Jobs market keeps recession at bay

Business Cycle Update
- Job gains reaccelerated in April, and the unemployment rate dropped as tight conditions persisted across the labor market.
- Consumer survey data suggest concerns about inflation are lingering, but spending continues to be supported by healthy job and wage gains.
- Services inflation finally showed signs of cooling, but stickiness should pressure the Fed to maintain a restrictive policy stance.
- We expect the Fed to wait until 2024 to ease monetary policy, which should keep long-term interest rates higher over the next several months.

Economic Review

**EMPLOYMENT**
- NEGATIVE
- POSITIVE

Job gains accelerated as hiring within services remained strong, but downward revisions to the prior two months tempered the growth. Unemployment edged down, matching the lowest reading since 1969.

**FINANCIAL**
- NEGATIVE
- POSITIVE

The yield curve inversion deepened following the latest Fed rate hike. Credit spreads are widening, a nod to the building risks to earnings and growth over the rest of 2023.

**CONSUMER**
- NEGATIVE
- POSITIVE

Retail sales climbed in April, with core sales especially strong. Total home sales took a step back due to a limited supply of existing homes. Sentiment weakened as consumers viewed recession odds as high.

**BUSINESS**
- NEGATIVE
- POSITIVE

Services demand (e.g., business activity and new orders) kept the ISM services index in expansion for April. Manufacturing registered its sixth straight contraction as orders for goods continued to recede.

**INFLATION**
- LOWER
- HIGHER

Consumer inflation rose in April, aided by a rebound in gasoline prices. Lingering services inflation pressured the Fed to remain steadfast in its inflation fight despite signs of banking stress.

Financial Review

**EARNINGS**
- NEGATIVE
- POSITIVE

While cost-cutting, productivity gains, and efficiency measures have balanced margin pressure, the possibility of a recession may impact the projected earnings recovery in the second half of 2023.

**VALUATIONS**
- NEGATIVE
- POSITIVE

A decrease in liquidity in the coming months, due in part to Fed rate hikes, could negatively impact valuations. The S&P 500® Shiller CAPE ratio is historically high, suggesting overextended valuations.

**FISCAL/MONETARY BACKDROP**
- NEGATIVE
- POSITIVE

Even with a potential pause at the June Fed meeting, better economic data may test the Federal Reserve’s commitment to quelling inflation, likely resulting in rates staying “higher for longer.”

**CREDIT**
- NEGATIVE
- POSITIVE

While volatility in the credit market has subsided, ongoing wage pressure and decreasing inflation expectations indicate further operating margin compression and translate into widening credit spreads.

**TECHNICALS**
- NEGATIVE
- POSITIVE

Since its low last October, gains for the S&P 500® Index have been largely fueled by a narrow group of large-cap tech stocks. Market breadth and broad cyclical performance have remained weak.
Financial market insight: Risks lurk under calm stock market

Limited leadership in performance and the lack of breadth have defined the stock market thus far in 2023. While the headlines trumpet tech-driven index returns, something else is happening beneath the surface. For example, as of May 16, the NASDAQ Composite Index had gone 50 consecutive days with more new lows than new highs. Despite this, the NASDAQ 100® Index (which tracks the 100 largest Nasdaq stocks) finished higher that day, and the S&P 500 Tech sector closed at its highest level relative to the S&P 500 since March 2000. In a bifurcated market, investors should consider the underlying factors driving the market’s upward trends. Investors can benefit from technical insights to make informed allocation decisions and position their portfolios for the market’s future direction.

Economic insight: Services inflation could drive next Fed hike

While consumer inflation for goods has faded sharply from recent highs, services inflation continues to run much hotter than normal in response to the tight labor market. So-called “supercore” inflation (core services less rents) was still up 5.0% over the past year as of April, reflecting rising wages and higher costs for labor across service industries. These lingering inflationary pressures could push the Fed to increase rates further at an upcoming FOMC meeting. Even if the Fed does decide to pause its tightening cycle this month, sticky inflation for services may cause the Fed to hold off on any interest rate reductions until 2024.

This material is not a recommendation to buy or sell a financial product or to adopt an investment strategy. Investors should work with their financial professional to discuss their specific situation.

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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.

S&P Shiller CAPE Ratio - the ratio the the S&P 500’s current price divided by the 10-year moving average of inflation-adjusted earnings.

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NASDAQ Composite Index: A stock market index of the common stocks and similar securities (e.g. ADRs, tracking stocks, limited partnership interests) listed on the NASDAQ stock market.

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