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Weekly Investment Commentary

3 August 2020

Stocks climb, but so does unemployment

Equities ended higher, with the S&P 500 Index up 1.7%.[1] The U.S. dollar was down for the sixth straight week, hitting its lowest level since May 2018. [1] Gold was up 4.7%, marking its eighth consecutive week of gains and setting a new all-time high.[1] Technology stocks led due to strong earnings. REITs and consumer discretionary stocks were strong, while the energy, materials and financial sectors were down. Second quarter earnings showed a record-setting drop, but another rise in weekly initial jobless claims suggests the economy may be slowing. Little progress was made in Washington over a coronavirus stimulus package, raising investor angst.

HIGHLIGHTS

- **Equity markets rebounded last week, but another rise in weekly initial jobless claims suggests the economy may be slowing.**
- **Continued accommodative fiscal and monetary policies will be key to sustaining the economic recovery until a medical breakthrough occurs.**
- **The U.S. dollar weakened further, while gold prices continued to rally and reached an all-time high.**

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.

10 observations and themes

1) Initial jobless claim filings increased from 1.3 million the prior week to 1.4 million.[2] This result was a disappointment and marked the first weekly increase reported since March. The data may be signaling that the economy has lost momentum following the solid improvement throughout much of April and May.

2) The Senate's stimulus proposal saw a delay on GOP policy disagreements. We still expect bipartisan negotiations will lead to a bill supporting the economy and virus response to the tune of $1.5 to $2 trillion by early- to mid-August.

3) Earnings per share are expected to decline by 40% or more in the second quarter, even though so far earnings have generally exceeded estimates with nearly 30% of S&P 500 companies reporting.[3]

4) Second quarter real GDP will likely be down between 30 and 35%, according to the first official government estimate due out this week.

5) The U.S. dollar made a technical breakout on the downside, increasing the odds of further declines. Should this happen, it should help lift U.S. growth and S&P 500 earnings, but would increase the odds of U.S. inflation

6) U.S./China tensions ratcheted up again. The U.S. ordered China to shut its Houston consulate amid accusations that it and other Chinese diplomatic missions engaged in economic espionage and visa fraud. In retaliation, China ordered the U.S. to shut down its consulate in Chengdu.

7) Market breadth is the narrowest we've seen in 20 years, meaning that fewer stocks are participating in rallies.[1] Breadth began to deteriorate noticeably after the early June market high. Deteriorating breadth is rarely a good sign for the market, and we would caution against chasing stocks higher. We are closely monitoring risks such as the high concentration of returns in a handful of technology titans, the Fed's balance sheet leveling off, a potential fiscal cliff and the possibility of a Democratic sweep that is not yet priced into equities.

8) The market seems to have started discounting a potential rise in inflation over the coming years. Higher inflation breakeven rates and earnings that have generally exceeded estimates with nearly 30% of S&P 500 companies reporting.[3] Gold and commodity prices are all consistent with an upward drift in consumer prices over the next couple of years. Low productivity growth and the decline in the dollar will also feed into potentially higher inflation.

9) Both bonds and equities now look expensive, after a sharp recovery in equities and little sell off in bonds following the coronavirus bear market. This points to a period of time where we're likely to experience below-average returns and potentially above-average volatility.

10) U.S. equities have lagged the rest of the world since mid-May, and we believe there is greater opportunity in non-U.S. equities compared with the S&P 500. The U.S. has been overvalued relative to non-U.S. for some time, pushing bargain hunters to look outside the U.S. Coronavirus trends and short-term economic indicators suggest that Europe is handling the pandemic better than the U.S., which could have ramifications for regional equity markets down the road.

Economic recovery will be bumpy, but it should persist

Just when global equity prices might stumble, positive news seems to boost sentiment further. This good fortune will not last indefinitely, but we are not approaching a peak and risk-off phase. Policymakers are focused on supporting economic activity until a sustained recovery is underway. Short-term setbacks are still possible, but a material decline seems unlikely.

Still absent is a medical policy to control the virus, or allow a return to relatively normal economic and social activity. While we have seen some positive steps, a solution is not imminent. The longer it takes to develop a vaccine or successful therapies, the greater the risk to investor belief in a sustained economic outcome. Maintaining a strong reflationary bridge via other policy options is critical until a successful health outcome emerges, otherwise business failures and unemployment might intensify.

A cautious short-term strategy is warranted, given the huge equity-market rebound since March 23, unattractive valuations and signs of a resurge in infections. The declining U.S. dollar and the potential end to a longer period of U.S. equity market outperformance is a relatively new development. This is likely to be over multiple years, rather than ending than abruptly.

Last week's second consecutive uptick in a new unemployment claims could be a precursor to a poor payroll report on August 7. It is unclear if unemployment will stay permanently high due to an inability to maintain normal levels of economic activity.

We remain cautious in the near term. School reopenings, a secondary wave of infections and a contentious U.S. election could unnerve investors. The cyclical economic recovery will be bumpier than many hoped, but it should persist as long as the monetary and fiscal reflationary bridge holds.

2020 PERFORMANCE YEAR TO DATE

	Returns	
	Weekly	**YTD**
S&P 500	1.7%	2.4%
Dow Jones Industrial Avg	-0.2%	-6.1%
NASDAQ Composite	3.7%	20.4%
Russell 2000 Index	0.9%	-10.6%
MSCI EAFE	-2.1%	-9.0%
MSCI EM	1.8%	-1.5%
Bloomberg Barclays US Agg Bond Index	0.3%	7.7%
BofA Merrill Lynch 3-mo T-bill	0.0%	0.6%

Source: Morningstar Direct, Bloomberg and FactSet as of 31 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

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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