

**Episode Title:** Finding financial confidence

**Episode Description:** Market uncertainty is on everyone's mind. Given rising interest rates, inflation, the crypto crash, and other economic trends (hello, recession?), we talk about what this current climate means in the long term for beginner and seasoned investors alike.

Custom music by [Davis Jones](#).

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Alex Lieberman ([00:04](#)):

Hey everyone. I'm Alex Lieberman, Co-Founder and Executive Chairman of Morning Brew. Welcome to season three of Fresh Invest, your favorite investing podcast sponsored by Fidelity Investments and powered by Morning Brew. If you've tuned into the last two seasons, thanks for coming back, and if you're new here, a big, big welcome. This season, we are excited to reunite with our trusted friends from Fidelity to answer all your burning questions about money, to help you navigate these times of economic uncertainty. We'll chat through how the market fluctuations are impacting investing mindsets, and what you could be doing to foster some investing confidence and set yourself up for financial success. Let's get into it.

A lot has happened since we were last together in November 2021, which from an investing perspective feels like a million years ago. Since then, geopolitical events and macroeconomic factors have rocked the market in ways that we never could have predicted. Interest rates and prices for everything from gas to groceries are soaring in ways that seem unsustainable. Crypto has boomed and crashed, and new legislation may affect taxes for millions of Americans. In this episode, and throughout the season, we'll help investors understand how these issues have actually come together to create a very, shall we say opportunistic market for your portfolio.

Today, I'm excited to welcome the director of global macro at Fidelity, Jurrien Timmer, for some insights on whether we're actually on the brink of a recession, or already in one, and what the current climate means for your portfolio and investment strategies in the day-to-day and long term. Jurrien, welcome to the pod. Happy to have you here to help us kick off season three.

Jurrien Timmer ([01:44](#)):

Thank you, Alex. Good to be with you.

Alex Lieberman ([01:45](#)):

Could you just briefly explain who you are and talk a little bit about what you do at Fidelity?

Jurrien Timmer ([01:50](#)):

I have a fancy title for just saying I look at the world from the top down. I look at macro. A lot of the Fidelity analysts and portfolio managers look at the world from the bottom up, micro, but I look at the big picture. I try to connect the dots between the economy, monetary policy, earnings valuation, interest rates, all of that stuff, but it's a top down approach to understanding the world, and in doing so, I try to just help investors put the pieces of the puzzle together in order to make more informed investment decisions.

Alex Lieberman (02:24):

You've been doing this for a long time, right?

Jurrien Timmer (02:25):

I've been at Fidelity 27 years, and in the industry 37 years.

Alex Lieberman (02:30):

We're in good hands. Well, let's hop right into this. In your opinion, what are the biggest factors influencing what's been happening in the market since last November 2021?

Jurrien Timmer (02:39):

Yeah, well a lot has changed since last November of course, when we last talked. Back then, about eight months ago, nine months ago, inflation was either not a threat or it was explained away as temporary. The Fed was still on the path of either keeping rates basically at zero and continuing what we call quantitative easing, asset purchases, for a while longer, without any real urgency of normalizing policy, and by normalizing, I mean bringing interest rates back to a level that are considered more of a neutral policy rather than an accommodative policy. But there was no urgency to it, so bond yields were super, super low. The stock market was very high still, recovering from the pandemic.

And then all of a sudden, the inflation narrative really became more persistent, and what was explained as transitory, to use a famous word by the Fed, became more sticky. And of course, in January, that was made even worse by the invasion of Russia into Ukraine. We had been getting used to supply chain bottlenecks, of just stuff not getting to the shelves in time, but that was widely considered to be just temporary as the economy reopened, and that was certainly a fair assessment. But then the war happened, and now all of a sudden, we have these supply chain bottlenecks happening, not in semiconductors, or used cars, or what have you, but in the natural resources, grains, corn, wheat, natural gas, oil. So that created a whole other level of persistent inflation.

And then after that of course, we had in China, a zero-tolerance approach to COVID, which forced lockdowns in cities like Shanghai. It was sort of one hit after another that created much more urgency around the Fed normalizing policy, and even getting to a restrictive policy. Because the markets were in one place and the Fed had to move the markets to another place, it was a series of the Fed moving the goalposts, if you will, and that caused a pretty sharp lurch upward in interest rates, in treasury yields, and as night follows day, when that happens, the stock market is affected as well, right? Most people think of the stock market as, "Well, that's driven by earnings," and of course it is, but interest rates play a large role as well, because when you value the stock market, you have to essentially discount future earnings by an interest rate, and if that interest rates go up, all else being equal, the present value of those earnings goes down. The earnings themselves doesn't, but the present value of them do.

So what we saw then in the first six months of this year was a pretty dramatic resetting of the stock market's valuation, so the price-to-earnings ratio. It was a 22 1/2 when we last talked in November, 22 1/2 times expected earnings. At the lows in June, it was down to 15, so that's a six, seven point de-rating. That's about 30% plus of a decline, and even though earnings were still growing, but slowing, that decline in the PE caused a 25% decline in the stock market. So you had a simultaneous rise in interest rates and a decline in the stock market, which of course is a one-two punch for investors, because most investors, at their core, have a portfolio that is something like a 60-40, where you have a

bunch of equities, and then you have some bonds to kind of protect you. And that protection did not work in the first half of this year.

Alex Lieberman ([06:31](#)):

Out of everything that you've said, if I'm a retail investor who's listening to this podcast, one word that comes up for me is fear, and I think partially, that concern comes from a place of you were talking about a lot of these more macroeconomic factors, that the view was that they were transitory. But now, it appears that a number of these things are here to stay, whether you view like the Fed's policy and being less accommodative, whether it's the war between Russia and Ukraine, whether it's the supply chain being a really tough place, and to your point, even if you had the traditional 60-40 portfolio, it didn't protect you in this down market. So, how would you be thinking about protection, potentially a continued down market, if you're the typical retail investor?

Jurrien Timmer ([07:18](#)):

Well, I think we're at the point... We've had two consecutive quarters of negative GDP growth, which many people will conclude means that we're in a recession. I do not agree. We may be in some sort of technical correction in the economy, but you look at the labor market, it's the tightest basically ever, right? Workers have pricing power. The unemployment rate's very low. The number of job openings versus job seekers is very lopsided. It's very high. So it's hard to conclude that we're in a recession from that point of view. But, as interest rates have risen, the 10-year treasury yield was 1% last year. It's 3% today. As rates rise, and as the Fed-

Jurrien Timmer ([08:00](#)):

... and today, as rates rise and as the Fed keeps pushing monetary policy further into restrictive territory. So the Fed is at 2 and 3/8ths right now. It was at zero six months ago or when we last talked to we were at zero. It's on its way to about 3.5, at least that's based on what the market is pricing with some risk that maybe 3.5 will not be the end point, but maybe something further. And again, we're at that point where the bond market is starting to really pay attention to this. And as the Fed pushes rates higher, what we call the long end of the yield curve, so long term treasury yields are not moving up as much as the short end. The result of that is what we call a yield curve inversion. So the long yields are below short yields.

We know that historically that has had a very consistent, predictive power in terms of whether a recession follows. To me, I'm not going to draw conclusions that we're either at the cusp of recession or already in one. But as the Fed moves further along this path towards a restrictive policy and as long yields start to fall, instead of rise, that yield curve has gotten more inverted. And that suggests that at some point, the market will start to focus more and more on will the Fed raise rates so much that it will break something in the economy? Will it cause a recession?

And it certainly wouldn't be the first time that had happened. If you look at the history of the past 100 years or so since the Federal Reserve was created, not always, but oftentimes the Fed will push rates up to battle inflation to the point where eventually there's a recession.

So it certainly shouldn't shock anyone if we end up in a recession. But to your question, what that means is that as the economy continues to slow, and it is slowing, it's not contracting, but it's slowing, I think the 40 side of that 60/40 will start to behave the way it's intended to, which is to protect against a loss on the 60 side.

Alex Lieberman ([10:12](#)):

Well, let's talk a little bit more about interest rates, which you've now mentioned a number of times in this conversation, because I think interest rates can be a little bit complex or feel a little bit daunting to understand for the average retail investor. So when we talk about rising interest rates as a function of the Fed's policy, what does that mean for investors, especially when it comes to traditional places to put your money, something like real estate, for example?

Jurrien Timmer ([10:39](#)):

We are in an economy where inflation is a real problem. I'm stating the obvious because everyone obviously feels this. The CPI until the most recent month's release was growing at a 9% rate, which is just, you have to go back to the 1970s to get inflation that high. And most of us, if we were around, we weren't really focused on inflation because we were too young. So it's something that most people are not used to seeing and it's very disruptive. And even though wages are going up, they're not going up as fast as inflation. And that means that inflation is eroding the disposable income of most people.

So rising interest rates are a byproduct of that because as inflation goes up, the Fed has to raise rates because the Fed's job, it has a dual mandate. One of the mandates is to achieve full employment, meaning that the employment rates should be low enough to foster full employment without overheating the economy. And the other mandate is basically stable inflation. And the Fed's target is 2%. And obviously we are well north of 2%.

I do think we're past the worst of it, but still the Fed needs to protect its hard-earned credibility as an inflation fighter. And therefore it will continue to raise rates in all likelihood. Of course that affects investors and consumers in all kinds of ways. If you are borrowing money, you're going to feel that. And we see already what happened to mortgage rates. I mean, I think they doubled in the fastest span of time ever. They went from 3% to about 6%. That makes a huge impact, because that happened on top of already sharply rising home prices during the pandemic. Home prices are up 20 plus percent on average. And if you then also double the mortgage rate, you can just imagine how expensive it is to buy a home, not only because of the price that's gone up, but the carrying costs of that.

So certainly on the liability side of what people have to deal with with interest rates, the effect has been pretty significant. On the asset side, if you are in long term bonds, if you were in long term bonds the last time we spoke in November, you're going to have a loss in that portfolio. If you do own bonds, and let's say you own corporate bonds or high yield bonds, you tend to have a lower maturity and a higher coupon, a higher interest rate. So you can withstand increases in interest rates more easily. And also, bonds pay interest. And when rates rise, you can reinvest those coupons at a higher yield. So it's not completely a one-sided disaster. There are some bright spots in there as well.

It's been a problem over the years, over the last 10 years or so that the very abnormally or unusually low interest rates have been a real problem for investors either if they're just savers and they have their money in the bank, they're getting zero, or they were getting zero. Now they're getting closer to 3%. Or if there were bond investors, it was very hard to achieve any kind of return over and above the inflation rate. So as rates reset, that is in a way a good thing because it normalizes the relationship of how interest rates should work relative to inflation. It's not an overnight process, but it's happening.

So at the end of the day, I think we'll reach some sort of equilibrium. And I think again at this point for the Fed, that seems to be around 3.5%. The 10 year is 3% as we speak. And I think that is a more suitable, normal kind of level just based on market history.

Alex Lieberman ([14:33](#)):

Now there's one other asset class I have to ask about. I feel remiss not to in 2022. And that's crypto. We're going to end up talking about crypto in way more depth later this season, but can you just briefly explain what's happening with Bitcoin right now, other than a lot happening?

Jurrien Timmer ([14:51](#)):

There are a few dimensions to this story. There is the idiosyncratic micro story of what Bitcoin is, and then there's the more, the bigger macro narrative of how Bitcoin gets caught up in the macro storm, which of course is what we've had so far this year.

So on the micro, I've done a lot of work on Bitcoin. My sense is that when you think about crypto or technological innovations, which crypto in some part is, it all comes down to the slope of the adoption curve. If you think about mobile phone usage in the '80s and '90s, or internet usage in the 2000s, or even televisions back in the '50s, you can name almost any adoption curve you can think of. They all have a particular slope. And Bitcoin, as well as Ethereum, which are the two that I focused on are following that exact same S-curve adoption, that growth curve.

We have a way of valuing that. It's called Metcalfe's law, but it says is that as the network grows, the value grows along with that. And so to me ...

Jurrien Timmer ([16:00](#)):

The value grows along with that. To me, that explains the last 10 years or so for Bitcoin, the last six or seven years or so of Ethereum, they follow that curve, but they're highly volatile because they are new innovations. They are still going through price discovery, not everyone is convinced that it's a thing, so you have lots of big movements around that general upward sloping path, at least that's the way I see it. But then, have the macro context. Right? Two years ago during COVID, as we know, there was a very robust policy response, lots of fiscal spending, the CARES Act, the stimulus plan, as well as lots of monetary accommodation, quantitative easing, zero rates.

As a result, the money supply went through the roof, and that became a very potent narrative from the macro point of view, saying, well, the governments are printing money, like crazy. You need to have a store value, and Bitcoin with its built in scarcity is exactly that store of value. We saw that during 2020, Bitcoin absolutely took off. It went from 3000 ultimately to almost 70,000, but that macro narrative is now completely in reverse. That, there's not a lot more fiscal. I mean, we're getting this new plan, the IRA, but there's a lot less fiscal than people expected when we last talked, when we were going to have Build Back Better. Of course, the Fed has gone from easing at a record pace to tightening at, pretty much, a record pace as well, in terms of the speed of that reversal.

We went from that crypto summer to crypto winter as the macro narrative kind of reversed. I think now we're at a point where, I think, that de-leveraging cycle has probably largely taken place. The macro narrative is now very well known. The Fed is hopefully getting closer to the finish line in terms of how far they will take rates, and so the macro, as bad as that has been, has not changed the micro. To me, that ultimately is the fundamental anchor that will drive the value of Bitcoin and Ethereum and other digital assets.

One other way to think about it is Bitcoin is the ultimate long duration asset, which sounds fancy. But, Bitcoin doesn't have cash flows, and you need to have a lot of patience because it's a volatile kind of venture type asset that is trying to become money. That's basically what Bitcoin is trying to become. It hasn't quite earned its stripes yet on all fronts. As such, it's an asset class with a very long duration.

Alex Lieberman ([18:40](#)):

So much good stuff there. Now we've talked about Bitcoin, and effectively how a number of these macroeconomic factors, or the fact that Bitcoin operates as the longest duration asset, the impact that's had based on how the economy has performed and how the Fed policy has changed over the last year or so. Then we've also talked about high inflation, raising rates, where the Fed has gone from more accommodative to a policy of tightening. With all of that, our listeners heard all these individual either assets or policy changes. How should investors be making sense of this from just a long term investment perspective?

Jurrien Timmer ([19:25](#)):

It's a great question, and I often get asked often when the market goes down, I'll get invited on one of the TV shows. It's like, what should investors do? I sound like a broken record because I generally say the same thing, which is investors should have a plan, a good plan, and then they should stick with the plan. Having a good plan is not that difficult because it's market math. You figure out what your goals and needs are. You determine what your risk profile is. How much risk is too much where you can't sleep at night, but not taking so little that you also don't get the returns that you need for your retirement savings, or whatever you're saving for.

Finding that balance, there is a line there. We call it the efficient frontier, and it's not that difficult to figure out where you are on that line in terms of what your asset mix should be. Is it 60/40? Is it 70/30? Is it 50/50? Within the 60, how much growth, how much value? Within the 40, do you have some tips in there or floating rate notes or high yield? I mean, these are all questions of, what's on the menu, and how much of what do you put in there? Then the hard part is actually sticking with that plan. Right? We saw this during COVID. The market went down 35% in five weeks, so we saw it again this year, the market went down 25% in about six months. If your plan was the right one a month ago, and the market's down 20%, you can ask the question, was that the right plan? If it wasn't the right plan, if you really can't sleep at night, then you need to think about rebalancing into what is the right plan.

But, if the answer is it was the right plan then, then it's still the right plan today, and you don't want to be that person that ignores all that math and just says I want out, and then you get out. Market timing is so, so difficult. Having that right asset mix, sticking through it, hopefully if it's a younger audience doing dollar cost averaging through a 401k or 403b. I mean, that's another piece of math magic, just because you're never buying the top, you're never buying the bottom. You're just putting in a little bit of money every month, and then rebalancing as needed. We all have to rebalance our portfolios for, maybe it's something you do once a year or four times a year.

You do it on your birthday or something like that, but you should also do it when there are large movements. If the market all of a sudden moves by 20% in a short time, you want to talk to your financial person and say, "If I was 60/40, am I still 60/40? Maybe I'm 50/50, just because of the way the market moves," and then it makes sense to rebalance. From a long term perspective, to answer your question, those would be my answers. You want to have a diversified portfolio. There's always something going down and usually something going up, and you want to have that optimal mix that meets the intersection of what you need in terms of growth and what you can withstand in terms of risk.

Alex Lieberman ([22:37](#)):

I think some people may be listening to this and being like, "Okay, that's obvious Yurian," but I think it's so important for you to be pointing out, especially the point you make around not just setting your plan,

which can be the easy part, but actually sticking to it. Again, it sounds obvious, but when you're staring at, just hypothetically, a portfolio that has \$10,000 of value, and then in the course of five weeks it goes down to \$7,000, remembering what Yurian said is particularly important at a time when emotionally, may be very difficult to say, "I'm just going to continue to ride it out." I think it's such an important point that you make.

Jurrien Timmer ([23:13](#)):

It's a marathon, not a sprint. You need to keep an eye on the long term. Otherwise, you're always just going to be chasing short term moves. I can tell you, if you're chasing short term moves, you're going to end up buying high and selling low, and you don't want to do that.

Alex Lieberman ([23:26](#)):

Yep. Now, before we kicked off this season of Fresh Invest, we actually asked you, the listener, to submit questions around personal investing and trading strategies. We are going to be asking fidelity professionals like Yurian your questions. To finish up the episode for day, we're going to ask you, Yurian, how is inflation affecting the markets?

Jurrien Timmer ([23:48](#)):

Inflation is affecting the markets in a very direct way as follows. For the bond market, of course, it's pretty straightforward. Right? I mean, we look at nominal interest rates, so the 10 year treasury is at 3%, for instance. That's a nominal yield. The Fed-

Jurrien Timmer ([24:00](#)):

So the 10-year treasury's at 3%, for instance. That's a nominal yield. The Fed funds rate is at 2-3/8. That's a nominal yield. But what really matters is the real yield, so if you're a bond investor and you buy a bond and you own it until it matures. If you buy a 10-year bond, your return, your annual return is the yield. It's 3%. Now, if inflation over that 10 years is 3%, your real return is zero. So, inflation matters, in that sense, because your nominal yield you're locking in when you buy the bond. But inflation, you don't know what inflation is going to be over the next 10 years. It may be less in which case you got a real return that's positive. But if it's more, you got a real return that's negative. So, inflation directly impacts a bond investor in those ways.

It also directly invests an equity investor, someone who's in the stock market, in two ways. One is that over the long-term, stock prices follow earnings. That's one of the Fidelity mantras here, and it's absolutely true over the long term they do. And inflation is something that can affect earnings growth in a positive way because people don't generally think of earnings in real terms because companies sell their goods and services into the nominal economy. So if prices go up, prices go up, which means that that feeds through into company earning. And that's why, historically speaking, periods that are inflationary, like the 1940s, late sixties and seventies, you look at earnings growth for the S&P 500, it looks fine because it's mostly inflation and less real growth.

Alex Lieberman ([25:39](#)):

Love it. Jurrien Timmer, so much good information here about how any retail investor can think about inflation, how then that can end up leading to change in interest rates and the impact that change in interest rates have on consumers and investors, and also just how to think about where we are in the cycle and how to think about your long-term investing portfolio in a thoughtful way and an unemotional

way. So thank you for joining the show again. It's great to have you back, really enjoyed our conversation.

Jurrien Timmer ([26:08](#)):

Great. Thank you, Alex. I'll see you again next time.

Alex Lieberman ([26:14](#)):

Thanks for joining me today to kick off Season Three. I hope you got a sense of what we'll be chatting about throughout the season and also gain some context into where we currently stand in this market. It is definitely an interesting time to be an investor. There are some incredible opportunities to take advantage of assets that are, quote-unquote, on sale. But there is also huge demand in other markets like real estate, where it's still a great time to be a seller but a tougher time to be a buyer. But in any market, it's important to be prepared for what could happen. While things have definitely been unpredictable, there are plenty of strategies that you can take to make sure you're investing smartly and staying up-to-date on the latest news and what's happening in the markets. Tune in next week where we'll be joined by Liana Devini, VP Branch Leader and Certified Financial Advisor at Fidelity, to dive deeper into what you can do to build up your investing confidence.

Alexandra Bass ([27:08](#)):

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