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The rise of the individual investor

Thanks to a bout of volatility, U.S. equities experienced their worst week of trading in three months and ended January on a negative note. Broad indexes sought to sustain fresh highs to start the week, but soon realized losses largely due to the unexpected force of individual investors. The S&P 500 fell 3.3% for the week, as all 11 sectors declined – five by more than 4.0% (including two by more than 5.0%). The real estate and utilities sectors fared the best, falling by 0.1% and 1.1%, respectively.

HIGHLIGHTS

- **Individual investors collectively created one of the biggest short-squeeze events in market history.**
- **U.S. growth declined in the fourth quarter of 2020, though by less than feared. This weakness was largely expected, given the absence of additional fiscal stimulus and continued coronavirus-related economic restrictions.**
- **More progress has been made in both developing and administering COVID-19 vaccines.**



Saira Malik, CFA
CIO of Nuveen Equities

Saira Malik oversees the equities strategic direction for Nuveen as chair of the Equities Investment Council (EIC) and a member of Nuveen's Global Investment Committee (GIC). She has responsibility for equity portfolio management, equity research, equity trading, target date, quantitative and index strategies, as well as portfolio management responsibilities for global equity strategies.

Weekly overview

- *Headlines involving heavily shorted stocks, chiefly GameStop, caused hedge funds to reduce their equity exposures at the fastest pace in over six years, resulting in heavy losses.*
- *Fed Chairman Jerome Powell struck a very dovish tone in his statements last week, reaffirming the Fed's commitment to remain accommodative, even after the economy is fully reopened. He also laid out the Fed's expected timeline for tapering asset purchases, which extends well beyond recent expectations, and downplayed concerns.*
- *Economic data improved, including week-over-week gains in both initial and continuing jobless claims of 847,000 and 4.8 million, respectively. Residential construction increased nearly 14% in fourth quarter of 2020, while new durable goods orders rose 0.2% in December alone.*

Market drivers & risks

- **Individual investors flex their muscles.** In a dramatic shift, last week's volatility was not driven by coronavirus- or stimulus-related headlines, but rather by a history-making short-squeeze coordinated by a pool of individual investors leveraging social media and online chat groups. Short sellers of GameStop lost over \$5 billion year-to-date through January 27, as a group of individual investors relentlessly bid up its stock.
 - Much has been made of this story, from a 'David vs. Goliath' narrative to questioning the role of regulators. But we see a more significant takeaway: Individual investors with growing



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access to capital and markets are a force to be reckoned with. Indeed, the way we view equity market investing may have just structurally changed, permanently. Fundamentals will continue to drive markets over the long-term, but collective groups of individual investors are now moving the money, rather than simply chasing it.

- **Economic recovery hopes receive a booster shot.** Concerns over growing coronavirus case numbers, hospitalizations and deaths, paired with a disappointingly slow public rollout of vaccines, have left investors skittish and led to pockets of volatility. Thankfully, we have gained traction with positive efficacy rates of two new vaccination candidates, as well as improvements in coronavirus-related data.
 - As it becomes more likely that the coronavirus environment may linger longer than expected, such data represents the tangible evidence markets need to feel more confident about an eventual full economic reopening. As a result, we maintain our modest risk-on positioning, looking to quality cyclicals and small cap stocks to continue their recovery.
- **Earnings are being overshadowed.** An impressive start to earnings season was largely overlooked last week, given short-selling activity. Apple, Microsoft, Tesla and Facebook all had positive reports. We continue to expect earnings to drive market appreciation in 2021, especially through the remaining three quarters, but we are off to solid start.

Risks to our outlook

The pace of vaccine distribution appears to be accelerating, and a recent executive order pledging 100 million doses in 100 days should help alleviate concerns. But new and emerging coronavirus variants could lead to lower efficacy rates of existing vaccines, potentially leading to deceleration in economic growth and negatively impacting our modest risk-on positioning.

Additionally, stimulus-driven volatility is likely to persist in the near-term as Congress works toward passing the proposed \$1.9 trillion package.

The next few months could remain challenging for investors, and continued high volatility and possible near-term market selloffs are likely. Last week's trading bucked the recent trend of resiliency in stock prices, with the Volatility Index (VIX) eclipsing the 30 mark for the first time since November.



Best ideas

We believe U.S. small caps offer value and are favorable toward emerging markets equities. Overall, our key investment theme centers on looking for quality across geographies, sectors and industries. Dividend-paying (and growing) companies should remain attractive in a low-rate environment. However, we have observed an uptick in rates in 2021 and will monitor the space.

In focus

Emerging markets poised for leadership in 2021

Despite stretched valuations and significant downside risks globally, we believe emerging markets (EM) equities should outperform their developed market counterparts in 2021, especially as the U.S. may struggle due to policy and valuation headwinds. The current state of global equities reminds us of the environment immediately following the Global Financial Crisis, when EM returned 79% in 2009 and 19% in 2010. While EM equities may not appear cheap in absolute terms, their valuations are more historically attractive than those of U.S. equities.

The economic impact of the coronavirus crisis in China, Korea and Taiwan was milder than in other parts of the world. In fact, China is one of the few economies that grew in 2020. However, with multiple vaccines being rolled out, the coronavirus-recovery trade will likely come into greater focus in 2021. Even countries in the so-called “coronavirus-loser” category – such as India, Brazil, Mexico, Indonesia and Peru – have started performing well. We expect this to continue over the next six months. Latin America, dominated by Brazil and Mexico, could be among the top medium-term performers.

Key tailwinds for EM going into 2021 include: attractive relative valuations, a weaker dollar, strong Chinese growth, an improving geopolitical outlook, a widening growth gap between EM and the U.S. and a shifting paradigm favoring EM over the U.S.

About the Equities Investment Council:

The Nuveen Equities Investment Council (EIC) includes the firm's senior equity portfolio managers averaging three decades of investing experience. The group brings global expertise across different styles of equity investing and provides value-added insights to Nuveen's investment process by refining and delivering the firm's collective equity market outlook, including key risks and drivers, to clients. Led by Saira Malik, CIO & Head of Equities, the team shares best global equities ideas, while focusing on individual areas of expertise to help generate alpha.

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

Sources

All market data from Bloomberg, Morningstar and FactSet

Employment data from the Department of Labor

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A word on risk

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 investing involves risk. Investments are also subject to political, currency and regulatory risks. These risks may be magnified in emerging markets. Diversification is a technique to help reduce risk. There is no guarantee that diversification will protect against a loss of income.

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