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# Stocks rise as they shrug off geopolitical risks

*The world and market attention last week was focused on the U.S. strike against Iran and mounting tensions in the Middle East. Yet markets largely looked past geopolitical risks and started 2020 on a strong note.<sup>1</sup> For the week, the S&P 500 Index rose 1.0%, with technology, communication services and health care leading the way.<sup>1</sup> Energy, financials and industrials were the biggest laggards.<sup>1</sup>*

## HIGHLIGHTS

- **Stocks have started off strong in 2020, as investor confidence levels remain high.**
- **We think investors may be looking past such risks as possible corporate earnings disappointments and lingering issues in the manufacturing and trade sectors.**
- **As a result, we believe equity markets may be due for a near-term consolidation or correction.**



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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

***The December employment report was “good enough” for investors.***

While hiring slowed slightly, wage growth is not accelerating, which is good news for corporate profit margins.<sup>2</sup> Additionally, a lack of strong wage growth would help keep inflation relatively muted, meaning the Federal Reserve has ample reason to remain on hold.

2

***Long-term jobs growth is slowing, but that shouldn't mean the end of the current expansion.***

In 2018, average monthly jobs gains were 223,000.<sup>2</sup> That slowed to 176,000 last year.<sup>2</sup> But we think the interest rate cuts from 2019 are just starting to stimulate areas of the economy such as manufacturing..

3

***We are closely watching inflation risks in 2020, but for now they appear absent.***

If anything, we see slight downward pressure on inflation right now coming from increased global competition and technological advancements.

4

***Rising tensions between the U.S. and Iran represent a possible risk, but markets have a history of looking past geopolitics.***

The situation could, of course, worsen, but we think a negotiated outcome is more likely than continued escalation.

5

***U.S./China trade is unlikely to make much additional progress, but trade should be less of a risk in 2020.***

We see little chance of a phase-two trade agreement before the U.S. elections. But we expect less of a push for new tariffs and trade restrictions.

6

***This decade-long economic expansion has been very slow, and could continue.***

Since the financial crisis, households and businesses have approached spending and investing cautiously, which has caused a slow and prolonged expansion. Today, we are not seeing the imbalances that would suggest the expansion is ending.

7

***Corporate earnings could represent a risk in 2020.***

Stock prices have been rising for the last several months, even as corporate earnings expectations have been falling. In our view, expectations for 2020 may still be too high, which could put equity prices at risk.

## Equities may be in for a bumpy ride in 2020

Six months ago, fears of a possible recession surfaced due to falling manufacturing levels, acute trade concerns and an inverted yield curve. Sentiment has improved markedly since then, and the second half of 2019 saw strong gains for equities and other risk assets.

2020 has started in a risk-on mode with investors, despite a short-lived setback in stock prices and a spike in oil related to rising U.S./Iran tensions. Investors largely shrugged off rising tensions in the Middle East, evidence of a more mature investment cycle as investors seem increasingly confident. Investors don't seem over-confident at this point, with neither a recession nor tighter monetary policy on the horizon, but we do think they may be looking past ongoing risks.

For most of the past decade, we have adopted a persistent bullish stance toward the economy and equities. But today, we are less enthusiastic about the outlook for corporate earnings and profits and think markets may be overbought. Likewise, we see signs of improving manufacturing and trade levels, but this progress is marginal and these areas of the economy continue to represent a source of possible risk. We don't expect much additional progress on the U.S./China trade front before the U.S. election, and business investment levels will likely remain muted as trade uncertainty continues.

As a result, we think stocks are likely to enter into a consolidation or correction phase in the near future, especially considering their strong rally over the past several months. Nonetheless, important factors like low bond yields, supportive central bank policy and improving economic growth are supporting equity prices. But in the end, we think markets as a whole will likely generate only modest returns this year and near-term risks are elevated.

## 2020 PERFORMANCE YEAR TO DATE

	Returns	
	Weekly	YTD
S&P 500	1.0%	1.1%
Dow Jones Industrial Avg	0.7%	1.1%
NASDAQ Composite	1.8%	2.3%
Russell 2000 Index	-0.2%	-0.6%
Euro Stoxx 50	0.1%	0.3%
FTSE 100 (UK)	-0.7%	-0.9%
DAX (Germany)	1.5%	0.9%
Nikkei 225 (Japan)	0.3%	0.0%
Hang Seng (Hong Kong)	0.8%	1.9%
Shanghai Stock Exchange Composite (China)	0.9%	2.0%
MSCI EAFE	-0.1%	0.2%
MSCI EM	0.9%	1.7%
Bloomberg Barclays US Agg Bond Index	-0.1%	0.5%
BofA Merrill Lynch 3-mo T-bill	0.0%	0.1%

Source: Morningstar Direct, Bloomberg and FactSet as of 10 Jan 2020. 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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1 Source: Bloomberg, Morningstar Direct and FactSet

2 Source: Bureau of Labor Statistics

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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