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Weekly Investment Commentary

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Improving investor sentiment continues to lift stock prices

Equity markets rose again last week, as investors continued to focus on the positives. The possibility of more progress on the trade front, improved manufacturing readings, decent third-quarter earnings results and accelerating corporate deal activity all helped stocks to rise for a fifth straight week. The S&P 500 Index rose close to 1% as financials, industrials and materials outperformed while defensive sectors such as REITs and utilities lagged.[1] At the same time, Treasuries continued to sell off amid rising yields.

HIGHLIGHTS

- **Stock prices continue to climb as investors focus on improving trade news, decent economic data and third quarter earnings results that were better than investors feared.**
- **We have been seeing a rotation away from growth and defensive stocks toward value and cyclicals, a trend we think could persist if economic growth continues to improve.**
- **Additionally, we could see a shift toward non-U.S. stocks if the global economy continues to improve.**

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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. ***Optimism over the phase-one U.S./China trade deal helped push markets higher.*** The latest negotiations suggest the U.S. could hold off on new tariffs in December and possibly even roll back those that were implemented in September. Reports are mixed about overall progress, but trends seem to be moving in a positive direction.

2. ***Key economic indicators have stabilized, reducing U.S. recession fears.*** The October Nonmanufacturing ISM Index surprised to the upside on the heels of a better-than-expected October employment report.[2]

3. ***The rotation away from defensive and growth sectors toward cyclicals and value has continued.*** This shift has coincided with the market's rise over the past several weeks. Over the last month, the S&P 500 Index is up 5%, while the financials and industrials sectors have advanced 7% to 8%.[1] At the same time, the utilities and REITs sectors are down 3% to 4%.[1]

4. ***Stronger flows into equity funds show improving investor confidence.*** The pace of flows into global equity ETFs and mutual funds over the past month has been the strongest in nearly two years.[3] Given the high amount of cash still sitting on the sidelines, we think this could mean equities still have room for continued growth.

5. ***Although third-quarter earnings growth has been decent, we think future results could be challenged.*** Cuts to fourth quarter estimates make us think expectations for 2020 remain too high.

6. ***Strong merger and acquisition activity shows rising corporate confidence.*** For example, consider Xerox's takeover bid for Hewlett Packard and the possibility of private equity firms engaging in the leveraged buyout of Walgreen Company, which would be the largest in history.

7. ***Despite a noisy political backdrop, investors have been shrugging off possible risks.*** In addition to the ongoing impeachment investigation, last week featured strong Democratic election results, Michael Bloomberg throwing his hat into the presidential ring and continued scrutiny over Elizabeth Warren's health care policy plans. So far, investors have largely ignored U.S. political drama.

We see several key risks, but the macro backdrop suggests equities could climb further

Equity markets and bond yields have been rising, as economic data has been decent (if not great). Investors are becoming more convinced that recession fears are easing, given decreasing trade tensions, growing indications that tariffs may be rolled back and stabilizing manufacturing. These trends also seem to reflect a more equity-friendly political environment. President Trump has been adopting a less-aggressive tone toward trade issues, as he seems to be acutely aware of the need to try to promote economic growth and a solid market environment in the run-up to the 2020 elections.

A number of risks remain on the horizon. Manufacturing continues to be dicey. Only outright improvement, not just data stabilization, would convince us that manufacturing is out of trouble. The earnings backdrop also presents some risks. Expectations for next year may still be too high, although we could see some improvements if economic growth continues to pick up. Additionally, in the near-term, market conditions may have become overbought from a technical perspective, which could mean some sort of corrective action.

On balance, we think that as long as trade tensions do not significantly flare up again, equity prices can continue to grind higher while bond yields are likely to advance. Should this happen, we think we could see a continued rotation toward cyclical sectors of the U.S. market.

Additionally, we could see better performance from non-U.S. stocks. Non-U.S. markets are looking more interesting from a valuation perspective, especially since U.S. markets are again at or near all-time highs, while other markets remain below their early-2018 peaks.

2019 PERFORMANCE YEAR TO DATE

	Returns	
	Weekly	YTD
S&P 500	0.9%	25.5%
Dow Jones Industrial Avg	1.4%	21.2%
NASDAQ Composite	1.1%	28.9%
Russell 2000 Index	0.6%	20.0%
Euro Stoxx 50	0.8%	22.8%
FTSE 100 (UK)	-0.4%	14.1%
DAX (Germany)	0.8%	20.7%
Nikkei 225 (Japan)	1.5%	20.6%
Hang Seng (Hong Kong)	2.2%	10.8%
Shanghai Stock Exchange Composite (China)	0.8%	19.7%
MSCI EAFE	0.5%	18.7%
MSCI EM	1.5%	13.2%
Bloomberg Barclays US Agg Bond Index	-0.9%	7.7%
BofA Merrill Lynch 3-mo T-bill	0.0%	2.1%

Source: Morningstar Direct, Bloomberg and FactSet as of 8 Nov 2019. 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.

> *“As long as trade tensions do not significantly flare up again, equity prices can continue to grind higher.”*

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

1 Source: FactSet, Morningstar Direct and Bloomberg

2 Source: Institute for Supply Management

3 Source: Bank of America Merril Lynch 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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