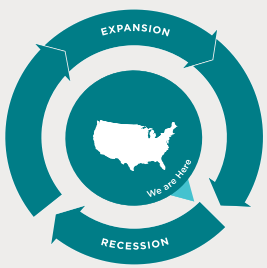
Cycle Watch | Virus stops growth in its tracks

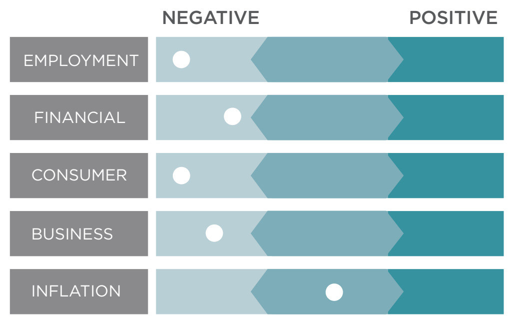
Economic and financial commentary as of April 2020

Business Cycle Update



The COVID-19 pandemic has been devastating on a personal level, but the economic impacts are coming fast; chain disruptions for businesses and demand shocks from social-distancing consumers are pushing the U.S. and the global economy to the brink of recession. It's likely that March 2020 will mark the end of the longest economic expansion in U.S. history and the start of the next recession. Financial conditions have tightened considerably after a sharp selloff for most asset classes. The Federal Reserve has responded aggressively, lowering their target rate to near-zero, restarting asset purchases and easing borrowing restrictions to keep liquidity flowing.

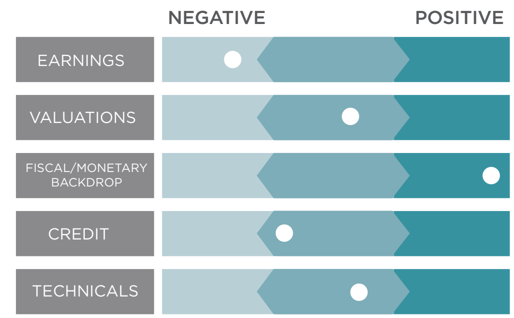
Economic Review



Nationwide Economic Dashboard, April 2020

The widespread impact of the COVID-19 pandemic shifted the economic outlook rapidly in March and is likely to push the U.S. into recession almost immediately. At this point, we expect a short but sharp downturn centered on Q2. A possible outlook sees the pandemic diminishing in late spring or early summer, but at this point uncertainty remains prevalent and the potential for a worsening situation is significant. A combination of favorable policies from the federal government and the Federal Reserve and pent-up consumer demand may push economic activity higher by year-end and into 2021.

Financial Review



Nationwide Financial Market Dashboard, April 2020

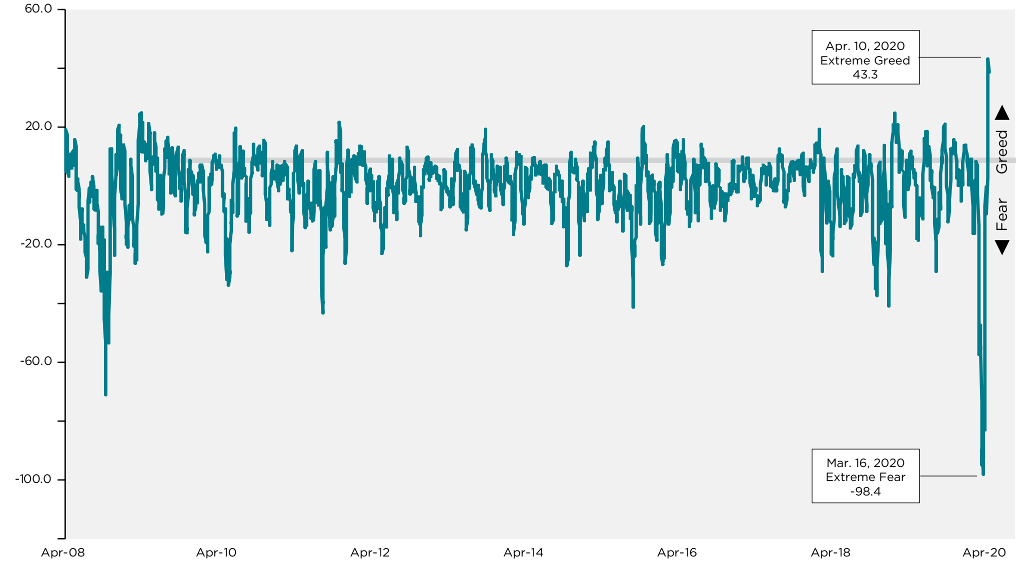
U.S. equity market indices fell into bear market territory at a record pace in March, while long-term interest rates initially declined to unprecedented lows. Higher long-term Treasury yields more recently suggest investors are reaching for liquidity out of fear, despite the cost. The Fed continues to roll out different monetary policy measures meant to bolster the financial system, while the federal government wrangles over potential fiscal policy actions. The timing and magnitude of these recovery efforts will be critical for assessing the outlook for the stock and bond markets.

Financial market insight: Investors ride a whipsaw of emotions

Investors have been acting on short-term data over the recent weeks of the COVID-19 pandemic, and that has contributed to significant whipsaws in the markets. Extreme volatility is a sign that investors continue to act on emotions, which are on full display in the Global Fear and Greed Index. (See chart at right.) This index dropped to a record low, indicating extreme fear, as investors came to grips with the widespread scale of the corona-virus outbreak in mid-March. More recently, the index rebounded as measures to counter the virus' spread have taken hold and the stimulus package arrived to help blunt the economic impact. Still, the index remains in "fear" territory with significant un-knowns about what a post-COVID-19 world may look like. Before calm can return to the markets, investors must await tangible signs that the worst of the pandemic has passed and a reopen-ing of the economy is within view.

Pandemic fears fuel emotional reactions

Global Fear & Greed Index, April 2008 to April 13, 2020



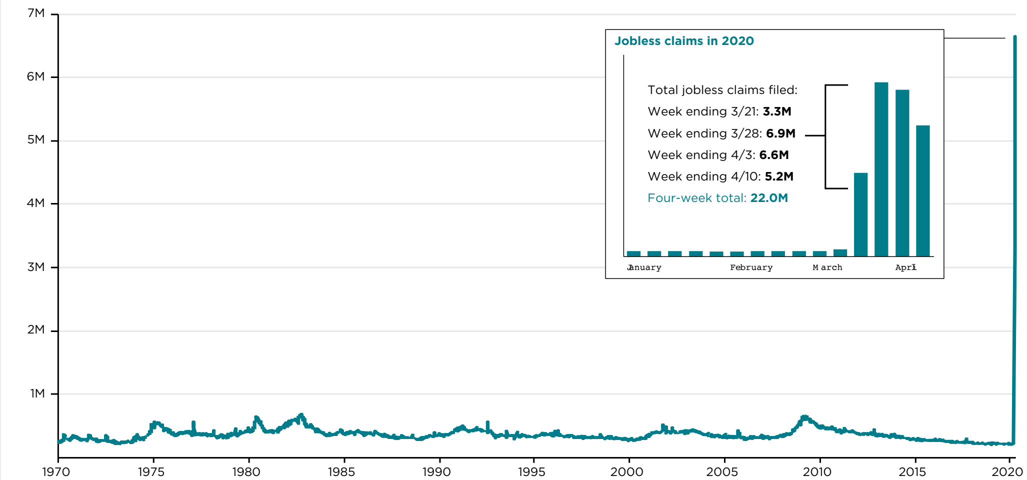
Source for chart data: Factset Research Systems.

Economic Insight: Jobless claims spike to unprecedented levels.

Weekly initial jobless claims provide a near real-time gauge on hiring conditions for workers. The spike in filings for unemployment insurance due to the COVID-19 economic shutdown has been staggering, with over 22 million applications in the span of four weeks through April 15.. Previous weekly highs are dwarfed by the recent figures, highlighting the rapid descent for the U.S. economy into a recession. Jobless claims will be important to watch going forward to help measure the depth of the economic downturn and how consumers households may be negatively impacted. Weekly filings should fall off from these record levels in coming weeks but could remain elevated given the stress on businesses across the country. The record fiscal stimulus should also help to keep businesses running and workers on payrolls, helping to reduce total jobless claims.

Virus effects spread through the jobs market

Weekly unemployment claims, in millions, 1970 to April 2020



Source for chart data: Factset Research Systems.

Key takeaways

1

It's likely March 2020 will mark the end of the longest U.S. economic expansion and the start of the next recession.

2

In a highly volatile market, investors should try to keep their emotions in check and maintain focus on their long-term goals.

3

Favorable policies from the Federal Reserve and fiscal stimulus measures from the federal government should likely ease the blow to the U.S. economy.

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