Investors Wait for Clarity on the Economy, Politics and Policy

NUVEEN ASSET MANAGEMENT

WEEKLY INVESTMENT COMMENTARY

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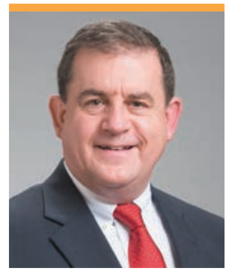
Although economic data was positive and earnings continued to be strong, U.S. equities were mixed last week.[1] Markets appear to be in a holding pattern, with investors waiting for more news on Federal Reserve balance sheet normalization and tax policy. Financials and utilities sectors were the standout performers last week, while materials lagged.[1] In other asset classes, Treasuries and the dollar were both up while gold and oil prices fell.[1]

Key Points

- Investors are waiting for a catalyst that could cause a sustained positive or negative breakout in equity markets.
- Risks appear relatively balanced to the upside and downside, but we think equity markets will likely continue grinding higher.



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.

Weekly Top Themes

1. **The July jobs report confirmed economic growth remains strong while inflation remains subdued.** 209,000 new jobs were created and the unemployment rate dropped to 4.3%.[2] At the same time, average hourly earnings rose only 0.3%, keeping the year-over-year increase at 2.5%.[2]

2. **Corporate earnings are capping off another strong quarter.** With more than 80% of companies reporting second quarter results, revenues are on track to grow 5%, earnings are up 10% and earnings-per-share growth is up over 11%.[3]

3. **The odds of a recession appear low, but so does a significant acceleration in growth.** The regulatory environment is loosening, consumer spending appears solid and jobs growth remains strong. As such, we do not expect a recession any time soon. At the same time, however, we see no catalyst to push the economy into a higher gear unless the White House and Congress make progress on their pro-growth agenda.

4. **Republicans are focusing on tax reform, but a long road lies ahead.** Before Congress can tackle tax legislation, the government must pass a budget (or agree to a continuing resolution) and address raising the debt ceiling. If the debate over health care is any indication, these issues are likely to be contentious.

5. **Active large cap equity managers continue to enjoy solid results.** This group had another strong month in July, with 58% of managers outperforming their benchmarks.[4] This marks the fifth consecutive month of outperformance, the best streak since 2009.[4]

Risks Appear Tilted to the Upside for Stocks

For several months, volatility has remained low while equity prices have grinded unevenly higher. This has prompted many investors to look for signposts that could cause a change in direction. There is a pervasive sense among investors that the equity bull market is getting old, but it is unclear what catalysts would cause an end to the current cycle. Possible dangers could include the end of emergency zero-interest-rate policies, high global debt levels, slow productivity growth or political instability caused by such issues as widening income inequality or rising protectionism.

In reality, however, most of these issues have been present for years and equities and other risk assets have continued to climb higher. Investors have been well rewarded for adopting pro-growth investment stances and overweighting risk assets. So what to expect from here? Positive and negative factors appear pretty well balanced, as seen in the following list adapted from J.P. Morgan:[5]

Positive Factors	Areas of Concern
U.S. economic growth should remain between 2% and 2.5%.	Inflation should eventually rise, which could cause the dollar to surge.
The odds of passing some sort of tax cuts appears high.	President Trump's popularity is fading, casting even more doubt on his pro-growth agenda.
Political noise is likely, but debt ceiling risks appear overstated.	Trade tensions may be rising, which could hamper growth.
The White House should be more disciplined with John Kelly serving as Chief of Staff.	Geopolitical risks remain elevated.
Investor sentiment remains cautious, suggesting upside potential remains.	Bond yields could fall further, causing problems for equities.

In our view, the positive factors at least slightly outweigh the negatives. If economic growth remains decent and corporate earnings continue to rise, those factors should remain tailwinds for equity markets. The political backdrop is highly uncertain, but we think political pessimism may be overdone. Even the slightest sign of progress on tax reform could be good news for the markets. As such, we think the pro-growth investment stance that has worked for some time still makes sense. ■

2017 Performance Year to Date

	Returns: Weekly	YTD
S&P 500 Index	0.2%	11.9%
Dow Jones Industrial Average	1.2%	13.3%
NASDAQ Composite	-0.3%	18.7%
Russell 2000 Index	-1.2%	4.8%
Euro Stoxx 50	1.4%	22.1%
FTSE 100 (U.K.)	1.4%	13.7%
DAX Index (Germany)	1.2%	19.4%
Nikkei 225 (Japan)	0.0%	10.9%
Hang Seng (Hong Kong)	2.2%	27.6%
Shanghai Stock Exchange Composite (China)	0.5%	10.6%
MSCI EAFE (non-U.S. developed markets)	0.9%	18.2%
MSCI Emerging Markets	0.5%	25.9%
Bloomberg Barclays U.S. Aggregate Bond (bonds)	0.2%	2.9%
BofA Merrill Lynch 3-Month Treasury Bill (cash)	0.0%	0.4%

Source: Morningstar Direct and Bloomberg, as of 8/4/17. 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, as of 8/4/17 **2** Source: Bureau of Labor Statistics
3 Source: RBC Capital Markets **4** Source: Bank of America Merill Lynch
5 Source: J.P. Morgan Research, August 4 "Bull vs. Bear Debate"

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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