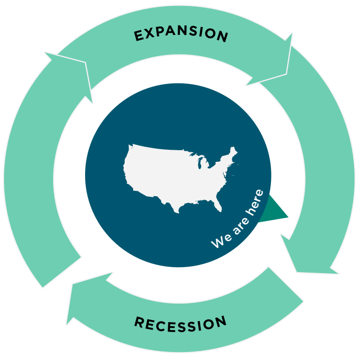
Cycle Watch | June 2024

Nationwide®
is on your side

Economic momentum continues



Business Cycle Update

- The positive economic momentum from the first quarter has carried into mid-year, with buoyant job gains likely supporting a rebound in income and spending in May.
- The U.S. economy will likely expand into mid-2024 with little near-term concern that consumer activity will slow sharply.
- While some segments of the economy are showing signs of slowing activity, inflation remains too high for the Federal Reserve to start lowering interest rates this summer.
- The Fed's delay keeps borrowing costs high for consumers and businesses while adding downside risk to the outlook.

Economic Review

EMPLOYMENT — NEGATIVE — POSITIVE

Nonfarm payrolls advanced 272,000 in May, while the unemployment rate climbed to 4.0% for the first time since January 2022. Annual wage growth advanced at a faster pace of 4.1% in May as tight labor conditions persist.

FINANCIAL — NEGATIVE — POSITIVE

The 2024 equity rally resumed in May, with the S&P 500® Index hitting new highs. Long-term rates fell modestly, causing the yield curve inversion to increase. The Fed's first rate cut will likely be delayed until at least September.

CONSUMER — NEGATIVE — POSITIVE

Consumers dialed back retail spending in April as low savings and rising debt continue to provide headwinds to consumer activity. Consumer sentiment fell sharply in May, with a rise in inflation expectations.

BUSINESS — NEGATIVE — POSITIVE

The ISM manufacturing index fell into contraction territory in April, joined by the services index. Small business optimism remains low as owners contend with rising labor and input costs.

INFLATION — LOWER — HIGHER

The overall CPI was flat in May, while the core rate rose at a slower 0.2% pace, lowering the year-on-year readings to 3.3% and 3.4%, respectively. Shelter costs were also buoyant in May, a hurdle for faster disinflation of consumer prices.

Financial Review

EARNINGS — NEGATIVE — POSITIVE

Although investors should be cautious about top-line revenue growth, positive earnings revisions, and slowing economic momentum should support S&P 500 earnings growth by double-digits for 2024.

VALUATIONS — NEGATIVE — POSITIVE

The "Magnificent 7" S&P 500 stocks trade at a forward P/E ratio of approximately 42 times. In contrast, the remaining 493 companies in the index trade around 15 times, indicating more modest valuations.

FISCAL/MONETARY BACKDROP — NEGATIVE — POSITIVE

The median Fed dot plot now suggests only one rate cut in 2024, down from three expected in March. Price pressures are not likely to have decreased enough for the Fed to cut rates at its next meeting in September.

CREDIT — NEGATIVE — POSITIVE

Most measures of credit spreads are benign, as high-yield spreads continue to oscillate near their cycle lows.

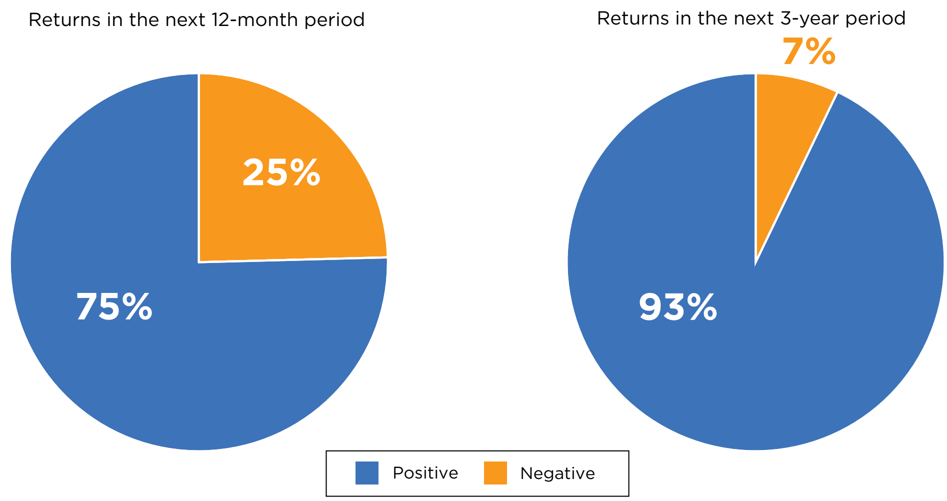
TECHNICALS — NEGATIVE — POSITIVE

As the S&P 500 continues to register all-time highs, various measures of market breadth continue to weaken, potentially signaling a cautionary signal for investors.

Financial market insight: Is it smart to buy stocks at record highs?

Whenever stocks hit all-time highs, investors may wonder if continuing to invest is a recipe for disaster. Investors may turn apprehensive and stay on the sidelines during these spells, waiting for a pullback before putting new capital to work. Yet, historical data show that when markets have reached all-time highs, it hasn't necessarily indicated impending market drawdowns. In most cases, stocks have surpassed these records and continued to rise. Given the resilience of corporate profits in the latest earnings season, it's not unreasonable to assume the current bull market can continue.

S&P 500® Index forward performance by day 1980 to present

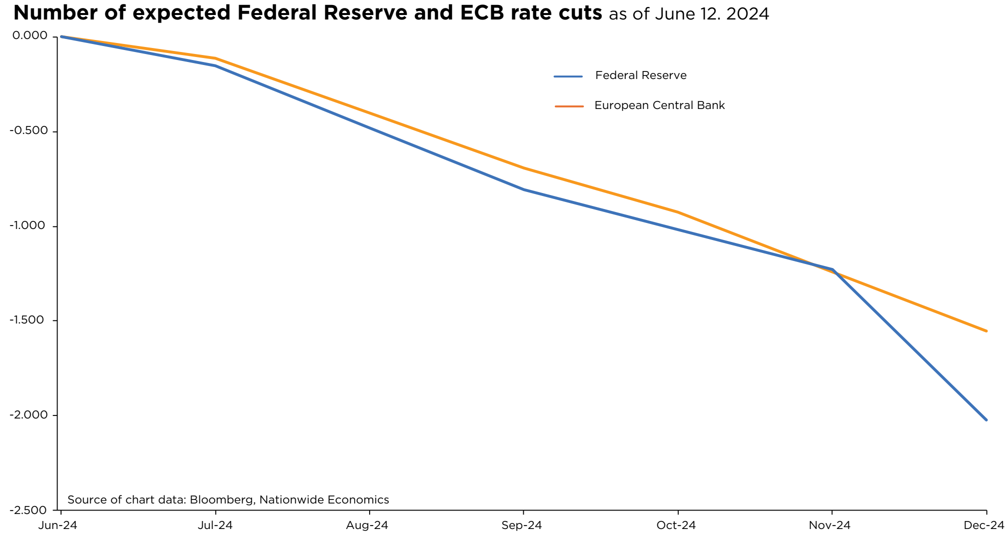


Source of chart data: FactSet, Nationwide IMG Investment Research

Economic insight: Only modest monetary easing expected in 2024

The Bank of Canada and European Central Bank were the first major central banks to cut rates in early June as economic and inflation conditions have cooled more in these areas than in the U.S. While the Fed usually leads other central banks on rate moves, there is consensus that the policy paths between the Fed and the ECB will align over the rest of 2024. Following the cooler inflation print for May, markets continue to price in two rate decreases by the Fed by year-end – slightly more than expected by the ECB, which implies that monetary policy will remain relatively restrictive across the developed world into 2025 as inflation concerns linger with upside risk for prices from geopolitics.

Number of expected Federal Reserve and ECB rate cuts as of June 12. 2024



Source of chart data: Bloomberg, Nationwide Economics

S&P 500® Index: An unmanaged, market capitalization-weighted index of 500 stocks of leading large-cap U.S. companies in leading industries; it gives a broad look at the U.S. equities market and those companies' stock price performance.

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