

28 May 2019

# Equities falter on continued U.S./China trade concerns

*Equities around the world were lower again last week. The S&P 500 fell 1.1%, posting its third consecutive weekly loss.<sup>1</sup> Equities are under pressure due to expectations for a protracted U.S./China trade war that has been especially damaging to the technology sector. Softer U.S. and global economic data also depressed sentiment. In addition, an oil sell off and a sidelined Fed are also weighing on investor outlook. Energy stocks were the worst performers for the week, while trade concerns hit technology and retail earnings weighed on consumer discretionary stocks.<sup>1</sup>*

## HIGHLIGHTS

- **Global equities fell again last week, and the S&P 500 posted its third straight weekly decline.**
- **Fears of a protracted U.S./China trade war and softer U.S. and global data weighed on investor sentiment.**
- **If trade talks resume, but without signs of a resolution, an extended period of churning could develop.**



**Robert C. Doll, CFA**

*Senior Portfolio Manager  
and Chief Equity Strategist*

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 U.S. manufacturing PMI reached new cycle low in May***, falling two points to 50.6. Manufacturing new orders sank into contraction territory.<sup>2</sup>

2

***Summer tariff increases are likely to keep consumer spending sluggish***. We believe declining spending would result in near-term weakness for the consumer, but not a bear market. U.S. consumers are relatively healthy, with a high savings rate and an encouraging level of jobs and wage rate increases.

3

***The Fed minutes released last week did not contain any significant surprises***. The Fed is clearly on hold, and any rate cuts in the absence of a recession threat are still a tall order.

4

***Bond investors seem convinced that a rate cut is coming by December***, with Fed funds futures pricing the odds of a cut at close to 100%. However, we're not as sure. We might change our minds if we returned to 1.5% growth and wage growth of 2.5%, which are currently well above 2% and 3%, respectively. We believe that the threshold for a rate cut remains high.

5

***The probability of NAFTA 2.0 being ratified has increased slightly***. Tariffs on steel and aluminum were lifted two weeks ago, and we saw a productive meeting between House Speaker Nancy Pelosi and U.S. Trade Representative Robert Lighthizer. Progress is being made, but more work needs to be done.

6

***Congress may be able to reach a deal to raise the debt ceiling to fund the government***, as neither Republicans or Democrats see political benefit to shutting it down. As always, the President's rhetoric and action remain the wildcards.

7

***Stocks with negative gross cash flow have beaten the market by 9% this year***. This has resulted in a very unusual market anomaly, as these types of stocks would typically be underperforming by a similar amount.<sup>3</sup>

## Market uncertainty is likely to persist as U.S./China negotiations stall

There have been several risk-off phases this decade, triggered by economic threats due to politically induced setbacks. However, the current sluggish global economy and weak trade, coupled with escalating trade tariffs and non-tariff barriers, is a worrisome combination. This is especially true because once protectionism has gained momentum, it may prove difficult to stop or reverse. While many risk asset prices are only off modestly from April highs, there's an ominous undercurrent in global financial markets.

We have assumed that the pro-growth bias of both the U.S. and China would lead to a trade truce. That premise looks increasingly questionable, although a deal is always possible. Given that financial markets have not reacted more significantly, investors are still generally expecting the global economic expansion to persist.

Despite the longer-term power struggle, the constructive case for a trade deal between the U.S. and China was predicated on President Trump focusing on the short-term win, while the Chinese look to the longer-term. This difference in political time horizons made a deal possible. Now, the focus for both parties has shifted to long-term strategic objectives, resulting in a stalemate. A financial market downturn may be needed to break the impasse. An extended period of churning could develop if trade talks resume, but without signs of a resolution.

The current market weakness differs from prior periods of economic uncertainty during this decade. There has always been a path to a positive outcome for growth and risk assets, primarily via additional policy stimulus. However, the economic and market outcome this time has become more uncertain, and time will not work towards a positive outcome unless trade negotiations improve. Business sentiment will erode if mounting trade roadblocks and uncertainty do not diminish. Protectionism tops the list of recession catalysts, and a permanent deterioration in U.S./China trade relations could have adverse long-term revenue ramifications for global trade and growth.

## 2019 PERFORMANCE YEAR TO DATE

	Returns	
	Weekly	YTD
S&P 500	-1.1%	13.7%
Dow Jones Industrial Avg	-0.6%	10.8%
NASDAQ Composite	-2.3%	15.6%
Russell 2000 Index	-1.4%	12.6%
Euro Stoxx 50	1.4%	12.1%
FTSE 100 (UK)	-1.1%	10.2%
DAX (Germany)	-1.5%	11.4%
Nikkei 225 (Japan)	-0.1%	7.6%
Hang Seng (Hong Kong)	-1.5%	6.9%
Shanghai Stock Exchange Composite (China)	-0.7%	14.2%
MSCI EAFE	-0.5%	10.1%
MSCI EM	-0.9%	2.9%
Barclays US Agg Bond Index	0.3%	3.8%
BofA Merrill Lynch 3-mo T-bill	0.1%	1.0%

Source: Morningstar Direct, Bloomberg and FactSet as of 24 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.

“

***“A permanent deterioration in U.S./China trade relations could have adverse long-term revenue ramifications.”***

**For more information or to subscribe, please visit [nuveen.com](http://nuveen.com).**

1 Source: FactSet, Morningstar Direct and Bloomberg

2 Source: Markit

3 Source: Empirical Research Partners

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.

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 advisors.

#### **Risks and other important considerations**

The views and opinions expressed are for informational and educational purposes only as of the date of writing and may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The information provided does not take into account the specific objectives, financial situation, or particular needs of any specific person. 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 investments are subject to market risk or the risk that stocks will decline in response to such factors as adverse company news or industry developments or a general economic decline. Debt or fixed income securities are subject to market risk, credit risk, interest rate risk, call risk, tax risk, political and economic risk, and income risk. As interest rates rise, bond prices fall. Non-investment-grade bonds involve heightened credit risk, liquidity risk, and potential for default. Foreign investing involves additional risks, including currency fluctuation, political and economic instability, lack of liquidity and differing legal and accounting standards. These risks are magnified in emerging markets. Past performance is no guarantee of future results.

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

Nuveen Asset Management, LLC is a registered investment adviser and an affiliate of Nuveen, LLC.

**nuveen**

A TIAA Company