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Weekly Investment Commentary

9 November 2020

Stocks jump on election and vaccine news

Equities enjoyed a strong election week rally, with the S&P 500 Index jumping more than 7%. Stocks subsequently soared Monday morning on positive news on a potential coronavirus vaccine. With Joe Biden winning the presidency and Republicans likely retaining control of the Senate, prospects for significant policy changes appear limited. And signs of a possible vaccine could allow more economic reopening in 2020. Markets also rose on better-than-expected corporate earnings news and indications that monetary policy will remain ultra-loose for the foreseeable future.

HIGHLIGHTS

- **Stocks rallied on prospects for divided government, which should produce less policy changes than many anticipated.**
- **We think economic growth will remain choppy until a medical breakthrough can tame the coronavirus pandemic. And we saw some positive news on this front over the weekend.**
- **Stock prices are likely to enjoy modest tailwinds in the year ahead, but we think markets remain vulnerable to near-term setbacks.**

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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 ***A divided government provides a tailwind for stocks.*** This scenario will likely mean no major changes to health care policy, limits on tax increases, curbs on future federal borrowing and spending and less changes to the regulatory environment. In other words, markets are eagerly anticipating gridlock.

2 ***We may see some legislative progress on issues such as infrastructure spending.*** Joe Biden and Mitch McConnell have decades of experience working together, and could find ways to bring their parties closer to the center.

3 ***The jobs market continues to demonstrate strong momentum***. Payrolls rose by 638,000 last month, while unemployment fell to 6.9%.

4 ***Manufacturing data also showed signs of improvement.*** The ISM Manufacturing Index in the U.S. reached its highest level in two years in October, with every subcomponent of the index improving.

5 ***Monetary policy should remain extremely accommodative.*** The Federal Reserve was clear that policy will remain unchanged at last week's meeting. With prospects of significant fiscal spending reduced, the Fed may actually come under some pressure to expand its asset purchase programs next year.

6 ***Corporate earnings continue to be better than expected.*** With 80% of companies reporting third quarter results, average earnings are up 20% more than expected. Fourth quarter estimates have climbed only 2% since the start of the current reporting season.

7 ***China's economy continues to improve and evolve.*** Policymakers met last week to chart out the country's next five-year plan for economic and social goals. China is continuing to look for ways to transition away from a manufacturing- and foreign-investor-based economy to a more innovative structure based on domestic consumption.

The choppy economic recovery should continue

With the election results coming into focus, a divided government could likely produce a smaller fiscal stimulus package than many were expecting. We anticipate a plan of perhaps up to $1 trillion passing over the next couple of months. In any case, we think the combination of continued easy monetary policy, modestly more fiscal stimulus and hopefully progress on a vaccine should be enough to keep global growth on a decent path next year. It remains an open question, however, whether a synchronized economic expansion can take hold. China's economy is on a solid growth trajectory, but Europe appears to be slipping back into recession as economic lockdowns are reimposed. And U.S. growth momentum has also waned.

This question lies at the heart of the longer-term market outlook: To what extent will the ongoing coronavirus pandemic limit economic activity? With virus cases rising in many areas of the world, economic activity is slowing. It seems clear to us that economic activity will be limited until a reliable and widely available vaccine or other medical breakthrough becomes available. We saw some positive news on this front over the weekend, but we are still likely months away from a vaccine being widely available.

At this point, equity and credit markets appear to be pricing in a return to pre-pandemic levels of economic activity by the end of 2021. This may be overly optimistic. We think the economy will continue to expand, but probably not at a pace that would justify a full-on pro-growth investment stance. We think stock prices should be able to grind higher over the coming year, but they remain vulnerable to near-term setbacks, especially after the strong bounce we saw last week.

2020 PERFORMANCE YEAR TO DATE

	Returns	
	Weekly	**YTD**
S&P 500	7.4%	10.3%
Dow Jones Industrial Avg	6.9%	1.1%
NASDAQ Composite	9.1%	33.6%
Russell 2000 Index	6.9%	-0.4%
MSCI EAFE	8.1%	-3.2%
MSCI EM	6.6%	7.9%
Bloomberg Barclays US Agg Bond Index	0.5%	6.8%
BofA Merrill Lynch 3-mo T-bill	0.0%	0.7%

Source: Morningstar Direct, Bloomberg and FactSet as of 6 Nov 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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Sources

All market data from Bloomberg, Morningstar and FactSet
Labor market data from the Bureau of Labor Statistics
Manufacturing data from the Institute of Supply Management
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.

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