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Recession fears and trade uncertainty weigh on stocks

Equities around the world finished lower last week. The S&P 500 finished down 1.4%, marking its fourth straight week of declines.¹ U.S. equity indexes ended lower for the week, with the week's early gains reversing on Friday on a variety of headlines surrounding U.S. and China trade policy. Yield curve inversion was still in play, as the spreads between the 10- and 2-year Treasury yields inverted on Thursday and Friday.¹

HIGHLIGHTS

- **Stock markets around the world were lower once again last week, amid headlines surrounding U.S./China trade negotiations.**
- **Yield spreads between 10- and 2-year U.S. Treasuries inverted at the end of the week.**
- **Global non-manufacturing economic indicators and employment trends are stable, but investors remain uneasy.**



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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

U.S. Manufacturing PMI fell below the floor of 50 in August to 49.9, while the U.S. Services PMI dropped more than expected to 50.9 from 53.² The capital markets are debating how much of this decline is a result of actual activity and how much is tied to capital markets volatility and uncertain economic policy in Washington D.C.

2

Federal Reserve Board Chairman Powell's speech on Friday was in line with expectations. In our view, his goal was most likely to validate current market expectations for a 25-basis point cut in September.

3

Unrest in Hong Kong is a wild card in the U.S./China trade dispute. It would have been most obvious for the Chinese government put an end to the protests before they grew into open rebellion. Now, President Xi has limited options: wait and hope protests abate, or send in troops to end the rebellion. Neither choice seems favorable to us.

4

President Trump aggressively pushed for lowering capital gains taxes by indexing gains to inflation. This is the president's strongest statement made to date on the issue. In the meantime, discussions over a payroll tax cut have been increasing, but seem very unlikely to pass.

5

The lack of consistent policy in Washington D.C. has been influencing investor behavior. Despite trade or budget issues, the economy seems solid from a consumer perspective. Still, the volatile and seemingly aimless climate in D.C. has spread to Wall Street, as investors are increasingly worried about erratic government policies.

Accommodative global monetary conditions are not easing investor fears

Global financial markets have hit an uneven patch due to profound uncertainty about the economy and policy. Considerable economic angst has resulted from erratic and bearish trade policy at a time when global exports have been contracting and U.S. and global manufacturing activity has been weak. Coincident global non-manufacturing economic indicators and employment trends are generally holding up well.

The plunge in government bond yields throughout the summer has created a massive supply of negative-yielding bonds around the world. Combined with modest policy easing, this scenario has created historically very accommodative monetary conditions. Nevertheless, investors have been more focused on the bearish yield curve rather than embracing record low bonds yields and easy monetary policies.

Historically, lower bond yields have stimulated economic activity on a lag. However, investors are currently unwilling to bet on better growth because protectionism is a potentially huge economic threat. Because the risk of protectionism has been absent for many decades, investors have become more sensitive to disappointing economic news or trade developments, resulting in equity and credit markets selloffs. A seemingly favorable U.S./China trade meeting will not likely reduce investor angst, given false starts in the past have been followed by renewed hostilities.

Meanwhile, it's difficult to claim that the business sector is not being hurt by tariffs and trade uncertainty, as confirmed by the U.S. and euro area PMI manufacturing surveys. For equities to reach a solid floor, we believe investors will need to see an upturn in global manufacturing activity and a marked easing in U.S. recession fears, neither of which currently seem likely.

2019 PERFORMANCE YEAR TO DATE

	Returns	
	Weekly	YTD
S&P 500	-1.4%	15.1%
Dow Jones Industrial Avg	-1.0%	11.6%
NASDAQ Composite	-1.8%	17.7%
Russell 2000 Index	-2.8%	9.2%
Euro Stoxx 50	0.6%	11.6%
FTSE 100 (UK)	0.7%	5.1%
DAX (Germany)	0.8%	7.1%
Nikkei 225 (Japan)	2.3%	9.7%
Hang Seng (Hong Kong)	1.8%	3.9%
Shanghai Stock Exchange Composite (China)	1.9%	15.2%
MSCI EAFE	0.9%	9.2%
MSCI EM	0.4%	3.0%
Barclays US Agg Bond Index	0.1%	8.8%
BofA Merrill Lynch 3-mo T-bill	0.0%	1.6%

Source: Morningstar Direct, Bloomberg and FactSet as of 23 Aug 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.

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1 Source: FactSet, Morningstar Direct and Bloomberg

2 Source: Markit

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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