

27 Sep 2021

Equities rebound with a late rally to finish higher

Last week started with a substantial selloff over global risk concerns, but by Friday's close the S&P 500 was back above its 50-day moving average. The S&P 500 (+0.5%) and DJIA (+0.6%) finished up, while the NASDAQ closed flat. The September FOMC meeting was in line with expectations, and investors remained confident after the Fed signaled that QE tapering will begin 'soon.' China's Evergrande situation continues to evolve, but global contagion concerns have begun to abate.

KEY POINTS

- **Even though the Fed expects multiple interest rate hikes by the end of 2023, we expect moderating economic growth could push out that trajectory.**
- **We do not expect Evergrande to cause global contagion, as the Chinese government is working through a restructuring to limit public disorder.**
- **Near term risks from Washington remain, but we are concerned about higher taxes rather than a U.S. credit downgrade.**
- **As the Delta variant subsides, we expect a near-term resurgence in economic growth.**



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.

Market drivers & risks

- **Consistent with expectations, the Fed signaled that QE tapering will most likely start in November.** We also learned that Chair Powell is still far from thinking about rate hikes.
 - In the post-meeting press conference, Powell noted that “substantial further progress” for employment has been met and that policymakers broadly agree to gradually begin tapering QE. The decision could be made at the FOMC’s November meeting if the economy continues to improve. Policymakers are split on whether to raise interest rates next year, but 17 of the 18 members forecast at least one rate hike in 2023. Ultimately, there was minimal market surprise from last week’s meeting, with the Fed having previously telegraphed its intention to taper.
- **The evolving situation with Evergrande continues to dominate headlines,** but concerns about a potential contagion are fading.
 - Concerns about the default of over \$300 billion in liabilities weighed on global risk sentiment early last week, and the week ended with holders of Evergrande’s U.S. dollar debt still waiting for \$84 million in payments. The Chinese government does not seem to be interested in bailing out the property developer, but it also does not want a disorderly collapse. Evergrande will likely continue to cause volatility as China works through a property and credit bubble, and as economic growth moderates. In addition, we expect continued volatility in cryptocurrencies following a selloff on Friday after the PBOC banned all crypto-related purchase and service activity and issued a ban on mining.
- **There are few signs of a solution to a possible government shutdown or the debt ceiling.** However, the good news is that the U.S. has \$4 trillion of cash flow and \$350 billion



Volatility will persist as investors process macro headwinds. However, drawdowns could represent buying opportunities, as we expect economic and earnings growth to continue.”

of interest costs, so there is plenty of cash to service the debt.

- House Democrats passed a short-term funding measure and suspended the debt ceiling through next year, but the measures in the Senate lack enough Republican support to proceed. Government funding is unlikely to lapse and a continuing resolution should pass both chambers by the end of the month. Democrats must then outline next steps, which could include increasing the debt limit on their own or including it as part of a separate reconciliation package.

Highlights from last week

- Six of the 11 GICS sectors posted gains, with energy (+4.7%), financials (+2.2%) and information technology (+1.0%) leading the market higher. Integrates, E&Ps and oil services stocks helped the energy sector post its best week since June. Banks rallied as Treasury yields moved higher. Cyclical sectors (+0.9%) outperformed defensives (-0.6%) as the Treasury curve steepened. Small caps (+0.6%) outperformed large caps (+0.5%), while value (+0.7%) outperformed growth (+0.3%).
- The weekly jobless claims reading was above consensus, but remained below 400,000 for the ninth consecutive week.

Risks to our outlook

The near-term path of least resistance could be falling market returns due to COVID-19 headwinds, tax and regulatory risks from legislative plans, supply chain issues and corporate warnings.

Political risks regarding the debt ceiling are the highest in a decade. Although a U.S. debt default is unlikely, there will be a lot of discussion about it in the coming weeks.

Markets are beginning to assess the expected impacts of increasing the corporate tax rate and the minimum tax of U.S. companies' foreign income.

Despite these risks, the global economy and equity market fundamentals remain strong, and we still think that equity markets will overcome the moving pieces in the macro narrative.

In focus

Japanese stocks take a rare turn as global leader

Nearly 32 years ago, the Nikkei 225 Stock Average peaked. Since then, Japanese equities have become essentially synonymous with relative underperformance versus other developed markets. However, the script has recently been flipped: The Nikkei leads U.S., European, Chinese and emerging markets indexes so far in September and Q3.

Japan's economy has not been driving the gains, with its conspicuously weak PMI readings and subpar GDP growth projections (+2.5%) in 2021. These readings largely reflect lackluster consumer spending, as the country struggled through several lockdowns and a slow vaccine rollout.

However, the resignation of Prime Minister Suga earlier this month opens the door to well-timed elections and new leadership, with the potential to move past COVID-19 and negative consumer sentiment and refocus on growth. Political candidates are promoting fiscal and monetary stimulus, vaccination rates are now accelerating and plans are in place to reopen the country by year-end.

Against this backdrop, the case for select Japanese stocks is based on inexpensive valuations, strong balance sheets, net cash positions and a focus on ESG factors. Banks are significantly overcapitalized and will negotiate with regulators to reinstate share buybacks. The reopening trade could also present opportunities, as tourism names might see better earnings growth in 2022.



Best ideas

Supportive monetary policy and the prospects for stronger relative earnings growth will be the catalyst for select stocks in cyclically oriented sectors to outperform in developed non-U.S. markets, particularly Europe. We remain bullish on select emerging markets, but continue to monitor China's property issues and regulatory developments. Near term in the U.S., we favor high-quality reopening stocks and small caps. We continue to advocate for a long-term approach that tilts toward cyclicals and value stocks exhibiting strong earnings growth and pricing power.

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 EIC 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