfully employed by Fidelity I'm trying to think further ahead for when I call it and I want to use that interest income to fund my lifestyle in retirement. So it's about priming the pump for the future. Again this is a bit of a preference item. But what you'll notice is -- and this'll start to change as interest rates go up. But it's hard to avoid premiums. And sometimes things are on sale for a reason. So you can have a high coupon bond that's not great in credit quality. So discounts, they're not always a good thing I guess is what I'll say.

Pete Stringfellow: Yeah, it's like looking at that equity and thinking ooh, a 20 percent dividend yield, this is a great opportunity.

Danielle Fox: Right. Or like the day-old bread when I go to -- and it's a little bit cheaper. It's on sale for a reason. Sometimes things are on sale for a reason.

Pete Stringfellow: To your point earlier about the bond market being a great predictor of not rate movement but credit quality. There's a reason why the bids are where they are on any particular issue.

Danielle Fox: There is a trading desk that is on the hook for that issuer until you buy the bond from them. They've got skin in the game. So it's an interesting way to think about it. So with our remaining time I do want to look at a couple things. One is we talked a little bit about FDIC-insured CDs. Talk about some of the simplicity on the CD ladder tool that we have available. Since for many folks the idea of buying a barely investment-grade bond is not up their alley. So if I want to stay in the shallow end of the pool how can I do that easily? So I want to cover that.

But then also I'm a big believer in repeatable processes and consistent outputs based on consistent inputs. So what do I mean by that? So what I'm going to do is actually set up a search for a type of bond. And this is by no means a recommendation. It's merely for example purposes just to show you how some of the functionality works and how you can save your work to make yourself more efficient. So when I came to news and research, fixed income bonds and CDs, there are these different tabs running from left to right right above the yield chart. At some point I'm going to go to the CD ladder tool. But real quick I'm going to go to bonds so that I can run a search.

Pete, should we look for some Utah bonds since you're out in Utah?

Pete Stringfellow: I think that would be wise, yeah.

Danielle Fox: Okay, let's do it. So I'm going to look for some municipal bonds in

Utah so that Pete can build his bond ladder.

Pete Stringfellow: For my two-year-old.

Danielle Fox: Yes, for your two-year-old. And what you'll notice is there's these different categories. So Treasurys. And we saw that on some of the slides earlier. I'm going to look for municipal bonds so that Pete doesn't have to pay tax on it. And I'm going to look for let's say five-year bonds just for an -- you have a two-year-old, so she'll be seven. So we're in 2022. So let's go to 2027. And you'll notice you can use the calendar, I'm a typer. I prefer that. But again that's a matter of preference. And as I make changes the counter is going to update. So right now there's 6,100 bonds in the ecosystem that we can access that are available. So since we're going to focus on Utah, I'm going to change it. And it takes the 6,100 down to 71. And then what I'm going to do. Utah is a pretty high quality state. So I don't know how much this is going to take things down. But I want to focus on the top tier of investment-grade so just for example purposes. I'm going to change it from all ratings to AA and AAA which are the top two categories. And yeah, it took it down a little bit. And then if I wanted to do more criteria I could. Let's say I wanted to build that cash flow. And I wanted to put in a minimum coupon of let's say 3 percent. I could make that change. And then as I click off of it it took it down a little bit further. But I'm going to have 67 line items. There's plenty of sessions that get into some of these in greater detail. But before I hit see results so that I can save my work so that Pete has it easy next time, I can name it. And so there's a save search option right to the left of the see CUSIPs. And I'm going to say Pete Utah munis five-years so I can remember what I was looking for. And then I'm going to hit the save button. Now how do I access this the next time? Let me go all the way out. So assume I'm starting from scratch. Go to news and research, fixed income bonds and CDs. Just to refresh the page. The landmark that I point you out to is this blue search box right here. Right below it and to the left is saved searches. So you can see I've used this account before to set up and save searches. I'm in Massachusetts so I've used that as an example. But here is Pete's five-year muni search option for Utah bonds. I can run it or edit it. And that gets me to the results page that we saw earlier, but using these types of bonds. And if I ever forget in the top right-hand corner it's got my criteria. Super helpful. Consistent outputs based on consistent inputs. And I can edit this. You can have as many as you want saved, it's not like a watch list where there's limits. So can be very helpful.

Pete Stringfellow: Danielle, real quick, before you leave that page.

Danielle Fox: I'll go back.

Pete Stringfellow: So I wanted to call out one thing. As you save these screens. Would you go up to the top right and hit edit? Just go ahead and click on edit. I wanted to highlight how when you're saving the screen -- so now just go back down and hit save again. You might have noticed there that there's a little box you can check off that will alert you to new bonds that meet your criteria. That's something that a lot of folks ask for with these screeners, is how do I get an alert tied to the screen in perpetuity. And that little box is your --

Danielle Fox: It's a really good point. Again this gets into preferences in terms of how you want to interact with the system. But that is something that is definitely helpful. So thank you for bringing that. I kind of flaked on bringing that up. So that's why we're here for each other. So with that being said, so that's again consistent outputs based on consistent inputs. I use it regularly for my own portfolio of securities that I try to maintain.

The last thing I wanted to touch on with our time today is just an overview on the CD ladders. So again I'm on that starting page. News and research. Fixed income bonds and CDs. I sound like a broken record but just for reference as to where we are. Rather than selecting the bonds tab I can actually select CDs and ladders. And what's great about this is if you say, "You know what, Fidelity gets a lot of CD requests, and sometimes it's nice to have a prepackaged solution where I know what I'm going to get based on certain parameters," so if I were to take money and divide it equally either in four or five depending on which ladder I'm looking at here, I can start the process of knowing all right, if I build a two-year CD ladder and I divide it equally I'm going to average 0.58 percent. I know before I even start the process that I can do that. Below you will see the banner rates and then all the different banks that are out there. But if I wanted to start a two-year ladder it's real simple. I click on the build two-year ladder. Since I'm sharing my screen it might take a little more time here. And then it's going to ask me, "Okay, which account do I want to focus on? And how much do I want to invest?" Since this one has four rungs and CDs trade in increments of 1,000, I need to pick a number that is divisible by 4,000 so I'm just going to pick 4,000 for the example. And what's nice about this ladder is I can say, "Pay it to cash but remind me. Or just automatically renew at the highest-yielding rate. And oh, by the way could you try and look to make sure it's not going to broach FDIC coverage?" So you have to opt in to that and it gives you descriptions of what that would look like, so it keeps the ladder going.

Since Pete might be using this for that two-year-old and expenses that come up, let's let it go to the core account and pay principal. And here I am on my way using -- it's looking at the highest-yielding securities in the respective categories and it's going to build me a ladder that I can save if I don't necessarily want to implement right now. Or I can get some information on what are cash flows going to look like, things of that nature. So very helpful, very popular. This is something that gets a lot of traction with cash management strategies and things like that or emergency funds where you may want access to some of the principal but you don't want to necessarily put it at risk in the bond market. So those are a few things that I wanted to cover today. I know we're getting close on time. So I don't know if there were any lingering questions or lingering comments, Pete, that you wanted to make before we wrap up the session and thank everyone for their time.

Pete Stringfellow: The only other thing I think might be helpful that we could show really quickly here is Danielle, if you'll scroll up and highlight just up at the top, what is it, about five, I'm not seeing the entire screen. But the five or so links. Yeah, five links there. So you'll notice right now we're on find bonds and CDs. Highlighted in black bold. Danielle, will you click on research and markets? Because I think a lot of folks really miss that there are links at the top here. And this particular link is a great landing page if you're trying to get an understanding of what the current state of the market is.

Danielle Fox: Hundred percent.

Pete Stringfellow: Yeah, and in particular if you scroll down just a little bit, and Danielle highlighted this in the carousel, but we also highlight the Fidelity Viewpoints and analysis related to bonds. We highlight third party resources related to the bond market. So this is just a phenomenal page to leverage and know about. So I always like to make sure that we highlight this one. But Danielle, anything you'd like to share here as we put the icing on the cake and wrap?

Danielle Fox: Yeah. No, I'm glad you brought this section up. Just one last resource I'm a regular consumer of is Capital Economics here which you can access from the carousel but it's also here. Usually daily commentary. It's two, three pages. And if I click on more reports it'll allow me to see the archive. It's written in plain English. It's not necessarily specific to the bond market. It's more economics, the overview. So if you're looking to help inform your own views on how to approach the bond market, maybe things on the equity market, it's something that can be exceptionally helpful.

Pete Stringfellow: Love it. Well, Danielle, thank you. Tremendous job. Thank you for your time today. Thanks to all of our speakers. Thank you to all of you out in the audience who attended. We definitely appreciate you. Look for your e-mail later today. You'll get that thank-you e-mail. It offers additional education opportunities. And if you are interested in meeting with a local specialist, an RBC, a fixed income RBC, I would suggest you contact your local investor center. If you currently work with a planner go directly to your planner. If you do not work with a planner just call the investor center and make mention that you attended these presentations and that you are interested in connecting with a regional brokerage consultant and they will help you. Thank you all very much for the time.

END OF AUDIO FILE

References to individual securities are for illustrative purposes only and should not be construed as investment advice.

Past performance is no guarantee of future results.

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

The Model CD ladder strategies displayed are provided for educational purposes and are not intended to serve as the primary basis for your investment, financial or tax planning decisions.

For the purposes of FDIC insurance coverage limits, all depository assets of the account holder at the institution issuing the CD will generally be counted toward the aggregate limit (usually $250,000) for each applicable category of account. FDIC insurance does not cover market losses. All the new-issue brokered CDs Fidelity offers are FDIC insured. In some cases, CDs may be purchased on the secondary market at a price that reflects a premium to their principal value. This premium is ineligible for FDIC insurance. For details on FDIC insurance limits, visit FDIC.gov

Views expressed are as of the date indicated, 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.

Investment decisions should be based on an individual's own goals, time horizon, and tolerance for risk. Nothing in this content should be considered to be legal or tax advice and you are encouraged to consult your own lawyer, accountant, or other advisor before making any financial decision.

Fidelity Brokerage Services LLC, Member NYSE, SIPC, 900 Salem Street, Smithfield, RI 02917

1013528.1.0