

Escalating Political Uncertainty Drags on Stocks

As last week began, attention was focused on attempts to dial back tensions between the United States and North Korea. As the week progressed, investor focus turned to the backlash over President Trump's comments in the wake of the violence in Charlottesville. Despite good economic and earnings news, the negatives won out and stock prices fell for a second week, with the S&P 500 Index dropping -0.6%.¹

Weekly Top Themes

- 1. Economic data remains solid.** Retail sales rebounded more than expected in July.² And in August, the Empire Manufacturing Index soared to its highest level since September 2014.³
- 2. Second quarter earnings growth was quite strong.** With the reporting season essentially completed, second quarter operating earnings were up 12% year-over-year.⁴ Revenue growth was particularly strong, up 5% with the highest percentage of companies beating revenue expectations in six years.⁴
- 3. The Federal Reserve should continue tightening policy, but is watching inflation carefully.** The July meeting minutes showed Fed officials are puzzled by persistent inflation weakness. We still believe the Fed will begin normalizing its balance sheet in September. The earliest we expect to see another rate hike would be December, and inflation data may need to move higher before that happens.
- 4. The political climate continues to darken for Republicans.** It was another head-spinning week for the Trump administration: The president was broadly criticized for his remarks about Charlottesville, Steve Bannon exited the White House and observers speculated about who would be next. Additionally, the disbanding of two advisory business councils highlighted the widening split between the establishment and populist wings of President Trump's supporters. Should this type of turmoil persist, it could lead to a wave election against Republicans in next year's midterms.
- 5. The strongest returns for the bull market may be behind us, but we expect stock market gains will continue.** We believe the setback in stock prices that occurred over the last couple of weeks should prove to be temporary, as it has been based more on sentiment and political concerns rather than fundamentals. We don't expect investors will experience the pace of gains they enjoyed during the last eight years, but we believe fundamentals should continue to provide tailwinds for equity markets.

KEY POINTS

- Investor attention has been focused on the negatives surrounding geopolitical tensions and White House drama.
- Yet, fundamentals such as economic growth and corporate earnings offer good news for equity markets.
- Although we acknowledge there are risks, we believe this equity bull market should persist.



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.

Despite Risks, the Equity Bull Market Has Legs

Global financial markets are enduring a bumpy phase, largely due to rising geopolitical tensions and domestic political uncertainty. While the damage to equity markets and other risk assets has so far been minor, investors are focusing on potential downside risks that could trigger additional damage.

The political backdrop is fragile, but we believe that fundamentals will ultimately prove to be stronger determinants of market performance. In any case, tensions between North Korea and the United States appear to be easing. And while the drama surrounding President Trump is unlikely to go away, investors would welcome any hints of progress on the pro-growth agenda.

Outside of politics, the relentless decline in the value of the dollar has some concerned. Souring political sentiment in the United States means this trend will probably persist. But we expect improving U.S. economic growth and a slow shift toward tightening stances by global central banks should limit the downside.

Likewise, although investors are highly focused on Fed policy, we don't believe the Fed will be overly aggressive about raising rates. If inflation were to start surprising to the upside, the Fed would be in a more difficult position. However, as things stand, policymakers should be able to continue to increase rates slowly and gradually as the economy continues to improve.

On balance, we believe fundamentals suggest this equity bull market is not approaching an end. Economic growth remains decent, earnings are improving and we see no signs of the speculative froth that typically mark the imminent ends of bull markets. We do think volatility is likely to climb in the coming months, but also believe equity prices are likely to advance unevenly over the coming year. ■

2017 Performance Year to Date

	Returns	
	Weekly	YTD
S&P 500 Index	-0.6%	9.8%
Dow Jones Industrial Average	-0.8%	11.4%
NASDAQ Composite	-0.6%	16.3%
Russell 2000 Index	-1.2%	0.9%
Euro Stoxx 50	0.6%	19.9%
FTSE 100 (U.K.)	-0.8%	10.2%
DAX Index (Germany)	0.6%	18.0%
Nikkei 225 (Japan)	-1.4%	9.6%
Hang Seng (Hong Kong)	0.7%	25.4%
Shanghai Stock Exchange Composite (China)	1.8%	11.8%
MSCI EAFE (non-U.S. developed markets)	0.1%	16.6%
MSCI Emerging Markets	1.6%	25.2%
Bloomberg Barclays U.S. Aggregate Bond (bonds)	0.1%	3.2%
BofA Merrill Lynch 3-Month Treasury Bill (cash)	0.0%	0.4%

Source: Morningstar Direct and Bloomberg, as of 8/18/17. 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 political backdrop is fragile, but we believe that positive fundamentals will ultimately prove to be stronger determinants of market performance.”

For more information or to subscribe, please visit nuveen.com.

1 Source: Morningstar Direct, as of 8/18/17 2 Source: Commerce Department 3 Source: Federal Reserve Bank of New York 4 Source: Strategas 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.

This material is not intended to be a recommendation or investment advice, does not constitute a solicitation to buy or sell securities, and is not provided in a fiduciary capacity. The information provided does not take into account the specific objectives or circumstances of any particular investor, or suggest any specific course of action. Investment decisions should be made based on an investor's objectives and circumstances and in consultation with his or her advisors.

A WORD ON RISK

This information represents the opinion of Nuveen Asset Management, LLC and is not intended to be a forecast of future events and this is no guarantee of any future result. Information was obtained from third party sources which we believe to be reliable but are not guaranteed as to their accuracy or completeness. All investments carry a certain degree of risk and there is no assurance that an investment will provide positive performance over any period of time. Equity investments are subject to market risk or the risk that stocks will decline in response to such factors as adverse company news or industry developments or a general economic decline. Debt or fixed income securities are subject to market risk, credit risk, interest rate risk, call risk, tax risk, political and economic risk, and income risk. As interest rates rise, bond prices fall. Non-investment-grade bonds involve heightened credit risk, liquidity risk, and potential for default. Foreign investing involves additional risks, including currency fluctuation, political and economic instability, lack of liquidity and differing legal and accounting standards. These risks are magnified in emerging markets. Past performance is no guarantee of future results.

CFA® and Chartered Financial Analyst® are registered trademarks owned by CFA Institute. Nuveen Asset Management, LLC is a registered investment adviser and an affiliate of Nuveen, LLC.