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Weekly Investment Commentary

9 September 2019

Equity prices rise again, largely erasing recent losses

Equity markets extended their gains for a second week, following a four-week losing streak.[1] Investor sentiment was boosted by news that the U.S. and China plan to meet early next month to discuss trade issues, although it is still unclear how much progress may be made. With the S&P 500 Index advancing 1.8% for the week, stock prices are nearly even with levels of six weeks ago.[1] For the week, the more cyclical energy, consumer discretionary and technology sectors led the way, while defensive areas such as utilities, health care and consumer staples lagged.[1]

HIGHLIGHTS

- **Stock prices advanced again last week and have essentially returned to levels seen before the late-summer selloff.**
- **The U.S. economy faces multiple risks, but we are not expecting a recession any time soon.**
- **We remain broadly neutral toward stocks, and think investors should continue focusing on selectivity.**

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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.

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Weekly top themes

1 ***The August jobs report confirmed labor market growth is slowing.*** 130,000 new jobs were created last month, slightly less than expected.[2] The good news was that the average hourly work week ticked up 1% and average hourly earnings rose 0.4%, for a 3.2% annualized pace.[2] Wage growth rising faster than inflation is good news for consumer spending prospects.

2 ***Manufacturing data points to weakness.*** The ISM manufacturing index dropped from 51.2 in July to 49.1 in August, with a reading below 50 indicating contraction.[3] Last month was the first time since August 2016 that the index fell below 50.[3] The ongoing trade war between the U.S. and China is likely causing notable damage to the manufacturing sector.

3 ***A long-term trade deal looks elusive.*** It is good news that the U.S. and China agreed to talk, but we doubt the parties are moving closer to a real deal.

4 ***We expect corporate earnings downgrades in the coming months.*** Expectations for future growth remain too high, especially 2020 forecasts.

5 ***U.S. stocks have remained surprisingly resilient.*** Stock markets have had ample reason to decline, given the inverted yield curve, falling government bond yields, weak manufacturing data, trade policy uncertainty and rising volatility. But prices remain near levels seen before the late summer selloff, supported by a solid U.S. consumer sector and increasingly accommodative central bank policies.

6 ***Relative stock and bond yields are a positive for stocks.*** Recently, the S&P 500 Index dividend yield moved higher than the 30-year Treasury yield.[1] We think this unusual situation is a positive signal for stocks over government bonds.

7 ***The U.S. economy continues to hold up better than most markets.*** The American banking system remains well capitalized, credit and loan markets remain healthy and the U.S. boasts a number of world-class companies across technology, health care, media and other sectors. In short, while the U.S. economy has issues, we don't think it is headed for recession.

We are not forecasting a recession, but still have a broadly neutral view toward stocks

Although stock prices have advanced over the last couple of weeks, investors remain focused on downside economic and policy risks and are increasingly concerned about a possible recession. The latest manufacturing readings hurt economic sentiment, while trade issues, turmoil in Hong Kong, the increasing likelihood of a messy, no-deal Brexit and a downturn in European growth are increasing worries. The 2020 U.S. elections linger in the backdrop, offering potential to produce either a dramatic shift in economic policy should the Democrats retake the White House, or continued policy uncertainty should President Trump win reelection.

Against this backdrop, investors are struggling to position their portfolios. Consensus appears to say that it is time to turn more defensive, but U.S. Treasuries and other government bond yields appear to offer little if any value. Indeed, government bond markets are pricing in a high likelihood of a recession and a prolonged period of sluggish growth. At the same time, equity markets have been range bound over the last several months (and, by some measures, since the start of 2018) and are providing unclear signals.

In our view, the preponderance of the evidence suggests that growth will remain sluggish but a recession will be avoided, at least for the next few quarters. In other words, we think the signals coming from the equity markets are more accurate than those coming from government bond markets. Nevertheless, we continue to have a broadly neutral view toward stocks, and think investors should remain selective, focusing on such themes as companies that offer compelling value and those that have the ability to put relatively high levels of free cash flow to work.

2019 PERFORMANCE YEAR TO DATE

	Returns	
	Weekly	YTD
S&P 500	1.8%	20.5%
Dow Jones Industrial Avg	1.5%	16.9%
NASDAQ Composite	1.8%	23.1%
Russell 2000 Index	0.7%	12.6%
Euro Stoxx 50	2.4%	15.9%
FTSE 100 (UK)	2.2%	8.2%
DAX (Germany)	2.6%	11.4%
Nikkei 225 (Japan)	1.9%	10.8%
Hang Seng (Hong Kong)	4.0%	6.3%
Shanghai Stock Exchange Composite (China)	4.6%	19.0%
MSCI EAFE	2.2%	12.6%
MSCI EM	2.4%	6.7%
Barclays US Agg Bond Index	-0.2%	8.9%
BofA Merrill Lynch 3-mo T-bill	0.0%	1.7%

Source: Morningstar Direct, Bloomberg and FactSet as of 6 Sept 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.

Evidence suggests that growth will remain sluggish but a recession will be avoided, at least for the next few quarters.”

For more information or to subscribe, please visit nuveen.com.

1 Source: FactSet, Morningstar Direct and Bloomberg

2 Source: Bureau of Labor Statistics

3 Source: Institute of 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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