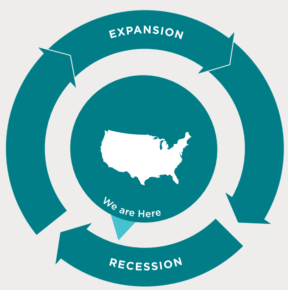
Cycle Watch | Turning the corner?

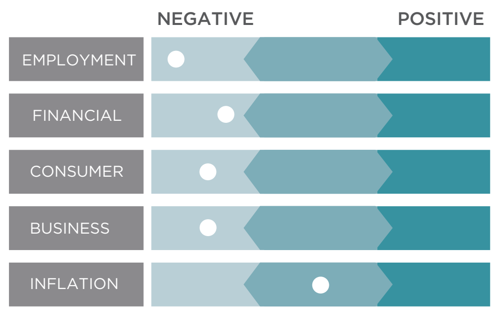
Economic and financial commentary as of July 2020

Business Cycle Update



While the COVID-19 recession officially started in February, there were a number of signs that the economy began to turn the corner in May, notably a surprising jump in job growth and a record surge in retail sales. Optimism is building that the economy will expand solidly in the second half of 2020 as consumer and business activity reboots and grows at an above-trend rate at least into next year. A sharp rebound in growth could mean the COVID-19 recession will be the shortest downturn in U.S. history. Still, given the depth of the decline, a full recovery to pre-COVID levels for important indicators such as real GDP and employment is expected to take several years.

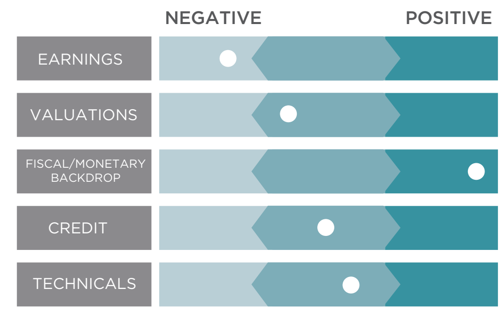
Economic Review



Nationwide Economic Dashboard, July 2020

In May, many economic indicators snapped back stronger than expected from the previous month's lows as state and local economies slowly reopened. Nonfarm payroll gains surprised by adding a record 2.5 million jobs, led by the sectors hardest hit during March and April. Consumer activity rebounded with a surge in retail spending, a solid gain in light vehicle sales, and signs of stronger homebuyer demand. Business sector surveys also improved, especially with an uptick in new orders and production for the service sector. While all of these readings are coming off of extreme declines, the improvement is a positive sign that the economic recovery from the COVID-19 recession is starting to take shape.

Financial Review



Nationwide Financial Market Dashboard, July 2020

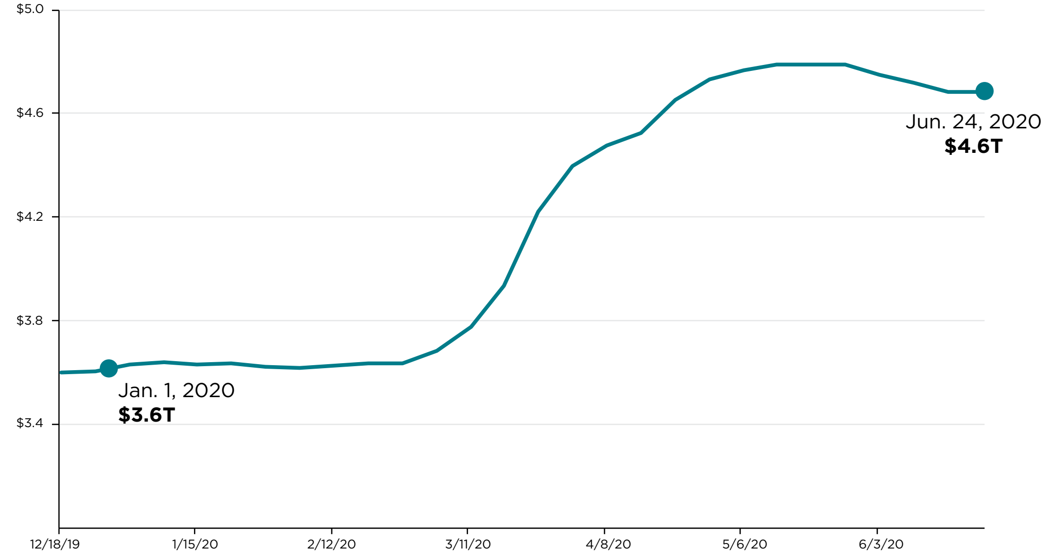
Broad equity market indices recovered with a V-shaped bounce from their March lows as investors remain optimistic about the reopening of the U.S. economy and the Federal Reserve's promise of "lower for longer" interest rates and further asset purchases. The bond market adopted a more cautious stance on the economy and yields remained near-record lows, where they've been over much of the last three months. Fed committee members maintained the central bank's zero interest rate policy at their June meeting, with no rate hikes expected until at least 2023. The combination of expansionary fiscal and monetary policy should help to boost economic activity for a while, once the coronavirus is mostly in the rear-view mirror.

Financial market insight: Early signs the "flight to liquidity" may be reversing

The market volatility this year sparked turbulent swings in investor sentiment and activity. During May, investors by and large sold risk assets such as stocks in favor of cash; as a result, money market assets gained more than $1 trillion. A recent Fidelity Investments survey found 18% of investors sold the entirety of their equity holdings between February and May this year. Moreover, nearly one-third of investors over age 65 liquidated all their stock investments. There are initial signs that investors, particularly millennials, are easing back into the financial markets. Platforms such as TD Ameritrade, E*Trade, Schwab and Robinhood reported record account growth of as much as 170% in Q1. A shift from cash to equities will be necessary to continue the market momentum.

Retail investors continue to stash their cash

U.S. money market fund total assets. $ = trillions



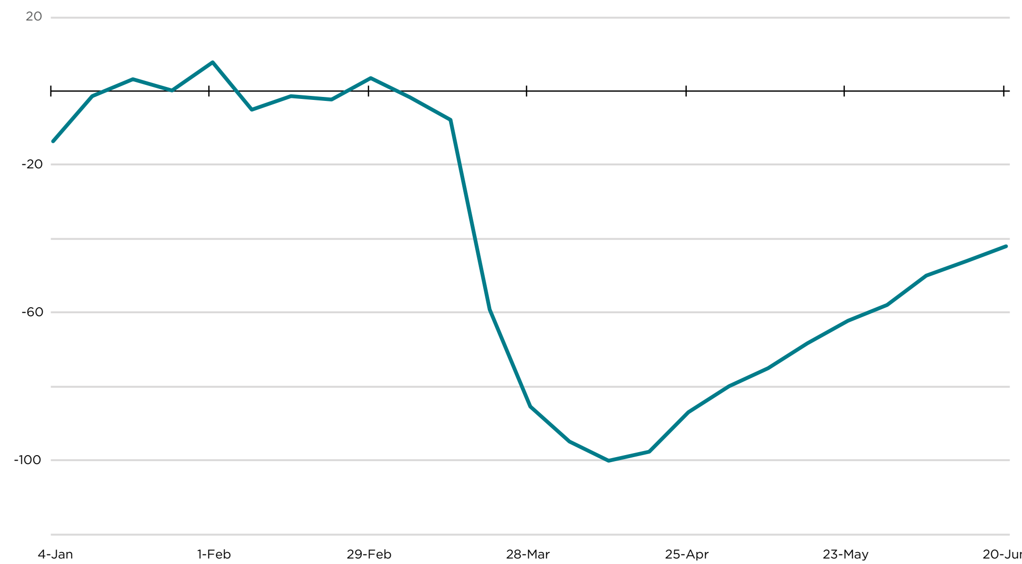
Source for chart data: Investment Company Institute

Economic Insight: Improving mobility measures still below pre-COVID levels

Consumer activity picked up in May and June as state and local economies reopened, helping to start the recovery for the business sector while boosting the outlook for near-term economic growth. Real-time mobility measures have tracked the rebound in consumer behavior with increased driving and additional visits to stores and restaurants. While higher than the lows of March and April, the Dallas Fed's Mobility and Engagement Index still shows a large decline from typical levels during May and June. In response to the recent surge in virus infections in many Sunbelt states, several state and local governments have slowed their reopening plans while consumers have expressed increased caution about exposure. Shifts in mobility readings in the weeks and months ahead could alter the trajectory for the economic recovery over the rest of the year and into 2021.

Consumer activity on an uphill climb back to normal

Federal Reserve Bank of Dallas, Mobility & Engagement Index, relative to normal, 2020 YTD through June 20



Key takeaways

1

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

2

Continuing fiscal and monetary stimulus may 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.

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