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Weekly Investment Commentary

1 June 2020

Stocks break out to the upside on economic and vaccine hopes

Stocks rose again last week, marking the first time since mid-April that equities enjoyed gains for two consecutive weeks.[1] Investors appear increasingly optimistic over prospects for economic reopening and are taking solace in signs of improving economic data that indicate the U.S. may have seen the bottom for the current recession. The S&P 500 Index rose 3% last week, with economically sensitive cyclical areas such as industrials and financials faring the best.[1]

HIGHLIGHTS

- **After holding steady for more than a month, stock markets have been rising noticeably over the last couple of weeks as investors grow more positive about prospects for economic reopening.**
- **We think investors may be overly optimistic, as we expect economic reopening will likely be bumpy, especially if we see new coronavirus surges.**
- **While we think stocks can still make advances as economic clarity emerges, volatility is likely to remain high and the outlook is challenged.**

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 appear to be emerging from the sharpest and shortest recession in U.S. history.*** Economic activity is slowly improving from April lows. We think the recovery will be reasonably strong, but bumpy and uneven. If we avoid a policy error and a strong additional coronavirus wave, we think it will take two or three years for the U.S. to move back to full employment.

2. ***We think unemployment levels are near their peak.*** Weekly jobless claims remain one of the best sources of real-time economic data. While last week's number of 2.1 million is still dire, it still represents a downward trend.[2] May's unemployment number will be released this Friday, and we expect it will climb to around 18% to 20%, which should be approaching a peak.

3. ***Worsening U.S./China relations are a growing risk.*** President Trump is taking an increasingly hard line toward China, as are other politicians in the U.S. and around the world. Investors have looked past these risks so far, but confidence could take a hit as the relationship between the two countries becomes more adversarial.

4. ***We expect the U.S. dollar to come under pressure.*** Investors' desire for safe-haven assets has boosted the value of the dollar, but demand should fall as the global economy improves, creating a headwind for the greenback.

5. ***Upside and downside market risks look balanced.*** The positives include ongoing and creative monetary policy support, massive fiscal stimulus, a slowing coronavirus infection rate and optimism over restarting the economy. The negatives include a potential second wave of infections, a stalling recovery, U.S./China trade disruptions and U.S. election uncertainty.

Sentiment is improving, but the outlook remains fragile

Following the low on March 23, stocks rallied the subsequent month before stalling. Markets appear to have reaccelerated based on excitement over economic reopening, newfound momentum in credit markets and hopes for additional fiscal stimulus. Interestingly, while stocks have rallied, bond yields have not moved higher, which suggests an upward move may be overdue.

Despite improving economic data and unprecedented amounts of monetary and fiscal stimulus, our view remains cautious toward economic growth and equity markets. Many countries and states within the U.S. are moving quickly to reopen their economies despite continued risk of secondary surges of coronavirus. We expect economic reopening to be bumpy, which could cause some setbacks. However, if we do not see a notable uptick in new cases over the coming months, economic growth could improve faster than we expect and risk assets could avoid another downturn, especially as policymakers around the world are fully in pro-growth mode.

At this point, investors have turned optimistic toward prospects for the economy and are banking on ongoing stimulus. This confidence has allowed stock prices to move higher and recover well more than half of the losses suffered in February and March. In our view, investors may be overly optimistic. The economic outlook remains uncertain and corporate earnings will struggle to fully recover. We think stocks could still enjoy some upside potential if and when the economic outlook becomes clearer, but modest economic growth and a likely uptick in long-term inflation after 2021 present a challenging backdrop for both stocks and bonds.

2020 PERFORMANCE YEAR TO DATE

	Returns	
	Weekly	**YTD**
S&P 500	3.0%	-5.0%
Dow Jones Industrial Avg	3.9%	-10.1%
NASDAQ Composite	1.8%	6.2%
Russell 2000 Index	2.9%	-16.0%
MSCI EAFE	5.1%	-14.0%
MSCI EM	2.9%	-15.9%
Bloomberg Barclays US Agg Bond Index	0.2%	5.5%
BofA Merrill Lynch 3-mo T-bill	0.0%	0.6%

Source: Morningstar Direct, Bloomberg and FactSet as of 29 May 2020. 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 indexes are unmanaged and unavailable for direct investment.

"Modest economic growth and a likely uptick in long-term inflation after 2021 present a challenging backdrop for both stocks and bonds."

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1 Source: Bloomberg, Morningstar and FactSet

2 Source: Department of Labor

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-BDCOMM1-0620P GWP-1202021PR-W0620P