We Encourage Investors to Ride Out Near-Term Turbulence

NUVEEN ASSET MANAGEMENT

WEEKLY INVESTMENT COMMENTARY

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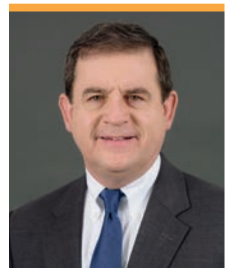
The broad move away from equities continued for a second week as investors focused on escalating risks in Syria, Afghanistan and North Korea. The S&P 500 Index fell 1.2%, marking the first back-to-back weekly declines since January.[1] Treasury yields also fell, the dollar was down and oil and gold prices rose.[1]

Key Points

- Equities endured a second week of negative returns for the first time since January.
- The Trump administration has proved to be unpredictable in matters of geopolitical and economic policies, which causes more uncertainty for markets.
- We think volatility will rise from here, but staying with a pro-growth investment stance makes sense.



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Bob Doll serves as a leading member of the equities investing team for Nuveen Asset Management, providing reasoned analysis through equity portfolio management and ongoing market commentary.

Weekly Top Themes

1. **Investors have so far reacted only modestly to recent U.S. military action, but it does present possible financial and market risks.** In particular, recent actions highlight the unpredictability of President Trump's geopolitical views since he was adamantly against previous missile strikes in Syria. Unpredictability isn't necessarily a bad trait for a politician, but it does increase the degree of unknowns for financial markets.

2. **Likewise, the Trump administration's economic views do not match those of the campaign.** As President, Trump has so far softened his position on trade deals and has put little focus on possible infrastructure spending increases. Perhaps most surprisingly, Trump recently indicated he may re-nominate Janet Yellen as Fed Chair despite previous harsh criticism of her tenure.

3. **We do not believe the rally in Treasuries is a signal of weaker economic growth.** There may be more negative economic surprises from here, but those would come after a nearly uninterrupted string of positive ones.

4. **Corporate profit margins may come under pressure, which would act as a headwind for earnings.** With wage levels on the rise, companies may have a hard time passing along higher costs to consumers. This could be particularly difficult for many U.S. corporations since compensation costs represent two-thirds of total U.S. business costs.[2]

5. **We believe non-U.S. equities are on the verge of an outperformance trend.** We still expect U.S. stocks to produce positive returns over the coming year, but U.S. equities are likely to lag their international counterparts.

Despite Growing Risks, Equities Should Outperform Bonds

U.S. equities have essentially treaded water over the last two months following a strong post-election rally. At the same time, bond yields have retreated, commodity prices flat-lined and inflation expectations have come down. While some of these moves represent a consolidation from overbought equity conditions, we also think they reflect rising investor concerns over a number of risks.

Chief among the risks may be a growing recognition that political optimism was too high. The failure of the Republicans to "repeal and replace Obamacare" calls into question the future for tax reform and other big-ticket economic items. At a minimum, investors are ratcheting back expectations for how effective pro-growth policies could be over the next 6 to 12 months.

At the same time, expectations for economic growth have declined somewhat. We don't think we will see a slowdown, but the near non-stop pace of positive economic surprises that have been in place since October may be coming to an end, marked most recently by a disappointing March jobs report. Related to this slight shift in economic conditions, the Federal Reserve is no longer as accommodative as it once was. A moderation in growth data or a more aggressive Fed could prompt some investors to adopt a more cautious approach.

Despite these near-term risks, however, we believe the long-term outlook for equities remains constructive. Leading economic indicators in the United States are positive. And around the world, growth appears to be solidifying, with manufacturing activity improving, global trade levels rising and deflationary risks diminishing. And while political risks are growing both in the U.S. and around the world, we still think President Trump will be able to deliver on at least some of his pro-growth promises.

U.S. equities are not inexpensive by historical terms, but we still think equities look more attractive to bonds, which appear expensive. Over the next 6 to 12 months, we think bond yields will rise and global equity prices will appreciate. This outlook suggests a pro-growth investment stance continues to make sense. Volatility is also likely to rise, but we encourage investors to ride out near-term market disruptions and focus on long-term goals. ■

2017 Performance Year to Date

	Returns	
	Weekly	YTD
S&P 500 Index	-1.2%	4.6%
Dow Jones Industrial Average	-1.0%	4.2%
NASDAQ Composite	-1.3%	8.2%
Russell 2000 Index	-1.4%	-0.5%
Euro Stoxx 50	-1.1%	6.1%
FTSE 100 (U.K.)	0.8%	5.4%
DAX Index (Germany)	-0.7%	6.2%
Nikkei 225 (Japan)	-0.5%	3.7%
Hang Seng (Hong Kong)	-0.1%	10.6%
Shanghai Stock Exchange Composite (China)	-0.9%	5.5%
MSCI EAFE (non-U.S. developed markets)	-0.1%	6.6%
MSCI Emerging Markets	-0.1%	11.8%
Bloomberg Barclays U.S. Aggregate Bond (bonds)	0.6%	1.8%
BofA Merrill Lynch 3-Month Treasury Bill (cash)	0.0%	0.1%

Source: Morningstar Direct and Bloomberg, as of 4/13/17. 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.

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1 Source: Morningstar Direct, as of 4/13/17 **2** Source: Bureau of Labor Statistics

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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