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In the Markets Now

It's tricky out there

We believe in the old saying: a picture is worth a thousand words. Here, we aim to recap recent market action and provide some perspective to investors.

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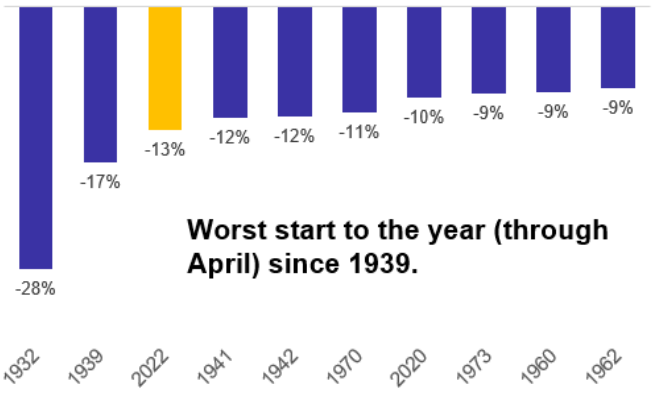
A MARKET UPDATE AFTER A VOLATILE FIRST FOUR MONTHS

Outside of the generational Covid-19 pandemic, the stock market is as unsettled as it has been in over a decade. The S&P 500 was off 8.7% in April and is down roughly 13% YTD, the worst start to a year since 1939. And in many ways, this actually conceals some of the pain – YTD, the NASDAQ is down 21%, Small-cap Growth is down 23%, and many individual stocks are in deep bear markets. To complicate things further, bonds are in the midst of their worst selloff in decades. So what's at the heart of this and what's next?



There are a few key contributors. First, historic inflation is pressuring companies and consumers alike. Corporate earnings have held up well, but at a certain point input cost pressure (raw materials, wages, etc.) will begin to weigh on profit margins. On the consumer side, high inflation – particularly food and gas – could temper retail spending, the cornerstone of our economy. Consumer confidence is waning rapidly, and wage growth is not buffering the rise in prices.

As a response to this historic inflation, the Federal Reserve has become ultra hawkish. They plan to raise interest rates aggressively over the coming months, which will both increase the cost of borrowing for consumers and corporations and put pressure on the price multiple that investors pay for stocks. Markets expected just one 2022 rate hike eight months ago; today they expect twelve. Above all else, this dramatic change of tone at the Fed has been the number one reason for volatility in 2022.

Past inflation and interest rates, war in Ukraine, continued Covid-19 woes in China, and domestic politics (e.g. midterms) have pressured markets and weighed on sentiment. These first two have plagued supply chains across the globe, leading to upward pressure on commodity prices (oil, fertilizer, etc.) and key industry inputs (semiconductors, etc.). Further, midterm years already tend to feature heightened volatility and bigger selloffs. All in all, these issues have widened the range of outcomes for the global economy in the near-term and troubled investors**. It may be a cliche, but markets despise uncertainty over all.**

So what next? Truth be told, volatility is likely to continue. Rate hikes have just begun, inflation looks sticky, many geopolitical issues have no obvious offramp, and midterm election rhetoric is just ramping up. Though the domestic economy has been resilient, corporate earnings are hanging tough, and the US consumer continues to spend, instability--driven by inflation and rates--should continue in the near-term. Have we seen this year's market low? Possibly not.

But as investor Josh Brown wrote, "What does this mean for you? Tell me what your goals and timeframe are…that's the starting point. If you don't know what you're trying to achieve by putting money at risk in the market, then how can you know how a particular move might affect you. In ten years, none of this will matter." **Said another way: the S&P 500 has never been negative over a 15-yr period – not once.** This volatility, this fear – these are the price of admission for the double-digit annual return stocks have delivered over the last century. To quote writer Sam Ro, "This all speaks to two conflicting realities: In the long run, things almost always work out for the better, but in the short run, anything and everything can go wrong." That's the game we are playing. But in the meantime, talk to your Baird Advisor, shore up your financial plan, and revisit these tips from Michael if you're on edge.

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