A Mid-Year Assessment of Our Ten Predictions

NUVEEN ASSET MANAGEMENT

WEEKLY INVESTMENT COMMENTARY

JUNE 30, 2014 | VOLUME 2.26

Equity markets experienced a strong first half of the year, and stock prices already advanced to where we originally thought they would be at year-end. Bond prices rose as yields fell, with the Federal Reserve continuing its monthly tapering of asset purchases. Economic growth was disappointing early in the year, but earnings growth remained reasonably solid. Outside of the U.S., the pace of growth and the direction of financial markets remained mixed. Meanwhile, financial market volatility has remained extremely low. So with this backdrop, following is a look at the ten predictions we made in January:

1 ? **The U.S. economy grows 3% as housing starts surpass one million and private employment hits an all-time high.**

The housing market is improving, and we think we're on track to surpass one million housing starts. Private employment already hit an all-time high in May.[1] Following such a weak first quarter, achieving 3% growth for the year will be tougher, but we do expect second quarter growth to approach 4% and the second half of the year to be relatively strong as well.

2 ? **10-Year Treasury yields move toward 3.5% as the Federal Reserve completes tapering and holds short-term rates near zero.**

The Fed is on track to complete tapering in the fourth quarter, and we expect it will hold short-term rates near zero. The yield on the 10-year Treasury is lower today than at the beginning of the year, although we think yields will climb over the coming months.

3 ✓ **U.S. equities record another good year despite enduring a 10% correction.**

Equities are certainly off to a good year, advancing 7.2% to date.[2] So far, we have seen two corrections of over 5% this year (in January and in April)[2] but have not experienced a 10% one.

4 ✗ **Cyclical stocks outperform defensive stocks.**

Cyclicals outperformed during the second quarter, but not by enough to counter the lead defensive stocks gained in the first quarter. As the economy improves, our guess is that cyclicals will outperform defensive stocks.

5 ✓ **Dividends, stock buy-backs, capex and M&A increase at a double-digit rate.**

M&A has been the story of the year, with global activity up close to 40%.[3] Dividend increases and share buybacks have been noticeable as well. Capital expenditures have yet to take off, but leading indicators are pointing in the right direction.

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.

Follow @BobDollNuveen on Twitter

Overall Scoring	
✓	A Good Start
?	Too Early to Call
✗	Heading in the Wrong Direction

6 ✓ **The U.S. dollar appreciates as U.S. energy and manufacturing trends continue to improve.**

The dollar is slightly higher through mid-year.[2] Energy production and manufacturing trends are up by any number of measures.

7 ✗ **Gold falls for the second year and commodity prices languish.**

Commodities prices as a whole are higher for the year, and although gold was essentially flat for the second quarter, prices are still higher year-to-date thanks to the gold price spike during the height of the Ukraine crisis.[2] We still think prices will fall over the coming months.

8 ✓ **Municipal bonds, led by high yield, outperform taxable bond counterparts.**

Municipal bonds (and high yield munis in particular) have been stellar performers so far this year and have been easily outpacing taxable bonds.[2]

9 ? **Active managers outperform index funds.**

In large cap U.S. equities, the trend of active managers outperforming started to emerge in July of last year. So far, results have been uneven this year, but the most recent data shows improvements in relative performance for active managers, so the fate of this prediction remains to be seen.[3]

10 ? **Republicans increase their lead in the House but fall short of capturing the Senate.**

It looks likely that Republicans will make gains in both houses. The U.S. Senate is clearly in play, so we won't know until November if this one comes true.

Looking Ahead

For the coming months, the main issues to watch include the pace of economic and earnings growth, geopolitical hot spots and the continued debate on the Fed's normalization process (tempered by the new discussion around inflation). Our top-line view is that we expect bonds to reverse their first half strength, equity markets to be more volatile and stock selection to be a key driver of performance. ■

2014 Performance Year to Date

Returns

	Weekly	YTD
S&P 500	-0.1%	7.2%
Euro STOXX 50	-1.8%	5.6%
FTSE 100 (UK)	-0.9%	5.1%
DAX (Germany)	-1.3%	1.6%
FTSE MIB (Italy)	-2.2%	14.7%
Nikkei 225 (Japan)	-0.9%	-3.1%
Hang Seng (Hong Kong)	0.1%	-2.1%
Shanghai Stock Exchange Composite (China)	1.2%	-4.7%
MSCI World Ex U.S.	-0.6%	5.4%
MSCI Emerging Markets	0.4%	5.8%

Source: Morningstar Direct and Bloomberg, as of 06/27/14. 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: Bureau of Labor Statistics http://www.bls.gov/news.release/empsit.htm. **2** Source: Morningstar Direct and Bloomberg, as of 6/27/14. **3** Source: Bank of America Merrill Lynch Global Research.

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.

GPE-BDCOMM5-0614P 1761-INV-W06/15