

Sequestration Does Not Sink Risk Assets



WEEKLY INVESTMENT COMMENTARY

MARCH 4, 2013 | VOLUME 1.9

U.S. equities advanced marginally last week, as the S&P 500 increased its gain to approximately 6.9% for the year.¹ Markets were in a holding pattern during February, with minimal change in global equities or credit spreads and a slight rally in bonds. Broadly speaking, U.S. markets outperformed world markets and the dollar rallied.

Politics Remain a Threat

Bullish views of capital markets were challenged by renewed polarization in Washington, D.C., an anti-austerity vote in Italy and renewed tightening measures in China in an attempt to contain housing price inflation. These risk factors stopped the global rally but did not reverse it. Risks could deepen but that would likely require a deterioration of policy decisions and economic data.

The U.S. sequestration spending cuts are now a reality and should be priced into the markets. We believe Congress will renew the continuing resolution expiring on March 27 and may lift or suspend the debt limit in May.

There is good news from second tier economic data as well as Fed commentary to help buoy investor confidence before the deadline for automatic federal spending cuts. While we believe these cuts would impose a modest drag on the economy over time, in all likelihood the failure to reach a deal indicated there is no immediate effect. The Fed chairman acknowledged the costs and risks of a highly accommodative monetary policy but did not signal a lessening of the easing program.

Weekly Top Themes

1. **Core capital markets increased 6.3%:** With January reports of a third strong month over the last four months, the National Association of Manufacturers reinforced the view that the economy is improving. New orders, backlogs, production and exports all expanded across a wider base.²
2. **Forward-looking new orders are on the rise:** According to the February Manufacturing ISM Report, the increase follows a sharp upturn in core capital goods orders through January.³ This data points to an acceleration in earnings estimates after the slowdown in 2012.
3. **The net long position in gold is the lowest in several years:** As a sign that the flight to safety trade is continuing to diminish, assets flowing into precious metals ETFs have slowed.⁴



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.

Stay Focused on Global Progress

Politicians remain a source of ongoing anxiety for global capital markets, as evidenced by the recent Italian elections and the beginning of the universally condemned sequester in Washington. Just as the global economic tailwind got underway and markets finally escaped the “risk-on risk-off” behavior of the last three years, renewed political uncertainty surfaced:

- Risks could trigger another Euro debt crisis
- A fledgling economic recovery could be interrupted in the U.S.

We retain conviction that policy makers in the major developed economies have a clear commitment to economic recovery and reflation. Although policy mistakes or failure cannot be ruled out, G7 leaders support economic advances and want to avoid financial sector stress.

As compared to last year, the global economy has improved considerably. Positive trends in Leading Economic Indicators (LEI) and Manufacturing Purchasing Managers' Index (PMI) signal that growth conditions are improving. The U.S. economy has important upside momentum in labor, housing, consumer and business confidence; banks are profitable and lending has improved, and state and local budgets are turning around. The Chinese economy has soft-landed and shows signs of acceleration. If Euro area authorities sustain their policy support, the region should get a lift from the improving global economy. Despite the potential for turbulence in the near term, we do not recommend scaling back on investments in risk assets.

2013 Performance Year to Date

	Returns	
	Weekly	YTD
S&P 500	0.22%	6.86%
Euro STOXX 50	-1.62%	-1.55%
FTSE 100 (UK)	-0.71%	0.76%
DAX (Germany)	-0.53%	-0.12%
FTSE MIB (Italy)	-4.52%	-4.96%
Nikkei 225 (Japan)	1.76%	2.69%
Hang Seng (Hong Kong)	0.43%	0.95%
Shanghai Stock Exchange Composite (China)	2.15%	4.18%
MSCI World (ex-U.S.)	-0.18%	3.13%
MSCI Emerging Markets	0.01%	0.00%

Source: Morningstar Direct and Bloomberg, as of 3/1/13. 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.

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



1 Source: Morningstar Direct, as of 3/1/13. 2 Source: National Association of Manufacturers, as of 2/25/13, <http://www.nam.org/Statistics-And-Data/Manufacturing-Industry-Trends/Archive/022513.aspx>. 3 Source: ISM, February 2013 Manufacturing ISM Report On Business,® as of 3/1/13, <http://www.ism.ws/ISMReport/MfgROB.cfm?navItemNumber=12942>. 4 Source: Hard Assets Investor, Commodity ETF Flows: Investors Flee Energy & Precious Metals Funds: Gold & Silver Miners Underperform, as of 1/25/13.

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.

RISKS AND OTHER IMPORTANT CONSIDERATIONS

The views and opinions expressed are for informational and educational purposes only as of the date of writing and may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The information provided does not take into account the specific objectives, financial situation, or particular needs of any specific person. All investments carry a certain degree of risk and there is no assurance that an investment will provide positive performance over any period of time. Equity investments are subject to market risk or the risk that stocks will decline in response to such factors as adverse company news or industry developments or a general economic decline. Debt or fixed income securities are subject to market risk, credit risk, interest rate risk, call risk, tax risk, political and economic risk, and income risk. As interest rates rise, bond prices fall. Non-investment-grade bonds involve heightened credit risk, liquidity risk, and potential for default. Foreign investing involves additional risks, including currency fluctuation, political and economic instability, lack of liquidity and differing legal and accounting standards. These risks are magnified in emerging markets. Past performance is no guarantee of future results.

Nuveen Asset Management, LLC is a registered investment adviser and an affiliate of Nuveen Investments, Inc.