

Are Investors Breathing a Sigh of Relief?



WEEKLY INVESTMENT COMMENTARY

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Last week U.S. equities delivered another gain as the S&P 500 increased by 2.0%.¹ On Friday, the U.S. jobs report offered relief from fears of an accelerating weakness caused by prior softness during this time in each of the last three years. However, the full set of economic data for the week supports our view of a slower second quarter in a post-sequestration environment.

Recovery Appears Slow to Materialize

We also see weaker global manufacturing as excess inventories are reduced, and the overall soft growth rate has not been that different from the below trend pace of the first quarter. The sustained low volatility and uncertainty are driving a tightening of global equity risk premium and thus rising prices for risk assets. We are almost four years into the global recovery, and there is no economic overheating to suggest the end of the cycle is in sight. We are fundamentally in the most stable part of the recovery, even though the magnitude of the recovery is subpar.

Weekly Top Themes

- 1. Payroll jobs increased by a larger than expected 165,000 in April:**² The consensus estimate was 140,000, and job growth for the previous two months was revised up by a cumulative 114,000. Thus, the unemployment rate declined slightly to 7.5%. Combined with April's strong numbers, the upward revision to March reduces concerns about the trajectory of near-term job growth.
- 2. The United States has gained back 6.8 million private sector jobs since the beginning of the recovery:**³ This leaves a gap of approximately 2 million jobs to replace the overall 8.8 million U.S. private sector jobs lost during the Great Recession. If the average monthly job gains remain close to the trailing 12-month average, jobs should rise to an all-time high next spring. However, it will probably take nearly three years for unemployment to drop to more normal levels. Thus, we conclude the Fed will likely stay the course.
- 3. The European Central Bank (ECB) cut its main refinancing rate to 0.5% following disappointing data on inflation and monetary growth:**⁴ More importantly, ECB President Mario Draghi gave the longest forward commitment yet to continuing the weekly fixed rate full allotment refinancing operations by the ECB. As far as forward guidance goes, this is a mere shadow of the Fed's policies, but it is a major step for the ECB.



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4. **Home prices rose faster than expected at 1.2%, the largest monthly improvement during the current expansion:**⁵ The Case-Shiller Home Price Index is up 9.3% year over year, the fastest since 2006.
5. **Core personal consumption expenditures (inflation excluding food and energy) are now at 1.1% year over year:**⁶ This is one of the lowest levels on record, underscoring that an ongoing risk may be deflation rather than inflation.

The Big Picture

We continue to advocate a moderately pro-growth portfolio posture, underpinned by conviction that the global economic outlook is gradually improving and downside risks have diminished. Moderate growth should be sufficient to allow risk assets to outperform safe haven investments when taking into account relative valuations. While we expect global growth to gradually strengthen, the path will remain choppy. We believe it will take time for investors to gain confidence in the sustainability of the recovery, and they may be slow to move out on the risk spectrum. However, we anticipate a gradual rotation out of cash and later bonds into equities, including cyclical equities, as global economic conditions improve and investor confidence increases. Policymakers provide a nearly open-ended commitment to boosting growth. Yet, global growth has not turned decisively higher, and recent data has been mildly disappointing in China, the United States and Europe.

Equity valuations are not stretched, but they are no longer in the category of compelling value. Our concern is not P/E multiples but topline revenues. Earnings are beating consensus targets this quarter but revenues are falling short. Consensus earnings estimates suggest that analysts expect earnings growth to accelerate throughout the year. We believe it will take rising revenues to keep earnings growth robust. ■

2013 Performance Year to Date

	Returns	
	Weekly	YTD
S&P 500	2.06%	13.95%
Euro STOXX 50	4.14%	5.75%
FTSE 100 (UK)	2.09%	7.56%
DAX (Germany)	4.63%	5.77%
FTSE MIB (Italy)	2.84%	3.38%
Nikkei 225 (Japan)	-1.48%	16.53%
Hang Seng (Hong Kong)	0.70%	0.48%
Shanghai Stock Exchange Composite (China)	1.43%	-1.51%
MSCI World Ex U.S.	1.47%	9.52 %
MSCI Emerging Markets	2.08%	-0.46%

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

"The macro environment is still supportive of equities, but revenue growth needs to improve."

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



¹ Source: Morningstar Direct, as of 5/4/13. ² Source: Bureau of Labor Statistics, "The Employment Situation," May 3, 2013, <http://www.bls.gov/news.release/empsit.nr0.htm> ³ Source: Bureau of Labor Statistics, "Business Employment Dynamics - Third Quarter 2012," May 1, 2013, <http://www.bls.gov/news.release/cewbd.nr0.htm> ⁴ Source: European Central Bank, "Monetary Policy Decisions," May 2, 2013, <https://www.ecb.europa.eu/press/pr/date/2013/html/pr130502.en.html>. ⁵ Source: S&P Dow Jones Indices, "Home Prices Rise in February 2013 According to the S&P/Case-Shiller Home Price Indices," April 30, 2013, <http://www.standardandpoors.com/indices/sp-case-shiller-home-price-indices/en/us/?indexId=spusa-cashpidff-p-us->. ⁶ Source: Bureau of Economic Analysis, "Personal Income and Outlays, March 2013," April 29, 2013, <http://www.bea.gov/newsreleases/national/pi/pinewsrelease.htm>.

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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