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Weekly Investment Commentary

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Investors look past trade risks as stocks gain ground

President Trump's proposed trade tariffs dominated most of the financial headlines last week, but investors looked past the negatives to bid up stock prices. The S&P 500 Index rose 3.6% last week.[1] Half of that gain came on Friday, following a strong labor market report that showed jobs increases but stable wages.[1] For the week, industrials, financials, technology and materials were all up over 4%, while utilities lagged.[1] Treasury yields also rose last week in the face of stronger economic data.[1]

HIGHLIGHTS

- **Investors focused on the positives last week (particularly a strong February employment report) and bid stock prices higher.**
- **Markets did not react negatively to last week's tariff announcements, but we see more downside than upside.**
- **Over the long-term, we are growing more concerned about what rising bond yields, tighter monetary policy and higher inflation could mean for stocks.**

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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.

Weekly top themes

1 ***Higher tariffs could potentially damage economic growth.*** Donald Trump's proclamation of a 25% tariff on imported steel and a 10% tariff on aluminum contributed to political uncertainty. It drew sharp criticism from Republican leaders in Congress, played a role in Gary Cohn's departure from the White House and raised the possibility of retaliatory action from other countries. We believe such tariffs are effectively taxes that can drive a wedge between producers and consumers, and are more likely to hurt economic growth and jobs creation than they are to help.

2 ***February's jobs report points to economic acceleration.*** Payrolls growth showed an increase of 313,000 jobs, the highest level since June 2016.[2] In addition, the overall labor force grew by 806,000, which kept unemployment at 4.1% and wage growth low at 2.6% year over year.[2] On balance, the data showed that labor supply is currently keeping pace with labor demand, which should contribute to economic growth without causing significant price pressures.

3 ***Manufacturing data also pointed to solid growth levels.*** The Institute for Supply Management's manufacturing index hit its highest level since 2004, while the nonmanufacturing index also surprised to the upside.[3]

4 ***A more competitive U.S. economy should help narrow a growing trade gap.*** The U.S. energy renaissance, narrower wage disparity between the U.S. and China and the effects of U.S. corporate tax reform should all help make the U.S. economy more dynamic and competitive.[4] This, in turn, could help narrow the U.S. trade deficit as a percentage of U.S. gross domestic product.[4]

5 ***Investor sentiment has improved dramatically over the past month.*** One month ago, markets were roiled by a surge in wages, worries about rising bond yields and geopolitical uncertainties. While those fears haven't vanished, investors have been remarkably sanguine in reaction to last week's economic data and political news.

Rising inflation, monetary tightening and higher bond yields could spell trouble for stocks

Overall, we are retaining a constructive view toward the global economy. Global growth is solid and trade levels are increasing. At the same time, monetary policy remains broadly accommodative: the G7 monetary policy rate is less than 1% while G7 nominal GDP is slightly more than 4%.[5] Additionally, headline and core inflation readings in developed markets remain low. This looks like a recipe for solid performance from equities and other risk assets.

Nevertheless, we are focusing increasingly on prospects for higher volatility and potential headwinds. We expect stock prices will remain volatile given ongoing uncertainty about inflation, the interest rate outlook, bond yields and political issues such as mounting U.S. protectionism. We also think global growth momentum should begin to moderate as monetary conditions slowly become less accommodative. And while inflation remains low, we continue to see signs that core inflation is moving higher in the United States and most other major economies.

Both bond yields and inflation appear in the early stages of important inflection points. After falling for over three decades, global bond yields have started moving unevenly higher. Real yields are still extremely low, global growth is solid and monetary policy is slowly tightening. Together, these factors mean that bond yields should likely rise over the coming months and years. The inflation outlook is less clear, but we believe inflation is also moving higher as global economic growth accelerates and broadens. We are not expecting sudden and dramatic increases in inflation, but with labor markets tightening, it is reasonable to be on the watch for inflation risks.

A combination of moderating economic growth, tighter monetary policy, higher bond yields and rising inflation presents dangers for equities and other risk assets. And rising political risks certainly don't help matters. As we saw last month, equities remain vulnerable to a correction and we believe bond markets will be negatively affected by rising yields. It is too early to suggest that this equity bull market is nearing an end, but we do caution that gains may be tougher to come by, pointing to the importance of investment selectivity.

2018 PERFORMANCE YEAR TO DATE

	Returns	
	Weekly	YTD
S&P 500 Index	3.6%	4.6%
Dow Jones Industrial Average	3.3%	3.0%
NASDAQ Composite	4.2%	9.8%
Russell 2000 Index	4.2%	4.2%
Euro Stoxx 50	3.0%	0.3%
FTSE 100 Index (U.K.)	2.9%	-2.9%
DAX Index (Germany)	3.7%	-2.1%
Nikkei 225 Index (Japan)	0.2%	-0.5%
Hang Seng Index (Hong Kong)	1.3%	3.6%
Shanghai Stock Exchange Composite Index (China)	1.8%	2.7%
MSCI EAFE	1.9%	-0.1%
MSCI Emerging Markets Index	2.2%	4.5%
Bloomberg Barclays U.S. Aggregate Bond Index (bonds)	-0.1%	-2.2%
BofA Merrill Lynch 3-MonthTreasury Bill (cash)	0.0%	0.3%

Source: Morningstar Direct, Bloomberg and FactSet as of 09 Mar 2018. 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.

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1 Source: Morningstar Direct, Bloomberg and FactSet. 2 Source: Labor Department 3 Source: Institute for Supply Management 4 Source: Cornerstone Macro 5 Source: MRB Research

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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