Hello, I am Jurrien Timmer, director of global macro at Fidelity and co-manager of the Fidelity Global Strategies Fund.

Four important factors, in my opinion, have converged to create a sweet spot for stocks in recent weeks.

Factor 1: economic momentum

In recent months there's been a clear improvement in the U.S, China, and even Europe, to a certain degree. But I see two risks. One: There's been a clear pattern the past three years where the economy has been stronger in the winter, only to weaken during the spring and summer. And we've had a stock market correction each of those last three years.

Two: China is experiencing a surge in liquidity-fueled growth, coming from speculative shadow lending practices. This could cause China's economy to overheat once again, and for inflation to become a problem, just as it did in 2011.

Factor 2: monetary stimulus.

The market has been on a sugar high delivered by the Fed's ongoing QE. This has raised the "valuation" of equity prices relative to the underlying economic fundamentals. That's fine as long as the momentum keeps going, but it does create the risk that when the music finally stops the market could be exposed to downside risks.

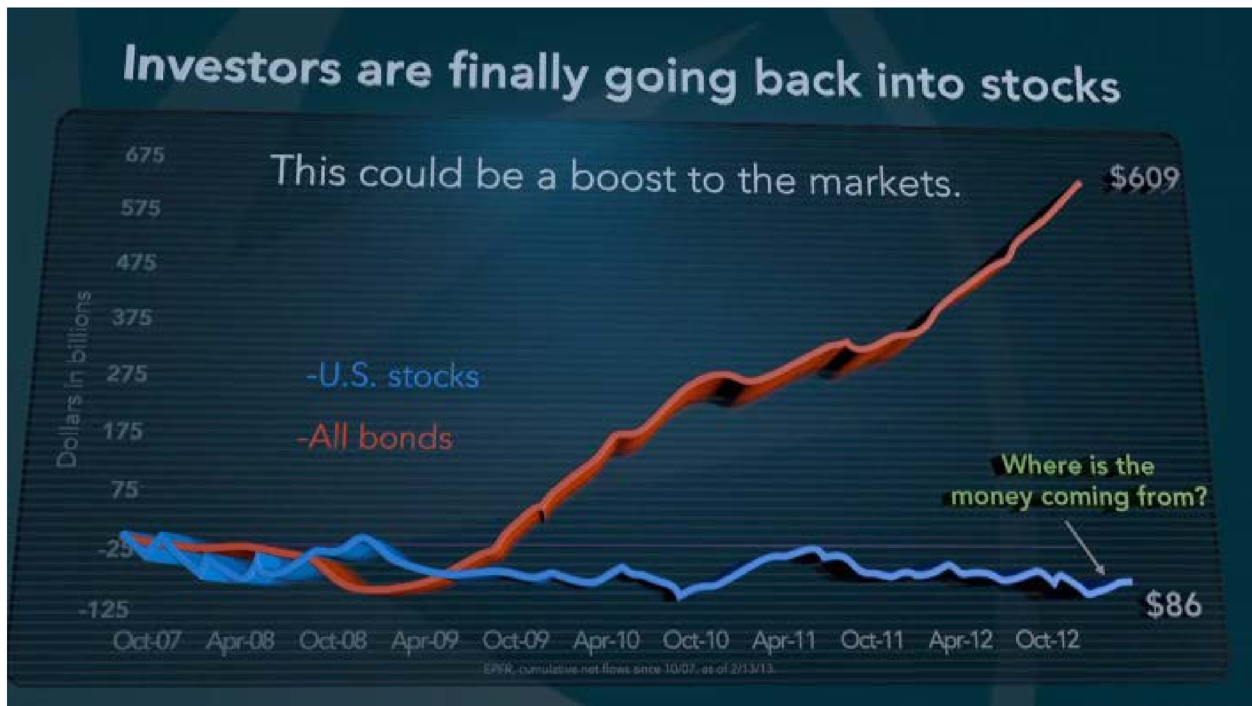
Factor 3: The Tape, or the market's internal technical condition.

Now, the good news is that we're not seeing the kind of divergences that usually lead to market tops. However, there is one divergence that bothers me and it's coming from the high-yield bond market. High yield spreads have been widening in recent weeks, even while the S&P 500 has been making new highs. When credit starts to underperform vs. stocks, it can be a red flag that something is amiss. Now, it is entirely plausible that this divergence between credit and equities is the result of investors selling bonds and buying stocks, which could be considered a good thing.

And this brings me to the fourth factor, the recent shift in investor sentiment. This is evidenced by large flows, so far this year, into equity funds and ETFs.

Chart 4: going back into stocks

Now, this has a lot of people talking about whether a great rotation out of bonds and into stocks is underway. If so, it could be big enough to propel stocks higher for many months if not years. Now if that happens, we could even be at the beginning of a new secular bull market for stocks. But a Great Rotation may not be as benign as it sounds. Why? Because such a rotation would likely be coming out of what we call "spread product" like high yield bonds, emerging market debt, and bank loans. That's fine as long as the liquidation is orderly and gradual, but if it turns into an avalanche there may not be enough liquidity to keep the credit markets stable. And unstable credit markets tend to be bad for stocks.



All in all, based on these four factors, I can see stocks doing well in the coming weeks, possibly even going to new all-time highs. But there are enough risks on the horizon to caution against taking too much risk at this time. Instead, I think a balanced portfolio still makes sense, which means having enough equities to participate in the rally, while also having enough bonds to provide diversification.

Thank you for your time, and see you next month.

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The Morgan Stanley Capital International All-Country World Index (MSCI AC World Index) is an unmanaged market capitalization-weighted index that is designed to represent the performance of developed and emerging stock markets throughout the world.

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

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