2017 Recap and a Look Ahead to 2018

NUVEEN ASSET MANAGEMENT

WEEKLY INVESTMENT COMMENTARY

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We have been describing 2017 as a "Year of Transition." We expected improving economic growth, accelerating corporate earnings and rising interest rates. We also predicted rising volatility amid equity market leadership changes. Depending on movements of a few basis points for the 10-year Treasury yield, we are likely to get either 7 or 7½ of our 10 predictions correct:

1 **U.S. and global economic growth improves modestly as the dollar strengthens and reaches parity with the euro.**
Following a slow start in the first quarter, U.S. economic growth picked up noticeably. At the same time, global growth is experiencing a more synchronous expansion with particular strength coming from Europe and China. The dollar, however, has lost value compared to the euro.[1]

2 **Unemployment drops to its lowest level in 17 years as wages increase at the fastest pace since the Great Recession.**
Unemployment is down to 4.1%, the lowest level in 17 years.[2] Wage rates have remain depressed since the Great Recession, but have slowly started climbing over the past 12 months with annual wage growth up 2.5%.[2]

3 **Treasury yields move higher for a third consecutive year for the first time in 36 years as the Fed raises rates at least twice.**
The Fed has increased rates three times this year. The 10-year Treasury yield fell sharply during the fall, but has since rebounded and now stands at 2.35%, just a notch below 2.44% where it began the year.[1] We'll know in a couple of weeks if we get this one half or fully correct.

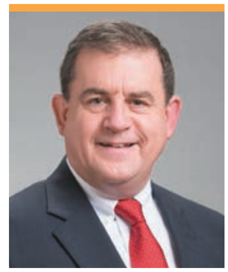
4 **Stocks hit their 2017 highs in the first half of the year as earnings rise but price/earnings multiples fall.**
Earnings rose during the year, but stock prices rose intermittently throughout the year and continued to post record highs well into the second half of 2017.[1] Price/earnings multiples rose during the year as well.[1]

5 **Stocks outperform bonds for the sixth year in a row for the first time in 20 years while volatility rises.**
Stocks handily outperformed bonds this year. Volatility surprisingly fell in 2017, with the VIX Index (a broad measure of equity market volatility) falling from 14.04 to 9.42.[1]

6 **Small caps, cyclical sectors and value styles beat large caps, defensive and growth areas.**
After lagging most of the year, cyclical sectors experienced a strong run over the last couple of months, and are actually ahead of defensive sectors.[1] In contrast, large caps and growth styles have outperformed small caps and value.[1]

KEY POINTS

- As the year draws to a close, it appears more of our predictions are correct than not.
- We expect stocks will continue to make gains next year, but conditions may grow more challenging.



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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.

Overall Scoring
Correct
Half Correct
Wrong
Too Early to Call

7 ✓ **The financials, health care and information technology sectors outperform energy, utilities and materials.**

We are comfortably ahead in this prediction, as a basket of our favored sectors is up 28.7% compared to a basket of our least favored (up 10.9%).[1]

8 ✓ **Active managers' performance improves as flows into equities rise.**

Equity outflows slowed during 2017 as active managers are beginning to improve.[1] Last year, only 19% of large cap managers outperformed their benchmarks, while just under half have so far this year.[3]

9 ✓ **Nationalist and protectionist trends rise as pro-domestic policies are pursued globally.**

President Trump has been pushing hard on immigration changes, reconsidering trade deals and challenging multi-party treaties. We are also seeing this trend globally, including the rise of the Alternative for Germany party.

10 ✓ **Initial optimism about the Trump agenda fades in light of slow legislative progress.**

It is looking highly likely that Republicans will come together on a tax reform bill, but that may well be the sole pro-growth legislative victory of Trump's first two years.

Equity Outlook: The Coming Year May Be a Bit Tougher

We expect global growth to continue to accelerate in 2018. Two factors that will likely change, however, are the inflation and monetary policy backdrops. Inflation is likely to rise slowly next year and the Fed and other central banks are in tightening mode. For equities, this backdrop means we expect the current bull market should continue into 2018. The rate of gains in 2017 was surprisingly high, and we don't expect to see that matched next year, but we think equities still have room to run. Higher volatility may mean we see more dispersion between winners and losers in 2018, but we still think it makes sense to hold overweight positions in stocks. ■

2017 Performance Year to Date

	Returns	
	Weekly	YTD
S&P 500 Index	1.0%	21.9%
Dow Jones Industrial Average	1.3%	27.8%
NASDAQ Composite	1.4%	30.2%
Russell 2000 Index	0.6%	14.2%
Euro Stoxx 50	-0.8%	24.5%
FTSE 100 (U.K.)	0.7%	17.6%
DAX Index (Germany)	-0.3%	27.3%
Nikkei 225 (Japan)	-0.4%	24.2%
Hang Seng (Hong Kong)	0.6%	35.2%
Shanghai Stock Exchange Composite (China)	-0.5%	12.9%
MSCI EAFE (non-U.S. developed markets)	0.1%	22.0%
MSCI Emerging Markets	0.7%	32.7%
Bloomberg Barclays U.S. Aggregate Bond (bonds)	0.3%	3.6%
BofA Merrill Lynch 3-Month Treasury Bill (cash)	0.0%	0.8%

Source: Morningstar Direct and Bloomberg, as of 12/15/17. 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.

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1 Source: Morningstar Direct, Bloomberg and FactSet. **2** Source: Bureau of Labor Statistics **3** Source: Bank of America Merrill Lynch 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. **Bloomberg Barclays Global Aggregate Bond ex. U.S. Index** provides a broad-based measure of the global investment-grade fixed income market outside of the United States.

RISKS AND OTHER IMPORTANT CONSIDERATIONS

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