nuveen
A TIAA Company

Weekly Investment Commentary

8 October 2018

Trade tensions easing, but U.S. interest rates weigh on investors

Equities were mostly lower last week, with the S&P 500 Index ending the week down 1%.[1] This is the first time since late June that the S&P 500 has fallen two weeks consecutively. Some of hardest hit areas included small caps, emerging markets, consumer discretionary, technology and communication services, while defensive stocks were mixed.[1] The utilities sector gained nearly 2%, making it the standout performer. The 10-year Treasury yield jumped 0.2% to end the week at 3.23%.[1]

HIGHLIGHTS

- **U.S. stocks ended lower for the second week in a row amid concerns over the path of interest rates.**
- **Trade tensions eased with the signing of a new agreement between the U.S., Canada and Mexico, but negotiations with China still weigh heavily.**
- **Earnings growth should remain strong, but could fall short of levels reached in recent quarters.**

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.

Weekly top themes

1 ***The September jobs report came in lower than expected, but revisions offset the slower pace.*** Payroll gains (134,000) were lower than consensus estimates, but revisions for prior months were up significantly. The labor market continues to be on a winning streak with the unemployment rate reaching a nearly 50-year low, with average hourly earnings remaining firm.

2 ***The U.S., Canada and Mexico reached a surprise trade deal, but China is still a concern.*** The new deal, which may not be substantially different from NAFTA, includes benefits for U.S. automakers and dairy farmers. With this new agreement, negations with China remain the final significant trade dispute.

3 ***The Federal Reserve (Fed) is signaling higher rates.*** By dropping "accommodative" language in his recent statement, Chairman Powell indicated that the Fed would try to offset U.S. economic strength with tighter monetary policy. He also indicated that the Fed may raise rates "past neutral," implying that additional hikes are on the horizon, which may have rattled the markets.

4 ***Rising rates may cause an end of a benign era for risk assets.*** Benchmark Treasury bond yields broke through a 37-year trend line on the upside, reaching seven-year highs. We reiterate our stance that returns on stocks, bonds and cash will likely be below their long-term historical averages over the next one, three and five years.

5 ***Earnings growth should remain positive but may show signs of slowing.*** Current third quarter earnings growth estimates are just under 20%. Following back-to-back quarters of approximately 25% earnings growth, these lower estimates reflect continued concerns about potential higher costs, the stronger dollar and trade tensions.

Stock prices should continue to rise, but bond yields and non-U.S. economic growth are concerns

We remain mildly constructive towards equities given the positive earnings backdrop. Consistent with the ongoing global economic expansion, 12-month forward earnings continue to inch higher. While corporate profits may slow in the coming year, earnings growth should remain sufficiently strong to further support an advance in equity markets. However, additional significant gains in equity prices may depend on easing of concerns over non-U.S. economic growth and the behavior of the U.S. bond market.

While last week's agreement between the U.S., Mexico and Canada reinforces our belief that trade outcomes will better be than threatened, the path forward could still be bumpy, especially as the U.S. and China remain at an impasse. Political uncertainties in Europe and isolated problems in emerging markets could continue to weigh on sentiment toward non-U.S. economic growth.

Even if protectionist threats recede and global growth firms, bond yields will still likely increase, restraining valuations. As a result, we think U.S. market returns will be modest. Given solid U.S. economic growth, moderately rising inflation and the ongoing unwinding of the balance sheet, the benchmark 10-year Treasury yield is poised to move irregularly higher, creating further headwinds for valuations.

2018 PERFORMANCE YEAR TO DATE

	Returns	
	Weekly	YTD
S&P 500	-1.0%	9.5%
Dow Jones Industrial Avg	0.0%	8.8%
NASDAQ Composite	-3.2%	13.7%
Russell 2000 Index	-3.8%	7.3%
Euro Stoxx 50	-2.4%	-5.7%
FTSE 100 (UK)	-2.1%	-4.7%
DAX (Germany)	-1.2%	-10.2%
Nikkei 225 (Japan)	-1.5%	5.2%
Hang Seng (Hong Kong)	-4.5%	-8.8%
Shanghai Stock Exchange Composite (China)	0.0%	-17.2%
MSCI EAFE	-2.3%	-3.3%
MSCI EM	-4.5%	-11.5%
Barclays US Agg Bond Index	-0.9%	-2.5%
BofA Merrill Lynch 3-mo T-bill	0.1%	1.3%

Source: Morningstar Direct, Bloomberg and FactSet as of 5 Oct 2018. 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 indices are unmanaged and unavailable for direct investment.

"While profit momentum may slow in the coming year, earnings growth should remain sufficient to support an advance in equity markets."

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

1 Source: FactSet

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 or sell securities, 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.

GPE-BDCOMM2-1018P 621511-INV-W-10/01

nuveen
A TIAA Company

Nuveen | 730 Third Avenue | New York, NY 10017 | 212.490.9000 | nuveen.com