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Weekly Equities Commentary

12 April 2021

Growth and technology rise ahead of earnings

Most global equity markets rose last week as economic data was generally neutral-to-positive. In the U.S., the S&P 500, DJIA and NASDAQ each added 2% or more during a week of relatively light trading volumes ahead of a highly anticipated earnings season. Elsewhere, the MSCI ACWI ex USA and the MSCI EAFE each added over 1%, while their emerging market counterpart lost 0.6% as two of its largest constituents (China and India) were in negative territory.

HIGHLIGHTS

- **Bond yield volatility continued to moderate, as the 10-year Treasury yield settled at 1.67%.**
- **March's ISM Services Index rose for the tenth consecutive month to a record high 63.7, reflecting strength in most COVID-sensitive industries.**
- **Initial jobless claims rose for a second week to 744,000, while continuing claims fell to 3.8 million with variance across regions.**
- **Underwhelming economic data and dovish Fed minutes led to a weakening of the U.S. dollar.**

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.

Weekly overview

- *Growth, technology and momentum stocks continued their recent outperformance as rates remained stable, while large caps outperformed small caps.*
- *Information technology (4.7%), consumer discretionary, (4.2%) and communication services (3.4%) led, as real estate (0.6%) and materials (0.7%) were relative laggards. Energy (-4%) was the lone sector in negative territory.*
- *Global supply chain disruptions (chiefly in the semiconductor space) remain in the headlines as companies have hinted about potential earnings headwinds: Apple may delay some hardware production, GM is shuttering several factories and both Uber and Lyft are ramping up incentives to entice drivers.*

Market drivers & risks

- **Inflation risks, realized.** As we expected, last week's PPI increases in the U.S. and China grew sharply year-over-year, reflecting increases in energy prices, supply chain disruptions and comparisons of the one-year anniversary of economic shutdowns.
  - While inflation could spike to over 3% during the next few months, our full-year expectations are closer to 2% as we move from "very low" to "normal" economic activity. As markets digest extraordinary economic growth, rather than grapple with day-to-day or week-to-week rotations, we see opportunities this year in a combination of high-quality cyclicals that could benefit from continued economic improvement and high-quality secular growth companies tied to the digital economy.

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

- **Markets mull minutes.** Details from the Federal Reserve's March meeting reaffirmed the Fed's commitment to accommodative policy, while indicating that the central bank remains mindful of transitory spikes in rates and inflation.
  - The overall dovish tone was well received, as the S&P 500 Index closed at a record high on Wednesday. There have been concerns as to whether or not the Fed will stay committed to its stated policy in the face of rapidly rising rates and inflationary pressures, but we are confident that it will allow transient shocks to pass without taking action. Indications will come long before any actual policy changes, which could happen toward the end of 2022.
- **"Hidden" employment data.** The strong March jobs report underpinned the hypothesis that the economy's recovery is well underway. Increasing vaccination rates and warmer temperatures will likely lead to similar results in the coming months, and we need to look beyond headline employment numbers to better anticipate possible Fed policy changes.
  - According to the Bureau of Labor Statistics, both the number of unemployed persons and the labor force participation rate remain in worse shape than their pre-COVID marks (8 million and nearly 2%, respectively). While temporary layoffs continue to dwindle, the number of workers losing jobs due to business closures will be a key metric. These non-headline statistics, among others, will help guide central bank strategy.

Risks to our outlook

Headline economic data may create pockets of volatility, as inflationary shocks caused by short-term global supply chain disruptions and year-over-year comparisons will be difficult for investors to ignore.

Though recent Fed comments have seemingly settled investors' nerves, many 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.

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

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 near-term headwinds for emerging markets.

Best ideas

We see continued tactical opportunities in growth and technology stocks as investors with lofty expectations may be unimpressed by first quarter earnings. In the near term, we continue to favor consumer service sectors, especially in areas where unemployment remains elevated, and we are 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.

In focus

Lofty earnings expectations look beatable

We're mindful that the first three months of 2021 were unique in several respects, making it more difficult than normal to predict the quarterly earnings environment. The U.S. economy roared thanks to a combination of fast and effective COVID-19 vaccinations and larger-than-expected fiscal stimulus. As a result, unlike most recent quarters, analysts were actually revising their earnings forecasts higher as the quarter drew to a close.

While that could make expectations harder to beat than normal, we still think positive surprises are in store. Consensus expectations are around $40/share for the first quarter, a 20% increase over last year. But we think profits could come in 5% to 10% higher than that, around $43/share.

The uniformly good U.S. economic news notwithstanding, the last quarter brought its share of challenges for companies. Bad weather temporarily slowed manufacturing activity in February, further clogging supply chains for firms already bracing for sharply higher demand. And companies that depend on overseas revenues may have suffered from the effects of the still-raging pandemic in many areas.

Of course, we don't expect the first quarter to be the "peak" quarter for earnings growth this year. That will likely come in the second quarter, when the comparisons to the "shutdown spring" of 2020 will be easiest. For the year, we expect the S&P 500 to grow their earnings by 25% to 30% on average, moderately above consensus expectations.

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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GWP-1597186PR-W0421P