Common culprits contribute to a down week for U.S. equities

- A slew of public comments from Federal Reserve officials dumped some cold water on the fourth quarter's scorching U.S. equity market rally, as the S&P 500 Index dropped 0.7% for the week.[1] Meanwhile, the yield on the bellwether 10-year U.S. Treasury note remained at 3.82%.[2]
- Inflation has been weakening of late, but interest-rate hikes seem likely to continue for many months. Expectations for rate increases from the Fed in 2023 rose from low levels a week earlier.[3]
- Oil prices declined sharply on global growth concerns, with data out of China failing to show a broad-based economic recovery in October. The West Texas Intermediate crude oil benchmark dipped below $80 per barrel after trading comfortably above $90 just two weeks ago.[4]
- During the week following the Thanksgiving holiday, market watchers will digest a full plate of economic releases, including personal income, consumer spending, inflation and November payrolls. On the labor market front, we're looking for solid job creation accompanied by inflation-topping wage growth.

Each week, we present our featured topics in the context of major themes from Nuveen's most recent global investment outlook:

- **U.S. economy**: A deep or prolonged recession is unlikely, but expect inflation to come down slowly.
- **Global economy**: Countries with lower personal income levels and greater energy dependence are more vulnerable to harsher downturns.
- **Policy watch**: Central banks worldwide remain firmly in tightening mode.
- **Fixed income**: Still too early to extend duration, but yields across segments of the bond market look attractive.
- **Equities:** Favor U.S. stocks (especially large caps) over non-U.S. developed and emerging market shares. Keep expectations in check.
- **Asset allocation**: Diversification benefits remain elusive, but fixed income is valued more attractively than equities for the first time in years.

Quote of the week: "Rest and be thankful." – William Wordsworth

Spanning the globe as investors sprint toward 2023

Let's start with the topic that's been dominating the headlines for months: inflation.

Last week's U.S. data docket included October producer price inflation (PPI), which rose just 0.2%. (PPI measures the selling prices received by domestic producers for their output.) On an annual basis, PPI's 8% increase was the lowest since July 2021.[5] The week before, we learned that

October's Consumer Price Index (CPI) inflation undershot consensus forecasts, triggering furious rallies in both stocks and bonds.

Meanwhile, the Federal Reserve has raised rates aggressively, by 75 basis points for four consecutive meetings and also indicated that rate hikes could extend well into 2023, leading to a higher ending point — or terminal rate — than markets had previously anticipated. At the same time, policymakers have recently expressed a willingness to take their foot off the brakes a bit, beginning at their next meeting on December 14. The encouraging inflation data is beginning to make such a move look prudent.

Before thinking about better days ahead, investors should turn their calendars back to July, when cooler CPI prints and optimism that the Fed would begin slowing its pace of tightening sooner rather than later drove up equity and bond prices. But that rally was short lived, as inflation resurged, and the Fed began to demonstrate its hawkish bona fides.

Despite ongoing high prices, U.S. retail sales jumped 1.3% in October, an eight-month peak.[6] The broad increase was buoyed by Americans' opening their wallets at food services/drinking establishments and gas stations, in addition to buying more online. And looking ahead to December 2, we're expecting relatively good news when the government releases November's payroll report. Although layoffs have begun creeping up, hiring should stay strong, resulting in a net gain of around 175,000-225,000 positions. So overall, the U.S. economy appears to be ambling along, improving the odds that the Fed will be able to navigate an economic "soft landing."

Outside the U.S., the backdrop appears bleaker.

- China's October data was generally weak. Industrial production growth slipped amid the global rotation out of goods (and into services), and retail sales fell for the first time in five months.[7] Concerns about ongoing Covid lockdowns fueled higher savings rates as households hoarded cash.

- In Japan, third quarter GDP growth (-0.3%) unexpectedly shrank for the first time since the same quarter of last year. Detractors from GDP included sluggish private sector spending by consumers and businesses alike, along with net exports.[8] Because GDP is an estimate of an economy's output, imports (which are consumed domestically but produced outside the country) are subtracted from consumption, while exports are added back in. During the quarter, Japanese imports easily outstripped exports.

Both countries are expected to feel further pain. With the global economy forecast to decelerate next year, demand from their major export partners should also decline. Domestically, consumers and businesses aren't positioned to act as effective counterweights.

Notably, neither country's central bank has felt undue pressure to tighten policy. Inflation in China remained modest in October (+2.1% year over year). As for Japan, inflation hit a 31-year high (+3.7%) last month, but the Bank of Japan seems unfazed.[9] It plans to keep borrowing costs near zero in a bid to support wage growth.

- The U.K. economy is exhibiting some of the same traits as that of the U.S, including a tight labor market, low unemployment, and robust wage growth. Unlike the U.S., though, its currency is flailing, consumer balance sheets are not as healthy, and inflation is still accelerating (+11.1% year over year in October), easily outpacing growth in take-home pay.[10]

To help lower inflation, last week U.K. Finance Minister Jeremy Hunt announced £30 billion of spending cuts and £25 billion of tax increases (about $65 billion combined). These actions were also designed to reassure markets that the U.K. government had returned to prudent management of the country's finances and was now working in lockstep with the Bank of England.

Such a "partnership" was lacking as recently as September, shortly after the Bank of England raised interest rates. Hunt's predecessor rattled markets with a "mini budget" that called for fiscal stimulus in the form of (unfunded) tax cuts and caps on energy bills. The pound plunged versus the U.S. dollar, and concerns about the debt needed to finance the cuts sent yields on 2-and 10-year gilts soaring.

- In the eurozone, countries that fully reopened in the earlier stages of the pandemic have experienced dynamic economic recoveries thanks to solid gains in employment and strong demand for goods and services. But the energy price shock this year has weakened the outlook for consumer spending, and the abrupt tightening of monetary policy could leave these economies weaker in 2023.

In our view, the global economy looks brittle heading into 2023. Complicating matters is that the harmful effects of monetary tightening may not have fully emerged, particularly in labor markets. Moreover, consumers are in reasonably good shape but quite as "fit" as they were a year ago. Lastly, while food and energy prices could turn out to be less of a headwind, another sudden plunge in supply, like the one caused by Russia's invasion of Ukraine, might spell trouble — with a capital "T"— for both developed and emerging market countries.

SOURCES:

1. Marketwatch
2. Federal Reserve via Haver
3. Bloomberg
4. Bloomberg
5. Bureau of Labor Statistics (BLS), BLS via Trading Economics
6. Census Bureau, Census Bureau via Trading Economics
7. National Bureau of Statistics of China via Trading Economics
8. Cabinet Office, Japan via Trading Economics
9. Ministry of Internal Affairs & Communications (MIAC); MIAC via Trading Economics; National Bureau of Statistics of China via Trading Economics
10. Office of National Statistics

GWB-2601511PR-W1122X
2601511

This material is prepared by and represents the views of Brian Nick, and does not necessarily represent the views of Nuveen LLC, its affiliates or other Nuveen staff.

These views are presented for informational purposes only and may change in response to changing economic and market conditions. This material is not intended to be a recommendation or investment advice, does not constitute asolicitation to buy, sell or hold a security or investment strategy and is not provided in a fiduciary capacity. The information provided does not take into account the specific objectives or circumstances of any particular investor, or suggest any specific course of action. Investment decisions should be made based on an investor's objectives and circumstances and in consultation with his or her financial professionals. Certain products and services may not be available to all entities or persons. **Past performance is not indicative of future results.** Economic and market forecasts are subject to uncertainty and may change based on varying market conditions, political and economic developments.

All investments carry a certain degree of risk, including possible loss of principal, 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. Any investment in taxable fixed-income securities is subject to certain risks, including credit risk, interest-rate risk, foreign risk and currency risk. There are specific risks associated with international investing, which include but are not limited to foreign company risk, adverse political risk, market risk, currency risk and correlationrisk. In addition, investing in securities of developing countries involve greater risk than, or in addition to, investing in developed foreign countries.

The investment advisory services, strategies and expertise of TIAA Investments, a division of Nuveen, are provided by Teachers Advisors, LLC and TIAA-CREF Investment Management, LLC.

TIAA-CREF Individual & Institutional Services, member FINRA, distribute securities products.

©2022 Teachers Insurance and Annuity Association of America-College Retirement Equities Fund, 730 Third Avenue, New York, NY 10017