A Mid-Year Assessment of Our Ten Predictions

NUVEEN ASSET MANAGEMENT

WEEKLY INVESTMENT COMMENTARY

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In January, we described 2016 as a year that would likely frustrate both the bulls and the bears. At the halfway point, that has certainly come to pass. We have already seen a double-digit decline in U.S. equities followed by a double-digit recovery.[1] And stock prices remain uneven as investors focus on uncertain Federal Reserve policy, mixed economic and earnings data and, most recently, the political and financial turmoil following the Brexit vote.[1] We forecasted equity prices would be volatile in both directions but would end the year close to where they began. With six months to go, the predictions we made at the beginning of the year are mostly on track:

1 ✓ **U.S. real GDP remains below 3% and nominal GDP below 5% for an unprecedented tenth year in a row.**
The U.S. economy grew only 0.8% in the first quarter.[2] We expect the economy to rebound modestly. U.S. economic fundamentals are not likely to be negatively affected by the Brexit vote in the near term.

2 ? **U.S. Treasury rates rise for a second year, but high yield spreads fall.**
Treasury yields fell sharply at the end of last week and are notably lower than the start of 2016.[1] High yield spreads have moved unevenly, but have fallen from 660 basis points to 587 basis points.[3]

3 ✓ **S&P 500 earnings make limited headway as consumer spending advances are partially offset by oil, the dollar and wage rates.**
Corporate earnings have been weak over the past year, but we expect a modest recovery over the coming quarters.

4 ✓ **For the first time in almost 40 years, U.S. equities experience a single-digit percentage change for the second year in a row.**
Prices have been quite volatile in 2016, but equities are trading close to where they began the year.

5 ? **Stocks outperform bonds for the fifth consecutive year.**
Stocks are currently trailing bonds, but we still expect to get this prediction correct by year-end.

6 ? **Non-U.S. equities outperform domestic equities, while non-U.S. fixed income outperforms domestic fixed income.**
U.S. stocks have outperformed most other markets. In contrast, non-U.S. fixed income has outperformed U.S. fixed income. (The Barclays Global Aggregate Bond ex U.S. Index is up 11.4%, compared to 4.7% for the Barclays U.S. Aggregate Bond Index).[1]

Key Points

- So far, 2016 has been a year that has frustrated both the bulls and the bears.
- Last week's Brexit vote is likely to cause additional near-term volatility, but shouldn't derail the U.S. equity bull market.
- Equity gains are likely to be modest compared to the post-recession pace, but we expect prices to move unevenly higher.

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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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Overall Scoring	
✓	Heading in the Right Direction
?	Too Early to Call
✗	Heading in the Wrong Direction

7 **Information technology, financials and telecommunication services outperform energy, materials and utilities.**

Unfortunately, we are on the wrong side of this prediction. A basket of our favored sectors is up 3.9% for the year while our least-favored are up 12.7%.[1]

8 **Geopolitics, terrorism and cyberattacks continue to haunt investors but have little market impact.**

The Brexit vote sparked near-term uncertainty, but we expect the global and U.S. economies should survive the fallout. And sadly, as the massacre in Orlando shows, terrorism has become increasingly common. Overall markets effects, however, have been limited.

9 **The federal budget deficit rises in dollars and as a percentage of GDP for the first time in seven years.**

Federal spending levels are set to rise in 2016.[4]

10 **Republicans retain the House and the Senate and capture the White House.**

Current polling suggests Hillary Clinton is favored over Donald Trump and the Republicans appear in danger of losing the Senate. There are still more than four months to go, however, which is an eternity in politics.

Looking Ahead

Equities are no longer as cheap as they once were. But we think valuations are reasonable, especially compared to bonds and cash. We expect the global economy to improve unevenly, which should help corporate earnings recover. If this occurs, equities should be able to move unevenly higher. The pace of gains, however, is likely to be slower than what investors experienced during the first six years of this bull market. Within the equity market, we prefer mid-cycle cyclicals, companies that can generate positive free cash flow and those with higher levels of domestic earnings. ■

2016 Performance Year to Date

	Returns	
	Weekly	YTD
S&P 500 Index	-1.6%	0.8%
Dow Jones Industrial Average	-1.6%	1.2%
NASDAQ Composite	-1.9%	-5.4%
FTSE 100 (U.K.)	-2.0%	-6.0%
DAX Index (Germany)	-1.7%	-9.0%
Nikkei 225 (Japan)	-2.3%	-6.5%
Hang Seng (Hong Kong)	1.0%	-5.4%
Shanghai Stock Exchange Composite (China)	-1.4%	-20.4%
MSCI EAFE (non-U.S. developed markets)	-1.7%	-6.6%
MSCI Emerging Markets	0.1%	2.6%
Barclays U.S. Aggregate Bond (bonds)	0.2%	4.7%
BofA Merrill Lynch 3-Month Treasury Bill (cash)	0.0%	0.1%

Source: Morningstar Direct and Bloomberg, as of 6/24/16. 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.

"The pace of equity gains may slow, but stocks remain more attractive than other asset classes."

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1 Source: Morningstar Direct, Bloomberg and FactSet as of 6/24/16 **2** Source: Commerce Department **3** Source: Barclays. Spreads reflect the option-adjusted spread of the Barclays High Yield 2% Issuer Capped Index relative to Treasuries. **4** Source: Congressional Budget Office

The **S&P 500 Index** is a capitalization-weighted index of 500 stocks designed to measure the performance of the broad domestic economy. **Euro STOXX 50 Index** is Europe's leading Blue-chip index for the Eurozone and covers 50 stocks from 12 Eurozone countries. **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. **FTSE MIB Index** is an index of the 40 most liquid and capitalized stocks listed on the Borsa Italiana. **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. **The MSCI World Index ex-U.S.** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets minus the United States. **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. Corporate High Yield 2% Issuer Capped Index** tracks the performance of U.S. non-investment-grade bonds and limits each issuer to 2% of the index. **Barclays Global Aggregate Bond ex. U.S. Index** provides a broad-based measure of the global investment-grade fixed income market outside of the United States.

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