

In the Markets Now

Looking forward vs. looking back

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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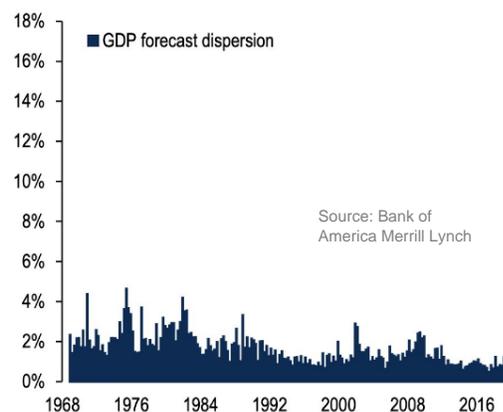
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ON FINDING LEADING INDICATORS IN AN UNCERTAIN WORLD

Normally, this might be one of the most important weeks of the year in markets. Nearly 1/3 of the S&P 500 will report Q1 earnings, including tech giants Amazon, Facebook, Apple, and Microsoft. Further, Q1 GDP will be released the same day that the Federal Reserve's voting members will meet.

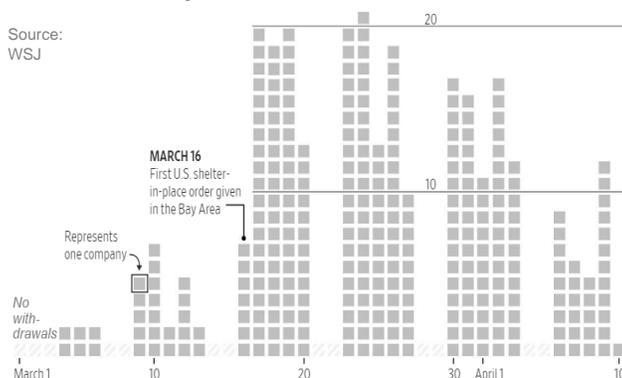
But at its best, this info will only provide hints at the ultimate ramifications of the COVID-19 pandemic. The data is largely backward-looking, and given the rapidly changing world we live in, mostly stale by the time it is distributed.

Further, companies and economists alike are hedging bets on the more forward-looking aspects of their work. S&P 500 firms are pulling guidance at a historic pace (below), and economist forecasts (right) are as dispersed as ever, if they're even being provided at all. At a time when clean, useful forward-looking info is at a premium, the usual providers are clamming up.



Almost 300 companies within the S&P 1500 withdrew their 2020 guidance in the wake of more Americans social distancing.

Source:
WSJ



So what does matter for markets if the backwards-looking financial data and usual forward guidance aren't providing answers? As we've written before, this is a health crisis first and foremost; the financials cannot begin to recover until there is evidence that the coronavirus pandemic is under some semblance of control.

Our Chief Investment Strategist Bruce Bittles hit on this, writing "we need a significant breakthrough on testing to see who has had the virus, whether they can spread the virus or develop a second infection. A positive economic forecast centers on the development of a vaccine and/or promising treatments. Additionally, we need to see a successful reopening of the economy state by state ... **these are things that the stock market cares about.**"

This is why stocks move more on leaked Gilead drug trial data than on historic job loss figures. It is also why perhaps the single best leading indicator will be the countries, cities, and states that are easing lockdowns the earliest; Georgia, Sweden, Wuhan, etc. **To oversimplify, all that matters now is the speed with which the world can return to normalcy.** Whether it be vaccines, treatments, or test-and-tracing, in a health crisis, the health data will (and should) drive markets.

Still, we've written on the disconnect between the stock market and economy before -- the chasm is wide and disconcerting. But this is also a crisis unlike any we've experienced before. And as the world searches frantically for a solution to the COVID-19 disaster, the market will likely continue to its run of elevated volatility and uncertain direction. As always, we highly recommend reaching out to a Baird Financial Advisor to navigate these trying times.

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