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In the Markets Now

Unprecedented

The volatility of the last few months has been nearly unprecedented. Here, we aim to recap the action and hopefully provide some perspective to investors.

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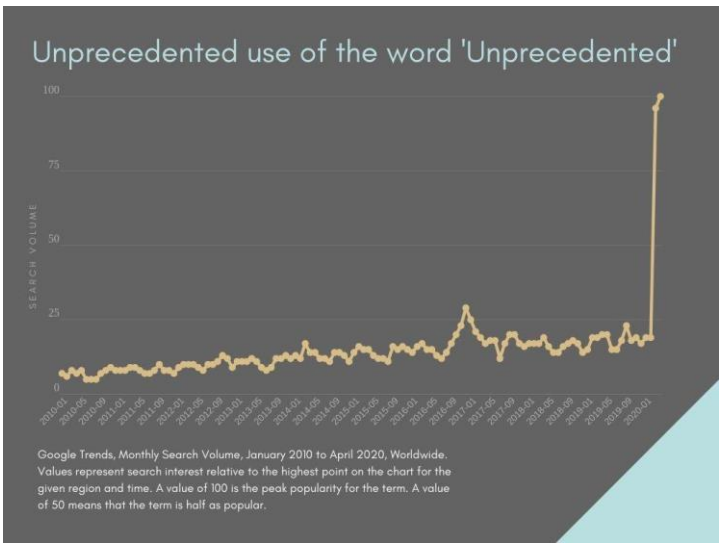
DEVASTATING APRIL JOBS REPORT A SIGN OF THE TIMES

I like numbers. I don't think you'd get into the wild and wonderful world of investment analysis unless you did. Data, charts, figures – they help make sense of a complex world, turning messy narratives into logical conclusions and finding patterns amidst the madness. But lately, the data no longer makes much sense. Every new economic figure either spikes or plummets so sharply that it essentially breaks its chart. We are truly in unprecedented (1) territory.

The April Nonfarm Payrolls report is the perfect microcosm of this. The US shed over 20 million jobs in one month – more than were painstakingly gained over the entire decade prior. The unemployment rate more than tripled (and is probably still understated). Job losses in retail, leisure, and hospitality alone exceeded the *total net losses* in the Great Financial Crisis.

Writer Derek Thompson summarized it well: "The old rule is that labor markets are lagging indicators, and stock markets are leading indicators. **When the economy loses 20k jobs, *that's* a lagging indicator. When an economy loses 20 million jobs, let's be honest: We have no idea what the **** that is."**



But if something unprecedented (2) has happened, then whatever comes next must also be unprecedented (3). Though we know more today than we have any day since the crisis began, we remain in uncharted territory. The range of outcomes is vast – from the Z-shaped recovery where pent-up demand and historic stimulus create a massive boom, to the dreaded L-shaped recovery, where we never truly recover to pre-crisis growth trends. **Our unclear future creates plenty of room for both the soothsayers and the doomsdayers.** So when we say we expect volatility to remain high, this is why - the historic uncertainty ahead is matched in recent memory only by the even dimmer outlook from March and April.

We remain steadfast in a few key points, however. Health data led us into this and health data will lead us out – only a vaccine, effective treatment, and/or comprehensive test and trace policy can return us to anything close to pre-COVID life. Stimulus can ease the pain and juice the recovery, but it cannot kill a virus. And until the day we have a health solution, heightened volatility and uneven trading will persist as the market seeks out the truest version of our future.

While this is frustrating and often frightening, it remains a great time to work with your Baird Financial Advisor to refine and strengthen your financial plan. Maybe even grade your actions from the last few months and use the insight to prepare for the next crisis. Because volatility will come and go, but a robust financial plan is built to withstand all environments.

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