Equities dropped sharply last week with the S&P 500 index losing 5.9%, its worst first trading week of the year on record.1 Worries about slowing Chinese growth and policy uncertainty were the main culprits for the rout, and sagging oil prices triggered concerns about corporate earnings. Late in the week, markets saw a brief reprieve in light of a strong December jobs report.

**Investors Appear Calm as More Issues Lurk on the Horizon**

The S&P 500 is now down almost 8% since mid-December. Despite the magnitude of the decline, however, we are not seeing the same sort of panic and forced selling that we witnessed in August during the last China-induced turmoil. Investors seem to understand that China’s near-term issues are more about policy mistakes and less about slowing economic growth.

China remains the near-term focus for investors, but there are additional risks drawing investors’ attention. It appears that fourth quarter economic growth may have weakened a bit (we think the automotive sector softened). And the renewed slide in oil prices could pressure corporate earnings and create credit problems for financial institutions. Since we do not anticipate a specific, durable foreign exchange announcement from Chinese policymakers, we expect the next major catalyst for equity markets will be fourth quarter earnings results.

**Weekly Top Themes**

1. **China has real fundamental issues, but the current wounds are largely self-inflicted.** Large debt loads, a slowing economy, capital outflows and tighter U.S. monetary policy are all causing pain for China, but we believe the country’s financial turmoil has been brought about by policy confusion and a lack of transparency.

2. **The U.S. economy is relatively insulated from China’s issue.** 2015 U.S. exports to China were $118 billion, which represents less than 0.66% of U.S. GDP.2 As such, we think there is virtually no chance that the U.S. could “import” recession from China. If anything, cheaper Chinese goods could represent a form of economic stimulus.

3. **Outside of the equity downturn, financial markets are not showing significant stress.** Bond yields and spreads have remained orderly, and currency markets have not been moving sharply. This suggests that there is not a high risk of a broader global financial crisis.

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**Key Points**

- Equity markets endured an intense downturn, but evidence suggests investors are not in panic mode.
- Markets are likely to remain volatile and sentiment bearish until Chinese policymakers demonstrate they can stabilize economic and financial conditions.
- We expect global economic growth to improve in 2016, and suggest investors maintain overweight allocations to equities.

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**Robert C. Doll, CFA**

Lead 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.

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China Worries Trigger a Tough Start to the New Year

January 11, 2016

4. Despite external pressures, the U.S. labor market remains strong. December jobs growth came in at a better-than-expected 292,000 with upward revisions to prior months. Unemployment was steady at 5.0%, and although average hourly earnings dropped, they are still up 2.5% for the year. The strength of the report should allay fears that economic momentum is fading and also validate the Federal Reserve’s decision to increase rates last month.

5. Corporate earnings are likely to remain soft. Fourth quarter results for the S&P 500 are expected to decline by 5%, marking the first time since the Great Recession of three consecutive quarters of contractions. Analyst predictions for first quarter results are for a meager 1% growth level.

Risks Are Evident, but We See Reasons for Optimism

For now, we expect equity markets will be dominated by issues in China, and sentiment may remain bearish until investors believe policymakers will be able to stabilize economic and financial conditions. Over the coming months, however, we expect confidence will be gradually restored, corresponding with healthier economic fundamentals. A combination of moderate economic growth, low inflation, an improving labor market, low interest rates and rising consumer spending levels should all eventually act as tailwinds for corporate earnings and for equity prices.

Despite recent severe market turbulence, we remain broadly constructive on the global economic outlook for 2016. We expect the U.S. economy to continue to expand, Europe to regain traction and Chinese growth to stabilize. For markets, we expect volatility will persist, but the combination of improving economic growth and a modest Fed tightening campaign suggests that equities are poised to outperform bonds over the next six to twelve months. As such, we continue to believe investors should hold overweight positions in equities in their portfolios.

2016 Performance Year to Date

<table>
<thead>
<tr>
<th>Returns</th>
<th>Weekly</th>
<th>YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500 Index</td>
<td>-5.9%</td>
<td>-5.9%</td>
</tr>
<tr>
<td>Dow Jones Industrial Average</td>
<td>-6.1%</td>
<td>-6.1%</td>
</tr>
<tr>
<td>NASDAQ Composite</td>
<td>-7.2%</td>
<td>-7.2%</td>
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<tr>
<td>FTSE 100 (U.K.)</td>
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<td>-6.7%</td>
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<tr>
<td>DAX Index (Germany)</td>
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<td>-8.5%</td>
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<tr>
<td>Nikkei 225 (Japan)</td>
<td>-4.8%</td>
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<tr>
<td>Hang Seng (Hong Kong)</td>
<td>-6.8%</td>
<td>-6.8%</td>
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<tr>
<td>Shanghai Stock Exchange Composite (China)</td>
<td>-11.4%</td>
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<tr>
<td>MSCI EAFE (non-U.S. developed markets)</td>
<td>-6.1%</td>
<td>-6.1%</td>
</tr>
<tr>
<td>MSCI Emerging Markets</td>
<td>-6.8%</td>
<td>-6.8%</td>
</tr>
<tr>
<td>Barclays U.S. Aggregate Bond (bonds)</td>
<td>0.6%</td>
<td>0.6%</td>
</tr>
<tr>
<td>BofA Merrill Lynch 3 Month Treasury Bill (cash)</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Source: Morningstar Direct and Bloomberg, as of 1/8/16. 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.

“Market turbulence may persist, but we expect confidence will gradually be restored over the coming months.”

For more information or to subscribe, please visit nuveen.com/weekly-commentary.

1 Source: Morningstar Direct, as of 1/8/16
2 Source: Kudlow & Company
3 Source: Bureau of Labor Statistics
4 Source: 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. 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. 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.

RISKS AND OTHER IMPORTANT CONSIDERATIONS

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