nuveen
A TIAA Company

Weekly Investment Commentary

22 April 2019

What would it take for stocks to experience another rally?

U.S. stocks were mixed last week, with the S&P 500 Index largely unchanged.[1] Behind the headline numbers, however, there was some movement within and between sectors. Health care stocks sold off sharply last week, with managed care stocks hit particularly hard by regulatory concerns.[1] The CEO of United Healthcare came out strongly against the "Medicare for all" plans being discussed by Democratic presidential candidates, which called the issue into focus. In contrast, both technology and financials outperformed for the week.[1]

HIGHLIGHTS

- **Markets took a breather last week, and we think stocks are entering a period of consolidation.**
- **Most of the good news may already be priced into the markets for now, meaning it could be difficult for stocks to enter a renewed rally.**
- **We think a bottoming of corporate earnings revisions could be a necessary catalyst for equities to again start marching higher.**

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. ***Retail sales figures rose impressively in March, helping to show the U.S. economy is firming.*** The headline number was up 1.6%, exceeding consensus expectations of 1.0%.[2] Stripping out the volatile autos and gasoline sales figures, sales were up an impressive 0.9%, more than twice the consensus estimate.[2]

2. ***The jobs market also continues to look strong.*** Initial unemployment claims fell to 192,000 for the week ended April 13, the lowest level since September 1969.[3]

3. ***Growth elsewhere around the world is also showing signs of improvement.*** In particular, we are seeing signs of improvement in China due to widespread government stimulus. China, along with the U.S., is an important engine of global economic growth. European data remains mixed, but some bright spots exist in that region.

4. ***Inflation remains low, but we expect inflationary pressures will creep higher.*** The Consumer Price Index advanced at a slower-than-expected annualized pace of 1.9% in March.[3] As economic growth continues to stabilize, we think inflationary pressures are likely to rise, which should put pressure on the Federal Reserve to reassess its current dovish stance.

5. ***Corporate earnings expectations continue to decline.*** Estimates for 2019 have been coming down since before the beginning of the year, even as stock prices have been rising.[1] Equity markets have been climbing as a result of valuation improvements, which we don't think is a sustainable trend.

6. ***A number of things could go right for the markets.*** Here's a list, adapted from a recent J.P. Morgan report:[4] a U.S./China trade deal that eliminates tariffs; evidence of sustained improvement in European growth; a more moderate Democratic candidate such as Joe Biden moving ahead in the polls; President Trump ruling out new tariffs for autos; Washington striking a deal that resolves the debt ceiling and budget debates; the Fed more clearly articulating its desire to push inflation higher; and corporate earnings revisions bottoming and starting to move higher.

We see positives for equities, but they may already be baked into the markets

The broad macro environment looks pretty good for stocks. The global economy appears to be improving, with the U.S. labor market remaining solid and housing improving. Chinese growth also appears to be stabilizing as a result of substantial policy support. Firmer growth in the U.S. and China should help European growth, which remains uneven due to a troubled manufacturing sector. But even Europe is showing signs of life with improving prospects for exports.

For U.S. equities in particular, the domestic backdrop appears to have reentered a Goldilocks scenario where growth is not strong enough to trigger another round of Fed rate increases, but solid enough for investors to look past a 2019 dip in corporate earnings expectations largely related to the one-off tax boost corporations benefited from in 2018.

With the solid backdrop for stocks, what is preventing prices from continuing on the strong pace they enjoyed over the first couple months of the year? In our view, current prices already reflect much of the good news. In addition to better economic news, stock prices are already higher as a result of the recent shift in Fed policy and improving prospects on the U.S./China trade front.

At present, with the S&P 500 Index trading around the 2,900 level, we think stocks are fairly priced.[1] A significant move higher would require either a further expansion in valuations or better corporate earnings results. Neither of these seems likely to happen in the near term. Earnings forecasts have been trending lower for several months, and while that process may be ending, we do not expect to see a rebound any time soon. And valuations are unlikely to expand unless the Fed turns even more dovish, which also doesn't appear to be in the cards. There are some possible catalysts for stocks to move higher in the near term (as cited in the previous list), but we think markets may be in for a period of consolidation for now.

2019 PERFORMANCE YEAR TO DATE

	Returns	
	Weekly	YTD
S&P 500	-0.1%	16.6%
Dow Jones Industrial Avg	0.6%	14.6%
NASDAQ Composite	0.2%	20.9%
Russell 2000 Index	-1.2%	16.6%
Euro Stoxx 50	0.9%	15.1%
FTSE 100 (UK)	-0.5%	14.6%
DAX (Germany)	1.2%	13.6%
Nikkei 225 (Japan)	1.6%	10.4%
Hang Seng (Hong Kong)	0.1%	16.2%
Shanghai Stock Exchange Composite (China)	2.6%	34.6%
MSCI EAFE	0.4%	13.1%
MSCI EM	0.3%	13.7%
Barclays US Agg Bond Index	0.1%	2.6%
BofA Merrill Lynch 3-mo T-bill	0.1%	0.7%

Source: Morningstar Direct, Bloomberg and FactSet as of 19 Apr 2019. 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 indexes are unmanaged and unavailable for direct investment.

"There are some possible catalysts for stocks to move higher in the near term, but we think markets may be in for a period of consolidation for now."

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

1 Source: FactSet, Morningstar Direct and Bloomberg

2 Source: Department of Commerce

3 Source: Department of Labor

4 Source: J.P. Morgan Research, *Early Look Talking Points* April 18, 2019

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.

nuveen

A TIAA Company

GPE-BDCOMM4-0419P 826097-R-W-04/20