nuveen
A TIAA Company

Weekly Investment Commentary

7 May 2018

Reasons for optimism slightly outweigh reasons for caution

Corporate earnings were in focus for much of last week. Results continued to come in stronger than expected and earnings are on track for their best quarter since 2010.[1] But concerns remain that earnings growth may have peaked in the current cycle. Investors also focused on economic data, including another drop in U.S. unemployment and indications that global growth momentum may be slowing. Amid these crosscurrents, stocks were mixed, with the S&P 500 Index dropping 0.2% for the week.[2] Technology was a standout performer, while telecommunications and healthcare lagged.[2]

HIGHLIGHTS

- **Earnings growth may be peaking with the strong first quarter results, but that does not mean the equity bull market is coming to an end.**
- **Volatility is likely to remain elevated as sentiment shifts between a focus on the positives and negatives.**
- **It may take time, but we think stocks will chart new record highs before this current economic cycle ends.**

Robert C. Doll, CFA
Senior Portfolio Manager and Chief Equity Strategist, Nuveen Asset Management

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 labor market continues to tighten.*** April's headline payroll gain of 164,000 jobs was a bit weaker than expected, but unemployment fell to 3.9%, its lowest level since 2000.[3] Average hourly earnings rose 0.1%, putting the year-over-year growth rate at 2.6%.[3]

2 ***First quarter earnings results continue to impress, helped by tax cuts.*** With 85% of companies reporting, earnings are ahead of expectations by an average of 7.3%.[1] Earnings-per-share growth is on track for 25%.[1] Were it not for the effects of tax cuts, that number would be only 18%.[1]

3 ***Even if earnings are peaking, that does not necessarily mean the equity bull market is ending.*** According to one study, since the 1950s, a cyclical peak in earnings growth has tended to be followed by stock prices moving higher: From a peak in earnings-per-share growth, stock prices were still higher six months later 74% of the time and were higher 12 months later 68% of the time.[4]

4 ***Inflation should continue to rise slowly.*** Core CPI inflation is now close to the Fed's 2% target after rising 50 basis points over the last six months.[5] The current pace of economic growth implies inflation is likely to continue trending higher over the next year, although likely at a slower pace.

5 ***Headline trade risks have receded, but remain a potential issue.*** The recent U.S./China trade talks appeared to be generally cordial, but we have not seen any measurable progress. We think trade risks are likely to remain a consideration for markets for quite some time.

Upside and downside risks may result in ongoing volatility

We do not believe that we are close to the end of the current cycle of global economic expansion, but the endgame may develop more quickly than many investors expect. At this point, it appears that upside and downside risks for the economy and financial markets may be pretty well balanced. We offer the following list of reasons for optimism and reasons to be cautious, adapted from J.P. Morgan Research:[6]

REASONS TO BE OPTIMISTIC

1) First quarter earnings are very strong.
2) Equity valuations are reasonable.
3) Corporate America is flush with cash.
4) U.S. growth momentum may be plateauing, but is not slowing.
5) Trade restrictions have not been as severe as feared.
6) Global monetary policy remains accommodative.
7) North Korea risks have eased.

REASONS TO BE CAUTIOUS

1) Margin pressures could hurt future earnings.
2) Higher rates could represent a headwind for valuations.
3) Political risks may rise as the midterm elections approach.
4) Global growth may start to slow in the coming years.
5) Trade policy remains a long-term risk.
6) Investors may be too complacent about monetary tightening.
7) President Trump's legal issues could escalate.

We expect stock prices will break new ground, but maybe not for some time

Overall, we remain broadly constructive about the long-term outlook for stocks given economic and earnings momentum, and expect equities will continue to outperform bonds over the coming year. Over the near-term, however, we expect markets will remain stuck in the same broad trading range they have been in since early February as sentiment moves between concerns about slowing growth and rising inflation to optimism about earnings. We think stocks will again break new ground and push higher, but it may yet be several months or longer before that happens.

2018 PERFORMANCE YEAR TO DATE

	Returns	
	Weekly	YTD
S&P 500 Index	-0.2%	0.2%
Dow Jones Industrial Average	-0.2%	-1.2%
NASDAQ Composite	1.3%	4.8%
Russell 2000 Index	0.6%	2.4%
Euro Stoxx 50	-0.1%	2.2%
FTSE 100 Index (U.K.)	-0.8%	0.1%
DAX Index (Germany)	0.7%	-1.3%
Nikkei 225 Index (Japan)	-0.7%	2.0%
Hang Seng Index (Hong Kong)	-1.2%	0.0%
Shanghai Stock Exchange Composite Index (China)	-0.1%	-4.4%
MSCI EAFE	-0.4%	0.4%
MSCI Emerging Markets Index	-1.7%	-1.4%
Bloomberg Barclays U.S. Aggregate Bond Index (bonds)	0.0%	-2.3%
BofA Merrill Lynch 3-MonthTreasury Bill (cash)	0.0%	0.5%

Source: Morningstar Direct, Bloomberg and FactSet as of 4 May 2018. 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 think stocks will again break new ground and push higher, but it may yet be several months or longer before that happens."

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

1 Source: Credit Suisse

2 Source: Morningstar Direct, Bloomberg and FactSet

3 Source: Bureau of Labor Statistics

4 Source: BMO Capital Markets

5 Source: Labor Department

6 Source: J.P. Morgan Research, *Bull/Bear Debate, 4 May 2018*

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.

Risks and other important considerations

The views and opinions expressed are for informational and educational purposes only as of the date of writing and may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The information provided does not take into account the specific objectives, financial situation, or particular needs of any specific person. 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.

Nuveen Asset Management, LLC is a registered investment adviser and an affiliate of Nuveen, LLC.

GPE-BDCOMM1-0518P 491504-INV-W-05/19

nuveen

A TIAA Company

Nuveen | 730 Third Avenue | New York, NY 10017 | 212.490.9000 | nuveen.com