Investor Skepticism Remains Elevated

NUVEEN ASSET MANAGEMENT

WEEKLY INVESTMENT COMMENTARY

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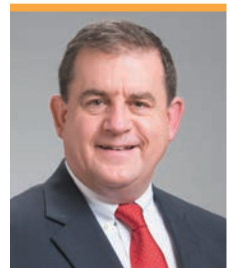
Investors had plenty of headlines to react to last week: the tragic terror attack in the U.K., President Trump's first international visit, the publication of the president's budget, the Congressional Budget Office's scoring of the health care bill, minutes from the May Federal Reserve meeting, Moody's downgrade of China and OPEC's decision to continue production cuts. Amid all of this news, investors bid up stock prices, with the S&P 500 Index rising 1.5%.[1] The utilities, technology and consumer staples sectors led the way, while the energy sector fell on the OPEC news.[1] Oil prices declined as well last week, while Treasury yields and the U.S. dollar rose.[1]

KEY POINTS

- We believe U.S. economic growth should rebound in the second quarter and corporate earnings will remain solid.
- Investors remain uneasy about global macro conditions, but we believe the backdrop remains supportive for equities.
- We may be seeing a transition in global equity leadership from the United States to Europe and select emerging markets.



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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. **We expect a rebound in U.S. economic growth in the second quarter.** First quarter gross domestic product growth was revised higher last week from 0.7% to 1.2%.[2] We think growth is improving in the second quarter for many reasons, including a pick-up in inventory levels. We believe second quarter growth could approach 3%.

2. **An additional Fed rate hike next month is looking increasingly likely.** The minutes from April's meeting indicate that Fed officials believe the economic soft patch in the first quarter will prove to be temporary, indicating that the central bank is on track to raise rates in June. The Fed minutes also stated that the bank may begin reducing the size of its balance sheet sometime next year.

3. **Fed asset sales will likely put modest upward pressure on bond yields.** If and when the Fed begins unwinding the bond purchases it made as part of its quantitative easing programs, it is likely to do so slowly and orderly. Nevertheless, those sales will likely add to upward pressure on interest rates.

4. **Wages will likely rise over the coming years.** Although unemployment stands at a decade-low 4.4%,[3] we have yet to see significant upward pressure on wages. We doubt this situation can continue: With the economy at full employment, wages are likely to rise.

5. **Investors remain uncertain and skeptical about equities, which is good for stocks.** Although the S&P 500 Index, Dow Jones Industrial Average and Nasdaq Composite are all near record highs, investors are still cautious. This is a positive for equities, since bull markets do not tend to end until investors are highly confident (if not euphoric) about stocks.

Global Equity Prices Should Trend Unevenly Higher

Many investors remain uneasy about the global macro backdrop, despite accelerating global economic growth, low inflation, accommodative global monetary policy and solid corporate earnings. Concerns about possible recession and deflation remain, and many investors are continuing a flight to quality, which is causing global bond yields to remain at exceptionally low levels. At the same time, disappointing U.S. economic data and mounting concerns over political instability in Washington, D.C. have held back equity prices and the value of the U.S. dollar.

Despite prevailing uncertainty and ongoing risks, we believe the current environment is favorable for equity prices. Many investors are focusing on Fed policy, wondering what higher rates will mean for stocks. In our view, rising rates are a foregone conclusion, and if anything, the Fed is behind the curve on hiking interest rates. Rates will likely rise slowly and unevenly, while the Fed will likely simultaneously be reducing the size of its balance sheet. Such a scenario will likely put upward pressure on bond yields and contribute to equity market volatility, but should not derail the equity bull market.

In our view, improving earnings and corporate profits set against a backdrop of modestly accelerating global growth should allow equity prices to move higher over the coming year. However, we are seeing more evidence that geographic leadership may be changing. We remain positive toward U.S. stocks, but acknowledge that U.S. markets look tired and are not inexpensively valued. In contrast, European equities and some emerging markets look attractive and may be assuming a leadership position from their U.S. counterparts. If there is one geographic area we would approach with caution, it would be China. Chinese growth is slowing, and the Moody's downgrade pointed out that fundamentals are weakening. Slowing growth in China is also likely to exert downward pressure on commodity prices. ■

2017 Performance Year to Date

	Returns	
	Weekly	YTD
S&P 500 Index	1.5%	8.8%
Dow Jones Industrial Average	1.4%	7.8%
NASDAQ Composite	2.1%	15.9%
Russell 2000 Index	1.1%	2.4%
Euro Stoxx 50	-0.3%	17.7%
FTSE 100 (U.K.)	-0.7%	11.7%
DAX Index (Germany)	-0.4%	16.3%
Nikkei 225 (Japan)	0.6%	8.8%
Hang Seng (Hong Kong)	1.7%	17.1%
Shanghai Stock Exchange Composite (China)	0.8%	1.6%
MSCI EAFE (non-U.S. developed markets)	0.2%	14.0%
MSCI Emerging Markets	2.2%	18.7%
Bloomberg Barclays U.S. Aggregate Bond (bonds)	0.0%	2.1%
BofA Merrill Lynch 3-Month Treasury Bill (cash)	0.0%	0.2%

Source: Morningstar Direct and Bloomberg, as of 5/26/17. 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.

"Improving earnings and corporate profits set against a backdrop of modestly accelerating global growth should allow equity prices to move higher over the coming year."

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1 Source: Morningstar Direct, as of 5/26/17 **2** Source: Bureau of Economic Analysis
3 Source: Bureau of Labor Statistics

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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