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The summer market churn continues

Despite day-to-day and week-to-week volatility, stocks prices remain little changed over the past couple of months. Last week, the S&P 500 Index rose 1.8% to a level slightly below where it was one month ago.¹ Megacap technology stocks led the way, while small caps experienced a loss for the week.¹ Sector winners included consumer discretionary, communications services and technology, while energy was the worst-performing area.¹ The financial sector also outperformed, ahead of some key earnings results from banks this coming week.¹

HIGHLIGHTS

- **Stock markets saw price gains last week, yet remain within the same broad trading range they have experienced for the last couple of months.**
- **We continue to believe that the economy will recover over the course of this year, but we are growing more concerned over how rising coronavirus cases are complicating plans to reopen the economy.**
- **For now, we remain cautious toward stocks, and expect markets to continue churning through the summer.**



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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

Escalating coronavirus cases could slow growth. With U.S. daily new cases over the 50,000 mark, officials in many states have halted or reversed plans to reopen economies. We have already seen state-specific declines in consumer spending and jobs growth that could continue into July.

2

Second quarter earnings results are going to be horrific, but the bad news has already been priced into the markets. The focus this week will be on large multinational banks, which have been experiencing pressure due to troubled credit markets and low interest rates. For the S&P 500 as a whole, current expectations are for a 45% drop in earnings year-over-year, representing the worst three-month period since the fourth quarter of 2008.²

3

The odds of additional fiscal stimulus look better than 50%. We expect something in the \$1 trillion to \$1.5 trillion level, although it may not pass before the \$600 weekly unemployment benefits expire on July 31. The package could include smaller unemployment benefits, more funding for the payroll protection program, direct aid to state and local governments and more help for the health care sector.

4

The jobs market is improving, but recovery will take some time. Since the pandemic began, the U.S. has lost 22 million jobs.³ So far, 8 million have been restored over the last two months.³ We think adding 7 to 8 million more jobs before the end of the year is likely.

5

Markets are starting to focus on a growing possibility of a Biden presidency. With his standings in the polls improving, Joe Biden last week outlined his \$700 billion plan to revitalize the economy. His plan aims to create 5 million new jobs, heavily based on government promoting domestic manufacturing. He also intends to raise corporate tax rates from the current 21% to 28%.

6

Growth has continued to outperform value in recent weeks. Much of the relative outperformance can be attributed to megacap technology companies that are benefiting from increased Fed-induced liquidity, as well as concerns over the escalating coronavirus cases and worries over economic growth prospects. Should the economy continue to recover, we think value styles could improve.

7

Investors will likely have to contend with more constrained market returns in the coming decade. Over the past 50 years, a 60/40 blend of U.S. stocks and bonds has returned close to 10% per year on average.⁴ But stocks and bonds are both at the high end of their valuation levels. That suggests that an average annual return of closer to 3% to 4% looks more likely for the next decade.

Three reasons for near-term caution

Over the last couple of months, stocks have been caught between positive and negative crosscurrents. On the positive side, markets have been supported by policy stimulus, hopes for improvement in economic conditions and a lack of appealing alternatives. On the negative side, they are being held back by a growing realization that the economy faces a long road to recovery and worries over a stalling or reversal in growth. At this point, we are concerned that much of the good news has already been baked into asset prices, while the bad news has yet to be fully factored in.

In particular, we point to three near-term concerns. First is the growing uncertainty about coronavirus trends and what they will mean for the economy. Barring a vaccine, cases in the United States will likely continue to grow, both in absolute terms and relative to the rest of the world. Second is the U.S. election. Current odds suggest a Biden victory and a growing possibility of a Democratic sweep of Congress. Should this happen, risk assets and the U.S. dollar would likely come under pressure due to higher corporate taxes and a less equity-friendly regulatory environment. And third is current stock valuations. At present the forward price-to-earnings ratio of the S&P 500 is over 20X, which is quite high.¹

At this point, we expect markets to continue to churn, and possibly experience a near-term consolidation since stocks are at the high end of their current trading range. We are likely to retain a cautious outlook toward stocks, unless prices fall to make valuations more attractive or we see greater clarity around the path of the virus and the economy.

2020 PERFORMANCE YEAR TO DATE

	Returns	
	Weekly	YTD
S&P 500	1.8%	-0.4%
Dow Jones Industrial Avg	1.0%	-7.4%
NASDAQ Composite	4.0%	19.0%
Russell 2000 Index	-0.6%	-14.1%
MSCI EAFE	0.5%	-9.4%
MSCI EM	3.7%	-2.6%
Bloomberg Barclays US Agg Bond Index	0.4%	6.7%
BofA Merrill Lynch 3-mo T-bill	0.0%	0.6%

Source: Morningstar Direct, Bloomberg and FactSet as of 10 July 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.

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1 Source: Bloomberg, Morningstar and FactSet

2 Source: Credit Suisse

3 Source: Bureau of Labor Statistics

4 Source: JP Morgan

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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