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Weekly Investment Commentary

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Global economic growth should improve modestly this year

Despite ongoing worries about the pace of global economic growth and the trajectory of corporate earnings, investors remained in a risk-on buying mode last week, fueling the ongoing equity rally. Improving prospects over a U.S./China trade deal, as well as more dovish sentiment from Federal Reserve officials, pushed U.S. stock prices higher.[1] In an unusual combination, materials and utilities stocks led the way, while health care lagged.[1]

HIGHLIGHTS

- **Stock prices continue to rise on expectations of a U.S./China trade deal and a perception among investors that the Fed has turned more dovish.**
- **Despite some downside risks, we think the global economy should continue to grow, albeit slowly and unevenly.**
- **The intermediate outlook for stocks looks solid, but a near-term consolidation is possible.**

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 ***Trade prospects are improving, but long-term issues remain unsettled.*** Chinese Vice Premier Liu is planning to extend his visit to the U.S., a hopeful sign that the two parties are moving closer to an agreement. The delay in the March 1 deadline for new U.S. tariffs is an additional positive sign. It also seems likely that presidents Trump and Xi will be meeting soon, providing at least some optimism about the future.

2 ***The minutes from the January Fed meeting reinforced a more dovish stance from the central bank.*** Policymakers emphasized patience as they referenced uncertainty around financial conditions, concerns over slower non-U.S. economic growth and softer inflation data. The minutes also indicated that Fed will likely announce plans to slow its asset-sale program later this year.

3 ***Global bond and stock markets continue to imply different economic forecasts.*** Long-term government bond yields remain very low, and in Germany and Japan some segments of the yield curve have reverted to negative territory.[1] This represents a rather dire economic forecast. In contrast, global stock prices are rising, reflecting improving economic sentiment. Both markets can't be right, and we lean more toward the views expressed by equities.

4 ***European growth is slowing, but we are not expecting a widespread recession.*** Manufacturing in particular has been weakening. While this is a worrisome sign, we think recession fears are overblown.

5 ***Equity sentiment appears to have shifted from too pessimistic to too optimistic.*** In the fourth quarter, markets faltered due to worries over rising tariffs, a belief that the Fed would raise rates too far and expectations of an imminent recession. Today, markets have been rising on widespread trade optimism, a view that the Fed's rate-hiking cycle may be over and stronger growth forecasts. The truth probably lies somewhere in the middle, meaning that stock markets may soon need to pause and digest their recent gains.

Stocks may be due for a near-term consolidation, but the intermediate outlook appears solid

As our weekly themes suggest, global financial markets are telling different stories. Equity investors remain in an optimistic buying mode, while bond markets are providing more negative signals. We think equity markets may be a bit too optimistic and bond markets are far too pessimistic.

Uncertainty over trade issues remains a pressing concern. The United States and China may be edging toward a deal that will allow both sides to claim a victory. But worries are growing that once those issues are resolved, the U.S. will turn its attention to European automakers. Rising auto tariffs could be especially damaging to the German economy. More broadly, views toward global economic growth are mixed. We see downside risks to be sure, but continue to believe that the global economy will slowly grow, inflation will gradually rise and corporate earnings growth will slow while remaining positive.

From an investment perspective, this presents a confusing outlook. We think global government bond yields are likely to rise over time, which means those market segments don't look particularly attractive. But we don't expect yields to rise dramatically, which should provide some room for equity prices to continue rising.

Over the short-term, we think stock prices may have risen too far, too fast, implying that a pause or consolidation may be on the horizon. Over the intermediate term (the next six months+), we think the macroeconomic environment for stocks looks sound. At some point, however, we think improving growth and rising inflation will push the Fed to resume rate hikes, which makes the longer-term outlook for stocks increasingly cloudy.

2019 PERFORMANCE YEAR TO DATE

	Returns	
	Weekly	YTD
S&P 500	0.7%	11.7%
Dow Jones Industrial Avg	0.6%	12.0%
NASDAQ Composite	0.8%	13.6%
Russell 2000 Index	1.3%	18.1%
Euro Stoxx 50	1.6%	8.3%
FTSE 100 (UK)	1.0%	10.1%
DAX (Germany)	2.1%	7.6%
Nikkei 225 (Japan)	2.5%	6.9%
Hang Seng (Hong Kong)	3.5%	11.5%
Shanghai Stock Exchange Composite (China)	5.5%	15.2%
MSCI EAFE	1.7%	8.9%
MSCI EM	2.8%	9.8%
Barclays US Agg Bond Index	0.1%	1.2%
BofA Merrill Lynch 3-mo T-bill	0.0%	0.4%

Source: Morningstar Direct, Bloomberg and FactSet as of 22 Feb 2019. 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.

"Equity market signals may be too positive, but bond market signals are almost certainly too negative."

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1 Source: FactSet, Morningstar Direct and Bloomberg

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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