nuveen
A TIAA Company

Weekly Investment Commentary

20 July 2020

Stocks grind higher, but risks remain elevated

Stock prices rose for a third consecutive week, bringing prices back to where they were in early June.[1] Investors largely shrugged off news of growing coronavirus cases in many areas of the U.S. and world and looked past possibilities of renewed economic shutdowns. Instead, markets focused on some better-than-expected economic and earnings results and hopes over an eventual vaccine. Value and cyclical areas of the market outperformed growth and momentum, as the industrials, materials and health care sectors won out over consumer discretionary and technology.[1]

HIGHLIGHTS

- **Over the last several weeks, investors have been bidding up stock prices on hopes for stronger economic data and prospects for a coronavirus vaccine.**
- **Rising infection rates, however, will likely blunt the pace of the recovery, which could create more headwinds for equities.**
- **As such, we think stocks will continue to churn and move sideways over the next several months.**

Robert C. Doll, CFA
Senior Portfolio Manager and Chief Equity Strategist

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. ***Growing virus cases are likely to complicate economic reopening plans, but we don't expect massive shutdowns.*** As the virus flares up in areas of the U.S. and elsewhere in the world, we think economic activity is likely to slow in some places. But we don't expect widespread renewed shutdowns. For one, the health care system is better equipped to handle the virus than it was in the spring. Additionally, both policymakers and individuals are committed to reopening the economy, both for good and ill. We don't expect any new shutdowns to spark a new equity bear market, but we do think they will slow the pace of the current economic recovery.

2. ***Consumer sentiment is falling.*** The University of Michigan's Index of Consumer Sentiment fell from 78.1 in June to a worse-than-expected 73.2 in July. This suggests consumer spending is likely to slow, which is bad news for the economy (and for President Trump's reelection chances) but good news for prospects for an additional fiscal stimulus package.

3. ***Earnings have been a bit less horrible than expected.*** With 15% of S&P 500 companies reporting second quarter results, earnings are on track to be down 43% year-over-year.[2]

4. ***The banking sector remains under pressure.*** Banks are continuing to raise their credit loss provisions, as the risk of bankruptcy among their borrowers is rising. We don't see this changing until we have more clear evidence of infections being contained.

5. ***Jobs growth should continue, but slowly and unevenly.*** We expect the unemployment rate to fall over the next 18 months, but also believe it will be higher than pre-crisis levels at the end of 2021.

6. ***U.S. political uncertainty is growing.*** It is looking increasingly likely that Joe Biden will win the presidency. The growing possibility of a Democratic Senate could result in market-unfriendly tax and regulatory changes.

7. ***We could be at the cusp of a change in global stock market leadership.*** Over the second half of 2020, we expect the U.S. dollar to fall and non-U.S. stocks to start outperforming on a relative basis.

We expect stocks to remain range-bound for now

Investors are increasingly looking past the rise in coronavirus infections and are instead focusing on prospects for better economic activity in the future and hopes of progress on treatments and vaccines. This is in sharp contrast to behavior back in March and April, as it appears investors are more willing to ride out uneven economic data. Confidence could start to fall if the rising infection rate continues and if the trend of positive economic data reverses. We are also concerned over the lack of ready catalysts that could make the current economic recovery self-sustaining. A rebound in global trade levels would be the most obvious candidate, but that seems quite unlikely in the current geopolitical environment.

Stocks have been rallying in recent weeks, and have essentially returned to the levels of six weeks ago. Looking ahead, we expect markets to remain relatively volatile and choppy, as we expect a higher level of economic disappointments until the coronavirus infection rate diminishes. On the positive side, however, stocks remain buoyed by extremely accommodative monetary policy and we expect more fiscal stimulus in the months ahead.

Evidence of a successful vaccine could trigger a renewed stock market rally (as demonstrated by last week's jump in prices over positive signals on that front). But it is still too early to pin our hopes on such an event, as vaccine trials are still in early stages. Additionally, other sources of possible market turbulence could emerge in the coming months, chiefly around the U.S. elections.

In sum, we remain constructive toward stocks over the long term, but think equity markets are more vulnerable to disappointments over the short term. This is a recipe for continued churning activity over the next couple of months.

2020 PERFORMANCE YEAR TO DATE

	Returns	
	Weekly	**YTD**
S&P 500	1.3%	0.9%
Dow Jones Industrial Avg	2.3%	-5.3%
NASDAQ Composite	-1.1%	17.7%
Russell 2000 Index	3.6%	-11.0%
MSCI EAFE	2.2%	-7.4%
MSCI EM	-1.2%	-3.8%
Bloomberg Barclays US Agg Bond Index	0.2%	7.0%
BofA Merrill Lynch 3-mo T-bill	0.0%	0.6%

Source: Morningstar Direct, Bloomberg and FactSet as of 17 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.

"We remain constructive toward stocks over the long term, but think equity markets are more vulnerable to disappointments over the short term."

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

1 Source: Bloomberg, Morningstar and FactSet

2 Source: Credit Suisse

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.

This material is not intended to be a recommendation or investment advice, does not constitute a solicitation to buy, sell or hold a security or an investment strategy, and is not provided in a fiduciary capacity. The information provided does not take into account the specific objectives or circumstances of any particular investor, or suggest any specific course of action. Investment decisions should be made based on an investor's objectives and circumstances and in consultation with his or her advisors.

Risks and other important considerations

The views and opinions expressed are for informational and educational purposes only as of the date of writing and may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The information provided does not take into account the specific objectives, financial situation, or particular needs of any specific person. All investments carry a certain degree of risk and there is no assurance that an investment will provide positive performance over any period of time. Equity investments are subject to market risk or the risk that stocks will decline in response to such factors as adverse company news or industry developments or a general economic decline. Debt or fixed income securities are subject to market risk, credit risk, interest rate risk, call risk, tax risk, political and economic risk, and income risk. As interest rates rise, bond prices fall. Non-investment-grade bonds involve heightened credit risk, liquidity risk, and potential for default. Foreign investing involves additional risks, including currency fluctuation, political and economic instability, lack of liquidity and differing legal and accounting standards. These risks are magnified in emerging markets. Past performance is no guarantee of future results.

Nuveen Asset Management, LLC is a registered investment adviser and an affiliate of Nuveen, LLC.

This information does not constitute investment research as defined under MiFID.

GWP-1250365PR-W0720P

nuveen

A TIAA Company