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Weekly Investment Commentary

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We may be moving past the worst of the recession

Stocks reversed course last week, with the S&P 500 Index rising 3.3%.[1] Investors were encouraged by progress with vaccine trials, indications that the Federal Reserve would remain accommodative for the foreseeable future and preliminary signs that economic growth was starting to recover. In a related reversal, areas of the market tied to improved economic growth outperformed more defensive areas, while value styles beat growth and momentum.[1]

HIGHLIGHTS

- **Investors appear to be growing more confident that the global economy will soon be emerging from recession and are optimistic over prospects of coronavirus treatments and vaccines.**
- **We agree that the world may be starting to climb back, but also think the economic reopening could be slower and more uneven than many expect.**
- **As a result, we think stocks and other risk assets could be subject to additional near-term risks.**

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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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10 observations and themes

1) Economic activity remains depressed, but should start to pick up. Investors seem to be largely looking past the dismal (and expected) data from April. Instead, they are focusing on possible improvement from economic reopening, pent-up consumer demand and massive monetary and fiscal stimulus.

2) We think May could mark the end of the shortest but deepest recession in a century. As the global economy slowly and unevenly unlocks, June data could show a reacceleration. Optimism over such prospects has allowed stocks to retrace so much of their March losses.

3) The Fed has been unequivocal about its ongoing support for the economy and credit markets. Stimulus measures and subsequent announcements by the Fed that it would support credit markets and promote liquidity have helped reduce corporate credit spreads since the equity-market low on March 23. This remains a positive for equity markets.

4) We anticipate another $1 trillion stimulus package to come in late June. Details need to be worked out, but we expect additional tax cuts, aid to state and local governments, unemployment benefit extensions and possibly some corporate liability protections.

5) Despite high volatility, stocks have barely moved over the past month. We are now three months past the anniversary of stocks' all-time high on February 19.[1] The first month was marked by a precipitous decline, the second by a strong recovery and the third by ongoing back-and-forth as investors await more clarity.[1]

6) Treasury yields have also been stuck. The 10-year yield has moved between a floor of 0.6% and a ceiling of 0.7% lately, despite the massive fiscal stimulus.[1] We don't expect a material move higher in yields in the near term. But as the economy continues to reopen, we anticipate a modest steepening of the curve and upward pressure on rates.

7) Inflation worries are growing. The huge run up in government debt, combined with massive central bank asset purchases, is causing investors to wonder about prospects for inflation. We don't expect inflationary pressures any time soon, but the Fed may at some point decide that promoting higher inflation would be the least painful way to reduce high debt levels.

8) Similarly, we could eventually see pressures for higher tax rates. Current stimulus measures are effectively borrowing money from future taxpayers, and all of the spending will eventually need to be paid for. As a point of reference, we saw massive tax increases across income and capital gains rates in the 1930s to pay for the spending that helped the U.S. emerge from the Great Depression.

9) We expect downward pressure on the U.S. dollar in the coming months. The dollar has benefited from a broad flight-to-quality move across global financial markets. But as the economy improves and investors feel more comfortable taking on risk, the collapse in interest rates is likely to act as a headwind.

10) The outlines of the presidential election are coming into focus. The election is all but certain to be a referendum on President Trump, and he is pushing a three-pronged narrative: he can best bring back the economy, he will be tougher on China and questioning Joe Biden's competency.

Economic reopening will likely be uneven and volatility should remain high

Large parts of the world are gradually restarting their economies. And we emphasize "gradually," as we expect the process will be long and difficult as individuals and businesses tread carefully. Many will voluntarily choose to remain in lockdown mode while others will rush headlong into reopening. This will create a choppy and unpredictable environment.

At this point, few expect a "V-shaped" recovery, but there is a growing sense among many investors that we will see a steady upward path ahead. The odds seem to be favoring effective coronavirus treatments and vaccines arriving in the next year, and many are pointing to signs that the global economy is starting to recover, such as positive readings from the May flash Purchasing Managers' Index surveys.[2]

We agree that conditions appear to be improving, but we are cautious about predicting the speed. The appetite for additional fiscal stimulus is waning in some regions, as policymakers balance the needs of immediate economic support with growing budget deficits. The outlook for employment growth is also unclear, as many companies and industries will take time to recover and some never will. We also expect scattered additional economic "re-lockdowns" such as have happened in Asia.

As such, we continue to have a cautious short-term view toward stocks and other risk assets. Volatility is likely to remain elevated. And absent an unexpected medical breakthrough that allows a smoother and quicker reopening, we think stocks could be due for a period of consolidation or weakness.

2020 PERFORMANCE YEAR TO DATE

	Returns	
	Weekly	**YTD**
S&P 500	3.3%	-7.8%
Dow Jones Industrial Avg	3.4%	-13.4%
NASDAQ Composite	3.5%	4.4%
Russell 2000 Index	7.9%	-18.3%
MSCI EAFE	3.0%	-18.2%
MSCI EM	0.5%	-18.3%
Bloomberg Barclays US Agg Bond Index	0.4%	5.2%
BofA Merrill Lynch 3-mo T-bill	0.0%	0.6%

Source: Morningstar Direct, Bloomberg and FactSet as of 22 May 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.

> ***"We continue to have a cautious short-term view toward stocks and other risk assets."***

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1 Source: Bloomberg, Morningstar and FactSet

2 Source: Markit Economics

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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