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Weekly Investment Commentary

6 May 2019

With stocks again at record highs, where do we go from here?

A rally on Friday helped stock markets finish slightly higher for the week.[1] Investors were cheered by a stronger-than-expected jobs report, which showed the U.S. economy is continuing to improve. Corporate earnings news was also generally good, which helped sentiment. For the week, the S&P 500 Index rose 0.2%.[1] Financials outperformed, as banks were helped by a rise in bond yields. In contrast, energy lost ground as oil prices fell more than 2%.[1]

HIGHLIGHTS

- **Data show that the U.S. economy remains in expansion mode, which should be a long-term positive for stocks.**
- **However, investors appear overly optimistic that the Federal Reserve has ended its rate hiking campaign for the current cycle.**
- **Equity markets look fairly priced to us, and we think stocks may be due for a messy period of consolidation.**

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Bob Doll serves as a leading member of the equities investing team for Nuveen, providing reasoned analysis through equity portfolio management and ongoing market commentary.

Weekly top themes

1. ***The April jobs report confirms that economic growth remains on track.*** The headline numbers showed a better-than-expected increase of 263,000 new jobs for the month.[2] The unemployment rate declined to 3.6%, a new cycle low and the lowest level in nearly 50 years.[2] Average hourly earnings rose a modest 0.2% for the month, for an annualized rate of 3.2%.[2]

2. ***Worker productivity shows signs of improvement.*** First quarter nonfarm productivity showed a jump of 3.6%.[2] The annual increase was an impressive 2.4%, the best rate since 2010.[2] These results should help cushion against inflation and help corporate profit margins.

3. ***Manufacturing remains a relative weak spot.*** The headline ISM Manufacturing Index fell 2.5 points in April to its lowest level since October 2016.[3]

4. ***Last week's Federal Reserve meeting was largely a non-event.*** The Fed indicated it would remain data dependent and that there are no signs of a near-term shift in rates. Many investors expect a rate cut this year, but we think such a move is unlikely.

5. ***Corporate earnings results have been better than expected.*** With 80% of S&P 500 companies reporting, first quarter earnings are ahead of expectations by 6.8% on average and on pace to be up nearly 3% for the quarter.[1] Results are being led by companies with a higher focus on domestic sources of revenues.

6. ***We think prospects for new infrastructure spending remain dicey.*** Last week, the president and Congressional leaders agreed in principal to a $2 trillion infrastructure deal with a focus on broadband and the power grid. The issue, of course, is how this would be funded. New taxes appear off the table, leading to speculation that the government would need to engage in measures such as selling off its student loan portfolio. We think we are a long way away from any specifics.

Stocks are fairly priced and good news is already reflected, so markets may be due for consolidation

Global financial markets have nearly come full circle from the start of the fourth quarter seven months ago. Global equities have fully reversed the sharp selloff from late last year, corporate bond spreads have essentially returned to where they were at that time and oil prices have risen 50% from their lows.[1] So where are we heading from here?

The global economic environment should continue to be good for stocks and other risk assets. U.S. growth continues to grow slowly, and we see no warning signs of a possible recession. Although Europe is experiencing problems and global growth is becoming desynchronized, the overall world economy looks to be solid.

In contrast, we see some possible risks regarding monetary and trade policies. The Fed's dramatic dovish shift earlier this year was a prime catalyst for the jump in stock prices. And at this point, many investors are actually expecting the Fed's next move to be a cut in interest rates. We think investors are overly sanguine about monetary policy. With the economy growing and possible inflation on the horizon, we have a hard time imagining that the Fed is finished with interest rate hikes for this cycle. Likewise, we think many investors are overly optimistic about trade. We may very well see a near-term U.S./China trade agreement, but issues remain far from resolved.

At this point, we think stock prices are fairly valued given the macro backdrop and corporate earnings results and expectations. That suggests that the market may be reflecting too much optimism over the near term. And while we continue to believe that this bull market is not over, we also think stocks could be due for a near-term consolidation.

2019 PERFORMANCE YEAR TO DATE

	Returns	
	Weekly	YTD
S&P 500	0.2%	18.3%
Dow Jones Industrial Avg	-0.1%	14.4%
NASDAQ Composite	0.4%	23.4%
Russell 2000 Index	1.4%	20.2%
Euro Stoxx 50	0.8%	15.6%
FTSE 100 (UK)	1.1%	15.0%
DAX (Germany)	1.1%	15.0%
Nikkei 225 (Japan)	CLOSED	11.1%
Hang Seng (Hong Kong)	1.6%	16.7%
Shanghai Stock Exchange Composite (China)	-0.3%	26.1%
MSCI EAFE	0.3%	13.3%
MSCI EM	0.5%	12.7%
Barclays US Agg Bond Index	-0.1%	2.9%
BofA Merrill Lynch 3-mo T-bill	0.0%	0.8%

Source: Morningstar Direct, Bloomberg and FactSet as of 3 May 2019. All index returns are shown in U.S. dollars. Past performance is no guarantee of future results. Index performance is shown for illustrative purposes only. Index returns include reinvestment of income and do not reflect investment advisory and other fees that would reduce performance in an actual client account. All indexes are unmanaged and unavailable for direct investment.

"We see some possible downside market risks when it comes to monetary and trade policies."

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1 Source: FactSet, Morningstar Direct and Bloomberg

2 Source: Department of Labor

3 Source: Institute for Supply Management

The **S&P 500 Index** is a capitalization-weighted index of 500 stocks designed to measure the performance of the broad domestic economy. The **Dow Jones Industrial Average** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the *Nasdaq*. The **Nasdaq Composite** is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market. The **Russell 2000 Index** measures the performance approximately 2,000 small cap companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks. **Euro Stoxx 50** is an index of 50 of the largest and most liquid stocks of companies in the eurozone. **FTSE 100 Index** is a capitalization-weighted index of the 100 most highly capitalized companies traded on the London Stock Exchange. **Deutsche Borse AG German Stock Index** (DAX Index) is a total return index of 30 selected German blue chip stocks traded on the Frankfurt Stock Exchange. **Nikkei 225 Index** is a price-weighted average of 225 top-rated Japanese companies listed in the First Section of the Tokyo Stock Exchange. **Hong Kong Hang Seng Index** is a free-float capitalization-weighted index of selection of companies from the Stock Exchange of Hong Kong. **Shanghai Stock Exchange Composite** is a capitalization-weighted index that tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange. **MSCI EAFE Index** is a free float-adjusted market capitalization weighted index designed to measure developed market equity performance, excluding the U.S. and Canada. The **MSCI Emerging Markets Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. **Bloomberg Barclays U.S. Aggregate Bond Index** covers the U.S. investment grade fixed rate bond market. The **BofA Merrill Lynch 3-Month U.S. Treasury Bill Index** is an unmanaged market index of U.S. Treasury securities maturing in 90 days that assumes reinvestment of all income.

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