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Weekly Investment Commentary

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Themes that may shape the 2019 investment outlook

Economic and corporate earnings fundamentals have remained relatively decent over the past few months, yet equity market volatility has climbed and stocks have entered correction territory. Investors are focusing on a number of risks and uncertainties, including trade issues, a sharp drop in oil prices, a rising dollar and confusion over fiscal and monetary policy. As we approach the end of 2018, we thought it would be a good opportunity to take a look at some of the key issues that may drive markets in the coming year.

HIGHLIGHTS

- **Economic and corporate earnings growth may slow a bit next year, but should remain positive.**
- **Trade issues represent a significant threat to the global economy and possibly the stock market.**
- **Interest rates and inflation may both climb modestly next year, but shouldn't represent a serious roadblock to equities.**

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.

Economic growth should remain solid, but trade issues represent a significant risk

Overall, we think the global economy is solid (especially compared to similar market corrections over the past few years), but trade issues represent a serious threat. While some areas of the world are experiencing a slowdown, we think the global economy is still in expansion mode.

Fears of mounting protectionism and an escalating trade war are suppressing global growth and causing corporate management teams to be more cautious. Tensions between the U.S. and China appear to have eased recently as talks have resumed. But investors remain wary of too many false starts followed by periods of heightened rhetoric for them to look past trade issues. Until and unless we see real evidence that new tariffs won't be enacted, we view the trade environment as a clear negative for growth.

Looking ahead to next year, the strong U.S. dollar is hampering U.S. growth, but that has been offset to some degree by the decline in oil prices. Growth is likely to cool in 2019 in the United States and around the world, but only moderately. We still expect U.S. real gross domestic product growth to exceed 2% in 2019. Any signs of real progress on the trade front would push this estimate higher.

Corporate earnings may slow, but should stay positive

Despite economic uncertainty, corporate earnings growth has been a bright spot throughout 2018. Hiring levels have been strong, job openings are plentiful and corporate profits have been stellar, helped largely by the late-2017 tax bill. However, rising protectionism, higher interest rates, the stronger dollar and wage pressures have clouded expectations for the coming year. Our outlook for corporate earnings is similar to the global economy: We expect a slowdown with an overall positive trend.

Interest rates and inflation are likely to climb slightly higher

While we expect a modest cooling in economic growth, current fiscal and monetary policy should remain largely on track. We expect very little legislative change before the 2020 elections, meaning the current fiscal situation is likely to continue: Neither tax nor spending rates are likely to change. At the same time, we think Federal Reserve policy will continue to slowly move from accommodation to tightening.

We think 2019 will feature slightly higher interest rates and inflation than 2018, but neither should become a significant economic or equity market roadblock over the next 6 to 12 months. However, they will complicate the environment.

An extended "risk-off" investment environment is not in the cards (yet)

Markets have been in a risk-off phase for the last couple of months, with falling equities and oil prices and widening credit spreads. However, the magnitude of this phase seems less than the corrections from 2015 through 2017. For the time being, we expect volatility to remain elevated and wouldn't be surprised to see some additional price declines in stocks and other risk assets. In our view, equity markets are oversold, which implies they may be due for a rebound. For that to happen, we need a catalyst like easing trade tensions or firmer global growth.

Looking ahead, equity markets face a number of ongoing headwinds. Trade issues top the list, but we are also closely watching Brexit negotiations and other geopolitical issues. Investors are also concerned about a possible Fed overstep that could put the brakes on economic growth.

As such, our current investment outlook is somewhat balanced: We advise continued near-term caution, implying an ongoing overweight to cash. We also think investors should stick with a pro-growth stance and overweight stocks relative to bonds. The bottom line: Fundamentals for equities remain relatively good, but more clarity is needed before we become more optimistic.

2018 PERFORMANCE YEAR TO DATE

	Returns	
	Weekly	YTD
S&P 500	-3.8%	0.2%
Dow Jones Industrial Avg	-4.4%	0.3%
NASDAQ Composite	-4.3%	1.5%
Russell 2000 Index	-2.5%	-2.0%
Euro Stoxx 50	-2.0%	-12.8%
FTSE 100 (UK)	-0.8%	-10.9%
DAX (Germany)	-2.0%	-18.3%
Nikkei 225 (Japan)	-0.3%	-3.6%
Hang Seng (Hong Kong)	-0.9%	-10.5%
Shanghai Stock Exchange Composite (China)	-3.9%	-25.2%
MSCI EAFE	-1.1%	-9.8%
MSCI EM	-1.7%	-14.2%
Barclays US Agg Bond Index	0.0%	-1.9%
BofA Merrill Lynch 3-mo T-bill	0.0%	1.6%

Source: Morningstar Direct, Bloomberg and FactSet as of 23 Nov 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.

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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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