nuveen
A TIAA Company

Weekly Investment Commentary

30 March 2020

Amid the bear market: 10 themes to consider

U.S. stocks peaked on 19 February, then plummeted in the deepest and fastest decline to a bear market in history. Last week, prices rebounded sharply, as the S&P 500 Index experienced its largest weekly gain since 1938, up over 10%.[1] At this point, we expect economic data will decline sharply, but we also think we've already seen the primary low for this bear market. Clarity will take time to emerge, but we see opportunities at depressed prices.

HIGHLIGHTS

- **Negatives: The crisis is getting worse and new cases haven't peaked. Economic data will be horrific, but not due to structural problems. Volatility will persist.**
- **Positives: We are seeing the largest blast of stimulus in history. Stocks have likely seen their primary low, and should be higher a year from now.**
- **Taking action: Dollar-cost average into and out of positions. Be selective (we see opportunities in technology and health care). Watch credit spreads, the yield curve, commodities and jobless claims as clues for future market conditions.**

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.

10 themes to consider

1. Last week's rally was based on multiple factors. We'd cite deeply oversold conditions, anticipation of a massive fiscal stimulus package, the Federal Reserve's announcement of unlimited quantitative easing, President Trump's comments about "reopening" the U.S. economy and data suggesting new COVID-19 cases in Italy may be peaking.

2. The coronavirus crisis in unlikely to abate soon. New cases may have peaked in China and Italy, but it may be many weeks before that happens in the rest of the world. Many epidemiologists suggest a peak in the United States in six to eight weeks. Until that time, we don't expect to see economic data improve.

3. U.S. economic data is likely to be terrible for some time. The first such data came through last week, with weekly unemployment claims at 3.28 million.[2] That was the largest number in history by a factor of five, and, by itself, implies a rise in the unemployment rate of 2%.[2] The widespread panic and virus countermeasures are putting the world into a deep recession. We expect second quarter growth to fall between 10% and 20%.

4. The monetary policy response exceeds the 2008 financial crisis. The Fed is in a "whatever it takes" mode, both in terms of the sheer dollar figures it will use to purchase assets and the number of new market facilities it has launched.

5. Last week's massive fiscal stimulus will help, but not solve the economic crisis. The $2 trillion package includes direct cash payments to individuals, loans to small businesses, extended unemployment benefits, help for distressed industries and the purchase of medical equipment. The relief is targeted at people and companies who have been directly harmed, and while it is big enough to generate faith in an eventual economic rebound, it will not stave off the recession.

6. The oil market crisis will severely damage the energy sector. The partnership between Russia and Saudi Arabia has collapsed as neither country appears interested in slowing production. Energy companies have been slashing costs and laying off workers. We have already seen credit downgrades in the sector and expect a wave of bankruptcies as debt accumulates and write-downs continue.

7. We think corporate earnings could decline 20% in 2020, putting earnings at $130 for the S&P 500.[1] We think the biggest hits will occur in the second and third quarters. Fundamental strength in the technology, health care and communications services sectors, coupled with strong balance sheets in the financial sector, should prevent overall earnings from fully collapsing. It's tough to forecast much beyond that given we don't know the full extent of economic damage, but an earnings recovery by the end of the year looks likely.

8. The primary bear market low may have been set. A number of technical factors suggest the primary low for the S&P occurred last Monday, when the index dropped to 2,182.[1] Volatility measures hit an all-time high, we witnessed a massive unleveraging of hedge funds and risk-parity products, ETF volume as a percent of market surged as individual investors sold off stocks in droves, credit-sector funds experienced record outflows into money market funds, put/call ratios reached extremes, and the number of new 52-week lows declined even as broader markets sank.[1]

9. We remain in the midst of a bear market. Looking at severe market declines from 1987, 1998, 2008, 2011 and 2015 shows that these selloffs typically have three phases. The first is a panic-driven waterfall decline marking a bottom (which we think we saw last week). The second phase is a prolonged series of sharp rallies and sharp declines as volatility remains high.[1] That's where we think we are right now. The third phase is a retesting of the primary low, which could still happen.

10. This is a painful experience for investors, but we see some value in the markets. At the start of 2020, we thought a long-term, 10-year return expectation for equities of around 5% seemed reasonable given how strongly stocks had rallied in 2019. At this point, we would upgrade those expectations to between 7% and 8% as long-term value has been created. Over the near-term, we're seeing some extreme valuation spreads in financial markets. The spread between the cheapest and average stock is very wide and the yield advantage of stocks over bonds reached a 65-year high last week.[1] This suggest investment opportunities can be found, but we urge caution and careful selectivity.

2020 PERFORMANCE YEAR TO DATE

	Returns	
	Weekly	**YTD**
S&P 500	10.3%	-21.0%
Dow Jones Industrial Avg	12.8%	-23.7%
NASDAQ Composite	9.1%	-16.2%
Russell 2000 Index	11.7%	-31.9%
MSCI EAFE	11.2%	-23.5%
MSCI EM	5.0%	-24.2%
Bloomberg Barclays US Agg Bond Index	2.7%	2.7%
BofA Merrill Lynch 3-mo T-bill	0.0%	0.6%

Source: Morningstar Direct, Bloomberg and FactSet as of 27 Mar 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.

"We expect economic data will decline sharply, but we also think we've already seen the primary low for this bear market."

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

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.

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 advisors.

Risks and other important considerations

The views and opinions expressed are for informational and educational purposes only as of the date of writing and may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The information provided does not take into account the specific objectives, financial situation, or particular needs of any specific person. 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 investments are subject to market risk or the risk that stocks will decline in response to such factors as adverse company news or industry developments or a general economic decline. 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. Non-investment-grade bonds involve heightened credit risk, liquidity risk, and potential for default. 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. Past performance is no guarantee of future results.

Nuveen Asset Management, LLC is a registered investment adviser and an affiliate of Nuveen, LLC.

nuveen
A TIAA Company

GPE-BDCOMM5-0320P GWP-1132753PR-W0320P