nuveen
A TIAA Company

10 PREDICTIONS FOR 2021

The world improves, but do markets already know?

WHAT'S INSIDE

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 on behalf of Nuveen's Equities Investment Council.

2020 recap:
crises, volatility and drama

2020 WILL GO DOWN IN HISTORY AS A YEAR WE WISH WE COULD FORGET, BUT NEVER WILL. While the economic and earnings recession that started in the spring was short but deep, the humanitarian crisis remains devastating. The U.S. alone has already seen more than 15 million cases (over 75 million globally) and 300,000 fatalities (over 1.5 million globally). Around the world, global GDP has declined by $10 trillion, and in April alone more workers lost their jobs than gained jobs in the 10 years following the Great Recession. The pandemic has also left what may be permanent scars on many service industries.

THE UNPRECEDENTED CORONAVIRUS PANDEMIC CHANGED EVERYTHING. For the first time in the 30 years we have been issuing our annual 10 Predictions, we developed a second "revised" set in April to reflect how much the world had changed. And yet, on the day the stock market bottomed, our March 23 weekly investment commentary noted, "technical factors suggest stocks are bottoming. The number of new lows has been very high, put/call ratios are at extremes, volatility appears to have peaked and forced selling by leveraged hedge funds and risk parity funds may be exhausted."

2020 FEATURED THE QUICKEST AND SHARPEST BEAR MARKET IN MODERN HISTORY. After making an all-time high on February 19, stocks collapsed 35% by March 23. From there, thanks to extremely aggressive global monetary and a number of fiscal "whatever it takes" policy responses, stocks climbed nearly 70%, resulting in yet another double-digit annual percentage gain for the S&P 500 Index.

THE YEAR ALSO FEATURED A NOTABLE SHIFT IN MARKET LEADERSHIP. For the first two-thirds of the year, U.S., large-cap and growth stocks outperformed non-U.S., small-cap and value stocks. For the rest of the year, however, the latter group outperformed.

OUTSIDE OF THE MARKETS, WE SAW NO SMALL AMOUNT OF SURPRISES. Political division ran rampant in 2020, leading to a bitter November election with Joe Biden being elected over incumbent Donald Trump. Perhaps the year's biggest miracle was the development of COVID-19 vaccines in a matter of months, compared to a more normal period of years.

2020 highlights

- *Despite the bear market early in the year, stock prices reached new record highs and posted strong returns for 2020.*
- *Massive monetary and fiscal policy helped pull the economy out of recession and remain in force.*
- *Corporate earnings recovered nicely and appear well positioned for 2021.*

2020 lowlights

- *The devastating humanitarian coronavirus crisis continues and will dominate our daily lives for at least several more months.*
- *Political turmoil within the U.S. and around the world increased in 2020, setting the stage for potential headline risks.*
- *The year ended with investor optimism running high and equities discounting a lot of good news, which creates near-term risks.*

2021 outlook:
a return to a more normal environment

OUR 2021 THEME IS, "THE WORLD IMPROVES, BUT DO MARKETS ALREADY KNOW?" This reflects a somewhat divided outlook between the global economy and our market outlook. Investors have grown increasingly bullish as the market has reached new highs, and extreme sentiment readings could represent a near-term risk for equities. But, in general, as the population gets inoculated and large parts of the economy reopen, a virtuous cycle of increasing consumer and business confidence should boost GDP and provide for strong corporate profit growth.

THIS BACKDROP SHOULD BE A POSITIVE FOR EQUITY MARKETS. Stocks should get a boost from an economic recovery combined with continued hyper-accommodative monetary policy, fiscal support for households and businesses, and negative real returns on government bonds. We also expect the exuberance will lead to modest increases in inflation and interest rates further out the Treasury yield curve, causing stocks to rise, but also to underperform strong earnings growth.

THIS CALLS FOR AN ENVIRONMENT WHERE STOCK MARKET PERFORMANCE WILL NO LONGER BE DRIVEN BY P/E VALUATIONS, BUT INSTEAD BY EARNINGS. Economic and earnings growth will undoubtedly be strong over the next year or two. The passing of the leadership baton will likely be an uneven shift from growth, big and U.S. stocks to value, small and non-U.S. stocks. Perhaps the biggest near-term risk to the financial markets is a larger-than-anticipated increase in inflation and interest rates. Will the debt/deficit picture for the U.S. cause problems for the dollar? Will a divided government accomplish much? And how will a Biden administration deal with an ambitious China? These are the big questions. Hopefully, earnings growth from a continued reopening of the economy powered by vaccinations will keep stocks rising in 2021.

LONGER-TERM RETURNS FOR FINANCIAL ASSETS ARE LIKELY TO BE MORE CHALLENGING IN THE COMING DECADE. With starting valuation levels for stocks and bonds high, a normalization process is likely in the years ahead, limiting longer-term returns. Security selection within most asset classes will likely become more important. And alternative assets will likely contribute to returns as they provide risk-reduction properties. Meeting long-term portfolio return objectives will prove challenging.

Positive signals for 2021 …

▲ *The global economy should transition from a recovery to an expansion phase.*

▲ *The Fed and other central banks have made it clear that they have no plans to move away from an ultra-accommodative stance.*

▲ *Overall, the macro backdrop should be friendly for stocks and other risk assets.*

… and risks to consider

▼ *The next several months will remain extremely challenging for the economy and financial markets as the pandemic persists.*

▼ *Inflation and interest rates could start to move higher, creating headwinds for corporate earnings and stock prices.*

▼ *Relatively full valuations across asset classes will likely make it more difficult to achieve strong long-term returns.*

10 PREDICTIONS FOR 2020: SCORECARD

SCORECARD
Overall Scoring

✓	CORRECT
✗	INCORRECT
✗ ✓	HALF-CORRECT

A light at the end of a very long tunnel

At the start of the year, we expected economic growth to pick up modestly and were encouraged by seemingly diminishing macro risks, such as trade policy. Conversely, we were concerned by relatively full stock valuations and thought that market gains could be limited following a strong 2019. The unanticipated coronavirus pandemic and resulting economic and market upheaval threw all of this for a loop. The (mostly) new predictions we offered in April were based on our expectation that the crisis would peak in the second quarter, paving the way for a slow economic recovery in the second half of the year. Below, we offer scoring and commentary on our full list of predictions. Whole numbers indicate our original predictions. New ones (where we made them) are indicated by an "a."

1 ✗

The world avoids recession in 2020 as U.S. GDP grows over 2% and global GDP grows over 3%.

1a ✓

The U.S. and world experience a sharp, but reasonably short recession with noticeable recovery before year-end.

We didn't quite get to the twelfth year of the expansion, as the outright halt in economic activity pushed the world into a sharp and deep recession. With the sharp jump in growth in the third quarter, however, the deepest recession in post-World War II history also proved to be the shortest one. The pace of growth may continue to slow, but we expect the year as a whole will witness an expansion.

2 ✗

Inflation and the 10-year U.S. Treasury yield end the year above 2% as the Fed stays on hold through the election.

2a ✗ ✓

All-time low yields move higher during the second half, with the 10-year Treasury closing the year above 1%.

The 10-year Treasury yield plummeted to record lows during the heart of the crisis in March, and has since been moving in fits and starts. The yield did get close to 1.0% several times in 2020, but closed the year just below that level. As economic growth improves and investors move back into risk assets, we think bond yields will rise modestly in 2021.

"The economy should move from recovery to expansion in the year ahead."

3 Earnings fall short of expectations, partially due to rising wage rates. ✓

3a Earnings collapse, but rise smartly by the fourth quarter. ✓

Going into 2020, we thought earnings expectations for the year were too high. Earnings collapsed in the first and second quarters before rebounding smartly in the third. And it appears corporate profits could actually hit an all-time high in the fourth quarter. Critically, we have seen a notable dispersion between sectors and industries, with areas like technology and health care outperforming those hit hard by economic closures.

4 Stocks, bonds and cash all return less than 5% for only the fourth time in 25 years. ✗

This is one of the three predictions we left unchanged. Stock prices have been extremely volatile this year, and hit record highs toward the end of the year (the S&P 500 Index rose 18.4% for 2020). With the Fed anchoring short-term rates at zero, cash returns have been minuscule. Bonds performed better than we expected (The Bloomberg Barclays U.S. Aggregate Bond Index was up 7.5%), but could experience headwinds if longer-term yields rise.

5 Non-U.S. stocks outpace U.S. stocks as the dollar retreats. ✗ ✓

5a The dollar weakens as global growth strengthens in the second half. ✓

This prediction was originally based on our view that the U.S. dollar would fall and non-U.S. stocks offered better relative valuations. The weakening dollar has been one of the major market stories in 2020. Since the midpoint of the year, the dollar is down –7.7% as investors moved out of safe-haven assets and as global growth has been strengthening. Massive U.S. deficits have also dragged on the value of the dollar.

While near-term risks for stocks remain elevated, we also believe global equity prices will be higher one year from now.”

6 Value and cyclicals outperform growth and defensive stocks.

6a Value and cyclicals outperform growth and defensive stocks in the second half.

The Russell 1000 Value Index (2.8%) was significantly behind the Russell 1000 Growth Index (38.5%) for the year. Value also lagged in the second half of the year (22.8% versus 26.1%). The cyclical/defensive situation happened as we expected, however: An equal-weighted basket of cyclicals was up 13.9% for the year and 23.5% for the second half, while defensives lagged at 5.6% and 12.9%, respectively.

7 Financials, technology and health care outperform utilities, real estate and consumer discretionary.

7a Financials, technology and health care outperform utilities, energy and materials in the second half.

For our original prediction, a basket of financials, technology and health care was up 18.6%, while a combination of utilities, real estate and consumer discretionary trailed at 10.5%. Regarding our revised prediction, our list of favored asset classes was up 22.7% in the second half of 2020, and a basket of our least-favored asset classes climbed 15.1%. Technology and health care should continue to do well in an environment of quantitative easing, and the financials sector appears undervalued.

8 Active equity managers outperform their indexes for the first time in a decade.

This is the second of our predictions that did not change. This trend held true earlier in the year, but the massive rally that took hold in November caused many active managers who were underweight value sectors to lose ground. Heading into the close of the year, only 36% of active managers were beating their indexes.

“With valuations looking high, investment selectivity will be critical in 2021.”

9

The cold wars within the U.S. and between the U.S. and China continue.

This is our third unchanged prediction. And, sadly, it proved to be correct. An optimist would hope that Americans would have used this time of crisis to pull together, but the opposite is the case as political and social divisions within the United States worsened through 2020. And the relationship between the U.S. and China (and, indeed, China and the rest of the world) appears to be deteriorating as the countries move from being competitors to adversaries.

10

The U.S. concludes a tumultuous political year with a status quo election.

10a

The coronavirus recession and rise in unemployment cause Donald Trump to be a one-term president.

The “blue wave” scenario did not come to pass, but Donald Trump became the first incumbent to lose his reelection bid since 1992. Looking ahead, we expect political turmoil to remain high and gridlock to continue.

10 PREDICTIONS FOR 2021

The world improves, but do markets already know?

Stocks have a lot going for them in 2021. The economy should improve, the Fed is set to remain accomodative and earnings should continue to recover. But investor expectations are high heading into the new year, suggesting that downside risks could materialize.

1

U.S. real GDP increases at its fastest pace in twenty years.

While there are still swaths of weakness in the economy (e.g., in the travel, leisure and entertainment sectors), many areas have benefited during the pandemic (such as parts of technology and health care). Consensus GDP growth for 2021 is 3.8%; our view is it will come in at more than 4%, making it the strongest annual economic growth rate so far this century. We expect the economy to move into expansion mode by the third quarter (or maybe even by the second quarter).

2

Inflation approaches 2% as the 10-year U.S. Treasury yield reaches 1.5%.

Consensus expectations are for interest rates and inflation to move higher, but our target levels for 2021 are the consensus targets for 2022. A key factor in our view is the Fed's change to target an average inflation level rather than an inflation peak. We also think higher commodity prices, dollar weakness and sector moves within equities point to higher rates and inflation.

3

The U.S. dollar sinks to a five-year low.

After a significant rise in the dollar early in 2020, the greenback has declined notably, but has simply moved from the higher end to the lower end of a five-year trading range. The notable deterioration in the U.S. balance of payments and net savings rate, coupled with our expectation that global growth will eventually rebound faster than U.S. growth, causes us to believe that the dollar will break below this trading range in 2021 as the trade-weighted dollar index approaches 85.

4

Stocks reach a new high for the twelfth consecutive year, but fail to keep pace with strong earnings growth.

The U.S. stock market has hit a higher high every year since 2009, and we expect that will happen again in 2021. But we also expect stocks won't keep pace with earnings growth of more than 20%. In other words, 2020's stellar stock market recovery (up nearly 70% from the March low) has probably "borrowed" some from 2021. Most observers (ourselves included) agree that stocks are not expensive relative to other assets (chiefly government bonds), but are expensive relative to historical absolute levels.

5

Stocks outperform cash, but cash outperforms Treasury bonds for the first time since 2013.

As prediction #4 indicates, we are constructive on equities for 2021. As prediction #2 indicates, we are cautious on interest-rate-sensitive securities. Logically, therefore, our view is that stocks will outperform cash and cash will outperform U.S. Treasuries next year. Stocks can be flat for the year and still outperform cash, since stocks currently yield more than cash investments. With coupon rates on Treasuries so low, it also wouldn't take much of a rise in yields for cash to outperform Treasuries in 2021.

> *The key question as we enter 2021: How much good news is already priced into the markets?"*

6	**Value, small and non-U.S. stocks (especially EM) outperform growth, big and U.S. stocks.**	For many years, the place to be within equities has been U.S., large-cap and growth stocks. And while we are not advocating selling that trio, non-U.S., small-cap and value stocks have come to life and outperformed on a relative basis — a trend we expect will continue. This rotation won't be a one-way street, but relative cheapness of non-U.S., small and value – coupled with expectations of economic and earnings improvements – should be solid catalysts for this to happen.
7	**Health care and financials outperform energy and utilities.**	Health care offers good earnings growth and reasonable valuations (assuming political headwinds don't develop). Financials appear very undervalued and we expect loan growth to resume, which should help the sector. Energy (where demand seems weak and supply seems plentiful) and utilities (where a general cyclical earnings pick-up, along with modest inflation and interest rate upticks would hurt) look less attractive.
8	**U.S. federal debt rises to more than 100% of GDP on its way to an all-time high.**	The coronavirus pandemic has resulted in a massive explosion in fiscal aid and stimulus that has taken the U.S. federal budget deficit from 5% of GDP in 2019 to 15% in 2020. Debt exploded to 100% of U.S. GDP during World War II in the 1940s. But it declined to less than 30% in the 1970s, largely through a rapidly expanding postwar economy. We project debt will exceed 100% of GDP again next year and rapidly head higher as spending increases and as interest rates rise.
9	**The U.S./China cold war continues, but the conversation becomes quieter and more multilateral.**	The U.S. currently leads the world economically, technologically and militarily. But China aspires to supplant the U.S., taking action in all three areas. While their approaches differ, both Republicans and Democrats share a major concern regarding China's ambitions. One of President Biden's first priorities will be to attack the issue multilaterally, in contrast to President Trump's unilateral approach. U.S./China relations will continue to have a significant impact on capital markets in the years to come.
10	**Despite polarization, President Biden, Senator McConnell and moderate forces achieve some compromise legislation.**	Although this prediction and hope may be optimistic, we think some "at the margin" compromise legislation may be passed. Senate Majority Leader Mitch McConnell (assuming the Republicans win at least one of the two Georgia runoff elections on January 5) and President-elect Biden spent decades together in the Senate and have a reasonably cordial relationship. We also take hope from the group of moderates from both parties that was responsible for restarting conversations regarding the year-end aid package.

Key themes for investors

MATCHING GOALS TO INVESTMENTS

The beginning of the year is often a time to review investment goals and adjust asset allocation decisions. We suggest focusing on the following areas as you assess your portfolio:

Stick with long-term plans: The next few months could continue to be rough, and volatility could be elevated. But we encourage investors to think long term, focusing on diversification and portfolio rebalancing.

Look for tactical opportunities that may come from active management: In an environment where gains may be tough to come by, we suggest focusing on geographic and style differences, as well as bottom-up considerations such as cash flow and earnings sustainability. Similarly, we encourage investors to be nimble and flexible as they approach the markets.

Selectivity also matters in fixed income: With low yields and the prospect of continued rate volatility, fixed income investing has become more challenging. Investors may want to rely on active managers with the flexibility to respond to market changes and the investment acumen to remain ahead of their peers in uncertain markets.

Alternatives can play multiple roles in a portfolio: Alternative assets – including real assets, real estate and other investments – may provide diversified sources of risk, return and/or income. We also think equity strategies such as long/short or market neutral have the potential for diversification compared to long-only, benchmark-oriented investments.

Characteristics we look for when evaluating companies:

- *Free cash flow can provide flexibility to raise dividends, reinvest in the business and buy back shares*
- *Companies with the ability to generate unit growth may be advantaged over those that lack pricing power*
- *Economic sensitivity and above-average secular growth may help insulate against market fluctuations*

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

Endnotes

Sources

All market data from Bloomberg, Morningstar and FactSet

Active management data from Bank of America Merrill Lynch Research

This material is not intended to be a recommendation or investment advice, does not constitute a solicitation to buy, sell or hold a security or an investment strategy, 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 financial professionals.

The views and opinions expressed are for informational and educational purposes only as of the date of production/writing and may change without notice at any time based on numerous factors, such as market or other conditions, legal and regulatory developments, additional risks and uncertainties and may not come to pass. This material may contain "forward-looking" information that is not purely historical in nature.

Such information may include, among other things, projections, forecasts, estimates of market returns, and proposed or expected portfolio composition. Any changes to assumptions that may have been made in preparing this material could have a material impact on the information presented herein by way of example. **Past performance is no guarantee of future results.** Investing involves risk; principal loss is possible.

All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such. For term definitions and index descriptions, please access the glossary on nuveen.com. **Please note, it is not possible to invest directly in an index.**

A word on risk

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 investing involves risk. Investments are also subject to political, currency and regulatory risks. These risks may be magnified in emerging markets. 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. 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. An alternative strategy sells securities that it has borrowed but does not own ("short sales"), which is a speculative technique. A strategy will suffer a loss when the price of a security that it holds long decreases or the price of a security that it has sold short increases. Losses on short sales arise from increases in the value of the security sold short, and therefore are theoretically unlimited. Because a strategy invests in both long and short equity positions, the strategy has overall exposure to changes in value of equity securities that is far greater than its net asset value. This may magnify gains and losses and increase the volatility of returns. In addition, the use of short sales will increase expenses. Diversification does not assure a profit or protect against a loss.

Nuveen provides investment advisory services through its investment specialists.

This information does not constitute investment research as defined under MiFID.

nuveen
A TIAA Company

GWP-1466956CG-S0121D 23363