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Weekly Investment Commentary

19 October 2020

Rising uncertainty slows economic acceleration

Although the news trended in a negative direction last week, stocks held their ground and eked out modest gains, with the S&P 500 Index climbing 0.2%. Coronavirus cases have been rising in parts of the U.S. and throughout Europe, although mortality trends have been improving. At the same time, hopes for a near-term fiscal stimulus package have faded. The political backdrop remains uncertain, but current polling trends show lessening odds of a drawn out, contested election, helping to reassure the markets.

HIGHLIGHTS

- **Economic growth is slowing, but we expect more stimulus and federal spending in 2021, which should help prevent a recession next year.**
- **Stock markets are likely to experience volatility in both directions for some time until clarity emerges around a possible coronavirus vaccine that would allow more economic reopening.**
- **Consider how various election outcomes might affect tax and spending policies and benefit different industries.**

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.

Seven observations and themes

1) Strong retail sales should provide economic momentum into the fourth quarter. Sales growth picked up in September, increasing a stronger-than-expected 1.9%.

2) Improvement in the labor market appears to be slowing. The economy has downshifted from a pace of one million new jobs created monthly to around half of that level.

3) New coronavirus cases are rising, especially in Europe. On the upside, therapeutics are becoming more effective and the mortality rate is declining.

4) The pandemic has hurt some areas of the economy more than others. In particular, more than three-quarters of the declines in second quarter S&P 500 earnings came from increases in bank loan loss provisions, travel- and leisure-related businesses and the sharp drop in oil prices.

5) Third quarter earnings are off to a better-than-expected start. While still early, current trends suggest earnings could be down less than 20% from a year ago, which is better than the forecast as recently as two weeks ago.

6) Stock prices have been rising in recent weeks, despite signs that a near-term fiscal stimulus package seems increasingly unlikely. Investors appear to hope that no deal now might mean a larger package next year.

7) Economic momentum is slowing as stimulus effects fade and parts of the service sector continue to struggle. In particular, travel and leisure, small businesses and traditional retail sectors remain under extreme pressure.

Equity market resiliency may be tested

Equity markets are caught between hopes for a better economic future and signs that the coronavirus pandemic is worsening and economic momentum may be fading. At this point, the pace of the recovery is clearly slowing, and policymakers are running out of options to stimulate growth. Political disagreements stand in the way of a new stimulus package (although we expect that will change after the election) and interest rates are already at historic lows.

From here, we expect the economy to grind unevenly higher, as it hits rocky ground when infection rates surge. Unprecedented policy actions have supported the economy and boosted risk asset prices, but have not triggered a self-reinforcing expansion. Solid growth will probably require successful and widespread vaccines and medical treatment.

Despite the slowing recovery, equity and credit markets have held up surprisingly well. We believe investors are pinning their hopes on vaccine availability that will allow economic reopening to continue. The downside is that this makes markets vulnerable to disappointments.

At present, the equity bull run seems to have reached a consolidation phase. With relatively high valuations, earnings will increasingly drive future price changes. We expect stock markets to remain under pressure and volatility to continue for the time being. However, equities are more likely to experience a sustained uptrend with more clarity around medical breakthroughs and the post-election environment.

Five election-related observations

1) Federal spending would likely rise under a Biden presidency. In particular, pending infrastructure and environmental initiatives would require higher taxes.

2) Biden's tax plans are designed to raise $4 trillion over the coming decade, chiefly from an increase in corporate tax rates, removing the cap on Social Security taxes and converting capital gains and dividend taxes to ordinary income for wealthier Americans.

3) Federal spending would also likely rise under a second Trump term. As such, regardless of the outcome, we think a recession in 2021 looks unlikely.

4) Regardless of the outcome, Federal Reserve Chair Jerome Powell is determined to keep interest rates at zero for a long time.

5) We envision relative stock market winners and losers in different scenarios. Under a blue wave, alternative energy companies such as wind and solar and infrastructure-related companies should benefit. In contrast, airlines, aerospace and most health care companies (especially pharmaceuticals) would benefit should Trump retain the presidency.

2020 PERFORMANCE YEAR TO DATE

	Returns	
	Weekly	**YTD**
S&P 500	0.2%	9.5%
Dow Jones Industrial Avg	0.1%	2.1%
NASDAQ Composite	0.8%	31.0%
Russell 2000 Index	-0.2%	-1.1%
MSCI EAFE	-1.5%	-5.3%
MSCI EM	0.2%	3.0%
Bloomberg Barclays US Agg Bond Index	0.2%	6.8%
BofA Merrill Lynch 3-mo T-bill	0.0%	0.6%

Source: Morningstar Direct, Bloomberg and FactSet as of 16 Oct 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.

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Sources

All market data from Bloomberg, Morningstar and FactSet

Earnings data from Credit Suisse Research

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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GWP-1371347PR-W1020P