Is the Baton Being Passed from Liquidity to Growth?

NUVEEN ASSET MANAGEMENT

Weekly Investment Commentary

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Last week U.S. equities continued to rise and the S&P 500 increased approximately 2% as fundamentals moved in a positive direction.[1] The U.S. household deleveraging seems to have advanced to a stage that will allow the pace of growth to accelerate later this year. The Fed is unlikely to tighten policy prematurely. The European Central Bank (ECB) is willing to be the lender of last resort, which has dramatically diminished the risk of contagion throughout Europe. China appears to have passed the worst of the growth slowdown phase.

European and U.S. Political Decisions Lie Ahead

The ECB kept policy rates unchanged in its recent meeting. We believe the ECB has taken the mandatory steps to halt the fallout associated with the Euro debt crisis, although this could be perceived as buying time. Regional governments need to become more proactive because setbacks will cause markets to react negatively.

It remains to be seen if a resolution can be reached in Washington, D.C. A deal may be possible if it raises revenues, scrutinizes tax expenditures and limits entitlements. Although there is ongoing discussion of incompetence and gridlock, the reality is slowly shifting, deficits are falling and spending restraints are in place.

Weekly Top Themes

1. **The February employment report reinforced an upbeat forecast:**[2] Non-farm payroll rose by 236,000 to exceed expectations. Average hourly weekly earnings and the average work week moved up. The unemployment rate dropped to a four-year low of 7.7% from 7.9%, although much of the improvement was from workers dropping out of the labor force. The recovery is gaining momentum, in spite of the expiration of the payroll tax cut, higher gasoline prices and government spending cuts.

2. **2013 home prices are trending up as they did last year:**[3] 2012 ended with an increase of 7.3% and 2013 is on a similar track. We believe a positive feedback loop has begun — the rise in home prices fuels expectations of further appreciation and easing credit conditions, which in turn stimulates home buying. This is a powerful positive relationship, especially in an environment of historically low interest rates and Fed accommodative policy.

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3. **An earlier pick up in activity softened except in the U.S.:** The latest manufacturing survey indicates a slowdown in most advanced and emerging economies, but the manufacturing Purchasing Managers' Index (PMI™) for the U.S. rose to its highest level in two years.[4] In Europe, the recession is easing but has not ended, and China's economic rebound may be slowing.

Putting It All in Perspective

This past weekend was the four-year anniversary of the global equity market bottom on March 9, 2009. U.S. stocks have gained back all of the losses from the Great Recession and are near historical highs. However, there is tremendous anxiety about the economic outlook, and many investors fear equities are floating on a sea of liquidity rather than solid fundamentals. Liquidity has played a vital role in boosting equities. Central banks have an open-ended commitment to policy reflation in order to foster economic recovery. The Fed believes that rising equity and real estate prices lift consumer confidence and fortify the banking sector. These policies are gradually paying off.

Equities have fluctuated based on perceptions of global growth over the past three years. We believe the overweight in equities is due to fading uncertainty and tail risks, rather than economic bullishness. Some argue that equities are not "cheap" any longer since multiples are near historic levels. While factually correct, this is not entirely relevant. Investors can only buy assets at current prices, which make equities inexpensive in comparison to other investments.

2013 Performance Year to Date

	Returns	
	Weekly	YTD
S&P 500	2.22	9.23
Euro STOXX 50	3.88	2.27
FTSE 100 (UK)	1.11	1.88
DAX (Germany)	3.20	3.07
FTSE MIB (Italy)	2.96	-2.15
Nikkei 225 (Japan)	3.55	6.34
Hang Seng (Hong Kong)	0.93	1.89
Shanghai Stock Exchange Composite (China)	-1.58	2.53
MSCI World Ex U.S.	1.74	4.92
MSCI EM	1.27	1.27

Source: Morningstar Direct and Bloomberg, as of 3/8/13. 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.

1 Source: Morningstar Direct, as of 3/8/13. **2** Source: Bureau of Labor Statistics, 3/8/13, http://www.bls.gov/ces/#news **3** Source: S&P Case-Shiller, CNN Money, 2/26/13, http://money.cnn.com/2013/02/26/news/economy/housing-recovery/ **4** Source: ISM, February 2013 Manufacturing ISM Report On Business,® as of 3/1/13, http://www.ism.ws/ISMReport/MfgROB.cfm?navItemNumber=12942.

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.

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