NUVEEN ASSET MANAGEMENT

With Stocks at All-Time Highs, What Could Go Wrong?

IMPORTANT NOTIFICATION

The following material is provided by a third-party strategist unaffiliated with AssetMark. The strategist is solely responsible for its content. Please read the risks and disclosures section for additional important information. AssetMark has not verified the accuracy of the information contained in this material.

For financial advisor use with advisory clients.

C20-16522 08/2020 | EXP 08/31/2021

nuveen
A TIAA Company

Weekly Investment Commentary

24 August 2020

With stocks at all-time highs, what could go wrong?

Equity prices rose last week, with the S&P 500 Index advancing 0.7% to hit a new record high.[1] In spite of increasingly mixed economic indicators, investor sentiment was boosted by better news on the coronavirus front, indications of ongoing support from the Federal Reserve and optimism that a vaccine could be in the works. Growth and momentum led the way over value and cyclicals, reversing the trend from the previous week.[1]

HIGHLIGHTS

- **Investors continue to bid up stock prices, despite mounting evidence that the economic recovery is turning more mixed.**
- **With stock valuations looking lofty, a number of near-term risks could make markets vulnerable to a pullback.**
- **We expect supportive fiscal and monetary policy will help prolong the economic expansion, but it will be bumpy until a significant medical breakthrough helps combat the pandemic.**

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.

10 observations and themes

1) The economy appears to be moving from a V-shaped recovery to something more mixed. A combination of factors is casting doubt about the strength of the recovery, including school closures, new virus waves, worries over whether a new stimulus package will pass, election uncertainty and deteriorating U.S./China relations.

2) Jobs data is looking shakier. After falling for some time, new unemployment claims rose back above the one million mark last week.[2]

3) In contrast, housing is rebounding strongly. July housing starts were at their strongest levels since 2016, and building permits experienced their strongest increase since 1990.[3]

4) The likelihood of a new stimulus package is already baked into market expectations. That means stocks are unlikely to get a boost if a package is enacted, but could be vulnerable if no agreement is reached.

5) Inflation expectations are creeping higher due to a number of factors: rising commodity prices, the falling dollar, surging money growth, tight inventories, disrupted global supply chains and rising labor costs despite high unemployment.

6) Stock valuations are high, but key tailwinds remain. In particular, we think ample liquidity and highly supportive monetary and fiscal policies should continue supporting stocks. This suggests we could be due for a pullback, but that could create select buying opportunities, especially among some cyclical areas with more attractive valuations.

7) Investors may have to cope with lower long-term returns. Valuations have historically been a poor measure of timing, but they have a solid track record of indicating long-term returns. And with stocks at elevated valuations, investors are likely to struggle to meet their long-term portfolio goals. This suggests selectivity will be critical in the coming decade.

8) The political environment could be less market-friendly next year. Should Joe Biden capture the presidency, we would likely see higher taxes for wealthy individuals and corporations, with capital gains tax treatment being a key issue. We would also expect heightened regulatory scrutiny across the energy, financial and health care sectors.

9) The U.S./China relationship is growing more hostile, and we anticipate less trade and more tension between the two countries regardless of the outcome of the U.S. elections.

10) With markets at all-time highs, it's worth looking at possible downside risks. This list of 12 possible concerns is adapted from a recent Cornerstone Macro research report:[4] a coronavirus resurgence, a lack of a new fiscal deal, at-risk commercial real estate prices, rising non-performing loans, uncertain state and local government funding levels, a possible U.S. federal debt downgrade, a disputed presidential election, fractious geopolitics, emerging economies coming under pressure, a renewed U.S./China trade war, rising long-term interest rates and inflation.

Equities appear vulnerable to a near-term pullback

At this stage of the market cycle, sentiment appears mixed: Investors seem simultaneously fearful of missing out on equity rallies while being concerned about the faltering economic recovery.

In both the U.S. and in Europe, we have seen signs that areas of the economy are closing or slowing as governments and policymakers are grappling with ways to control the pandemic without a significant medical breakthrough. This suggests that the global economy remains weak, faces numerous challenges and is struggling in places where virus cases are rising.

The bottom line is that the economy is likely to face an uneven and bumpy recovery until we see a medical solution to the pandemic. Both monetary and fiscal policy will remain supportive, but the former seems to have reached its limits and the latter is expensive and prone to political difficulties.

Looking ahead, we expect supportive policy should keep the economy from sliding back into recession, but equity markets have already priced in a better outcome than we expect.

Stock prices have risen dramatically since March, pushing valuations levels to lofty levels. We are also growing concerned about technical indicators. In particular, the number of new 52-week highs is falling and market breadth is narrowing, as the rally has been driven by a relatively small number of companies.[1]

Over time, we think stocks should continue to make gains, but over the short-term we think markets look vulnerable to a period of consolidation or a setback.

2020 PERFORMANCE YEAR TO DATE

	Returns	
	Weekly	YTD
S&P 500	0.8%	6.5%
Dow Jones Industrial Avg	0.1%	-0.6%
NASDAQ Composite	2.7%	26.9%
Russell 2000 Index	-1.6%	-6.1%
MSCI EAFE	-1.0%	-5.9%
MSCI EM	-0.1%	-0.2%
Bloomberg Barclays US Agg Bond Index	0.3%	7.1%
BofA Merrill Lynch 3-mo T-bill	0.0%	0.6%

Source: Morningstar Direct, Bloomberg and FactSet as of 21 August 2020. 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.

"Supportive policy will keep the economy from sliding back into recession, but equity markets have already priced in a better outcome than we expect."

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

1 Source: Bloomberg, Morningstar and FactSet

2 Source: Labor Department

3 Source: Commerce Department

4 Source: Cornerstone Macro, *Nancy's Weekly Narrative*, August 16, 2020

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.

This material is not intended to be a recommendation or investment advice, does not constitute a solicitation to buy, sell or hold a security or an investment strategy, and is not provided in a fiduciary capacity. The information provided does not take into account the specific objectives or circumstances of any particular investor, or suggest any specific course of action. Investment decisions should be made based on an investor's objectives and circumstances and in consultation with his or her advisors.

Risks and other important considerations

The views and opinions expressed are for informational and educational purposes only as of the date of writing and may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The information provided does not take into account the specific objectives, financial situation, or particular needs of any specific person. All investments carry a certain degree of risk and there is no assurance that an investment will provide positive performance over any period of time. Equity investments are subject to market risk or the risk that stocks will decline in response to such factors as adverse company news or industry developments or a general economic decline. Debt or fixed income securities are subject to market risk, credit risk, interest rate risk, call risk, tax risk, political and economic risk, and income risk. As interest rates rise, bond prices fall. Non-investment-grade bonds involve heightened credit risk, liquidity risk, and potential for default. Foreign investing involves additional risks, including currency fluctuation, political and economic instability, lack of liquidity and differing legal and accounting standards. These risks are magnified in emerging markets. Past performance is no guarantee of future results.

Nuveen Asset Management, LLC is a registered investment adviser and an affiliate of Nuveen, LLC.

This information does not constitute investment research as defined under MiFID.

GWP-1309950PR-W0820P

nuveen
A TIAA Company