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BREAKING NEWS
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As equity markets plunge, have we reached a "tradable low?"

Equity markets have been falling since early October, but the selloff has intensified in recent days. *As market gyrations continue, Bob Doll explains why he thinks stocks may be due for a bounce, but also why volatility is likely to persist.*

Bob Doll
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Why have stock prices fallen?

On 21 September, U.S. stocks (as measured by the S&P 500 Index) peaked at 2,940. Since that time, they have fallen 17% to an intraday low of 2,441 on 20 December. The selloff appears to have intensified in recent days for five principal reasons:

1) Investors have grown increasingly concerned about a slowing economy and a possible near-term recession.
2) There is a growing sense that the Federal Reserve will raise interest rates too much (or perhaps that it already has).
3) The U.S./China trade dispute remains unresolved and has the potential to disrupt growth.
4) Programmatic trading and selling of ETFs and passive investments has exacerbated all of the above.
5) And, finally, these factors are further magnified by a holiday-related low-liquidity environment.

It's rare, but stocks have experienced sharp temporary selloffs without recessions

In most cases, bear markets and steep declines occur alongside recessions. But that's not the case today (and we don't see evidence that a recession is on the close horizon). We have seen similar events in the past: In 1987, a combination of slowing growth and portfolio insurance led to "Black Monday" and a 34% decline in stock prices in a little over three months. In 1998, stocks fell 19% in two months amid the Asian currency crisis. And, most recently, 2016 was witness to a 13% decline over three months due to slowing growth in Asia, a selloff in the dollar and falling oil prices.

The main takeaway we see here is that these all proved to be temporary events. And without a significant shift in economic fundamentals, we don't expect a prolonged bear market.

Markets may be poised for a "tradable bounce"

Calling market bottoms is a fool's game. However, we do see evidence that a tradeable bounce could be in the offing, which means stocks prices could be poised for a rally phase.

We have been saying for several weeks that we need to see evidence of investor capitulation before we approached a bottom. We have started to see some evidence of this from a technical perspective over the last couple of days, with the advance/decline line, upside/downside volume and put/call ratios all taking a turn for the worse. These are the sorts of technical signals that market observers look for when trying to determine market tops and bottoms.

Similarly, investor sentiment has clearly turned negative and more people are looking for reasons to sell rather than buy.

And, from a fundamental perspective, valuations have improved in recent months as prices have fallen while earnings climbed. At the same time, equity markets have already discounted a

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potential growth slowdown in 2019, meaning any positive surprises could help equities.

Outlook: Assuming we avoid a recession, our views on stocks remains constructive

Of course, we'll only know that we have experienced a market bottom when we see one in the rearview mirror. But unless we are on the verge of entering a recession (which we don't anticipate), we think the risk/reward outlook for stocks appears favorable.

The next important data sets will be fourth quarter earnings results and 2019 company outlooks. Unfortunately, we won't see that data until mid-January, meaning markets will likely continue to churn for the next few weeks. It will probably take clearer evidence of positive economic and earnings growth before we would see reduced volatility and sustained gains in stocks.

Our bottom line: If the economy and earnings are OK, stocks will likely be OK. If we're wrong and the U.S. does enter recession, any near-term rally will reverse. But if markets can claw back, we think this current time will be remembered a temporary anomaly when stocks sank without an accompanying recession.

For more information, visit nuveen.com.

Market data sources: FactSet & Bloomberg

The **S&P 500 Index** is a capitalization-weighted index of 500 stocks designed to measure the performance of the broad domestic economy.

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