

3 May 2021

We see several reasons for increased selectivity

With the exception of the S&P 500 (+0.04%), broad-based equity indexes fell modestly last week, due in large part to weakness on Friday, the last trading day of the month. April was a strong month for equities as the S&P 500, DJIA and NASDAQ each added between 2% and 5%. Outside the U.S., the MSCI EAFE, ACWI ex-USA and emerging markets indexes each added approximately 3% for the month.

HIGHLIGHTS

- **The week was marked by strong economic data: Preliminary U.S. GDP grew 6.4% in the first quarter, 2% higher than the fourth quarter.**
- **Initial jobless claims fell for the third consecutive week to 553,000, the lowest level since March 2020.**
- **The Consumer Confidence Index reached 121.7, its highest level since February 2020 and over 30 points higher than the beginning of the year.**
- **The strong data boosted the 10-year Treasury yield, which rose to 1.63%.**



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

- *While the pandemic continues to worsen in certain countries (e.g., India and Brazil), global health care, policy and stimulus efforts remain a positive force behind equity markets. A number of major indexes have experienced double-digit returns for the year as economic and earnings growth are beating expectations, and by significant amounts in some cases.*
- *From a sector perspective, energy (32%), financials (24%) and real estate (18%) lead on a year-to-date basis, while consumer staples (4%), utilities (7%) and health care (7%) are relative laggards.*
- *Equity market activity last week was largely driven by growing pessimism surrounding the COVID-19 crisis. Case counts hit record highs outside the U.S., while U.S. vaccination rates have begun to slow. The White House's capital gains tax reform proposal also took a toll on investor sentiment Thursday.*

Market drivers & risks

- **Economic recovery in full swing.** Global equities posted solid gains for April, thanks in large part to marked improvements across a large swath of economic data, especially in the U.S.
 - The S&P 500 Index notched a new all-time high last Thursday, following last week's GDP report and a fall in weekly jobless claims. Financials and communication services have been leading the way, as earnings results continued to exceed forecasts. The rapid pace of growth, however, is making it a challenge to accurately forecast future earnings. This is one reason we favor a diversified approach, focusing on a



We see solid long-term investments in value styles and select cyclical areas, as well as compelling opportunities in small caps.”

- combination of high-quality growth and cyclical opportunities.
- **FOMC stays the course.** Fed Chair Powell announced no changes to the fed funds target rate at the April meeting, and reiterated the central bank's commitment to supporting the U.S. economy. He also confirmed that asset purchases will remain at \$120 billion per month indefinitely.
 - Despite the ongoing recovery and high growth expectations, the Fed remains steadfast in its belief that more work needs to be done before considering a call for unwinding quantitative easing. Although investors are highly attuned to any hint of a policy change, we are not expecting one to come soon. We think it is more important to focus on investment selectivity, which is likely to grow in importance as economic and earnings growth may peak in the second quarter.
- **Earnings: big-tech blowout.** Mega-cap tech names (excluding Netflix) blew away earnings expectations last week, continuing the trend of earnings growth acceleration. Earnings-per-share growth for Amazon, Microsoft, Apple, Facebook and Alphabet hit a staggering 90% year-over-year.
 - Though these results were impressive, growth continues to be extraordinary across most sectors. With over 60% of S&P 500 constituents reporting results, 86% of companies have reported positive EPS surprises, while 78% have reported positive revenue surprises. The blended earnings growth rate for the index has hit 45.8% for the quarter, led by consumer discretionary (182%) and financials (134%).

Risks to our outlook

In addition to the legislative battle for an infrastructure package, the debate over tax reform is likely to create pockets of volatility. Headline economic data could also spark volatility, as inflationary shocks caused by short-term global supply chain disruptions and year-over-year comparisons will be difficult for investors to ignore.

Though recent Fed comments have seemingly settled investors' nerves, many remain wary about possible rate increases or asset purchase tapering. The central bank's messaging will remain one of the most significant near-term risks.

New COVID-19 cases and varying vaccination rates across the globe could also create volatility for global equity markets. On a related note, incrementally better news out of the U.S., combined with incrementally worse news elsewhere, has led to a recent strengthening of the U.S. dollar. This is likely to create near-term headwinds for emerging markets.

In focus

Carbon-related investment risks rise

Climate change and carbon reduction have been prominent in the headlines due to the recent global "Leaders Summit on Climate," and emission reduction targets announced by the U.S. and other developed nations.

From an investment perspective, we believe climate change creates financial, legal and reputational risks for carbon-intensive assets, given likely physical and macroeconomic issues, especially given what we believe to be an inevitable transition to a low-carbon economy. Furthermore, as investor sentiment continues to shift in favor of carbon-neutrality, there are increasing levels of performance risk for companies that continue to lag in the transition to a low carbon economy.

We believe that these risks are already significant. And while they may not be reflected in today's stock prices, investors are likely to shift away from businesses that continue to choose to not act. Abrupt policy changes are increasingly likely over the next several years as current carbon policy initiatives fall short of longer-term goals, and these changes may have outsized effects on shareholder value across industries such as oil and gas, utilities, and transportation.

Looking forward, we expect increased investor participation in companies that demonstrate leadership in the low-carbon transformation, whether through direct improvements within more challenged industries (the aforementioned), or industries that provide diversification benefits, "clean tech" components and alternatives.



Best ideas

Increased economic reopening and recent underperformance have created opportunities in U.S. small caps. We favor consumer service sectors, especially in areas where unemployment remains elevated, and we are keeping an eye on industrials that could benefit from publicly funded infrastructure. Tactical opportunities remain in technology and growth stocks, but with a high degree of selectivity, as the "shelter-in-place" trade may no longer provide a broad benefit to all companies. We also remain bullish on emerging markets over the long term, as efforts to stem the spread of the virus eventually take hold.

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

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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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