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Weekly Investment Commentary

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Stocks rally on better employment and economic news

The S&P 500 Index rose 4.7% last week, posting its third weekly gain of 3% or more for the first time in 38 years.[1] In addition to reopening momentum and the upside surprise in the May jobs report, the massive fiscal and monetary stimulus seems the biggest tailwind. Last week's uptick in high-frequency data indicators and corporate commentary about demand pickup are playing out in the outperformance of value and cyclical plays, a bearish Treasury curve steepening and a softer dollar.

HIGHLIGHTS

- **Stocks rose more than 3% for the third week in a row on reopening momentum and a better-than-expected May jobs report.[1]**
- **The 10-year Treasury yield broke out from its two-month range, rising 25 basis points to 0.9% on improved hopes for economic recovery.[1]**
- **Despite investor confidence, we think the stock market is expensive and discounting an optimistic outlook for corporate earnings in 2021.**

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.

10 observations and themes

1) The May nonfarm payrolls report was much better than expected, with new jobs up 2.5 million versus expectations for 8 million jobs lost.[2] The unemployment rate was 13.3% against the consensus of 19.6%.[2] The report added to optimistic assessments of economic reopening already paved by fiscal and monetary stimulus. The report was a positive surprise, and employment is increasing ahead of schedule, but there is a long road ahead, as we've only recovered about 10% of what was lost.

2) Many data series are improving off rock bottom levels, but there's more ground to recoup to equal pre-crisis levels. Yet, every story has two sides. Consider Lyft, which reported that May ridership increased 26% month over month, but was still down 70% year over year. Monetary and fiscal stimulus, reopening states and businesses and easing financial conditions are driving economic healing.

3) The good economic news could make the next stimulus negotiations more challenging in Congress. We still think one more bill will likely pass before the August recess. The good economic news will keep the size in check and makes it more likely that negotiations could fail.

4) Coronavirus statistics are gradually improving: the daily numbers of confirmed cases and hospitalizations are decelerating, while more states are meeting gating criteria. However, recent protests could interrupt this progress. A secondary surge of coronavirus is not guaranteed, but this is an important test and would be significant if a second wave doesn't materialize.

5) The 10-year Treasury yield has been stuck between 0.6% and 0.7% for two months, but rose 25 basis points last week to 0.9%.[1] In our revised 10 predictions put out in April, we suggested the 10-year yields will be above 1% by year end.

6) When the pandemic started, we said copper was one of five data elements to watch. Based on our expectations for continued economic recovery, we think copper prices will likely end the year higher than the current level of about $2.50 per pound, which is significantly higher than the bottom of $2.11 in March.[1] Surpassing the June 2018 level of $3.30 per pound would require either a significant increase in global demand or a short contraction supply that we do not expect.

7) Joe Biden's odds of a victory have spiked to 54% according to the PredictIt forecasting market.[3] A Democratic sweep would open up the range of outcomes for legislation, with tax increases on corporations, high-income individuals and capital gains the most notable issue.

8) U.S./China relations continue to deteriorate. White House policies announced recently are significant but not severe, and will not likely dissuade China and Hong Kong. We expect Congress to recommend stronger measures in upcoming policy bills. Bipartisan unity on China is currently the only common issue in Washington.

9) The market was up 37.7% as of June 3 in the 50 trading days since the bear market bottom.[1] This was the strongest 50-day rally in history. In the seven times the market[1] has risen 25% or more in 50 days, the stock market has always been higher six and 12 months later.

10) Growth and defensive stocks led the first rally in risk assets from the bear-market bottom. Markets have since rotated, with value, cyclicals and small caps driving a further rally in equities. The small-cap rally since the March low ranks as the second best in history. We expect more outperformance from value, growth and small-cap names.

Investor optimism continues, but stocks are becoming expensive

The risk-asset rally that began on March 23 has solidified, with investors riding a wave of liquidity and optimism about the pace and magnitude of the global economic reopening. Investors have been reassured that the threat from coronavirus is receding. The fiscal and monetary stimulus spigots are wide open to promote growth, while inflation expectations remain well contained.

The rising political tensions in the U. S., and between the U.S. and China in particular, are currently viewed as minor irritants rather than serious dangers to economic recovery. Investors feel compelled to participate for fear of underperforming, due to hyper-accommodative monetary policy, positive implications for risk assets from a rebound in economic activity and strong momentum of global equities. Any material negative news could derail the upturn, at least in the near term. We project real economic activity to remain below pre-coronavirus levels through 2021, and growth thereafter will likely be slower than we expected pre-crisis.

While there is little evidence thus far of virus resurgence as the global economy reopens, it's still premature to draw definitive conclusions. Absent a vaccine or highly effective therapies, the potential for a second wave of infections and lingering constraints on economic activity justify a modestly higher risk premium. While it's difficult to compete with near-term momentum and an aggressive Fed, the stock market is becoming expensive and discounting an optimistic outlook for corporate earnings in 2021.

2020 PERFORMANCE YEAR TO DATE

	Returns	
	Weekly	YTD
S&P 500	4.7%	-0.3%
Dow Jones Industrial Avg	6.9%	-3.9%
NASDAQ Composite	3.4%	9.9%
Russell 2000 Index	8.1%	-9.1%
MSCI EAFE	7.0%	-8.0%
MSCI EM	7.9%	-9.3%
Bloomberg Barclays US Agg Bond Index	-0.5%	5.0%
BofA Merrill Lynch 3-mo T-bill	0.0%	0.6%

Source: Morningstar Direct, Bloomberg and FactSet as of 5 Jun 2020. 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: Bloomberg, Morningstar and FactSet

2 Source: Department of Labor

3 Source: PredictIt.com

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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