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Weekly Investment Commentary

8 April 2019

Stocks rise on better economic and trade policy news

Following a strong first quarter for stocks, the second quarter started off well, with the S&P 500 Index rising 2.1% last week.[1] Better economic data from the U.S., China and Europe helped sentiment, as did improved prospects for earnings growth. The Treasury yield curve steepened last week, easing some investor anxieties about a possible recession.[1] For the week, materials, financials and technology all performed strongly, while more defensive sectors lagged.[1] Investors returned to a more cyclically-focused, risk-on trading environment.

HIGHLIGHTS

- **Evidence of better economic data reinforces our view that this current cycle still has legs.**
- **However, given the magnitude of the increase we have seen this year, near-term caution toward stocks is probably warranted.**
- **We think equities have room to make further gains, but before that can happen we will probably need more clarity around global economic growth.**

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 ***A strong March jobs report helped ease concerns about slowing growth.*** The 196,000 new jobs reported last month came as welcome news following disappointing February data.[2] Average hourly earnings rose only 0.1%, pushing the annualized growth rate to a three-month low of 3.2%.[2]

2 ***Manufacturing data also rebounded in March.*** The ISM Manufacturing Index advanced, with increases coming from new orders, production and employment.[3] Manufacturing data has been mixed so far in 2019 and softer than what was reported in 2018, but we have the sense that conditions are stabilizing.[3]

3 ***We may see some upside surprises in first quarter earnings reports.*** Expectations have been lowered and the pace of negative pre-announcements has fallen off.[1] We still expect to see profit margin pressures this year, but results may not be as bad as some fear.

4 ***U.S./China trade talks appear to be making progress.*** We expect to see a modest deal between the two countries that results in more Chinese purchases of U.S. goods and some concessions from China on the issue of intellectual property protection. The main outstanding issues appear to be how fast tariffs are reduced and the degree to which any new tariffs are added.

5 ***Health care stocks are likely to remain under pressure.*** Political noise around Medicare-for-all and other possible policy changes are likely to persist in the run up to the 2020 presidential election.

6 ***We think it makes sense to be cautious toward equity markets.*** U.S. stocks are up 25% since their low on December 24, a pace as fast as we have seen over the last 30 years.[1] We think prudence is warranted in the near term, especially since markets have yet to fully digest the implications of the recent yield curve flattening and ongoing uncertainty around trade policy.

7 ***Much has already gone well this year for stocks, but more is needed for equities to enjoy longer-term tailwinds.*** Strategas Research recently published a list of positive developments and a list what could still push prices higher:[4] We have already seen the reopening of the U.S. government, a pause in Federal Reserve tightening and clearer guidance around balance sheet runoff, Chinese policy stimulus and oil price stability. What might still come? An agreement to keep the U.S./Mexico border open, a U.S./China trade deal, a lack of follow-through on new auto tariffs, Brexit resolution and clarity around the U.S. debt ceiling.

Markets may be due for a pause before another meaningful uptrend

The strong advance enjoyed by U.S. stocks is not likely to continue, at least not at the same pace. Much of the good news from the Fed's shift in stance and trade policy progress has probably already been baked into the markets. Given the magnitude of the advance, we think stock prices are probably due for a pause.

Before stocks can make new gains, we'll need evidence that global economic activity is firming. It may take some time for economic data to improve, although we do think that global manufacturing is beginning to stabilize. Even so, ongoing uncertainty over global trade issues and Brexit is likely to drag on overall sentiment.

Signs of better economic growth would be particularly helpful since we are likely entering a period of corporate earnings weakness. We will see first quarter results in the coming weeks, and we think forward guidance will be critical. Given the age of the economic cycle and the possible downside risks, we think corporate management teams are likely to strike a cautious tone at best.

In any case, we do think the odds of an economic acceleration this year are better than the odds of a recession. The recent flattening of the yield curve has unnerved investors, causing some to believe that we are close to the end of the economic cycle. We don't think that is the case. While the yield curve inversion shouldn't be ignored, we don't see other signs that would typically accompany the end of a cycle, such as rising inflation or rising unemployment. As such, we think there is room for stock prices to make further gains once conditions become clearer.

2019 PERFORMANCE YEAR TO DATE

	Returns	
	Weekly	YTD
S&P 500	2.1%	16.0%
Dow Jones Industrial Avg	2.0%	14.0%
NASDAQ Composite	2.7%	20.0%
Russell 2000 Index	2.8%	17.8%
Euro Stoxx 50	2.8%	13.1%
FTSE 100 (UK)	2.6%	14.6%
DAX (Germany)	4.1%	11.5%
Nikkei 225 (Japan)	2.0%	8.5%
Hang Seng (Hong Kong)	3.1%	16.0%
Shanghai Stock Exchange Composite (China)	5.0%	33.3%
MSCI EAFE	2.0%	12.3%
MSCI EM	2.6%	12.8%
Barclays US Agg Bond Index	-0.3%	2.6%
BofA Merrill Lynch 3-mo T-bill	0.1%	0.6%

Source: Morningstar Direct, Bloomberg and FactSet as of 5 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.

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

1 Source: FactSet, Morningstar Direct and Bloomberg

2 Source: Bureau of Labor Statistics

3 Source: Institute of Supply Management

4 Source: Strategas Research, *Checking in on the list of things that have to go right*. April 3, 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.

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GPE-BDCOMM2-0419P 806993-INV-W-04/20

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