

28 Jun 2021

Stocks again reach records on easing Fed concerns and infrastructure hopes

Global equities rebounded following the prior week's volatility, with stocks showing strong gains as investors resumed their risk-on mode. The MSCI EAFE, EM, and ACWI ex-USA benchmarks each added around 1.5%, while the DJIA, S&P 500 and tech-heavy Nasdaq gained between 2.4% and 3.4%.

HIGHLIGHTS

- **U.S. manufacturing activity grew at its fastest rate since 2007, as the June Markit Purchasing Managers Index hit 62.6.**
- **In contrast, new home sales fell to 769,000 in May, marking the third consecutive monthly decline.**
- **The core Personal Consumption Expenditures Price Index advanced 3.4% year-over-year, marking the largest increase since the 1990s.**
- **Market volatility fell after the prior week's bounce, with the VIX declining to 15.6.**



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

- *Equity markets hit their thirty-first record high of 2021 last week, helped by more dovish comments by Fed Chair Jerome Powell and the announcement of a tentative federal infrastructure spending deal.*
- *All 11 S&P 500 sectors were positive last week, as cyclicals and value-oriented names outperformed. Energy added 6.7%, with financials (5.3%) and industrials (3.1%) rounding out the biggest winners for the week. Relative laggards included utilities, real estate and consumer staples, which each added between 0.7% and 1.9%.*
- *The results of the Fed's 2021 stress test revealed that all 23 U.S. banks passed, allowing the industry to begin repurchasing shares and boosting dividends, activities that had been restricted due to the pandemic.*

Market drivers & risks

- **Fed-based volatility disappears.** All of the trading driven by perceptions of a more hawkish Fed following the June policy meeting appeared to reverse last week. Without any actual change in the Fed's planned timing for tapering and rate hikes, investors returned to a more optimistic posture.
 - Though a full-blown rotation away from growth and technology did not materialize last week, cyclical and value stocks recovered from their trouncing of the previous week. We believe this erratic week-to-week trading from week-to-week only underscores the importance of bottom-up selectivity and barbell portfolios with both high-quality growth and cyclical allocations.



The shifting economic and earnings environment should make bottom-up security selection critically important in the coming quarters.”

- **Tentative infrastructure agreement.** The White House and a bipartisan group of senators announced a tentative agreement on Thursday for a scaled-back version of an infrastructure plan worth roughly \$1.2 trillion, with approximately \$580 billion in new spending.
 - Highlights included spending targets (railways, broadband Internet expansion, water infrastructure and public transit), as well as an agreement for no new individual taxes. Instead, the deal will be paid for by stricter IRS enforcement. Should it come to pass, we expect such a sizable stimulus to have a positive market impact, particularly for economically sensitive industries.
- **Get ready for earnings.** As the second quarter draws to a close, we offer a preview of the highly anticipated second quarter earnings season.
 - Consensus expectations for second quarter U.S. earnings growth have risen following strong results in the first quarter and are currently north of 60%. This would mark the largest year-over-year rate since the fourth quarter of 2009.
 - We think these expectations are on track and shouldn't be much higher than 60%, given that economic growth appears to be moderating. From this point, we expect individual corporate actions, such as strategies to fill employment gaps, handle supply shortages and increase productivity will increasingly drive earnings results.

Risks to our outlook

The infrastructure agreement is an optimistic sign, but any disruptions in the legislative process could spark additional bouts of volatility.

The “delta variant” of the COVID-19 virus has caused a spike in cases and hospitalizations. Should this variant spread and prove to be more resistant to vaccines, we would likely see significant volatility in global equity markets.

Inflation concerns appear to have moderated following May’s CPI report and the recent decline in commodity prices, but market anxiety could escalate if new data show accelerating wage growth and/or unwieldy price appreciation. Related, we think labor supply constraints may slow the economy’s return to normal. With businesses finding it increasingly difficult to fill positions, we see signs of flattening mobility that could hamper economic and earnings growth.

With rate hikes still likely far in the future, a flattening yield curve could hinder industries that are more sensitive to interest rate momentum, such as financials, which benefited from sharp yield increases in the first half of 2021.

In focus

The real estate rebound is real

The U.S. real estate sector ranked among the biggest underperformers of 2020, lagging the broader S&P 500 Index by roughly 20%, thanks to its association with the traditional, analog economy. However, certain areas of commercial real estate have evolved along with other critical pieces of the digital economy over the past decade, resulting in an uneven environment for REITs over the past 16 months.

Property sectors that support the digital economy, such as infrastructure (cell towers), data centers and industrials, traded at historic premiums to their net asset value in 2020, but have lagged other sectors in 2021, despite returning between 13% to 20%. The most COVID-sensitive property types (including lodging, regional malls and apartments), in contrast, have rebounded from their 2020 troughs and have notched returns between 20% and 55% this year as improved vaccination rates have provided increased mobility.

Looking ahead, we see a strong environment for REITs thanks to solid economic growth, historically strong balance sheets, access to liquidity and their ability to weather higher inflation. Although we expect the office sector will continue to remain under pressure as the trend toward remote work is likely here to stay, we see broad opportunities elsewhere. In particular, certain nontraditional property sectors such as manufactured homes, data centers and single family home rentals present attractive risk/reward profiles over the longer term, given increasing demand for cloud computing, e-commerce and affordable housing.



Best ideas

We see opportunities in developed non-U.S. markets, particularly in Europe, which appears relatively inexpensive and should benefit from improved vaccination rates, solid earnings growth and a more cyclically oriented economy. In the U.S., higher inflation could bolster returns for small caps, while select industrial companies should benefit from infrastructure spending. We are also bullish on emerging markets, specifically Brazil and areas such as China’s lodging and gaming sectors, which have lagged through the recovery but stand to benefit from easing travel restrictions as their vaccinated population grows.

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.

This material is not intended to be a recommendation or investment advice, does not constitute a solicitation to buy, sell or hold a security or an investment strategy, and is not provided in a fiduciary capacity. The information provided does not take into account the specific objectives or circumstances of any particular investor, or suggest any specific course of action. Investment decisions should be made based on an investor's objectives and circumstances and in consultation with his or her financial professionals.

The views and opinions expressed are for informational and educational purposes only as of the date of production/writing and may change without notice at any time based on numerous factors, such as market or other conditions, legal and regulatory developments, additional risks and uncertainties and may not come to pass. This material may contain "forward-looking" information that is not purely historical in nature.

Such information may include, among other things, projections, forecasts, estimates of market returns, and proposed or expected portfolio composition. Any changes to assumptions that may have been made in preparing this material could have a material impact on the information presented herein by way of example. **Past performance is no guarantee of future results.** Investing involves risk; principal loss is possible.

All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such. For term definitions and index descriptions, please access the glossary on nuveen.com. **Please note, it is not possible to invest directly in an index.**

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.

CFA® and Chartered Financial Analyst® are registered trademarks owned by CFA Institute.

Nuveen provides investment advisory services through its investment specialists.

This information does not constitute investment research as defined under MiFID.

nuveen

A TIAA Company