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In the Markets Now

Volatility everywhere

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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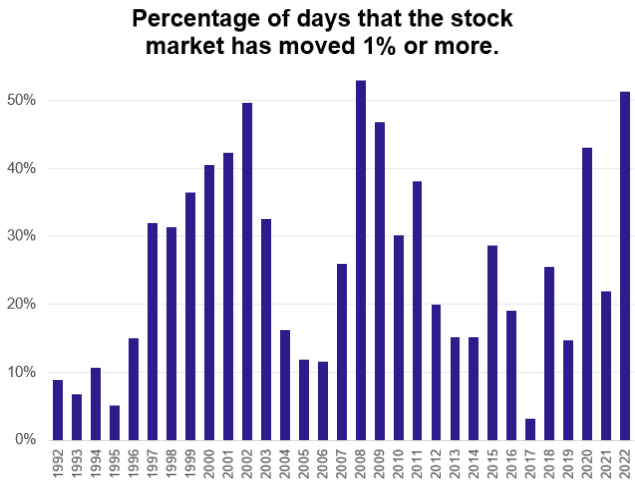
HOW TO THINK ABOUT INVESTING IN A HIGHER VOL REGIME

Recently I wrote, "If you find yourself feeling especially negative about markets lately, you're not alone." In a similar vein, I will say today, **"If you feel like this year has been more volatile than usual, that's because it has."** Though 2022 hasn't featured a bear market, a financial crisis, or anything as chaotic as the beginning of a pandemic, the market has been in some ways as volatile as it's ever been. This volatility—combined with weakness in both stocks and bonds—has made this the most challenging year for investors in a long time, and **the historic bearishness seen in the survey data is just a reflection of that truth**.

This volatility can be seen in our chart, which shows the number of days (as a percent of total trading days) when the market has closed up or down 1% or more from the previous day. In the last 30 years, only 2008 saw more of these days in the first four months. Intraday volatility is elevated as well—our friends at Strategas have noted that over 80% of 2022 days have seen a daily range of 1% or more. They conclude that **this elevated volatility is a departure from the last decade's milder patterns—and may be here to stay.**



For the first time in over a decade, investors face both a hawkish Federal Reserve and genuine inflation pressure. This has led to the sort of rate-driven selloff that can hit stocks (especially Growth companies) and bonds at the same time. And with the Fed planning to hike rates aggressively for the rest of 2022, geopolitical tensions becoming more entrenched, and midterm election rhetoric ramping up, this heightened volatility environment seems likely to persist.

More than anything, volatility is a test of investor mettle. We often say that volatility is the cost to participate in the stock market's long-term gains, but this glosses over the fact that volatility can take many forms. March of 2020 featured a gut-wrenching drop, but also a relatively quick rebound. On the other end of the spectrum, markets are occasionally plagued by periods of high volatility that churn sideways relentlessly. Each is challenging in its own way; holding through a big drop requires a steel stomach, but longer periods of frustrating volatility require real fortitude. Volatility may not be new, but this type of regime may test investors in a different way than has often been the case over the last decade.

I want to leave folks with two quotes, the first from Peter Bernstein: "Volatility gets you in the gut. There's no question that when prices are jumping around, you feel different from when they're stable." And then from Naved Abdali: "Markets can be volatile from time to time; however, stock prices follow earnings accumulation over the long term. The actual risk is the permanent loss of capital…temporary volatility in market price is not a real risk." Both are true—market volatility can make you queasy, but like a uneasy stomach, it can be ridden out. In other words, volatility is not real risk. **The true risk is *perceiving volatility as dangerous*, and then letting that perception influence your long-term plan.** This is where investors succeed or fail.

Investing can be full of psychological ups and downs, and that's part of the value working with an advisor instead of going it alone. Let your Baird Advisor provide some ballast in the ups and down of the market—and keep bringing them your concerns about your portfolio, your plans, and the market climate.

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