

24 May 2021

# Bull sentiment weakens, but bears remain M.I.A.

*Results were mixed for global equities as broad-based U.S. indexes fell modestly, while the MSCI's EAFE, Emerging Markets and ACWI ex-USA all gained over 1%. The S&P 500 fell for the third time in five weeks and the DJIA for the fourth, with each losing 0.4%. The tech-heavy NASDAQ ended its four-week losing streak, adding 0.3%.*

## HIGHLIGHTS

- **Initial jobless claims fell for the fifth time in six weeks, reaching yet another low in the recovery at 444,000. All eyes will be on May's employment report in two weeks.**
- **The Purchasing Manager's Composite Index exceeded expectations, hitting 68.1 in May. Growth in the services component outpaced manufacturing, though both rose for the month.**
- **The 10-year Treasury yield stabilized last week and was essentially flat.**



**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.

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## Weekly overview

- *Inflation fears and the pace of the recovery kept investors on edge last week as the focus remained on possible Fed tapering. The recent streak of underperformance for growth and technology came to an end following the release of the FOMC minutes.*
- *Results were mixed from a sector perspective as real estate (0.9%), health care (0.8%) and utilities (0.4%) were the notable winners, while energy (-2.5%), industrials (-1.6%) and materials (-1.4%) fell the most. Large caps and small caps both fell modestly, and growth outperformed value last week.*
- *Technology funds experienced outflows of over \$1 billion for the most recently reported week, marking the largest weekly decline since 2018, according to Bank of America. We attribute the sales to investors focusing on the reopening trade and worries about inflation.*

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## Market drivers & risks

- **The Fed strikes a slightly more cautious tone.** There wasn't much in terms of new information from the minutes of the last FOMC meeting. But, as expected, the Fed did acknowledge that as economic growth continues to improve, the central bank will need to consider tapering its asset purchases.
  - Investors took the minutes in stride and focused on the implication that any possible change in policy would be orderly (and still quite a bit in the future). This helped stocks, especially technology and growth-oriented companies, to end the week on a high note. We suspect investors will continue to focus on Fed



***We are seeing select opportunities in the out-of-favor technology sector where valuations and fundamentals are looking compelling.”***

- policy, which could spark volatility, but remain confident in a broad bull market for equities supported by economic and earnings growth.
- **Cryptocurrencies take a hit(coin).** Volatility spiked for cryptocurrencies last week as the U.S. and Chinese governments publicized (and subsequently reinforced) hawkish regulatory ambitions. These remarks, plus the recent announcement that Tesla will not, in fact, accept Bitcoin as payment, have created stiff headwinds for cryptos.
  - We mentioned in February that there may be valid reasons to own Bitcoin and other cryptocurrencies (such as a hedge against inflation or based on concerns over sovereign debt levels). But we believe their speculative nature, limited supply and lack of oversight make them a purely discretionary investment. Last week helped reinforce these sentiments.
- **Strong retail earnings may persist.** Walmart, Home Depot, TJ Maxx and Ross Stores all reported spectacular first quarter earnings, due in large part to the strength of consumer balance sheets and pent up demand.
  - The retail sector was a relative underperformer last week despite blowout earnings. This has been the case with several epicenter industries, given the high bar set by investors who have already priced in the good news of a recovery. We expect this type of earnings growth to continue, however, which could act as a tailwind for high-quality retailers through the balance of the year.

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## Risks to our outlook

Though the Federal Reserve aims to avoid volatility in equity markets, investors are likely to continue overreacting in anticipation of and immediately following comments from Chair Powell and the FOMC. Similarly, inflation and employment data in the coming weeks could weigh heavily on sentiment, given their implications for Fed action (or inaction).

The debate over tax reform is heating up as both political parties continue to express a willingness to negotiate. Any negativity surrounding these negotiations, as well as the legislative battle for an infrastructure package, will likely create pockets of volatility.

The CDC's announcement regarding easing safety measures for vaccinated people was welcomed by many. But there is a risk that if more relaxed measures lead to an increase in COVID-19 cases, markets would likely react poorly.

## In focus

# Technology: opportunity amid volatility

Technology stocks that benefited from the pandemic environment of 2020 remain out of favor, as rising rates and a rapidly expanding economy have created headwinds. Rising interest rates have resulted in a corresponding compression of approximately 30% in the price multiples of some segments of the technology sector.

In general, we favor high-quality companies in “epicenter” industries linked to economic reopening. But we also view the recent underperformance across growth and technology companies as a potential buying opportunity, especially within the services and software industries where select companies are enjoying accelerating fundamentals and offering attractive relative valuations. In particular, we think select software manufacturers are primed to outperform in the near term, and we favor companies that provide sales, marketing and servicing software that help facilitate e-commerce transactions. According to Gartner research, global corporate IT spending is expected to reach \$4.1 trillion in 2021 and grow at an annual rate of over 8% over the next five years, which should benefit companies that can capitalize on this trend.

While it might be difficult for some investors to stomach the volatility associated with growth companies in the reopening environment, we continue to think it makes sense to focus on selectivity and careful research to identify bottom-up opportunities rather than relying on broad factors or macro trends.



## Best ideas

*Improvements in vaccinations and economic reopenings, paired with recent underperformance, make U.S. small caps particularly attractive. We also remain bullish on emerging markets, as higher inflation readings help the asset class and new COVID-19 cases are plateauing. We continue to favor consumer service sectors, and we are keeping an eye on industrials that could benefit from publicly funded infrastructure investments. Tactical opportunities remain in technology and growth stocks, however with a greater degree of selectivity as the “shelter-in-place” trade may no longer provide a sweeping benefit to all companies.*

## 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.

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### Sources

All market data from Bloomberg, Morningstar and FactSet

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