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Weekly Investment Commentary

30 July 2018

Fundamentals help stock prices push higher

Investors focused last week on a moderate easing of trade tensions and a solid second quarter gross domestic product report. Corporate earnings also drew headlines, particularly troubled results that ravaged Facebook's stock price. U.S. indices were mixed, although the S&P 500 Index posted a fourth weekly gain, rising 0.6%.[1] The energy, industrials and financial sectors were the best-performing areas, while technology and consumer discretionary came under pressure.[1]

HIGHLIGHTS

- **Strong economic growth and stellar corporate earnings continue to provide reasons for investors to bid stock prices higher.**
- **Trade tensions eased a bit last week, but uncertainty over policy is keeping financial markets in check.**
- **We expect the equity market to maintain its current trading range until trade tensions ease.**

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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

The second quarter GDP report was the strongest in years, although it may represent a peak for 2018 and the rest of the economic cycle. While headlines focused on real GDP numbers, we think nominal growth (which includes inflation) better represents overall economic activity. Nominal growth surged 7.4% for the quarter (the highest number in four years) and was up 5.4% year-over-year (the strongest pace of the current cycle).[2]

2

Corporate earnings are headed for another strong quarter. Growth estimates are surging and earnings-per-share growth could reach 25% or higher, which would exceed first quarter results.[1]

3

No real news is expected at this week's Federal Reserve meeting, but monetary policy is growing less certain. The economic and political backdrop is murkier today than it has been in years. Central bankers have expressed concern about rising trade tensions, climbing inflation, the flattening of the yield curve and growing political pressures. All of these factors could impact future monetary policy.

4

Trade tensions eased a bit last week. The meeting between U.S. and European Union officials resulted in avoiding automobile tariffs, which is certainly good news. Additionally, NAFTA negotiations have restarted and a new deal could be reached before Labor Day. President Trump appears to be trying to ease tensions with many trading partners to gain support for a harder line against China.

5

We think there is virtually no chance of additional tax reform passing this year. New tax legislation could pass the House of Representatives, but it seems unlikely that the Senate would even consider taking up the measure. The debate is mostly about political posturing in advance of the midterms, but it could provide some clues about the direction of fiscal policy should Republicans keep control of Congress.

If trade pressures continue to ease, equities should benefit

After weeks of rising trade tensions, the U.S. and EU meeting last week resulted in some rare positive trade-related news. It is unclear whether this marks a broader shift away from protectionism or is an isolated event. But at this point, the bar for positive surprises is so low that even news that negotiations are continuing is considered a win for supporters of free trade. The recent pattern suggests that President Trump will shortly resume his harsh trade rhetoric, so we are approaching the issue cautiously. But we would welcome any move away from trade protectionism.

So far, actual economic damage from imposed tariffs and harsher trade rhetoric has been minimal. However, politicians could still enact additional restrictive measures that could cause more serious fallout. The uncertainty over the future of trade policy is causing problems for equity markets, as expectations are rising that companies could delay investments or business plans as they await additional clarity.

The good news for stock markets is that corporate profits have been stellar this year and economic growth remains solid. These factors have kept stock prices from falling in the face of trade uncertainty and kept government bond yields relatively low. Any improvement in the trade backdrop should cause both stock prices and bond yields to move higher. For now, however, we expect financial markets to continue churning and stocks to remain in the same trading range they have been in since early February: a high of 2,875 and a low of 2,532 for the S&P 500 Index.

2018 PERFORMANCE YEAR TO DATE

	Returns	
	Weekly	**YTD**
S&P 500 Index	0.6%	6.6%
Dow Jones Industrial Average	1.6%	4.2%
NASDAQ Composite	-1.1%	12.7%
Russell 2000 Index	-2.0%	9.0%
Euro Stoxx 50	1.5%	0.4%
FTSE 100 Index (U.K.)	0.3%	-0.6%
DAX Index (Germany)	1.9%	-3.5%
Nikkei 225 Index (Japan)	0.8%	2.4%
Hang Seng Index (Hong Kong)	2.1%	-1.8%
Shanghai Stock Exchange Composite Index (China)	1.0%	-15.3%
MSCI EAFE	1.4%	0.3%
MSCI Emerging Markets Index	2.2%	-4.0%
Bloomberg Barclays U.S. Aggregate Bond Index (bonds)	-0.2%	-1.6%
BofA Merrill Lynch 3-MonthTreasury Bill (cash)	0.0%	1.0%

Source: Morningstar Direct, Bloomberg and FactSet as of 27 July 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.

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1 Source: Morningstar Direct, Bloomberg and FactSet

2 Source: Bureau of Economic Analysis

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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GPE-BDCOMM4-0718P 560312-INV-W-07/19

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