nuveen
A TIAA Company

Weekly Investment Commentary

18 June 2018

Investors look past geopolitics, but trade remains a wildcard

Last week was highly eventful, yet investors shrugged off most of the developments that drove the headlines. President Trump's comments at the G7 meeting the previous weekend generated a lot of criticism, but investors mostly ignored any possible implications. Similarly, the U.S./North Korea summit appeared to open the way for further dialogue, but did not move the markets. Likewise, the Federal Reserve's interest rate increase last week had already been baked into market expectations. Stock prices did decline on Friday in reaction to the U.S. announcing it would impose tariffs on Chinese goods, but equity markets were mostly flat to mixed for the week as a whole.[1]

HIGHLIGHTS

- **Investors mostly ignored the U.S./North Korea summit and last week's Fed meeting. But rising trade risks are weighing on sentiment.**
- **U.S. growth is accelerating, as is inflation. This should prompt the Fed to continue increasing rates.**
- **We see several possible risks to stocks, but believe equities should continue to outperform bonds over the next year.**

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

Bob Doll serves as a leading member of the equities investing team for Nuveen, providing reasoned analysis through equity portfolio management and ongoing market commentary.

Weekly top themes

1. ***We believe second quarter gross domestic product growth should be 3% or higher.*** The latest data to support this view came from stronger-than-expected retail sales in May, which rose 0.8%, the fastest pace in six months.[2]

2. ***There are risks that U.S. growth may be overheating.*** Wage growth is poised to accelerate further. And the housing market continues to gain strength, with prices climbing quickly in many markets.

3. ***Inflation continues to slowly increase.*** The May Consumer Price Index increased 2.8% year-over-year while core CPI rose 2.2%.[3] We believe those levels will be around 3% and 2.5%, respectively, by the end of the year.

4. ***Fed rate hikes should continue through 2019.*** As was widely anticipated, the Fed increased the target fed funds rate to 1.75% last week. At this point, markets are expecting two more increases this year and three next year, especially since the Fed acknowledged that inflation should achieve its 2% target in 2018.[1]

5. ***The European Central Bank successfully managed market expectations in its announcement that it would wind down its bond-purchase program.*** The ECB plans to end its quantitative easing program by the end of this year, but also announced it would be unlikely to raise rates before the middle of next year. Investor reaction was positive, as the ECB appears to be approaching policy shifts very cautiously.

6. ***Trade risks are rising.*** The United States announced it would impose a 25% tariff on $50 billion worth of Chinese goods. Add to that increased rhetoric between the U.S. and Canada over imports and trade, and protectionist risks appear to be accelerating.

7. ***The U.S./North Korea summit looks to be a positive for financial markets.*** While few specifics were announced, the fact that lines of communication were opened should reduce near-term geopolitical risks. It remains highly uncertain whether North Korea will actually take the steps necessary for true, verified denuclearization, but at least the parties are talking.

Which risks could derail the stock market?

It appears to us that the overall macroeconomic and earnings growth backdrop remain solid for stocks. Nevertheless, investors should consider a number of potential downside risks. Let's start with the economic and inflation environment: U.S. growth appears to have shifted to a higher gear while labor is in short supply and wages are rising. Tax cuts and fiscal stimulus are also accelerating growth. After remaining stubbornly low for years, inflation is finally starting to creep higher.

This presents an environment for continued Fed rate increases, which could eventually act as a drag on equity prices. In our view, rates remain relatively low and are still below a neutral level. As such, we think equity markets can withstand additional rate increases (especially if they remain slow and well telegraphed). Rising rates, however, are likely to put significantly more downward pressure on bond prices.

From a political perspective, we think the most pressing risk remains possible further deterioration in trade. We think the prospects for an all-out, 1930s-style trade war remain low, but the G7 meeting and the recent announcement of new U.S. tariffs on Chinese goods are not encouraging. We are holding out hope that heightened tensions are more about negotiating ploys and that trade issues can deescalate, but this remains a risk worth watching.

Assuming that a full-blown trade war does not materialize, rising bond yields may be the most probable catalyst for upsetting equity markets. This has not happened so far, since yields have had trouble sustaining advances. But higher yields seems like an inevitability, given stronger economic growth, rising inflation and tightening Fed policy.

Overall, we think equities still look attractive and believe the bull market can and should continue. We also expect stocks to continue outperforming bonds over the next six to twelve months. But unlike in recent years, this relative outperformance may be due more to bonds experiencing negative returns.

"Overall, we think equities still look attractive and believe the bull market can and should continue."

2018 PERFORMANCE YEAR TO DATE

	Returns	
	Weekly	YTD
S&P 500 Index	0.1%	4.9%
Dow Jones Industrial Average	-0.8%	2.6%
NASDAQ Composite	1.3%	12.8%
Russell 2000 Index	0.7%	10.3%
Euro Stoxx 50	0.4%	-0.8%
FTSE 100 Index (U.K.)	-1.5%	-0.3%
DAX Index (Germany)	0.5%	-2.8%
Nikkei 225 Index (Japan)	-0.3%	3.1%
Hang Seng Index (Hong Kong)	-2.0%	2.4%
Shanghai Stock Exchange Composite Index (China)	-1.6%	-6.7%
MSCI EAFE	-0.5%	-0.4%
MSCI Emerging Markets Index	-1.9%	-3.0%
Bloomberg Barclays U.S. Aggregate Bond Index (bonds)	0.1%	-1.9%
BofA Merrill Lynch 3-MonthTreasury Bill (cash)	0.0%	0.7%

Source: Morningstar Direct, Bloomberg and FactSet as of 11 Jun 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.

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

1 Source: Morningstar Direct, Bloomberg and FactSet

2 Source: Commerce Department

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.

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-BDCOMM3-0618P 528733-INV-W-06/19

nuveen

A TIAA Company

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