# Risk-On Trend Resumes as Equities Gain Ground

NUVEEN ASSET MANAGEMENT

WEEKLY INVESTMENT COMMENTARY

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Following a down week for stocks, investors adopted a risk-on approach, moving back into equities. While the damage from Hurricane Irma was devastating in terms of human costs, the economic impact was less severe than feared. The S&P 500 Index rose 1.6% last week and all major U.S. indices reached new highs.[1] As part of the broader outperformance trend among risk assets, Treasuries were weaker across the yield curve last week, the dollar rose slightly, gold prices fell and oil moved higher.[1]

## Key Points

- Investors returned to stocks last week, helping equity markets reach new highs and turning the current bull market into the second-strongest in history.
- There are reasons for concern, but we believe the current economic expansion will continue and this bull market still has legs.

## Weekly Top Themes

1. **Third quarter economic growth may be suppressed due to hurricane damage, but rebuilding efforts should contribute to long-term growth.** We may see a near-term drop in economic data from the direct hit to the Texas and Florida economies, as well as from a temporary inflation spike that could weaken real purchasing power. We expect growth will rebound, however.

2. **Inflation may be creeping higher.** Inflation has been virtually nonexistent for months, but that may be starting to change. The Consumer Price Index rose a more-than-expected 0.4% in August, the strongest gain in five years.[2] Price advances were due to a number of factors, including higher lodging costs and surging automobile prices.[2]

3. **Washington appears to have a brief window to enact tax cuts.** The recent agreement to raise the debt ceiling and fund the government through the end of December gives President Trump and Congress some breathing room to act on tax reform. If we don't see significant action over the next couple of months, the probability of any tax legislation being passed is likely to drop significantly.

4. **The current bull market just became the second-strongest in history.** Since the S&P 500 Index hit its low on March 9, 2009, it has gained 268% as of the end of last week.[3] That surpasses the climb that occurred in the early 1950s.[3] The current bull market now trails only the 1987 – 2000 bull market in terms of strength.[3]

5. **Despite its longevity and strength, we don't believe the current bull market is approaching an end.** The U.S. remains in an environment of solid growth and easy monetary policy. We think we would need to see some combination of economically damaging political turmoil, decisively higher bond yields and/or a material drop in the value of the dollar to cause an end to this bull market. None of those events appear particularly likely.

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## Despite Roadblocks, Expect the Bull Market to Continue

As the economic cycle advances and the equity bull market grows older, investors naturally look for reasons why one or both might end. And investors still appear skeptical about equities. Although indices have repeatedly hit new highs this year, risk aversion remains high and many investors still have ample amounts of cash sitting on the sidelines.

From an economic perspective, we believe the world economy is probably stronger than it has been at any point this decade. The United States enjoys solid jobs growth, low unemployment, adequate consumer spending and positive business sentiment. The political backdrop has become less growth-friendly than anticipated at the beginning of the year, but so far political risks have not dragged on growth. Outside of the United States, we are also seeing better and more synchronous growth. The eurozone in particular has witnessed a solid recovery, Brexit fears notwithstanding.

Corporate earnings growth has also been a positive for the markets this year, and we believe earnings have been a major (if not the major) contributor to equity market strength so far in 2017. Bears would point to the fact that market breadth has narrowed this year as a negative, and many are also concerned about low volatility and the long length of time since the last market correction. These may be reasonable concerns, and we wouldn't discount the possibility of a near-term setback, but we believe the positives outweigh the negatives.

On balance, we see ample reason to remain constructive toward economic growth and equities and other risk assets. At some point, the economic expansion will stumble (perhaps through a long-awaited increase in inflation), but for now we expect the global economy to remain in reasonable shape. And as long as the economy continues to expand, we think risk assets have the ability to advance. ■

### 2017 Performance Year to Date

| | Returns | |
|---|---|---|
| | Weekly | YTD |
| S&P 500 Index | 1.6% | 13.3% |
| Dow Jones Industrial Average | 2.2% | 14.8% |
| NASDAQ Composite | 1.4% | 20.8% |
| Russell 2000 Index | 2.4% | 6.5% |
| Euro Stoxx 50 | 1.3% | 24.4% |
| FTSE 100 (U.K.) | 0.7% | 14.7% |
| DAX Index (Germany) | 1.1% | 23.5% |
| Nikkei 225 (Japan) | 0.6% | 10.8% |
| Hang Seng (Hong Kong) | 0.5% | 29.8% |
| Shanghai Stock Exchange Composite (China) | -1.2% | 16.9% |
| MSCI EAFE (non-U.S. developed markets) | 0.6% | 19.6% |
| MSCI Emerging Markets | 1.1% | 30.5% |
| Bloomberg Barclays U.S. Aggregate Bond (bonds) | -0.5% | 3.4% |
| BofA Merrill Lynch 3-Month Treasury Bill (cash) | 0.0% | 0.5% |

Source: Morningstar Direct and Bloomberg, as of 9/15/17. 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.

*"We see ample reason to remain constructive toward economic growth and toward equities and other risk assets."*

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**1** Source: Morningstar Direct, as of 9/15/17 **2** Source: Department of Labor **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.

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