nuveen
A TIAA Company

Weekly Investment Commentary

17 September 2018

Improving economic growth and sentiment should help equities

Global equity markets improved last week, thanks to solid economic data and signs that at least some areas of trade policy could be improving. Softer inflation data also helped, as it tamped down worries about an overly aggressive Federal Reserve. The S&P 500 Index rose 1.2% for the week, with the telecommunications, energy, technology, industrials, consumer discretionary and health care sectors all rising more than 1%.[1] The U.S. dollar declined last week, which boosted the beleaguered emerging markets.[1]

HIGHLIGHTS

- **Stock prices rose on solid economic data and expectations that trade issues should ease.**
- **We see downside risks coming from rising protectionism and economic weakness outside the U.S., but expect stock prices to overcome these headwinds.**

Robert C. Doll, CFA
Senior Portfolio Manager and Chief Equity Strategist

Bob Doll serves as a leading member of the equities investing team for Nuveen, providing reasoned analysis through equity portfolio management and ongoing market commentary.

Weekly top themes

1 ***Inflation is unlikely to move significantly higher.*** August data showed the core Consumer Price Index grew only 0.1% for the month, causing the year-over-year reading to slip from 2.4% to 2.2%.[2] At the same time, annualized headline inflation fell from 2.9% to 2.7%.[2] We believe price increases will remain contained, as inflation surveys show price pressures relatively modest and wages rising slowly.

2 ***Strong consumer sentiment suggests the economic expansion continues to have legs.*** The August University of Michigan's Consumer Price Index jumped to its second-highest level since 2004.[3] Sentiment improved across all income groups, with Americans as a whole expecting more jobs growth and better wages.[3] The only notable negative was that consumers are growing increasingly concerned about rising trade tariffs.[3] We believe modest wage improvements and relatively contained inflation will boost the consumer sector.

3 ***We expect jobs growth to continue.*** With the labor market tightening, we believe wage levels should continue to slowly improve, which should put additional pressure on the Fed to raise rates.

4 ***The next boost for equities will probably require easing trade tensions and improving global economic growth.*** Rising earnings have provided a strong tailwind for stock prices this year, but earnings are likely to moderate over the next 12 months.

5 ***The midterm elections are not likely to significantly affect the direction of the stock market.*** President Trump has taken a hard line toward trade issues and international relations in general. We do not expect that to change based on the outcome of the midterms, and doubt Democrats will be able to exert much influence over these matters even if they gain a majority in the House of Representatives. The good news could be that history suggests stocks may be poised for an increase regardless: The S&P 500 Index has not fallen in the 12 months following a midterm since 1946.[4]

Stocks should overcome trade issues as well as growth and earnings worries

Overall, we have a positive view toward U.S. stocks. We do think, however, that trade issues and concerns about non-U.S. economic growth will need to ease before equity prices can decisively move higher. Trade remains a significant wildcard, but we are optimistic that tensions will ease in the coming months. Talks on the NAFTA renegotiation seem to be moving in a positive direction. And despite periodic setbacks and the announcement of new tariffs, we remain convinced that the United States and China will be able to come to some agreement that will reduce uncertainty for consumers and businesses. These issues are unlikely to go away any time soon and remain a significant downside risk, but we expect this risk will ease over time.

Outside of the United States, the global economy appears to have downshifted. But we think the negatives are ending and momentum is bottoming. The eurozone appears to be stabilizing and we think China will experience a soft landing.

All of this suggests that the global economic backdrop will continue to support U.S. corporate earnings. Profits are likely to fall next year compared to 2018, as the effect of tax cuts wears off and companies face higher interest rates and the lingering impact of the rising U.S. dollar. But we think the effect of moderating profits has already been baked in to equity markets, meaning the decline shouldn't disrupt stock prices. As long as the global economy does not experience a significant disruption, we think stock prices are likely to rise over the coming year.

2018 PERFORMANCE YEAR TO DATE

	Returns	
	Weekly	YTD
S&P 500	1.2%	10.2%
Dow Jones Industrial Avg	0.9%	7.6%
NASDAQ Composite	1.4%	16.9%
Russell 2000 Index	0.5%	13.1%
Euro Stoxx 50	2.2%	-4.9%
FTSE 100 (UK)	1.5%	-5.1%
DAX (Germany)	2.1%	-9.1%
Nikkei 225 (Japan)	2.6%	3.1%
Hang Seng (Hong Kong)	1.3%	-6.3%
Shanghai Stock Exchange Composite (China)	-0.9%	-21.4%
MSCI EAFE	1.8%	-3.0%
MSCI EM	0.6%	-9.2%
Barclays US Agg Bond Index	-0.1%	-1.5%
BofA Merrill Lynch 3-mo T-bill	0.0%	1.2%

Source: Morningstar Direct, Bloomberg and FactSet as of 14 Sept 2018. All index returns are shown in U.S. dollars. Past performance is no guarantee of future results. Index performance is shown for illustrative purposes only. Index returns include reinvestment of income and do not reflect investment advisory and other fees that would reduce performance in an actual client account. All indices are unmanaged and unavailable for direct investment.

"As long as the global economy does not experience a significant disruption, we think stock prices are likely to rise over the coming year."

For more information or to subscribe, please visit nuveen.com.

1 Source: Morningstar Direct, Bloomberg and FactSet

2 Source: Department of Labor

3 Source: University of Michigan

4 Source: Sratégas Research

The **S&P 500 Index** is a capitalization-weighted index of 500 stocks designed to measure the performance of the broad domestic economy. The **Dow Jones Industrial Average** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the *Nasdaq*. The **Nasdaq Composite** is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market. The **Russell 2000 Index** measures the performance approximately 2,000 small cap companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks. **Euro Stoxx 50** is an index of 50 of the largest and most liquid stocks of companies in the eurozone. **FTSE 100 Index** is a capitalization-weighted index of the 100 most highly capitalized companies traded on the London Stock Exchange. **Deutsche Borse AG German Stock Index** (DAX Index) is a total return index of 30 selected German blue chip stocks traded on the Frankfurt Stock Exchange. **Nikkei 225 Index** is a price-weighted average of 225 top-rated Japanese companies listed in the First Section of the Tokyo Stock Exchange. **Hong Kong Hang Seng Index** is a free-float capitalization-weighted index of selection of companies from the Stock Exchange of Hong Kong. **Shanghai Stock Exchange Composite** is a capitalization-weighted index that tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange. **MSCI EAFE Index** is a free float-adjusted market capitalization weighted index designed to measure developed market equity performance, excluding the U.S. and Canada. The **MSCI Emerging Markets Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. **Bloomberg Barclays U.S. Aggregate Bond Index** covers the U.S. investment grade fixed rate bond market. The **BofA Merrill Lynch 3-Month U.S. Treasury Bill Index** is an unmanaged market index of U.S. Treasury securities maturing in 90 days that assumes reinvestment of all income.

This material is not intended to be a recommendation or investment advice, does not constitute a solicitation to buy or sell securities, and is not provided in a fiduciary capacity. The information provided does not take into account the specific objectives or circumstances of any particular investor, or suggest any specific course of action. Investment decisions should be made based on an investor's objectives and circumstances and in consultation with his or her advisors.

Risks and other important considerations

The views and opinions expressed are for informational and educational purposes only as of the date of writing and may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The information provided does not take into account the specific objectives, financial situation, or particular needs of any specific person. All investments carry a certain degree of risk and there is no assurance that an investment will provide positive performance over any period of time. Equity investments are subject to market risk or the risk that stocks will decline in response to such factors as adverse company news or industry developments or a general economic decline. Debt or fixed income securities are subject to market risk, credit risk, interest rate risk, call risk, tax risk, political and economic risk, and income risk. As interest rates rise, bond prices fall. Non-investment-grade bonds involve heightened credit risk, liquidity risk, and potential for default. Foreign investing involves additional risks, including currency fluctuation, political and economic instability, lack of liquidity and differing legal and accounting standards. These risks are magnified in emerging markets. Past performance is no guarantee of future results.

Nuveen Asset Management, LLC is a registered investment adviser and an affiliate of Nuveen, LLC.

605697-INV-W-09/19

GPE-BDCOMM3-0918P

nuveen

A TIAA Company

Nuveen | 730 Third Avenue | New York, NY 10017 | 212.490.9000 | nuveen.com