3rd Quarter 2026

Data as of July 30, 2026

Nationwide Market Insights℠

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

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Nationwide Market Insights℠

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When you work with Nationwide, you not only get tools and resources from Nationwide Economics, but also the strength and stability of a Fortune 100 company standing behind the wide range of financial products we offer — from mutual funds and annuities to life insurance and retirement plans.

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Executive Summary

Benchmark equity indices have lost upward momentum recently as investors digest fast moving Iran headlines as well as volatility in technology stocks and Fed policy news. On the fixed income front, short-end yields have climbed as investors see risks of tighter Fed policy while buoyant inflation and growth expectations are keeping long-term Treasury yields elevated. We anticipate buoyant corporate earnings and economic growth will keep stock prices trending higher and interest rates elevated.

The economy entered the second half of 2026 with building momentum from a firming labor market and a resilient consumer sector. Renewed hostilities in the Middle East have sent oil prices higher again, which could present more of a headwind to growth and inflation than we were anticipating. However, our base case is that economic growth will likely remain solid.

The Federal Reserve, with a new Chair at the helm, is now striking a hawkish tone amid concerns about elevated inflation. Our baseline forecast expects the federal funds rate to remain steady for the rest of the year, assuming inflation eases going forward. However, we see risks that the solid labor market and elevated inflation could lead the Fed to hike before year end.

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Financial Markets

Highlights

Fed remains on hold and reiterates its inflation target

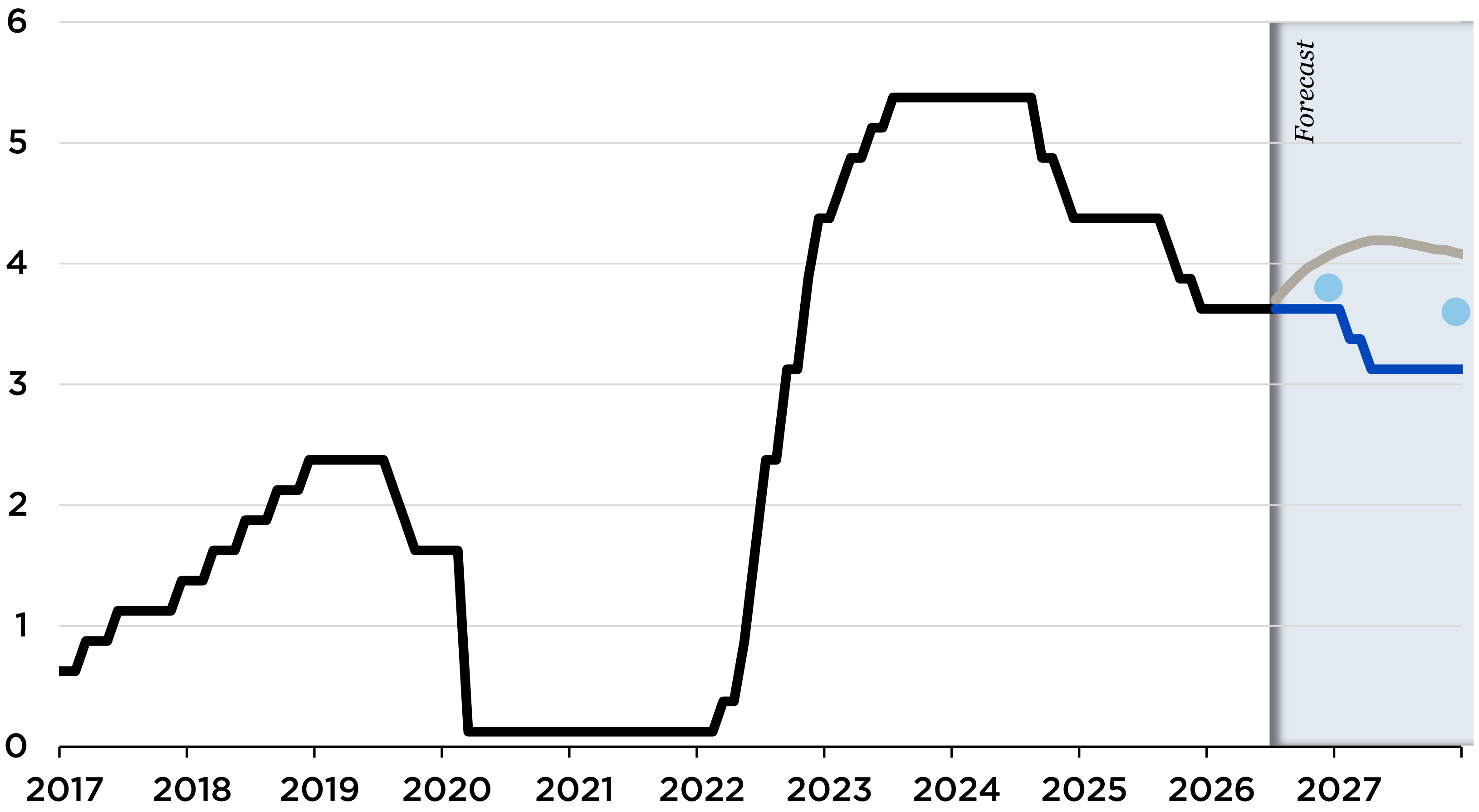
The Fed held the range for the fed funds rate steady at 3.50 to 3.75 percent in July but three policymakers voted to increase interest rates. New Fed Chair Kevin Warsh has reiterated the central bank's commitment to achieving its two percent inflation target.

The FOMC's hawkish shift and the reigniting of fighting in the Middle East introduce upside risk to our baseline forecast that the federal funds rate remains steady for the remainder of the year, predicated on easing Inflation over the coming months.

Nationwide Economics' forecast
Current bond market expectations
FOMC's June 2026 median forecasts

Federal funds rate

Percent

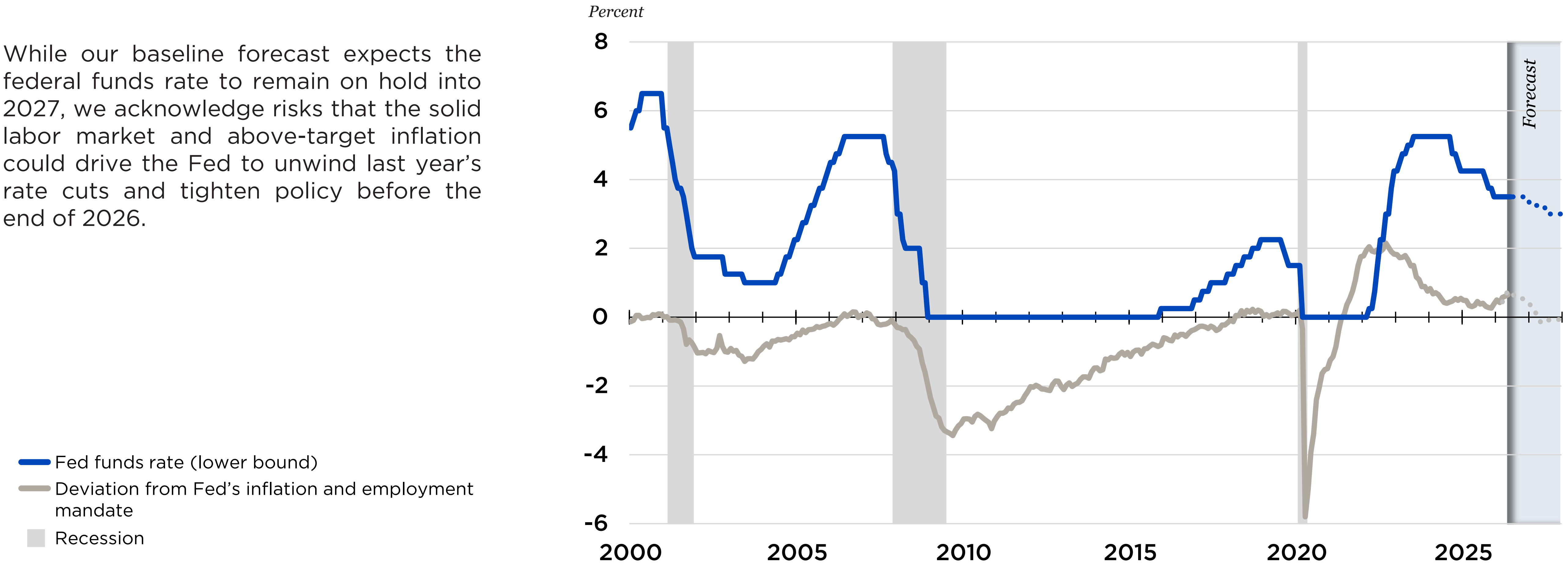


Source: Federal Reserve, Bloomberg, Nationwide Economics

Solid growth and above-target inflation could spur Fed hikes

While our baseline forecast expects the federal funds rate to remain on hold into 2027, we acknowledge risks that the solid labor market and above-target inflation could drive the Fed to unwind last year's rate cuts and tighten policy before the end of 2026.

Fed funds rate and progress to dual mandate



Note: Deviation from the Fed's inflation and employment mandate defined as equal-weighted percentage point average deviation from two percent PCE inflation and the Fed's long-run NAIRU estimate. Dotted lines represent forecasts using Nationwide Economics' baseline.

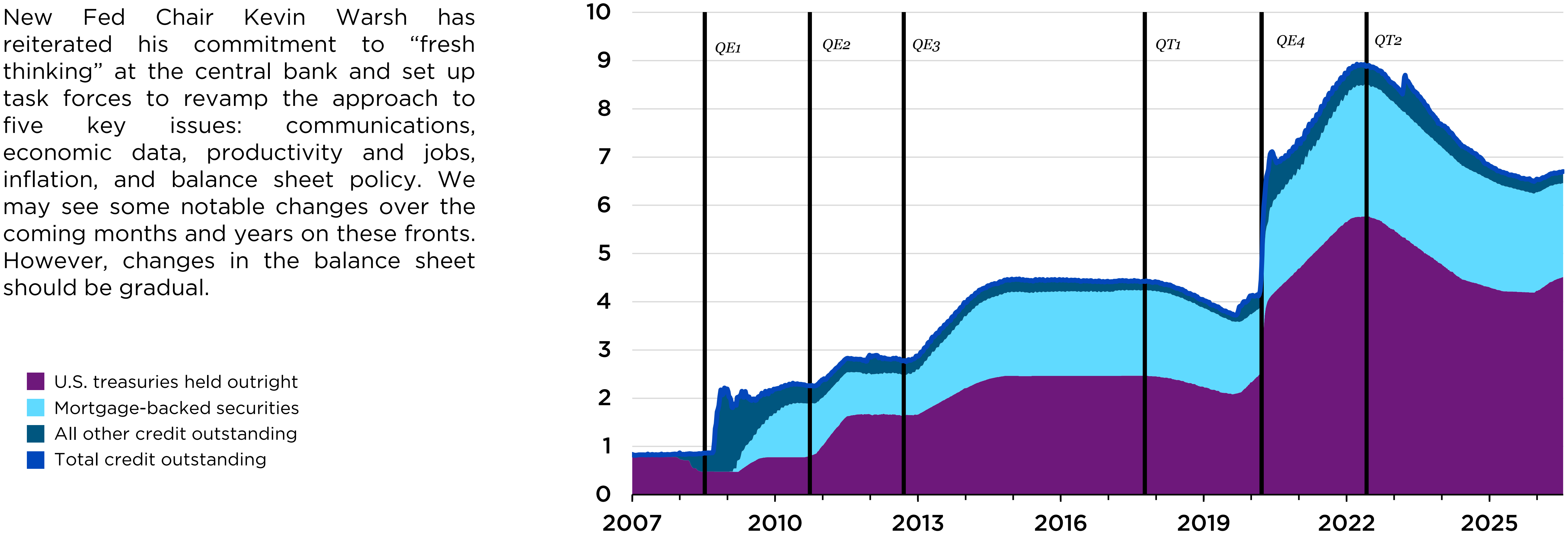
Source: Bureau of Economic Analysis, Haver Analytics, Nationwide Economics

New Chair commits to new thinking

New Fed Chair Kevin Warsh has reiterated his commitment to "fresh thinking" at the central bank and set up task forces to revamp the approach to five key issues: communications, economic data, productivity and jobs, inflation, and balance sheet policy. We may see some notable changes over the coming months and years on these fronts. However, changes in the balance sheet should be gradual.

Fed balance sheet

Trillions of U.S. dollars



Note: QE is quantitative easing beginning; QT is quantitative tightening beginning.

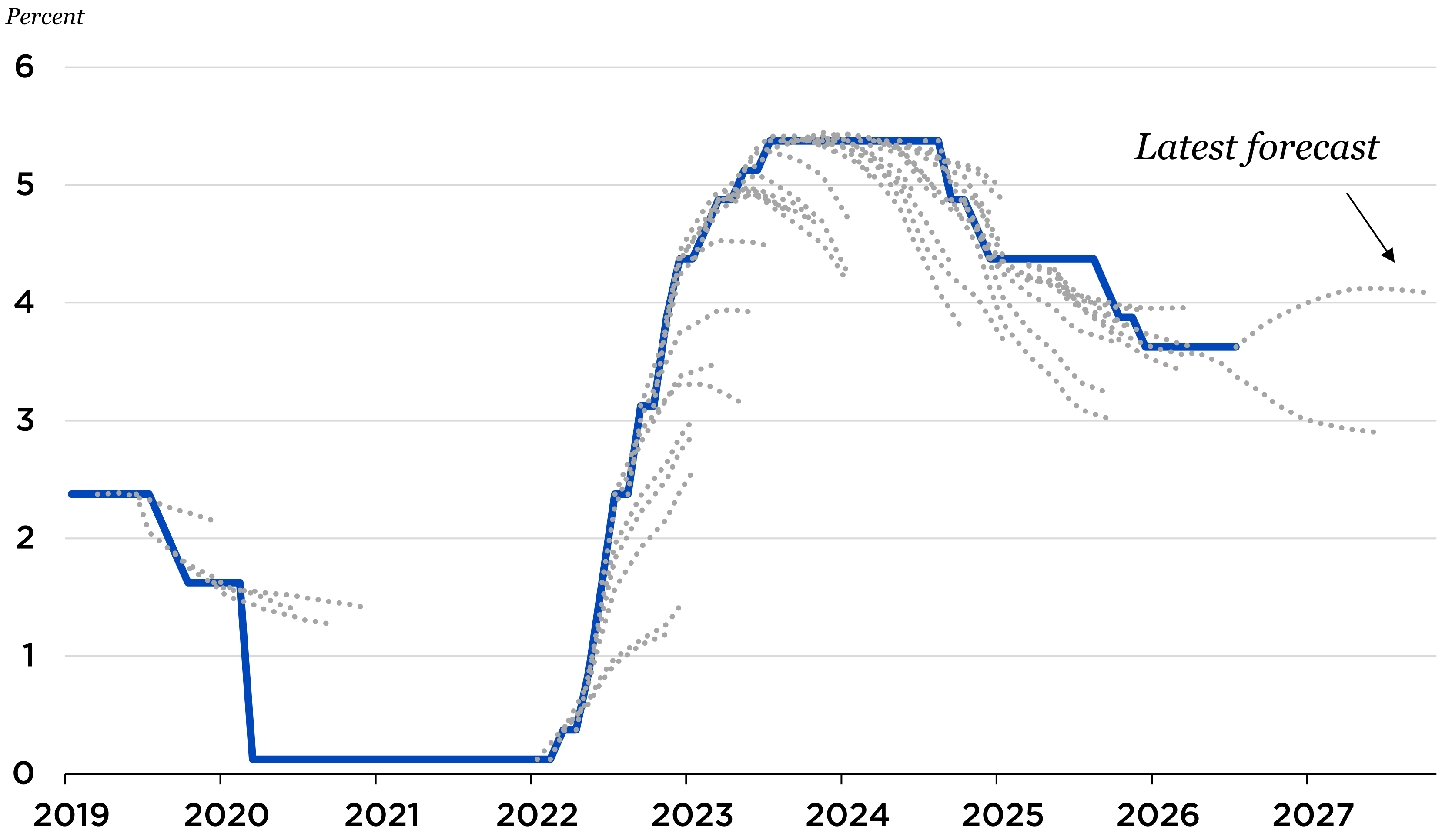
Source: Federal Reserve Board, Haver Analytics, Nationwide Economics

Investors aren't great at forecasting the federal funds rate

Investors currently anticipate about 35 basis points of Fed rate hikes by the end of 2026 and more tightening in 2027.

However, history shows investors are not great at forecasting the federal funds rate. 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

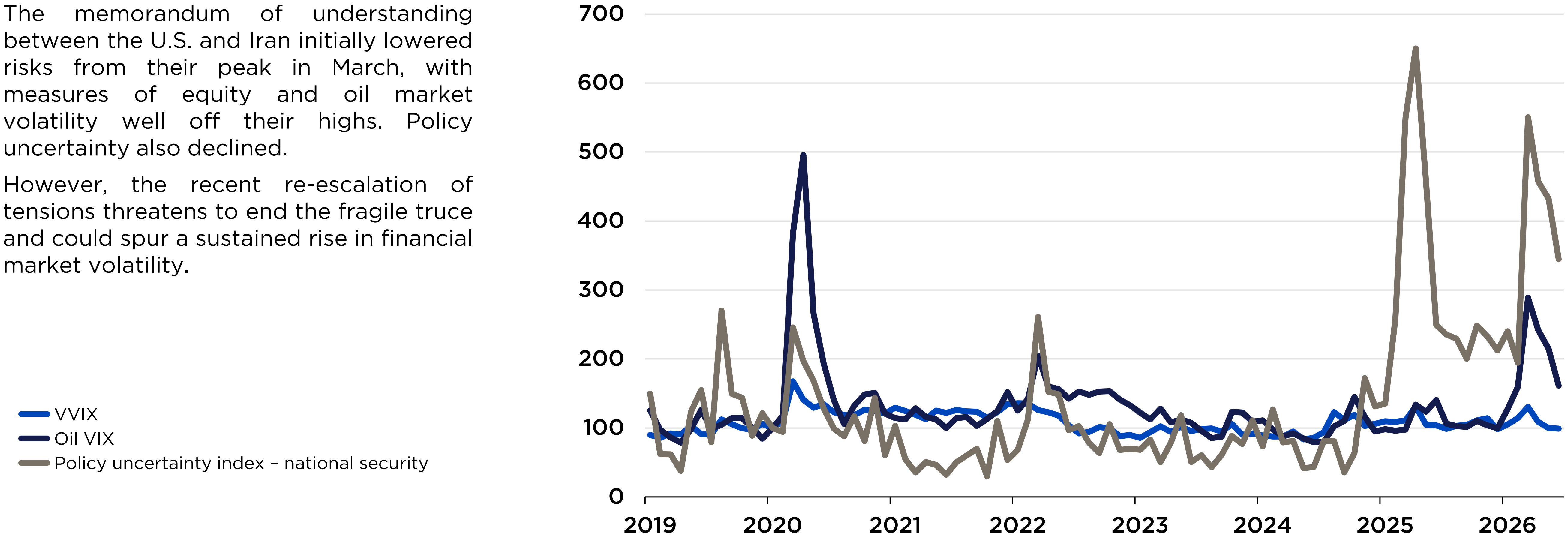
Iran risks re-emerge

The memorandum of understanding between the U.S. and Iran initially lowered risks from their peak in March, with measures of equity and oil market volatility well off their highs. Policy uncertainty also declined.

However, the recent re-escalation of tensions threatens to end the fragile truce and could spur a sustained rise in financial market volatility.

Uncertainty measures

Index; Jan 2020=100



Note: VVIX is a measure of implied equity market volatility 30-days forward. Oil VIX is the expected 30-day volatility of crude oil prices.

Source: CBOE, PolicyUncertainty.com, Haver Analytics, Nationwide Economics

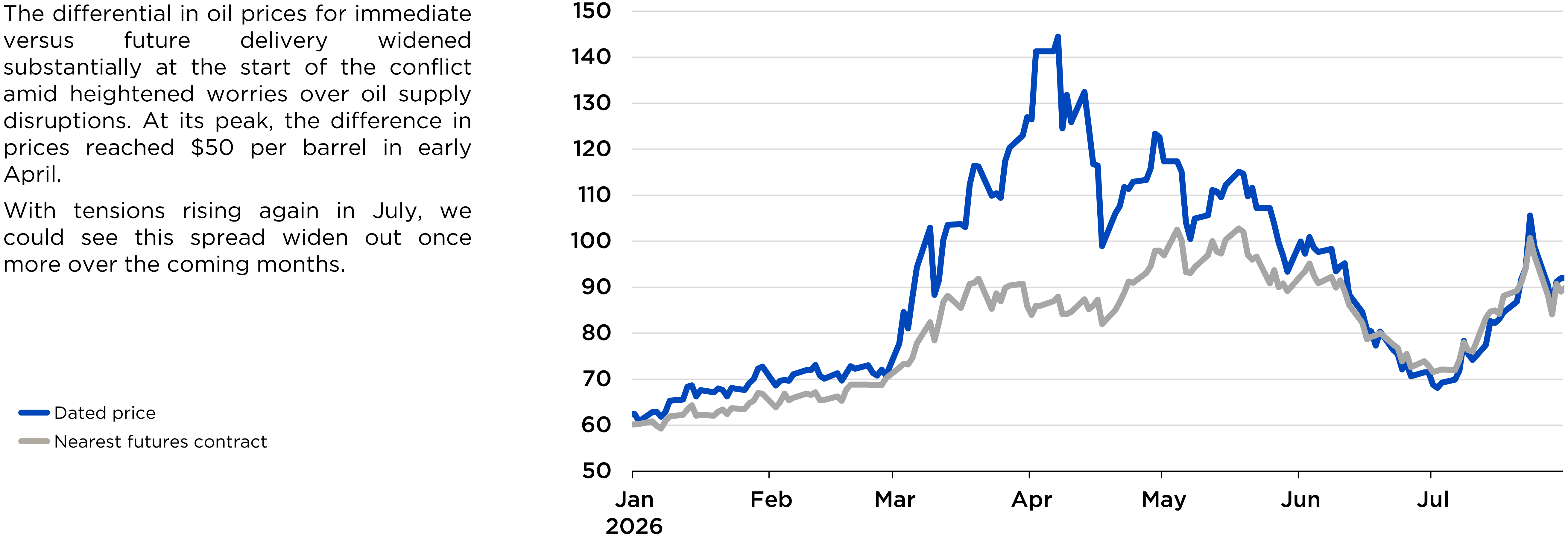
Market are starting to worry about oil supply disruptions again

The differential in oil prices for immediate versus future delivery widened substantially at the start of the conflict amid heightened worries over oil supply disruptions. At its peak, the difference in prices reached $50 per barrel in early April.

With tensions rising again in July, we could see this spread widen out once more over the coming months.

Brent crude oil price

U.S. dollars per barrel



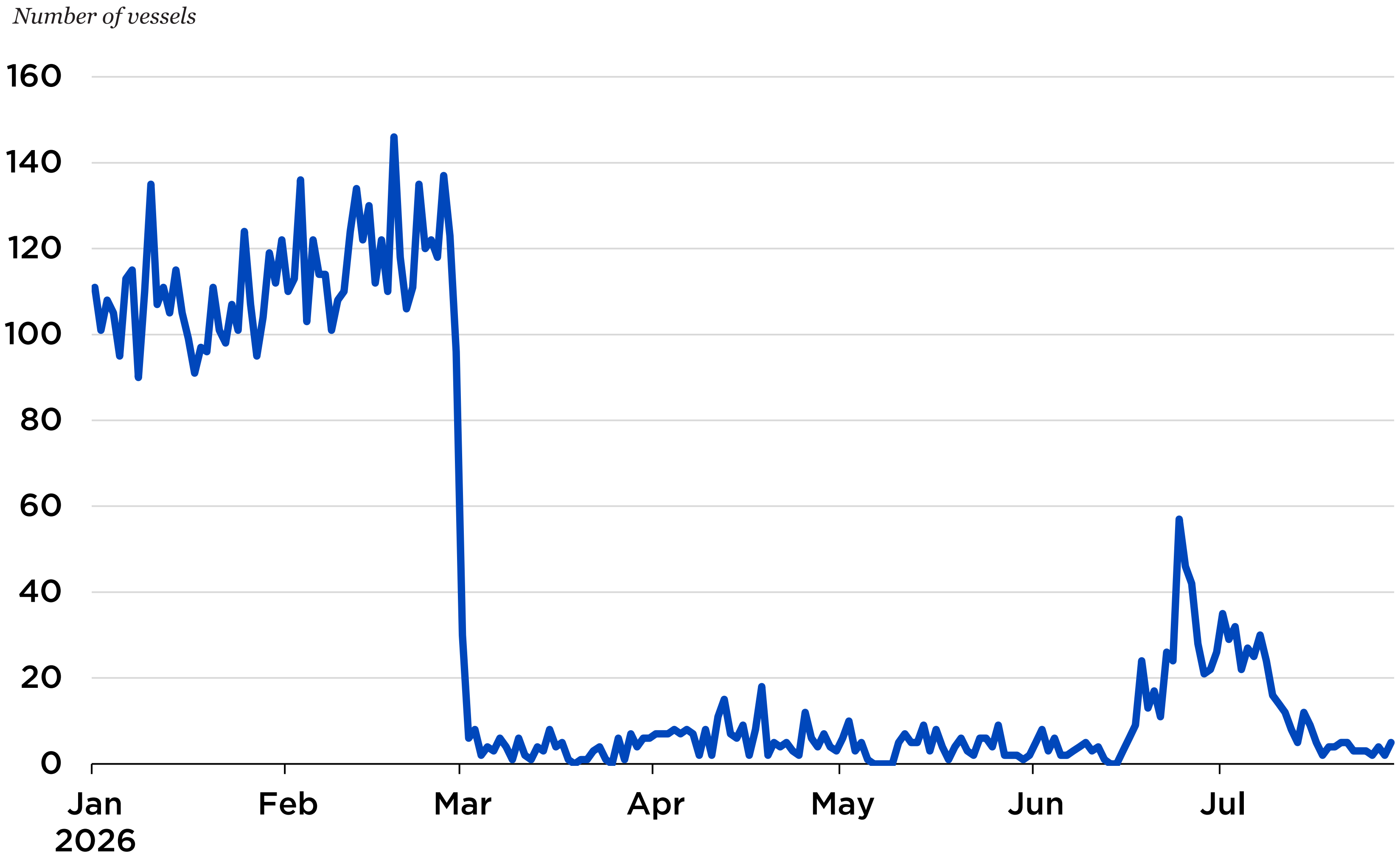
Source: Bloomberg, Nationwide Economics

Vessel traffic rebound falters

Ship vessel traffic through the Strait of Hormuz was gradually rebounding until early July as rising tensions between the U.S. and Iran curtailed the nascent rebound.

With a final resolution between the U.S. and Iran seemingly well out of reach, we see elevated risks of continued shipping disruptions through this critical waterway.

Strait of Hormuz daily commercial cargo vessel crossings

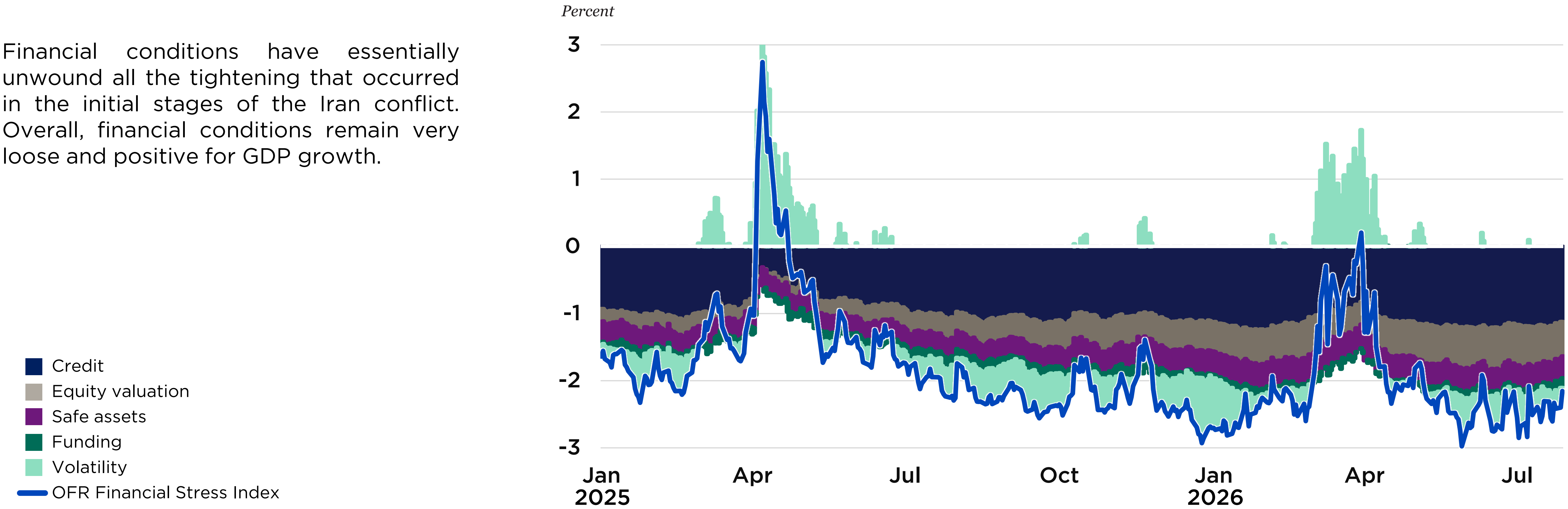


Source: Bloomberg, Nationwide Economics

Financial conditions are accommodative

Financial conditions have essentially unwound all the tightening that occurred in the initial stages of the Iran conflict. Overall, financial conditions remain very loose and positive for GDP growth.

Financial conditions impact on growth



Note: Positive (negative) values measure headwinds (tailwinds) to GDP growth over the next year and three-years. A zero value means that the cumulative effect on growth of current and past changes in all financial variables sums up to zero, while a reading of 1 percent above (below) the zero line means that financial conditions are a notable headwind (tailwind) to economic activity that is equivalent to a 100-basis-point drag (boost) on GDP growth over the following year.

Source: Federal Reserve, Haver Analytics, Nationwide Economics

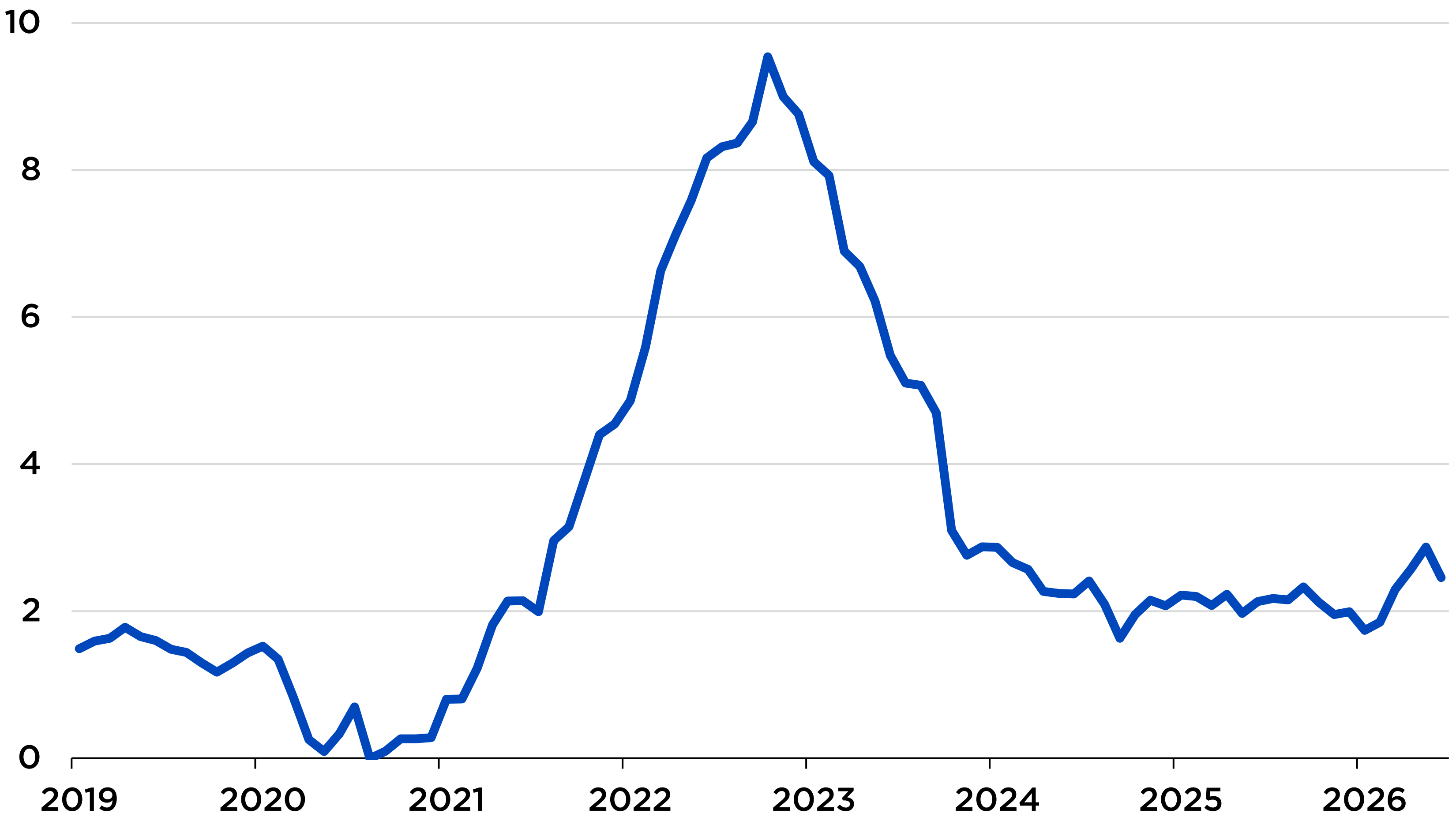
Markets are focused on firming inflation across the world

The jump in prices since the outbreak of the U.S.-Iran conflict has re-centered investors' and central bankers' focus on inflation.

A lack of final resolution that definitively re-opens the Strait of Hormuz and allows activity to normalize, alongside some cyclical and structural factors, could keep inflation risks tilted to the upside.

G10-weighted headline CPI inflation rate

Percent, year-over-year



Note: Headline CPI inflation rates weighted by respective countries' household consumption.

Source: National sources, Haver Analytics, Nationwide Economics

Which fixed income asset class has fared best so far in 2026?

Municipals are the highest performing asset in fixed income markets year-to-date, followed closely behind by high yield corporate debt. Treasuries have underperformed amid spiking inflation risks.

Yearly changes by asset class

2020	2021	2022	2023	2024	2025	2026 YTD
TIPS 11.2%	TIPS 6.1%	Agencies -7.9%	HY Corporate 13.4%	HY Corporate 8.2%	HY Corporate 8.6%	Municipals 2.3%
Treasuries 10.6%	HY Corporate 5.3%	Municipals -8.5%	IG Corporate 8.5%	Agencies 3.2%	MBS 8.6%	HY Corporate 2.0%
IG Corporate 9.9%	Municipals 1.5%	MBS -11.8%	Municipals 6.4%	IG Corporate 2.1%	Treasuries 8.2%	TIPS 1.1%
Bloomberg Agg 7.5%	IG Corporate -1.0%	HY Corporate -11.9%	Bloomberg Agg 5.5%	TIPS 1.8%	IG Corporate 7.8%	MBS 1.0%
HY Corporate 7.1%	MBS -1.0%	TIPS -12.6%	Agencies 5.1%	Bloomberg Agg 1.3%	Bloomberg Agg 7.3%	IG Corporate 0.9%
Agencies 5.5%	Agencies -1.3%	Bloomberg Agg -13.0%	MBS 5.0%	MBS 1.2%	TIPS 6.9%	Bloomberg Agg 0.6%
Municipals 5.2%	Bloomberg Agg -1.5%	IG Corporate -15.8%	TIPS 3.8%	Municipals 1.1%	Agencies 6.1%	Agencies 0.6%
MBS 3.9%	Treasuries -3.6%	Treasuries -16.3%	Treasuries 3.2%	Treasuries -1.7%	Municipals 4.3%	Treasuries -0.1%

Note: IG corporate represents investment grade corporate debt; HY corporate represents high yield corporate debt

Source: Bloomberg, Nationwide Economics

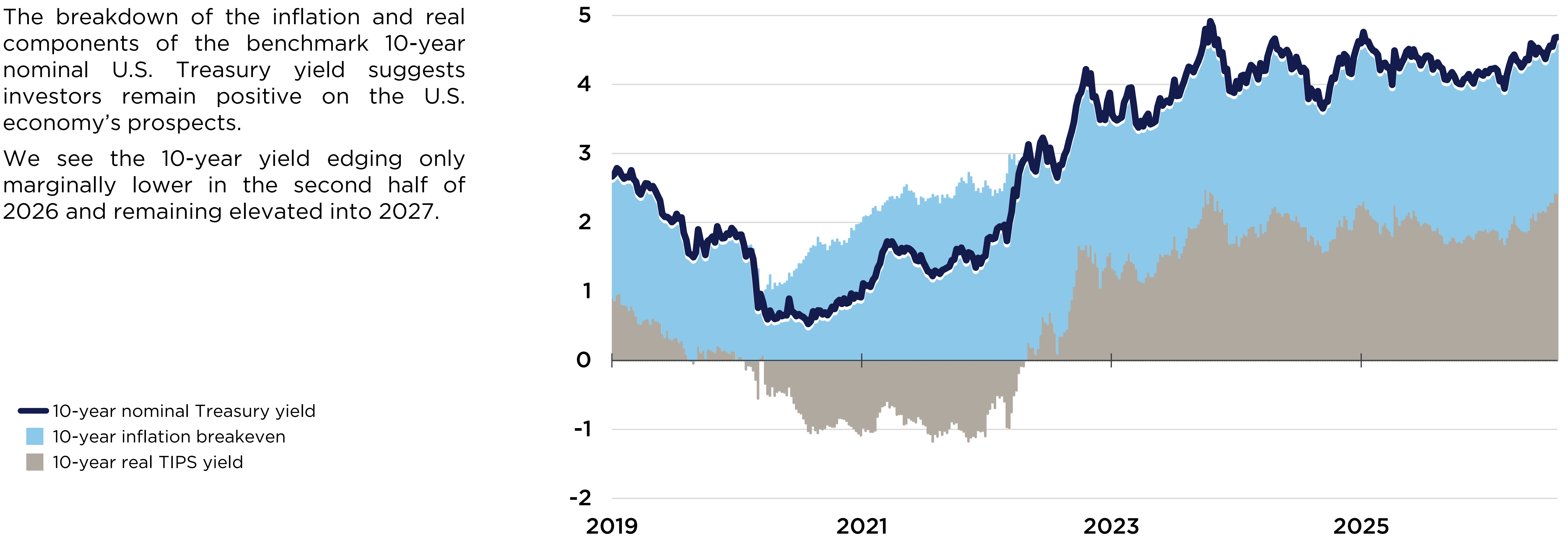
Treasury market reflects economic resilience

The breakdown of the inflation and real components of the benchmark 10-year nominal U.S. Treasury yield suggests investors remain positive on the U.S. economy's prospects.

We see the 10-year yield edging only marginally lower in the second half of 2026 and remaining elevated into 2027.

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

Percent

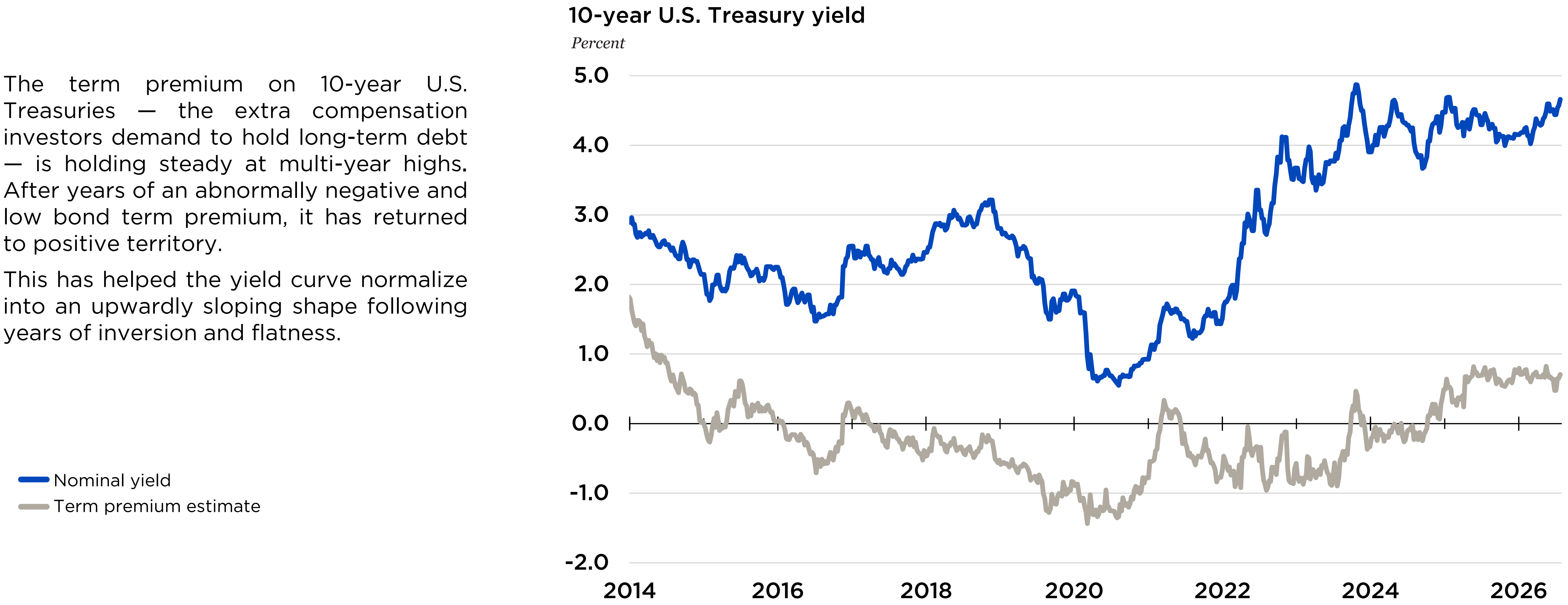


Source: Bloomberg, Nationwide Economics

Bond term premium and the yield curve normalize

The term premium on 10-year U.S. Treasuries — the extra compensation investors demand to hold long-term debt — is holding steady at multi-year highs. After years of an abnormally negative and low bond term premium, it has returned to positive territory.

This has helped the yield curve normalize into an upwardly sloping shape following years of inversion and flatness.



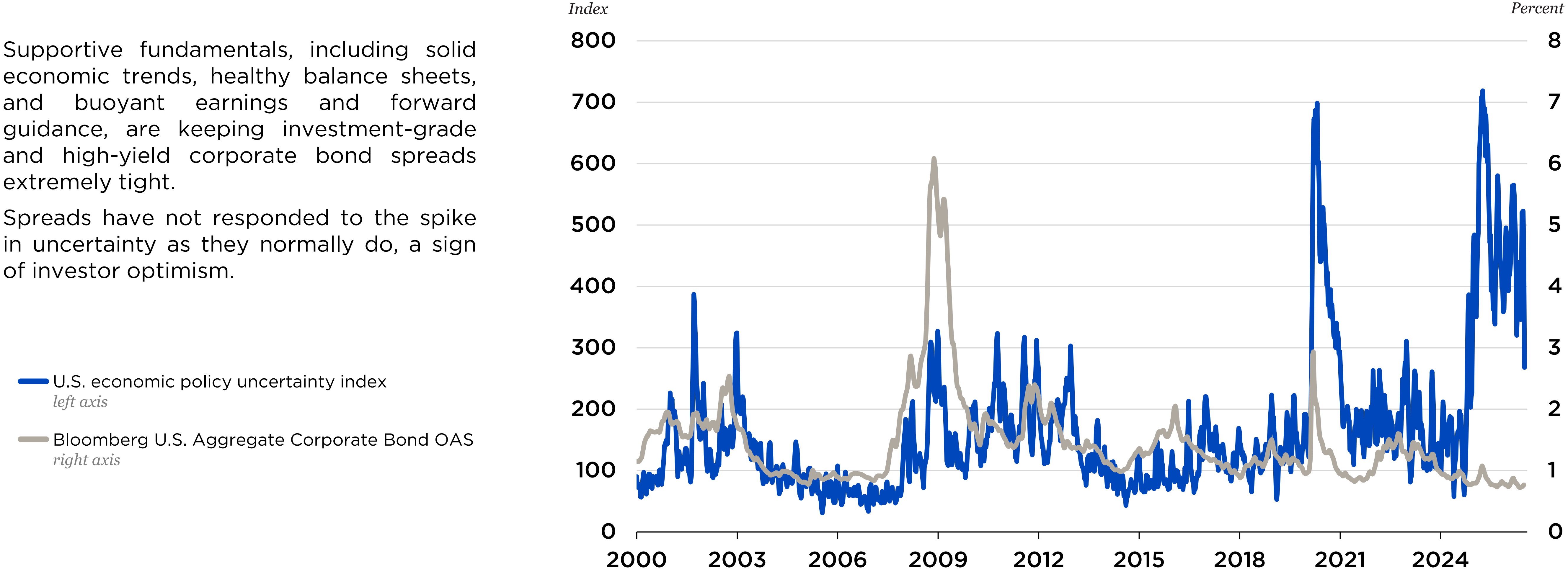
Source: FRBNY, Federal Reserve Board, Haver Analytics, Nationwide Economics

Corporate bond spreads remain extremely tight

Supportive fundamentals, including solid economic trends, healthy balance sheets, and buoyant earnings and forward guidance, are keeping investment-grade and high-yield corporate bond spreads extremely tight.

Spreads have not responded to the spike in uncertainty as they normally do, a sign of investor optimism.

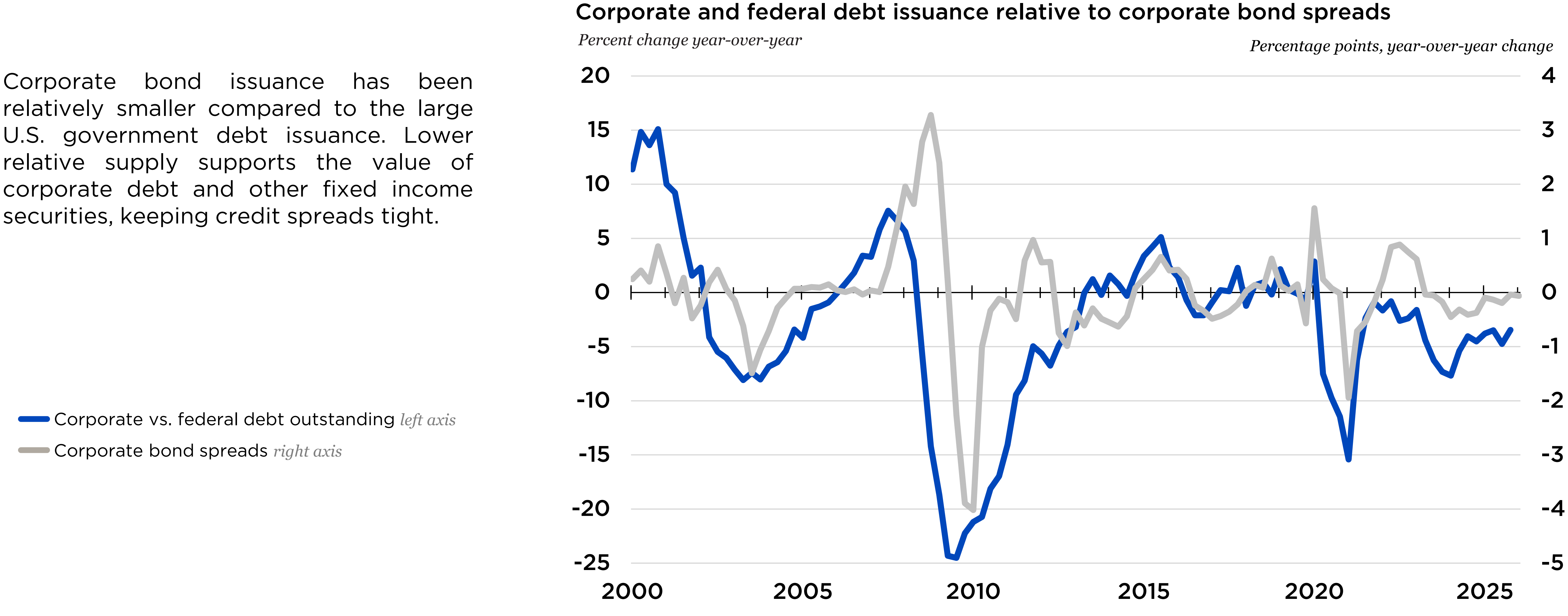
Economic uncertainty and corporate bond spreads (30-day moving average)



Source: *Bloomberg, Nationwide Economics*

Corporate bond spreads move in tandem with relative issuance

Corporate bond issuance has been relatively smaller compared to the large U.S. government debt issuance. Lower relative supply supports the value of corporate debt and other fixed income securities, keeping credit spreads tight.

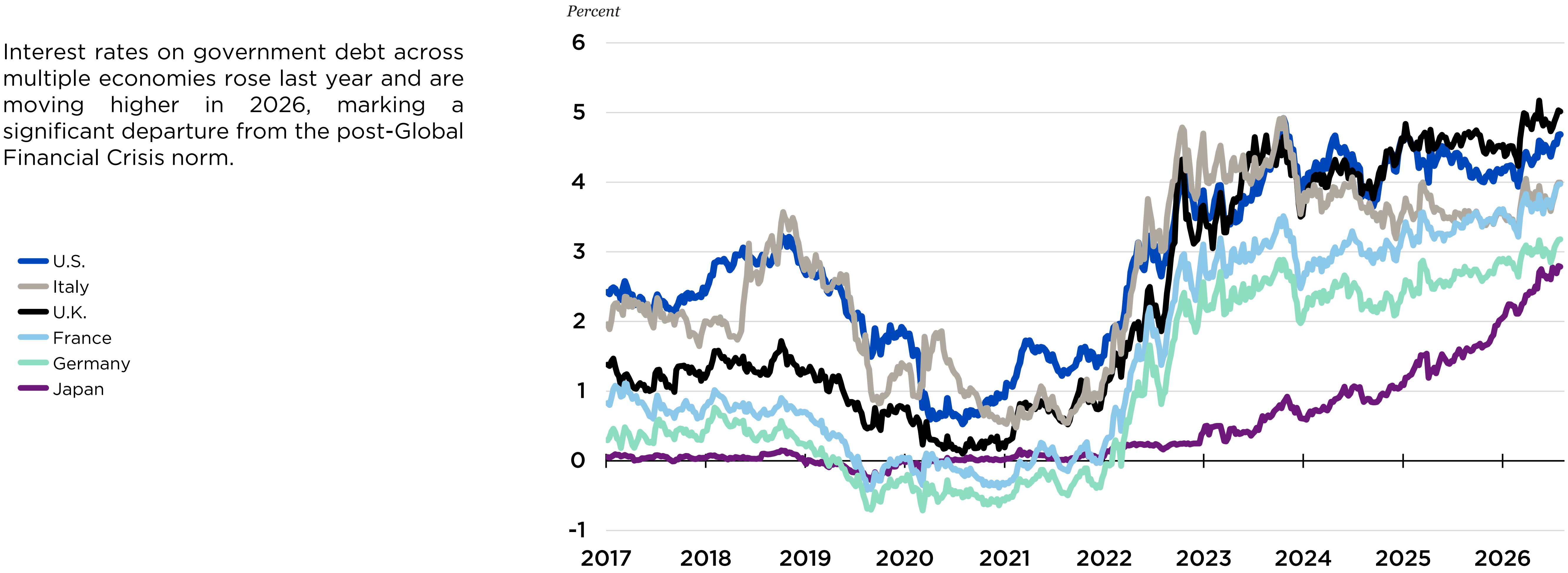


Source: Bloomberg, Nationwide Investments, Nationwide Economics

The era of ultra-low government bond yields looks to be over

Interest rates on government debt across multiple economies rose last year and are moving higher in 2026, marking a significant departure from the post-Global Financial Crisis norm.

10-year sovereign bond yields



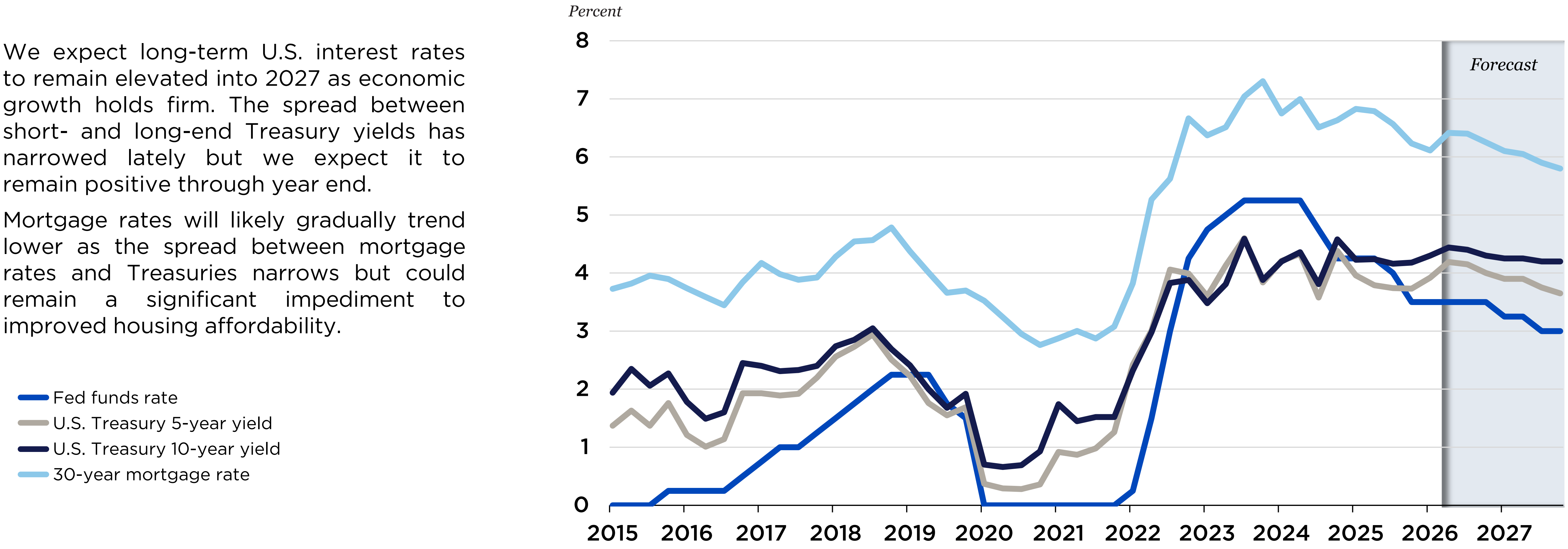
Source: Bloomberg, Nationwide Economics

Interest rates poised to stay high

We expect long-term U.S. interest rates to remain elevated into 2027 as economic growth holds firm. The spread between short- and long-end Treasury yields has narrowed lately but we expect it to remain positive through year end.

Mortgage rates will likely gradually trend lower as the spread between mortgage rates and Treasuries narrows but could remain a significant impediment to improved housing affordability.

Nationwide Economics' interest rate forecasts

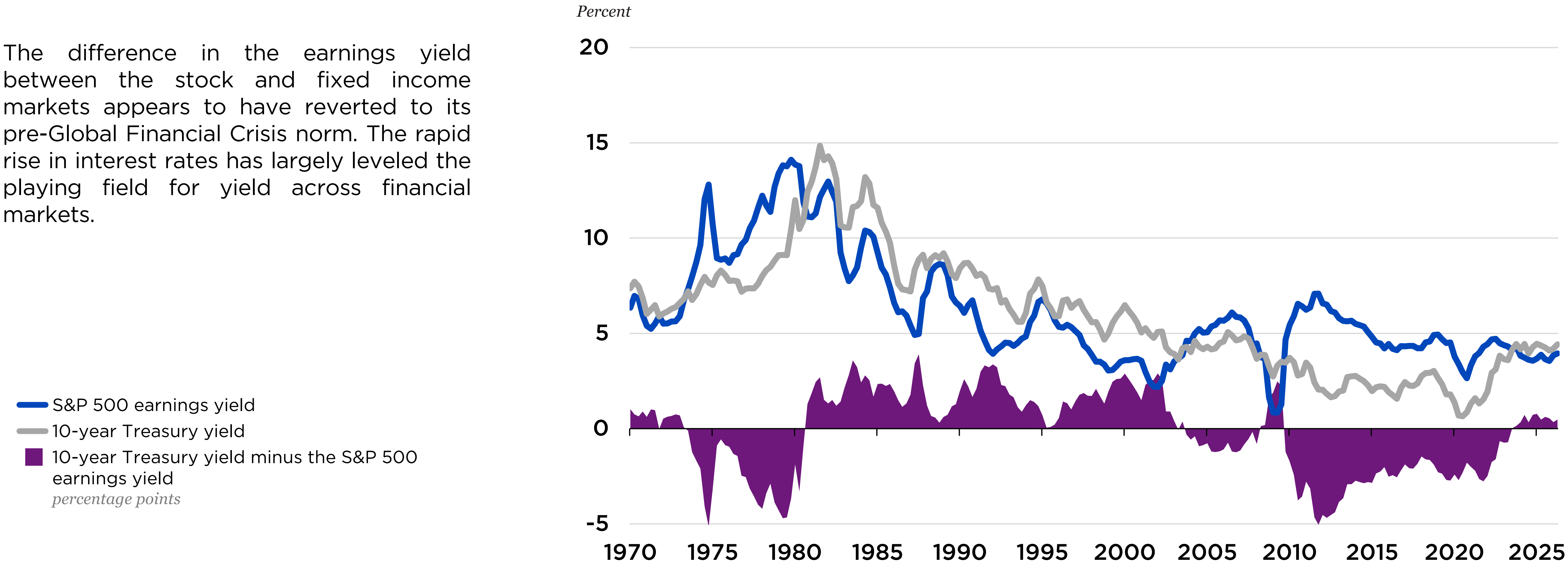


Note: July 2026 forecast vintage
Source: Federal Reserve, Haver Analytics, Nationwide Economics

Normalized Treasury and equity yield relationship

The difference in the earnings yield between the stock and fixed income markets appears to have reverted to its pre-Global Financial Crisis norm. The rapid rise in interest rates has largely leveled the playing field for yield across financial markets.

S&P 500 earnings yield vs. the 10-year U.S. Treasury yield



Note: Q2 2026 S&P 500 earnings yield is a Nationwide Economics preliminary estimate
Source: S&P, Bloomberg, Federal Reserve, Haver Analytics, Nationwide Economics

The stock market often shrugs off various risks and focuses on earnings

Whether it's the energy shock of 2026, tariff shock of 2025, or other episodes, recent history shows equities tend to discount risks and take an optimistic view as long as expectations for earnings remain upbeat.

S&P 500® stock index

Index; 1941-43=10

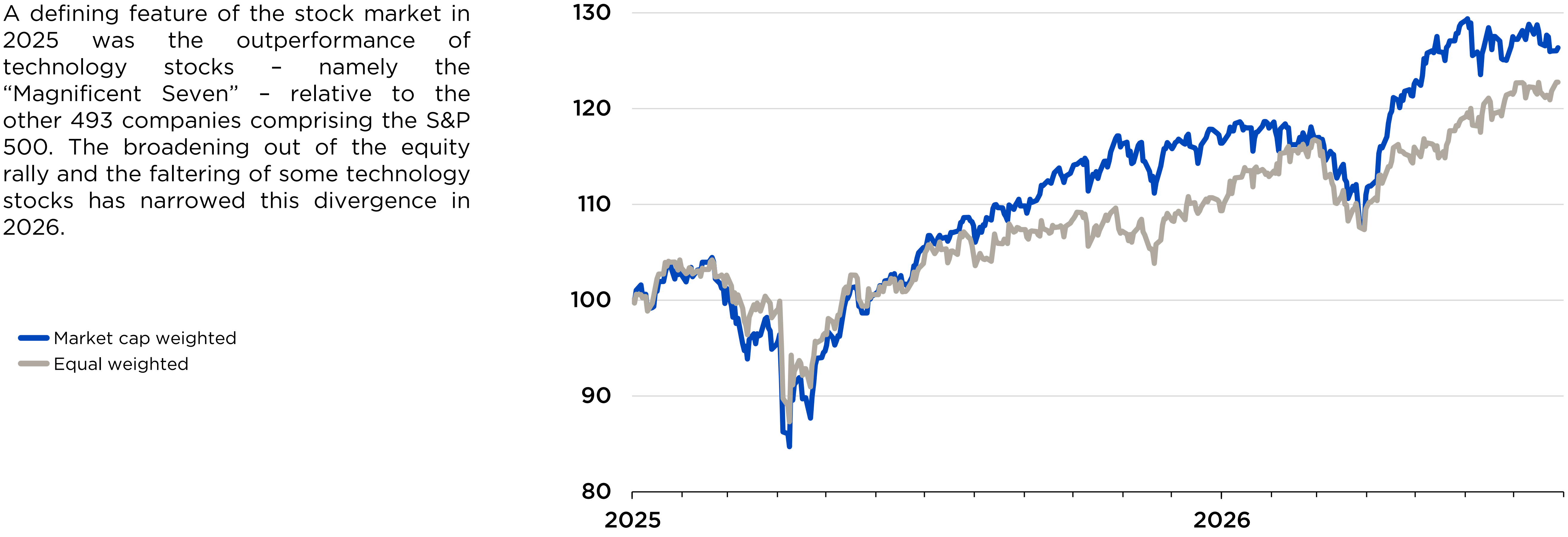
Source: S&P, Haver Analytics, Nationwide Economics

The rest of the equity market is catching up to tech stocks

A defining feature of the stock market in 2025 was the outperformance of technology stocks – namely the "Magnificent Seven" – relative to the other 493 companies comprising the S&P 500. The broadening out of the equity rally and the faltering of some technology stocks has narrowed this divergence in 2026.

Market-cap vs. equal-weighted S&P 500® index

Index; Jan 1, 2025 = 100



Source: S&P, Bloomberg, Nationwide Economics

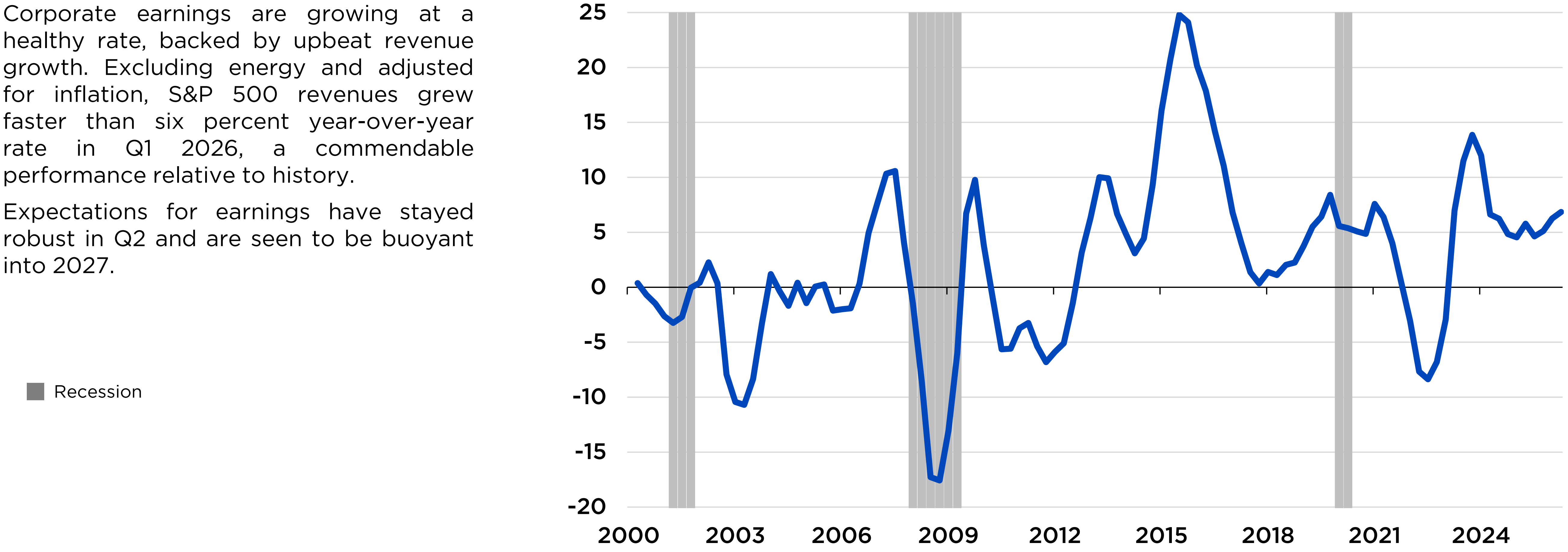
Buoyant revenue growth signals solid economic growth

Corporate earnings are growing at a healthy rate, backed by upbeat revenue growth. Excluding energy and adjusted for inflation, S&P 500 revenues grew faster than six percent year-over-year rate in Q1 2026, a commendable performance relative to history.

Expectations for earnings have stayed robust in Q2 and are seen to be buoyant into 2027.

S&P 500® revenues excluding energy, adjusted for inflation

Percent, year-over-year



Note: Four-quarter trailing revenue. Revenues deflated with Nationwide Economics' estimate of the GDP deflator excluding energy

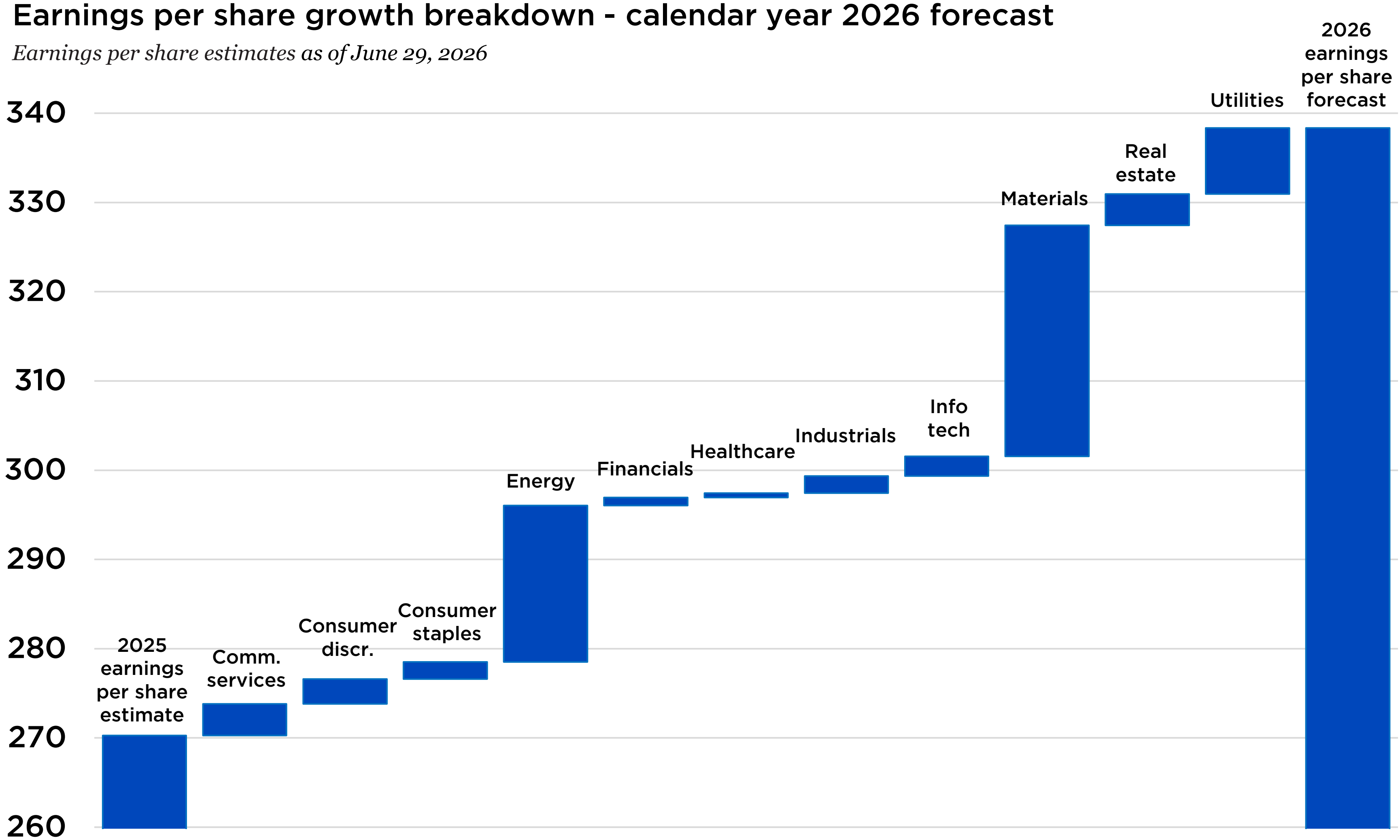
Source: S&P, Haver Analytics, Nationwide Economics

Earnings expectations remain very upbeat

Forward earnings expectations are constructive across sectors for 2026 despite various risks, namely the Iran conflict, private credit concerns, and AI-related disruption and buildout.

Earnings per share growth breakdown - calendar year 2026 forecast

Earnings per share estimates as of June 29, 2026

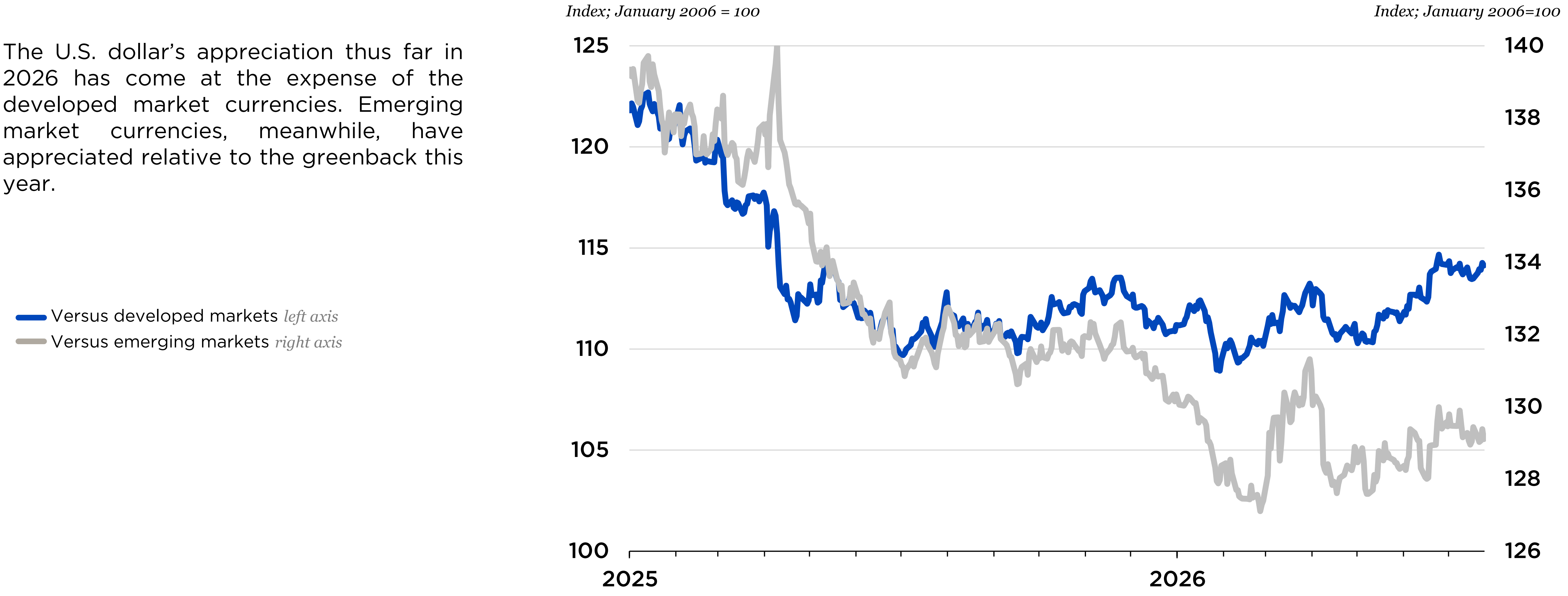


Source: FactSet, Nationwide Economics

Investors seek safety in the U.S. dollar amid global turmoil

The U.S. dollar's appreciation thus far in 2026 has come at the expense of the developed market currencies. Emerging market currencies, meanwhile, have appreciated relative to the greenback this year.

Broad nominal effective USD index



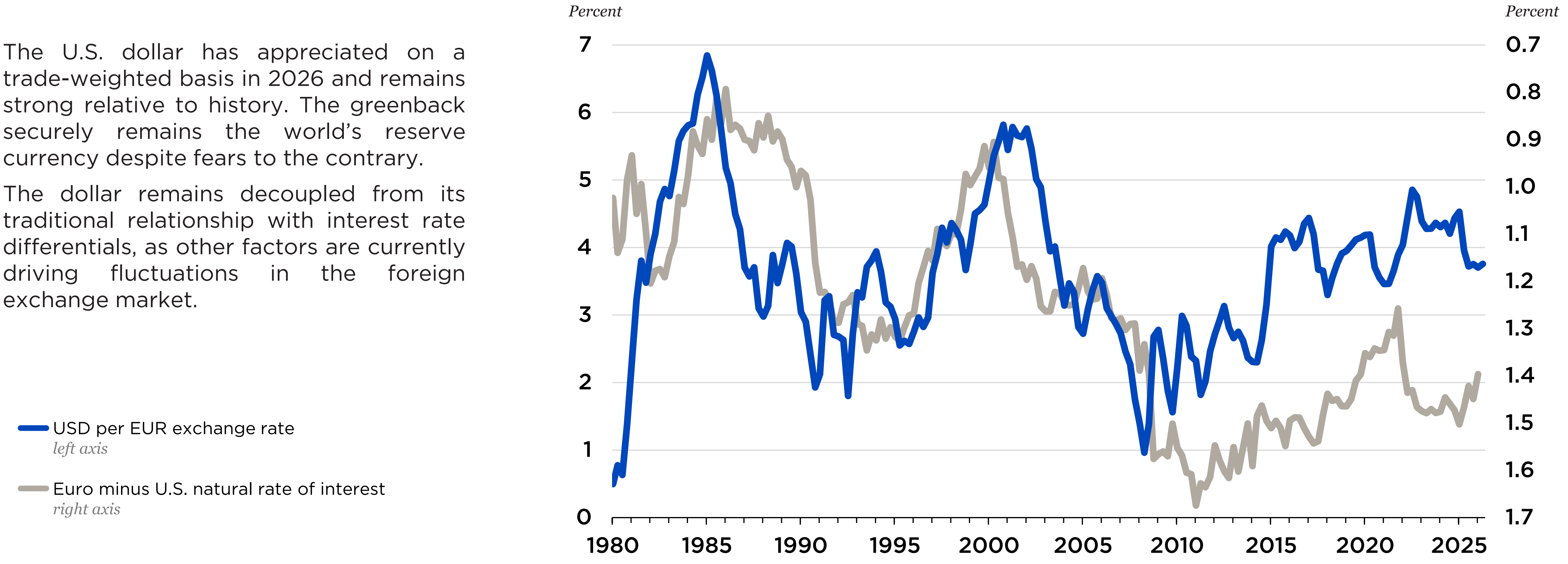
Source: FRB, Haver Analytics, Nationwide Economics

Interest rate differentials not the dominate FX drivers they used to be

The U.S. dollar has appreciated on a trade-weighted basis in 2026 and remains strong relative to history. The greenback securely remains the world's reserve currency despite fears to the contrary.

The dollar remains decoupled from its traditional relationship with interest rate differentials, as other factors are currently driving fluctuations in the foreign exchange market.

U.S./Europe interest rate differential and the exchange rate*



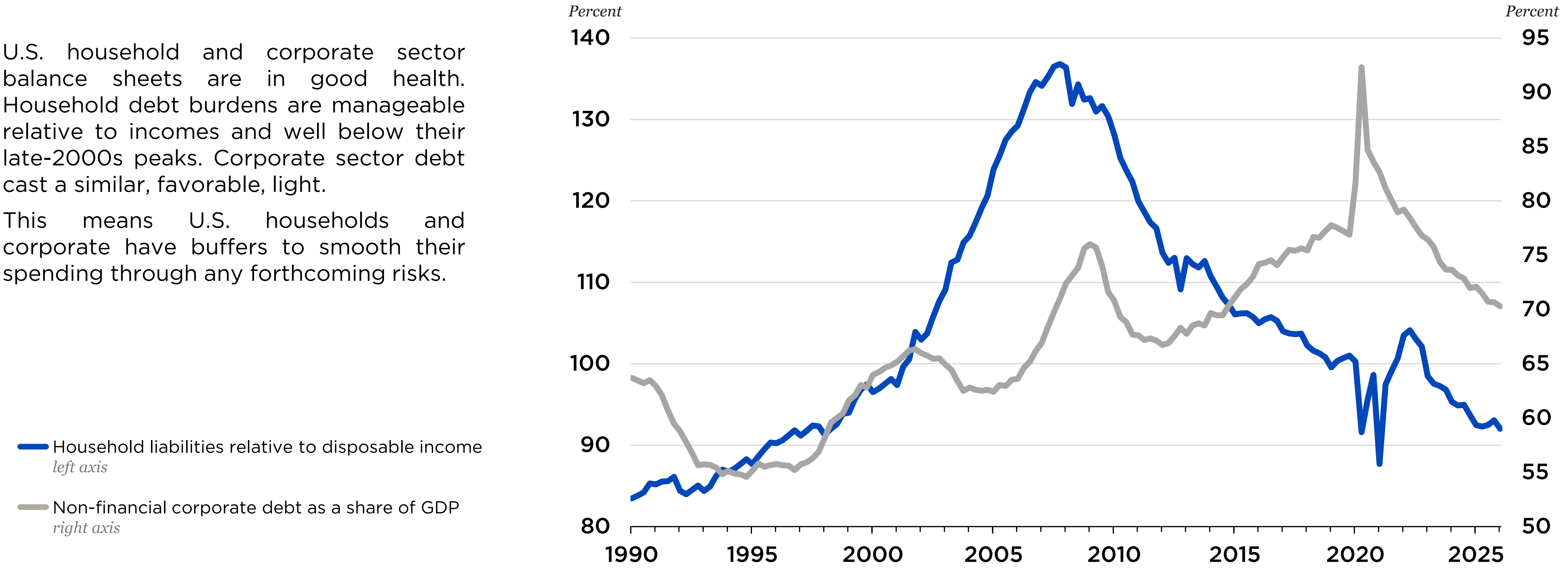
Note: Natural rates of interest using Holston, Laubach, Williams model. Synthetic Euro before 1999 is calculated using 1997 GDP weights.
Source: Federal Reserve, Haver Analytics, Nationwide Economics

Consumer and corporate balance sheets aren't flagging major risks

U.S. household and corporate sector balance sheets are in good health. Household debt burdens are manageable relative to incomes and well below their late-2000s peaks. Corporate sector debt cast a similar, favorable, light.

This means U.S. households and corporate have buffers to smooth their spending through any forthcoming risks.

Household and non-financial corporate balance sheets



Source: Federal Reserve, Haver Analytics, Nationwide Economics

U.S. & Global Economy

Highlights

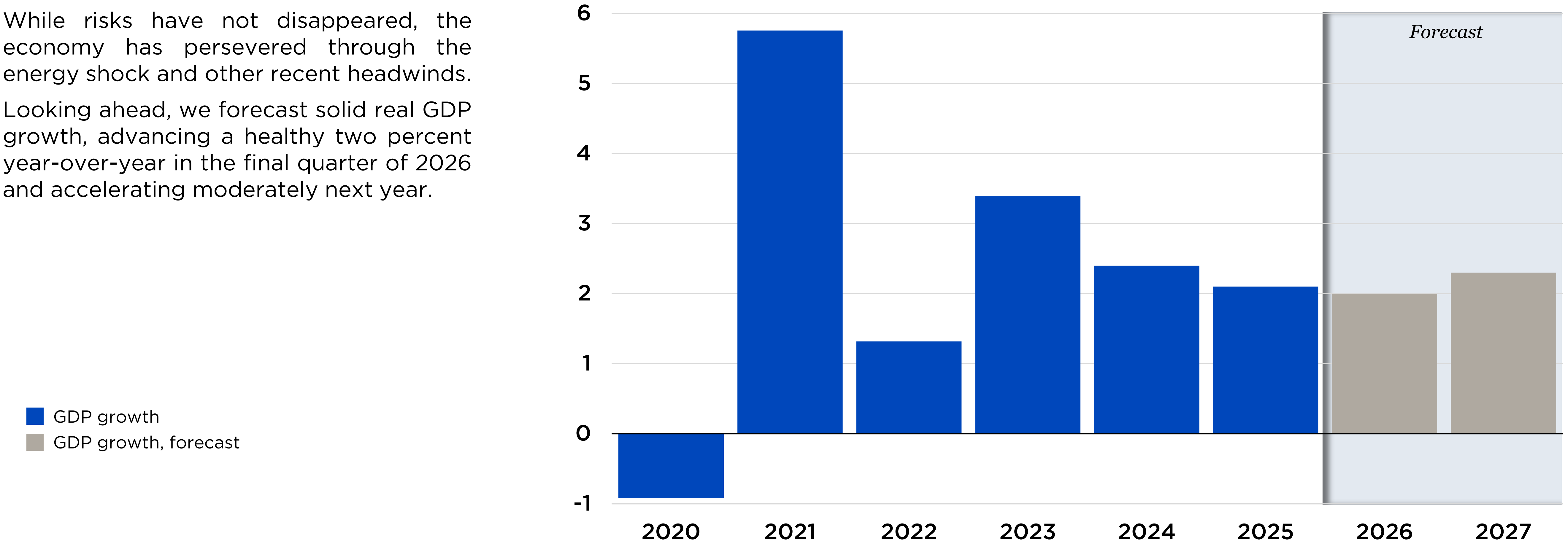
Solid GDP growth likely this year and next

While risks have not disappeared, the economy has persevered through the energy shock and other recent headwinds.

Looking ahead, we forecast solid real GDP growth, advancing a healthy two percent year-over-year in the final quarter of 2026 and accelerating moderately next year.

GDP growth – historical and forecast

Percent, Q4/Q4 change



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

Where are we in the business cycle?

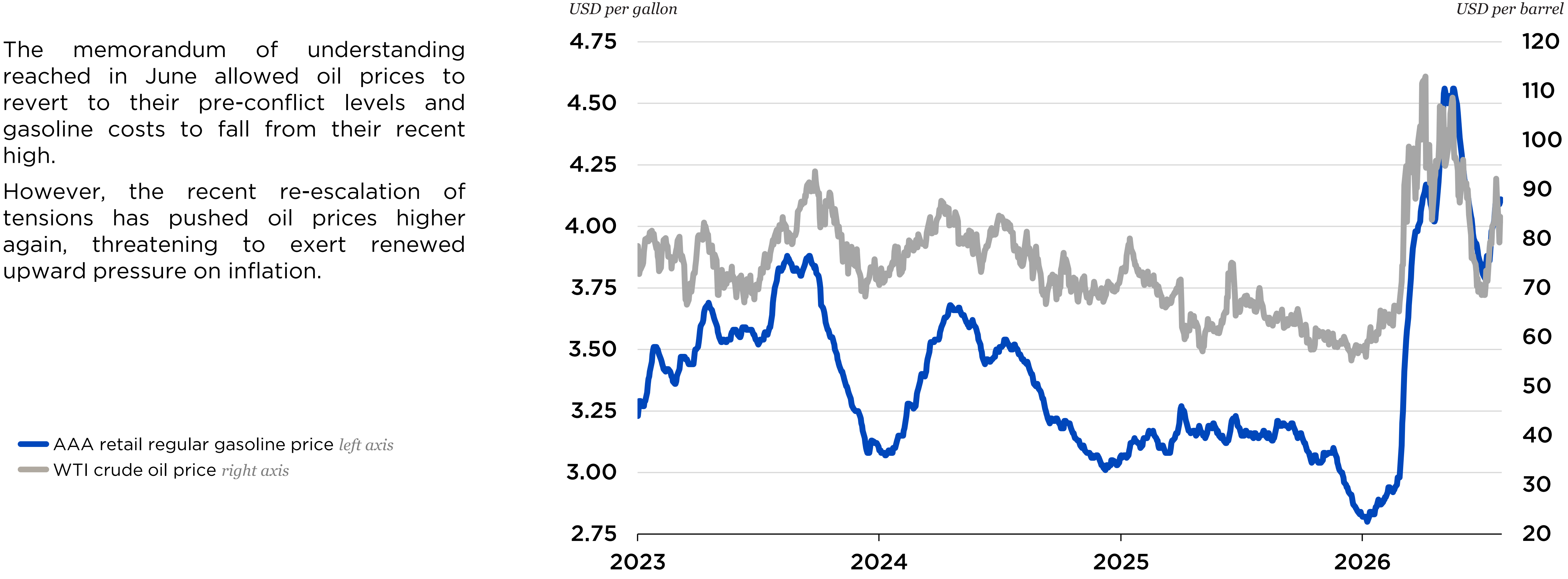
The economy remains in a late-cycle phase, but no signs of a recession are on the horizon.

Energy price shock fades from its peak

The memorandum of understanding reached in June allowed oil prices to revert to their pre-conflict levels and gasoline costs to fall from their recent high.

However, the recent re-escalation of tensions has pushed oil prices higher again, threatening to exert renewed upward pressure on inflation.

Energy prices



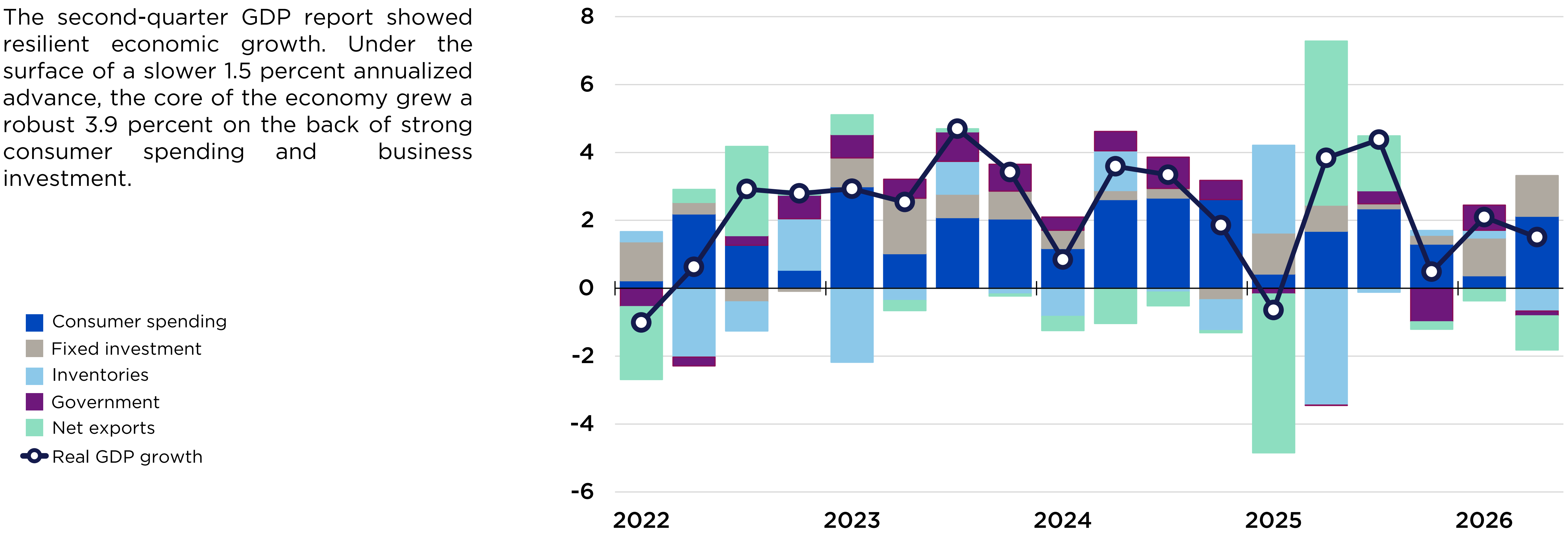
Source: Bloomberg, Nationwide Economics

Economy maintains buoyant momentum

The second-quarter GDP report showed resilient economic growth. Under the surface of a slower 1.5 percent annualized advance, the core of the economy grew a robust 3.9 percent on the back of strong consumer spending and business investment.

Contribution to GDP growth

Percentage point contribution to q/q annualized growth



Source: BEA, Haver Analytics, Nationwide Economics

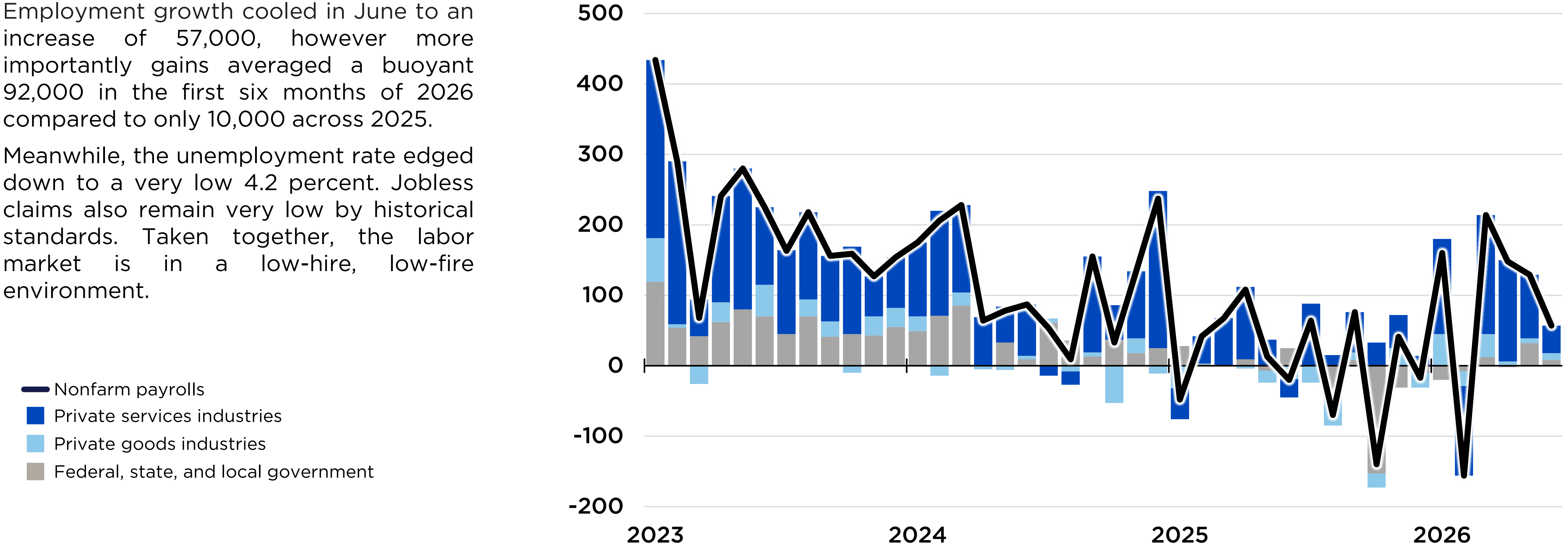
It's a "low hire, low fire" job market

Employment growth cooled in June to an increase of 57,000, however more importantly gains averaged a buoyant 92,000 in the first six months of 2026 compared to only 10,000 across 2025.

Meanwhile, the unemployment rate edged down to a very low 4.2 percent. Jobless claims also remain very low by historical standards. Taken together, the labor market is in a low-hire, low-fire environment.

Employment growth

Monthly change; thousands



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

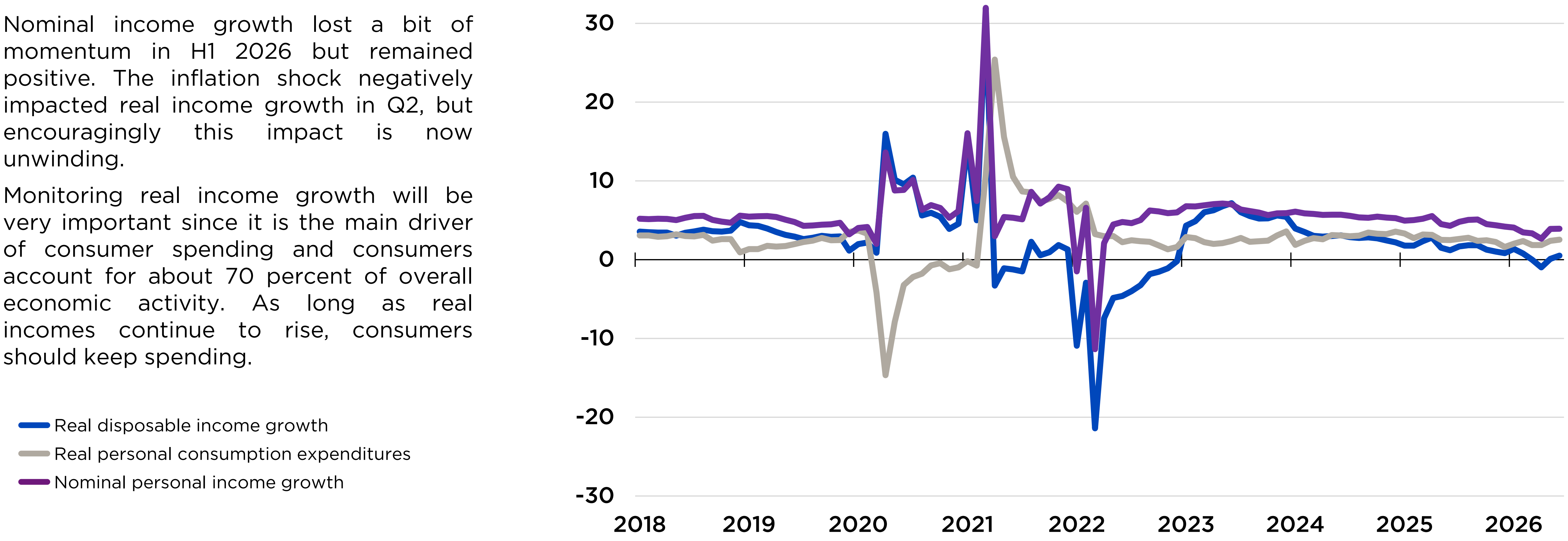
Rebounding real income growth could support consumer outlays

Nominal income growth lost a bit of momentum in H1 2026 but remained positive. The inflation shock negatively impacted real income growth in Q2, but encouragingly this impact is now unwinding.

Monitoring real income growth will be very important since it is the main driver of consumer spending and consumers account for about 70 percent of overall economic activity. As long as real incomes continue to rise, consumers should keep spending.

Real income and spending growth

Year-over-year percent change



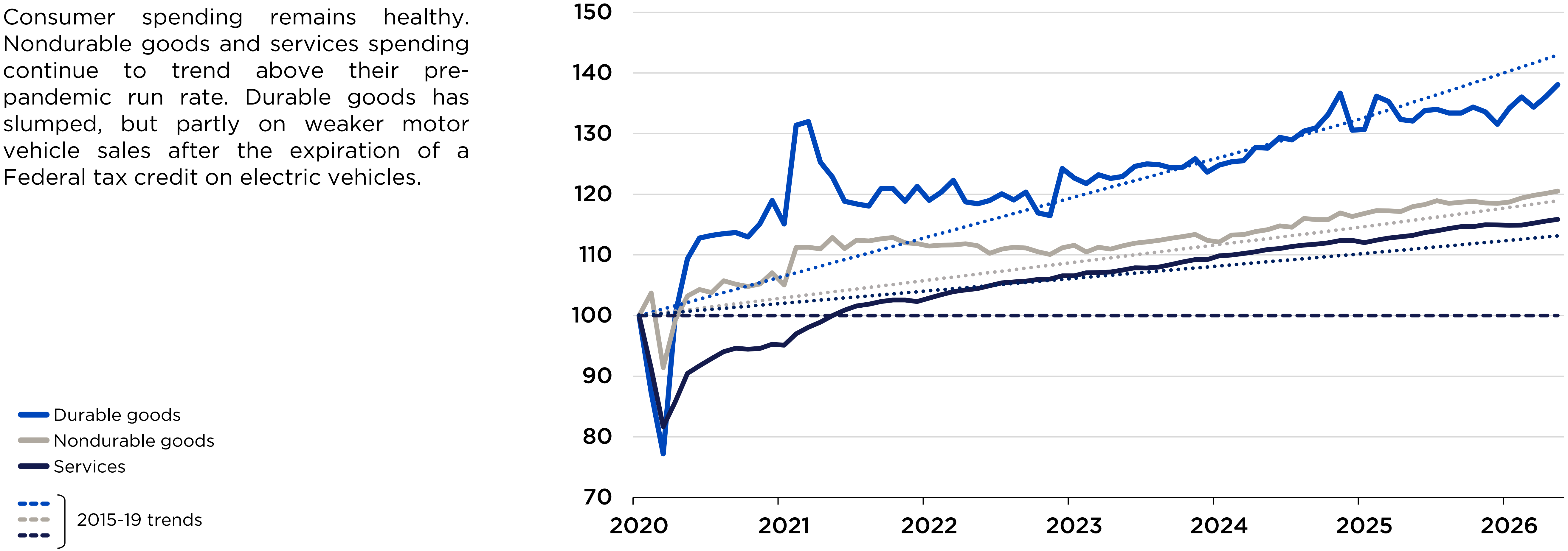
Source: Bureau of Economic Analysis, Haver Analytics, Nationwide Economics

Consumer spending trends remain positive

Consumer spending remains healthy. Nondurable goods and services spending continue to trend above their pre-pandemic run rate. Durable goods has slumped, but partly on weaker motor vehicle sales after the expiration of a Federal tax credit on electric vehicles.

Real consumer spending

Index, Feb. 2020 = 100



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

Consumers slow savings to finance spending

Consumers reduced their savings rate during the run-up in energy prices earlier this year. A positive wealth effect from the rising stock market and elevated housing values has likely made upper- and middle-income consumers comfortable deploying these cushions, while lower-income households have little other choice.

Personal savings relative to pre-Covid trend

Billions USD

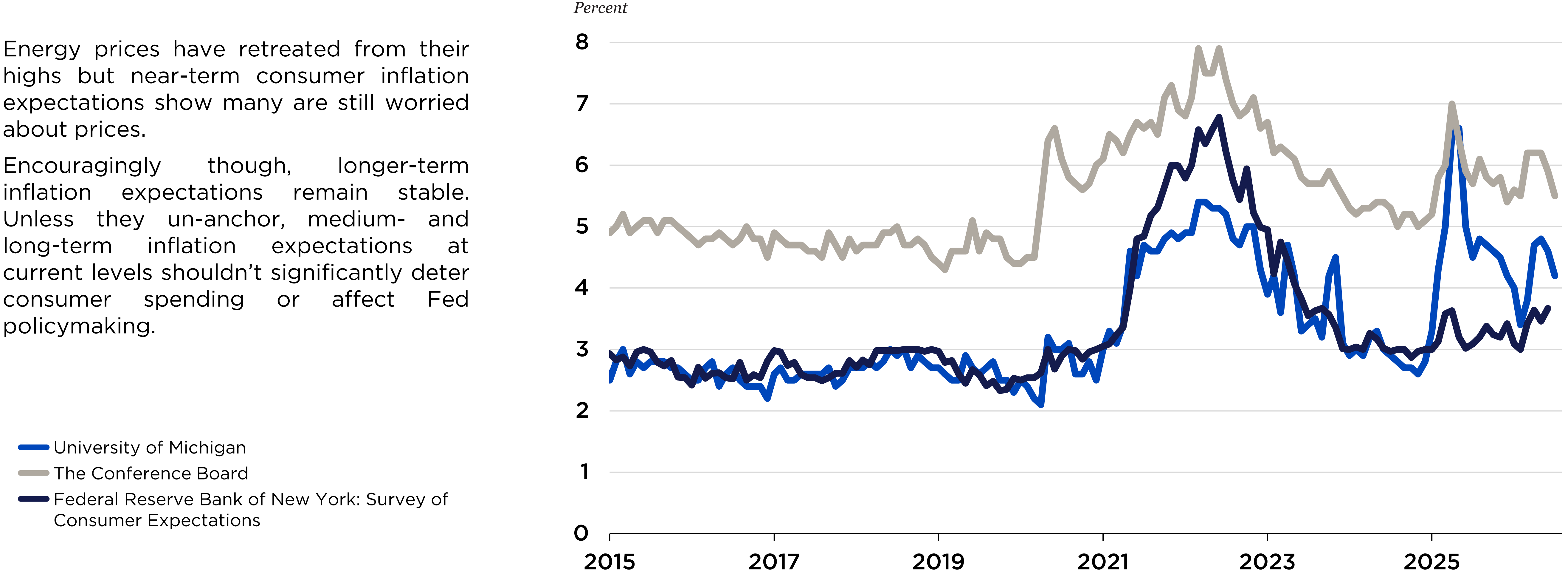
Source: BEA, Haver Analytics, Nationwide Economics

Near-term consumer inflation expectations remain elevated

Energy prices have retreated from their highs but near-term consumer inflation expectations show many are still worried about prices.

Encouragingly though, longer-term inflation expectations remain stable. Unless they un-anchor, medium- and long-term inflation expectations at current levels shouldn't significantly deter consumer spending or affect Fed policymaking.

Year-ahead inflation expectations



Source: University of Michigan, The Conference Board, Federal Reserve Bank of New York, Haver Analytics, Nationwide Economics

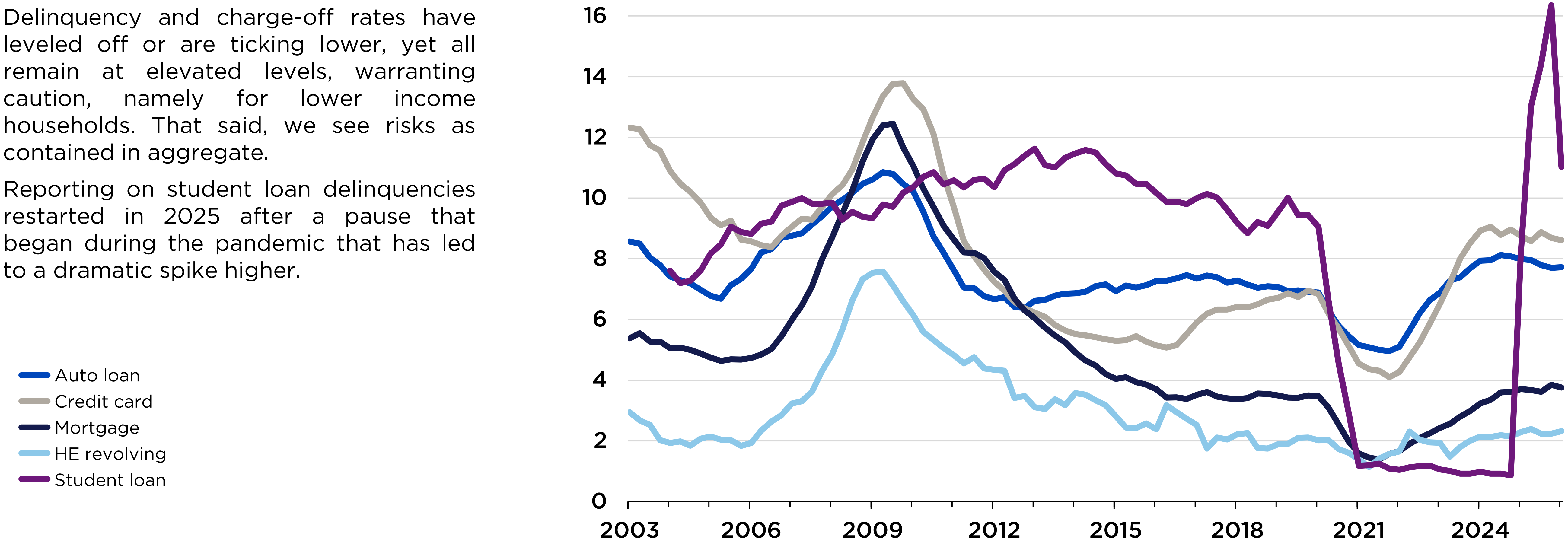
Rising delinquencies warrant selective caution

Delinquency and charge-off rates have leveled off or are ticking lower, yet all remain at elevated levels, warranting caution, namely for lower income households. That said, we see risks as contained in aggregate.

Reporting on student loan delinquencies restarted in 2025 after a pause that began during the pandemic that has led to a dramatic spike higher.

Transition into delinquency (30+) by loan type

Percent of balance



Source: New York Fed Consumer Credit Panel/Equifax, Nationwide Economics

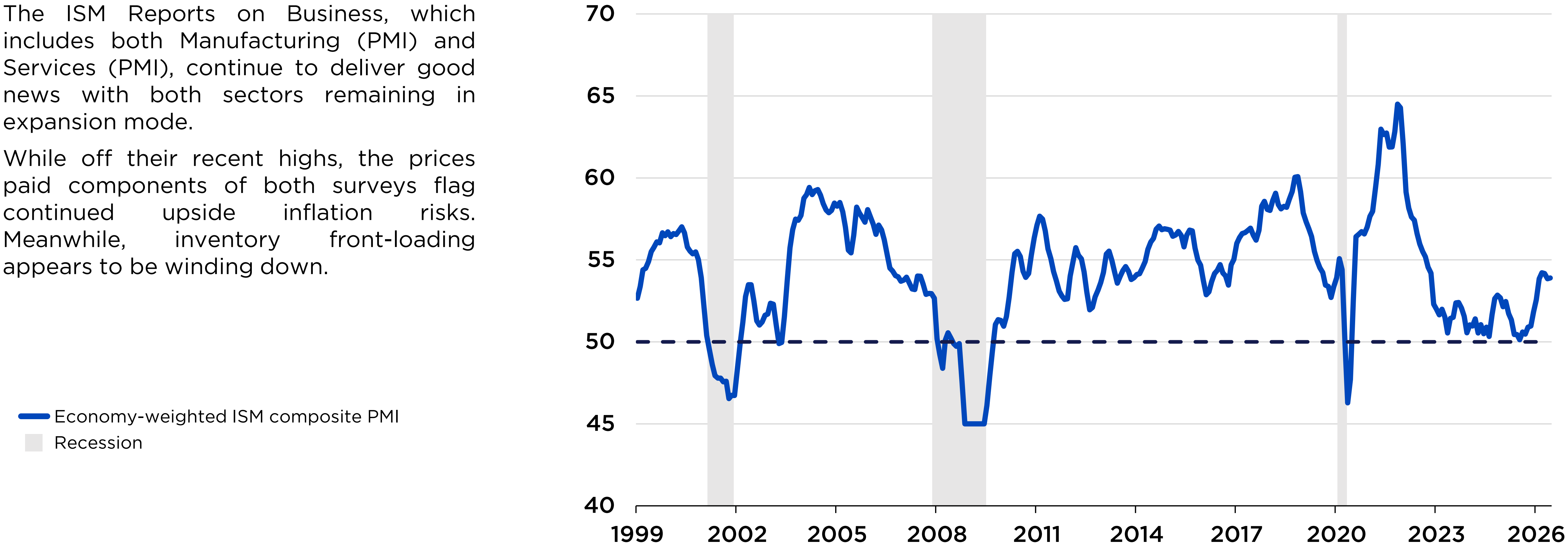
ISM readings point to a cyclical upturn

The ISM Reports on Business, which includes both Manufacturing (PMI) and Services (PMI), continue to deliver good news with both sectors remaining in expansion mode.

While off their recent highs, the prices paid components of both surveys flag continued upside inflation risks. Meanwhile, inventory front-loading appears to be winding down.

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

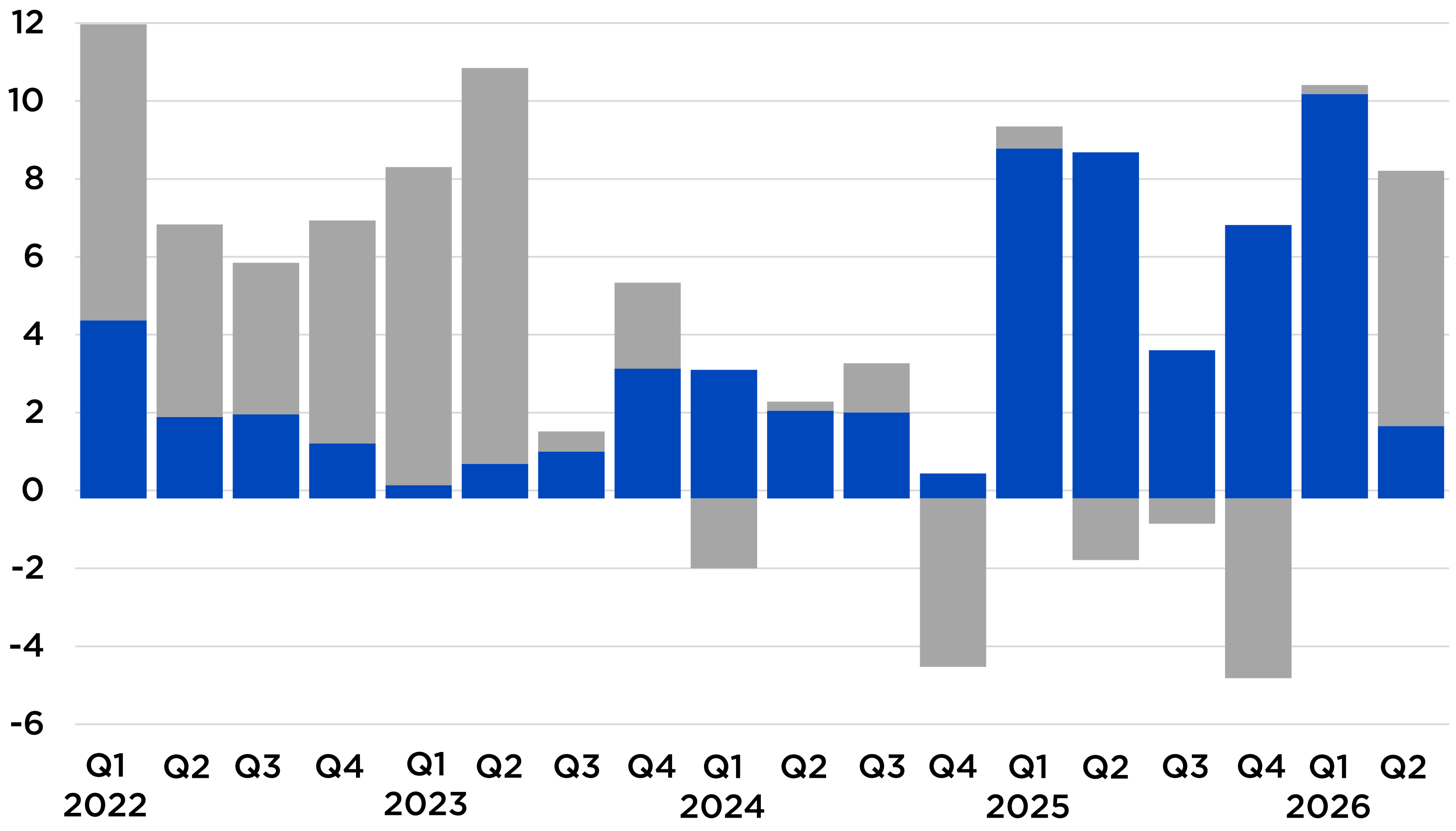
AI is propelling business investment

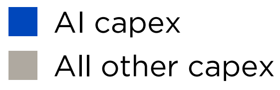
Granular GDP data shows that capital outlays on artificial intelligence has been a key driver of aggregate business investment's persistent growth in recent quarters.

More recent data shows that business investment growth is becoming more broad-based, which we see as a healthy development that will likely help sustain growth in capital outlays.

Contribution to nonresidential business fixed investment growth

Percentage points





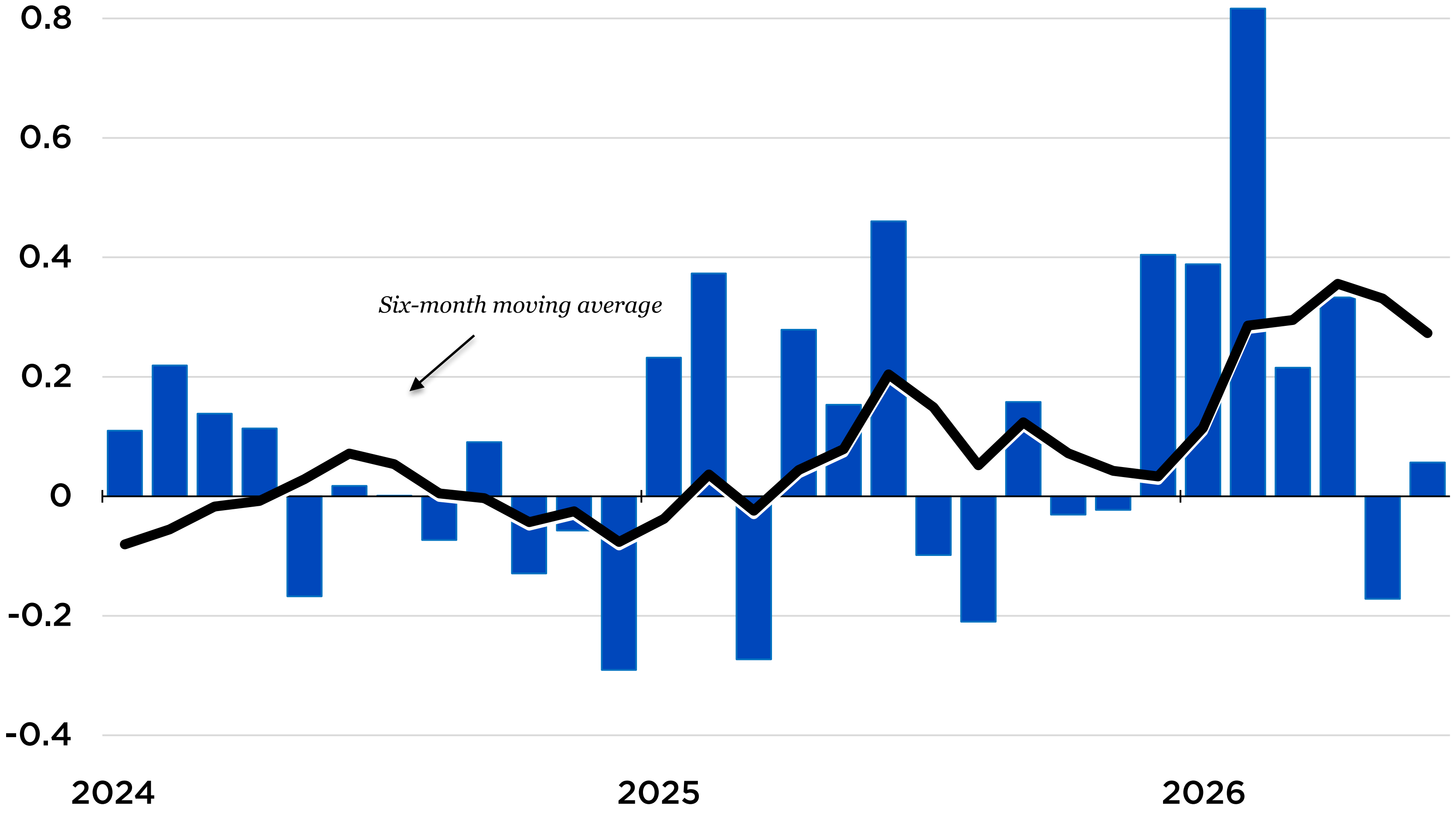
Source: BEA, Haver Analytics, Nationwide Economics

Brunt of the tariff shock is behind us

Tariffs exerted upward pressure on inflation, but the burden was manageable and now looks to be fading. While trade policy risks have not dissipated completely, tariffs should exert minimal upward pressure on inflation going forward. Further, last year's tariff-driven price increases should soon start dropping out of the inflation calculation.

Core PCE goods prices exposed to tariffs

Month-over-month percent change



Note: Includes new motor vehicles, motor vehicle parts, furnishings and durable household goods, household supplies, personal care products, jewelry and watches, clothing, audio and video equipment, sporting goods, toys, and pharmaceutical goods.

Source: BEA, Haver Analytics, Nationwide Economics

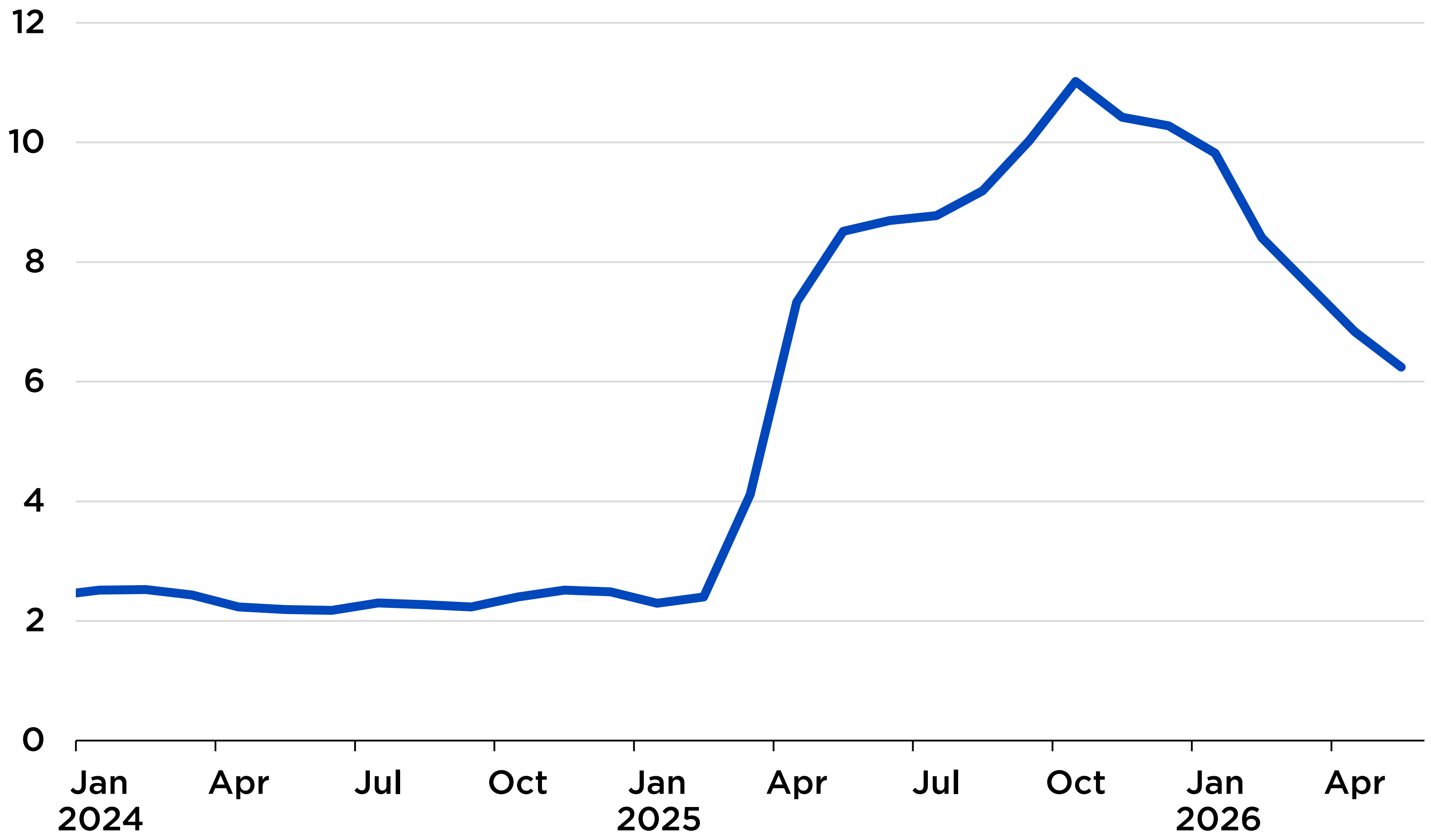
Tariff risks are on the rise again

Tariff revenue and import data show that the effective tariff rate has declined since peaking in October 2025.

The administration is now looking to impose new tariffs that will essentially replace the IEEPA tariffs struck down by the Supreme Court earlier this year. This means tariffs and trade policy uncertainty risk boosting inflation and diminishing economic growth, albeit marginally, over the coming months.

Effective tariff rate based on tariff revenue and import data

Percent

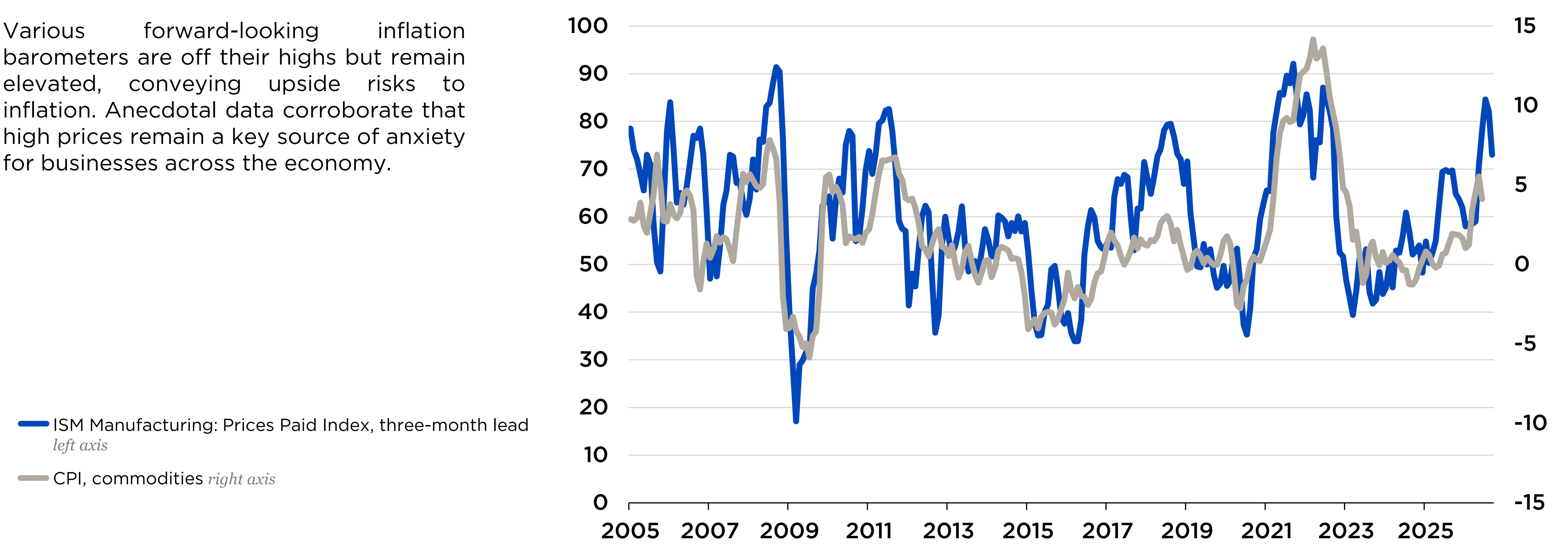


Source: Census Bureau, Haver Analytics, Nationwide Economics

Surveys flag continued inflation risks

Various forward-looking inflation barometers are off their highs but remain elevated, conveying upside risks to inflation. Anecdotal data corroborate that high prices remain a key source of anxiety for businesses across the economy.

ISM Manufacturing and consumer prices



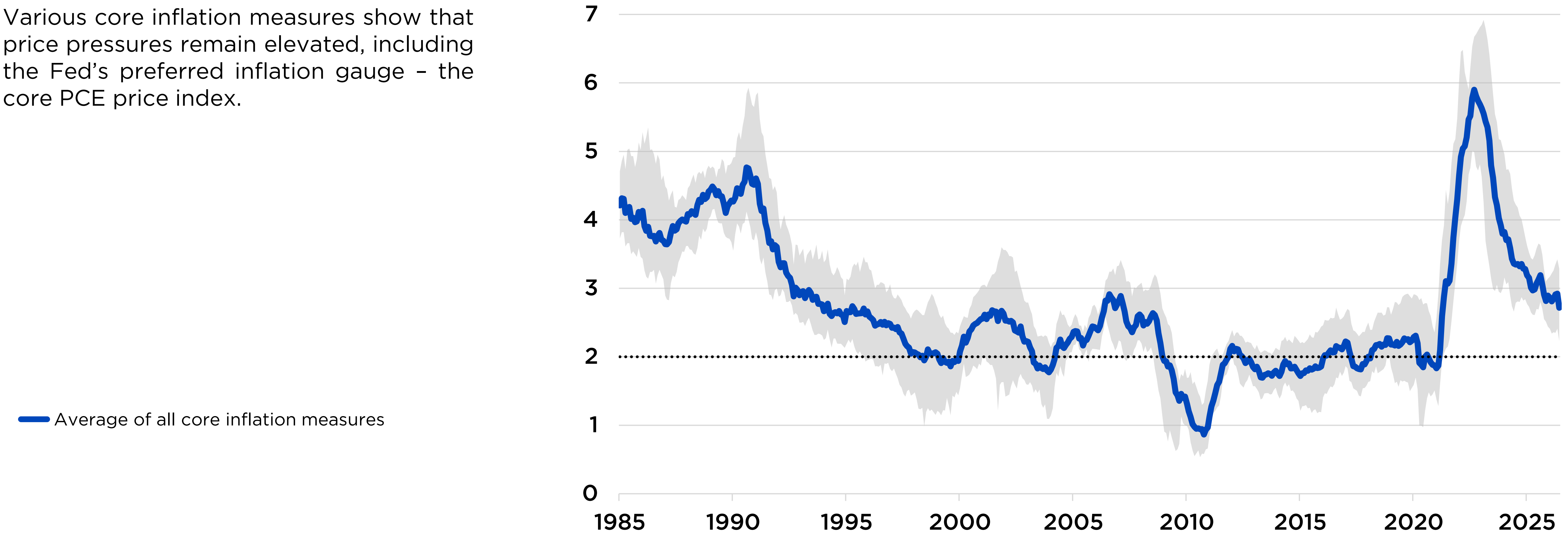
Note: October 2025 CPI datapoint is an average of September and November 2025
Source: Institute for Supply Management, Haver Analytics, Nationwide Economics

Core inflation remains elevated

Various core inflation measures show that price pressures remain elevated, including the Fed's preferred inflation gauge – the core PCE price index.

Core inflation measures

Percent, annualized inflation rate



Note: Gray area shows range of core y/y inflation readings and blue line shows the average. Includes the FRB Cleveland median CPI, FRB Dallas trimmed-mean CPI, FRBNY median multivariate core trend inflation, FRB Atlanta core sticky CPI, Core CPI inflation, and core PCE inflation. FRBNY data is the m/m annualized inflation rate.

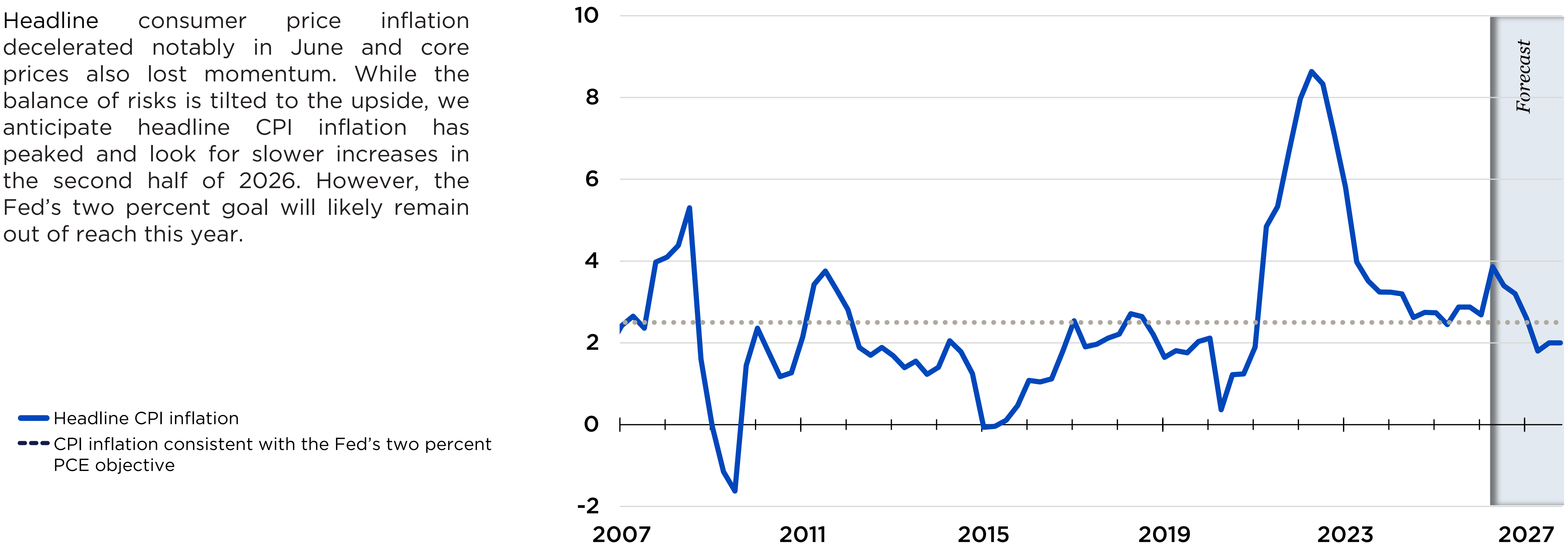
Source: FRB Cleveland, FRB Dallas, FRB Atlanta, FRBNY, BLS, BEA, Haver Analytics, Nationwide Economics

Inflation has likely peaked

Headline consumer price inflation decelerated notably in June and core prices also lost momentum. While the balance of risks is tilted to the upside, we anticipate headline CPI inflation has peaked and look for slower increases in the second half of 2026. However, the Fed's two percent goal will likely remain out of reach this year.

Headline CPI inflation

Year-over-year percent change



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

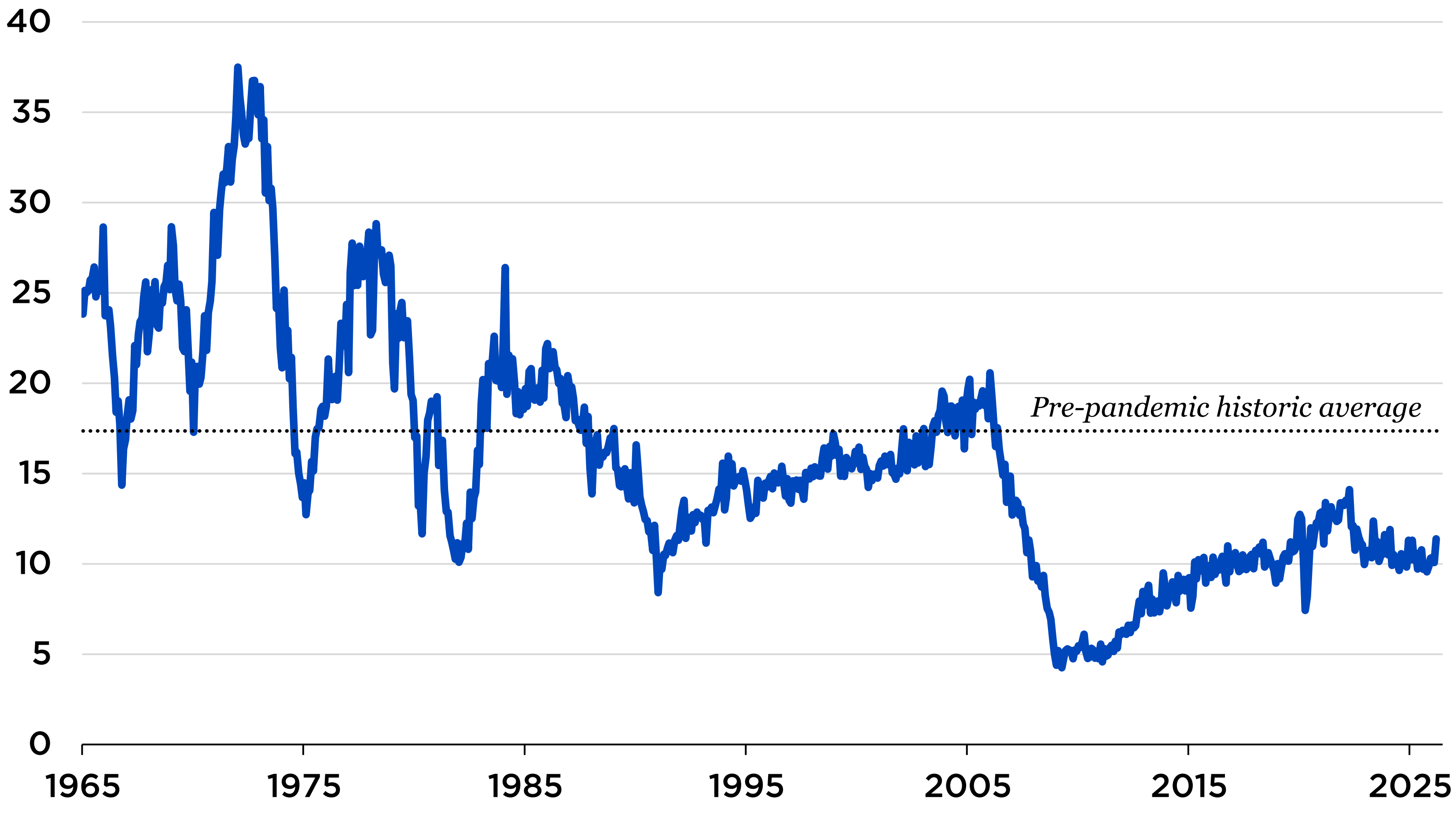
Housing construction activity likely stays in the doldrums

Homebuilding remains lackluster, with single-family construction weak and housing starts running well below their long-term average, in line with subdued homebuilder sentiment. Multifamily construction has been comparatively solid, but not strong enough to offset the prolonged shortfall in new home supply.

We do not expect housing construction to pick up substantially in the coming months.

Housing starts versus household growth

Housing starts per 1,000 households



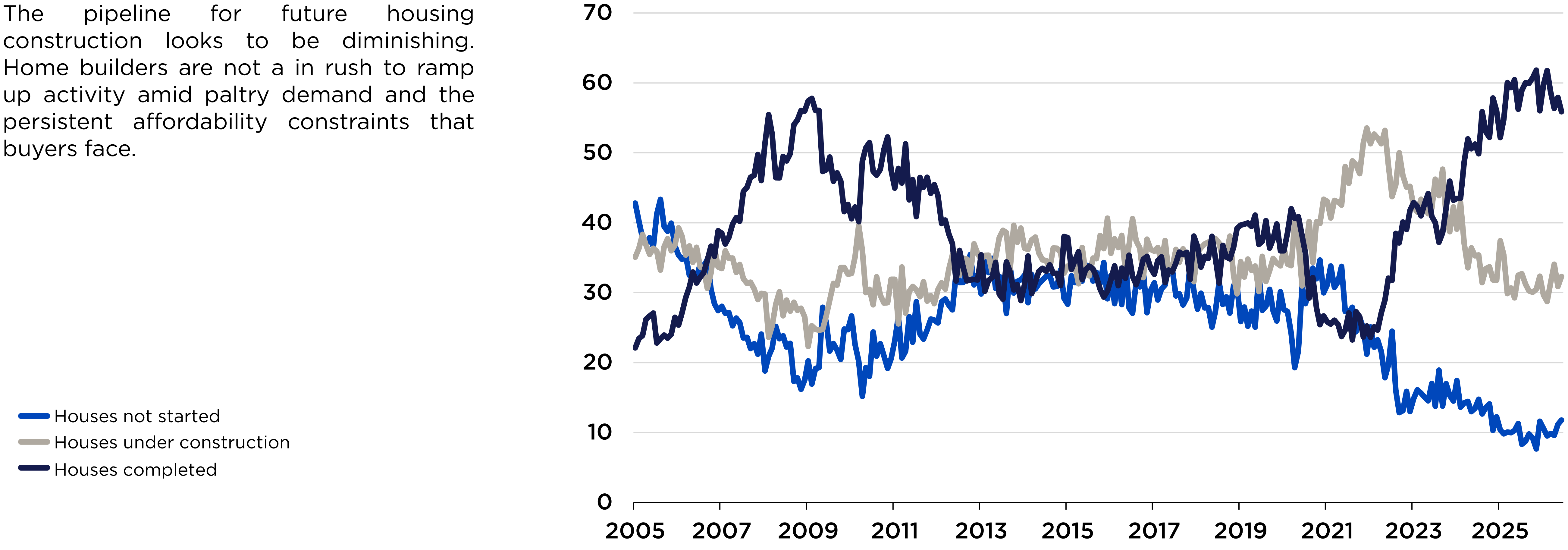
Source: Census Bureau, Nationwide Economics calculations

Pipeline for new home construction is drying up

The pipeline for future housing construction looks to be diminishing. Home builders are not a in rush to ramp up activity amid paltry demand and the persistent affordability constraints that buyers face.

New home sales by stage of construction

Percent of total



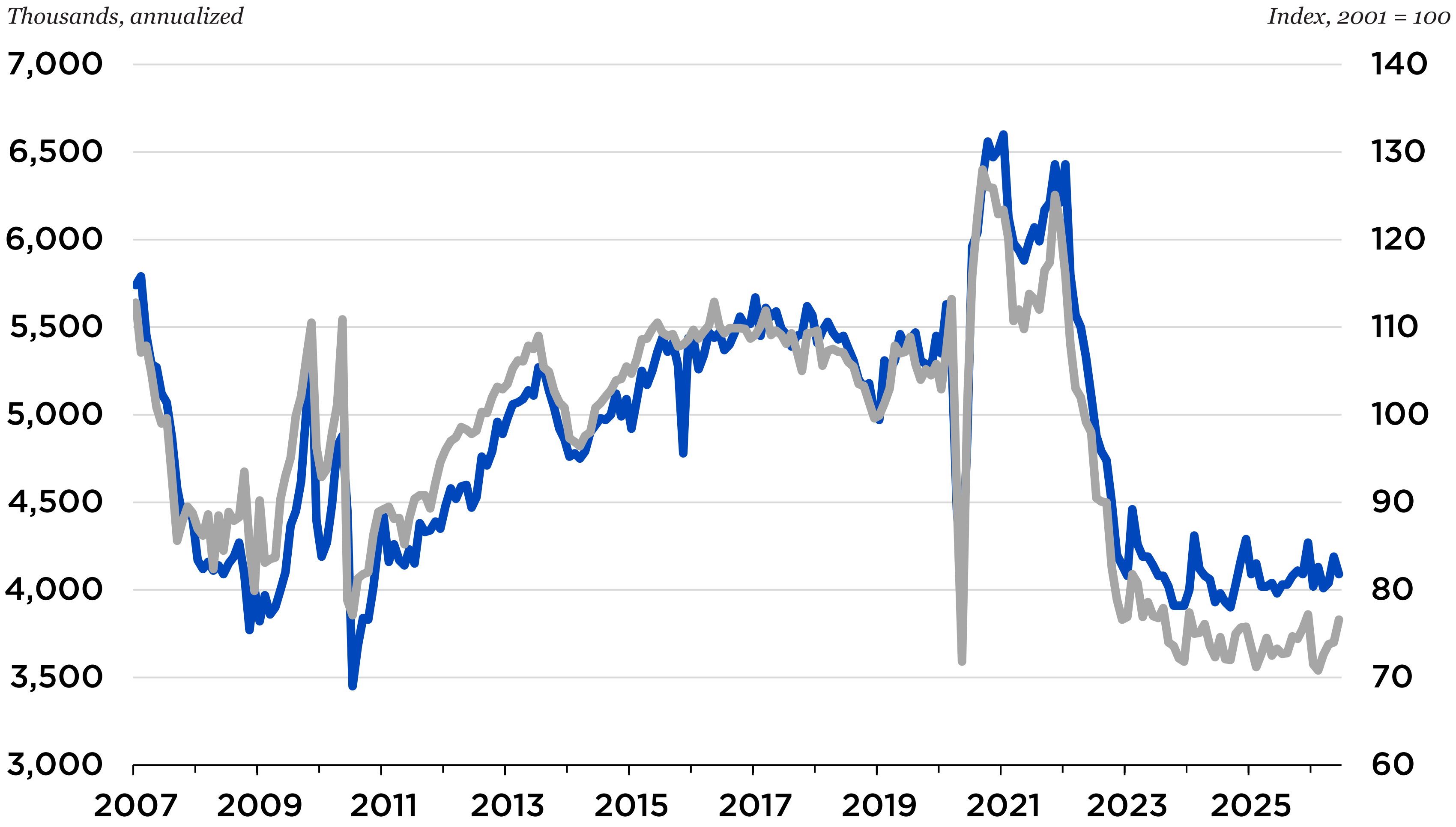
Source: Census Bureau, Haver Analytics, Nationwide Economics

Home sales remain subdued amid elevated mortgage rates

Demand for homes stayed lackluster at the end of Q2. Existing home sales were weak over the entirety of H1 2026 and forward-looking data do not signal an acceleration ahead.

Builders have been lowering prices and offering incentives to lure in buyers for new homes, but many still aren't biting amid steadfast affordability challenges.

Existing and pending home sales



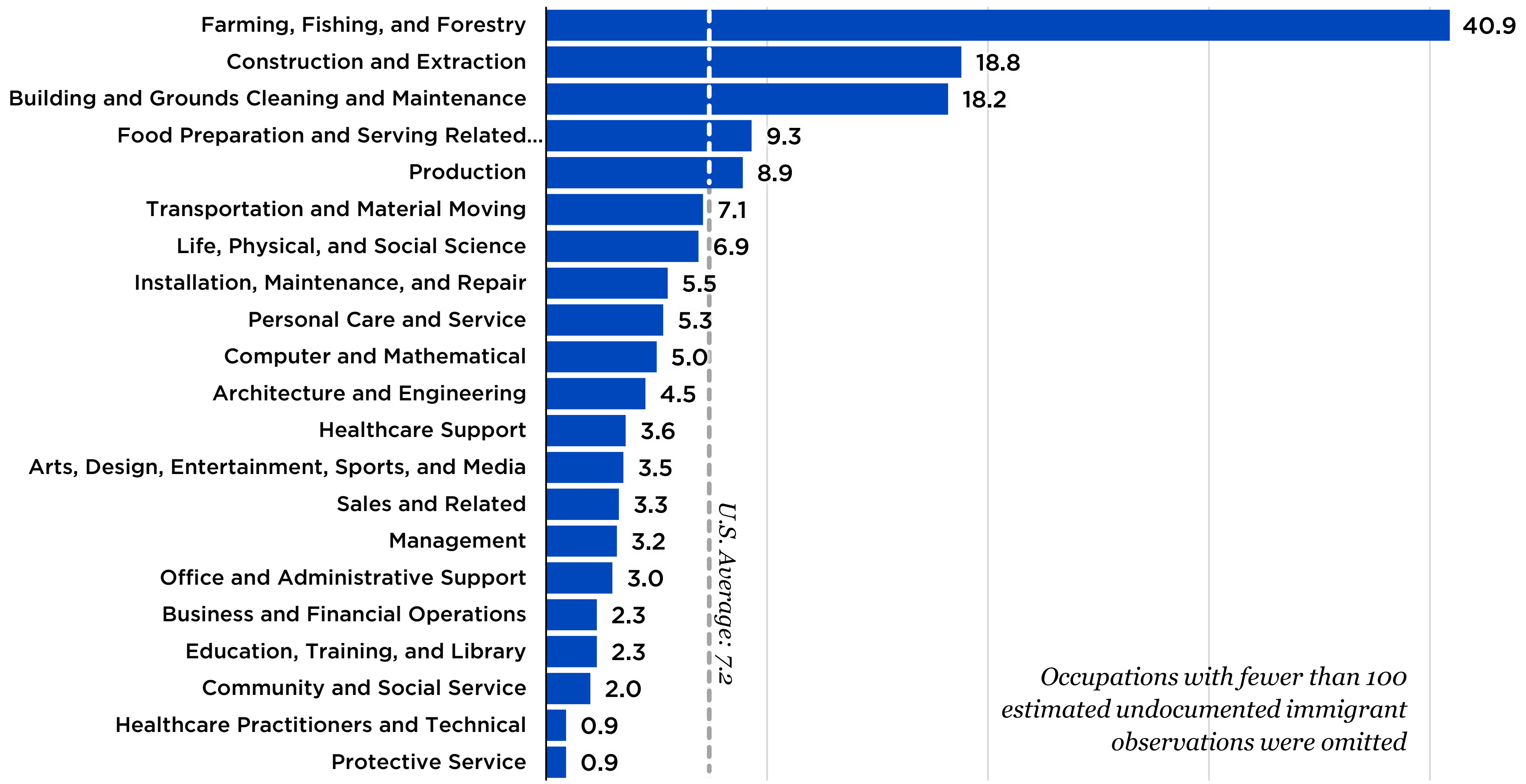
Source: NAR, Haver Analytics, Nationwide Economics

Immigration clampdown has reduced labor supply

The recent increase in border policy enforcement has decreased undocumented immigration and reduced the pool of available labor – most notably in the agriculture and construction sectors.

Estimated undocumented immigrant employment share by occupation

Percent



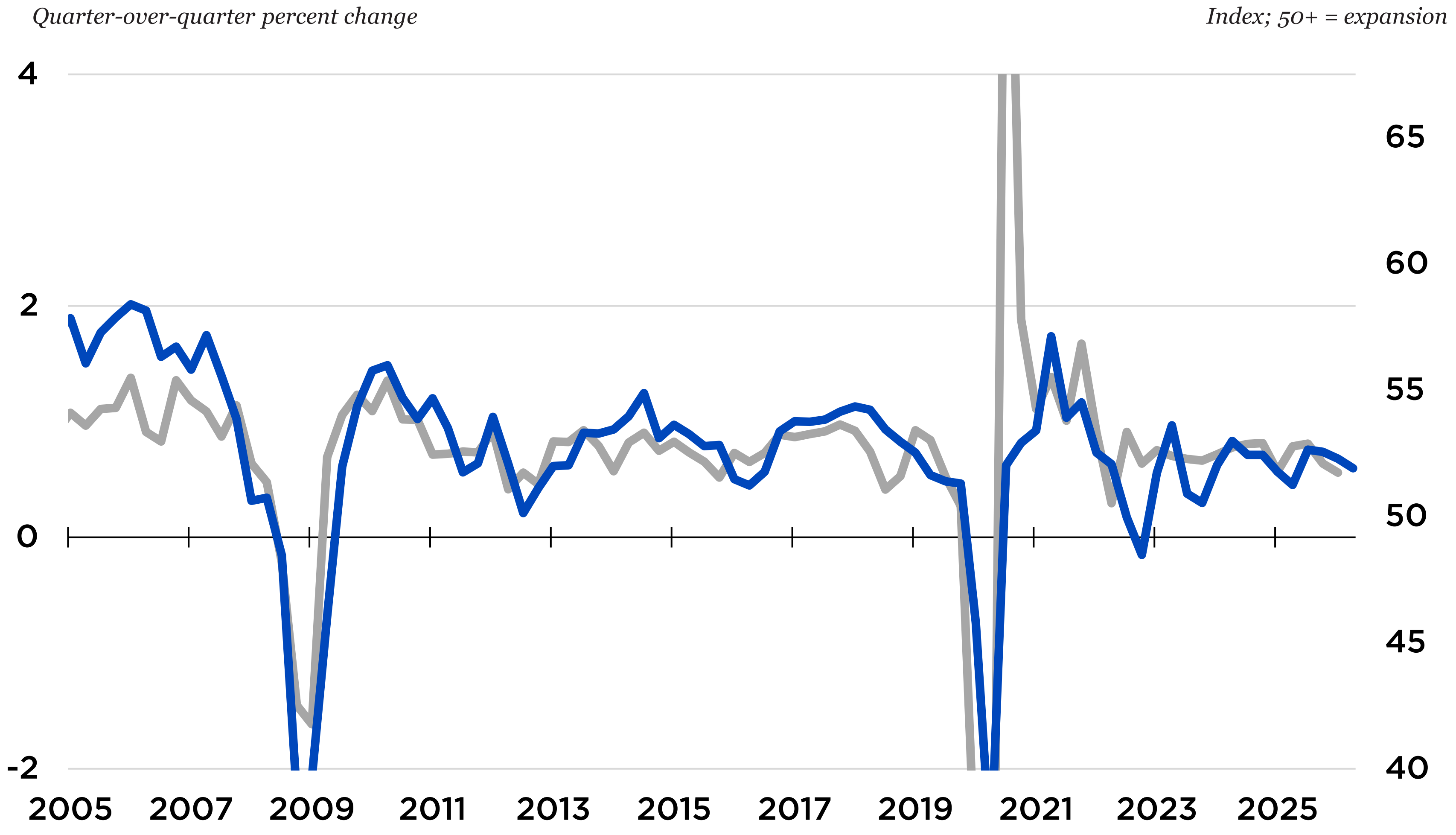
Source: The Burning Glass Institute; authors' calculations using CBO, 'The Demographic Outlook: 2024 to 2054'; Baker, B. and Warren, R., Apr. 2024, U.S. Dept. of Homeland Security: Office of Homeland Security Statistics, 'Estimates of the Unauthorized Immigrant Population Residing in the United States: Jan. 2018 – Jan. 2022'; American Community Survey, U.S. Census Bureau, 2023 1-yr estimates

Global economy is rebounding from the energy shock

Various surveys, including the widely regarded PMIs, show the global economy is now recovering from the brunt of the energy shock caused by the Iran conflict.

While the recent re-escalation in tensions between the U.S. and Iran and renewed rise in oil prices threaten to sap growth, we anticipate the global economy will remain in expansion mode.

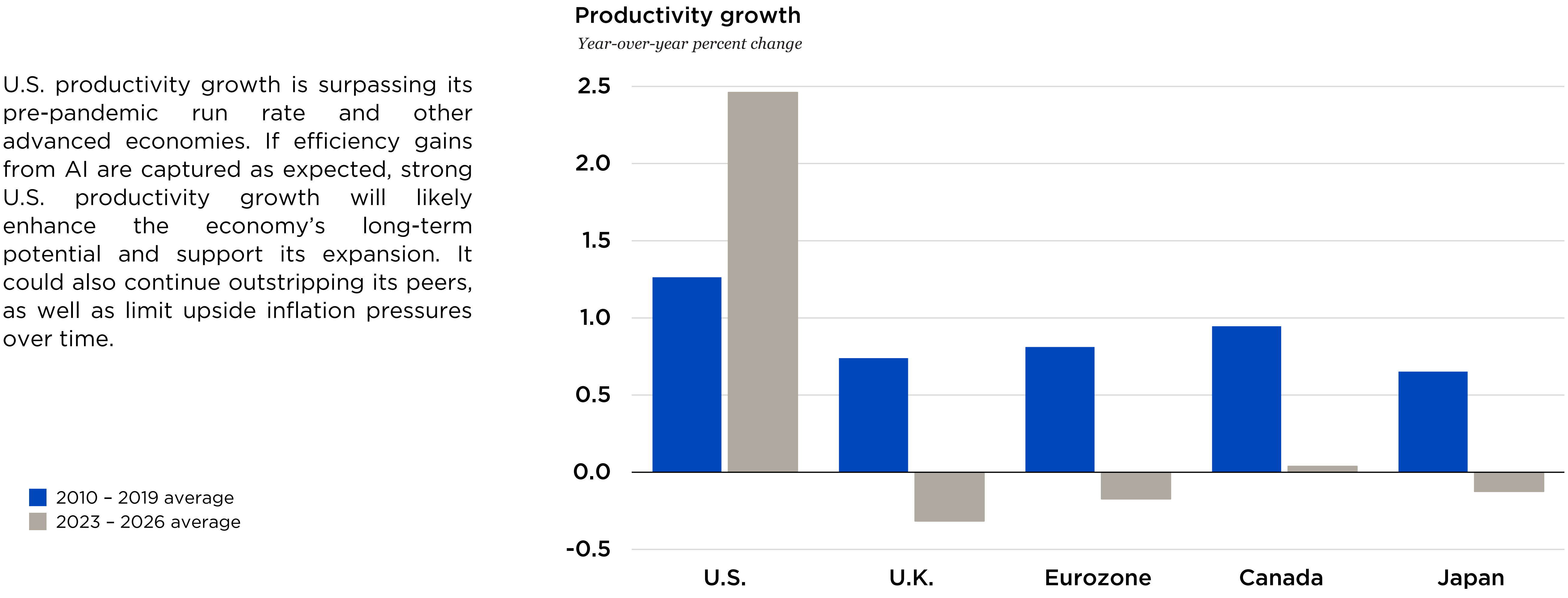
Global all-industry PMI and GDP growth



Source: JPM, Haver Analytics, Nationwide Economics

U.S. productivity growth outshines its peers

U.S. productivity growth is surpassing its pre-pandemic run rate and other advanced economies. If efficiency gains from AI are captured as expected, strong U.S. productivity growth will likely enhance the economy's long-term potential and support its expansion. It could also continue outstripping its peers, as well as limit upside inflation pressures over time.



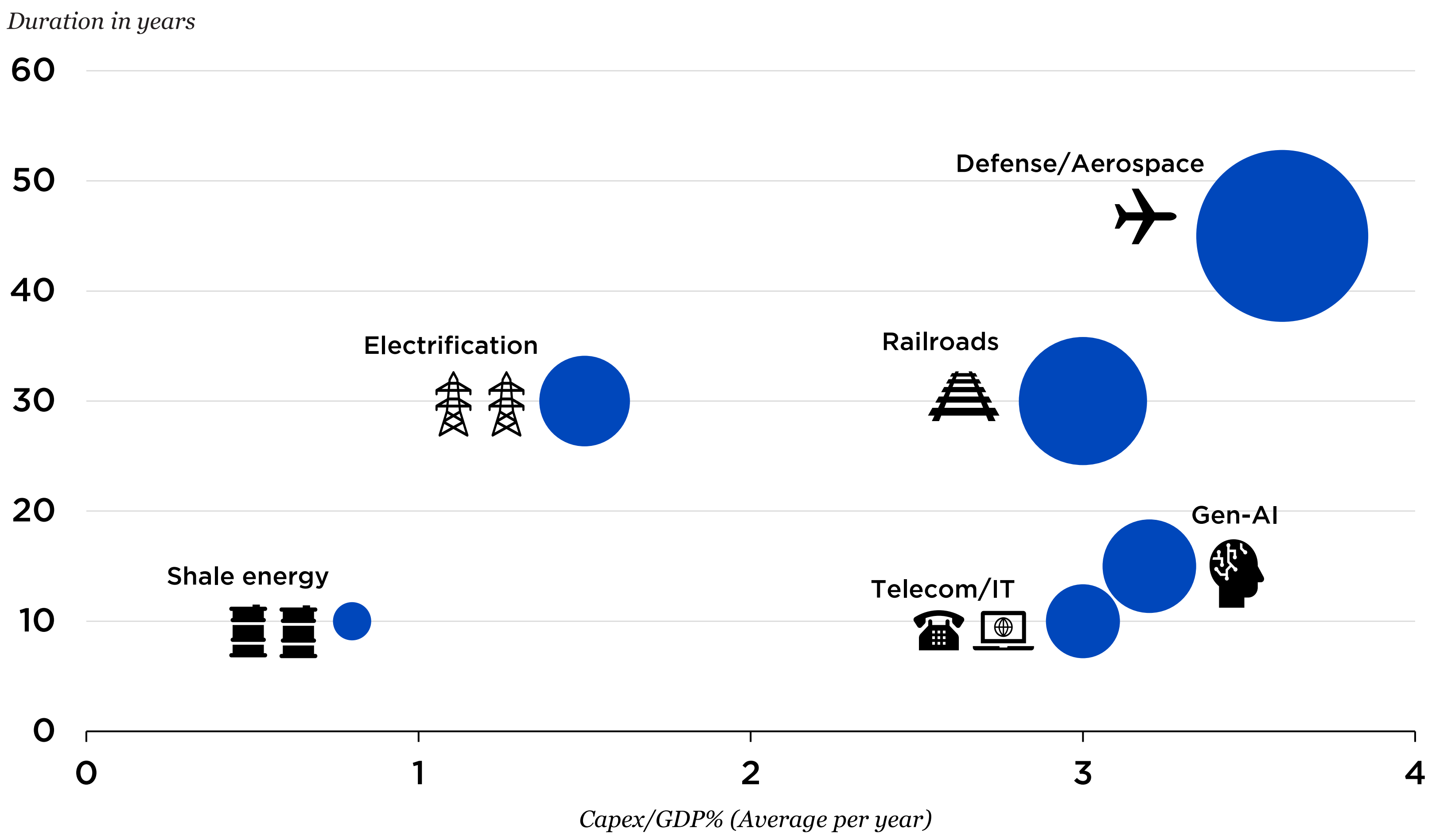
Note: *Output per person*
Source: *Bureau of Economic Analysis, Bureau of Labor Statistics, Office for National Statistics, Statistics Canada, Cabinet Office/Ministry of Health, Labour & Welfare, European Central Bank, Haver Analytics, Nationwide Economics*

Historical super-cycles show that investment alone is not sufficient

The central lesson from historical super-cycles is that long-term economic gains are driven not by investment itself, but by the productivity improvements that investment enables.

Capex during U.S. investment super-cycles

Size represents total capex



Source: BEA, Haver Analytics, Nationwide Economics

Benefits depend on diffusion and productivity gains of new technologies

The ultimate impact of AI could depend less on the amount of data center and chip investment, and more on whether AI enables economy-wide organizational transformation and productivity gains.

Investment Super-cycles' impact on the U.S. economy

2	Strong positive
1	Moderate positive
0	Insignificant
-1	Moderate negative

Disinflation >0

Inflation <0

		Cycle type		Economic impact		
		Capital deepening -or- Gen. purpose technology	Supply side technology -or- Demand side investment	GDP	Labor Productivity	Inflation
Railroads	Connected regional markets into national economy Reduced transportation and distribution costs	Capital deepening	Supply side technology	2	1	2
Electrification	Electrification-enabled factory redesign, mass production, and consumer durables Complemented by automobile and road expansion	General purpose technology	Supply side technology	2	2	2
Defense/ Aerospace	Defense procurement funded aerospace, semiconductors, computing and communications technologies	General purpose technology	Demand side investment	1	1	-1
Telecom/IT	Connected firms, consumers, and global supply chains through computers, software, and networks	General purpose technology	Supply side technology	2	2	2
Shale energy	Increased domestic energy supply, lowered energy costs through technological innovation in drilling and fracking	Capital deepening	Supply side technology	1	0	1
Gen-AI*	Combines AI, semiconductors, cloud infrastructure, power generation, and grid investment Knowledge-intensive technology cycle	General purpose technology	Supply side technology	2	2	Short term -1 Long term 2

Note: Gen-AI cycle is still unfolding; assessment assumes that the capital investment will be complemented by organization changes, leading to productivity gains that spread throughout the economy

Source: Haver Analytics, BEA Fixed Assets Accounts Table, National Defense Budget Estimates (Green Book FY2025), Nationwide Economics

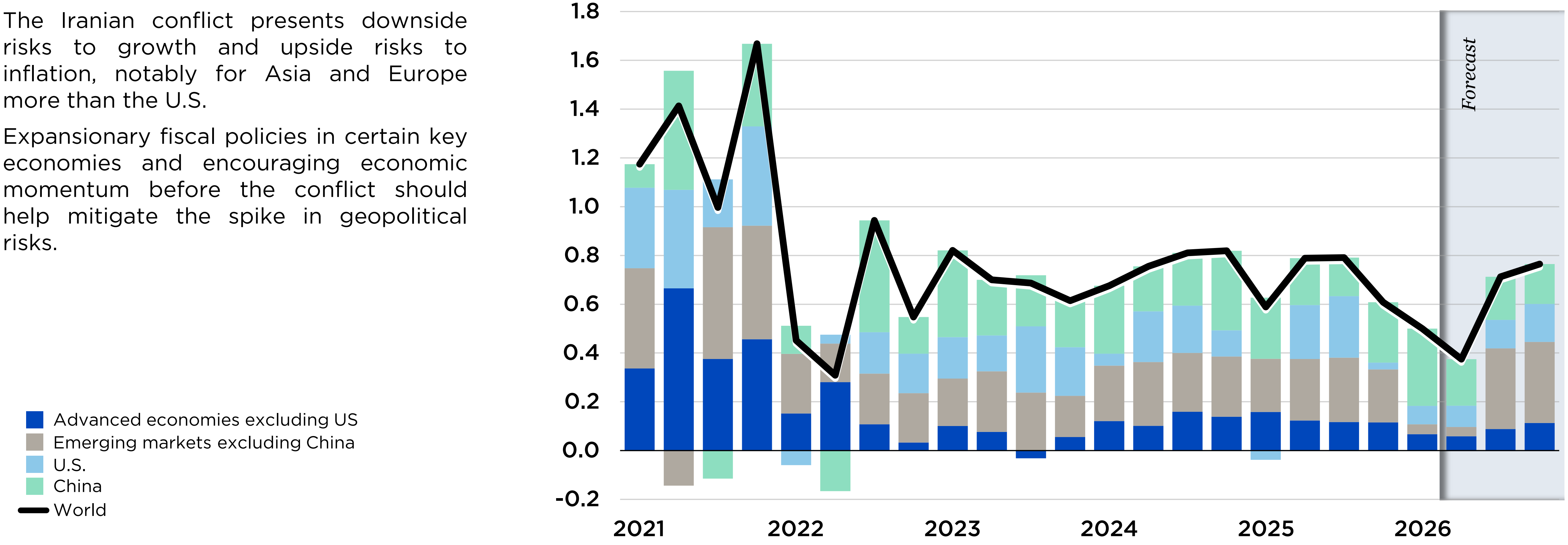
Global economy faces downside risks

The Iranian conflict presents downside risks to growth and upside risks to inflation, notably for Asia and Europe more than the U.S.

Expansionary fiscal policies in certain key economies and encouraging economic momentum before the conflict should help mitigate the spike in geopolitical risks.

Contribution to world GDP growth

Percentage point contribution to quarterly growth



Source: Oxford Economics, Haver Analytics, Nationwide Economics

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NFIB Small Business Optimism Index: A monthly indicator of the state and outlook of the small business sector in the U.S.. It is based on a survey of about 620 members of the National Federation of Independent Business (NFIB). The index is a composite of ten seasonally adjusted components that measure the expectations and outlook of small business owners regarding the economy, sales, employment, and other business-related factors.

ISM Manufacturing Purchasing Managers' Index (PMI) is a monthly economic indicator that measures the level of business activity in the U.S. manufacturing sector and is calculated from five major components: new orders, production, employment, supplier deliveries, and inventories.

Consumer Price Index (CPI): The CPI measures the average change in price over time of a market basket of consumer goods and services. The market basket includes everything from food items to automobiles to rent.

ISM Report on Business: Includes both Manufacturing (PMI) and Services (PMI), which are composite indexes that measure economic activity in the manufacturing and non-manufacturing sectors, respectively, based on surveys of purchasing managers.

OFR Financial Stress Index (OFR FSI): The Index is a daily market-based snapshot of stress in global financial markets. It is constructed from 33 financial market variables, such as yield spreads, valuation measures, and interest rates. The OFR FSI is positive when stress levels are above average, and negative when stress levels are below average. The OFR FSI incorporates five categories of indicators: credit, equity valuation, funding, safe assets and volatility. The FSI shows stress contributions by three regions: United States, other advanced economies, and emerging markets.

U.S. Economic Policy Uncertainty Index: The Index quantifies uncertainty about economic policy by analyzing newspaper articles for terms related to the economy, uncertainty, and policy actions such as legislation, regulation, or federal decisions. It is updated daily and monthly, with data available from 1985 to the present. The index is normalized to allow comparison over time, with a long-term average around 100.

Federal Reserve Bank of NY's Global Supply Chain Pressure Index (GSCPI): The Index is a composite metric developed to measure global supply chain conditions by integrating transportation cost data and manufacturing indicators. It acts as a comprehensive, monthly barometer of constraints, spanning back to 1997, to identify if global supply chains are under pressure or easing.

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