Equities Sag as Political Optimism Returns to Earth

NUVEEN ASSET MANAGEMENT

WEEKLY INVESTMENT COMMENTARY

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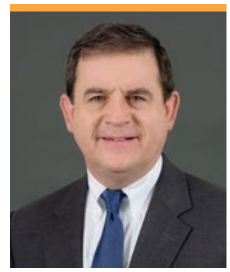
Stocks experienced their largest one-week decline since the election, as the S&P 500 Index fell 1.4%.[1] Most losses occurred on Tuesday when it became clear that the Republican health care plan was facing trouble,[1] signaling that President Trump's pro-growth economic agenda could falter. Small cap stocks, financials and industrials fared the worst last week, with utilities and REITs gaining ground.[1] Treasury prices rallied for a second straight week, while the U.S. dollar fell for the third week.[1]

KEY POINTS

- Republicans' setback in passing health care reform could signal trouble for tax cuts and infrastructure spending plans.
- Optimism over pro-growth legislation may fade, but the U.S. economy remains solid.
- We think stocks may be poised for a correction, but we still support a pro-growth investment stance.



Robert C. Doll, CFA

Senior Portfolio Manager, Chief Equity Strategist

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. **The GOP's health care setback could signal additional political problems.** From a political perspective, we think the key issue is whether the president will encounter similar problems with his tax reform agenda, which is likely to be as complicated as health care reform, if not more so. We think some sort of tax bill will be passed. If political turmoil is ongoing, higher risk, cyclical areas of the equity market would likely remain under pressure.

2. **Additionally, possible infrastructure spending may be less comprehensive than expected.** While the president has talked a lot about additional spending, he has yet to put forward any specific plans. At the same time, most Republicans appear disinclined to support more infrastructure initiatives without spending offsets. We think investors are too optimistic about prospects for additional spending measures and may wind up being disappointed.

3. **Internal market dynamics suggest we may be at the forefront of a broader correction.** Global risk assets, including equities, have remained quite resilient in recent months, but we have seen underlying changes. Higher-risk areas such as small caps, cyclical sectors and some fixed income credit sectors have been flagging,[1] which could be a precursor to a broader risk asset selloff.

4. **Additionally, we may see a leadership transition from U.S. to non-U.S. equity markets.** U.S. stocks have outperformed their international counterparts for years,[1] but that trend may be changing. As non-U.S. economic and earnings growth improves, the leadership baton may be passing to other markets.

We May See a Correction, but This Bull Market Isn't Over

U.S. stock prices rose significantly over the past year and experienced a strong bounce after the election. We have been saying for some time that economic and political optimism may be overdone. It appears investors are finally starting to question the extent to which President Trump can deliver on his wide range of pro-growth economic promises. Last week's stunning setback for health care reform shows he will have difficulty pushing his agenda forward. Any politically-oriented economic boost over the next 6 to 12 months may be less robust than expected.

Nevertheless, we remain relatively upbeat about the state of the U.S. economy. Growth trends and sentiment began improving last summer. We believe fundamentals remain solid, including the labor market, manufacturing, housing, consumer spending and business investment. Even if sentiment drops a notch or two due to fading political optimism, we expect economic growth will remain on track.

However, we think equity markets may have gotten ahead of themselves, and risk assets appear poised for a correction. The good news is that investor sentiment appears to have improved over the last year. Investors are unlikely to overreact to negative news as they did periodically throughout 2016.

We don't believe the recent peak in equity prices marks the high point for this bull market, but more volatility is likely as the post-election euphoria continues to fade. As such, we suggest that investors ride out any near-term equity turbulence. At the same time, we think government bonds look expensive and do not believe the recent downturn in yields is likely to continue. We are maintaining our moderate pro-growth investment view and continue to believe equities will outperform bonds over the next year. ■

2017 Performance Year to Date

	Returns Weekly	YTD
S&P 500 Index	-1.4%	5.2%
Dow Jones Industrial Average	-1.5%	4.9%
NASDAQ Composite	-1.2%	8.6%
Russell 2000 Index	-2.6%	0.1%
Euro Stoxx 50	0.5%	7.6%
FTSE 100 (U.K.)	-0.4%	5.1%
DAX Index (Germany)	0.3%	7.6%
Nikkei 225 (Japan)	0.3%	6.1%
Hang Seng (Hong Kong)	0.1%	11.1%
Shanghai Stock Exchange Composite (China)	1.2%	6.2%
MSCI EAFE (non-U.S. developed markets)	0.0%	7.3%
MSCI Emerging Markets	0.4%	12.7%
Bloomberg Barclays U.S. Aggregate Bond (bonds)	0.6%	0.8%
BofA Merrill Lynch 3-Month Treasury Bill (cash)	0.0%	0.1%

Source: Morningstar Direct and Bloomberg, as of 3/24/17. 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 and Bloomberg, as of 3/24/17

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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