

29 March 2021

We anticipate more market leadership shifts

Global equities were mixed last week, with U.S. markets faring better than their non-U.S. counterparts. Large-caps outperformed small caps, while growth underperformed value. From a sector perspective, all but three returned 2% or more for the week led by real estate and consumer staples led, which added 4.3% and 4.0% respectively. The laggards were communications services (-1.9%) and consumer discretionary (-0.2%), the only sectors to contract last week, while financials added 1%.

HIGHLIGHTS

- **Treasury yields fell last week, settling at 1.67% following a week of mixed global data.**
- **March's Flash Manufacturing (59.0) and Services (60.0) Purchasing Manager' Indexes fell just short of expectations, but were still strong on an absolute basis.**
- **Despite many fears to the contrary, so far inflation appears to remain in check. Core PCE inflation has been decelerating. And we saw sharp drops in personal income and spending in February, although we expect that will reverse in March as individuals start spending stimulus checks.**



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

- *While vaccine availability is increasing, new case counts have been rising in certain areas. We are particularly concerned about news that Germany, France, the UK, India and Brazil have imposed new lockdowns.*
- *The financials sector received a boost last week following a Fed announcement that should allow banks that have passed the current round of stress tests to resume dividend distributions and share buybacks.*
- *Global supply chains have been strained further following the blockage of the Suez Canal by a massive container ship. The worst disruption since 2004, the blockage is costing the global economy an estimated \$400 million each hour.*

Market drivers & risks

- **Market leadership oscillates.** There were no consistent outperformers for the week by style, market cap or sector, as we have become accustomed to in the COVID-era.
 - Trading favored large caps, growth and technology to start the week, as the 10-year Treasury yield stabilized and cyclical areas pulled back on unfavorable virus news. This trend reversed mid-week as the Suez blockage, Fed decision on banks and economic data provided tailwinds for cyclicals and value. We believe this type of market activity is likely to continue for several months as volatility increases.
- **Infrastructure spending.** The Biden administration is turning its sights on a trillion dollar infrastructure package (and how it will



The next few months could remain challenging for investors, with continued high volatility and near-term market selloffs possible.”

be funded). We see several economic and market implications.

- Should it come to fruition, an infrastructure package would likely help boost U.S. manufacturing and blue-collar job creation. This would likely favor cyclical sectors such as materials and industrials where government spending is likely to be concentrated. The president may attempt to fund this spending via increased tax rates on corporations and top-earning individuals, which would likely create pockets of volatility as investors recalibrate expectations for growth and valuations and could also lead to earnings growth headwinds.
- **Revisiting trade.** In addition to infrastructure and tax reform, the administration has also turned its focus to global trade. Starting with an executive order aimed at strengthening and securing American supply chains, the administration is looking to review existing trade policies, which included a meeting between trade envoys from the U.S. and China in Alaska.
 - Expectations for U.S./China relations remain low as both countries continue to jockey for global leadership. Tensions are likely to remain elevated, especially as more American companies vocalize opposition to Chinese policies. Additionally, the notion of “on-shoring” large swaths of the global supply chain is unlikely, given cost and diversification risks. As a result, we anticipate increased global investment in strengthening existing supply chains.

Risks to our outlook

Though recent Fed comments have seemingly settled investors' nerves to a degree, investors remain wary about possible rate increases or asset purchase tapering. The central bank's messaging will remain one of the most significant risks in the near-term.

We will continue to be mindful of "shocks" to global supply chains, as they could spark heightened (if short-term) inflation risks.

New COVID cases and varying vaccination rates across the globe could also create volatility for global equity markets. On a related note, incrementally better news out of the U.S., combined with incrementally worse news elsewhere, has led to a recent strengthening of the U.S. dollar. This is likely to create a headwind for emerging markets over the near term.



Best ideas

At present, we have more conviction about our sector views than we do about geography or style. We are emphasizing near-term opportunities in financials and consumer areas, while also keeping an eye on industrials that could benefit from publicly funded infrastructure investments. We remain bullish on U.S. small caps, emerging markets and cyclicals for the longer term as the economy reopens, but think those areas could be subject to volatility over the coming months. We see tactical opportunities in some growth stocks that have experienced recent underperformance.

In focus

A bright future for semiconductors

A global shortage in semiconductors has caught global supply chains flat-footed. While headlines may create short-term inflation-based volatility, we see several factors that could provide a significant tailwind for semiconductor capital equipment and component manufacturers:

- 1) Supportive government policies aimed at strengthening supply chains.
- 2) A shift in supply models by consumers of semis, such as auto manufacturers who are likely to start stockpiling inventories in an attempt to avoid future disruptions;
- 3) A diversification in demand beyond smaller chips as industries such as hyperscale data centers (cloud-computing) are using larger chips.
- 4) The overall ubiquity of semiconductors as the global economy grows more dependent on technology.

The data support these trends: With rising demand, semiconductor manufacturers have nearly doubled their spending on equipment over the past four years (\$36B in 2016 to nearly \$70B in 2020). We estimate those levels could reach \$100B by 2025.

In terms of inflation risks tied to the shortage in semis, price increases will likely be offset by a shift in consumer demand away from goods such as hand-held tech and autos, and toward depressed services such as dining and air travel. As a result, we expect any impact of semiconductor supply issues to have only a limited impact on inflation.

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

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