Economic Data and Confidence Levels Offer Mixed Signals

NUVEEN ASSET MANAGEMENT

WEEKLY INVESTMENT COMMENTARY

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Despite the usual volume of political headlines, markets were relatively quiet last week. U.S. equity prices were little changed, Treasury yields fell slightly amid yield curve flattening, the dollar weakened and oil prices declined for a fourth week.[1]

KEY POINTS

- Economic data has trailed off in recent weeks, but we see reasons to expect a renewed acceleration.
- In the near-term, confidence levels could diminish, providing a headwind for stocks.
- Nevertheless, we believe it makes sense to maintain a pro-growth investment stance.

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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. **The Federal Reserve remains on track to slowly tighten monetary policy.** As expected, the Fed hiked the fed funds rate by 25 basis points to 1.0%. Despite persistent inflation weakness, the central bank also indicated that one more increase was likely later this year. The Fed also laid out a plan to slowly normalize its balance sheet.

2. **Inflation remains stubbornly low.** A 6% decline in gasoline prices in May resulted in a 0.1% decrease in the headline Consumer Price Index.[2] Even core inflation (which excludes food and energy) increased only 0.1% last month.[2]

3. **Mixed economic signals suggest confidence could take a hit.** In recent months, we have seen increased softness in so-called "hard" economic data, including retail sales, automotive production and employment. At the same time, "soft" data such as business confidence measures point to an expectation of economic acceleration.[3] In our experience, these disconnects typically result in a move in the soft data, suggesting confidence measures could be due for a setback. Should this happen, it could provide a headwind for equity prices.

4. **We expect economic growth to improve in 2018.** U.S. GDP is likely to accelerate by around 2.0% this year. We expect that number to climb near 2.5% in 2018, as we anticipate fiscal stimulus from the Trump Administration and Congress. But downside risks are increasing. At present, we are watching for a possible damaging debt ceiling debate and monitoring uncertainty surrounding tax cuts.

5. **Chinese growth continues to be a weak spot for the world economy.** Policymakers are still in a tightening mode as authorities attempt to restructure the country, and economic activity looks mixed at best.

Equities Should Continue Their Long-Term Outperformance

Investors have become slightly more pessimistic in recent weeks. U.S. economic data has softened, and currently high consumer and business confidence levels could diminish. This sort of soft patch is nothing new. Over the last decade, we have

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seen numerous periods of mounting pessimism as the world has remained beset by choppy economic growth, deflation scares and numerous political risks. Given this backdrop and the overhang of the financial crisis and Great Recession, it is not surprising that safe-haven assets have remained in high demand and that global bond yields remain extremely low.

For several years, we have advocated a pro-growth investment stance, suggesting overweight positions in equities make sense. The recent downturn in economic data has not changed our view. At present, the biggest objection to this view is that many investors believe that equities in general, and U.S. equities in particular, are overvalued. While equity valuations are less attractive than several years ago, we still believe stocks are more attractive than bonds and cash. Additionally, we think equity valuations can be sustained or climb further, as long as bond yields remain low and corporate profits rise. From a geographic perspective, it would be reasonable to expect a "catch-up" phase when non-U.S. markets outperform U.S. stocks.

Regarding our investment views, we continue to focus on financial assets that could benefit from a modest acceleration in global economic growth. This leads us to favor non-resource-related areas of the global equity market and to prefer credit sectors over government bonds in fixed income markets. The key to our outlook is that corporate profits must continue to improve. And notwithstanding some recent economic weakness, we believe the global economy should continue to accelerate modestly, providing a tailwind for corporate earnings, profits and equity prices. ■

2017 Performance Year to Date

Returns

	Weekly	YTD
S&P 500 Index	0.1%	9.7%
Dow Jones Industrial Average	0.6%	9.5%
NASDAQ Composite	-0.9%	14.9%
Russell 2000 Index	-1.0%	4.3%
Euro Stoxx 50	-1.2%	17.2%
FTSE 100 (U.K.)	-0.5%	10.6%
DAX Index (Germany)	-0.6%	17.8%
Nikkei 225 (Japan)	-0.7%	10.7%
Hang Seng (Hong Kong)	-1.5%	17.4%
Shanghai Stock Exchange Composite (China)	-0.9%	3.3%
MSCI EAFE (non-U.S. developed markets)	0.0%	14.7%
MSCI Emerging Markets	-1.4%	17.3%
Bloomberg Barclays U.S. Aggregate Bond (bonds)	0.3%	2.7%
BofA Merrill Lynch 3-Month Treasury Bill (cash)	0.0%	0.3%

Source: Morningstar Direct and Bloomberg, as of 6/16/17. 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.

"The global economy should continue to accelerate modestly, providing a tailwind for corporate earnings, profits and equity prices."

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1 Source: Morningstar Direct, as of 6/16/17 **2** Source: Bureau of Labor Statistics **3** Source: Conference Board

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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