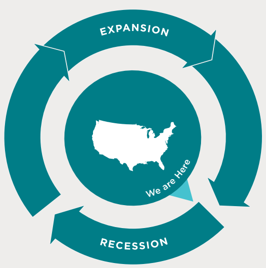
Cycle Watch | The recession has arrived

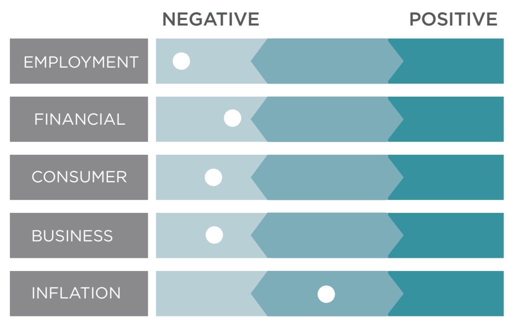
Economic and financial commentary as of May 2020

Business Cycle Update



While the official announcement is months away, it's clear the U.S. economy has fallen into a sharp recession. The questions now are how deep and how long the recession will be as the fight against COVID-19 has halted economic activity. Extraordinary stimulus efforts from the federal government and the Federal Reserve should help to soften the blow for many businesses and consumers. A slow restart later this year and a sharp rebound in 2021 is expected, but there's a reasonable chance social distancing mandates could hold back economic activity for longer than that.

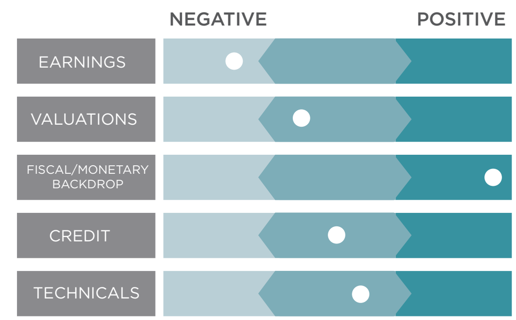
Economic Review



Nationwide Economic Dashboard, May 2020

Shutdowns due to the COVID-19 pandemic have had a dramatic impact on U.S. economic conditions. Millions of workers have been laid off in just a few weeks, while consumer spending and business activity plunged in the second half of March and early April. GDP data for Q2 is expected to be worse, likely posting one of worst quarters for growth in U.S. history. Real GDP for all of 2020 is projected to decline by at least 6.6 percent. The way out of the economic shutdown is clouded by uncertainty over how the virus progresses and when effective antiviral treatments (and eventually vaccines) will be available.

Financial Review



Nationwide Financial Market Dashboard, May 2020

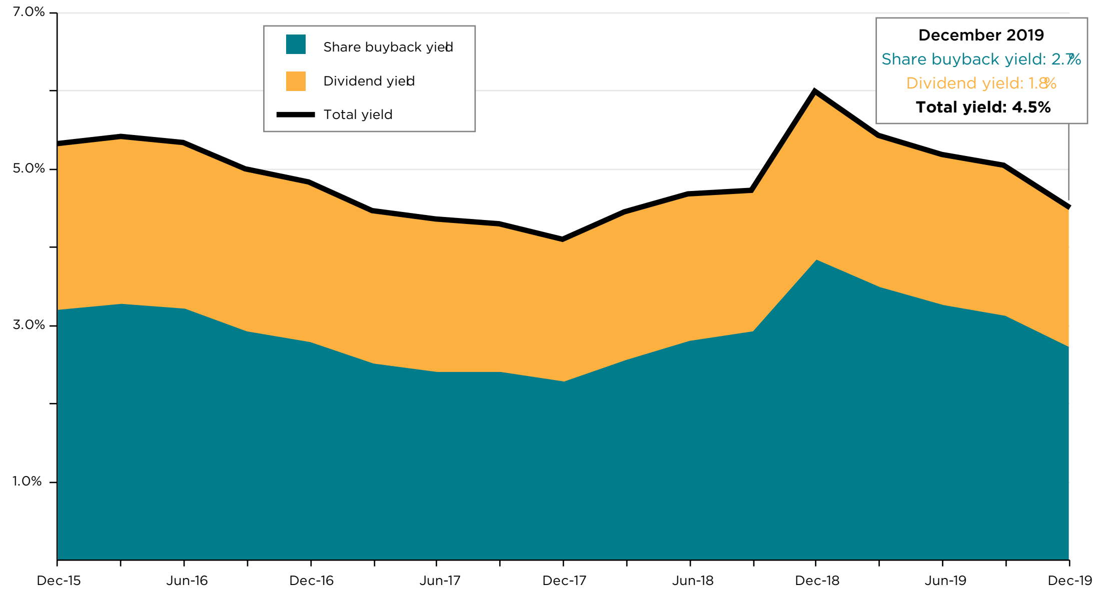
Equity markets have begun to stabilize following an unprecidented period of volatility that included a historic decline in March and an impressive recovery in April. Investor sentiment has improved, but market movement is still dictated by emotion. Stock markets are likely to remain susceptible to fluctuations until uncertainty fades. Short-term interest rates are expected to remain near zero at least into 2021, while long-term rates should be near record lows for much of 2020. Fiscal and monetary stimulus have helped ensure financial market stability and support small businesses, but substantial headwinds remain for earnings.

Financial market insight: Stocks face headwinds as return drivers recede

Dividends and share buybacks have been major factors in the strong performance of the S&P 500® Index over the last decade. (See chart at right.) The coronavirus outbreak and subsequent economic collapse have put these drivers at risk. So far this year, over 200 companies have cut or suspended dividends, for a cumulative $23B in reduced investor payouts. Share repurchases may be more at risk. Firms that have been aggressive in buying back their own equity shares may face pressure to ease or eliminate future share repurchases. This presents an interesting challenge for equity markets, considering that public companies were large incremental buyers of stocks over the past cycle, while retail and institutional investors generally sold equities.

Dividends and share buybacks drive stock returns

Contribution to S&P 500® total return, December 2015 to December 2019



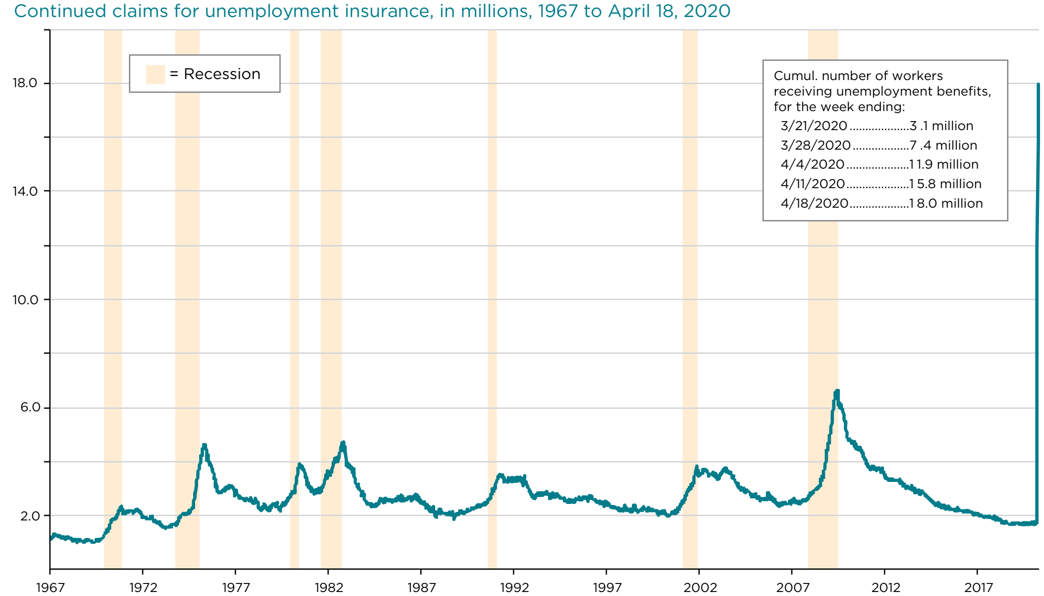
Source for chart data: S&P Dow Jones Indices

Economic Insight: More workers than ever filing unemployment claims

Record-shattering weekly initial jobless claims have captured headlines during the recent economic crisis with tens of millions of workers submitting applications for unemployment insurance. The pace of job losses due to stay-at-home orders and the shuttering of businesses has had a massive impact on household incomes. The number of workers receiving unemployment benefits rose to nearly 18 million for the week ending April 18—far surpassing the peak of 6.6 million from the end of the Great Recession. These benefits should help offset lost income for many households affected by job losses, especially with the additional payments provided by the CARES Act. Watching the weekly continued claims as the economy reopens will provide an early view on how many workers have regained their jobs.

Unemployment claims spike during COVID-19 shutdown

Continued claims for unemployment insurance, in millions, 1967 to April 18, 2020



Source for chart data: Nationwide Economics

Key takeaways

1

The COVID-19 recession is expected to produce an extremely sharp, albeit relatively short, economic decline.

2

Fiscal and monetary stimulus should help to ease the economic burden for businesses and consumers.

3

Volatility is likely to persist as long as the outlook remains uncertain; investors should keep their emotions in check and focus on their long-term goals.

Cycle Watch is a collaboration between Nationwide Economics and Nationwide's Chief of Investment Research. Our goal is to present a monthly update of where we are in the business cycle and insights from both perspectives to help investors and advisors understand the factors driving economic and financial market performance.

Nationwide®
is on your side

S&P 500® Index: An unmanaged, market capitalization-weighted index of 500 stocks of leading large-cap U.S. companies in leading industries; gives a broad look at the U.S. equities market and those companies' stock price performance.

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