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Concern over rising rates persists

Equities struggled with another week of volatility driven by elevated rates. The S&P 500 finished in positive territory (+0.8%) thanks to a couple of daily gains of 2% or more, while the tech-heavy Nasdaq fell 2.1%. Rising yields continued to pressure technology and growth areas, with the information technology and consumer discretionary sectors falling 1.4% and 2.8%, respectively. The energy (+10.1%) and financials (+4.4%) sectors added to their 2021 gains.

HIGHLIGHTS

- **The 10-year Treasury yield remained range bound for much of the week, closing at 1.56% on Friday as the yield curve continued to steepen.**
- **February non-farm payrolls added 379,000 jobs, predominantly in the hospitality sector, which is nearly double consensus expectations and a hopeful sign for economic recovery.**
- **The Senate approved the \$1.9 trillion stimulus bill, paving the way for a more robust recovery, with unemployment benefits extended and direct payments in the coming weeks.**



Saira Malik, CFA

CIO of Nuveen Equities

Saira Malik oversees the equities strategic direction for Nuveen as chair of the Equities Investment Council (EIC) and a member of Nuveen's Global Investment Committee (GIC). She has responsibility for equity portfolio management, equity research, equity trading, target date, quantitative and index strategies, as well as portfolio management responsibilities for global equity strategies.

Weekly overview

- *The rising-rate environment and expectations for a robust, stimulus-fueled economic recovery continued to benefit value stocks. Small caps outperformed large caps last week.*
- *Crude oil prices rallied in response to OPEC's surprise decision not to increase daily output. WTI rose by almost 10% after the announcement, and the energy sector has now gained over 40.2% year to date.*
- *COVID-19 data continued to improve, as the seven-day run rate of vaccinations neared 2 million per day last week, with nearly 3 million vaccinations given on Wednesday alone.*

Market drivers & risks

- **Can the Fed fight curve steepening?** The short answer is “yes,” as seen with Operation Twist, which the Fed used in the past to stimulate the economy. Investors were hoping to hear Chairman Powell describe something to that effect during his public comments on Thursday, but were left disappointed. We think the better question may be “Will the Fed fight curve steepening?”
 - Our answer is “no,” for now, as the run-up in yields has been more orderly than expected. The economy is not overheating as it might during a typical economic cycle, which could require the Fed to act to combat dysfunctional yield increases. Instead, we are in the nascent stages of an economic recovery, growing toward a more normalized environment. We expect the Fed to remain focused on long-term inflation and



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- **Volatility presents opportunity.** Losses for growth-oriented stocks continue to mount in conjunction with the rise in long-dated Treasury yields. The Nasdaq 100 is down 8% from its peak in February, with nearly one-third of its constituents in or near correction territory year to date (Peloton for example, is down approximately 30%).
 - We continue to favor the value/cyclical rotation fueled by the 2021 reopening trade, but compressed valuations of certain growth stocks present compelling opportunities to add to stocks we believe could outperform over the intermediate and long term.
- **Regional re-openings begin.** The governors of Mississippi and Texas recently signed executive orders ending all economic restrictions and mask mandates in their respective states.
 - We will closely monitor these situations, as these actions are likely to have a ripple effect for the timing and pace of regional reopenings and significant implications for equities. If Mississippi and Texas maintain positive/improving COVID-19 trends, we would expect more states to follow suit. Furthermore, with \$2 trillion in excess savings and another round of fiscal stimulus coming, consumer spending should rapidly improve, providing a significant tailwind for the economy and stocks.

Risks to our outlook

Investor fears of disorderly yield growth and inflation risks remain a concern over the near-term, as markets have been quick to overreact (as we witnessed last week).

Though vaccination rates have improved, complacency and the swift, broad-based elimination of regional economic restrictions leading to spikes in COVID-19 cases, or possibly a fourth wave, would likely result in a significant near-term market correction.

In focus

Dividends return

Dividends have always been an important part of the equity market. Since 1930, dividends and reinvestments accounted for over 40% of the annualized return of the S&P 500. But 2020 marked the worst calendar year for dividend cuts and suspensions since 2009, as the policy response to control the pandemic resulted in earnings uncertainty. Subsequent monetary and fiscal stimulus disproportionately benefited some areas of the equity market, notably growth, technology and non-dividend paying companies. As a result, dividend-payers lagged the broader market and appear relatively well valued, suggesting high-quality, dividend-paying companies are well positioned.

Dividend-paying companies offer attractive relative valuations, with their P/E multiples trading well below the 10-year average, while non-dividend payers are trading well above their 10-year average. While not all dividend-paying companies are alike, we favor those with sustainable payout ratios, healthy balance sheets and a good track record of capital allocation, including returning capital to shareholders in the form of a growing dividend. The combination of strong capital flexibility and growing dividend payments may help mitigate future inflationary pressures.

As the economy re-opens in this low rate environment, these companies should experience re-accelerating earnings growth while protecting against increased volatility associated with rising rates. Despite the rotation into many lower-quality value and cyclical names, we see opportunities in health care, information technology and consumer discretionary.



Best ideas

A correction in growth and technology-oriented sectors provides opportunity to revisit companies with “frothy” valuations. U.S. small caps offer value and remain attractive, as they may benefit from a re-opened economy and stimulus. We are focusing on quality across geographies, sectors and industries. Technology and consumer-related industries in emerging markets are also attractive.

About the Equities Investment Council:

The Nuveen Equities Investment Council (EIC) includes the firm's senior equity portfolio managers averaging three decades of investing experience. The group brings global expertise across different styles of equity investing and provides value-added insights to Nuveen's investment process by refining and delivering the firm's collective equity market outlook, including key risks and drivers, to clients. Led by Saira Malik, CIO & Head of Equities, the team shares best global equities ideas, while focusing on individual areas of expertise to help generate alpha.

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

Sources

All market data from Bloomberg, Morningstar and FactSet
Employment data from the Department of Labor

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A word on risk

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 investing involves risk. Investments are also subject to political, currency and regulatory risks. These risks may be magnified in emerging markets. Diversification is a technique to help reduce risk. There is no guarantee that diversification will protect against a loss of income.

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