1st Quarter 2025

Data as of December 31, 2024

Nationwide Market Insights℠

Our perspective on the market and economic forces influencing investment planning and retirement

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Nationwide Market Insights℠

One of the challenges of planning for a more secure financial future comes in understanding the market and economic forces that affect investment performance and influence investment decisions. With *Nationwide Market Insights*, we present insights and informative commentary about the economy and the financial markets from Nationwide's staff of economists. You can share *Nationwide Market Insights* with clients to help answer questions about investment performance and inspire greater confidence in the guidance you provide.

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Executive Summary

Risk assets had a stellar 2024. The stock market made new all-time highs and corporate bond spreads were extremely tight as the economy shook off recession worries thanks to favorable earnings, spending, and hiring trends. The start of the Fed's easing cycle also buoyed investment sentiment.

The economy is set to start 2025 on a solid note, which is fortunate since it faces heightened policy uncertainty and possibly greater challenges. We expect the economy to grow around two percent this year, with upside and downside risks surrounding our call. We think the economy will persevere through any potential policy adjustments by the Trump administration, with 50 basis points worth of Fed rate cuts lending further support.

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Financial Markets

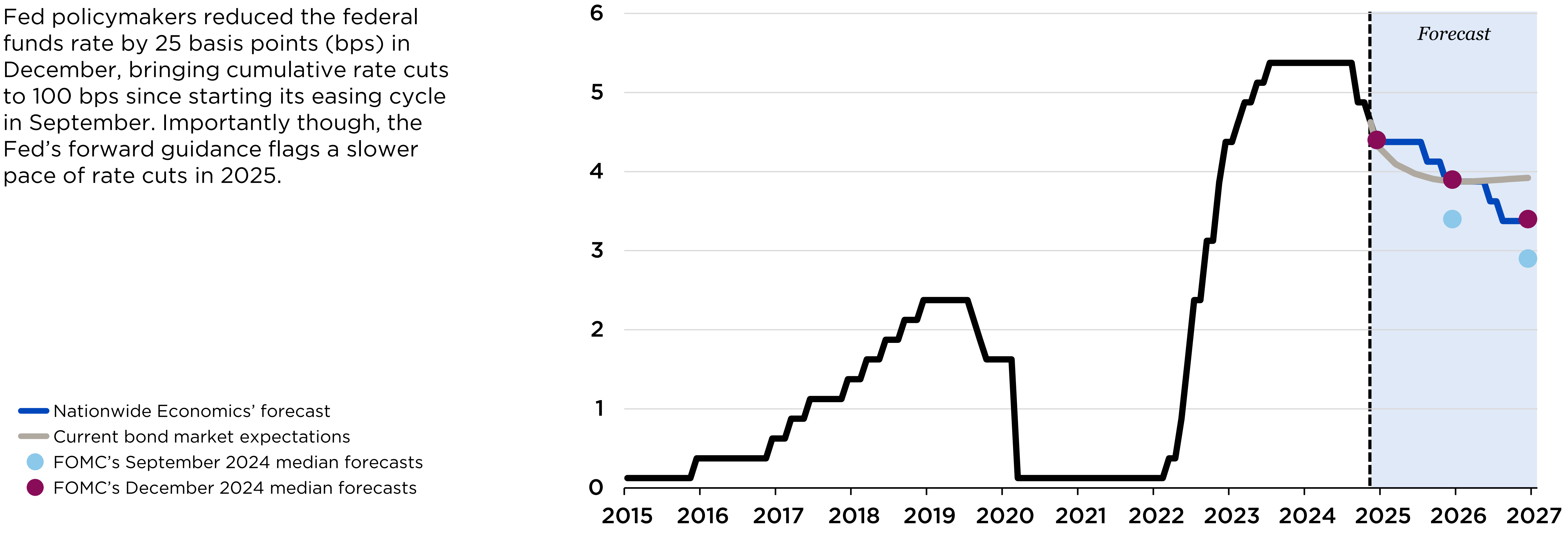
Highlights

Fed is set to cut rates slowly

Fed policymakers reduced the federal funds rate by 25 basis points (bps) in December, bringing cumulative rate cuts to 100 bps since starting its easing cycle in September. Importantly though, the Fed's forward guidance flags a slower pace of rate cuts in 2025.

Federal funds rate expectations

Percent

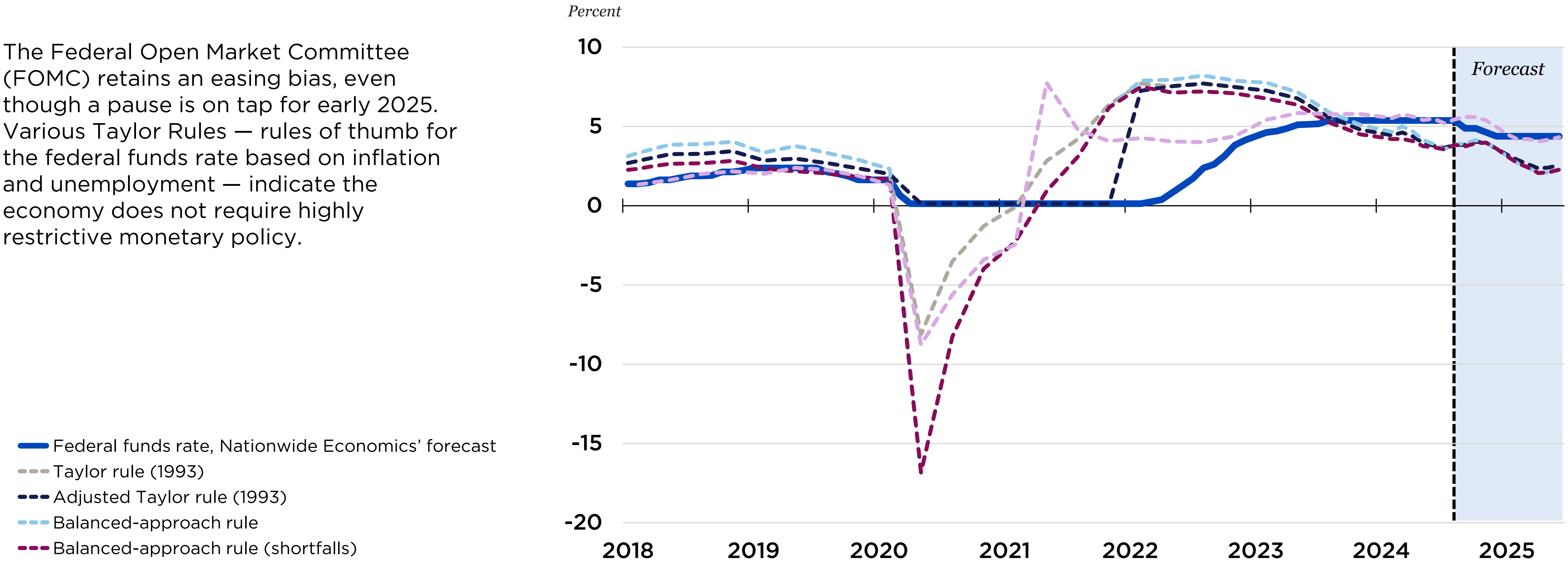


Source: Federal Reserve, Bloomberg, CME, SOFR Futures Data, Nationwide Economics

Taylor Rules suggest the Fed will maintain a bias toward cuts

The Federal Open Market Committee (FOMC) retains an easing bias, even though a pause is on tap for early 2025. Various Taylor Rules — rules of thumb for the federal funds rate based on inflation and unemployment — indicate the economy does not require highly restrictive monetary policy.

Historical federal funds rate prescriptions from simple policy rules



Note: Future estimates calculated using Nationwide Economics' baseline forecast

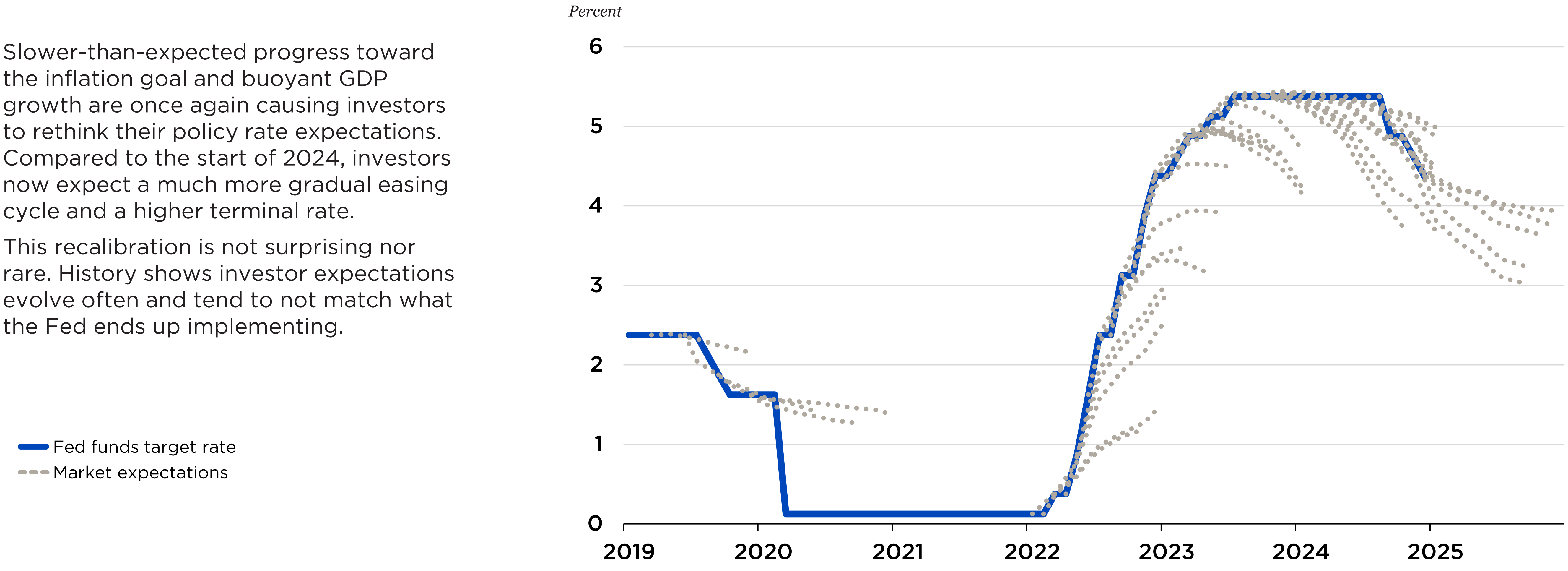
Source: Federal Reserve Bank of New York; Survey of Primary Dealers; Federal Reserve Bank of St. Louis, Federal Reserve Economic Data, DFEDTARL and DFEDTARU; Federal Reserve Board staff estimates, Nationwide Economics

Investors are recalibrating their Fed expectations

Slower-than-expected progress toward the inflation goal and buoyant GDP growth are once again causing investors to rethink their policy rate expectations. Compared to the start of 2024, investors now expect a much more gradual easing cycle and a higher terminal rate.

This recalibration is not surprising nor rare. History shows investor expectations evolve often and tend to not match what the Fed ends up implementing.

Market expectations for the federal funds rate



Source: Bloomberg, Nationwide Economics

How markets move after Fed rate cuts

The historical performance of key financial market benchmarks in the wake of Fed rate cuts offers a guide of how investors react following the start of a Fed easing cycle.

Equities and the U.S. dollar tend to respond positively while the spread between the federal funds rate and 10-year U.S. Treasury yield often widens.

Economic soft landing

Changes in financial market indicators after Federal Reserve begins easing cycle

Percent (S&P 500® Index & Broad Trade-Weighted U.S. Dollar Index); Basis points (10-year Treasury - Federal Funds Rate spread)

	3-month change			6-month change			12-month change		
	S&P 500® Index	10-year Treasury - Federal Funds Rate spread	Broad Trade-Weighted U.S. Dollar Index	S&P 500® Index	10-year Treasury - Federal Funds Rate spread	Broad Trade-Weighted U.S. Dollar Index	S&P 500® Index	10-year Treasury - Federal Funds Rate spread	Broad Trade-Weighted U.S. Dollar Index
Oct 1984	1.1	203.5	4.2	10.4	166.0	7.6	12.5	76.0	3.7
Jun 1989	9.5	58.0	3.2	8.6	77.3	2.7	13.9	167.3	7.4
Jul 1995	5.1	1.0	3.6	11.3	-11.0	6.7	18.7	151.0	9.4
Jan 2001	-17.9	80.0	4.0	-8.4	252.0	4.1	-13.5	427.0	4.6
Sep 2007	-4.3	14.0	-2.3	-12.4	148.0	-7.1	-20.6	179.0	-1.0
Jul 2019	1.9	17.0	0.4	8.2	-1.0	0.2	9.8	53.0	1.5

Source: Federal Reserve Board, Haver Analytics, Bloomberg, Nationwide Economics

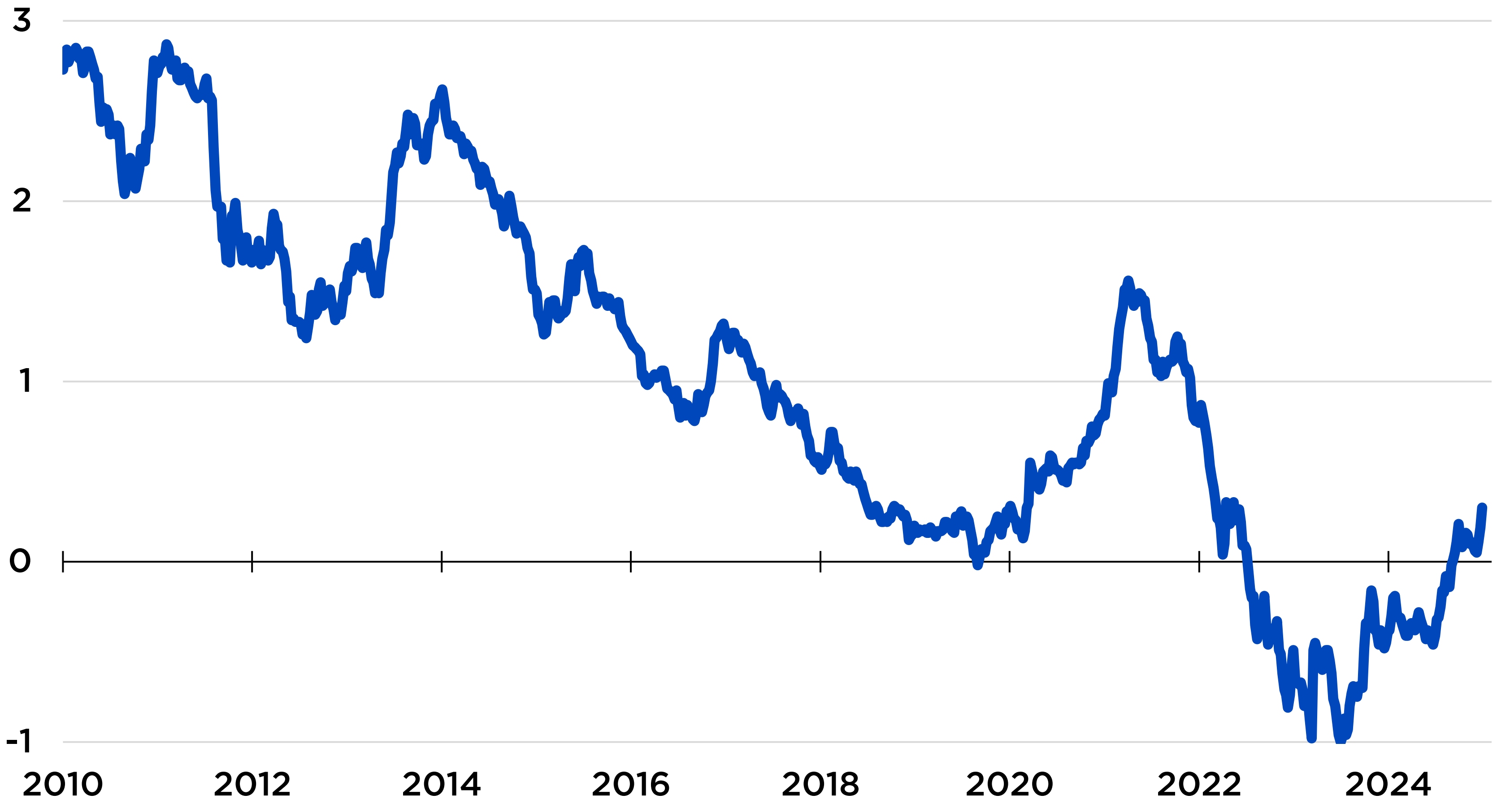
Treasury yield curve has dis-inverted

Solid spending, an upbeat labor market, and moderate disinflation, alongside with a repricing of Fed easing, led to a slightly positive slope in the U.S. Treasury curve in late-2024.

A more normally sloped yield curve may still be a warning sign for growth. The past four recessions have occurred after the spread between the 2- and 10-year U.S. Treasury yield turned positive. But we think recession risks in 2025 are relatively low.

10-year and 2-year U.S. Treasury yield spread

Percent



Source: Bloomberg, Nationwide Economics

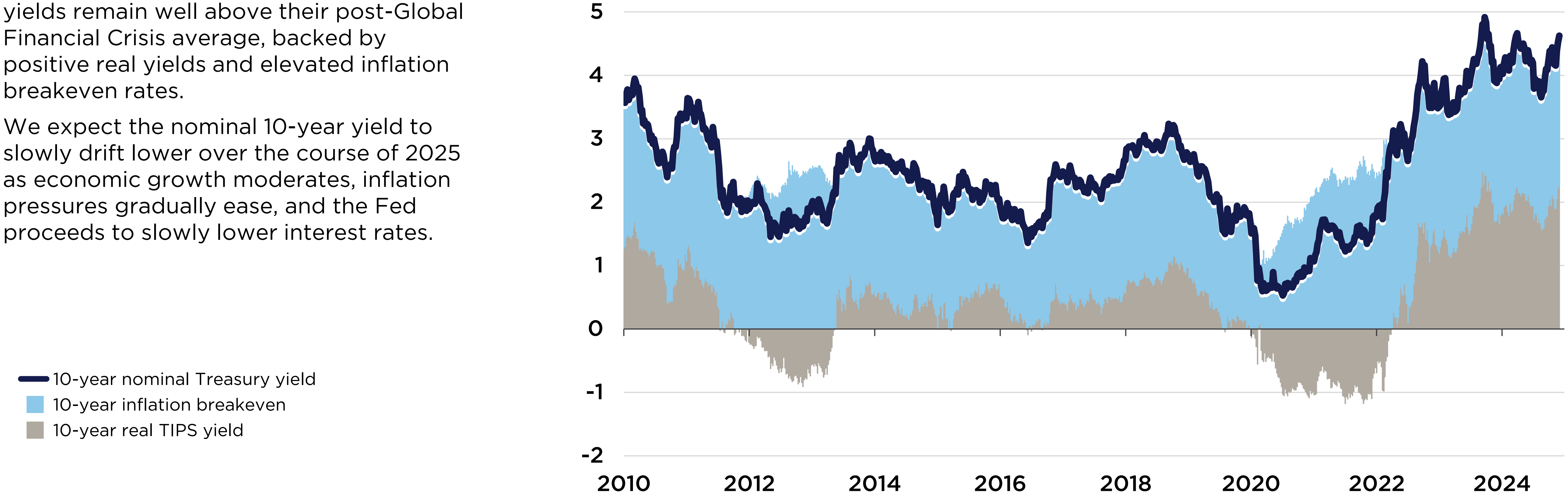
A buoyant economy keeps real rates elevated

Benchmark nominal 10-year U.S. Treasury yields remain well above their post-Global Financial Crisis average, backed by positive real yields and elevated inflation breakeven rates.

We expect the nominal 10-year yield to slowly drift lower over the course of 2025 as economic growth moderates, inflation pressures gradually ease, and the Fed proceeds to slowly lower interest rates.

Breakdown of the 10-year U.S. Treasury yield

Percent

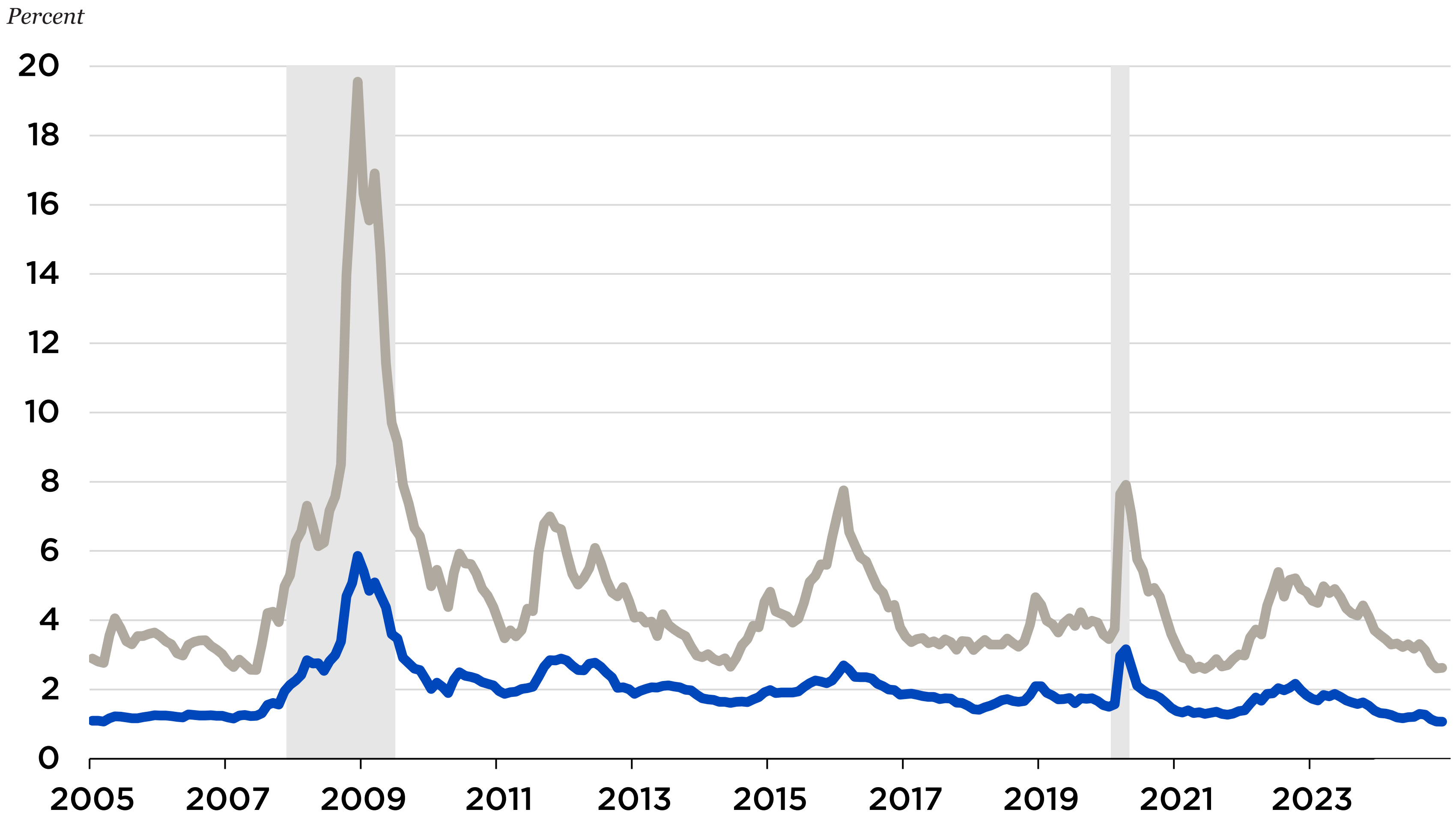


Source: Bloomberg, Nationwide Economics

Corporate bond spreads aren't flagging major worries

Investment- and high-yield corporate bond spreads remain tight amid continued economic growth, positive corporate earnings and solid balance sheets. Taken alongside equity gains, investors feel upbeat.

Investment-grade and high-yield option adjusted spreads



Source: Federal Reserve Board, ICE/Bank of America Merrill Lynch, Haver Analytics, Nationwide Economics

Which fixed-income asset classes gained and lost in 2024?

Investors maintained a healthy appetite for risk as activity stayed upbeat and recession worries faded. High yield outperformed other major asset classes last year. On the other end of the spectrum, Municipals and Treasuries underperformed.

Yearly changes by asset class

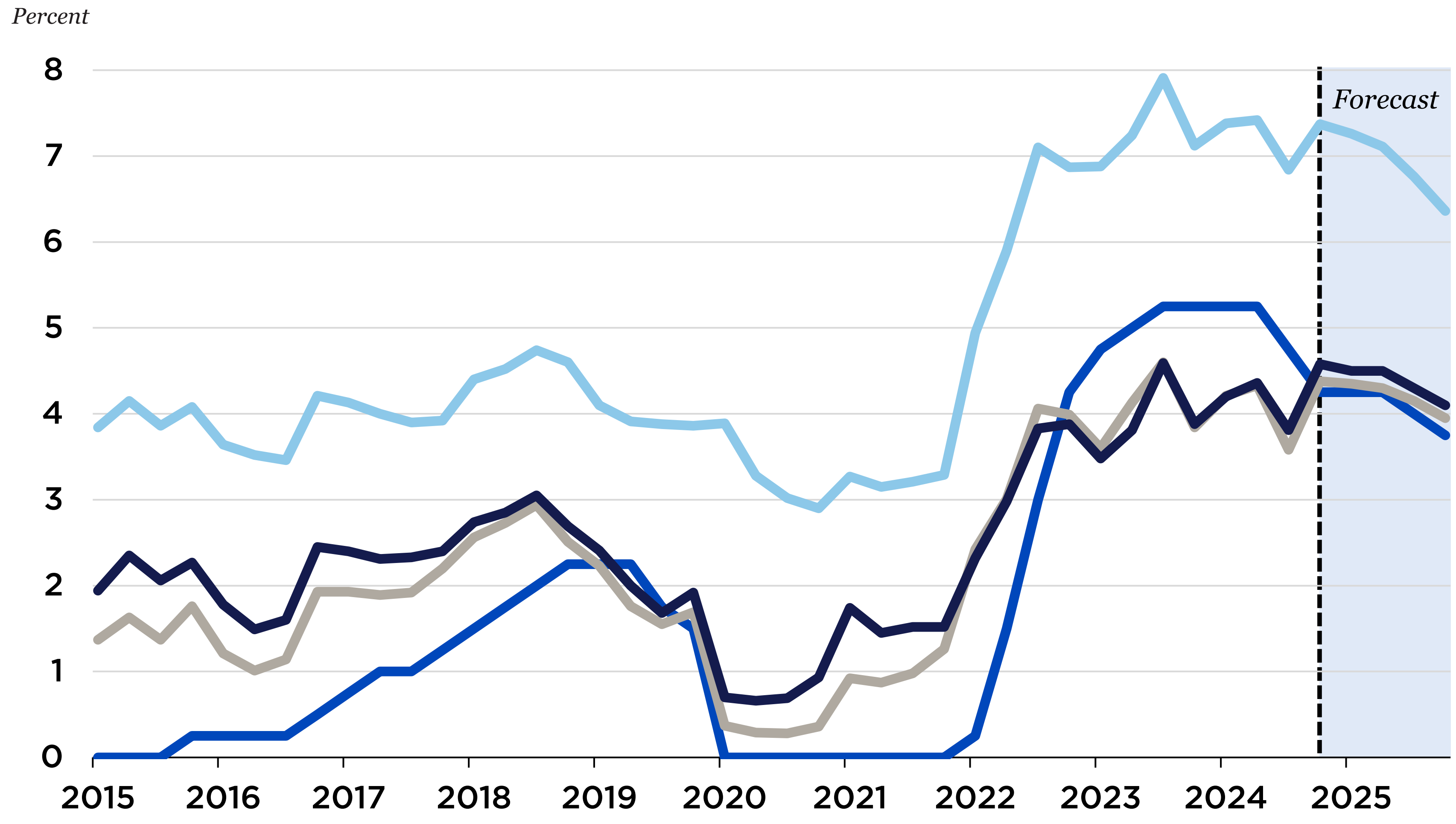
2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Municipals 3.3%	HY Corporate 17.1%	HY Corporate 7.5%	Agencies 1.3%	IG Corporate 14.5%	TIPS 11.2%	TIPS 6.1%	Agencies -7.9%	HY Corporate 13.4%	HY Corporate 8.2%
MBS 1.5%	IG Corporate 6.1%	IG Corporate 6.4%	Municipals 1.3%	HY Corporate 14.3%	Treasuries 10.6%	HY Corporate 5.3%	Municipals -8.5%	IG Corporate 8.5%	Agencies 3.2%
Agencies 1.0%	TIPS 4.8%	Municipals 5.4%	MBS 1.0%	Treasuries 8.9%	IG Corporate 9.9%	Municipals 1.5%	MBS -11.8%	Municipals 6.4%	IG Corporate 2.1%
Treasuries 0.9%	Bloomberg Agg 2.6%	Bloomberg Agg 3.5%	Bloomberg Agg 0.0%	TIPS 8.8%	Bloomberg Agg 7.5%	IG Corporate -1.0%	HY Corporate -11.9%	Bloomberg Agg 5.5%	TIPS 1.8%
Bloomberg Agg 0.5%	MBS 1.7%	TIPS 3.3%	Treasuries 0.0%	Bloomberg Agg 8.7%	HY Corporate 7.1%	MBS -1.0%	TIPS -12.6%	Agencies 5.1%	Bloomberg Agg 1.3%
IG Corporate -0.7%	Agencies 1.4%	MBS 2.5%	TIPS -1.5%	Municipals 7.5%	Agencies 5.5%	Agencies -1.3%	Bloomberg Agg -13.0%	MBS 5.0%	MBS 1.2%
TIPS -1.7%	Municipals 0.2%	Treasuries 2.1%	HY Corporate -2.1%	MBS 6.4%	Municipals 5.2%	Bloomberg Agg -1.5%	IG Corporate -15.8%	TIPS 3.8%	Municipals 1.1%
HY Corporate -4.5%	Treasuries -0.2%	Agencies 2.1%	IG Corporate -2.5%	Agencies 5.9%	MBS 3.9%	Treasuries -3.6%	Treasuries -16.3%	Treasuries 3.2%	Treasuries -1.7%

Note: IG corporate represents investment grade corporate debt; HY corporate represents high yield corporate debt
Source: Bloomberg, Nationwide Economics

Moderately lower borrowing costs are on the horizon

We expect short- and medium-term interest rates to gradually decline over the coming quarters as the economic expansion slows, inflation moderates, and the Federal Reserve loosens its policy stance. Mortgage rates should also move lower but won't approach levels we think could spur an acceleration in housing activity.

Nationwide Economics' interest rate forecasts



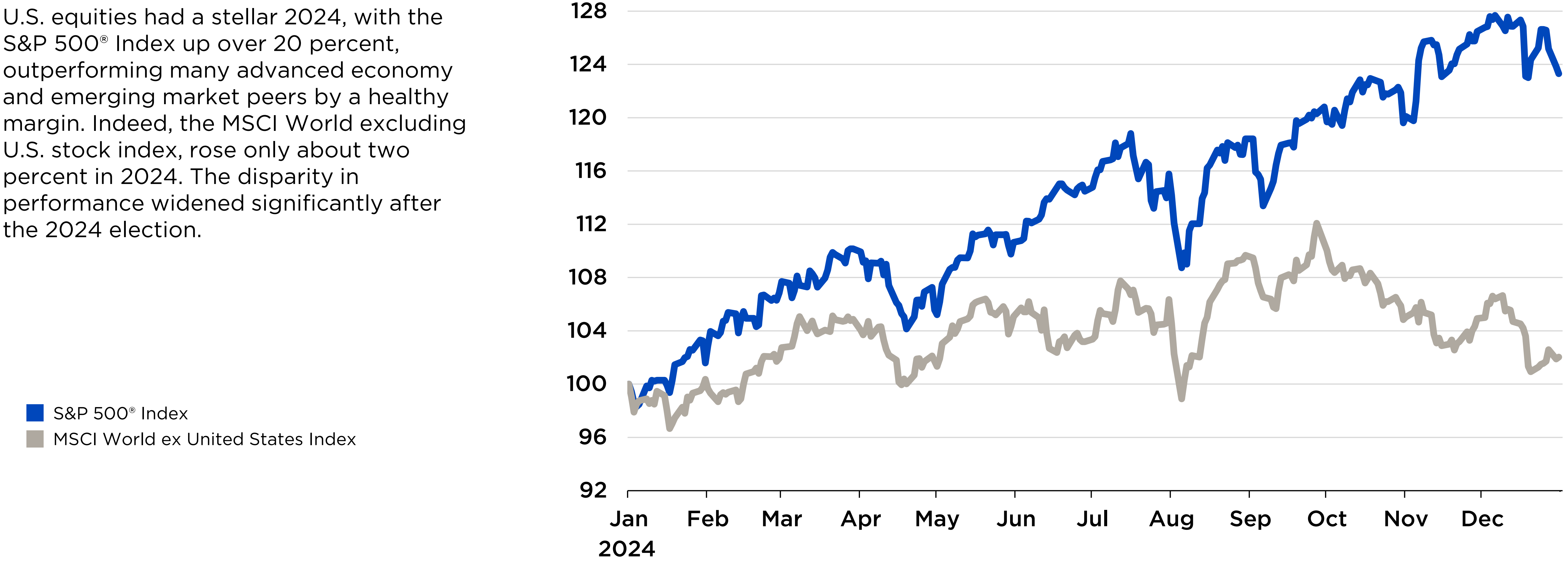
Note: September 2024 forecast vintage
Source: Haver Analytics, Nationwide Economics

U.S. exceptionalism shines through in the equity market

U.S. equities had a stellar 2024, with the S&P 500® Index up over 20 percent, outperforming many advanced economy and emerging market peers by a healthy margin. Indeed, the MSCI World excluding U.S. stock index, rose only about two percent in 2024. The disparity in performance widened significantly after the 2024 election.

Equity market performance: U.S. versus the rest of the world

Index; 9/2/2024 = 100



Source: Morgan Stanley Capital International, Standard & Poor's, Bloomberg, Nationwide Economics

Technology stands at the front of the equity pack

The S&P 500® Index reached fresh all-time highs in 2024 with technology stocks leading the charge. Optimism gradually spread beyond the Magnificent Seven as the year progressed.

We think the S&P 500 will stay on a rosy path in 2025, backed by healthy U.S. economic growth, a modest easing in interest rates and inflation pressures, and positive corporate earnings trends.

S&P 500® Index: Market cap versus equal-weighted

Index, 12/30/22 = 100

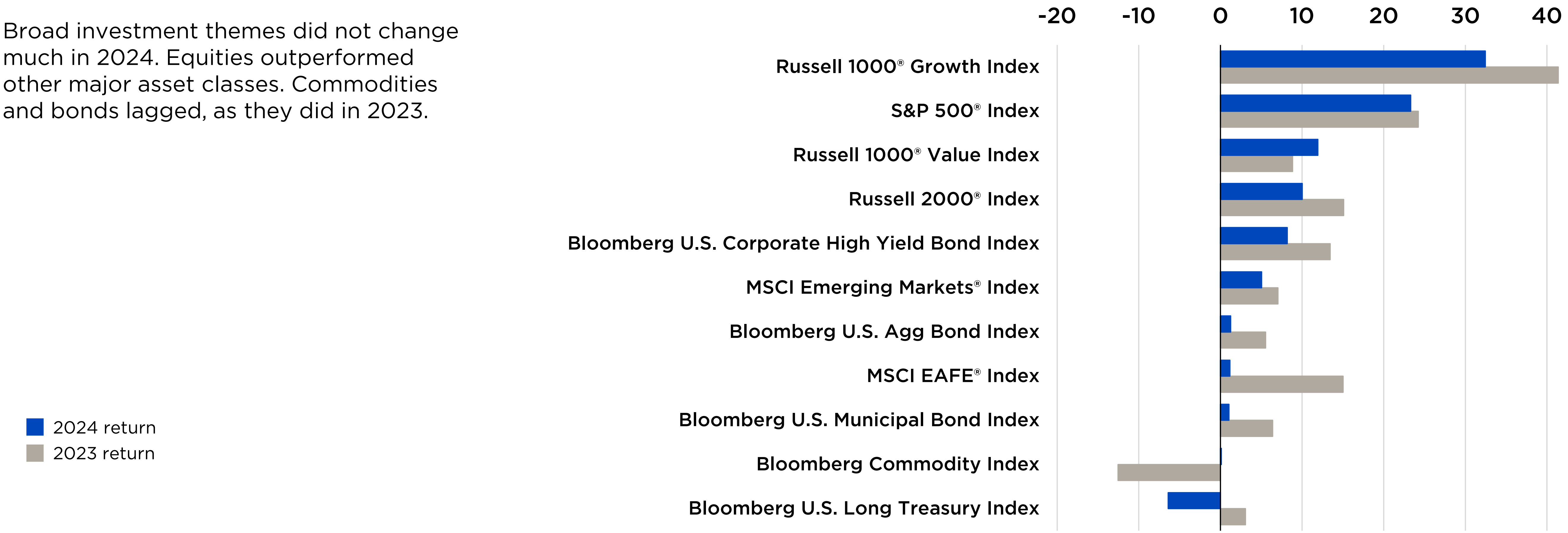
Note: The results shown represent past performance; past performance does not guarantee future results
Source: Bloomberg, Nationwide Economics

What worked in 2023 worked in 2024

Broad investment themes did not change much in 2024. Equities outperformed other major asset classes. Commodities and bonds lagged, as they did in 2023.

Annual equity returns

Percent



Note: The results shown represent past performance; past performance does not guarantee future results
Source: Bloomberg, Nationwide Economics

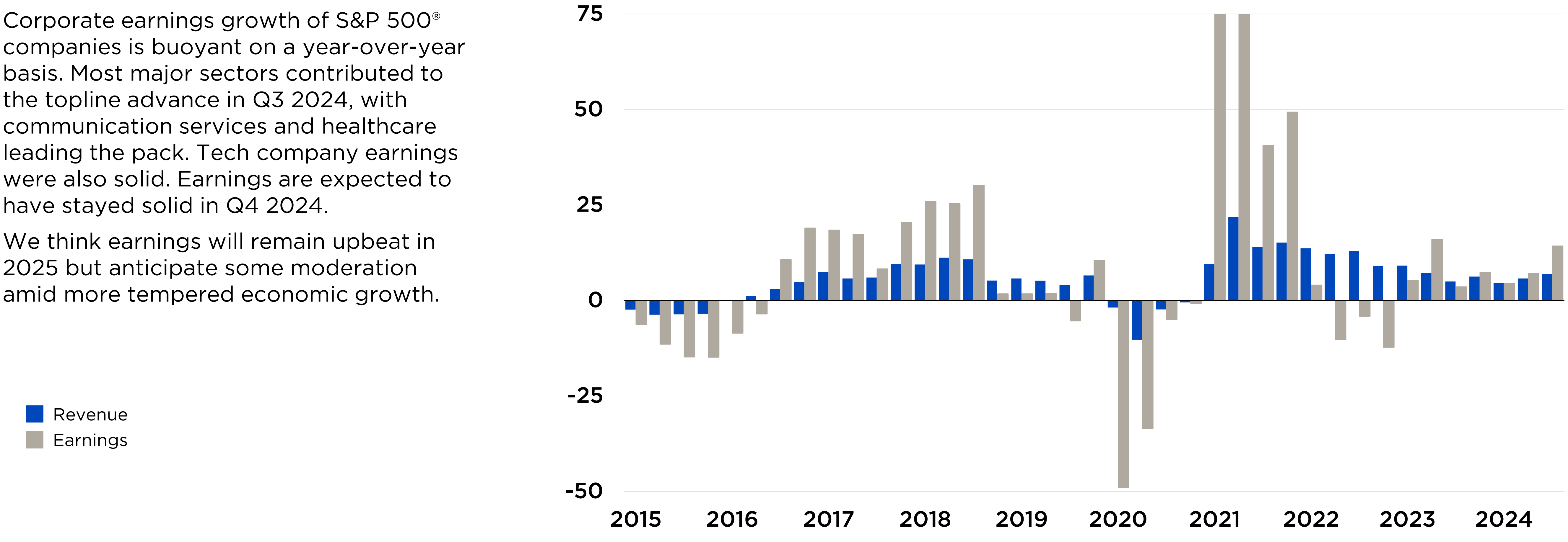
Positive revenue and earnings trends

Corporate earnings growth of S&P 500® companies is buoyant on a year-over-year basis. Most major sectors contributed to the topline advance in Q3 2024, with communication services and healthcare leading the pack. Tech company earnings were also solid. Earnings are expected to have stayed solid in Q4 2024.

We think earnings will remain upbeat in 2025 but anticipate some moderation amid more tempered economic growth.

S&P 500® Index: Revenue and earnings growth

Year-over-year percent change



Note: The results shown represent past performance; past performance does not guarantee future results
Source: Standard & Poor's, Nationwide Economics

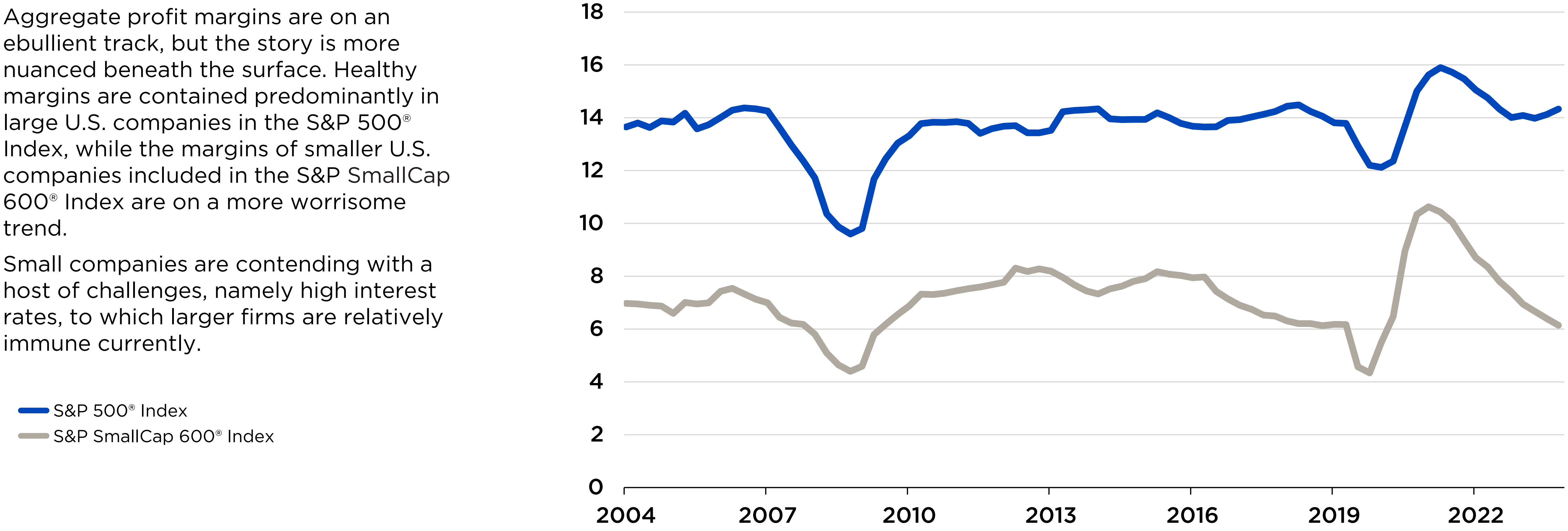
Widening gap between large and small company profits

Aggregate profit margins are on an ebullient track, but the story is more nuanced beneath the surface. Healthy margins are contained predominantly in large U.S. companies in the S&P 500® Index, while the margins of smaller U.S. companies included in the S&P SmallCap 600® Index are on a more worrisome trend.

Small companies are contending with a host of challenges, namely high interest rates, to which larger firms are relatively immune currently.

Operating margins

Percent of revenue



Source: FactSet, Nationwide Economics

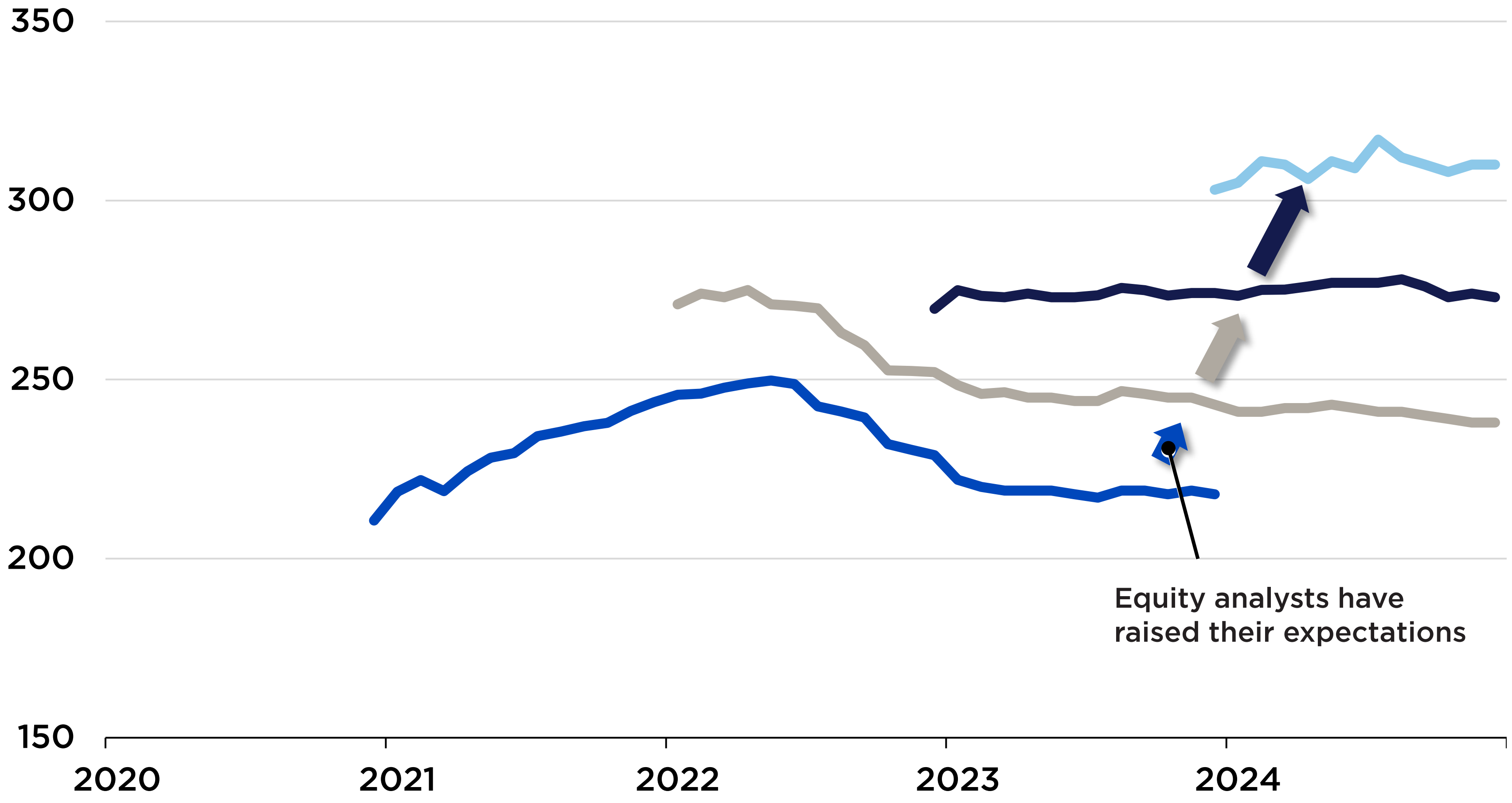
Bright earnings expectations amid some risks

Analysts' earnings expectations for 2025 and 2026 are positive, but pricing power is gently waning and there are lingering cost pressures. Further, businesses are mindful of elevated policy risks for 2025.

Corporations will monitor developments as they navigate a potentially fraught economic environment. Firms with foreign exposure look most at risk. About 40 percent of total revenue of companies in the S&P 500 is generated from overseas.

Earnings evolution: S&P 500® Index

Dollar earnings per share



2023
2024 estimate
2025 estimate
2026 estimate

Source: FactSet, Nationwide Economics

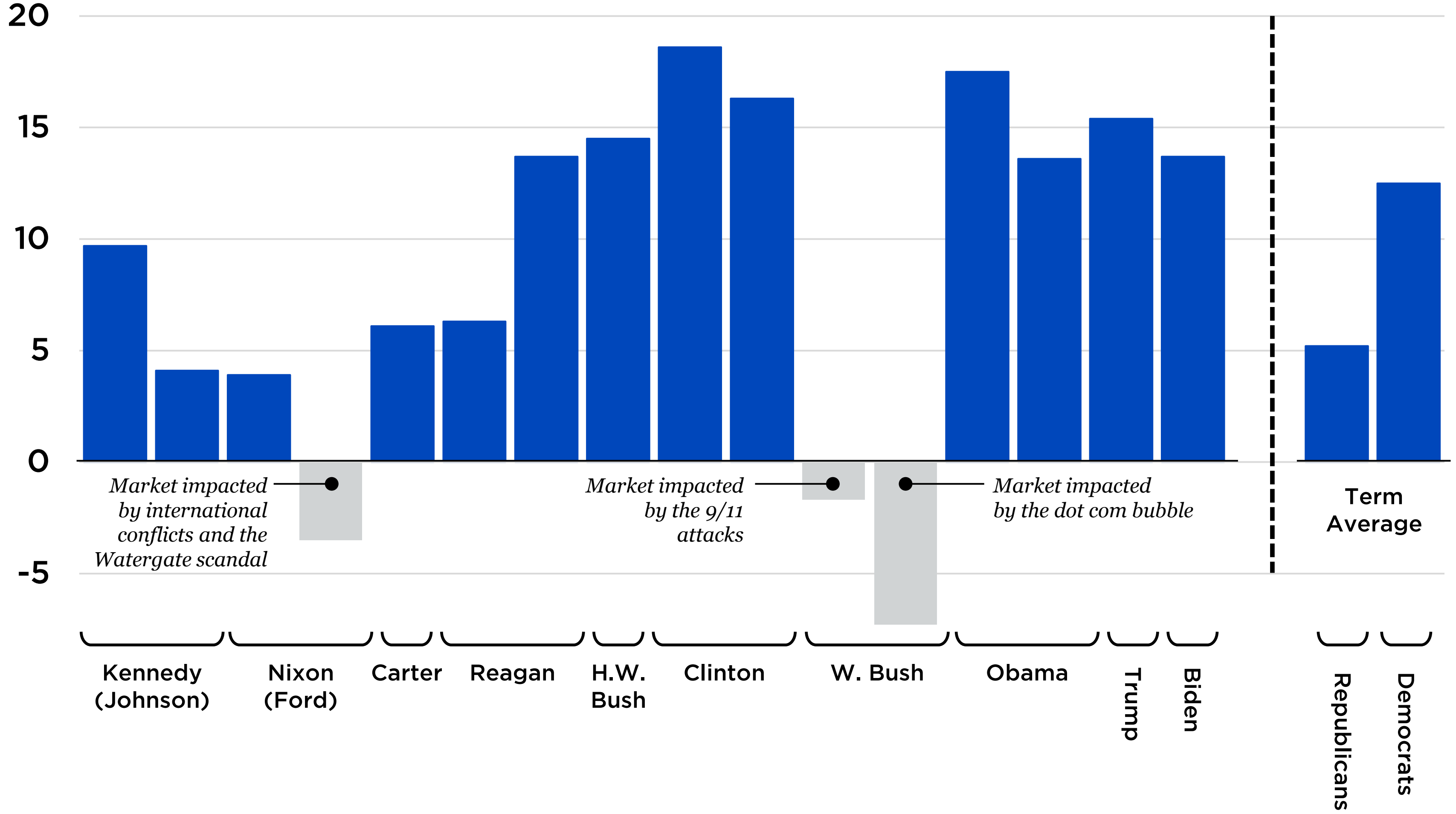
Equities rise no matter which party is in the White House

History shows equities tend to increase regardless of whether a Democrat or Republican is president. On average, the S&P 500 Index posts a five percent annualized gain when a Republican sits in the Oval Office.

Pervading optimism at the end of 2024 suggests we can expect gains over President Trump's second term.

S&P 500® Index return by presidential term

Four-year annualized total return, 1960 to July 2024



Source: Bloomberg, Plancorp, Nationwide Retirement Institute, Nationwide Economics

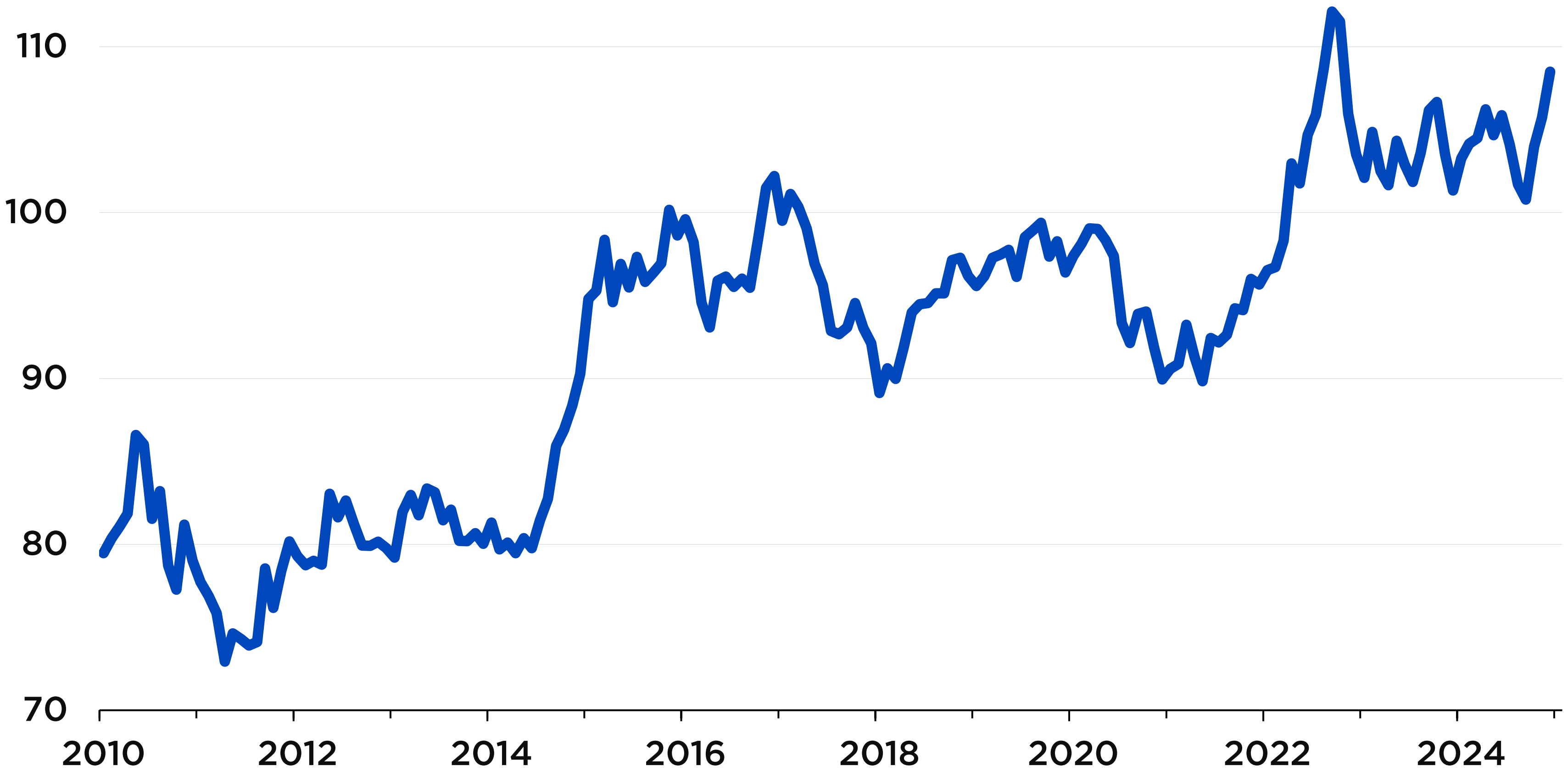
The dollar is poised to remain strong

While the incoming administration would like a weaker dollar, elevated geopolitical tensions and favorable interest rate and growth differentials will support the greenback.

The U.S. dollar's position as the world's reserve currency and its pivotal role in global financial markets will support the currency's coved status.

The trade-weighted U.S. dollar index

Index



Source: ICE, Bloomberg, Nationwide Economics

Headline data obscure commodity crosscurrents

The benchmark CRB commodity price index rose a relatively slim five percent in 2024. This masks some important undercurrents. Among the most notable, foodstuffs prices rose strongly last year while energy prices declined despite prevalent geopolitical risks.

CRB Spot commodity price index

Index; 1967 = 100

Source: Commodity Research Bureau, Haver Analytics, Nationwide Economics

U.S. Economy

Highlights

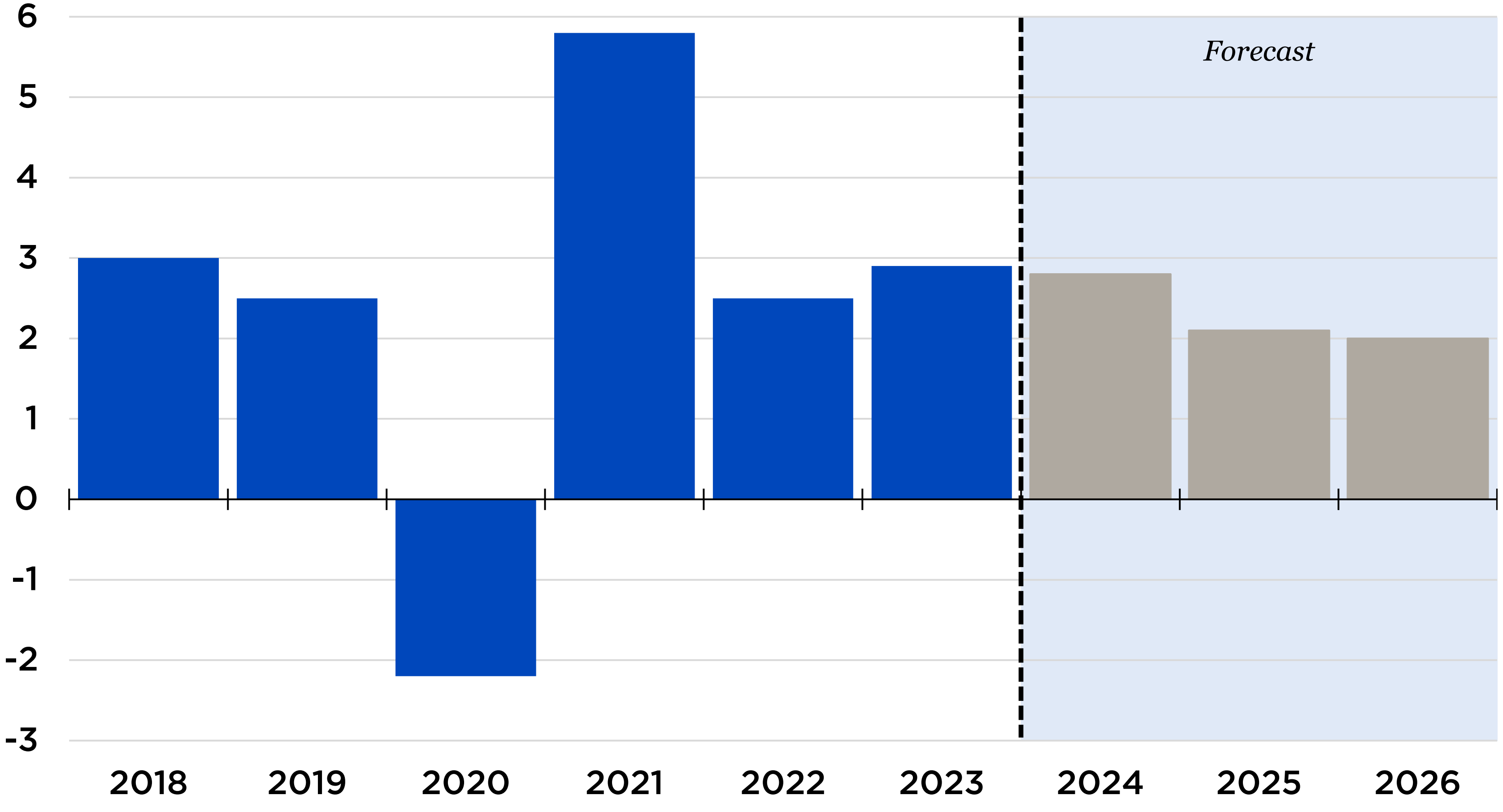
Economy will stay solid even as growth moderates

The economy was strong last year, and the year-end data signal a firm handoff to 2025.

We anticipate more tempered GDP advances this year as the expansion moderates. There are upside and downside risks to growth from potential changes to economic policy. Further, certain consumer segments flag downside risks.

GDP growth – historical and forecast

Percent, annual average



Source: Bureau of Economic Analysis, Haver Analytics, Nationwide Economics

Where are we in the business cycle?

The fundamental economic backdrop remains encouraging. We believe the economy is late-cycle and envision somewhat softer growth in early 2025. A recession looks unlikely in the near term.

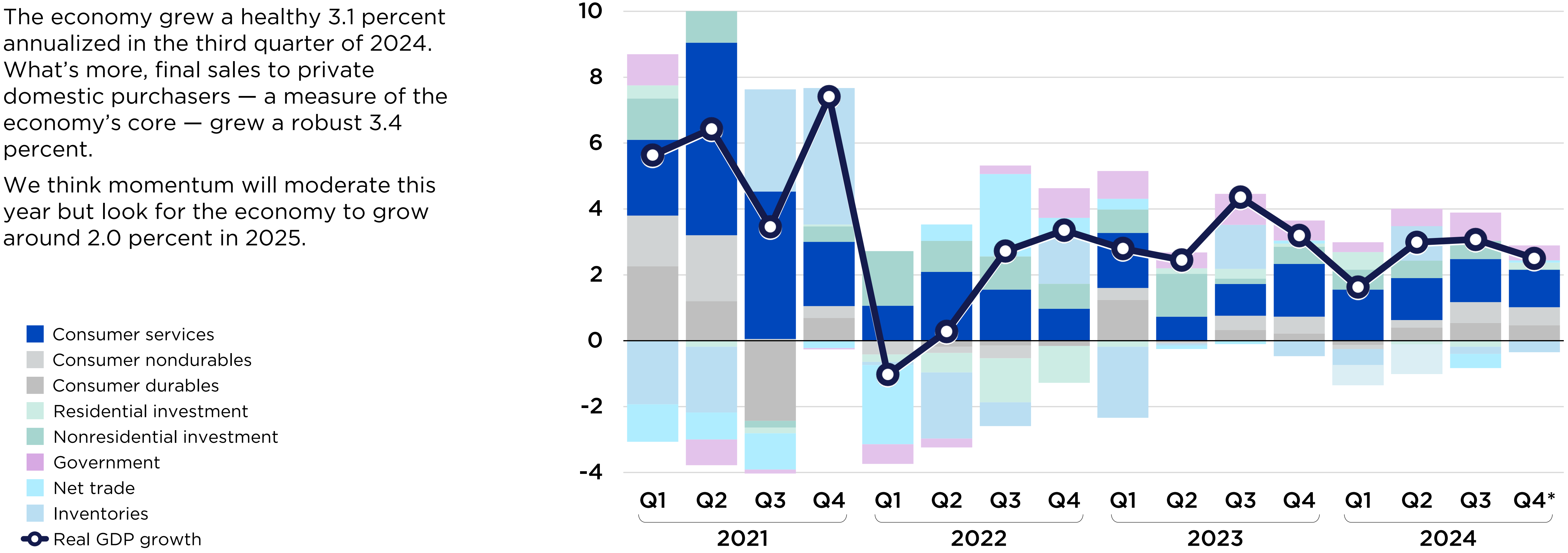
Economy continues to grow

The economy grew a healthy 3.1 percent annualized in the third quarter of 2024. What's more, final sales to private domestic purchasers — a measure of the economy's core — grew a robust 3.4 percent.

We think momentum will moderate this year but look for the economy to grow around 2.0 percent in 2025.

Contribution to real GDP growth

SAAR, percent



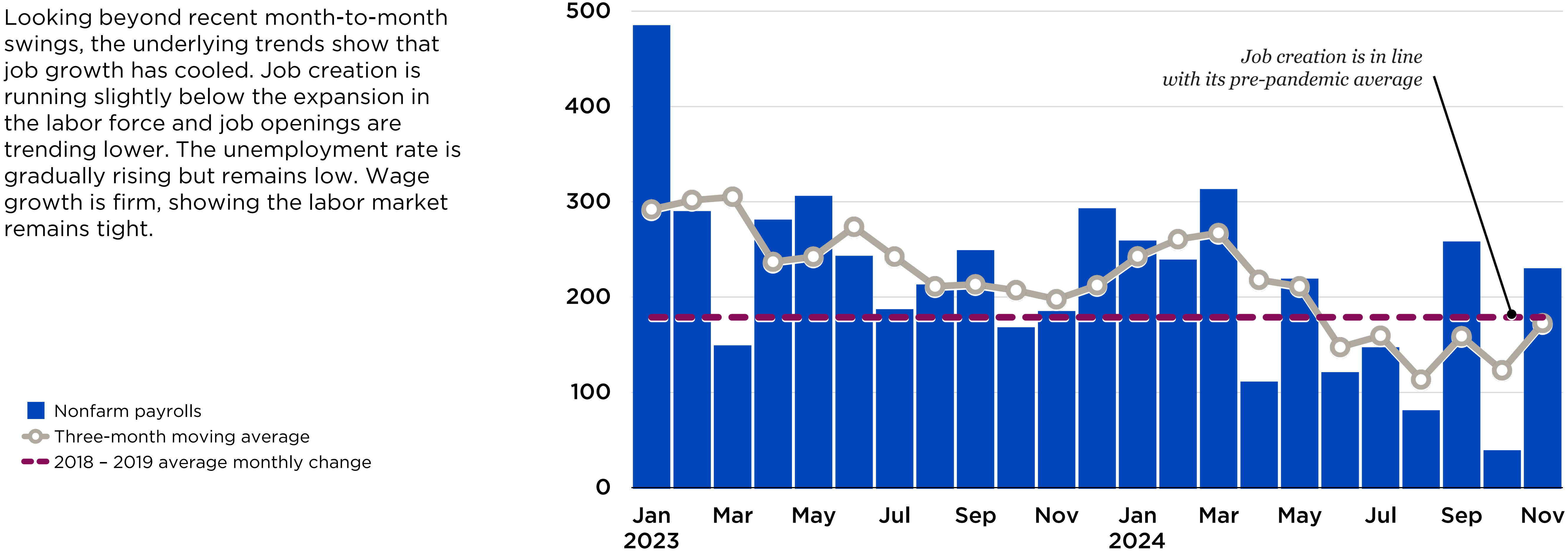
Note: *Represents Federal Reserve Bank of Atlanta's GDPNow estimate
Source: Bureau of Economic Analysis, Haver Analytics, Federal Reserve Bank of Atlanta, Nationwide Economics

A downshifting jobs machine

Looking beyond recent month-to-month swings, the underlying trends show that job growth has cooled. Job creation is running slightly below the expansion in the labor force and job openings are trending lower. The unemployment rate is gradually rising but remains low. Wage growth is firm, showing the labor market remains tight.

Nonfarm payrolls growth

Thousands



Source: Bureau of Labor Statistics, Haver Analytics, Nationwide Economics

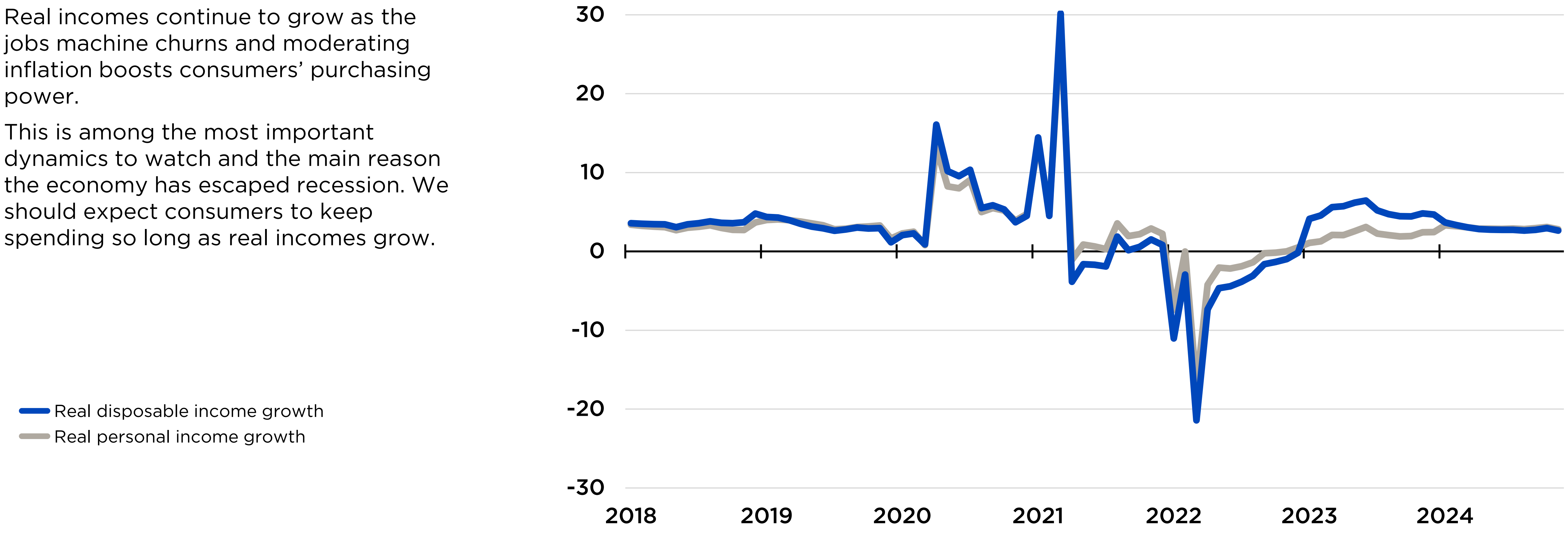
Real income growth underpins rising outlays

Real incomes continue to grow as the jobs machine churns and moderating inflation boosts consumers' purchasing power.

This is among the most important dynamics to watch and the main reason the economy has escaped recession. We should expect consumers to keep spending so long as real incomes grow.

Real income growth

Year-over-year percent change



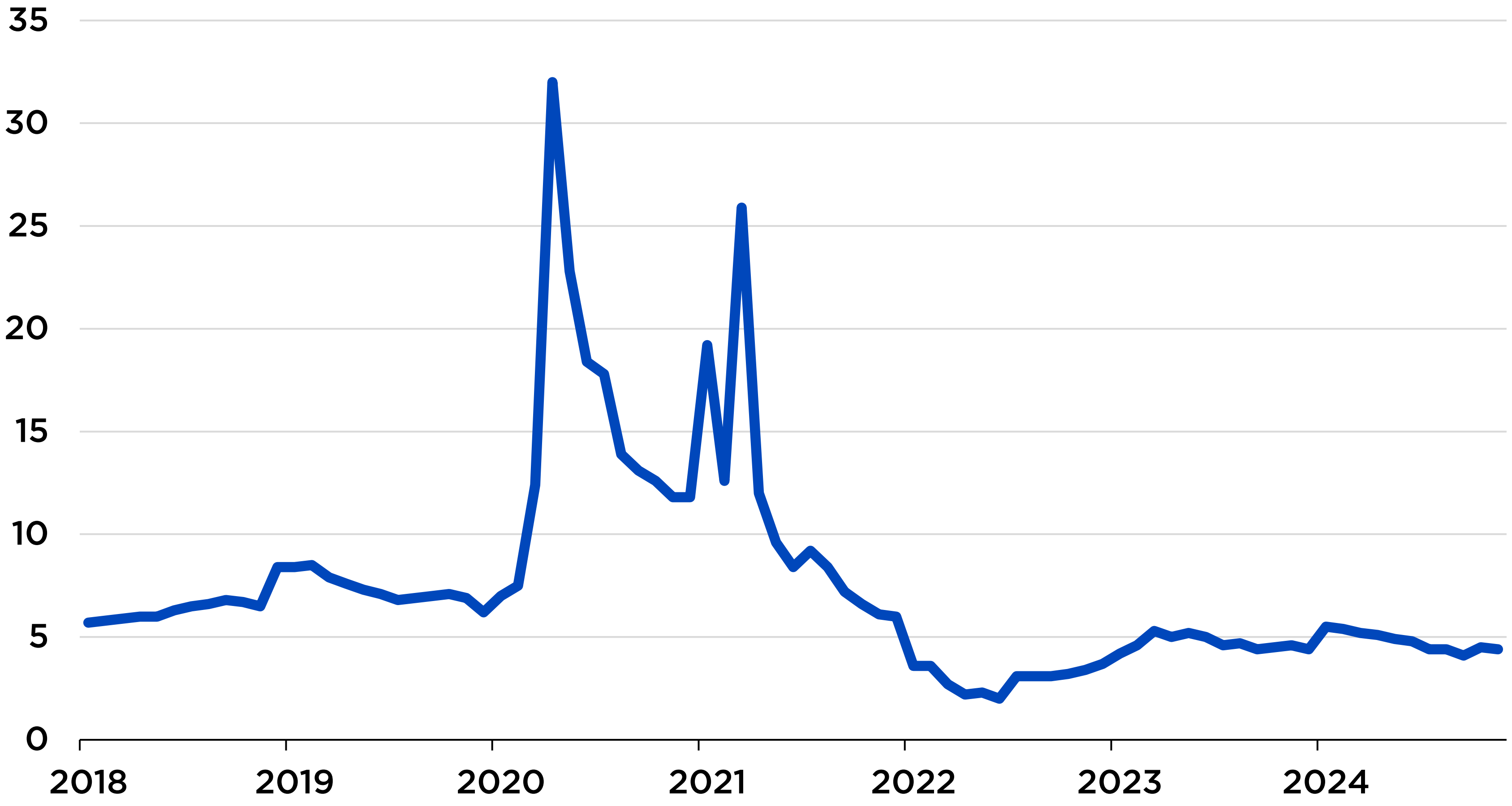
Source: Bureau of Economic Analysis, Haver Analytics, Nationwide Economics

Consumers tapped their savings in 2024

A gradual drawdown of savings supported consumer spending last year. Lingering savings cushions are currently held mainly among higher-income households. We do not believe the remaining buffers will offer the same fillip to consumer spending growth in 2025 as they did in 2024.

Personal savings rate

Percent of disposable personal income



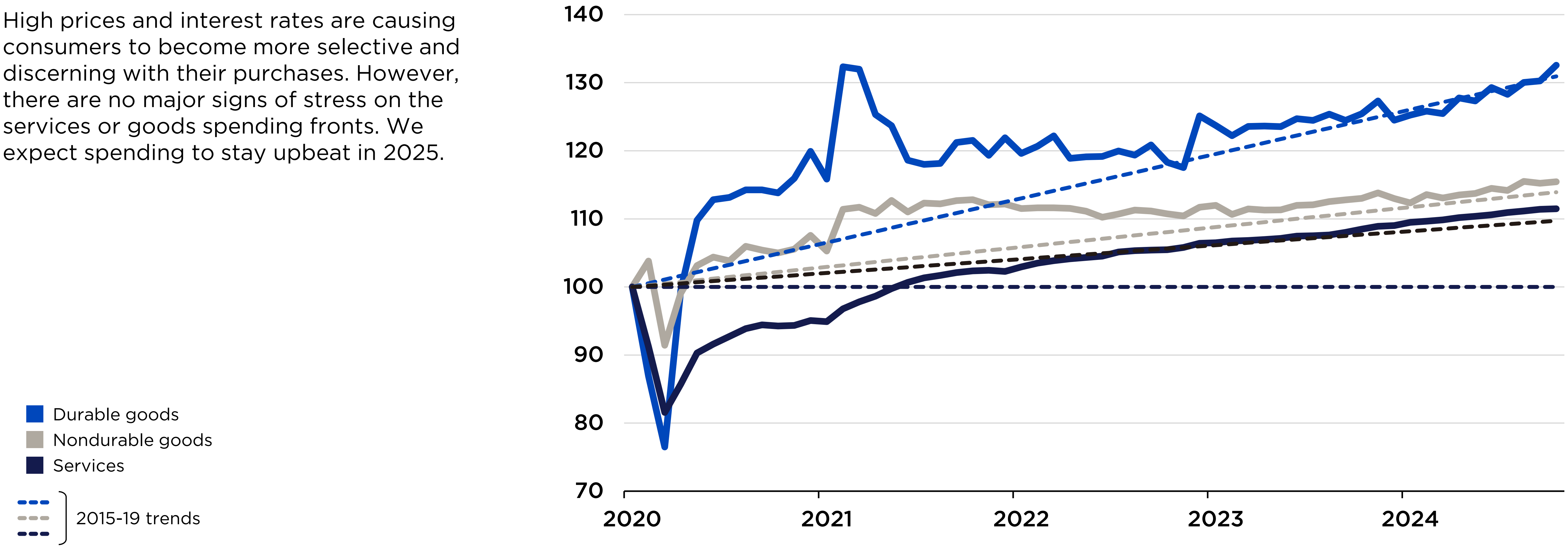
Source: Bureau of Economic Analysis, Haver Analytics, Nationwide Economics

Consumer spending is holding up

High prices and interest rates are causing consumers to become more selective and discerning with their purchases. However, there are no major signs of stress on the services or goods spending fronts. We expect spending to stay upbeat in 2025.

Real consumer spending

Index, Feb. 2020 = 100



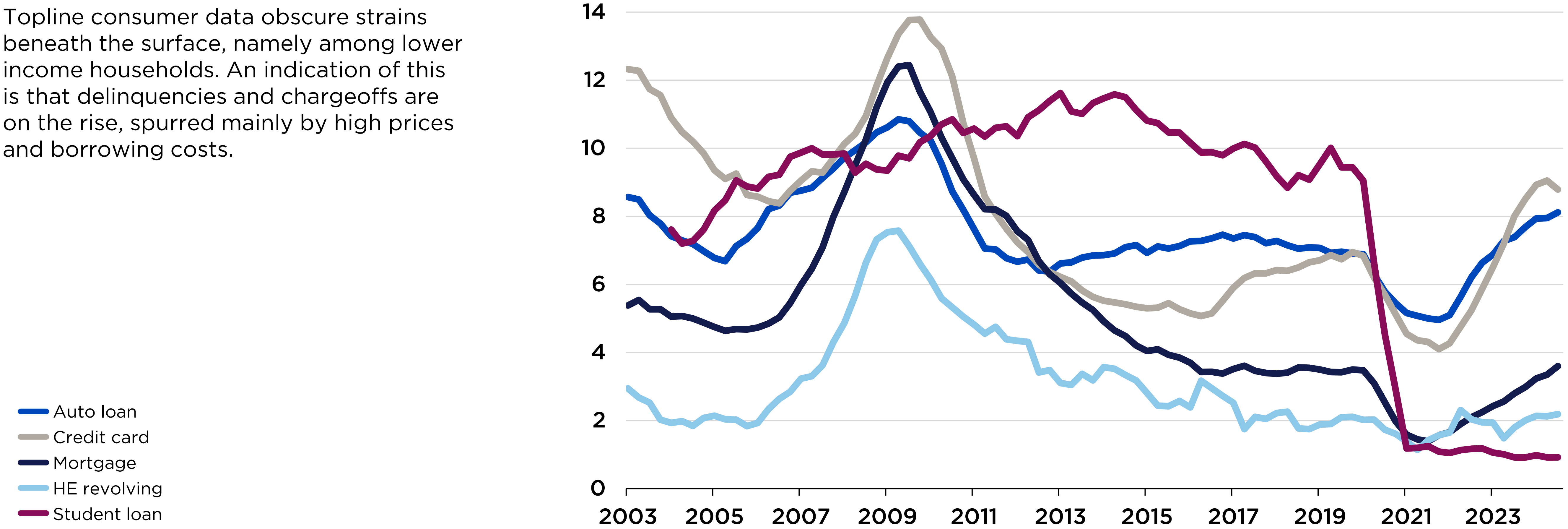
Source: Bureau of Economic Analysis, Haver Analytics, Nationwide Economics

Rising delinquencies warrant caution

Topline consumer data obscure strains beneath the surface, namely among lower income households. An indication of this is that delinquencies and chargeoffs are on the rise, spurred mainly by high prices and borrowing costs.

Transition into delinquency (30+) by loan type

Percent of balance



Source: New York Fed Consumer Credit Panel/Equifax

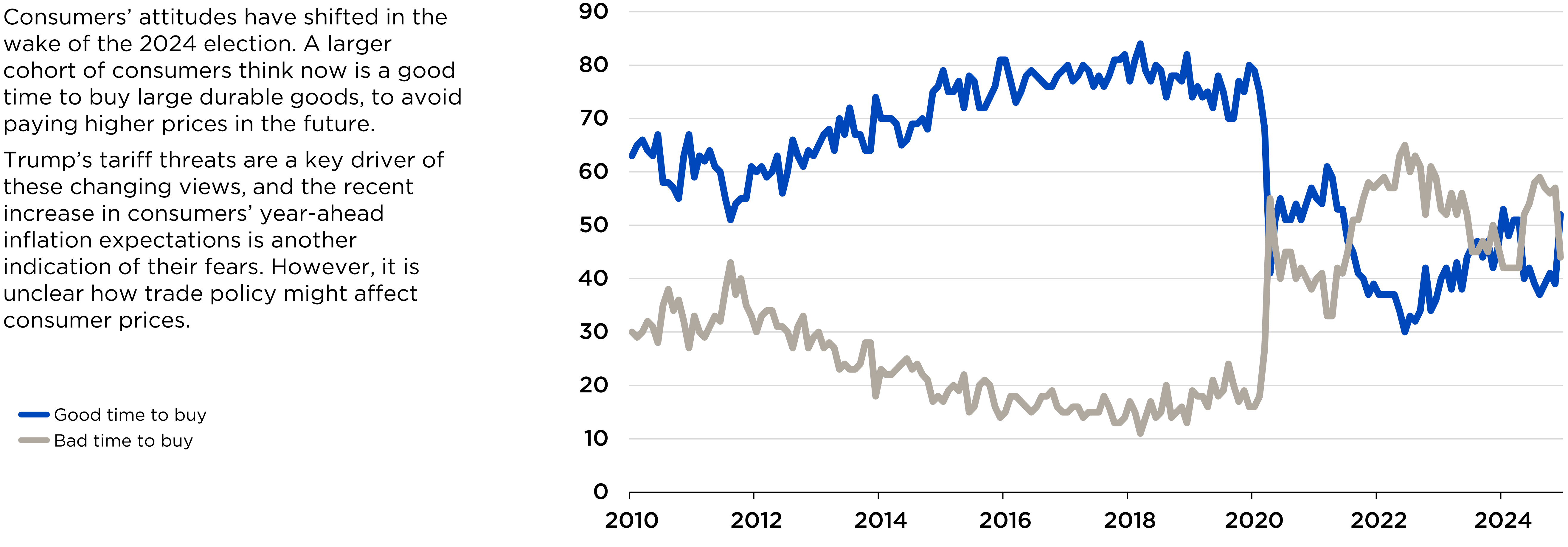
Some consumers fear higher prices

Consumers' attitudes have shifted in the wake of the 2024 election. A larger cohort of consumers think now is a good time to buy large durable goods, to avoid paying higher prices in the future.

Trump's tariff threats are a key driver of these changing views, and the recent increase in consumers' year-ahead inflation expectations is another indication of their fears. However, it is unclear how trade policy might affect consumer prices.

Buying conditions for large household durables

Percent of balance



Source: University of Michigan, Bloomberg, Nationwide Economics

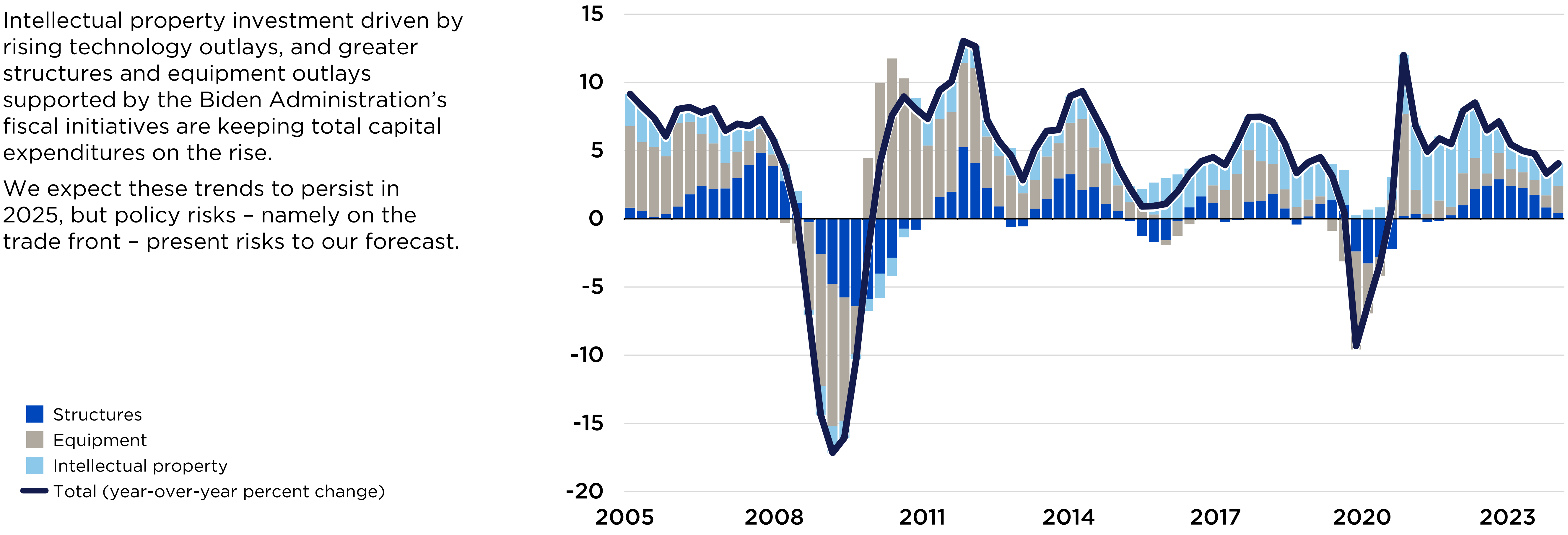
High tech investment is a key propellant of business investment

Intellectual property investment driven by rising technology outlays, and greater structures and equipment outlays supported by the Biden Administration's fiscal initiatives are keeping total capital expenditures on the rise.

We expect these trends to persist in 2025, but policy risks – namely on the trade front – present risks to our forecast.

Nonresidential fixed investment

Percentage point contribution to year-over-year growth



Source: Bureau of Economic Analysis, Haver Analytics, Nationwide Economics

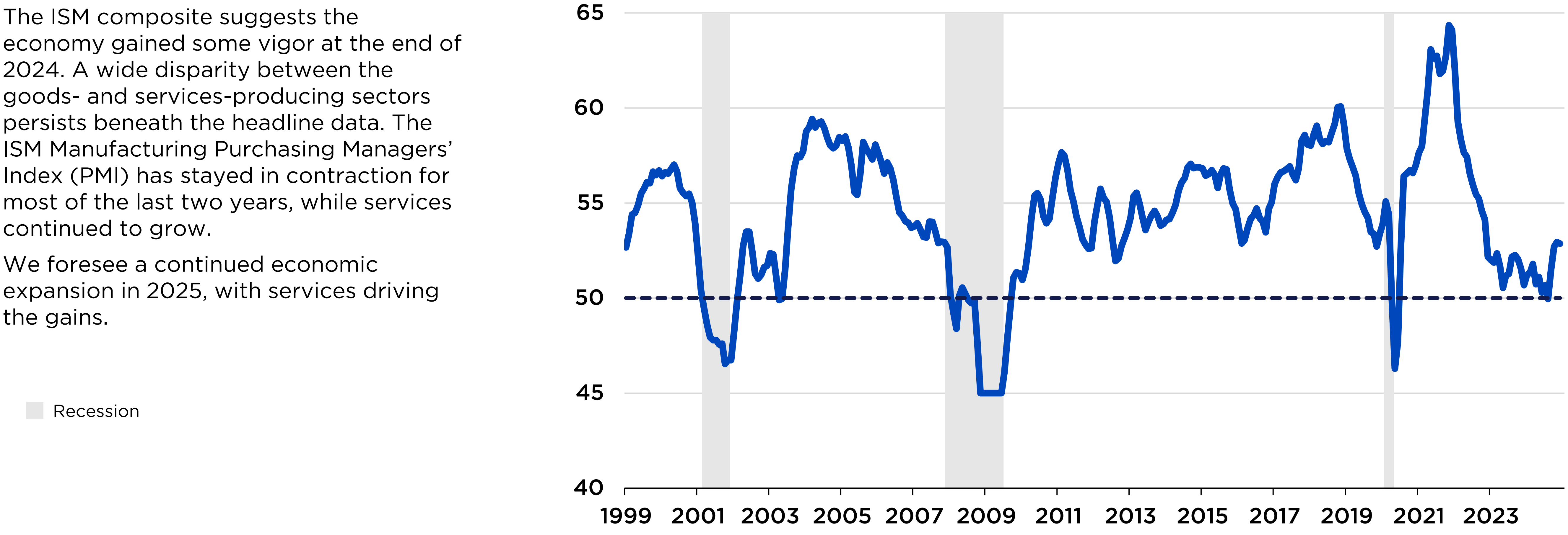
Services are the bedrock of the expanding U.S. economy

The ISM composite suggests the economy gained some vigor at the end of 2024. A wide disparity between the goods- and services-producing sectors persists beneath the headline data. The ISM Manufacturing Purchasing Managers' Index (PMI) has stayed in contraction for most of the last two years, while services continued to grow.

We foresee a continued economic expansion in 2025, with services driving the gains.

Economy-weighted ISM composite PMI

Index; > 50 = expansion; three-month moving average



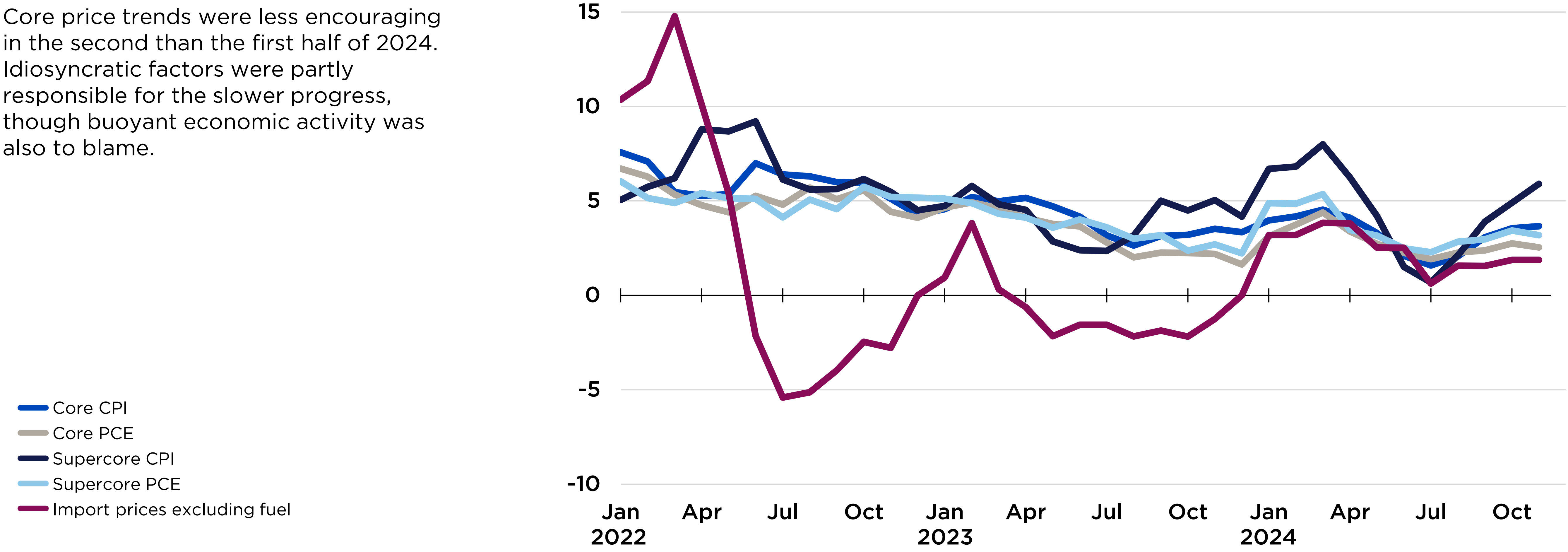
Source: Bureau of Economics Analysis, Institute for Supply Management, Haver Analytics, Nationwide Economics

Slower disinflation is a symptom of the economy's strength

Core price trends were less encouraging in the second than the first half of 2024. Idiosyncratic factors were partly responsible for the slower progress, though buoyant economic activity was also to blame.

Broad cooling in core inflation momentum

Three-month annualized growth rate

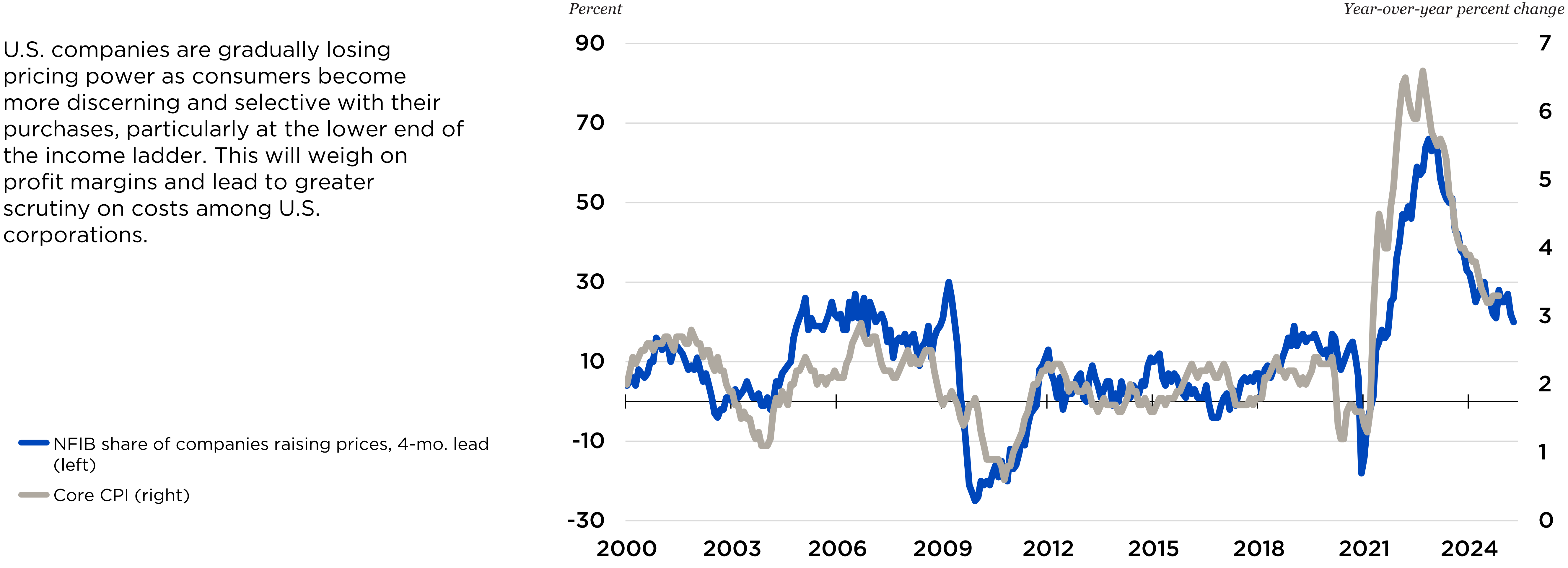


Source: Bureau of Labor Statistics, Haver Analytics, Nationwide Economics

Slowly diminishing pricing power

U.S. companies are gradually losing pricing power as consumers become more discerning and selective with their purchases, particularly at the lower end of the income ladder. This will weigh on profit margins and lead to greater scrutiny on costs among U.S. corporations.

Easing pricing power portends lower inflation



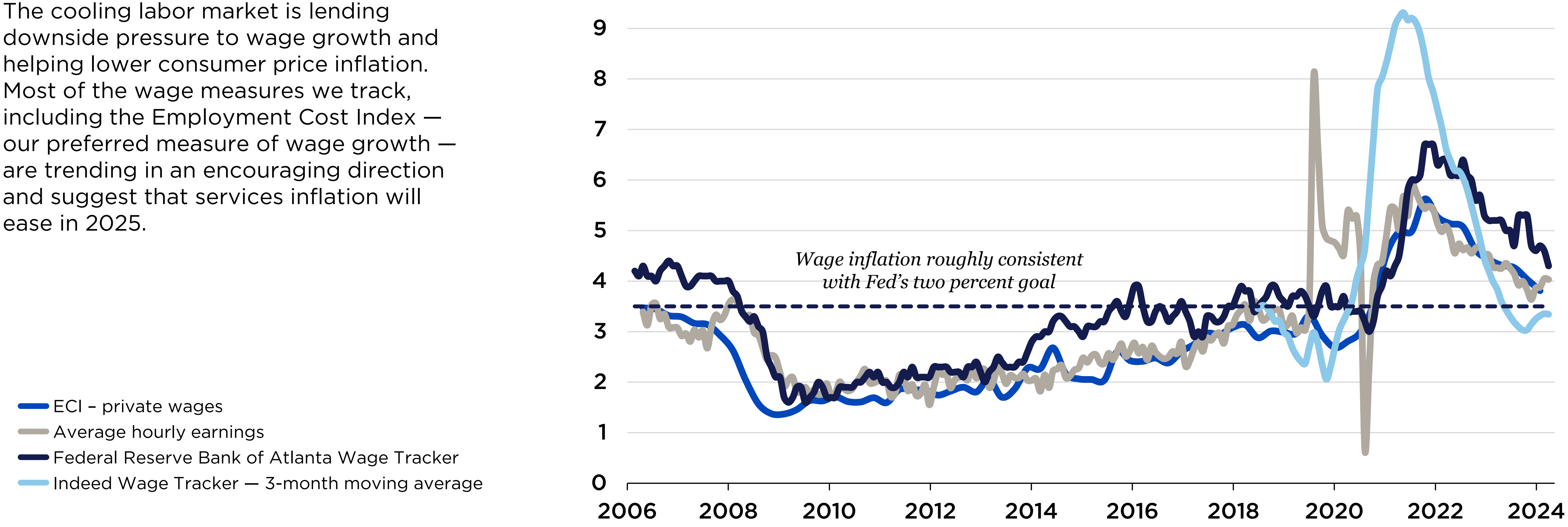
Source: National Federation of Independent Business, Bureau of Labor Statistics, Haver Analytics, Nationwide Economics

Gradually cooling wage growth

The cooling labor market is lending downside pressure to wage growth and helping lower consumer price inflation. Most of the wage measures we track, including the Employment Cost Index — our preferred measure of wage growth — are trending in an encouraging direction and suggest that services inflation will ease in 2025.

Wage inflation

Year-over-year percent change



Source: Federal Reserve Bank of Atlanta, Bureau of Labor Statistics, Haver Analytics, Nationwide Economics

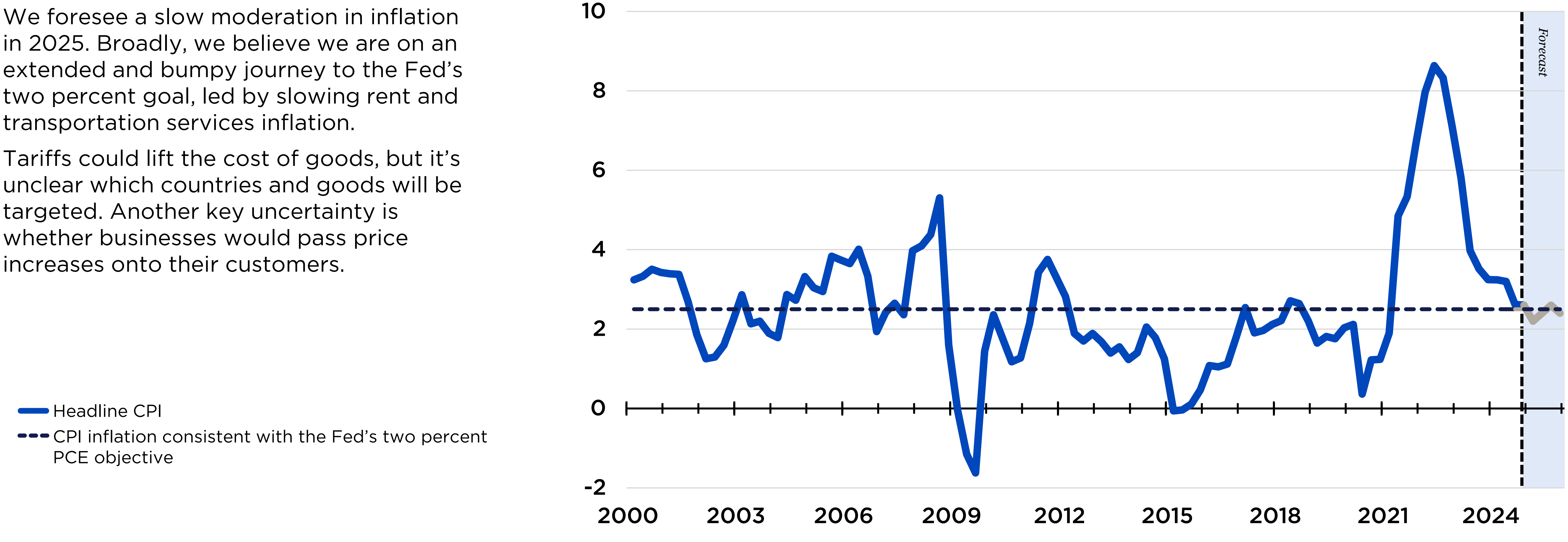
Inflation is on a long journey to two percent

We foresee a slow moderation in inflation in 2025. Broadly, we believe we are on an extended and bumpy journey to the Fed's two percent goal, led by slowing rent and transportation services inflation.

Tariffs could lift the cost of goods, but it's unclear which countries and goods will be targeted. Another key uncertainty is whether businesses would pass price increases onto their customers.

Headline CPI inflation

Year-over-year percent change



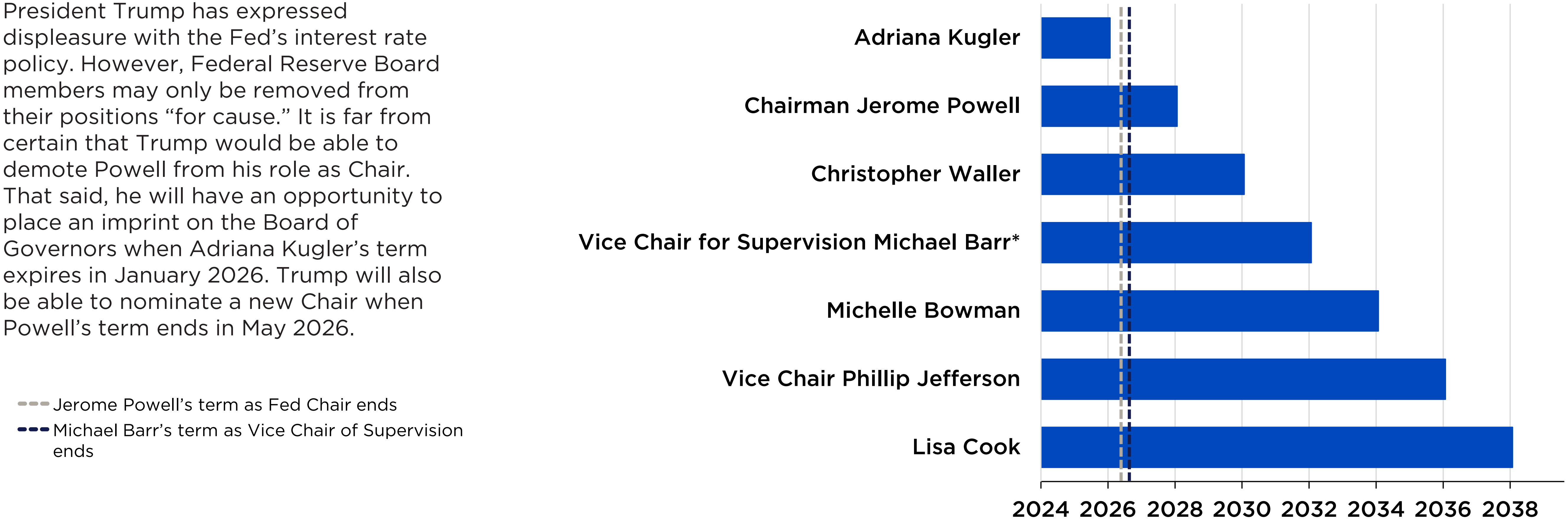
Source: Bureau of Labor Statistics, Haver Analytics, Nationwide Economics

Can the President reshape the Fed?

President Trump has expressed displeasure with the Fed's interest rate policy. However, Federal Reserve Board members may only be removed from their positions "for cause." It is far from certain that Trump would be able to demote Powell from his role as Chair. That said, he will have an opportunity to place an imprint on the Board of Governors when Adriana Kugler's term expires in January 2026. Trump will also be able to nominate a new Chair when Powell's term ends in May 2026.

Expiration of Federal Reserve Board Governors

Term in office (years)

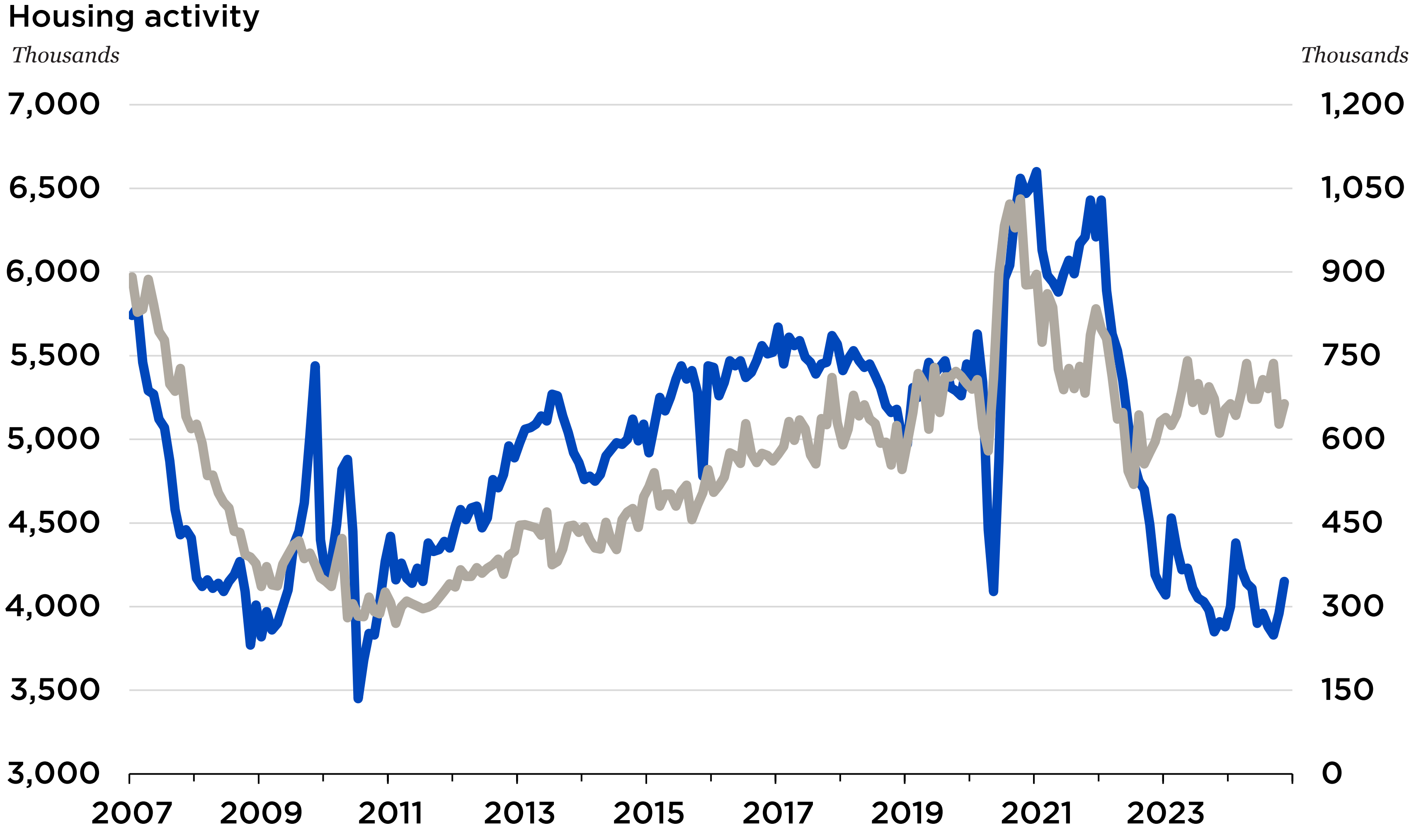


Note: Michael Barr has announced plans to resign as Vice Chair of Supervision in February 2025
Source: Federal Reserve, Nationwide Economics

The housing sector remains stuck in a low gear

High mortgage rates continue to pose strong headwinds for existing home sales. New home sales are a relative bright spot as lingering pent-up demand, lower price points, and financial incentives offered by builders are keeping a floor under sales.

Residential construction activity remains fairly lackluster. Potentially imminent changes to immigration policy lend downside risks to builder activity.



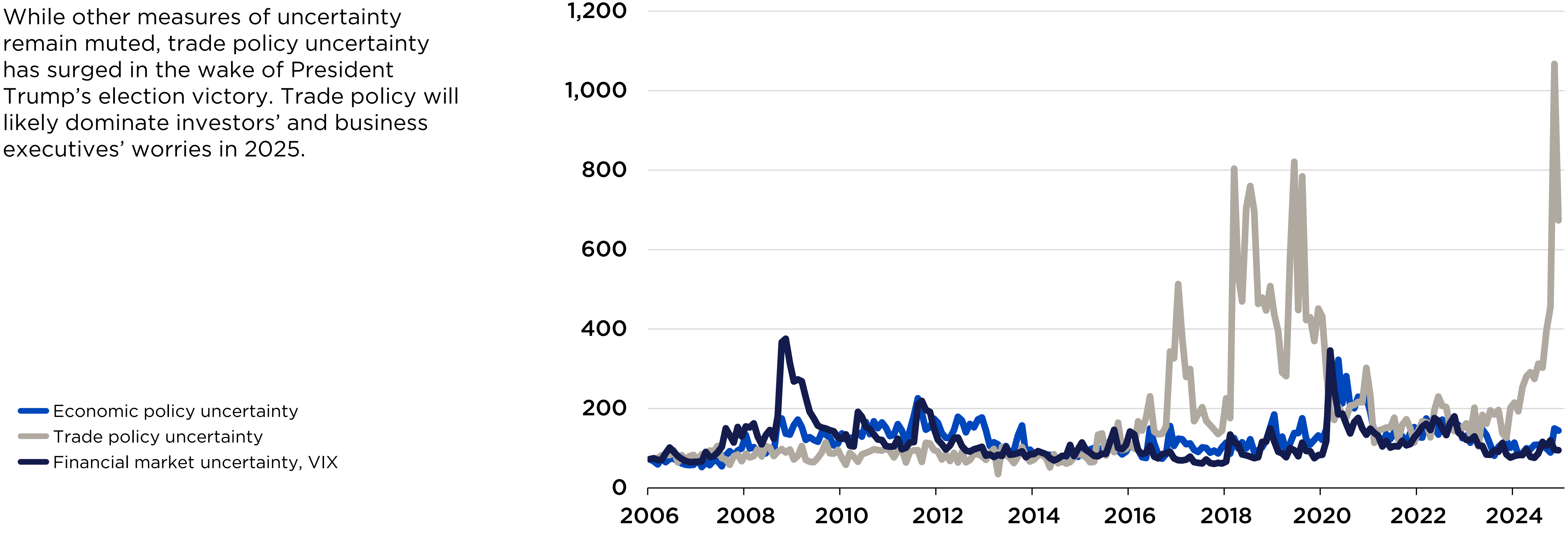
Source: National Association of Realtors, Haver Analytics, Nationwide Economics

Trade policy dominates investor and business worries

While other measures of uncertainty remain muted, trade policy uncertainty has surged in the wake of President Trump's election victory. Trade policy will likely dominate investors' and business executives' worries in 2025.

Uncertainty measures

Index; 2015=100



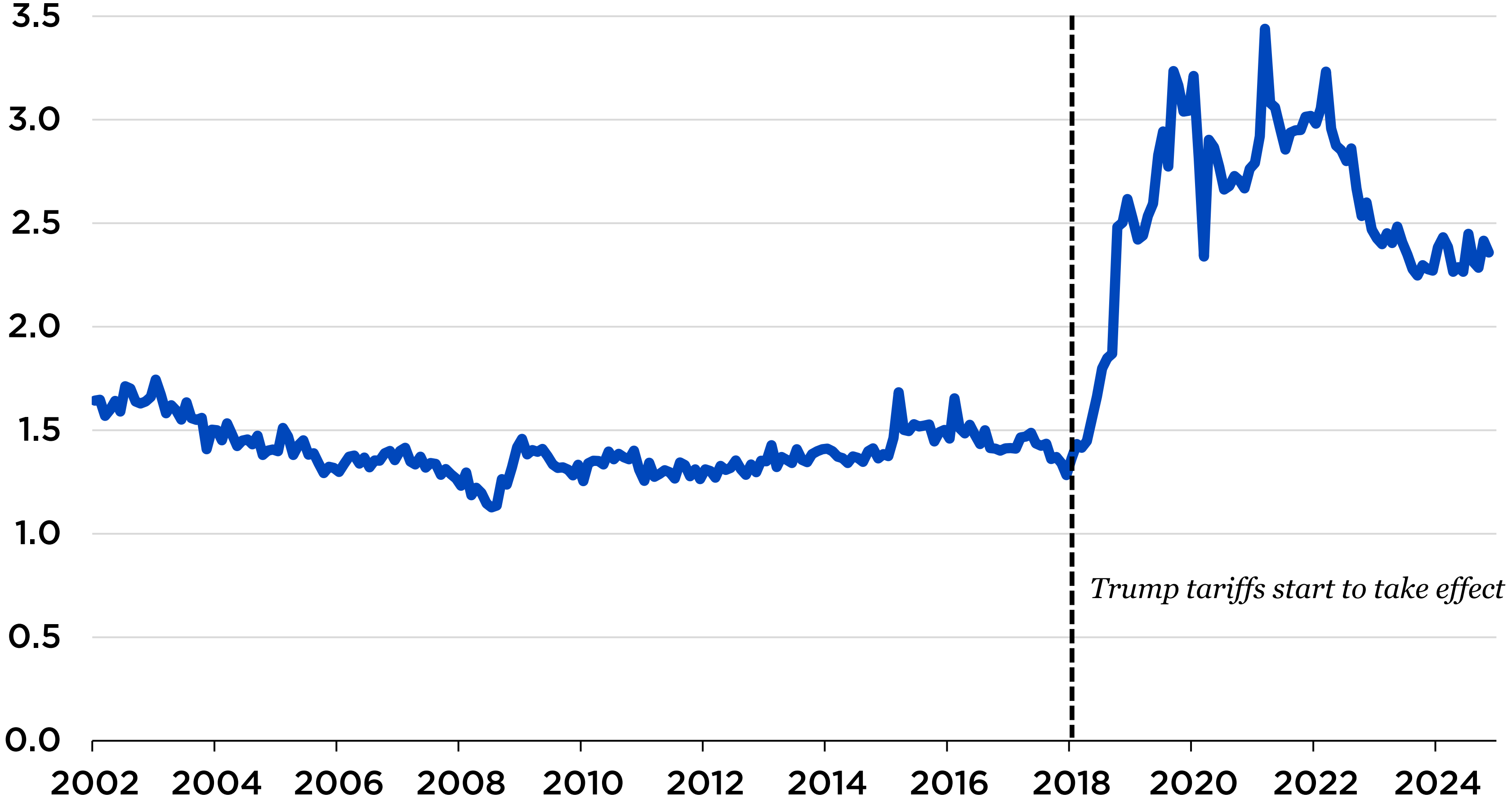
Source: PolicyUncertainty.com, Matteo Iacoviello, Haver Analytics, Nationwide Economics

Tariffs are likely to be deployed

President Trump looks poised to adopt a greater protectionist stance on the trade policy front. Tariffs will be a key component of the policy toolbox as the administration seeks to reduce trade deficits with foes and allies. The broader goal is to boost U.S. competitiveness and build a stronger domestic industrial sector.

Effective tariff rate

Percent



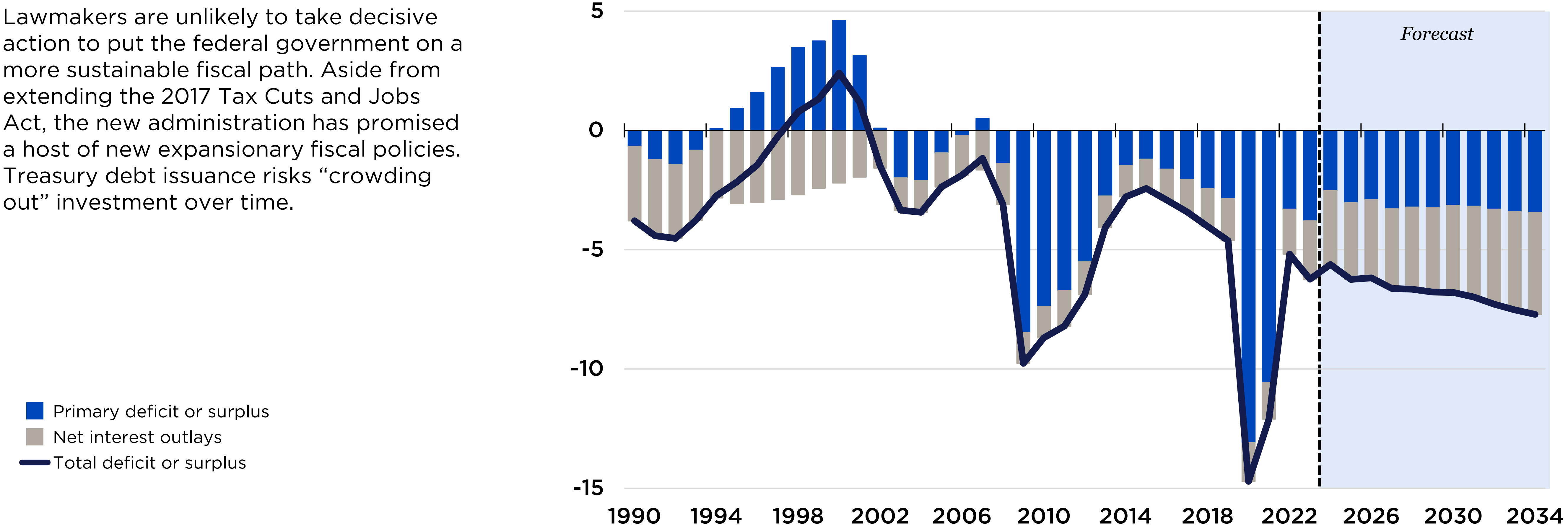
Source: Census Bureau, Haver Analytics, Nationwide Economics

No sign of belt tightening in Washington

Lawmakers are unlikely to take decisive action to put the federal government on a more sustainable fiscal path. Aside from extending the 2017 Tax Cuts and Jobs Act, the new administration has promised a host of new expansionary fiscal policies. Treasury debt issuance risks "crowding out" investment over time.

CBO forecast of federal government fiscal balance*

Percent of GDP



Note: Forecast assumes 2017 TCJA extension
Source: Congressional Budget Office, Nationwide Economics

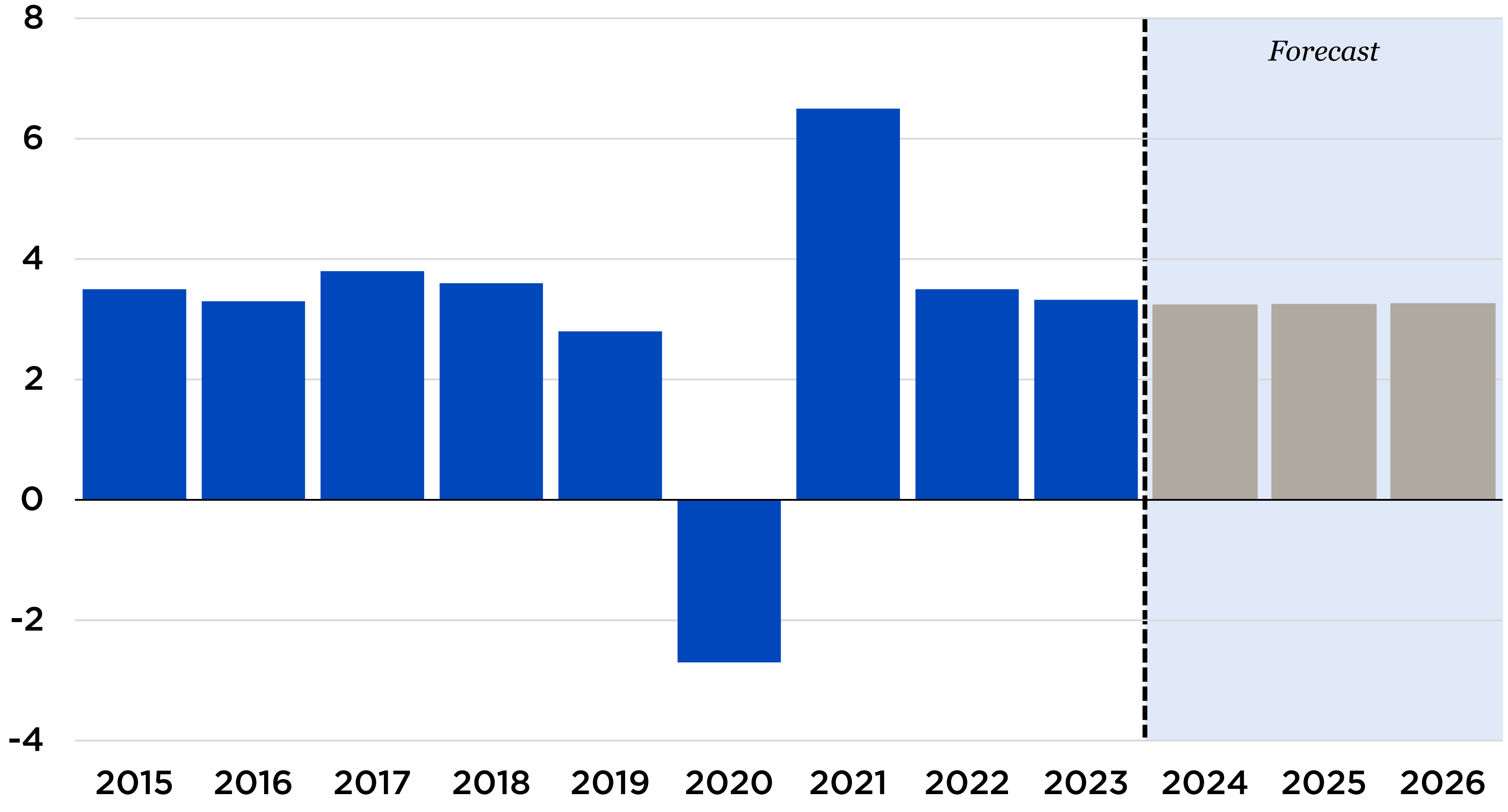
Lackluster global growth

Economic growth is likely to remain soft overseas. China is preparing fresh stimulus, but it's doubtful we'll see growth surge. What's more, policymakers will likely contend with greater challenges on the trade policy front. Europe will stay weak, with the malaise concentrated in the factory sector.

While the outlook is obscure, it is likely geopolitical risks will stay high.

Global GDP growth

Year-over-year percent change



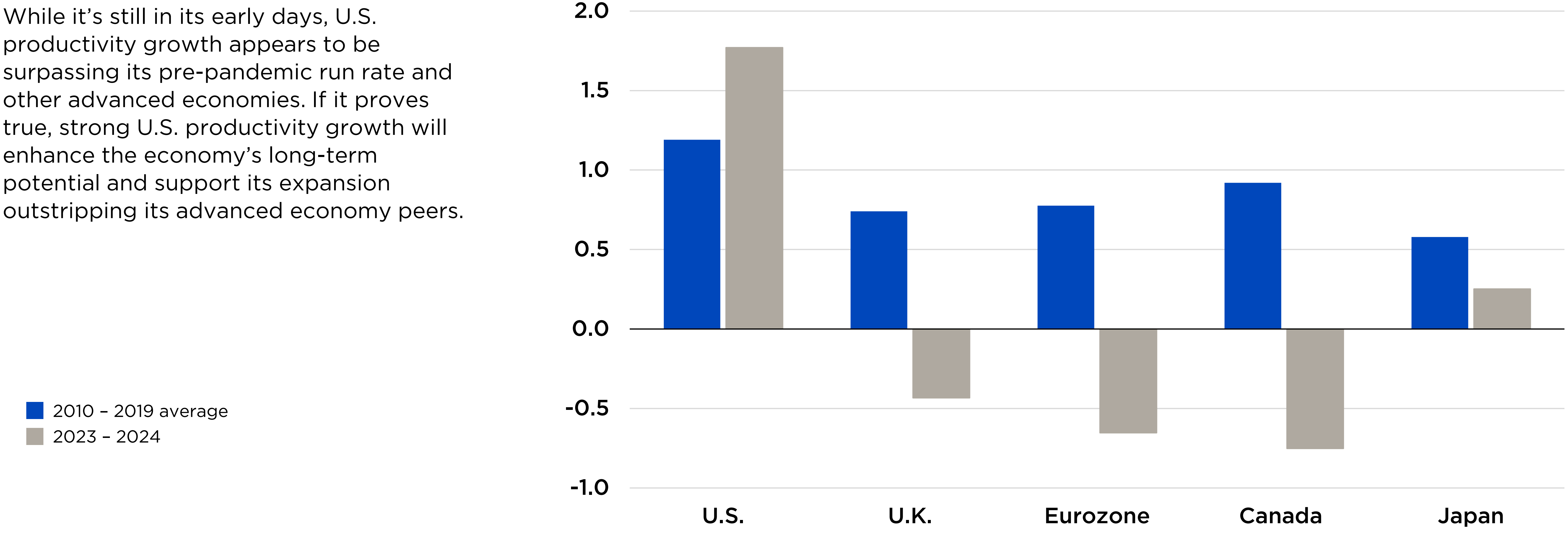
Note: Forecast includes Nationwide Economics' latest U.S. projections
Source: International Monetary Fund July 2024 World Economic Outlook, Nationwide Economics

U.S. productivity growth outshines its peers

While it's still in its early days, U.S. productivity growth appears to be surpassing its pre-pandemic run rate and other advanced economies. If it proves true, strong U.S. productivity growth will enhance the economy's long-term potential and support its expansion outstripping its advanced economy peers.

Productivity growth

Year-over-year percent change



Note: Output per person

Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Office for National Statistics, Statistics Canada, Cabinet Office/Ministry of Health, Labour & Welfare, European Central Bank, Haver Analytics, Nationwide Economics

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S&P 500® Equal Weight Index (EWI): The equal-weight version of the widely-used S&P 500 Index that includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

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