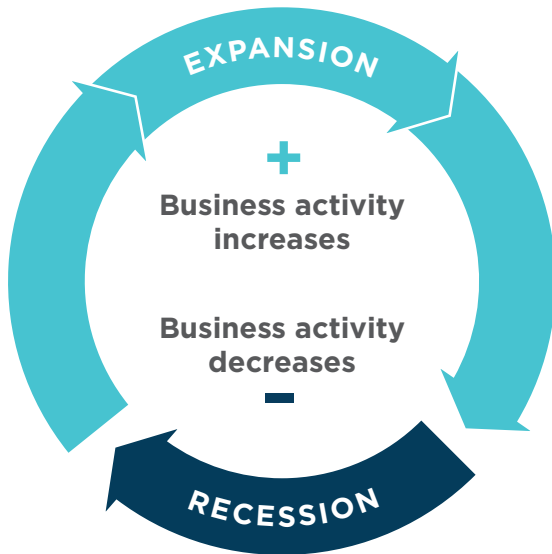


Understanding the business cycle may reveal new opportunities

Learn about the business cycle and where we are now, so you can make more informed choices about your investments.





The business cycle is a natural evolution that we see in every economy.

- +** Business activity increases as companies produce new products and services that consumers want
- Business activity decreases as the markets for these innovations mature and consumer spending slows

All investors should consider learning more about the business cycle because it may help identify investment opportunities.



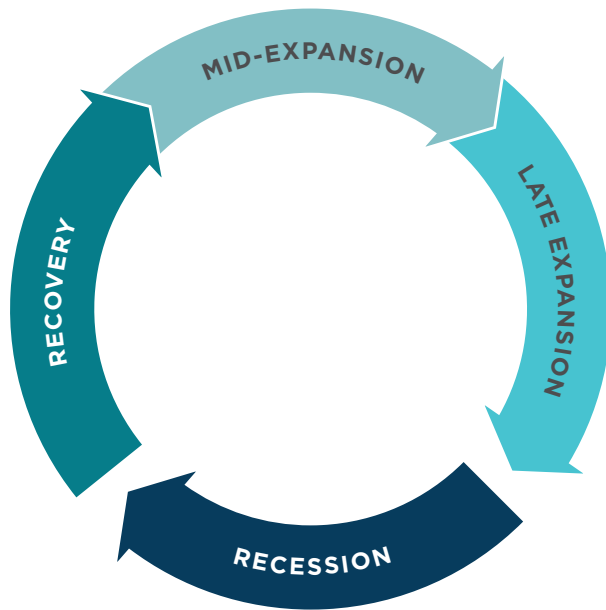
The business cycle is a primary factor that drives **business performance**

Performance generally drives **investment values and returns**



Investors face risks as the business cycle **transitions from one stage to the next**

Those transitions also create **opportunities for informed investors**



During a full rotation, we see the business cycle transition through expansion and recession.

- Expansion has three stages: recovery, mid-expansion and late expansion
- Each stage has characteristics that help us identify it



When **recovery** begins economic growth accelerates.

- Employment growth begins again
- Inflation returns to a moderate level
- Interest rates remain steady
- The yield curve remains normally sloped



In **mid-expansion**, economic growth is typically moderate.

- Employment growth is steady
- Inflation starts to increase
- Interest rates begin to rise
- The yield curve flattens



As we reach **late expansion**, economic growth slows down.

- Employment growth slows
- Inflation reaches a peak
- Interest rate increases stop
- The yield curve inverts



During a **recession**, economic growth is negative.

- Employment declines
- Disinflation or deflation takes over
- Interest rates decrease
- The yield curve returns to a normal positive slope

The **yield curve** shows interest rates for U.S. treasury debt at issued durations—currently from four weeks to 30 years. **Disinflation** is a slower rate of inflation, and **deflation** is when price levels actually decrease.

Certain asset classes typically perform better than others during the different stages of the business cycle.

↑ HISTORICALLY OUTPERFORMED
 ↓ HISTORICALLY UNDERPERFORMED

Recovery	Mid-expansion	Late expansion	Recession
↑ Small-cap stocks	↑ Large-cap stocks	↑ International stocks	↑ Commodities
↑ Emerging market stocks	↑ Mid-cap stocks	↑ Global real estate	↑ Emerging market stocks
↑ Commodities	↑ Intermediate U.S. bonds	↑ U.S. corporate high-yield bonds	↑ Mid-cap stocks
↓ Large-cap stocks	↓ Emerging market stocks	↓ Intermediate U.S. bonds	↓ Large-cap stocks
↓ International stocks	↓ International bonds	↓ International bonds	↓ International stocks
↓ International bonds	↓ Commodities	↓ Commodities	↓ Global real estate

Source: Factset data, 1977–2016



As of 2018, indicators suggest we're now in late expansion.

- Employment has been growing and unemployment remains low
- Inflation has been very low, but is now starting to rise
- Economic growth has been steady since the end of the last recession
- The Federal Reserve has been raising the fed funds rate since December 2015; gradual hikes are expected in 2018
- Although the curve has flattened considerably in the past year, it still has some distance to go before it inverts

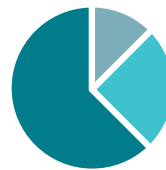
As of January 2018
Source: Nationwide Economics

Two investment opportunities may deserve closer consideration in this late expansion stage of the current business cycle.



International stocks

may have the potential to outperform U.S. stocks in the coming years as expansion continues



Small-cap stocks

are expected to record stronger profits than large-cap stocks*

* Source: Factset, 2017

Remember that any choices you make should be consistent with your long-term investment goals.



Work with a financial advisor to maintain a disciplined investment strategy throughout all stages of the business cycle.



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