

22 February 2021

Stocks remain quiet. For now.

Results were mixed across broad-based indexes, split between modest gains and losses for the holiday-shortened week of trading. Energy and financials each added 3.5% and 2.8%, respectively, while technology, health care and utilities lagged.

HIGHLIGHTS

- **Global flash manufacturing PMIs exhibited strength, with data from Japan, the EU and UK exceeding expectations.**
- **The 10-year Treasury yield increased nearly 15 basis points (bps), resulting in a steeper yield curve.**
- **Stimulus optimism remains positive, as the Biden administration extended foreclosure and forbearance programs.**



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

- *Trading remained relatively subdued for a second consecutive week, as the S&P 500 failed to move more than 50 bps on a given day. Small caps trailed large caps for the first time in February, while value continued to outpace growth.*
- *Treasury Secretary Yellen continued to advocate for a \$1.5 to \$1.9 trillion stimulus package, stating the benefits of a larger package will far outweigh its costs and the Fed has the tools to fight inflation pressures.*
- *Once again, technology stocks received record inflows, despite relative underperformance that was partially attributed to rising rates. While financials continue to benefit, investors appear reluctant to move away from long-term outperforming areas of the markets.*

Market drivers & risks

- **Beware the bear steepening.** As rising bond yields become a global phenomenon, we see a “bear steepening” dynamic in 10- and 2-year Treasury yield spreads, as yields and spreads are rising together. Over the past two market cycles, spread widening between 10- and 2-year Treasury yields of 130 to 200 bps from inversion lows has marked a peak for stocks.
 - Although the spread is currently within 10 bps of this “bear steepening” range, we believe the strength and momentum of the broad economy



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- **Deep freeze.** Severe weather in South Central U.S. is likely to have wide-reaching implications for the equity markets. Notably, 40% of the U.S.’s crude oil production was taken offline, while oil refining centers were also forced to cut output. In addition, 28% of Samsung’s global semiconductor production was halted, adding to the global chip shortage.
 - Rising oil prices have fueled existing inflation fears, while transitory dislocations like the rapid appreciation driven by last week’s weather conditions will likely add to volatility and make inflation data appear even more exaggerated. The Fed will likely continue to look-past these short-term variances toward normalized conditions.
- **Betting on Bitcoin.** Bitcoin is currently the second-most-popular trade after long-technology positions. The cryptocurrency topped \$50,000 last week, due to news of Tesla’s investment and interest from Morgan Stanley.
 - While there are valid reasons to own Bitcoin (i.e., concerns over inflation or government debt levels), we believe cryptocurrencies should be a purely discretionary part of overall portfolio allocation, given their speculative nature, lack of central authority and limited supply.

Risks to our outlook

Disorderly yield growth and inflation risks remain our biggest near-term concerns, as any indication of an impending tapering of quantitative easing may cause investors to overreact, resulting in a possible correction.

Coronavirus variants remain at the forefront of possible risks, given their propensity to spread more quickly, the possibility to be more deadly and the potential to disrupt economic reopenings. Additionally, stimulus-driven volatility is likely to persist until a package has been passed.

We are also monitoring valuations. Bitcoin's recent surge indicates investor exuberance, with price momentum reaching dot-com, bubble-era levels. While a short-lived, sentiment-driven correction is possible, economic and earnings growth should continue to underpin investor confidence.

In focus

Going global for better returns

Non-U.S. equities have lagged U.S. markets, as the S&P 500 outperformed MSCI EAFE in 8 of the last 10 years. Will the trend soon reverse? A number of factors support the case that 2021 may be the year to seek better returns outside of the U.S.

The combination of extensive fiscal and monetary policy stimulus, along with the ending of the pandemic, are likely to lead to a strong, synchronized global economic recovery this year.

Rising inflation expectations are pushing interest rates higher. While these factors support value stocks outperforming growth and cyclicals outperforming defensives, what does it mean for international equity versus the U.S.?

Index composition factors come into play when comparing EAFE to the S&P 500. First, information technology represents close to 28% of the S&P 500 compared to 9% for EAFE. To compensate, EAFE is overweight industrials by 7%, financials by 7% and materials by 5%. The U.S. market has understandably outperformed over the last decade, as growth stocks, led by technology, have trounced value stocks in a world of declining interest rates and sub-trend global growth.

But should above-trend global growth and higher interest rates materialize, 2021 may be a better environment for value and cyclical stocks relative to their growth and defensive peers. International developed markets may contain more fertile ground for investing than the U.S. The U.S. dollar has struggled relative to foreign currencies over the last eight months, adding to the case for overseas returns.



Best ideas

We continue to believe U.S. small caps offer value and remain favorable, as they are poised to benefit from a re-opened economy and stimulus. Overall, our key investment theme centers on looking for quality across geographies, sectors and industries. Additionally, consumer-related industries within emerging markets appear attractive.

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
Manufacturing data from the Institute for Supply Management.
Equity flows data supply by Bank of America.

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A word on risk

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