nuveen
A TIAA Company

Weekly Investment Commentary

26 October 2020

Stocks are likely to remain in a trading range for now

Stocks snapped a three-week winning streak last week, with the S&P 500 Index dropping 0.5%. The U.S. elections continued to dominate the headlines, with polls showing an increasing likelihood of a Biden victory and Democratic sweep of Congress. The on-again, off-again fiscal stimulus negotiations were also in the news with expectations growing for a post-election package. Undoubtedly, politics will continue to dominate financial headlines for at least the next couple of weeks.

HIGHLIGHTS

- **A number of economic bright spots remain, but we think the pace of the recovery is slowing. The economy remains reliant on fiscal stimulus until a medical breakthrough could help spark a self-sustaining expansion.**
- **We think equity markets could be vulnerable to a number of near-term disappointments.**
- **We think stocks will eventually benefit from a stronger global economic recovery, more political clarity and a coronavirus vaccine, but until that happens, equities are likely to remain stuck in their current trading range.**

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 labor market continues to recover. The most recent weekly jobless claims data beat expectations and the reading was one of the lowest of the current recovery.

2) The housing recovery remains an important tailwinds for the economy. Low mortgage rates and strong household balance sheets should keep the housing sector strong. Additionally, potential new homebuyers tend to have relatively high incomes, which is the same demographic that has better weathered the economic recession.

3) The resilience of the U.S. consumer sector could be tested. Individuals seem highly willing to spend for now, but that could change if the labor market softens. A new fiscal stimulus package would ease this risk.

4) The U.S. economic recovery is slowing. The effects of fiscal stimulus are running out, and we think the economy needs an additional jolt. Ultimately, a self-sustaining expansion will require a coronavirus medical breakthrough. Until that happens, the economy will be dependent on more support.

5) The Chinese economic recovery is continuing, which should continue to help commodity prices and put downward pressure on the U.S. dollar.

6) Third quarter corporate earnings are ahead of expectations. At present, 83% of companies beat estimates by an average of 18%. Earnings are on track to be down a better-than-expected -17%.

7) Interest rates could continue moving higher. The 10-year Treasury yield broke above the 0.8% mark last week, marking the first time since 2018 that the yield is higher than its 200-day moving average. A reasonably resilient economy, a weaker U.S. dollar, signs of inflation and prospects for additional fiscal stimulus in 2021 all suggest yields could continue to rise.

8) Broad U.S. stock prices have been flat for the last couple of months, but financial markets have seen notable changes, including: a weakening dollar, rising bond yields, a steepening Treasury curve, higher commodity prices and relative strength in small caps, emerging markets and cyclical stocks.

9) The financial sector could see better relative performance. Low yields, rising loan loss provisions, dividend cuts and worries about loan growth have all hurt this sector, but stronger economic growth and a steeper yield curve should eventually benefit financials.

10) Investors may be looking past some political risk. Stock prices have been rising as investors are starting to anticipate a higher probability of the “Blue Wave” scenario. Such an outcome would likely result in additional federal spending and a robust stimulus package that could benefit equities. But it would also likely mean higher corporate taxes and a stricter regulatory environment, which would be negatives for stocks.

Markets still look vulnerable to near-term risks

Investors appear relatively sanguine about a number of near-term risks. First, despite a rise in coronavirus cases, most policymakers are not looking to enact additional economic restrictions, leading investors to believe that the recovery can continue unimpeded. Relatedly, markets are also pricing in a high likelihood of a vaccine, or at least a significant medical breakthrough, in the next couple of months. Furthermore, investors have grown more confident about the political backdrop and are banking on high odds of a smooth, uncontested election followed by a significant new fiscal stimulus package.

The problem, of course, is that such an environment is essentially a best-case scenario. We have a more cautious view, and think economic momentum is losing steam and will struggle until the direction of the pandemic becomes clearer. And we wouldn't be too quick to discount the possibility of election uncertainty and drawn out post-election political turmoil. As such, we think markets may be vulnerable to some near-term disappointments.

While we don't necessarily have a pessimistic view about the economy and stock market, we think that valuations are looking relatively full and that stocks are likely to churn and move sideways as they remain in a broad trading range. Ultimately, we expect that political clarity, medical advancements and continued economic reopening will pave the way for a stronger globally synchronized and self-sustaining economic expansion, but the timing remains elusive.

When that does occur, it would help stock prices move higher, and would also likely lead to a leadership rotation away from growth toward value and away from U.S. stocks to other developed and emerging markets.

2020 PERFORMANCE YEAR TO DATE

	Returns	
	Weekly	YTD
S&P 500	-0.5%	8.9%
Dow Jones Industrial Avg	-0.9%	1.2%
NASDAQ Composite	-1.1%	29.6%
Russell 2000 Index	0.4%	-0.6%
MSCI EAFE	0.1%	-5.2%
MSCI EM	1.1%	4.2%
Bloomberg Barclays US Agg Bond Index	-0.4%	6.4%
BofA Merrill Lynch 3-mo T-bill	0.0%	0.7%

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

"When we see a self-reinforcing expansion, market leadership could shift toward value sectors and non-U.S. markets."

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

Sources

All market data from Bloomberg, Morningstar and FactSet

Earnings data from Credit Suisse Research

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, sell or hold a security or an investment strategy, 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 financial professionals.

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.

This information does not constitute investment research as defined under MiFID.

nuveen

A TIAA Company

GWP-1383903PR-W1020P