Equity Markets Await Next Steps

NUVEEN ASSET MANAGEMENT

WEEKLY INVESTMENT COMMENTARY

AUGUST 14, 2017 | VOLUME 5.32

Equity markets experienced a mild flight to quality last week, driving global stocks down almost 2%, credit spreads wider, and bonds, gold and the U.S. dollar generally higher. U.S. equities declined 1.4%.[1] Consumer staples was the only sector to finish higher. Financials and energy were the worst-performing sectors.[1] Accelerating tensions between the United States and North Korea dominated headlines, producing a sell-off and spike in volatility on Thursday. Other potential concerns include valuations, the later stages of the economic recovery and a need to raise the debt ceiling amid political turmoil in Washington, D.C.

Key Points

- Wage growth, corporate earnings momentum and low inflation should support gradual interest rate increases.
- Geopolitical risks remain elevated and can disrupt markets but tend to have limited long-term effect.
- Equity markets may be in a consolidation phase while investors wait for a catalyst to cause a sustained breakout.

Weekly Top Themes

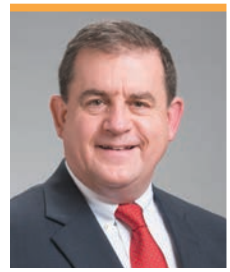
1. **The threat from North Korea has been building for some time.** The country's rapidly advancing weapons sophistication and escalating rhetoric may cause some investors to reduce risk profiles during an otherwise quiet August.

2. **Equities are experiencing consolidation while awaiting catalysts.** Although geopolitical tensions may be perceived as the catalyst for recent weakness, equity markets have been losing momentum over the summer, consistent with a consolidation phase. Pullbacks and trends often become viable. If a larger issue is developing, the character of the next rally will probably be more revealing.

3. **U.S. wage growth should rise over the next few quarters.** This will allow the Federal Reserve (Fed) to raise rates. A rapid acceleration in wage growth that would cause the Fed to raise rates more aggressively seems unlikely over the next 12 months.

4. **2017 has been a turnaround year for corporate earnings.** The earnings recession started in 2015 and ended around the time of the presidential election in 2016. Since then, there have been two consecutive quarters of double-digit earnings growth. 2017 will be the first year in the last four years with earnings growth.[2]

5. **Market corrections are possible, but the bull market lives on for now.** Corrections can occur at any time, but we don't think the eight-year-old bull market is showing signs of ending. Key reasons include: inflationary expectations remain low and support high valuations, the Trump administration's ability to advance reflationary policies seems uncertain, retail participation has not been meaningful, and markets rarely stop at fair value.



Robert C. Doll, CFA

Senior Portfolio Manager,
Chief Equity Strategist

Bob Doll serves as a leading member of the equities investing team for Nuveen Asset Management, providing reasoned analysis through equity portfolio management and ongoing market commentary.

Looking for Positives Among the Negatives

The threat of hostility between the United States and North Korea hit financial markets last week. So far, the effect has been relatively limited, echoing the negligible impact on economic activity after decades of continuing opposition. Markets' ability to absorb negative news reflects positive sentiment among investors that has taken hold over the past year. Since the Brexit vote, investors have gravitated toward positive views, which is typical in the later stages of a bull market. Another sign of the later stages is a major peak accompanied by excitement and bubble conditions, which have not developed. Most risk assets have relentlessly marched upward, despite occasional setbacks, resulting in stretched valuations. One caution is that there may not be much cushion for valuations when the economic environment undergoes the next meaningful change. For example, a breakout in inflation with recessionary conditions could crush economic-sensitive assets.

We are mindful of potential risks but are not forecasting an imminent end to the low interest rate era or a recession. We remain moderately pro-growth in our investment stance. The global economy has escaped the chronic fear of sliding back into recession. However, economic growth is not strong enough to force central banks to expedite a shift to less accommodative monetary policy. The leading U.S. economy is showing some early warning signs of late cycle labor market tightness, assuming there is not a meaningful recovery in the participation rate. Headline and core inflation remain low in the U.S. and most major economies. An accommodative monetary stance should persist until major central banks broaden policy targets away from a narrow measure of consumer price inflation to include asset prices and/or credit growth. In the meantime, we anticipate asset inflation and bubbles until consumer price inflation finally gains momentum. ■

2017 Performance Year to Date

	Returns	
	Weekly	YTD
S&P 500 Index	-1.4%	10.4%
Dow Jones Industrial Average	-0.9%	12.3%
NASDAQ Composite	-1.4%	17.0%
Russell 2000 Index	-2.7%	2.0%
Euro Stoxx 50	-2.3%	19.3%
FTSE 100 (U.K.)	-2.3%	11.1%
DAX Index (Germany)	-1.8%	17.3%
Nikkei 225 (Japan)	0.3%	11.2%
Hang Seng (Hong Kong)	-2.5%	24.5%
Shanghai Stock Exchange Composite (China)	-0.7%	9.8%
MSCI EAFE (non-U.S. developed markets)	-1.5%	16.5%
MSCI Emerging Markets	-2.2%	23.1%
Bloomberg Barclays U.S. Aggregate Bond (bonds)	0.2%	3.1%
BofA Merrill Lynch 3-Month Treasury Bill (cash)	0.0%	0.4%

Source: Morningstar Direct and Bloomberg, as of 8/11/17. 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 indices are unmanaged and unavailable for direct investment.

"More positive investor sentiment may mean the bull market is moving into a later stage, but it does not appear to be ending yet."

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

1 Source: Morningstar Direct, as of 8/11/17 **2** Source: FactSet

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 of 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.

GPE-BDCOMM2-0817P 243485-INV-W-08/18