

7 Jun 2021

# Equities shrug off disappointing jobs report

*Global equity markets were broadly positive last week. Gains for the S&P 500, DJIA and Nasdaq came in close to or modestly above 0.5%, while outside the U.S., the MSCI Emerging Markets (1.6%) and ACWI ex-USA (1.0%) benchmarks outperformed the developed-market MSCI EAFE (0.7%). The S&P 500 and the three MSCI indexes have risen in seven of the past 10 weeks.*

## HIGHLIGHTS

- **The U.S. economy added 559,000 jobs in May – an improvement over April but still short of forecasts. The unemployment rate dipped to 5.8%.**
- **Initial jobless claims fell to 385,000 for the week ended 29 May, marking their first reading below 400,000 since the pandemic began.**
- **The ISM Manufacturing Index beat expectations and rose to 61.2 in May, while the Services Index surged to a record high of 64.**
- **The 10-year U.S. Treasury yield edged down last week, closing at 1.56%.**



**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

- *While trading in U.S. equity markets was relatively quiet during the holiday-shortened week, the economic calendar was busy. Strong manufacturing and service-sector growth in May was tempered by the lackluster jobs report, reflecting an economy that is hot but not overheating.*
- *Energy led all U.S. sectors, rising 6.7%, followed by real estate (3.0%) and financials (1.7%). Value extended its outperformance over growth, and small caps continued to beat large caps. Consumer discretionary (-1.0%) and health care (-1.2%) were the only sectors to post a loss for the week.*
- *Volatility in “meme” stocks returned, with a surge in call option volume indicating individual investors are again heavily engaged with some of these names. While we expect large swings in a limited number of specific stocks, we don’t believe this will be a precursor to a broader market selloff.*

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## Market drivers & risks

- **The Fed is likely to remain on the sidelines.** May’s frustratingly low job creation gives the Fed cover for maintaining its ultra-accommodative monetary policy and refraining from “taper talk,” even in the face of robust economic activity. This should help ease investor concern that the economy is running too hot.
  - Wage inflation, however, remains a concern, as average hourly earnings growth once again came in stronger than expected last month – in



***Improvements in global vaccination rates should create opportunities in both emerging markets equities and U.S. small caps.”***

part because employers likely had to incentivize new hires with higher pay. With more than 9.3 million people still out of work despite a record-high 8.1 million job openings, further wage pressures may well be in store.

- **Not much relief from U.S. policy uncertainty.** Ongoing negotiations on various tax and spending issues have yet to bear much fruit. But last week saw some new developments, with President Biden proposing a corporate tax floor of 15% in lieu of raising the corporate tax rate to 28%. Biden also offered a compromise on his infrastructure package ahead of a 7 June deadline to either reach an agreement or pursue a Democratic-only solution.
  - On the international front, the president signed an order banning U.S. investment in several Chinese companies, including Huawei. The order amends an existing Trump administration policy and will take effect on 2 August.
- **Vaccinations = economic recovery.** Most developed nations have made good progress in vaccinating their citizens against COVID-19. Not surprisingly, the economies of these countries are experiencing faster and stronger rebounds than their emerging markets counterparts, where access to vaccines and efficient health care delivery remains challenged.
  - In particular, virus case counts are spiking in certain parts of Latin America and Africa, perpetuating public health and economic crises.

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## Risks to our outlook

Inflation concerns are coming into sharper focus. In addition to the sizable gain in average hourly wages, the ADP jobs release showed unit labor costs rising by a higher-than-expected 1.7%. If employers continue to increase pay to attract or retain workers, inflation pressures could be deemed as more than transitory, forcing the Fed to discuss tapering more openly.

Related, we think labor supply constraints may exert a drag on the economy's return to "normal." With businesses finding it increasingly difficult to fill positions, we are starting to see signs of flattening mobility, which could hamper economic and earnings growth.

We are mindful that the COVID-19 pandemic remains a serious challenge, despite largely successful vaccination efforts in the U.S. and other developed countries. Continuing to reopen the economy at the current or accelerated pace could present the risk of another spike in case counts, potentially leading to localized or regional shutdowns and an air pocket in the recovery. This would almost certainly weigh on investor sentiment and spark further volatility.

## *In focus*

# Capex marks the spot

While capital spending by S&P 500 companies has remained depressed since the beginning of the pandemic, we anticipate a potentially significant rebound across multiple sectors if our expectations for a sustained economic recovery are met. Information technology and consumer discretionary should lead, followed by consumer staples, materials and industrials. At the opposite end of the spectrum is energy, where capex is likely to dip further this year before recovering in 2022.

We expect capital investment to be bolstered by U.S. semiconductor and pharmaceutical companies looking to reduce their dependence on China. Another driver may be the Biden administration's proposed infrastructure program. While not yet finalized, it could benefit a wide range of transportation, broadband, manufacturing and water and power projects. Longer term, capex could also climb as industrial companies, especially steel and cement producers, seek ways to cut emissions. Additionally, if demand for copper and other raw materials remains strong, an expansion of mining facilities may be on the horizon.

Investors seeking to participate in the approaching capex revival may wish to consider focusing on megatrends such as the expected tremendous surge in demand for electric vehicles over the next decade (and electrification more broadly). These developments could benefit investable industries involved in everything from mining to power grid updates to the burgeoning use of batteries and electronic components in cars, household appliances and other everyday items.



## *Best ideas*

*Improvements in vaccinations and economic reopenings make U.S. small caps particularly attractive. We are also seeing near-term opportunities in Europe, which looks relatively inexpensive and should benefit from continued easy monetary policy. We favor industrials that will likely benefit from publicly funded infrastructure investments and higher capital expenditures. We also remain bullish on emerging markets over the long term and expect necessary efforts to stem the spread of the virus will 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.

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### Sources

All market data from Bloomberg, Morningstar and FactSet

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