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2017 Economic and Investment Outlook

Executive Summary

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- We expect global economic growth to accelerate modestly with stronger consumer spending, rising inflation, and tighter labor markets.
- The rise of political populism may bring a new era in which governments put greater emphasis on fiscal spending to stimulate growth.
- We have raised our forecast for 2017 U.S. GDP growth to 2.6%, a faster pace than in Europe and Japan. In emerging markets, we expect further stimulus from China as it gradually transitions to a more consumer-led economy.
- Improving economic data and more business-friendly public policies should benefit diversified investors in 2017.
- Investment opportunities are likely to be better in stocks than bonds as interest rates rise. We prefer stocks in non-U.S. developed markets, such as the Eurozone and emerging markets, because valuations are cheaper compared to U.S. markets.

Asset class preferences

■ Equities	■ Fixed Income
■ United States	■ Government Debt
■ Large Cap	■ United States
■ Mid Cap	■ Non-U.S. Developed Markets
■ Small Cap	■ Emerging Markets
■ Growth	■ TIPS
■ Value	■ Munis
■ Non-U.S. Developed Markets	■ U.S. Corporate—Investment Grade
■ Emerging Markets	■ U.S. Corporate—High Yield

■ = Most preferred; ■ = Neutral; ■ = Least preferred. TIPS = Treasury Inflation-Protected Securities. Allocations based on an unhedged, U.S.-dollar-denominated portfolio. Please note the forecasts above concern asset classes only and do not reflect the experience of any product or service offered by TIAA. These forecasts are for informational purposes only and should not be considered investment advice or constitute a recommendation to purchase or sell securities. Market forecasts are subject to uncertainty and may change based on varying market conditions, as well as political and economic developments. Past performance is not an indicator of future results.

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Economy

United States

The U.S. election result has led us to upwardly revise our forecasts for U.S. growth in both 2017 and 2018. We expect fiscal stimulus—both tax cuts and infrastructure spending—to boost an already-improving economy.

Non-U.S. developed markets

Eurozone growth continues to accelerate from a low level despite continued political uncertainty. In Japan, we expect further spending plans to be announced in an attempt to shore up growth.

Emerging markets

The rebound in commodity prices has helped several large emerging-market economies escape recession. The success and pace of the economic transformation in China remains a key for this region.

Stocks

United States

U.S. stocks continue to rise faster than corporate earnings, creating a slightly overvalued market. We expect mid-single-digit returns, with faster economic growth likely to benefit lagging cyclical sectors.

Non-U.S. developed markets

European stocks are more attractively valued than the U.S. market, but political uncertainty may dampen demand for stocks on the continent. Japanese stocks should continue to trade up so long as the yen does not strengthen.

Emerging markets

EM stocks rebounded in 2016, but their currencies exhibited considerable volatility. Countries attempting economic reforms like Brazil and India look like opportunities in 2017. Further U.S. dollar strength would be a headwind for returns.

Bonds

United States

Interest rates should continue their recent upward move, providing a stiff headwind for fixed-income returns. U.S. investment-grade and high-yield corporate bonds do not provide as attractive a yield pickup as they did at the start of 2016. Active management may offer advantages over indexing in this current challenging environment.

Non-U.S. developed markets

Rates in the Eurozone and Japan appear to be gently rising, though not enough to make them attractive in their own right or compared to U.S. fixed income. Stocks in these countries look historically cheap compared to their bonds.

Emerging markets

Emerging-market bonds started 2016 strong but gave ground late in the year amid rising global rates and U.S. dollar strength. While it remains a strategic asset class, EM bonds may be better handled by active rather than index-based management across regions and sectors.

For more information, go to **TIAA.org** or contact your financial advisor.

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