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Weekly Investment Commentary

21 December 2020

A look back at our 10 Predictions for 2020

As 2020 winds down (and before we unveil our 2021 Predictions), it's a good time to look back at the past 12 months and provide initial thoughts about what the next year might bring. 2020 will long be remembered for the devastating coronavirus pandemic that sparked the sharpest and shortest recession in modern history. Yet equities and other risk assets still managed impressive returns. We're expecting conditions to return to a more normal environment in 2021 as global economic growth improves. But we also think markets may have already discounted some of the good news, which could dampen returns.

2021 OUTLOOK

- **We expect global growth to become more synchronized and enter a stronger expansion once vaccines are widely available. Until that time, economic disappointments are likely.**
- **The corporate earnings outlook is tricky: We expect a strong showing in 2021 following this year's earnings recession, but longer-term issues such as inflation and higher rates could act as a drag.**
- **For stocks, we think markets will post gains in 2021. Although with so much optimism already baked in, we caution that returns may be more limited than many expect.**

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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.

10 Predictions scorecard

A light at the end of a very long tunnel

The pandemic and resulting economic and market upheaval threw our January predictions for a loop. Amid the crisis, we created a new set of predictions based on our belief that the crisis would peak in the second quarter, paving the way for a slow economic recovery. In January, we'll offer a complete scorecard for all of predictions. For now, we'll focus on our new set.

SCORECARD
Overall Scoring

✓	HEADING IN THE RIGHT DIRECTION
✗ ✓	HALF-CORRECT
?	TOO EARLY TO CALL
✗	HEADING IN THE WRONG DIRECTION

1 ✓	**The U.S. and world experience a sharp, but reasonably short recession with noticeable recovery before year-end.**	With the sharp jump in growth in the third quarter, the deepest recession in post-World War II history also proved to be the shortest one. The pace of growth is likely to slow in the fourth quarter and into the start of 2021, but we expect the year as a whole will witness an expansion.
2 ✗ ✓	**All-time low yields move higher during the second half, with the 10-year Treasury closing the year above 1%.**	The 10-year Treasury yield plummeted to record lows during the heart of the crisis in March, and has since moved slightly higher in fits and starts. The yield moved above 0.9% and came close to 1.0% in December, but just barely failed to cross above that threshold.
3 ✓	**Earnings collapse, but rise smartly by the fourth quarter.**	Earnings collapsed in the first and second quarters before rebounding smartly in the third. And it appears corporate profits could actually hit an all-time high in the fourth quarter.
4 ✗	**Stocks, bonds and cash all return less than 5% for only the fourth time in 25 years.**	Stock prices have been extremely volatile this year, and are again nearing record highs (the S&P 500 Index is up 16.9% for the year). With the Fed anchoring short-term rates at zero, cash returns have been miniscule. Bonds are performing better than we expected (The Bloomberg Barclays U.S. Aggregate Bond Index is up 7.1%), but could experience headwinds if longer-term yields rise.
5 ✓	**The dollar weakens as global growth strengthens in the second half.**	The weakening dollar has been one of the major market stories in 2020. Since the midpoint of the year, the dollar is down -7.6% as investors moved out of safe-haven assets and as global growth has been strengthening. Massive U.S. deficits have also dragged on the value of the dollar.

> *"Near-term market risks could be high, but we expect global equity prices to be higher one year from now."*

6 ✗ ✓	**Value and cyclicals outperform growth and defensive stocks in the second half.**	As of now, the Russell 1000 Value Index (21.3%) is slightly trailing the Russell 1000 Growth Index (25.0%) since June 30. The cyclical/defensive situation is more clear: An equal-weighted basket of cyclicals (22.4%) is well ahead of defensive stocks (11.7%) in the second half of 2020.
7 ✓	**Financials, technology and health care outperform utilities, energy and materials in the second half.**	Our list of favored sectors is up 20.1% in the second half of 2020, and a basket of our least-favored trails at 15.1%. Technology and health care should continue to do well in an environment of quantitative easing, and the financial sector appears undervalued.
8 ✗	**Active equity managers outperform their indexes for the first time in a decade.**	This trend held true earlier in the year, but the massive rally that took hold in November caused many active managers who were underweight value sectors to lose ground. Heading into the close of the year, only 36% of active managers are beating their indexes.
9 ✓	**The cold wars within the U.S. and between the U.S. and China continue.**	An optimist would hope that Americans would have used this time of crisis to pull together, but the opposite is the case as political and social divisions within the United States have worsened through 2020. And the relationship between the U.S. and China (and, indeed, China and the rest of the world) appears to be deteriorating as the countries move from being competitors to adversaries.
10 ✓	**The coronavirus recession and rise in unemployment cause Donald Trump to be a one-term president.**	The "blue wave" scenario did not come to pass, but Donald Trump became the first incumbent to lose his reelection bid since 1992. Looking ahead, we expect political turmoil to remain high and gridlock to continue.

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Endnotes

Sources

All market data from Bloomberg, Morningstar and FactSet

Active management data from Bank of America Merrill Lynch Research

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A word on risk

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