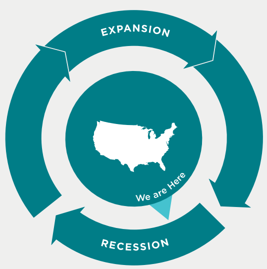
Cycle Watch | Emotional rescue

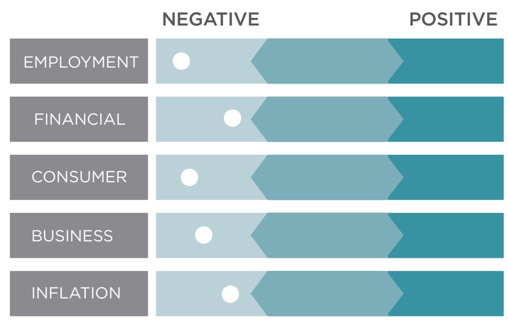
Economic and financial commentary as of June 2020

Business Cycle Update



Economic data from April were abysmal, but that month will likely be the bottom for the current downturn. Indicators show a modest uptick in activity in May as many state and local economies reopened, although slowly and not uniformly. While optimism for a recovery is building, the path forward is shrouded by uncertainty around the coronavirus. On the upside, record monetary and fiscal stimulus should help the economy rebound later this year, with a potentially rapid pace of growth expected for 2021 when a vaccine is more likely. There remains a reasonable chance of a renewed outbreak, which could rekindle infection fears and government stay-at-home mandates, and extend the downturn into next year.

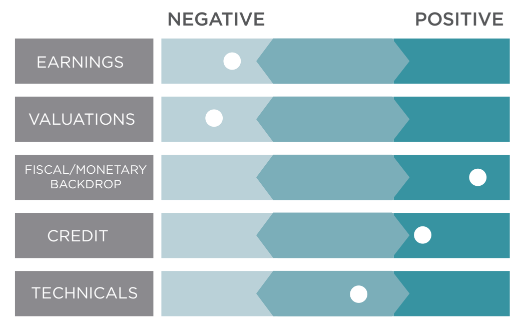
Economic Review



Nationwide Economic Dashboard, May 2020

The collapse of the U.S. economy during April was unimaginable prior to the COVID-19 pandemic. The job market suffered more than 20 million payroll losses for the month and a 10 percentage-point spike in the unemployment rate—both records by significant margins. Businesses also struggled as new orders and production slumped to record lows in nearly all industries. Retail sales plummeted as most non-essential consumer spending ground to a halt. The decline in real GDP for Q2 is expected to be record-breaking as the widespread stoppage of economic activity from April extended into May in many states. Against this backdrop, the Federal Reserve maintained its zero-bound monetary policy and started other programs to support financial markets.

Financial Review



Nationwide Financial Market Dashboard, May 2020

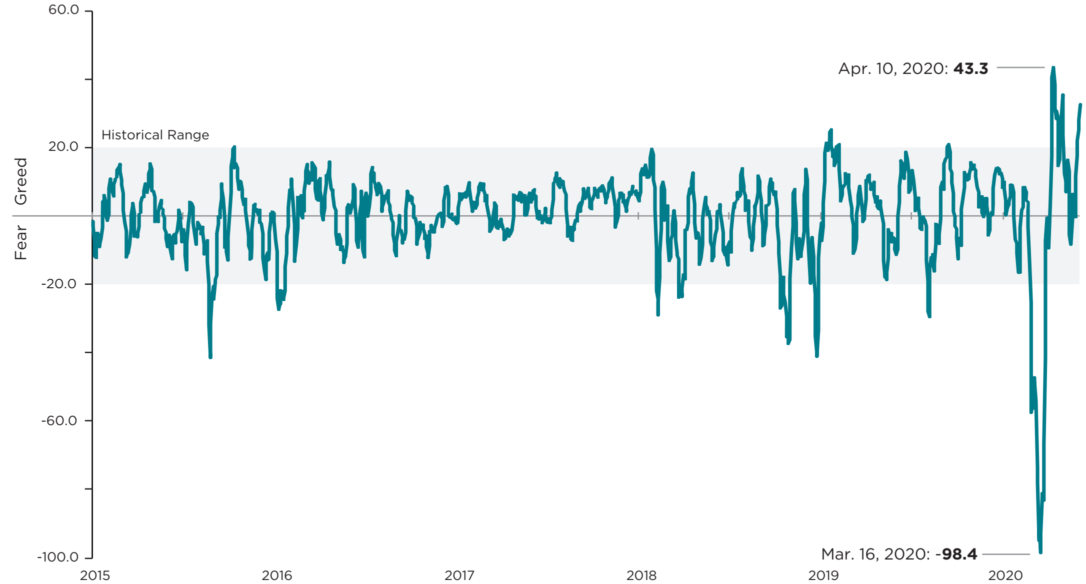
Broad equity market indices have rebounded sharply from their March lows, showing remarkable resilience in an uncertain and turbulent climate. Stimulus programs from the Federal Reserve and fiscal spending measures from the federal government have encouraged investors, with a sharp snapback in sentiment and narrowing of credit spreads. Interest rates have stabilized, although remaining at historically low levels, suggesting stock and bond investors are again misaligned. We anticipate yields to remain low for some time, as the Fed maintains its near-zero interest rate policy. The sustainability of a recovery depends on the pace and strength of economic reopening and the lingering impact of the coronavirus pandemic.

Financial market insight: Investor sentiment swings to both extremes

One of the biggest drivers of stock market turbulence over the last three months has been shifting investor sentiment. Fear propelled the 30% drop in the S&P 500® Index in March and April, the fastest decline ever for the benchmark index, while greed powered the ensuing rebound. Bloomberg's Global Fear & Greed Index offers a comprehensive indicator of investor sentiment. The index has maintained a range between +20 and -20 for much of its 12-year history. But during the pandemic, we've seen swings to both extremes; a drop to -98 in March, underscoring extreme fear, then a spike to +43 in April, reflecting increased greed. At the end of May, the index hovered just above its historical range, indicating sustained optimism. Investor emotion will likely have an outsized impact on the market in the near term.

Fear and greed whipsaw during pandemic uncertainty

Bloomberg Global Fear & Greed Index, January 2015 to May 2020



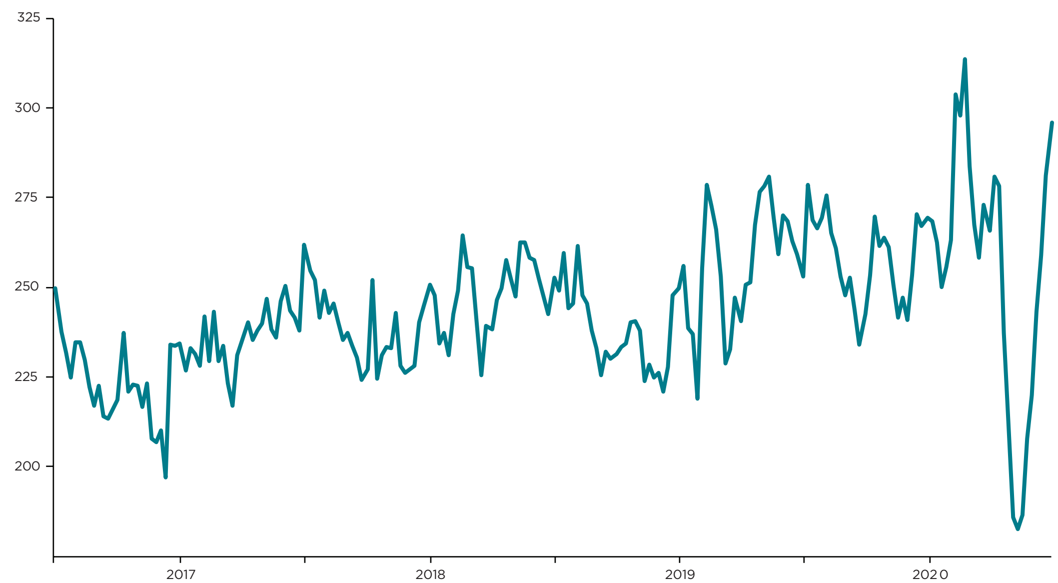
Source for chart data: Bloomberg LP

Economic Insight: Consumers slowly rebooting after economic shutdowns

Consumer activity collapsed in mid-March as pandemic-related stay-at-home orders shuttered businesses and restricted purchases. As state and local economies started to reopen in May, signs of renewed consumer spending have appeared, although at much lower levels than before the pandemic. One area where we see "green shoots" of optimism is housing. Mortgage applications for home purchases surged in late April and May, reflecting increased demand from home buyers. This trend was already positive prior to the pandemic, driven by rising personal incomes. Now, record-low mortgage rates should continue to spur house-buying activity. Strength from the housing market and consumer expenditures as activity moves closer to normal may help support an economic recovery in the second half of 2020.

Homebuying demand rebounds to pre-pandemic trend

Weekly home mortgage applications for purchase (Index, March 1990 = 100)



Source for chart data: Mortgage Bankers Association

Key takeaways

1

Optimism for recovery is building, but a great deal of uncertainty remains.

2

Continuing fiscal and monetary stimulus should support the economy as activity resumes.

3

Emotional investors are likely to drive volatility; investors should continue to check their emotions and focus on 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

This material is not a recommendation to buy, sell, hold or roll over any asset, adopt an investment strategy, retain a specific investment manager or use a particular account type. It does not take into account the specific investment objectives, tax and financial condition or particular needs of any specific person. Investors should discuss their specific situation with their financial professional.

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.

Except where otherwise indicated, the views and opinions expressed are those of Nationwide as of the date noted, are subject to change at any time and may not come to pass.

Nationwide Funds are distributed by Nationwide Fund Distributors LLC (NFD), member FINRA, Columbus, Ohio.

Nationwide Investment Services Corporation (NISC), member FINRA, Columbus Ohio.

NFM-19430AO.2 (06/20)