

9 March 2020

Wild coronavirus ride continues for investors

Stocks had a very volatile week, but most averages finished higher with the S&P 500 up 0.6%.¹ Despite the volatile week, markets were supported by oversold conditions, Joe Biden's Super Tuesday performance and better coronavirus news from China. The spread of coronavirus outside of China is still the bigger issue, with South Korea, Italy and Iran areas of concern. There are more cases in the U. S., with more expected. It's important to note that stocks reached an all-time high just two weeks ago. Stocks started the year overbought and overvalued. Fundamentals, while improving, were mixed and a pullback made sense, but its speed and pace were a surprise.

HIGHLIGHTS

- **Coronavirus fears made for a volatile week, but most indexes ended higher.**
- **The Fed's emergency 50-basis-point cut underscores central banks' commitment to supporting easy financial conditions.**
- **We believe we are in a bottoming process, but markets may need more time to get there.**



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 themes to consider amid volatility

1. A growing body of evidence showed an improving global economy coming into 2020.

Central banks cut rates 100 times last year; U.S. gasoline prices declined more than 15% in the last nine months; and global short rates were down 100 basis points. In addition, the 10-year Treasury yield plunged more than 200 basis points over the last 15 months, and mortgage refinancing activities rose threefold from a year ago.

2. The Federal Reserve's *Beige Book* report conveyed ample concerns from firms over the coronavirus, but little effect on activity. While there were some discussions over supply-chain delays and declines in tourism and travel, activity was actually slightly firmer than one month ago.

3. Good news on the labor front: Non-farm payrolls added 273,000 jobs, 100,000 more than expected with noticeable upward revisions. The three-month average is now the best since the spring of 2018, and year-over-year earnings gains continued at a 3% pace. With the unemployment rate at a multi-decade low of 3.5%, the labor market was on very solid footing entering the coronavirus virus shock.

4. Central bank moves are not surprising, given the sharp deterioration in the global growth outlook. The U.S. Fed acted preemptively by cutting rates 50 basis points last week, with possibly more to come. It was the Fed's first emergency action since October 2008, during the heart of the financial crisis.

5. It's impossible to know how severe and protracted the disruptions from coronavirus might be. Since World War II, earnings typically fell an average of 18% from peak to trough in a recession, according to J.P. Morgan, with earnings dropping 9% during mild recessions and 25% during deep ones.

6. We are concerned about coronavirus, but are more concerned about the fear and precautions being taken in advance of it, which could cause its own economic recession.

7. The current market volatility was prompted by concerns over the supply chain out of China, which probably would lead to slowdowns, but not a recession. Now, potential U.S. demand problems raise the probability of a recession.

8. The medical community around the world is racing to produce a vaccine. While technology in this area has certainly improved, we're going to need testing for safety and effectiveness before we see anything definitive.

9. A market bottom is not an event, but a process. Typically, we see a large sell off on big volume followed by a retest of the lows, as was the case in 1987, 1998 and 2011. This market needs more time to digest.

10. What should investors do now? Nearly 90% of S&P 500 companies offer cash yields higher than the 10-year Treasury yield. Unless you expect a big recession, we believe reducing duration and reallocating some of the money to equities makes sense. The key will be when the number of new coronavirus cases peaks. When that happens, we will likely see stocks up, bonds down, interest rates up, gold down, the dollar down, copper and oil up, and cyclical stocks leading the way.

Uncertainty about the crisis persists, but the global expansion should resume

Capital markets have reacted sharply to the escalation of coronavirus since mid-February. The abrupt collapse in global equity prices and bond yields has been pronounced by any historical standard. As we said earlier, global equities were significantly overbought into mid-February, thereby exacerbating the downside as investors de-risked. While some equity weakness may have occurred even absent this crisis, the extent of the coronavirus outbreak remains unclear and the economic effects have yet to fully play out.

The Fed's emergency 50-basis-point cut underscores central banks' commitment to supporting easy financial conditions, but interest rate cuts cannot resolve health crises. Prior to the outbreak, we expected economic growth to firm modestly in the year ahead as manufacturing and trade were gradually improving. Nonetheless, we thought equities had embedded an optimistic earnings outlook, and we advocated only a neutral weighting in stocks.

While many uncertainties remain, we expect the global economic expansion to resume. Growth should pick up in the second half of the year, albeit at a subdued pace relative to prior expectations. While corporate profits will likely be downgraded in coming months, we believe they will subsequently recover. Investors should expect a bumpy path in the near term, as the coronavirus spreads more deeply into the U.S. and Europe. Capital market prices will remain highly sensitive to news flow on the virus, as well as economic and corporate earnings data. In our view, we're in a bottoming process, having corrected 16% top-to-bottom from the all-time high two weeks ago to last Friday's close, which is typical of a growth scare.

2020 PERFORMANCE YEAR TO DATE

	Returns	
	Weekly	YTD
S&P 500	0.6%	-7.8%
Dow Jones Industrial Avg	1.8%	-9.0%
NASDAQ Composite	0.1%	-4.3%
Russell 2000 Index	-1.8%	-13.0%
Euro Stoxx 50	-0.2%	-12.8%
FTSE 100 (UK)	0.3%	-15.4%
DAX (Germany)	-0.3%	-12.2%
Nikkei 225 (Japan)	0.6%	-9.4%
Hang Seng (Hong Kong)	0.4%	-6.7%
Shanghai Stock Exchange Composite (China)	6.3%	-0.1%
MSCI EAFE	0.4%	-10.6%
MSCI EM	0.7%	-9.1%
Bloomberg Barclays US Agg Bond Index	1.9%	5.7%
BofA Merrill Lynch 3-mo T-bill	0.2%	0.5%

Source: Morningstar Direct, Bloomberg and FactSet as of 6 Mar 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.

“

“Capital market prices will remain highly sensitive to news flow on the virus, as well as economic and corporate earnings data.”

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

¹ Source: Bloomberg, Morningstar and FactSet

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.

CFA® and Chartered Financial Analyst® are registered trademarks owned by CFA Institute.

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