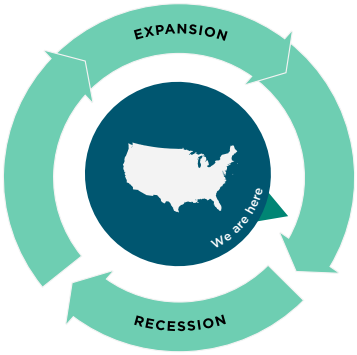
Nationwide® is on your side

Hot inflation should delay rate cuts



Business Cycle Update

- Solid economic activity through the first quarter of the year indicates the economy is not in danger of slipping imminently into a recession.
- Low unemployment and solid gains in real personal income drove a rebound in consumer spending in February and March.
- Retail spending will likely trend downward in response to depleted household savings and rising credit card debt.
- We believe the Fed's pivot to policy easing will come no earlier than September due to the strong momentum in services inflation and economic growth.

Economic Review

EMPLOYMENT — NEGATIVE / POSITIVE

The job market remained solid in March despite large downward revisions to earlier monthly employment gains. Wage growth slowed slightly to a still-fast 4.3%. Despite signs of increased slack, the labor market remains tight.

FINANCIAL — NEGATIVE / POSITIVE

The stock rally began earlier and continued upward through mid-March as the S&P 500® Index rose. The inversion in the yield curve deepened some and continues to signal the possibility of a recession.

CONSUMER — NEGATIVE / POSITIVE

Retail sales rebounded in February and March, partly due to a jump in vehicle sales. Sentiment readings have recovered from the lows of late 2023, but they still suggest recession fears have not been completely assuaged.

BUSINESS — NEGATIVE / POSITIVE

The ISM manufacturing index remained in contraction for the 16th straight month. The services index also fell, but demand measures were solid. Small businesses continue to report lower earnings trends and a pessimistic outlook.

INFLATION — LOWER / HIGHER

Headline and core CPI were hot again in March as services inflation continued to rise, boosted by rapid increases in transportation. Annual core inflation fell slightly but remains nearly twice the Fed's 2% target.

Financial Review

EARNINGS — NEGATIVE / POSITIVE

Earnings revisions have been relatively static to start the year, and the potential upside to EPS from productivity may act as a tailwind for earnings. Weaker economic activity might challenge the lofty margin expectations in the latter half of 2024.

VALUATIONS — NEGATIVE / POSITIVE

After a torrid rally in 1Q, primarily driven by multiple expansions, the S&P 500's forward P/E will likely need to be justified by the earnings recovery story for 2024, calling for roughly 10% profit growth this year.

FISCAL/MONETARY BACKDROP — NEGATIVE / POSITIVE

As the March inflation report indicates, there is a notable risk of a delay in the start of Fed easing, underscoring the ongoing "push-pull" between the Fed's patient signals and the market's eagerness for rate cuts.

CREDIT — NEGATIVE / POSITIVE

Although benign, the recent widening of credit spreads might indicate more recent market volatility rather than a broader economic slowdown.

TECHNICALS — NEGATIVE / POSITIVE

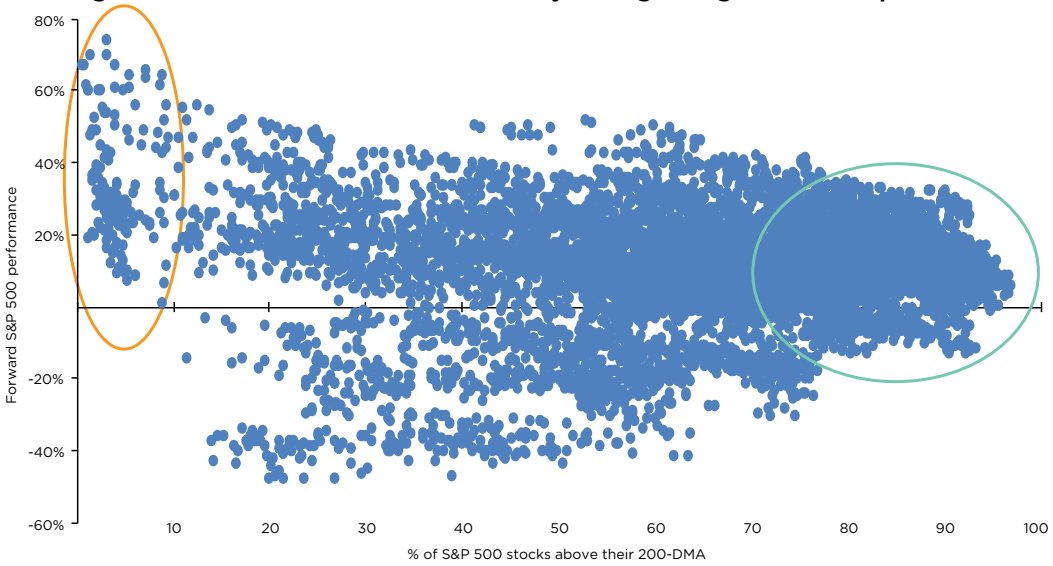
Broad measures of sentiment and positioning have retreated from their excessively bullish stance earlier in the month, as a more cautious tone has tempered excess optimism.

Nationwide is on your side

Financial market insight: How sustainable is the bull market run?

Investors use market breadth to indicate the overall market's health. As illustrated in the accompanying chart, one way to measure market breadth is to analyze the percentage of stocks trading above their 200-day moving averages (DMA). Returns skew positive as market breadth improves (the green circle where around 70% of stocks are above their 200-DMA). When market breadth is low (less than 10% of stocks trade above their 200-DMA), it is a contrarian signal that a market bottom might be occurring, even when returns are positive (orange circle at left in the chart). The recent broadening of the rally implies that upside momentum may continue over the next 12 months, and long-term investors likely have less to fear from a minor pullback.

Percentage of S&P 500® stocks above their 200-day moving average vs. forward performance

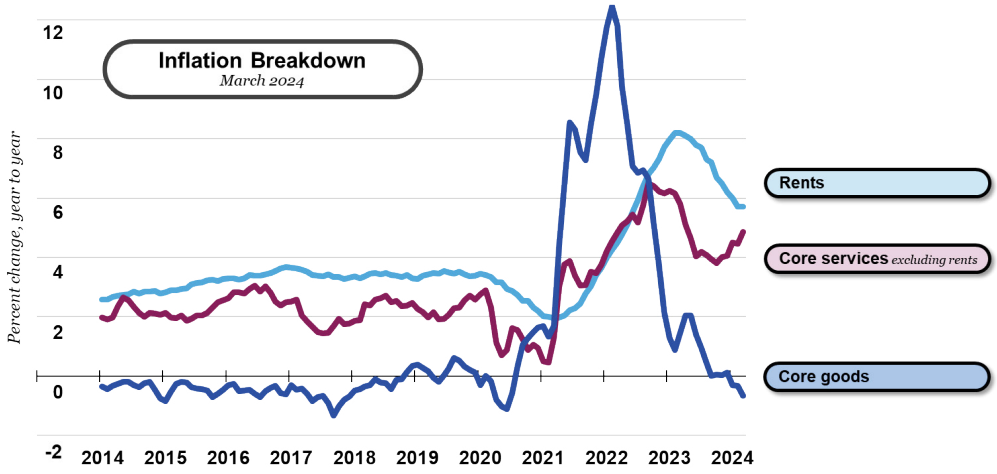


Source of chart data: FactSet, Nationwide IMG Investment Research

Economic insight: Services inflation remains stubbornly elevated

While favorable for further economic expansion, the strong start for hiring and spending in 2024 has also reignited inflation concerns. The year-on-year CPI inflation rate rose to a 6-month high of 3.5% in March, pushed upward by a renewed surge in service costs. Given the sticky nature of services inflation, price pressures could remain elevated well into 2025. These hotter inflation readings will also likely delay the Fed's shift to policy easing, with an initial rate cut not expected until at least September.

Inflation breakdown, updated through March 2024



Source of chart data: Bureau of Labor Statistics, Nationwide Economics

NFM-19430AO.48 (4/24)