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Weekly Equities Commentary

5 April 2021

# Equities extend their quarterly win streak

*Global equity markets rose last week, with the S&P 500 Index eclipsing the 4,000 mark for the first time in history. Growth topped value, small caps edged out large caps, and from a sector perspective, communication services, consumer discretionary, and information technology gained between 2% and 4%, each. The consumer staples (-0.8%) and health care (-0.6%) sectors were relative laggards.*

## HIGHLIGHTS

- **After rising to nearly 1.75% through mid-week, the 10-year Treasury yield settled at 1.69% to end the week.**
- **March's Consumer Confidence reading beat expectations by nearly 14 points, reaching 109.7, while the ISM Manufacturing Index reached a 37-year high of 64.7.**
- **New jobs grew by a much-better-than-expected 916,000 (versus forecasts of 660,000) for the largest monthly increase since August.**

**Saira Malik, CFA**
*CIO of Nuveen Equities*

Saira Malik oversees the equities strategic direction for Nuveen as chair of the Equities Investment Council (EIC) and a member of Nuveen's Global Investment Committee (GIC). She has responsibility for equity portfolio management, equity research, equity trading, target date, quantitative and index strategies, as well as portfolio management responsibilities for global equity strategies.

## Quarterly overview

- *Equities enjoyed their fourth consecutive positive quarter. While the pro-cyclical reopening trade continued, driven by stimulus and vaccination progress, the quarter ended with a small rebound in technology and growth.*
- *Energy (30.9%), financials (16.0%), and industrials (11.4%) each saw double-digit returns, while consumer staples (1.2%), information technology (2.0%) and consumer discretionary (3.1%) lagged. Value trounced growth across the market cap spectrum, and small caps outperformed.*
- *Outside of the U.S., returns were mostly positive, as the MSCI EAFE and EM indices returned 3.5% and 2.3%, respectively. Performance was somewhat mixed on an individual company basis, largely predicated on how COVID metrics were trending toward the end of the quarter.*

> *We see solid long-term investments in value styles and in select cyclical areas of the market, as well as compelling near-term growth opportunities."*

## Market drivers & risks

- **Archegos-driven volatility.** For the second time in 2021, a notable hedge fund suffered immense losses. Similar to the GameStop short-squeeze, markets were caught off guard and investors were uncertain whether the issue was systemic, creating broader market volatility.
  - It appears the damage was limited, both in duration and scope, as news outlets began downplaying the risks. Given the nontransparent nature of the instruments used in Archegos' trading strategy, it is understandable that markets reacted negatively. These types of transient events are likely to remain a force in equity markets, though hopefully with less frequency. But they do not alter our views on long-term asset allocation.
- **Infrastructure implications.** The White House formally unveiled its $2 trillion, eight-year infrastructure package last week with several market implications.
  - With $612B to be spent on traditional infrastructure (roads, bridges, airports, utilities, etc.), investors "sold the news," favoring technology and the 'work-from-home' trade over cyclicals. This was also a likely continuation of a recent pause on what has been a very robust reopening/cyclical rotation. Fears surrounding impending legislative uncertainty, higher taxes and, to a degree, rising COVID cases may have also crept into market sentiment.
  - Pairing existing stimulus with a front-loaded spending package expected to add 0.5% to GDP in 2022 should ultimately strengthen the case for the reopening trade, especially within traditional cyclical sectors. We also think an increase in the corporate tax rate may wind up being more moderate than expected (e.g. 25% rather than 28%), easing that potential headwind.
  - Future infrastructure spending will likely focus on issues such as education, health care, child tax benefits and family/medical leave, paid for by personal tax rate hikes on the country's highest earners. We'll know more when we see specifics, but we suspect the long-term effects will favor cyclicals and consumer-oriented industries.

## Risks to our outlook

With the clock started on the legislative battle for an infrastructure package, investors should expect news related to its progress to move markets.

Though recent Fed comments have seemingly settled investors' nerves to a degree, investors remain wary about possible rate increases or asset purchase tapering. The central bank's messaging will remain one of the most significant near-term risks.

We will continue to be mindful of "shocks" to global supply chains, as they could spark heightened (if short-term) inflation risks.

New COVID cases and varying vaccination rates across the globe could also create volatility for global equity markets. On a related note, incrementally better news out of the U.S., combined with incrementally worse news elsewhere, has led to a recent strengthening of the U.S. dollar. This is likely to create a headwind for emerging markets over the near term.

## Best ideas

*As mentioned during an appearance on CNBC on Friday, we are emphasizing near-term opportunities in consumer service sectors, especially in areas where unemployment remains elevated. We also favor near-term opportunities in financials and consumer areas, while also keeping an eye on industrials that could benefit from publicly funded infrastructure investments. We remain bullish on U.S. small caps, emerging markets and cyclicals for the longer term as the economy reopens, but think those areas could be subject to volatility over the coming months. We see tactical opportunities in some growth stocks that have experienced recent underperformance.*

*In focus*

# The return of value

From August 2006 until August 2020, growth stocks outpaced value stocks by more than 300%. Anemic global growth, momentum investing and low government bond yields drove an unending appetite for growth. This began to change last fall as the economic outlook improved, governments continued massive fiscal and monetary stimulus programs, COVID-19 vaccines were approved and the yield curve steepened.

Despite value's outperformance over the past six months, value continues to trade at historic discounts to growth. While it is unclear whether this recent value resurgence will be short lived or if it will mirror the enormous value run from 2000 to 2006, we believe several ingredients are in place for sustained outperformance. Global economies have been flooded with monetary and fiscal stimulus, saving rates have exploded and consumers are beginning to transact at prepandemic levels. Leading indicators of inflation are picking up as measured by commodities, supply-chain constraints and unit labor costs. Value stocks should benefit from accelerating global growth, positive earnings revision and the combination of attractive absolute and compelling relative valuations.

Over the past decade, growth stocks outperformed their value counterparts by more than 6% annually. The compounding impact of this trend caused value investing to become seemingly ignored, and valuation disparities to reach unsustainable levels. If history repeats itself or even just rhymes, investors may have a unique opportunity to benefit from a substantial period of value outperformance.

## About the Equities Investment Council:

The Nuveen Equities Investment Council (EIC) includes the firm's senior equity portfolio managers averaging three decades of investing experience. The group brings global expertise across different styles of equity investing and provides value-added insights to Nuveen's investment process by refining and delivering the firm's collective equity market outlook, including key risks and drivers, to clients. Led by Saira Malik, CIO & Head of Equities, the team shares best global equities ideas, while focusing on individual areas of expertise to help generate alpha.

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**Sources**

All market data from Bloomberg, Morningstar and FactSet



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