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Weekly Investment Commentary

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Stocks bounce back amid coronavirus fears

The ongoing coronavirus crisis dominated financial headlines last week, although investors also focused on the positives of continued solid corporate earnings, good economic data and the U.S. political backdrop. On balance, the good news won out last week, as equities rebounded following two weeks of more than -1% drops in the S&P 500 Index to rise 3.2%, the best weekly performance since last June.[1] The technology, materials and health care sectors were the standouts; energy and REITs lagged; and only utilities finished in negative territory.[1] In other asset classes, oil prices continued to fall and Treasury yields rose.[1]

HIGHLIGHTS

- **Investors remain rightfully concerned about economic and market threats from the ongoing coronavirus scare. While we think the effects are real and uncertainties remain, we believe long-term damage should be relatively well contained.**
- **Since the threat began, U.S. stocks and more defensive areas of the stock market have outperformed on a relative basis. Once investors begin to refocus on longer-term economic stability, we think that trend may shift.**

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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 January jobs report confirms economic growth remains on track.*** New-jobs growth was stronger than expected and wage growth remains modest, suggesting that inflation remains in check.[2]

2. ***U.S. manufacturing showed an expansion in January.*** The ISM Manufacturing Index posted one of its largest gains in years last month, rising above 50 for the first time since mid-2019.[3] The data show manufacturing levels are improving, although we wouldn't be surprised to see a hit in February's numbers due to the coronavirus.

3. ***We think the economic and financial market damage from the coronavirus will be limited.*** Chinese policymakers are stepping up monetary and financial stimulus to mitigate the effects of slower growth, but these measures will take some time. In U.S. financial markets, Treasury yields plunged sharply and companies with high levels of sales in China took a sharp hit.[1] But we expect these trends will be somewhat transient.

4. ***Corporate earnings remain solid.*** With approximately 75% of companies releasing fourth quarter results, 62% of companies reported results ahead of expectations, with an average beat rate of 5%.[4] Earnings-per-share are on pace to rise 3% for the quarter.[4] Technology has been the standout, with 85% of tech companies reporting stronger-than-expected results.[4]

5. ***We think what has been the longest expansion in history will continue.*** The U.S. economy continues to grow at a slow but steady pace, which should keep the 11-year expansion going.

6. ***The 2020 U.S. election remains cloudy, but President Trump's chances for reelection appear to be improving.*** This was undoubtedly a good week for the president, as he was acquitted in the Senate and adopted a forceful and defiant tone in his State of the Union speech. On the Democratic side, the race remains highly uncertain and may come down to Bernie Sanders, Pete Buttigieg, Joe Biden and Mike Bloomberg, with Sanders looking like a likely front-runner.

7. ***We are seeing a sharp dispersion in relative valuation within the U.S. stock market.*** At present, the price-to-book valuation gap between the most- and least-expensive stocks within the Russell 1000 Index is approaching the extreme seen during the height of the 1990s tech bubble.[5] To us, this suggests that relatively undervalued cyclical stocks and value styles look attractive.

Despite coronavirus concerns, the global economic expansion should continue

A sharply negative initial reaction to the coronavirus drove stock prices and Treasury yields down amid economic fears, but last week investors followed a now-familiar script of looking past the near-term risks to focus on longer-term positives. We do not yet know the human toll of the virus or the full extent of its effects on the financial markets or the global economy, but we believe the economic damage should be relatively well contained.

In some ways, the timing of the outbreak was fortuitous, since it came during a period of economic acceleration both around the world and in China. We expect a negative effect on first quarter global economic growth, but we also believe the broader economic expansion will continue.

Before the coronavirus crisis, global export growth and manufacturing levels had been picking up. And, critically, the U.S. consumer sector and labor market have remained strong and have been critical drivers of broader global economic growth. Global policymakers have signaled they will respond to the virus crisis, and we have already seen China take steps to promote continued growth. Additionally, recent economic worries have also removed the possibility of 2020 Federal Reserve rate hike.

The coronavirus remains a serious global health issue and no doubt will have a negative effect on near-term growth. But the underlying global economy remains resilient and monetary policy remains easy, suggesting the cycle will continue. Amid the ongoing scare, U.S. equities have been outperforming other markets. Investors continue to view U.S. stocks as the safest bet, even as valuations appear relatively stretched. In particular, large caps and technology have been leading the way, while small caps and value styles have lagged. When investors refocus on global economic resilience, we would not be surprised to see these trends reverse.

2020 PERFORMANCE YEAR TO DATE

	Returns	
	Weekly	YTD
S&P 500	3.2%	3.2%
Dow Jones Industrial Avg	3.1%	2.2%
NASDAQ Composite	4.1%	6.2%
Russell 2000 Index	2.7%	-0.6%
Euro Stoxx 50	3.1%	-0.9%
FTSE 100 (UK)	0.2%	-3.7%
DAX (Germany)	2.8%	-0.4%
Nikkei 225 (Japan)	1.4%	-0.1%
Hang Seng (Hong Kong)	4.2%	-2.5%
Shanghai Stock Exchange Composite (China)	5.0%	-6.3%
MSCI EAFE	1.9%	-0.3%
MSCI EM	2.8%	-2.0%
Bloomberg Barclays US Agg Bond Index	-0.1%	1.9%
BofA Merrill Lynch 3-mo T-bill	0.0%	0.2%

Source: Morningstar Direct, Bloomberg and FactSet as of 7 Feb 2020. 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.

“The underlying global economy remains resilient and monetary policy remains easy, suggesting the cycle will continue.”

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1 Source: Bloomberg, Morningstar Direct and FactSet

2 Source: Bureau of Labor Statistics

3 Source: Institute of Supply Management

4 Source: Credit Suisse

5 Source: Instinet Nomura

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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