

3 September 2019

# Trade tensions continue to cause economic damage

*A sense of easing in the ongoing U.S./China trade dispute helped investor sentiment last week, as did an overall feeling that prices may have fallen too far too quickly. Equities rallied last week, breaking a four-week losing streak, with the S&P 500 Index climbing 2.8%.<sup>1</sup> More cyclical areas such as industrials, communications services and financials led the way, while the more defensive utilities, REITs and consumer staples sectors lagged.<sup>1</sup>*

## HIGHLIGHTS

- **The longer the U.S./China trade dispute continues, the more economic damage it is likely to cause.**
- **The Fed is likely to cut rates again this month, which should provide a counterbalancing force.**
- **We are currently broadly neutral toward stocks and think investors should remain highly selective.**



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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

***Real third quarter U.S. gross domestic product growth could come in above 2%.*** The latest positive data was a 0.6% rise in consumer spending in July.<sup>2</sup>

2

***Despite that rise, we are seeing evidence that trade uncertainty is hurting consumer sentiment.*** The University of Michigan's Consumer Sentiment Index fell sharply from 98.4 in July to 89.8 in August, marking the largest monthly decline since 2012.<sup>3</sup> So far, strength in the U.S. consumer sector has been a key reason we have been discounting the probability of a near-term U.S. recession, so this signal is worrisome should the trend hold.

3

***We do not expect to see an advance in capital expenditure spending.*** There have been hopes that lower interest rates would spur capex spending, but our view is that it has been held back more by trade policy uncertainty than high interest rates.

4

***Trade issues are unlikely to be resolved any time soon.*** The longer the dispute goes on, the more economic damage it appears to be causing. At the end of the day, any ultimate resolution of trade issues will depend on President Trump's willingness to make a deal. And the bad news is that it appears the president would rather appear tough and combative to appeal to his political base than accept what he would consider a weak deal.

5

***President Trump's standing in the polls is adding to political uncertainty.*** Last week's polls showed more Americans believe the economy is worsening rather than improving for the first time since the start of the Trump Administration. This decline casts further confusion on the likely outcome of trade and other policy issues.

6

***Brexit complications are adding to global political uncertainty.*** Prime Minister Boris Johnson's move to suspend Parliament raises the odds of a messy, no-deal Brexit.

7

***U.S. stock prices have barely moved since the start of last year.*** Global equities peaked in late January 2018. Since then, U.S. stock prices have moved sideways while global markets have slowly moved lower. With trade uncertainty and other geopolitical issues weighing on economic sentiment, we think corporate earnings prospects are coming under greater risk.

## Stock prices are likely to remain trendless for some time

The escalating trade war has increased worries over a possible recession. Determining where this trade dispute is headed has become nearly impossible, but it still seems clear to us that both the U.S. and China are being hurt by the dispute and both countries would benefit from a deal. At this point, we expect some sort of resolution and an easing of tensions (if not a long-term solution) after the 2020 U.S. elections. The danger, of course, is that the longer the trade war continues, the more damage it causes.

Renewed easing by the Federal Reserve and other global central banks has been a counterbalancing force. It is looking highly likely that the Fed will again lower rates this month, given that the conditions remain that triggered the July cut (uncertain trade conditions and a weak global economic environment). In our view, U.S. economic conditions do not warrant further easing, especially since the labor market and consumer sector remain resilient. But the Fed apparently wants to provide some economic insurance.

Stocks are caught between these two competing forces. Given wild short-term market swings that come from quickly shifting, inconsistent and often contradictory trade policies from the Trump Administration, trying to position portfolios to respond to trade policy changes does not appear practical. Rather, we think investors should continue to focus on long-term fundamentals such as valuations and corporate earnings prospects. At present, we have a broadly neutral view toward equities and are concerned about weakening earnings and profits. As such, we continue to believe that this is a time for investors to remain flexible and selective.

## 2019 PERFORMANCE YEAR TO DATE

	Returns	
	Weekly	YTD
S&P 500	2.8%	18.3%
Dow Jones Industrial Avg	3.1%	15.1%
NASDAQ Composite	2.7%	21.0%
Russell 2000 Index	2.5%	11.9%
Euro Stoxx 50	1.4%	13.1%
FTSE 100 (UK)	0.8%	5.9%
DAX (Germany)	1.4%	8.6%
Nikkei 225 (Japan)	-0.9%	8.7%
Hang Seng (Hong Kong)	1.5%	2.3%
Shanghai Stock Exchange Composite (China)	-1.2%	13.8%
MSCI EAFE	0.9%	10.1%
MSCI EM	1.2%	4.2%
Barclays US Agg Bond Index	0.2%	9.1%
BofA Merrill Lynch 3-mo T-bill	0.0%	1.6%

Source: Morningstar Direct, Bloomberg and FactSet as of 30 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: Commerce Department

3 Source: University of Michigan

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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