Market Strategy
by STRATEGAS A BAIRD COMPANY

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Strategas – a Baird Company provides market strategy and perspective to help you better understand what is happening in the world today and how it impacts your portfolio and plans. Exclusive to Baird, these premier market, macroeconomic, and policy insights complement the planning and investment strategy work of your Financial Advisor.

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DOLLAR WEAKENING | INFLATION POTENTIAL | ADDING TO GOLD

Despite some of the concerning headlines and weaker economic data of late, we remain broadly encouraged by the bullish combination of our recovering economy transitioning towards expansion and the abundance of fiscal and monetary policy. A trillion here, a trillion there, and as they say, soon we'll be talking about real money. And while there are some areas to keep an eye on, like recent COVID-related weakness in the labor market, we believe that as the economy strengthens and begins to reopen, we'll continue to see a meaningful increase in economic activity. Of course, as with all things in life, this won't happen without a few bumps in the road.

With our 2021 investment outlook and portfolio allocation thoughts firmly on the record, we want to turn our attention to one of the less-discussed drivers of the global economy: the U.S. dollar (USD). As we can see in this chart of the U.S. Dollar index, a measure of the dollar's strength relative to the U.S.'s major trading partners, the value spiked in March on COVID uncertainty before snapping back and embarking on a six-month stretch of fairly aggressive weakening.

The dollar is broadly considered a safe haven asset due to its status as the world's reserve currency, so some weakening makes sense as COVID uncertainty abates and the global economy continues its recovery. Further, a weaker dollar makes U.S. goods (and many U.S. stocks) more attractive—consider oil, which is priced in USD. If the dollar weakens, a foreign nation can purchase more oil for the same amount of their home currency. In this way, a weaker dollar can be stimulative.

However, more concerning is the idea that the dollar's weakness may be, in part, a referendum on America's mounting federal debt and increasing budget deficit. Therefore, we'll also keep an eye on items like the change in money supply (i.e. how many dollars are in circulation). This measure is magnitudes higher than it was during the financial crisis a decade ago, again highlighting the abundance of fiscal and monetary policy currently in play. At some point, a continuation of this trend would lead us to worry more about inflation.

But what to do about it? For those who follow our tactical allocation strategies, you'll notice we've increased our recommended allocation to Gold—just modestly—as a hedge for a potential inflation jump later this year (even if it proves temporary). And while it's important to consult your Baird Financial Advisor for the impact on your plan, more exposure to Gold could be a prudent shift in positioning given the likelihood that we'll see more fiscal spending in the coming months. As always, remember the Baird team is here to help you however we can. Stay healthy, and we'll see you again soon.

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