

8 November 2021

Fed policy and job gains boost equity markets

Central banks around the world largely reinforced a slower transition away from historically accommodative policies, which supported global equity markets last week. The S&P 500 gained 2.0%, locking in its fifth consecutive weekly gain. The tech-heavy NASDAQ and DJIA added 3.1% and 1.4%, respectively. Outside the U.S., the MSCI EAFE and ACWI ex USA indexes each gained over 1%, while the MSCI EM Index was mostly flat, weighed down once again by losses in Chinese equities.

KEY POINTS

- **The Fed remained consistently dovish in its messaging on tapering and rate hikes. Guidance, however, left the door open for rate lift-off in late 2022 (or possibly sooner).**
- **Payroll gains in October and upward adjustments for prior months are likely the beginning of a long-awaited trend. We are keeping an eye on wage inflation and labor force participation rates.**
- **Overall, dovish central banks, fading chances for corporate tax increases and economic data pointing to a reaccelerating growth should allow equities to appreciate into year-end.**



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

- **The Fed largely met expectations in announcing a winding down of asset purchases** (\$15 billion per month in November and December) and restating its intention to leave rates unchanged until early 2023.
 - Although Chair Jerome Powell’s dovish tone supported equity markets on Wednesday, investors remain highly skeptical of the central bank’s ability to avoid a premature rate lift-off in the face of reaccelerating economic growth and inflation that is appearing more than transient. A late-week rally in Treasury markets led to a further flattening of the yield curve – a sign that investors fear growth may be derailed by rates moving too high, too soon.
- **Headline labor market improvements were “just right,”** as the U.S. added 531k jobs, over 100k more than expected. However, a drearier story lies beneath the 4.6% unemployment rate, as labor force participation remains stubbornly low.
 - With the expiration of enhanced unemployment benefits for roughly 9 million Americans and job openings totaling more than 10 million, we expect participation rates and job growth to increase from here. How quickly they improve remains to be seen. A moderate pace would be ideal for equity markets, as it would allow the Fed to “stay the course.” However, rapidly accelerating job growth could indicate an overheating economy, forcing the Fed to act. A sluggish rate might lead to wage inflation, which could drag on future earnings growth.
- **The landscape is shifting for pandemic “winners” and “losers,”** as the overhang of the Delta variant dissipates and confidence builds for an end to the pandemic.
 - The “winners” of the prevailing at-home environment (e.g., producers of workout equipment and personal electronics) that began



The next few months could remain challenging, with continued high volatility and possible near-term market selloffs.”

in 2020 continued to benefit from historically healthy consumer profiles and robust demand in 2021. That said, consumer preferences have rapidly shifted from goods to services as the effects of government stimulus and COVID-19 abate. Going forward, while the “losers” should benefit from rebounding trends and relatively easier historical comparisons, we will be more selective by identifying companies that (a) chose to prudently reinvest pandemic-driven gains and (b) have sustainable business models capable of structural growth beyond the pandemic era.

Highlights from last week

- A pullback in the 10-year U.S. Treasury yield lead to relative outperformance for growth and technology stocks. Consumer discretionary (+5.0%) and information technology (+3.4%) added the most, aided by gains in autos and semiconductors. Financials and health care each fell 0.6%. From a style perspective, the Russell 1000 Growth outperformed its value counterpart by 1.0%. Small cap stocks handily beat large caps, fueled by hopes for an end to the pandemic in the U.S. and reaccelerating growth.
- The S&P 500 wrapped its fifth consecutive weekly gain thanks to strong earnings reports, accommodative policy and favorable economic data. Additionally, fading concerns of sharp corporate or individual tax rate increases, and glimmers of hope for easing global supply chain disruptions, allowed U.S. broad-based indexes to reach record highs.

Risks to our outlook

The Fed will be under intense scrutiny as it tiptoes toward contractionary policies. With markets so accustomed to quantitative easing and low rates, volatility is likely to rise as investors grow leery of a possible misstep in timing or magnitude.

Volatility may begin to spike toward the end of November as the December 3 deadline for raising the U.S. debt ceiling may now coincide with the finalization of a potential infrastructure spending package.

Though it appears as though U.S. corporate tax rate hikes may ultimately be avoided, investors must still assess the expected impacts of potential increases in other U.S. tax rates, including a minimum tax on U.S. companies' foreign income.

COVID-19 variants, such as the Delta subvariant discovered in the U.K., are likely to continue injecting volatility into global equity markets.

In focus

Broader tech leadership

It's no secret that growth and technology stocks have benefited tremendously in recent years from low interest rates and the expansion of the digital economy. That growth accelerated almost exponentially in 2020 thanks to the economic impacts of COVID-19. Even mature industries that have lagged the broader tech sector have done well: PCs, for instance, experienced their highest U.S. growth rate in 20 years.

Notably, while the sector has appreciated significantly as a whole, leadership within the sector over the past five years has narrowed considerably. In fact, the vast majority of growth over the time period came from the five largest names in the S&P 500, which now make up approximately 25% of index. Their combined market capitalization exploded nearly 500% since the end of 2016, from \$2.0 trillion to \$9.9 trillion, with more than half of that growth coming since March 2020 alone.

Although we remain structural bulls on the technology sector and believe that mega cap tech companies will remain dominant in their respective arenas over the long term, these areas face significant headwinds in the current environment. Rising interest rates, higher inflation and slowing growth have already taken a toll on earnings. Should these headwinds persist, the remarkable pace of outperformance by mega cap names will likely prove unsustainable over the near term. As a result, we have become more selective toward technology stocks and expect a broadening of leadership in the sector to provide investors with attractive opportunities beyond the best-known names.



Best ideas

In the U.S., reflation and expectations for higher yields could bolster returns for small caps, as well as companies with pricing power and reopening tailwinds. Supportive monetary policy and the prospect of stronger relative earnings growth could boost certain stocks in cyclically oriented sectors in developed non-U.S. markets, particularly in Europe and select emerging markets, ex-China. Select growth companies well positioned for reopening, such as front-office software leaders, also look attractive. Our long-term approach 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