

Market Insight Call



Long-Term Consequences of Government Stimulus

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Long-Term Consequences of Government Stimulus

- What is government stimulus?
- Why is government stimulus used?
- What are the risks of government stimulus?
- What does it mean for my investment goals?

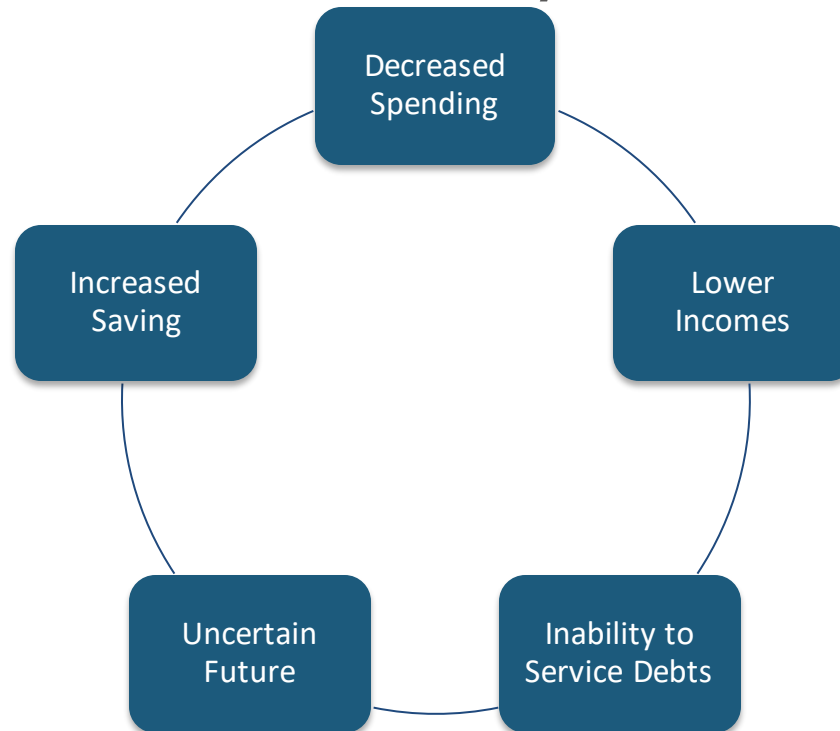
Government Stimulus

- Fiscal Stimulus (*Congress*)
 - Increased spending
- Monetary Stimulus (*Federal Reserve*)
 - Increase access to money

Recession

- What is a Recession?

A drop in economic activity caused by:



Why Use Stimulus

- Prevent depression
- Reduce impact of recession
- Shorten time in recession
- Restore confidence
- Promote spending
- Promote investment

Examples of Government Stimulus

- Fiscal Stimulus (*Congress*)
 - Direct payments
 - Increased unemployment insurance
 - Low interest loans
 - Delayed tax collection

Examples of Government Stimulus

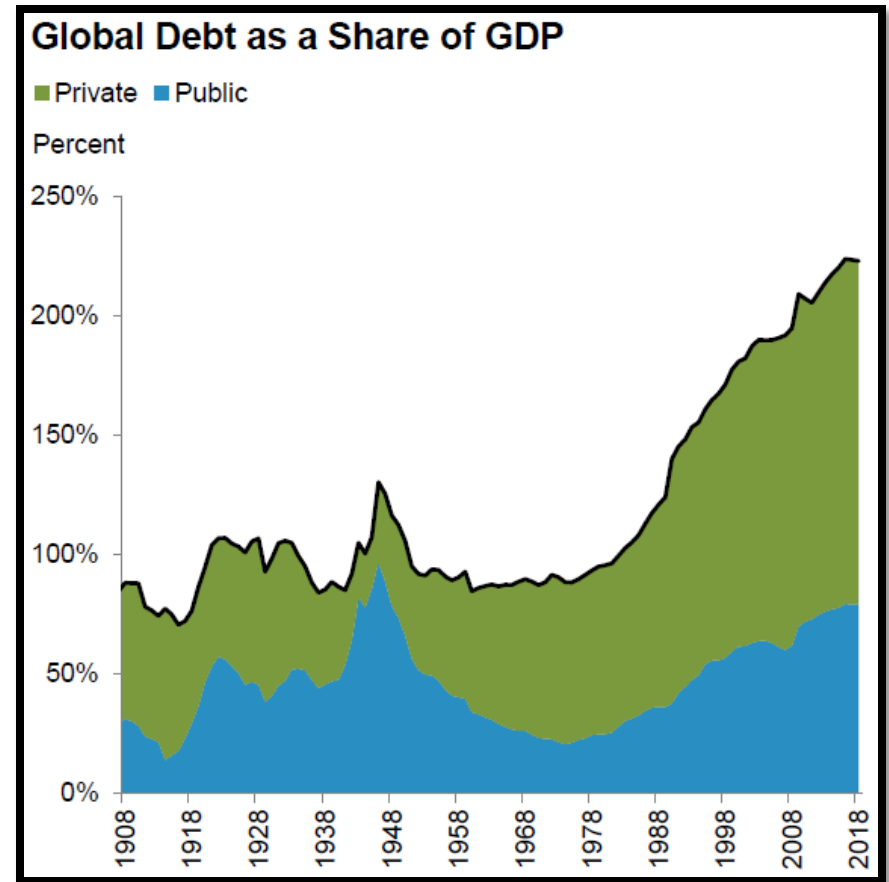
- Monetary Stimulus (*Federal Reserve*)
 - Reduced short-term interest rate
 - Decreased reserve requirements for banks
 - Buy securities in the capital markets

Risks of Government Stimulus

- Inflation
- Ineffective
- Higher taxes
- Burden on future generations
- Moral hazard

Inflation?

- Not necessarily bad
- Difficult to generate due to:
 - Demographics
 - Technology
- Markets pricing in ~1% inflation over next 10 years

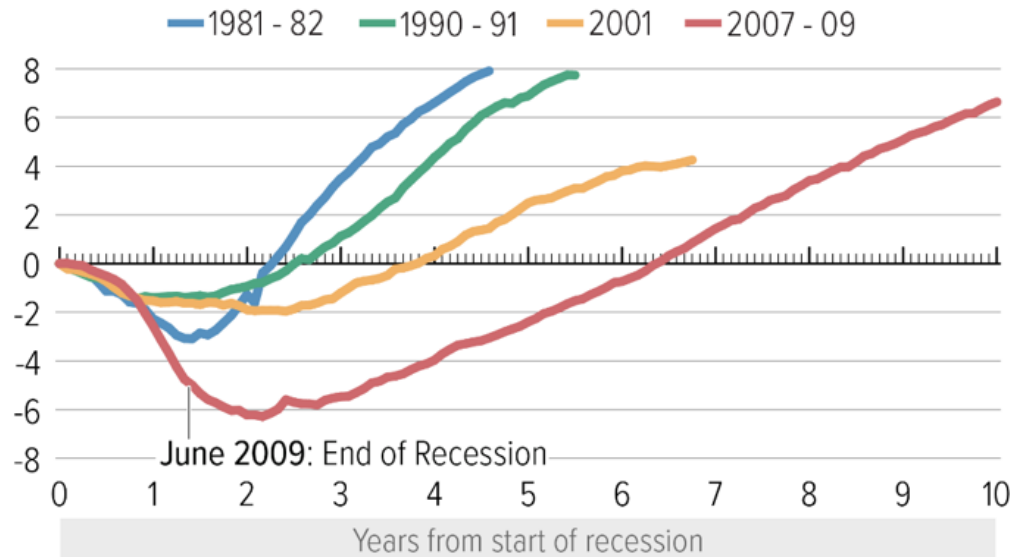


Source: Bank of International Settlements, International Monetary Fund, Maddison Project, Fidelity Investments (AART), and the Jordà-Schularick-Taylor Macrohistory Database, compiled by Oscar Jordà, Moritz Schularick, and Alan M. Taylor. Accessed through www.macrohistory.net, as of 12/31/18.

Ineffective?

Great Recession's Jobs Deficit Much Deeper Than in Previous Recessions

Percent change in nonfarm payroll employment since start of recession



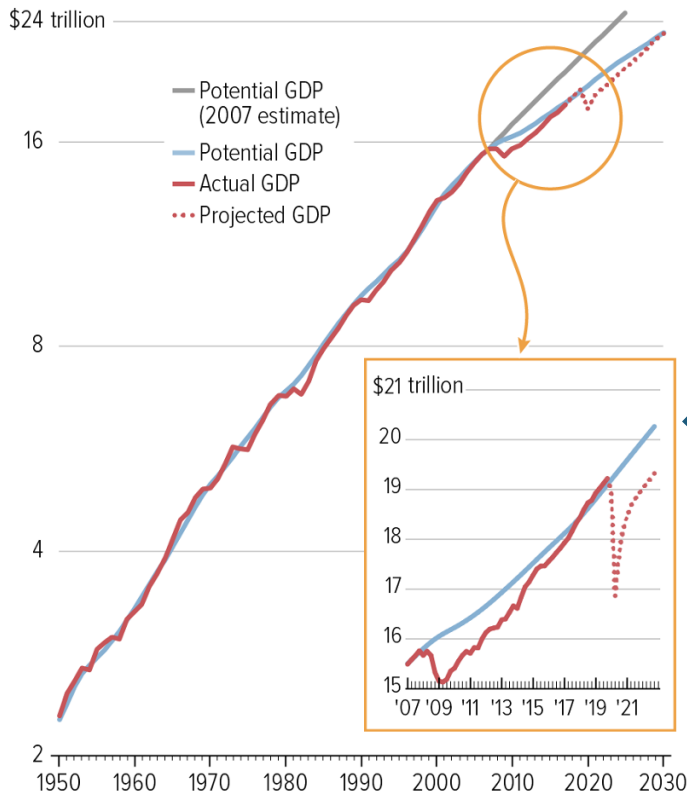
Source: CBPP calculations from Bureau of Labor Statistics data

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Ineffective?

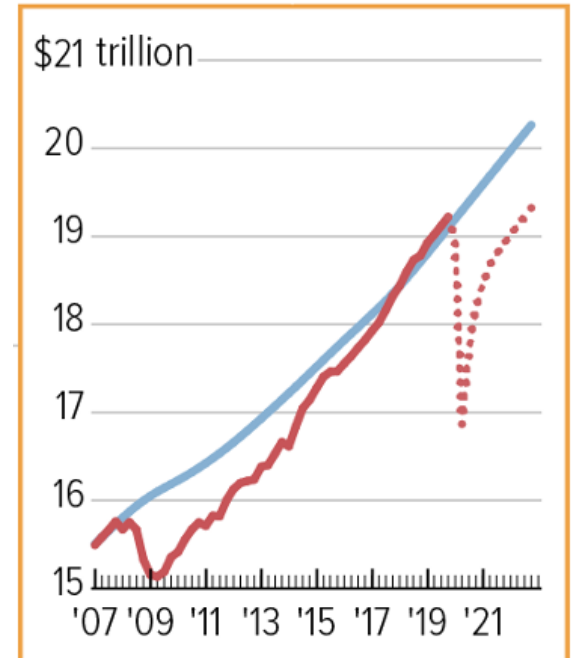
Great Recession Sharply Reduced GDP and Growth Projections; Pandemic Delivered Even Bigger Blow

GDP in 2012 dollars



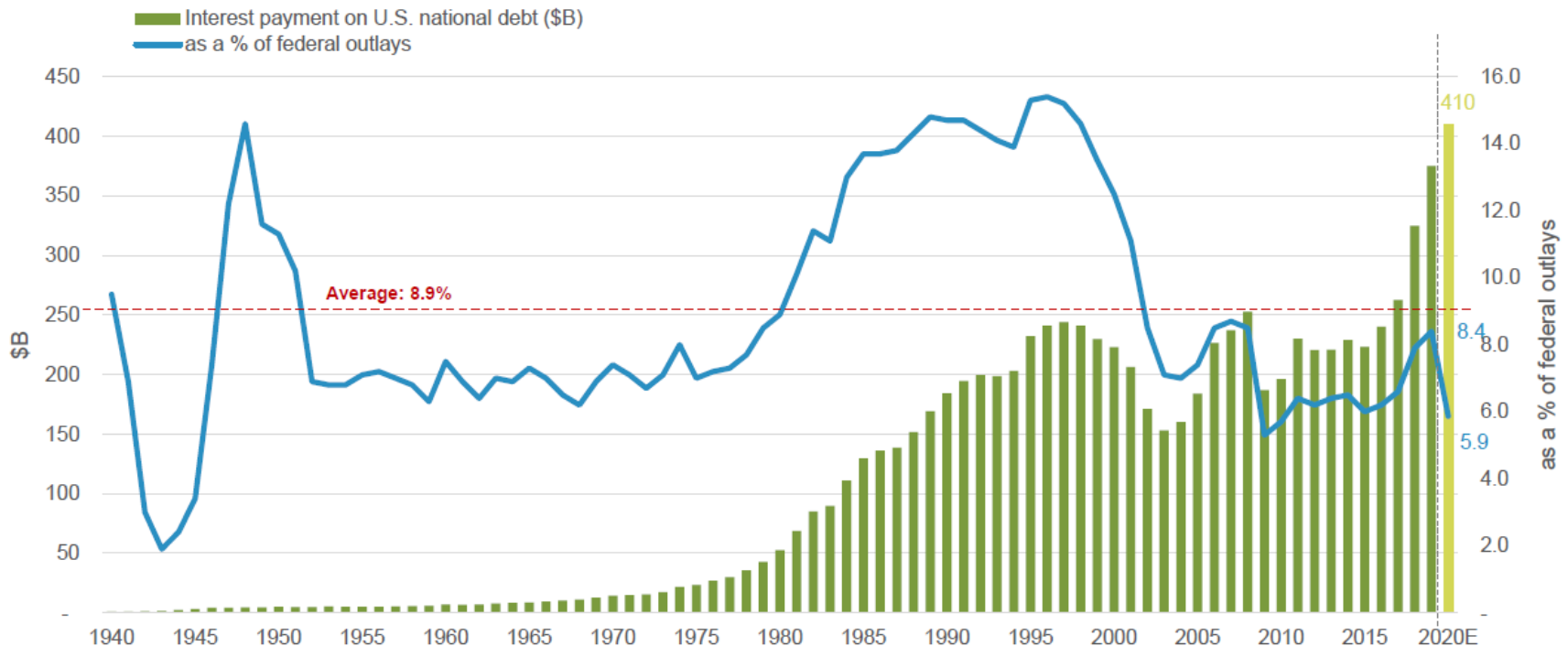
Note: CBO's 2007 projections of potential GDP only went through 2016 and are extrapolated forward in the chart at a 2.5 percent annual rate. Actual GDP past the first quarter of 2020 are CBO May 2020 projections.

Source: Bureau of Economic Analysis and CBPP calculations based on Congressional Budget Office data



Higher Taxes/ Burden on Future Generations

Interest payments on the U.S. national debt



Following assumptions were made for 2020 estimates - \$2.2T of emergency stimulus funding will increase outlay for 2020 from 4.8T to \$7T. Total federal debt will increase from \$22.67T to \$26.47T and interest payment will increase from \$375.2B to \$410.3B despite minor reduction in average interest rates

Source: <https://www.govinfo.gov/content/pkg/BUDGET-2021-TAB/pdf/BUDGET-2021-TAB.pdf>, Fidelity Investments.

Investment Implications

- Lower expectations for interest rates
- Lower expectations for returns
- Reduced diversification benefits
- Possibly longer periods of lower volatility
- Likelihood for sudden market events

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