Economic Slowdown Halts Equity Rally

Weekly Investment Commentary

April 8, 2013 | Volume 1.14

U.S. equities struggled last week as the S&P 500 was down approximately 1%.[1] The weak jobs report released on Friday seems to indicate that the U.S. remains mired in a muddle-through economy. After a couple of months where signs were more positive, recent data is disappointing. Although the first quarter was relatively strong, we anticipate that the first and second quarters will average out to the 2% to 2.5% real growth we have been forecasting, with nominal growth under 5%.

The Big Question: What Can Be Sustained?

The latest softness in economic indicators probably means that more consolidation in the equity markets is required before we can advance beyond the recent all-time highs. During March, nearly all of the activity for the S&P 500 was within 1% of 1550. Equities may move lower due to deteriorating technical conditions and the possibility of weak first quarter earnings reports.

Equities Are Well-Supported…	…But Clouds Remain
Accommodative Fed monetary policies	Market correction may be inevitable
Slow but improving economy	First quarter earnings may be soft
Housing sector is moving back to normal	Recession in Europe
Investors begin to reverse a six-year departure from equities	General skepticism to embrace positive global economic outcome

Robert C. Doll, CFA

Chief Equity Strategist,
Senior Portfolio Manager

Bob Doll serves as a leading member of the equities investing team for Nuveen Asset Management, providing reasoned analysis through ongoing market commentary and equity portfolio management.

Weekly Top Themes

1. **Non-farm payroll rose by 88,000 jobs yet was below consensus:**[2] The numbers missed the mark by 100,000 jobs. Also, the unemployment rate fell to 7.6% from 7.7%. This report will likely reduce expectations that the Fed will end asset purchases early. While the weakness in the household job survey is concerning, we continue to believe the Fed support and sustained upswing in housing will create better job growth this year.

2. **The ISM Manufacturing Composite fell to 51.3 in March:**[3] The reading that measures acceleration in activity had jumped higher at the start of the year, and measures still show incremental growth but at a slower pace.

3. **The Bank of Japan exceeded market expectations:**[4] The Bank's aggressive move aims to achieve its 2% inflation target within a period of two years. Achieving 2% inflation and persuading banks to lend will not be easy.

4. **President Obama will release a budget with components to raise revenues:** An expected proposal includes limiting deductions to 28% for those individuals earning more than $250,000. Republicans are extremely unlikely to revisit the revenue question without broader entitlement reform or a grand bargain. We assume many of these items will not see the light of day.

5. **The Obama Administration will potentially make a decision on the Keystone Pipeline during the summer:** We anticipate that the government will find the pipeline to be in the national interest and approve its construction.

Tempered Expectations for the Near Term

The uncanny similarity between the slowdown in equity markets from the first to second quarter and what has occurred over the past three years does raise the risk of a correction. It has not gone unnoticed that equities have performed remarkably well in the first quarter in each of the past three years, followed by poor performance in each of the second quarters. Some observers suggest that post-recession seasonal adjustment factors are artificially boosting the first quarter.

Over the past month, weak activity in Europe has supported our view that the recession will continue for the balance of the year. The chaos around the Cyprus bailout and Italian election is further evidence that the European region may not have what it takes to pull itself out of the recession any time soon.

Fears over a spring-summer relapse in the equity markets and the economy are running high, compounded by the several recent reports with weaker data. On a positive note, equity valuations do not appear stretched. However, unless global growth picks up, any further softening in key U.S. data will weigh on the U.S. equity market.

2013 Performance Year to Date

	Returns	
	Weekly	YTD
S&P 500	-0.98%	9.52%
Euro STOXX 50	-0.03%	-2.87%
FTSE 100 (UK)	-1.59%	1.20%
DAX (Germany)	-0.31%	-1.00%
FTSE MIB (Italy)	0.88%	-7.77%
Nikkei 225 (Japan)	0.37%	10.15%
Hang Seng (Hong Kong)	-2.60%	-3.94%
Shanghai Stock Exchange Composite (China)	-0.35%	-1.38%
MSCI World Ex U.S.	-1.07%	3.68%
MSCI Emerging Markets	-2.54%	-4.07%

Source: Morningstar Direct and Bloomberg, as of 4/5/13. 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.

"Unless U.S. and global economic growth improves, stocks may finally correct."

Watch Bob's recent video to learn more. Play

1 Source: Morningstar Direct, as of 4/5/13. **2** Source: Bureau of Labor Statistics, "The Employment Situation," as of April 5, 2013, http://www.bls.gov/news.release/empsit.htm. **3** Source: March 2013 Manufacturing ISM Report On Business,® as of 4/1/13, http://www.ism.ws/ismreport/mfgrob.cfm **4** Source: Bank of Japan, "Introduction of the "Quantitative and Qualitative Monetary Easing," April 4, 2013.

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.

GPE-BDCOMM2-0413P