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Weekly Investment Commentary

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Trade issues continue to pressure stocks

After a brief relief bounce on hopes that the U.S. might be trying to ease tensions with China, the equity market downturn resumed last week as investors left stocks for the perceived safety of government bonds. Recession-related concerns grew as the Treasury yield curve inverted, more global government bond markets traded in negative territory and poor economic data came out of Germany and China. For the week, the S&P 500 Index fell 0.9% amid high volatility.[1]

HIGHLIGHTS

- **Stock markets have been rattled by plunging bond yields that are showing recession signals. In our view, yields have fallen too far and we don't think a U.S. recession is imminent.**

- **At the same time, however, we are increasingly concerned by the deterioration in the U.S./China trade war, and think economic and market risks are rising.**

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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.

Weekly top themes

1. ***Bond yields may have overshot their mark.*** Over the past 12 months, the 10-year Treasury yield has fallen more than 150 basis points, including nearly 20 basis points in just the last week.[1] The 10-year currently yields 1.56%, significantly lower than the 2.25% fed funds rate.[1] These prices suggest the U.S. is facing imminent recession and possible deflation, neither of which seems likely. As such, we think yields have fallen too far, too fast.

2. ***The U.S. consumer remains an important source of strength.*** Retail sales expanded a healthy 0.7% in July.[2] We expect consumer spending will be up by 2.5% to 3% in the third quarter, which would significantly help overall economic growth.

3. ***The U.S. economy has remained relatively resilient to trade issues so far.*** With the U.S./China trade war now about one year old, the U.S. consumer sector and labor market remain solid. To a large extent, this is due to the relatively isolated nature of the U.S. economy: Among all developed nations, the U.S. has the lowest percentage of its economy based on trade.[3]

4. ***There are massive underlying complexities driving the U.S./China trade war.*** In addition to struggles over intellectual property, the countries also engage in competition over technological innovation. Consider the rise of 5G, the fifth generation of mobile technology intended to connect computers, phones and other devices at speeds that are 10 to 100 times faster than the current 4G networks. Huawei is one company making equipment that will enable these 5G networks. U.S. restrictions against Huawei appear to have a lot to do with the fact that no U.S. companies are currently engaged in 5G networking.

5. ***Europe appears overly dependent on monetary policy to solve its economic woes.*** The European Central Bank adopted a negative interest rate policy more than five years ago to address economic weakness. Now Europe is struggling, with the latest evidence being a sharp 5% drop in German industrial production in June, the largest decline since the Great Recession.[4] In our view, Europe must address fiscal imbalances and regulatory policies for the eurozone economy to get back on track.

Economic and equity risks appear tilted to the downside for now

Trade-related risks seem to be growing. President Trump looks to be holding out hope that the U.S. economy will stay resilient in the face of escalating tariffs and rising tensions. So far, the U.S. economy has not faltered, thanks largely to continued strength in the consumer sector and labor market. But if business confidence crumbles (as it has in parts of Europe), it could lead to serious economic damage. It doesn't help that trade issues are escalating while other regions remain uncertain, such as the heightened odds of a no-deal Brexit and political turmoil in Hong Kong.

The president's recent actions to delay the implementation of some new tariffs show that he is sensitive to the market impact of his trade policies. But the erratic nature of his on-again, off-again approach adds too policy uncertainty. At this point, we can't predict the ultimate economic impact from these issues. Our best guess is that the U.S. remains more than a year away from the next recession, but risks are rising. In addition to the solid consumer sector, we don't see financial stress in the system. Liquidity is still broadly available, and fixed income credit spreads are generally stable outside of the energy sector.

With additional Federal Reserve rate cuts already priced into the markets and bond yields falling sharply, the only catalyst for better equity market performance could be improving global economic data. We hold out hope that the global economy will improve, and still think there is a better-than-even chance of manufacturing activity and export levels to grow. But those improvements will take some time, suggesting equities will remain volatile and vulnerable for now.

2019 PERFORMANCE YEAR TO DATE

	Returns	
	Weekly	**YTD**
S&P 500	-0.9%	16.7%
Dow Jones Industrial Avg	-1.4%	12.8%
NASDAQ Composite	-0.7%	19.8%
Russell 2000 Index	-1.2%	11.7%
Euro Stoxx 50	-1.2%	10.9%
FTSE 100 (UK)	-0.8%	4.4%
DAX (Germany)	-2.2%	6.2%
Nikkei 225 (Japan)	-2.0%	7.2%
Hang Seng (Hong Kong)	-0.7%	2.1%
Shanghai Stock Exchange Composite (China)	2.1%	13.1%
MSCI EAFE	-1.5%	8.2%
MSCI EM	-1.0%	2.6%
Barclays US Agg Bond Index	1.0%	8.8%
BofA Merrill Lynch 3-mo T-bill	0.1%	1.6%

Source: Morningstar Direct, Bloomberg and FactSet as of 16 Aug 2019. 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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For more information or to subscribe, please visit nuveen.com.

1 Source: FactSet, Morningstar Direct and Bloomberg
2 Source: Commerce Department
3 Source: World Bank
4 Source: German Economy Ministry

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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