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Weekly Investment Commentary

13 May 2019

Trade issues spark renewed economic and market uncertainty

U.S. equity markets fell more than 2% last week, posting their worst weekly performance of 2019.[1] The breakdown in U.S./China trade negotiations, combined with President Trump's announcement of new tariffs, roiled the markets. Investors also expressed concerns over broader geopolitical tensions, further dampening sentiment. For the week, technology was the worst-performing area of the market, while consumer staples fared relatively better.[1]

HIGHLIGHTS

- **Stocks experienced their worst week of the year as trade issues took center stage.**
- **The broad issues between the U.S. and China will not subside any time soon, but we remain cautiously optimistic that some sort of trade agreement will be reached that provides near-term policy clarity.**
- **Until that happens, stocks and other risk assets will remain vulnerable, and the global economy will remain under pressure.**

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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. ***U.S./China disagreements are broad and deep.*** The thorny trade issues at the root of the dispute—corporate espionage, hacking, forced technology transfers and intellectual property rights—were always going to be difficult to settle. Issues between the two countries are broader than trade and include disagreements over relations with Iran and North Korea, none of which will be easy to resolve. China has more to lose in an all-out trade war than the U.S., but Chinese officials won't back down quickly.

2. ***U.S./China trade negotiations should continue, but the absence of a deal would hurt the global economy.*** Both countries would ultimately benefit from easier trade policies, which should keep the parties talking. Should an agreement not be reached, we estimate it would cause a one-year drag of around 0.4% on U.S. GDP and close to 1% on Chinese GDP. We would also likely see greater inflation pressure.

3. ***Trade issues are likely to remain a source of uncertainty, at least through the next U.S. elections.*** Many market participants were highly optimistic about prospects for a trade deal as recently as one week ago. With so much optimism baked in, it's not surprising that markets experienced such a significant shock last week. Investors need to seriously consider the risk that trade disputes will be a persistent concern for some time.

4. ***Non-U.S./China issues also dragged on sentiment last week.*** Auto tariffs remain a possibility, tensions are building with Iran and North Korea and the Federal Reserve's next policy move remains unclear.

5. ***The U.S. economy could use some good news.*** A number of positives remain, such as the strength in the labor market. But slowing manufacturing is worrisome, as this trend has historically been associated with lower equity market returns. The good news is that the sector has already recovered from two previous slowdowns in manufacturing in this cycle.

6. ***The global economy shows tentative signs of stability.*** We expect a gradual improvement in the world economy, although growth will be contingent on more clarity on the trade front. The U.S. and China economies are still improving (for now). While Europe remains a weak spot, we do not expect that region to be a broad global drag.

Financial markets are likely to remain choppy until there is more clarity around trade policy, economic growth and earnings results.

Last week's disruption on the trade front came at a bad time. Optimism was growing that an agreement was in sight, and the global economy is too fragile to withstand a sustained escalation of the trade war. We remain positive that some sort of agreement will be reached, although financial markets will remain vulnerable to additional shocks until that happens.

Clarity on trade policy should have a positive spillover effect on economic sentiment and corporate earnings results. Many corporate management teams have been reluctant to engage in capital expenditure plans or expansions against an uncertain global trade backdrop. A clearer path forward on this front would certainly be a plus. In any case, we think the global economy will be choppier and less synchronized than during the last reacceleration phase of mid-2016 through early 2018.

As a result, we think equities and other risk assets will face additional near-term risks. This is particularly likely since U.S. markets again touched fresh highs recently and investors were overly optimistic about trade issues.

So far, the usual beneficiaries of risk-off periods such as the U.S. dollar, Treasuries and gold have not seen much of a lift.[1] For the dollar and Treasuries, that is likely due to a rash of positive sentiment that had already been baked in to prices. As long as trade issues persist, risks will be elevated. But on a relative basis, the U.S. dollar and U.S. stocks will likely be more resilient given that the U.S. economy is more insulated from trade issues than most other parts of the world.

2019 PERFORMANCE YEAR TO DATE

	Returns	
	Weekly	**YTD**
S&P 500	-2.1%	15.8%
Dow Jones Industrial Avg	-2.0%	12.2%
NASDAQ Composite	-3.0%	19.8%
Russell 2000 Index	-2.5%	17.2%
Euro Stoxx 50	-3.2%	12.0%
FTSE 100 (UK)	-3.2%	11.8%
DAX (Germany)	-2.5%	12.2%
Nikkei 225 (Japan)	-2.1%	8.4%
Hang Seng (Hong Kong)	-5.1%	10.7%
Shanghai Stock Exchange Composite (China)	0.3%	18.9%
MSCI EAFE	-2.6%	10.4%
MSCI EM	-4.5%	7.6%
Barclays US Agg Bond Index	0.3%	3.2%
BofA Merrill Lynch 3-mo T-bill	0.1%	0.9%

Source: Morningstar Direct, Bloomberg and FactSet as of 10 May 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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1 Source: FactSet, Morningstar Direct and Bloomberg

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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