Economic Growth Should Improve Modestly

NUVEEN ASSET MANAGEMENT

WEEKLY INVESTMENT COMMENTARY

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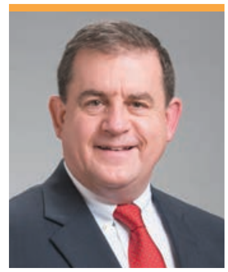
Market volatility has been extremely low lately. Last Thursday marked seven consecutive trading days in which the S&P 500 Index moved less than 0.2%, while the index was up a modest 0.7% for the week.[1] In other asset classes, Treasury yields rose, the dollar fell for the fourth week in a row and gold and oil prices fell sharply.

Key Points

- U.S. economic data has been mixed in recent weeks, but we expect growth will improve.
- The passage of health care reform in the House has both positive and negative implications for tax reform.
- Gains may be tough to come by, but we believe equities will outperform bonds over the next 6 to 12 months.



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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. **Economic data offers compelling arguments on both sides of the debate.** Bears point to weak auto sales, a disappointing first quarter gross domestic product report and a slow-moving legislative agenda. Bulls are focusing on rising capital spending and new orders levels, improving bank lending and strong jobs growth.

2. **Improving jobs growth makes it likely that the Federal Reserve will raise rates next month.** The robust 211,000 jobs created in April and drop in unemployment to a 10-year low of 4.4% suggest that weaker March numbers were likely a weather-related blip.[2]

3. **We expect economic growth to rebound in the second quarter.** The ISM non-manufacturing index for April surprised to the upside, hitting 57.5 and erasing nearly all of March's decline.[3]

4. **Manufacturing may be peaking.** Purchasing Manager Indexes around the world are still generally above 50 (meaning manufacturing is still expanding), but have been trending lower, suggesting the pace of growth is slowing.[4]

5. **Corporate earnings are looking solid.** With more than 80% of companies reporting first quarter results, earnings are beating expectations by an average of 6%.[5] Revenues are on track to rise 7%, with earnings-per-share up 15%.[5]

6. **The passage of the American Health Care Act in the House of Representatives is both good and bad news for tax reform.** It shows Republicans are capable of coming together on complex legislation, but it means the health care debate will likely to go on for some time and tax legislation will be pushed back.

7. **We expect European equities to continue performing well.** U.S. equities have long outperformed European stock markets, but that trend has not carried over into this year.[1]

8. **Oil price volatility will likely continue.** Technological revolutions in the energy sector have upended assumptions about the connection between oil production

and price. The world is also facing widespread overproduction and uncertain future demand. Many oil producers are attempting to stabilize prices by reducing inventories. All of these factors should contribute to ongoing volatility.

9. **Global populism and nationalism will likely persist as long-term political trends.** Income inequality, aging populations and shifting demographics, globalization, automation, high debt levels and low productivity are exerting political pressure around the world.

10. **Active equity managers have improved performance over the past year.** In April, 63% of U.S. large cap equity managers outperformed their benchmarks. And more than half have outperformed in 9 out of the last 13 months.[6]

Equities Look Attractive, but Returns May Be Limited

Investors may be suffering from political overload and fatigue, but political issues show no signs of fading. Uncertainty in the United States and Europe and tensions in the Middle East and Asia have the potential to rattle financial markets. On the upside, the global economy appears to be on sounder footing than it has been in many years. The global economy is hardly robust, but deflation and recession risks have faded and we expect the global economy to gain traction in the months ahead.

From an investment perspective, we think the equity market consolidation of the last couple of months may persist for a while. But we believe stock prices will eventually begin moving higher and should outperform bonds over the next 6 to 12 months. Returns are likely to be lower for risk assets than over the last several years. Central banks are becoming less accomodative and the era of expansive liquidity is ending. We think gains will be tougher to come by, suggesting that security selection and active management will become more important tools for investors. ■

2017 Performance Year to Date

Returns

	Weekly	YTD
S&P 500 Index	0.7%	7.9%
Dow Jones Industrial Average	0.3%	7.1%
NASDAQ Composite	0.9%	13.7%
Russell 2000 Index	-0.2%	3.4%
Euro Stoxx 50	4.1%	17.4%
FTSE 100 (U.K.)	1.4%	8.8%
DAX Index (Germany)	2.2%	15.4%
Nikkei 225 (Japan)	0.7%	6.6%
Hang Seng (Hong Kong)	-0.6%	11.4%
Shanghai Stock Exchange Composite (China)	-1.6%	0.7%
MSCI EAFE (non-U.S. developed markets)	1.9%	12.3%
MSCI Emerging Markets	0.1%	14.0%
Bloomberg Barclays U.S. Aggregate Bond (bonds)	-0.2%	1.4%
BofA Merrill Lynch 3-Month Treasury Bill (cash)	0.0%	0.2%

Source: Morningstar Direct and Bloomberg, as of 5/5/17. 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.

"Security selection and active management will become more important tools for investors."

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

1 Source: Morningstar Direct, as of 5/5/17 **2** Source: Bureau of Labor Statistics
3 Source: Instituite for Supply Management **4** Source: Markit Economics
5 Source: RBC Capital Research **6** Source: Bank of America Merrill Lynch

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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