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BARRON'S 2016 BEST FUND FAMILIES

Nationwide Retirement Institute®

Capital markets

Nationwide Retirement Institute®

Nationwide Market Insights℠

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

1st Quarter 2017

Data as of December 31, 2016

Nationwide Fund Advisors ranked 14th on Barron's 2016 Best Fund Families (February 2016)

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Introducing *Nationwide Market Insights*℠

One of those challenges comes in understanding the market 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 and analysts. 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

Most financial markets turned in strong rallies in the immediate aftermath of the presidential election. Domestic equity prices jumped to new records while spreads tightened, commodities rose, and Treasury yields shot up to two-year highs. The Federal Reserve hiked benchmark interest rates for the first time in a year and the second time in this cycle.

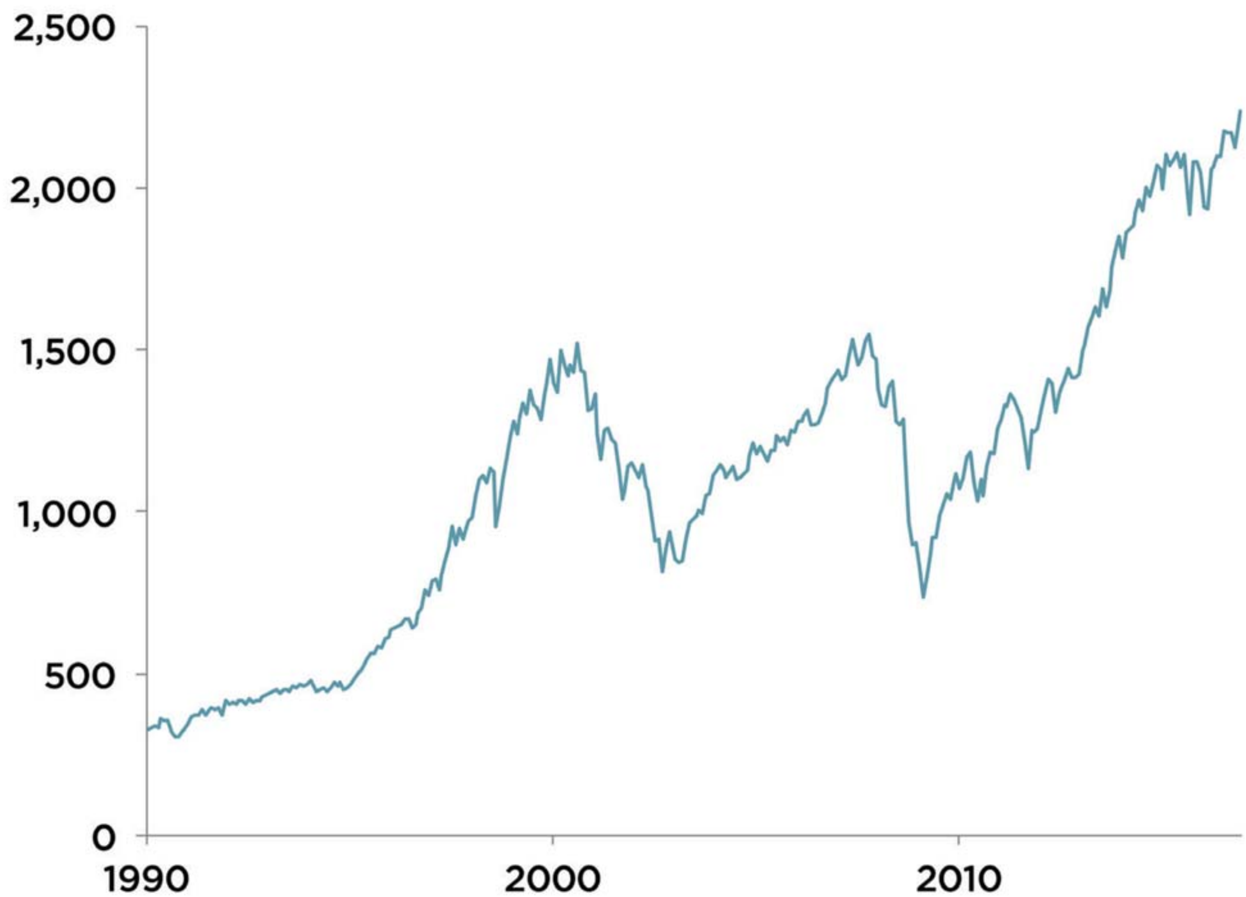
The economy remained in an uptrend into the end of 2016, as the labor market continued to tighten and consumer spending advanced at a healthy clip. There were also encouraging, if tentative, signs that capital spending was at least beginning to stabilize after a long period of dormancy. The current expansion will become the third longest in history this quarter, but it still looks to be far from an end. The relatively modest pace of growth to this point has kept major imbalances from forming and monetary policy, while tightening, remains supportive. There will continue to be ebb and flow in both the economy and financial markets, but, for now, the trajectory should continue to be to the upside.

Financial markets

Highlights

Stocks continue to trend higher

S&P 500
Index



The S&P 500 rose again in the final three months of the year and has now moved higher for five consecutive quarters.

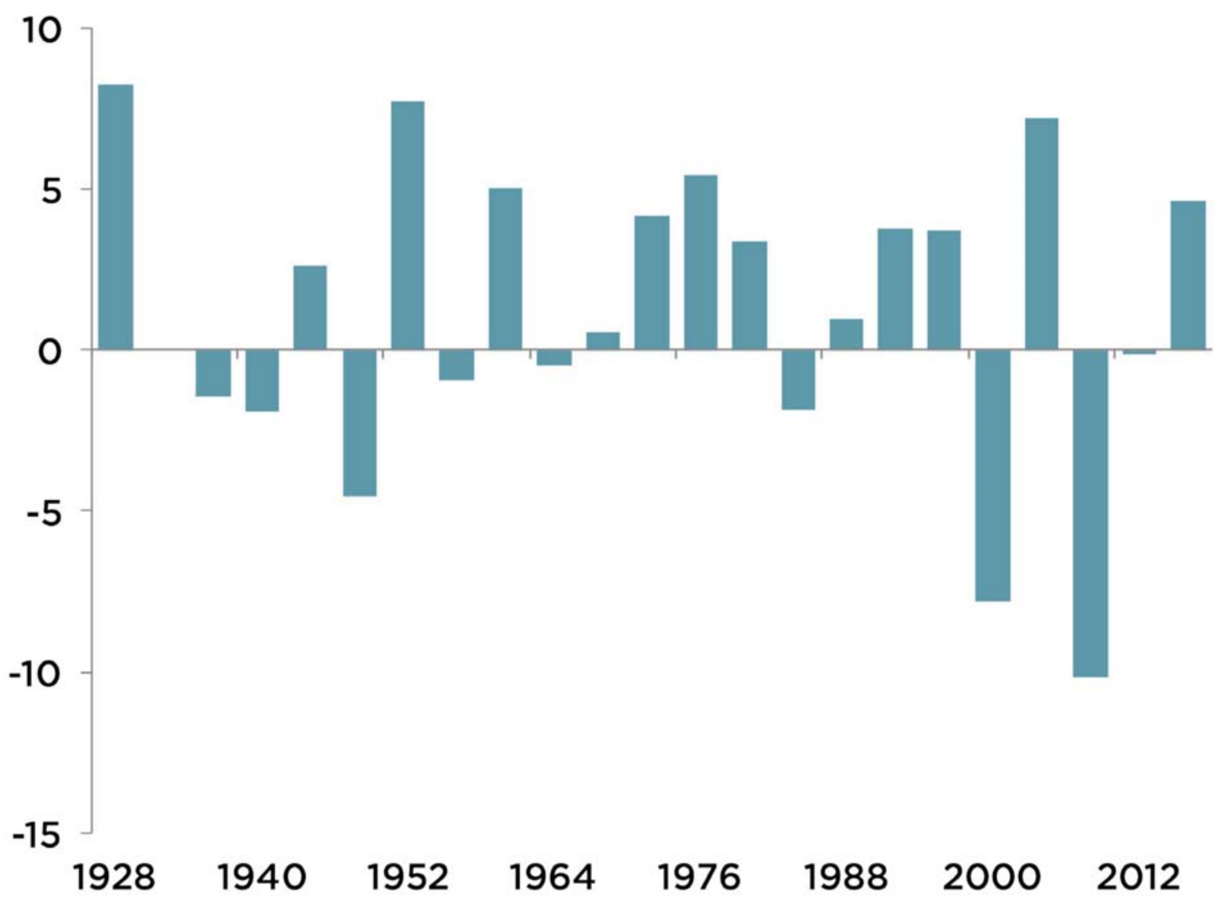
The index also closed out its fourth double-digit annual gain in the last five years.

Source: Standard & Poor's

Post-election rally among the strongest on record

Changes in the S&P 500 between Election Day and the end of the year

Percent



The S&P 500 jumped 4.6% between Election Day and the end of the year, an increase eclipsed after only five other elections.

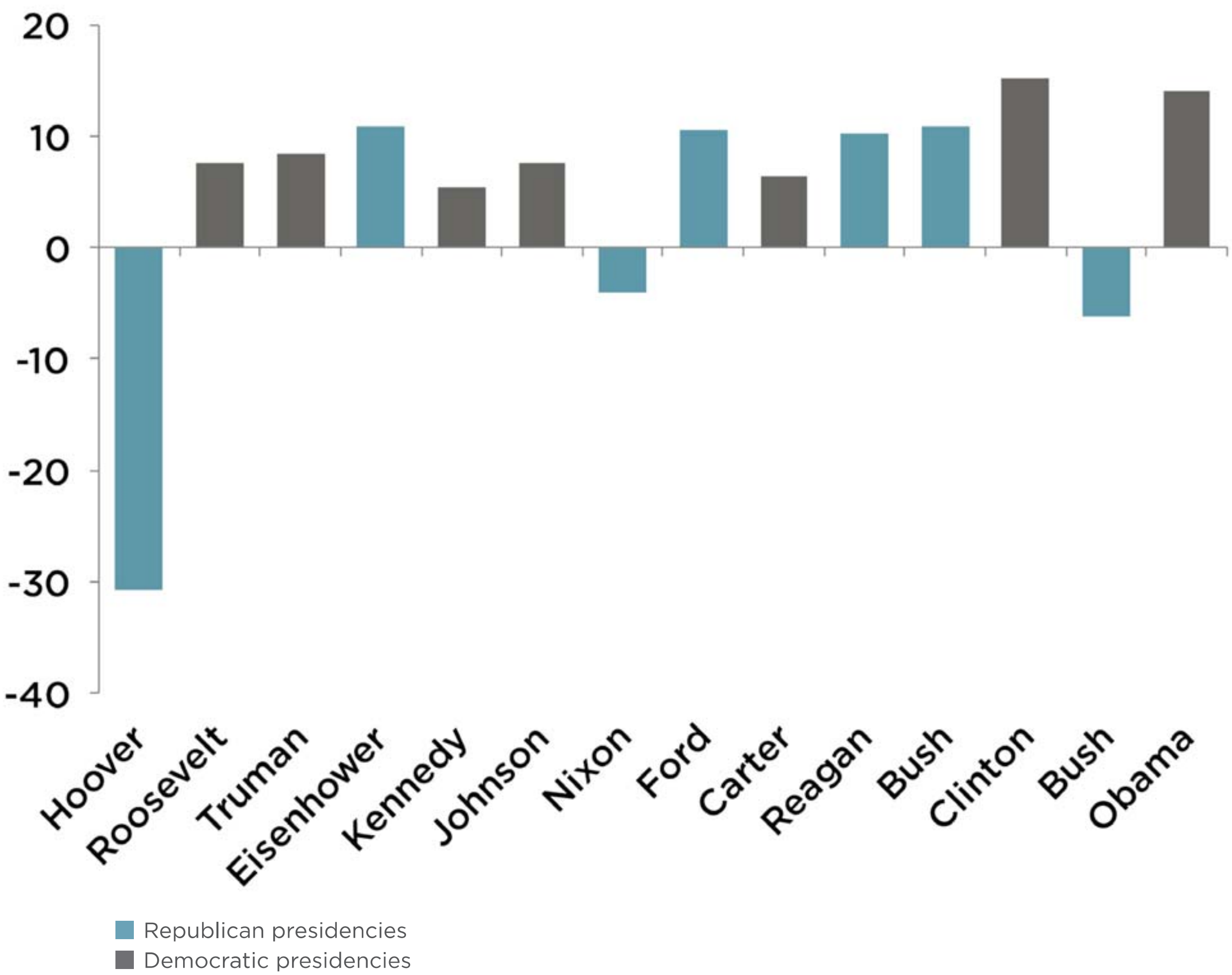
This was in part a relief rally after a long and rancorous campaign, but it also reflected some optimism that the new administration's policies will enhance growth.

Source: Bloomberg

Party in power has little bearing on market performance

Annualized changes in the S&P 500 by presidency

Percent



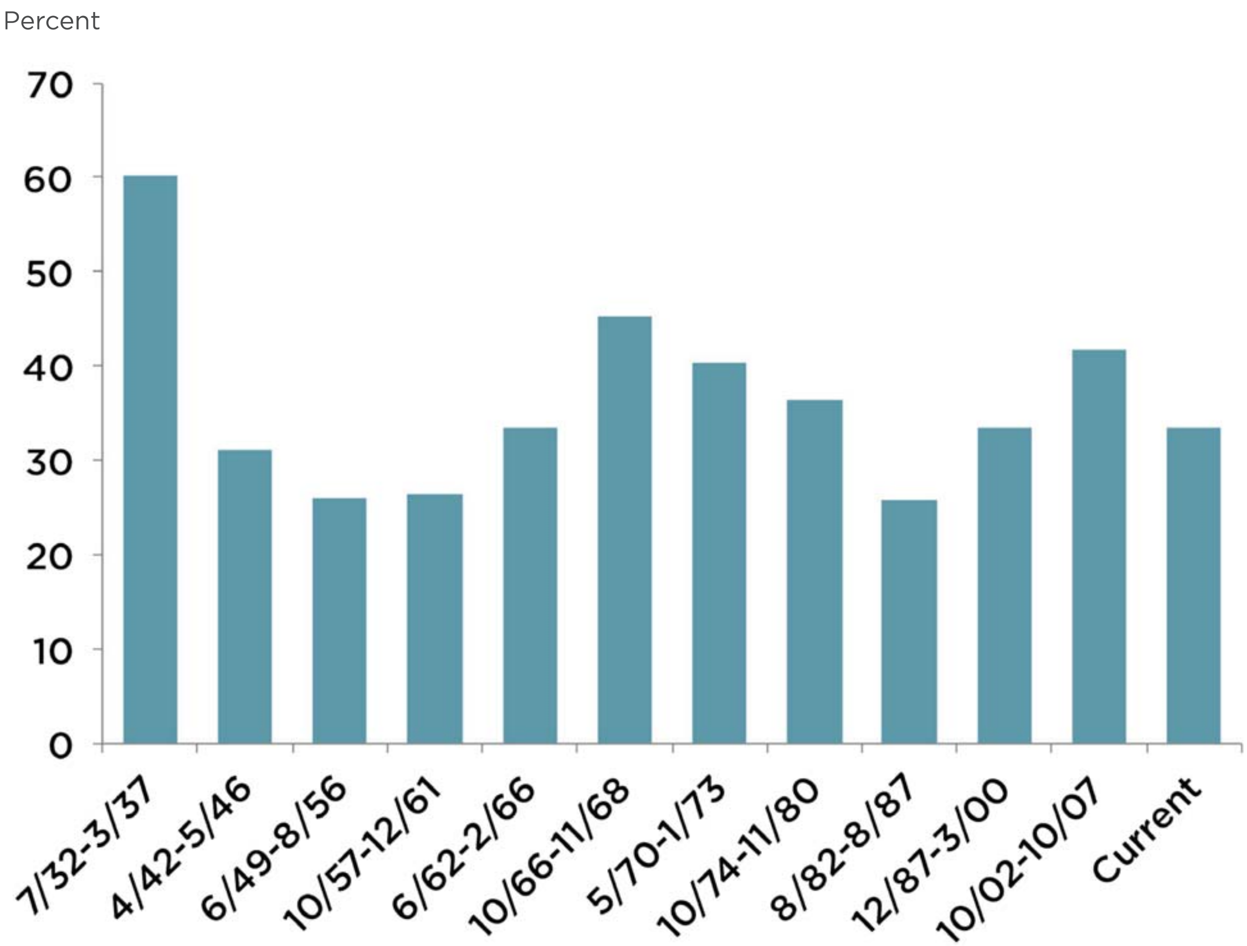
Source: Bloomberg

Donald Trump comes into office on the heels of a very fruitful period for equity market investors. The S&P 500 rose by an annualized 14.0% during Barack Obama's tenure, the second-best result for a presidency in the history of the index.

The chart at left also shows that market returns are a function of much more than party politics. While three of the five best performances in the S&P era came during Republican presidencies, three of the five worst also occurred with the GOP in the White House. While politics often dominate the headlines, investors are wise to remain focused on the broader and longer-term fundamentals.

Stock market gains tend to come in bunches

Percentage of bull market increases in the S&P 500 coming in the 10 strongest trading days



The strong market rally in the wake of the election is a reminder that bull market increases tend to be concentrated. Since the bottom of the last cycle in 2009, for example, more than 500 of the 1,595 point increase in the S&P 500 has come during just 10 trading sessions.

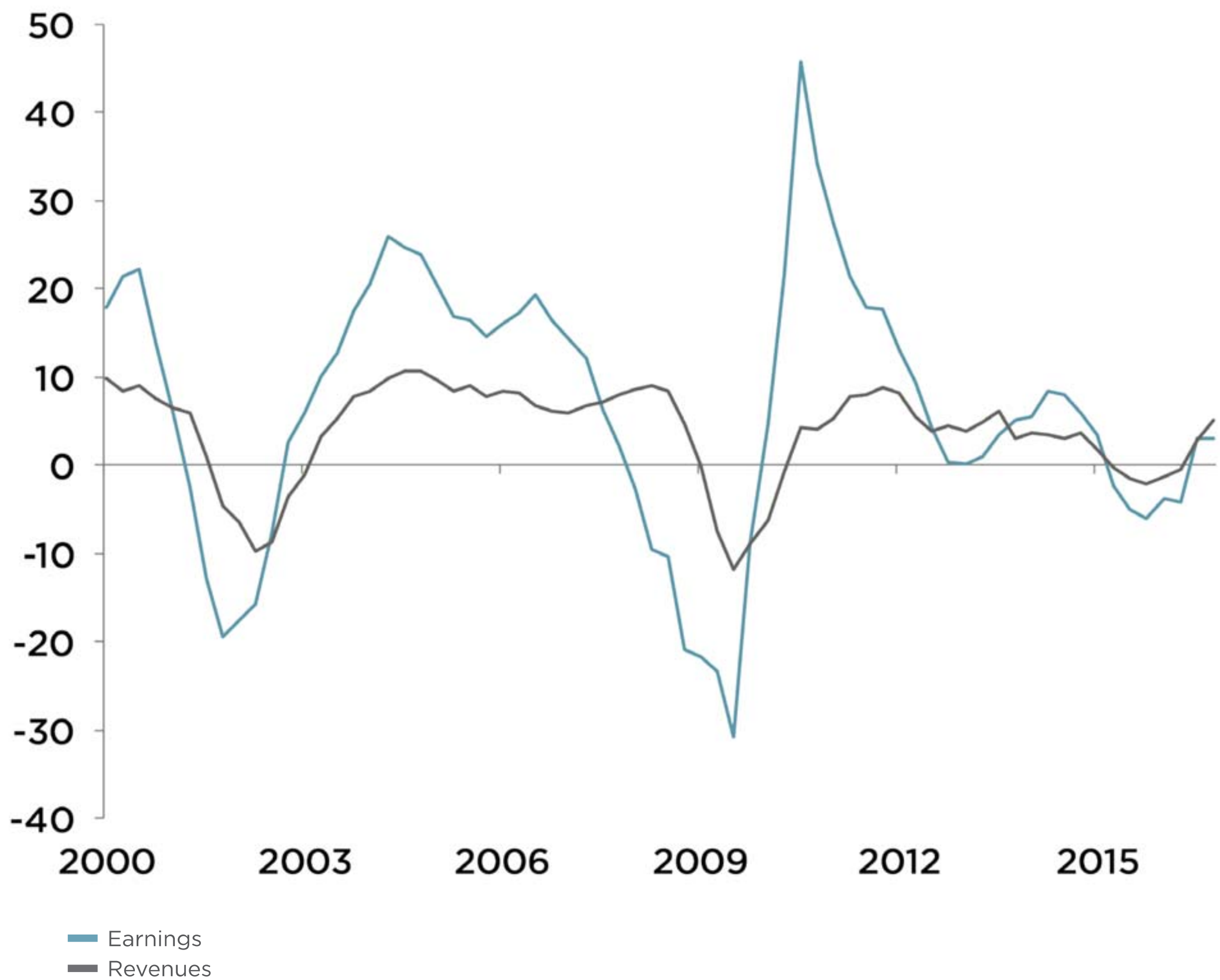
This is actually par for the course, as the 10 strongest days in a bull market have historically accounted for an average of 36% of the gain across the cycle as a whole. The top 25 days have accounted for 73% of the increases. This is another argument against market timing, as missing even a handful of key days in an uptrend can significantly hamper returns.

Source: Bloomberg

Earnings turn the corner

Yearly changes in S&P 500 earnings and revenues

Percent



Source: Bloomberg

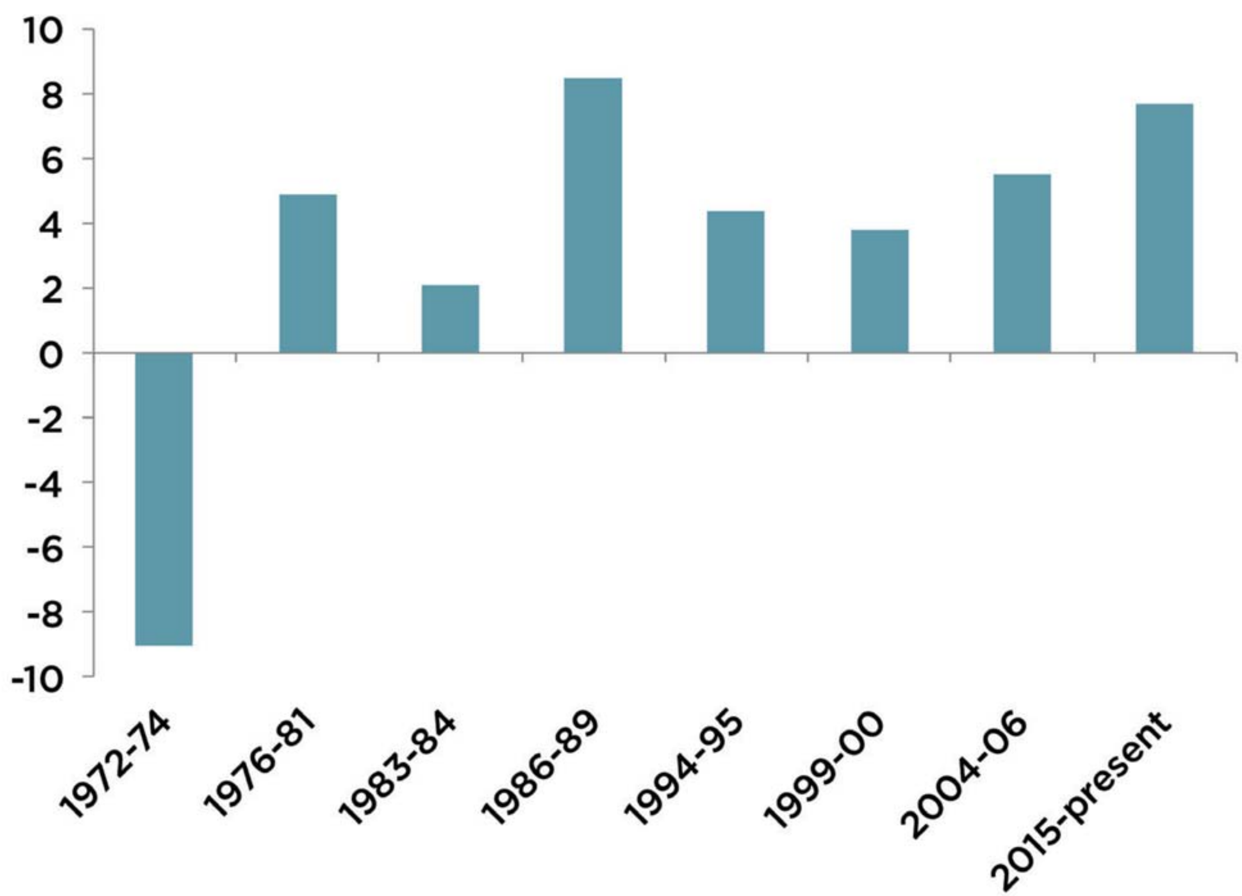
Corporate earnings are finally growing again after spending much of the last two years in decline. The recovery has been helped by the turnaround in energy prices as well as by the stabilization in the U.S. dollar through much of 2015.

The renewed rally in the greenback into the end of the year will weigh on profits again going forward, but a strengthening expansion and broadening global growth should keep the nascent uptrend in place.

Stocks rise during rate hike cycles

Annualized changes in the S&P 500 during Federal Reserve tightening cycles

Percent



Stocks have continued to trend upward even as the Federal Reserve has started to tighten monetary policy.

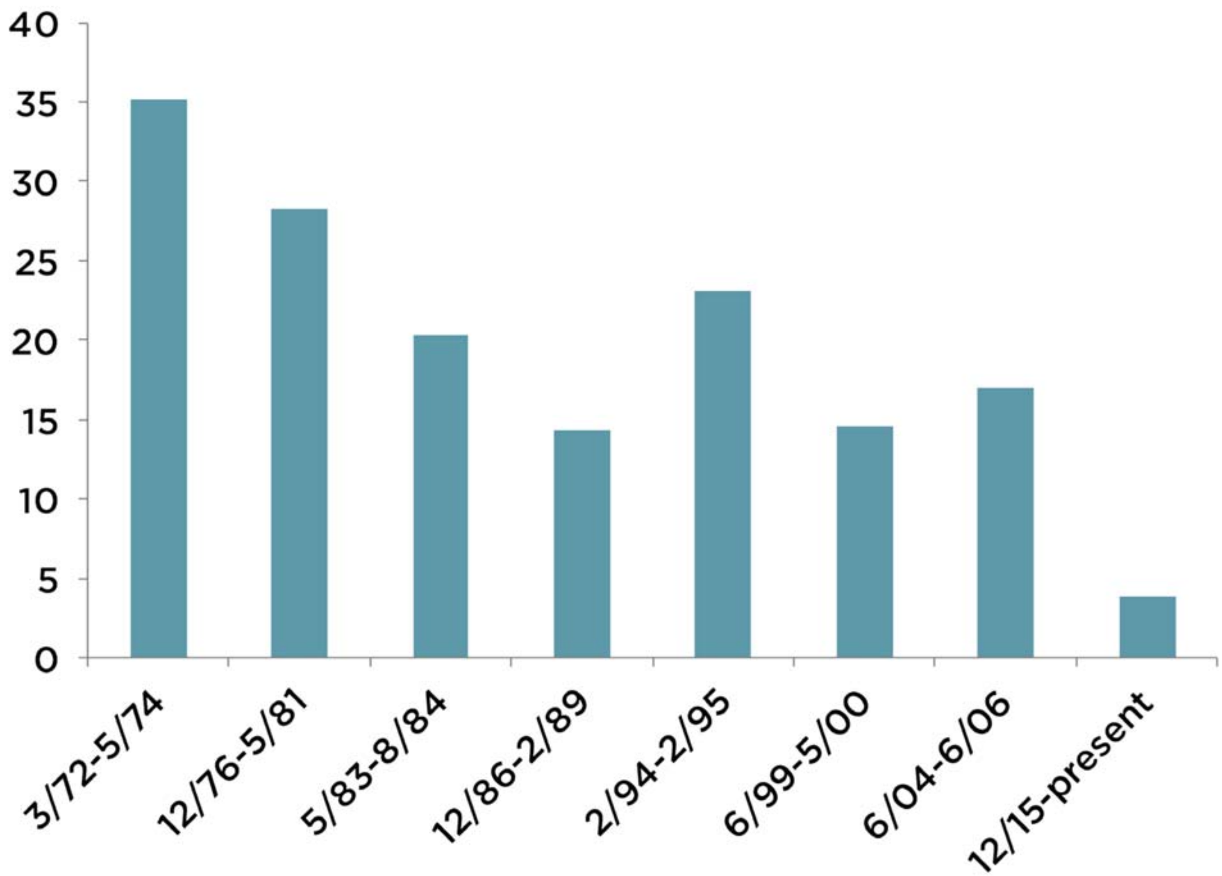
This keeps with the historical trend, as rate hikes tend to only occur against a backdrop of sustained economic growth, tight labor markets, and relatively muted volatility. This is the environment that prevails today, one that should continue to support equity prices until monetary policy becomes truly restrictive.

Source: Bloomberg

Slow tightening should support markets for some time

Pace of Federal Reserve rate hikes by tightening cycle

Percent



Not surprisingly, there has been a strong inverse correlation between the pace of Fed rate hikes during monetary tightening cycles and stock market performance during those cycles.

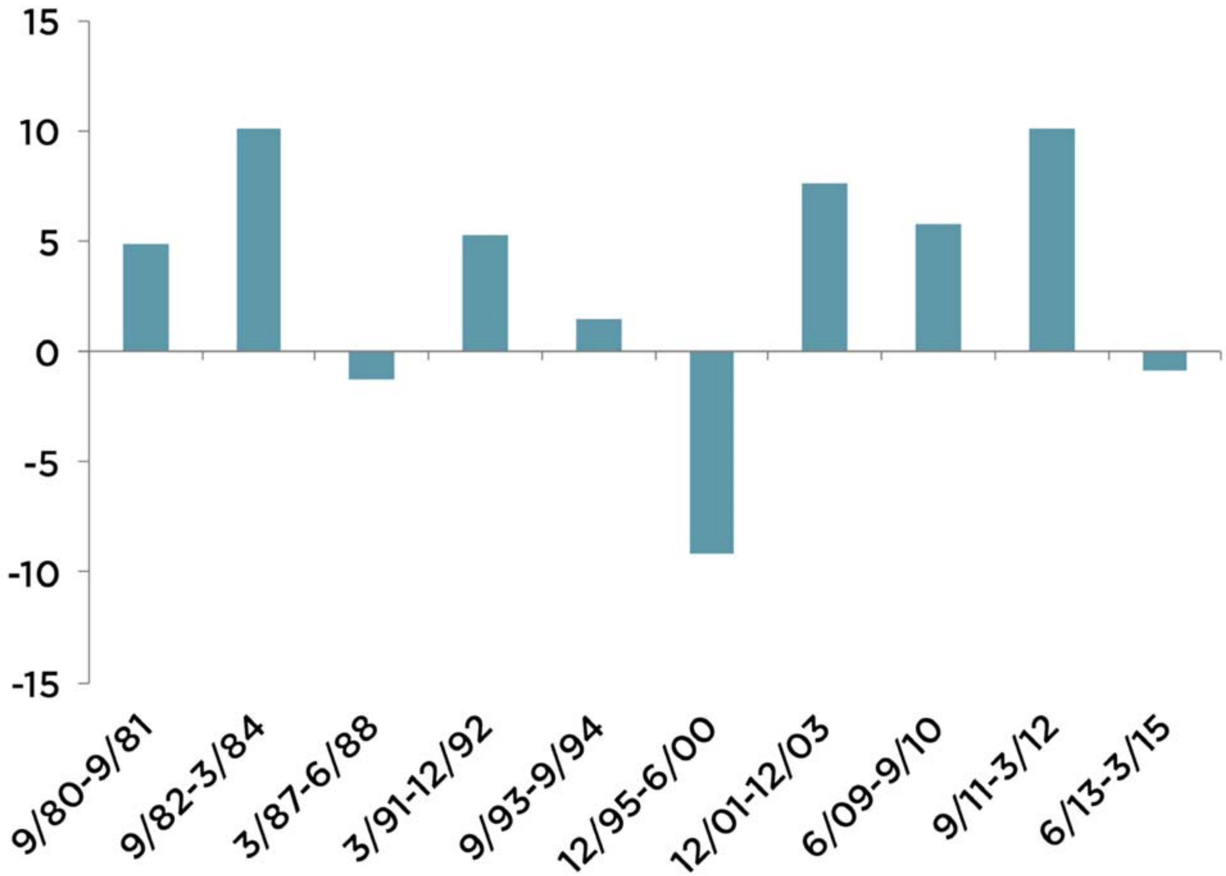
The more deliberately the Fed ratchets up benchmark interest rates, the stronger the market gain. This cycle is shaping up to be by far the most gradual in modern history, which means an extended period of accommodation and a greater likelihood of higher stock prices.

Source: Bloomberg

Small caps generally outperform when the economy perks up

Spread between annualized changes in the Russell 2000 and Russell 1000 during periods of accelerating real GDP growth

Percent



Small cap stocks are more sensitive to economic growth because the goods and services produced by smaller companies tend to be more discretionary in nature.

It is no surprise, then, that small caps outperformed substantially in the final weeks of 2016 as growth expectations began to pick up. The small cap Russell 2000 has historically outperformed the larger cap Russell 1000 when real gross domestic product growth has accelerated.

With GDP beginning to lift again, smaller company stocks could well build on their recent gains.

Source: Bloomberg

Strong gains almost across the board

Yearly changes in the S&P 500 sectors

Percent

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Energy 32%	Staples -18%	Technology 60%	Discretionary 26%	Utilities 15%	Financials 26%	Discretionary 41%	Utilities 24%	Discretionary 8%	Energy 24%
Materials 20%	Health Care -24%	Materials 45%	Industrials 24%	Staples 11%	Discretionary 22%	Health Care 39%	Health Care 23%	Health Care 5%	Financials 20%
Utilities 16%	Utilities -32%	Discretionary 39%	Materials 20%	Health Care 10%	Health Care 15%	Industrials 38%	Technology 18%	Technology 4%	Telecoms 18%
Technology 16%	Telecoms -34%	S&P 500 23%	Energy 18%	Discretionary 4%	S&P 500 13%	Financials 33%	Financials 13%	Staples 4%	Industrials 16%
Staples 12%	Discretionary -35%	Industrials 17%	S&P 500 13%	Energy 3%	Technology 13%	S&P 500 30%	Staples 13%	S&P 500 -1%	Materials 14%
Industrials 10%	Energy -36%	Health Care 17%	Telecoms 12%	Technology 1%	Telecoms 12%	Technology 26%	S&P 500 11%	Telecoms -2%	Utilities 12%
Telecoms 8%	S&P 500 -38%	Financials 15%	Financials 11%	Telecoms 1%	Industrials 12%	Materials 23%	Discretionary 8%	Financials -3%	Technology 12%
Health Care 5%	Industrials -42%	Energy 11%	Staples 11%	S&P 500 0%	Materials 12%	Staples 23%	Industrials 8%	Industrials -5%	S&P 500 10%
S&P 500 4%	Technology -44%	Staples 11%	Technology 9%	Industrials -3%	Staples 8%	Energy 22%	Materials 5%	Utilities -8%	Discretionary 4%
Discretionary -14%	Materials -47%	Utilities 7%	Utilities 1%	Materials -12%	Energy 2%	Utilities 9%	Telecoms -2%	Materials -10%	Staples 3%
Financials -21%	Financials -57%	Telecoms 3%	Health Care 1%	Financials -18%	Utilities -3%	Telecoms 6%	Energy -10%	Energy -24%	Health Care -4%

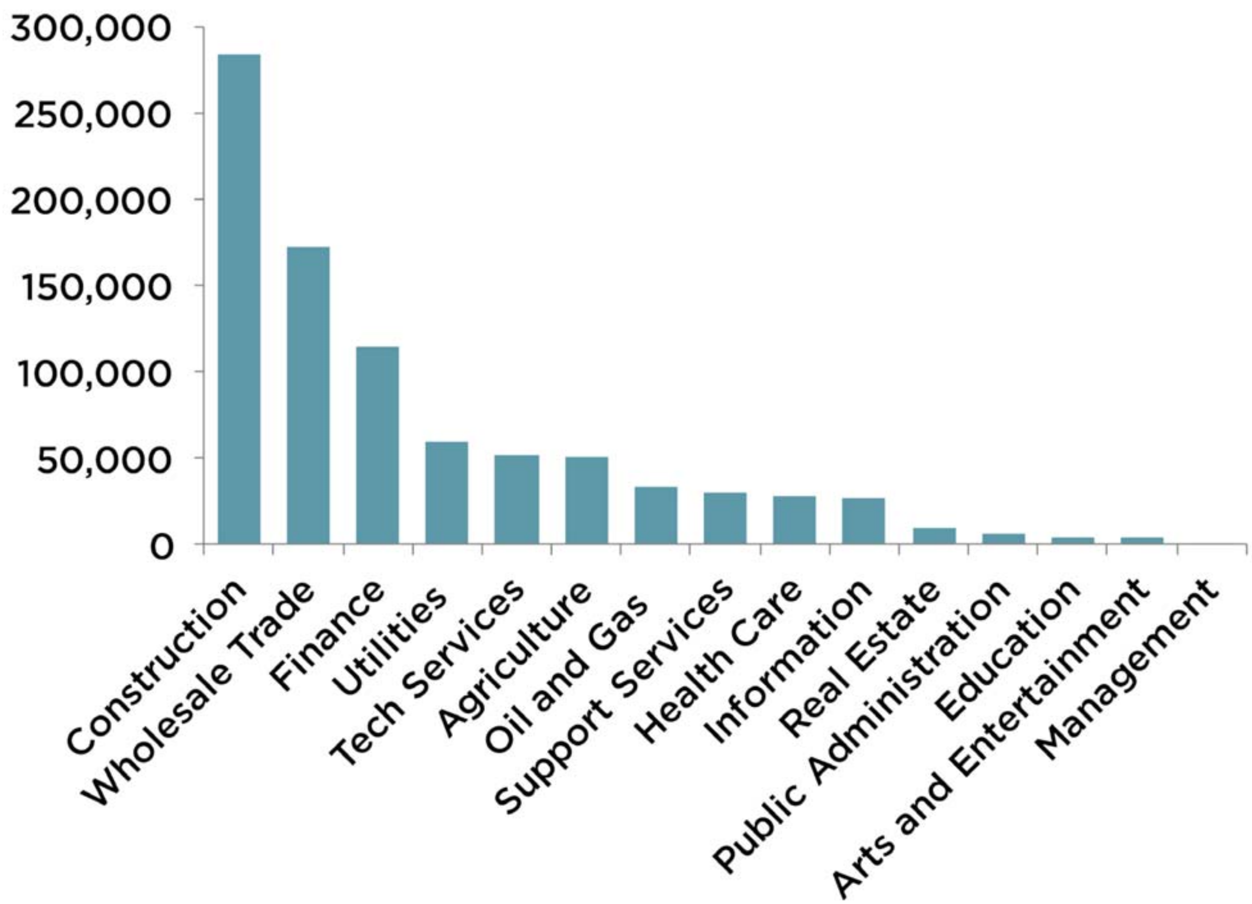
Almost every S&P sector moved to the upside in 2016, led by strong gains in energy and financials. Health care was lower, but this came after five straight years of outperformance.

Source: Standard and Poor's

Financial services to benefit from deregulation

Restrictive regulations by industry

Number



Donald Trump pledged aggressive deregulation during his campaign, at one point suggesting that up to 70% of federal agency regulations could be eliminated.

Financial services, utilities, and energy firms would be among the prime beneficiaries should he follow through on this pledge, as these rank with the most heavily regulated industries in the economy.

Source: Mercatus Center

International stocks retreat

MSCI EAFE Index

Index

International stocks retreated slightly in the fourth quarter, as the dollar rallied anew. This also marks the third straight annual decline in the EAFE, which is only the second such losing streak in the nearly 50-year history of the index.

Source: Bloomberg

Commodity markets dominated in 2016

Yearly changes in benchmark equity indices

Percent

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
China 97%	UK -31%	Russia 121%	Russia 23%	US 0%	Germany 29%	Japan 57%	China 53%	Russia 26%	Brazil 39%
India 47%	Canada -35%	Brazil 83%	India 17%	UK -6%	India 26%	US 30%	India 30%	Italy 13%	Russia 27%
Brazil 44%	US -38%	India 81%	Germany 16%	Canada -11%	Japan 23%	Germany 25%	US 11%	Germany 10%	Canada 18%
Germany 22%	Germany -40%	China 80%	Canada 14%	Germany -15%	France 15%	France 18%	Canada 7%	China 9%	UK 14%
Russia 12%	Brazil -41%	Canada 31%	US 13%	Russia -17%	US 13%	Italy 17%	Japan 7%	Japan 9%	US 10%
Canada 7%	Japan -42%	Germany 24%	UK 9%	France -17%	Italy 8%	UK 14%	Germany 3%	France 9%	Germany 7%
UK 4%	France -43%	US 23%	Brazil 1%	Japan -17%	Brazil 7%	Canada 10%	Italy 0%	US -1%	France 5%
US 4%	Italy -50%	France 22%	Japan -3%	Brazil -18%	UK 6%	India 9%	France -1%	UK -5%	India 2%
France 1%	India -52%	UK 22%	France -3%	China -22%	Russia 5%	Russia 2%	UK -3%	India -5%	Japan 0%
Italy -7%	China -65%	Italy 19%	Italy -13%	India -25%	Canada 4%	China -7%	Brazil -3%	Canada -11%	Italy -10%
Japan -11%	Russia -67%	Japan 19%	China -14%	Italy -25%	China 3%	Brazil -15%	Russia -7%	Brazil -13%	China -12%

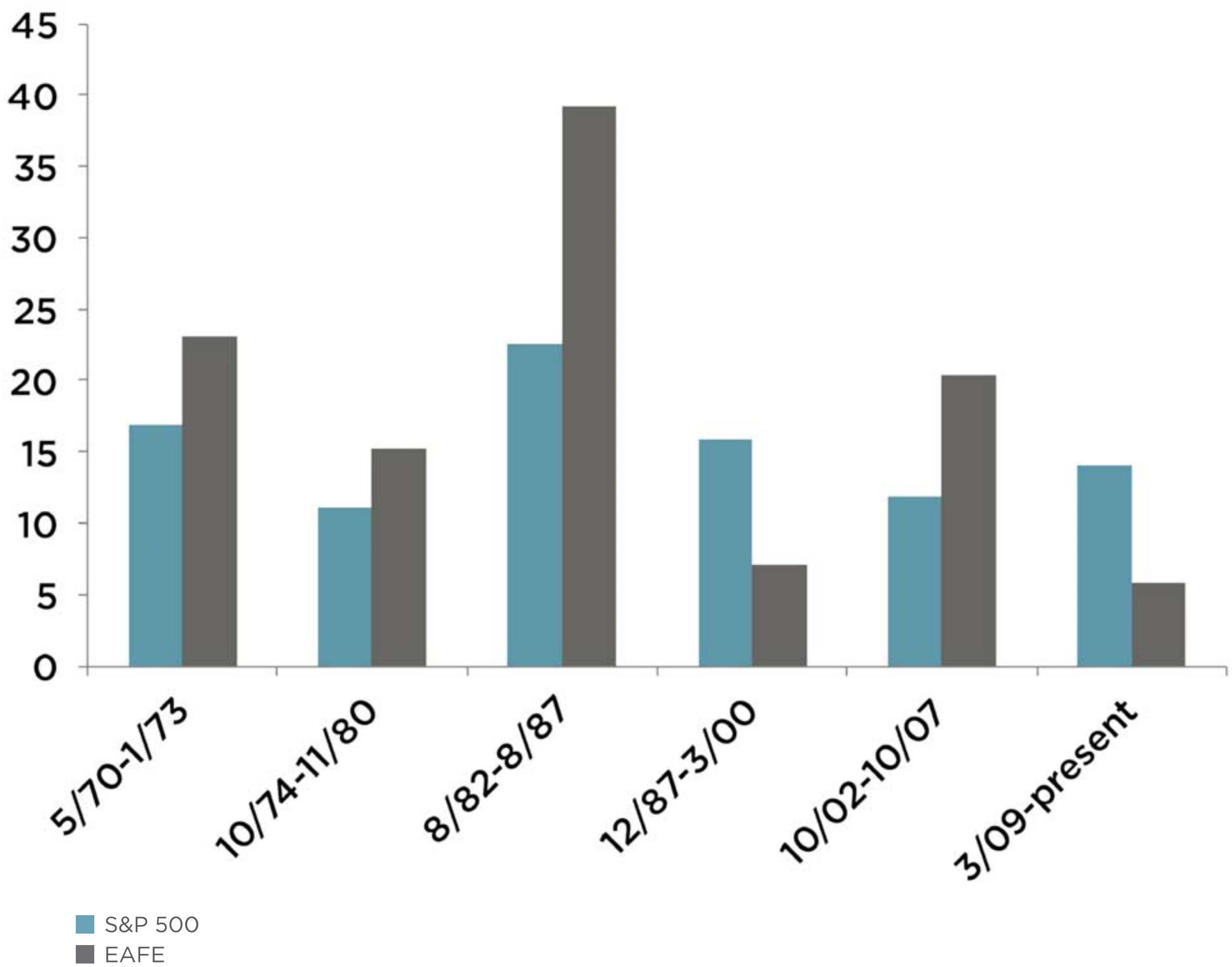
It was a robust year for the commodity-driven markets that had been underperforming for most of the first half of this decade. It was also a solid year for the U.K., as the economy actually strengthened in the wake of the Brexit vote in June.

Source: Bloomberg

Global stocks in rare underperformance

Annualized changes in the S&P 500 and MSCI EAFE across bull markets

Percent



Source: Bloomberg

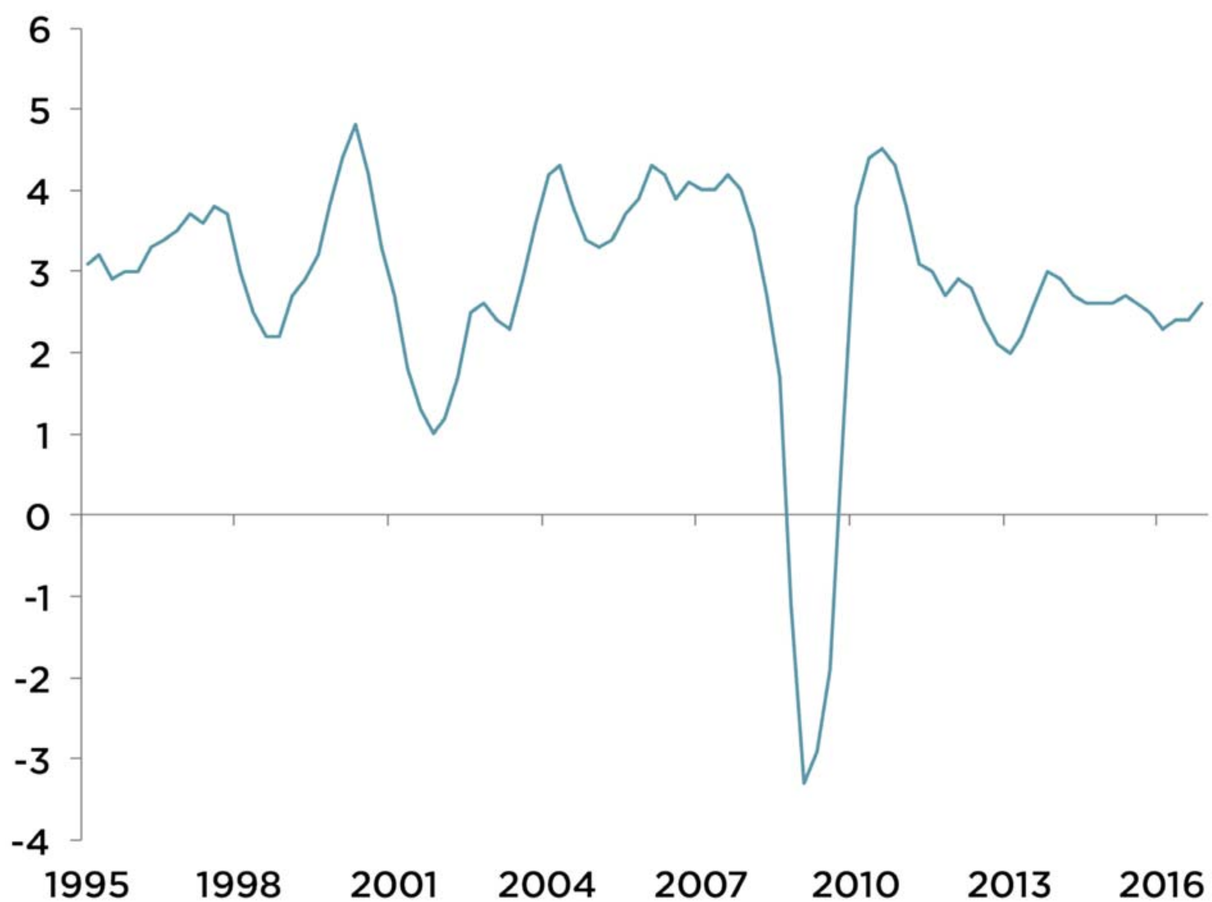
International stocks have lagged the U.S. badly in this cycle, rising by an annualized 5.8% since early 2009 vs. a 14.1% pace over the same time frame in the S&P 500.

Double-dip recessions in parts of the world temporarily derailed the catch-up process, but it can be expected to resume now that most large economies are growing again.

Global growth is stable, if unspectacular

Yearly changes in world gross domestic product

Percent



The global economy is far from robust, but it is beginning to pick up again after slowing throughout 2014 and 2015.

More to the point, global growth has been remarkably steady in recent years as it has held between 2.0-3.0% year-over-year in every quarter since the end of 2011.

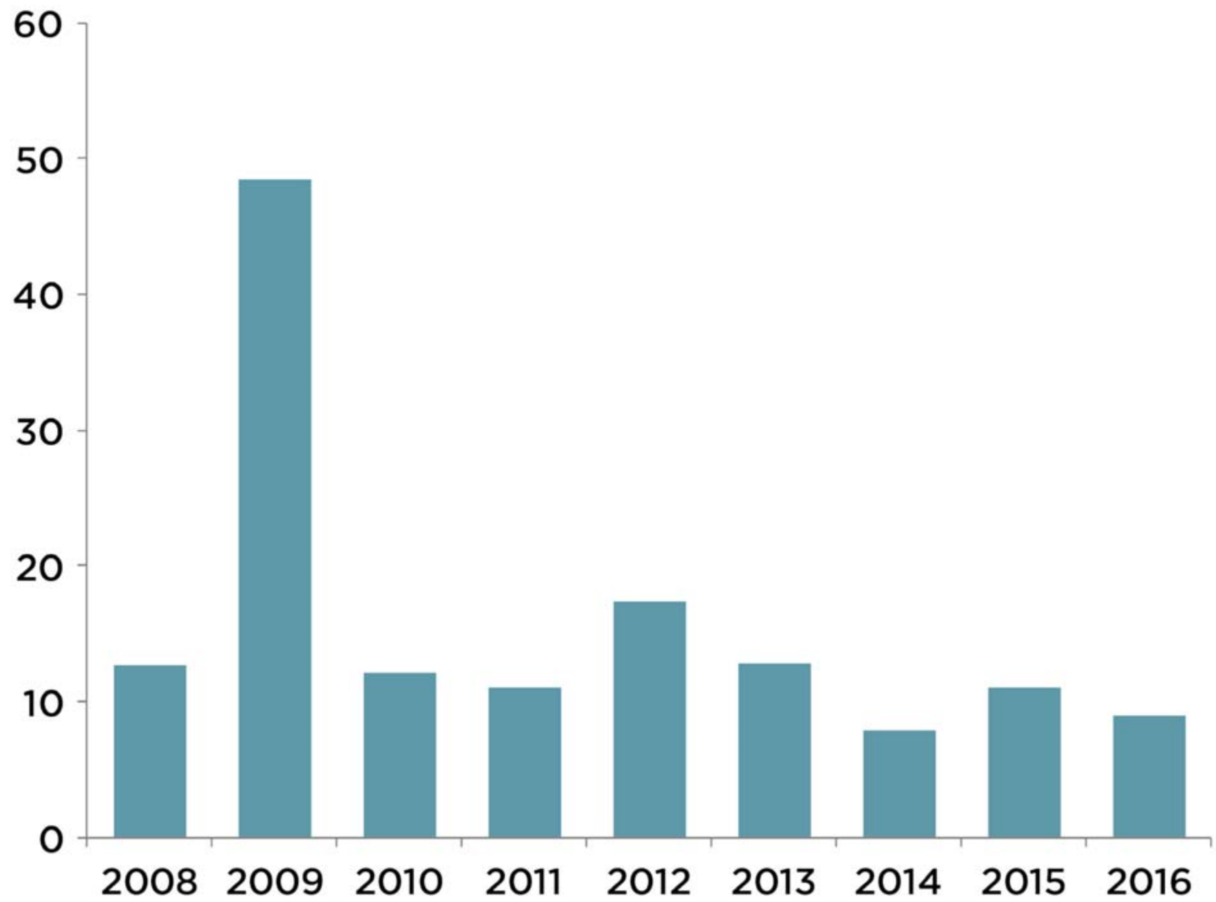
This is a recovery that is not close to overheating and continues to look sustainable well beyond the immediate future.

Source: Bloomberg

Global growth is broadening

Percentage of the world's economies in recession

Percent



More than 90% of the world's economies grew last year, marking the third time in the last four years that global breadth improved.

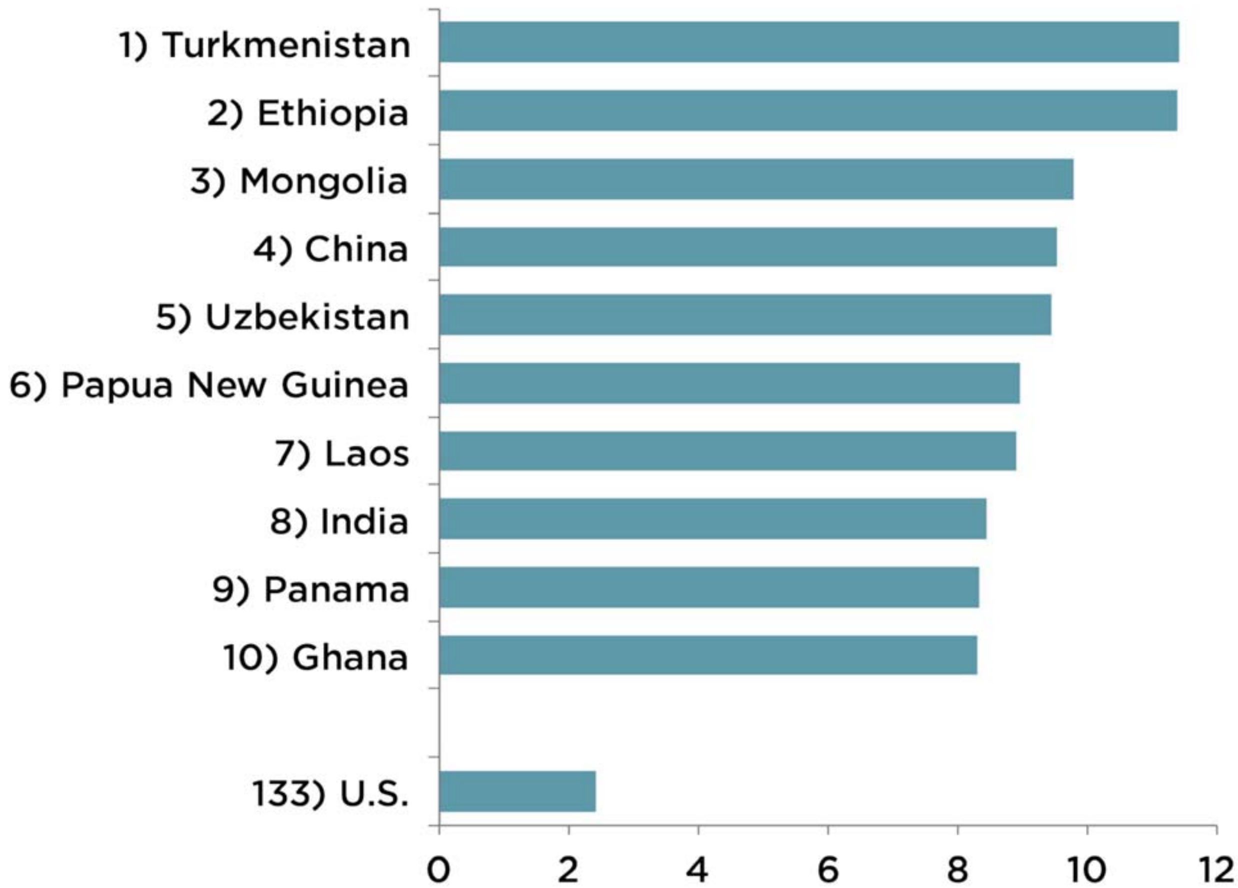
Among the world's largest economies, only Brazil was still in recession by the end of the year. The broad-based nature of this recovery is another reason to expect it to continue.

Source: Bloomberg

The fastest growth is occurring outside of the U.S.

World's fastest growing economies, current decade

Percent



There are still plenty of outsized growth stories in the world, as GDP gains in 67 countries have eclipsed 5.0% on an annualized basis in the current decade.

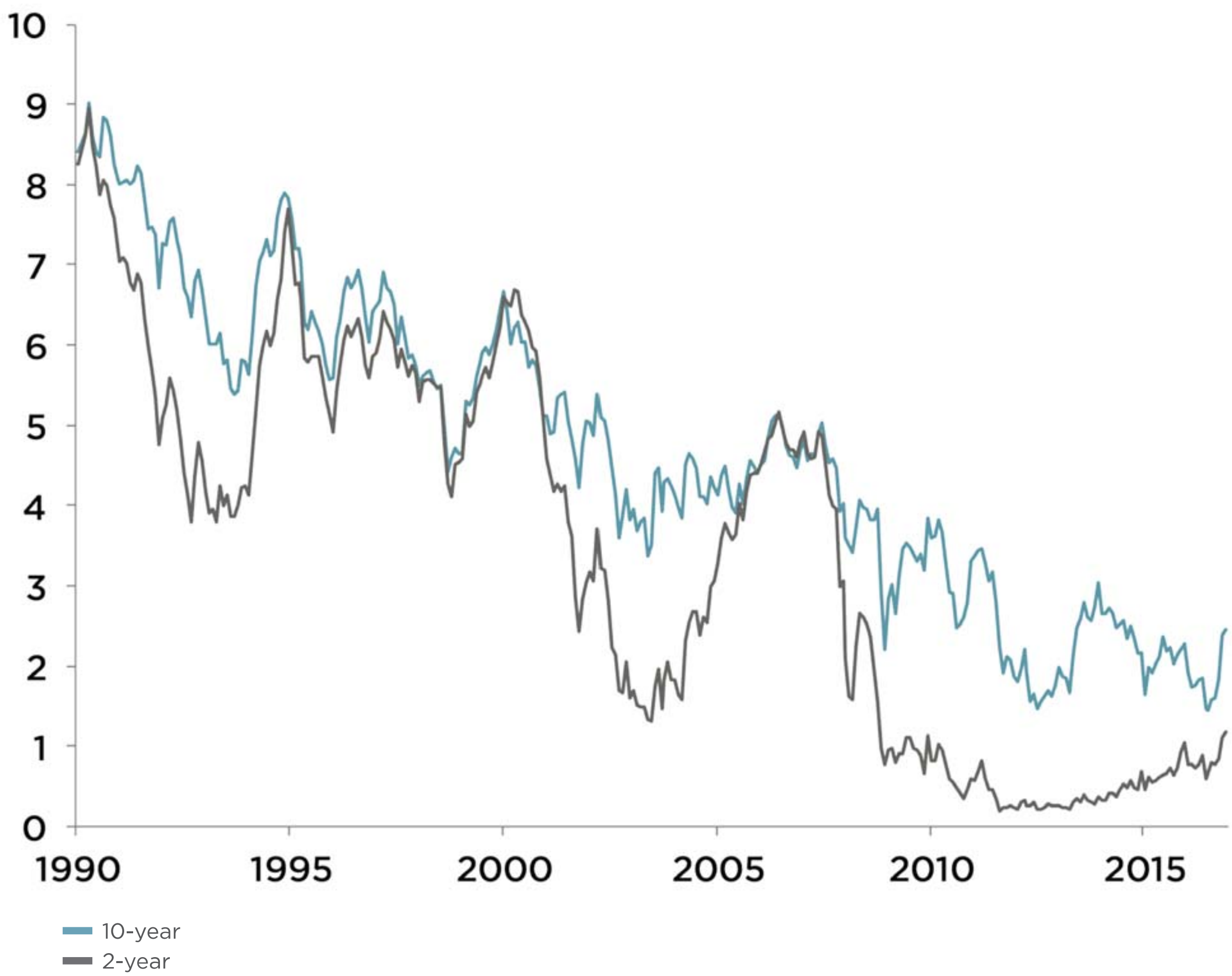
Many of these have investable markets — indeed, two of the 10 fastest growers are also two of the 10 largest.

Source: Global Insight

Rates spike across the curve

Ten-year and two-year U.S. Treasury yields

Percent



Source: Bloomberg

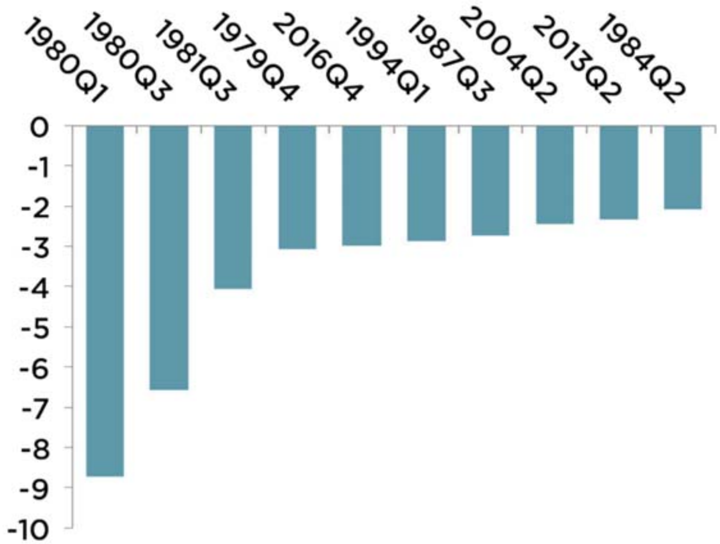
Rising growth, inflation, and Fed tightening expectations sent yields higher across the curve in the waning weeks of 2016.

Long-term rates hit their highest levels in more than two years.

Fourth quarter was among the worst for fixed income on record

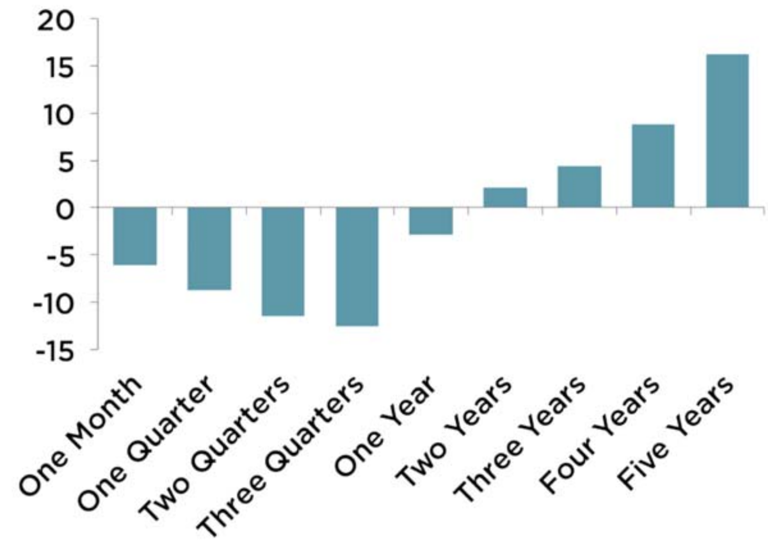
Largest quarterly declines in the Barclays Aggregate Bond Index

Percent



Worst performance in the Barclays Aggregate Bond Index by time frame

Percent



The jump in rates pushed bond prices lower in the fourth quarter, as the Barclays Aggregate Bond Index suffered its fifth-worst decline on record. The index was still up for the year, however, and has still recorded only three annual declines in its more than 40-year history.

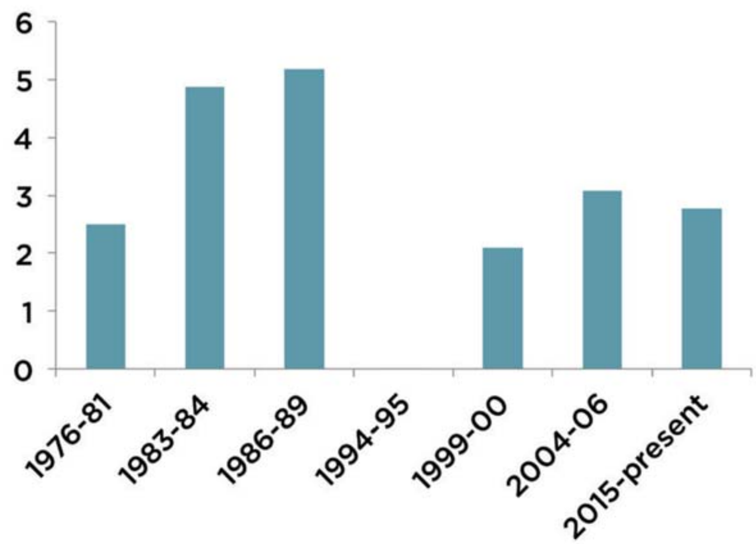
In fact, it has never declined over a two-year period and has never failed to increase by at least 16% over a five-year period. Over even relatively modest time frames, interest payments accumulate and offset the short-term declines caused by higher rates.

Source: Barclays

Fixed income returns have remained positive during rate hike cycles

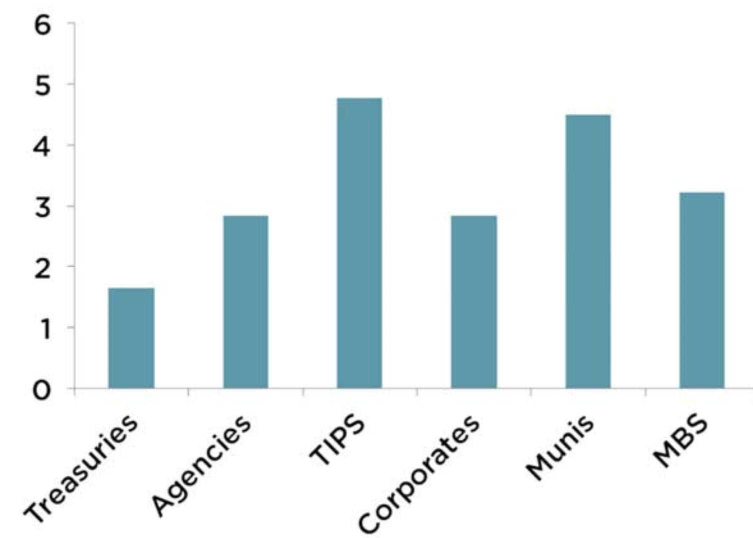
Annualized returns in the Barclays Aggregate Fixed Income Index during Federal Reserve tightening cycles

Percent



Annualized fixed income returns during the 2004–06 tightening cycle

Percent



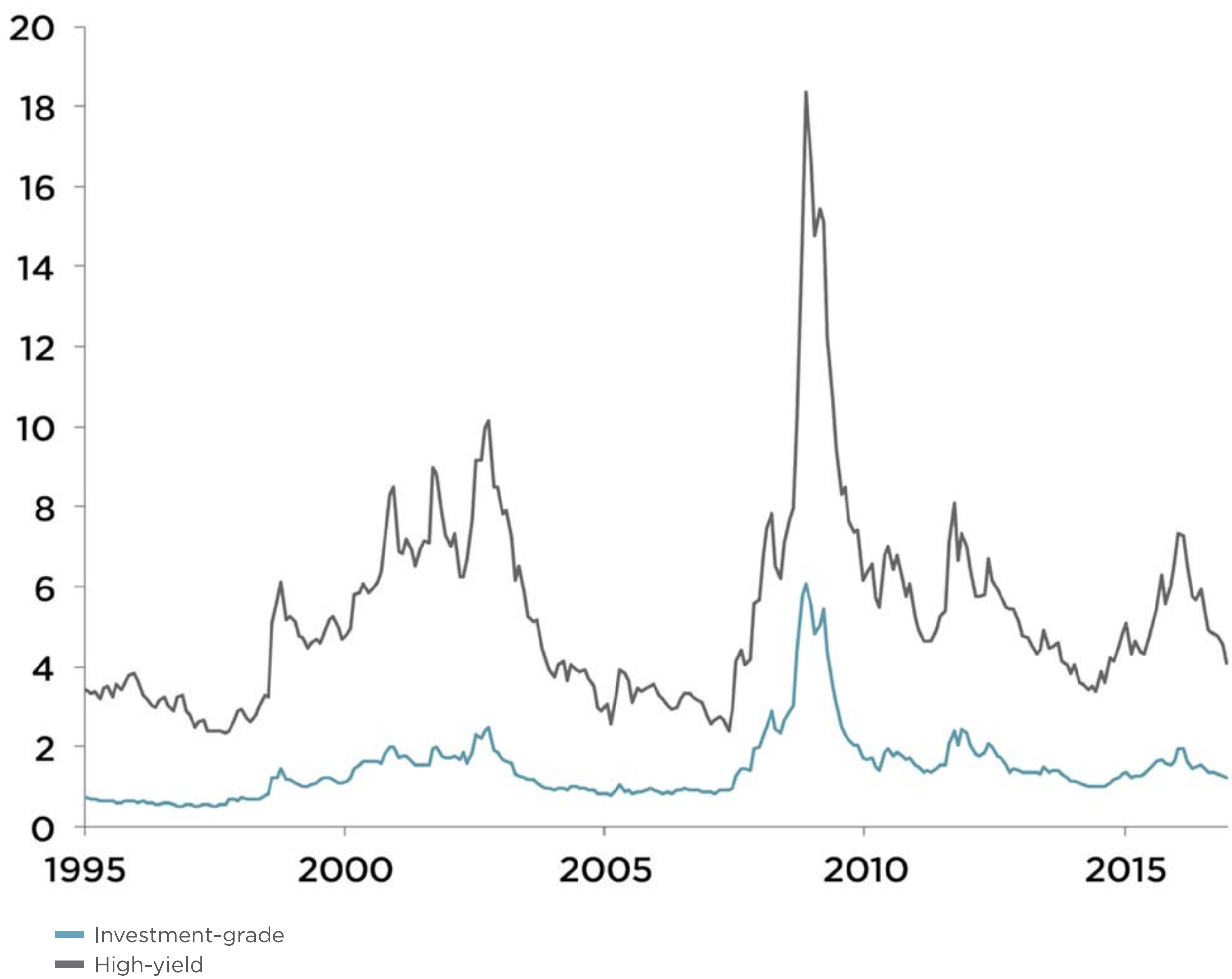
While fixed income investments tend to underperform when the Fed is raising rates, the carry they earn — the income portion of fixed income — has meant that they generally haven't lost money during these periods. Low yields will pressure returns in the forthcoming Fed cycle, but even modest carry should help a diversified basket of fixed income investments avoid substantial losses. Yields were also relatively low at the outset of the 2004-06 tightening cycle — the fed funds target started that period at 1.0% — and all major fixed income asset classes still gained marginal ground across the cycle.

Source: Barclays

Corporate spreads continue to tighten

Investment-grade and high-yield option adjusted spreads

Percent



Source: Barclays

Spread products outperformed again in the fourth quarter, as earnings continued to rebound and economic optimism grew.

High-yield spreads hit a new two-year low and have now fallen for four consecutive quarters.

High yield leads the way

Yearly changes by asset class

Percent

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
TIPS 11.8%	Treasuries 20.1%	High Yield 58.2%	High Yield 15.1%	Treasuries 17.2%	High Yield 15.8%	High Yield 7.4%	Treasuries 10.7%	Municipals 3.3%	High Yield 17.1%
Treasuries 9.7%	Agencies 9.3%	Corporates 18.7%	Corporates 9.0%	TIPS 14.0%	Corporates 9.8%	Agencies -1.4%	Municipals 9.1%	MBS 1.5%	Corporates 6.1%
Agencies 7.9%	MBS 8.3%	Municipals 12.9%	Treasuries 8.0%	Municipals 10.7%	TIPS 7.3%	MBS -1.4%	Corporates 7.5%	Agencies 1.0%	TIPS 4.8%
Barclays Agg 7.0%	Barclays Agg 5.2%	TIPS 10.5%	Barclays Agg 6.5%	Corporates 8.1%	Municipals 6.8%	Corporates -1.5%	MBS 6.1%	Treasuries 0.9%	Barclays Agg 2.6%
MBS 6.9%	TIPS -1.7%	Barclays Agg 5.9%	TIPS 6.3%	Barclays Agg 7.8%	Barclays Agg 4.2%	Barclays Agg -2.0%	Barclays Agg 6.0%	Barclays Agg 0.5%	MBS 1.7%
Corporates 4.6%	Municipals -2.5%	MBS 5.9%	MBS 5.4%	MBS 6.2%	Treasuries 4.1%	Municipals -2.6%	TIPS 4.4%	Corporates -0.7%	Agencies 1.4%
Municipals 3.4%	Corporates -4.9%	Agencies 1.5%	Agencies 4.4%	High Yield 5.0%	MBS 2.6%	Treasuries -7.8%	Agencies 3.6%	TIPS -1.7%	Municipals 0.2%
High Yield 1.9%	High Yield -26.2%	Treasuries -9.8%	Municipals 2.4%	Agencies 4.8%	Agencies 2.2%	TIPS -9.3%	High Yield 2.5%	High Yield -4.5%	Treasuries -0.2%

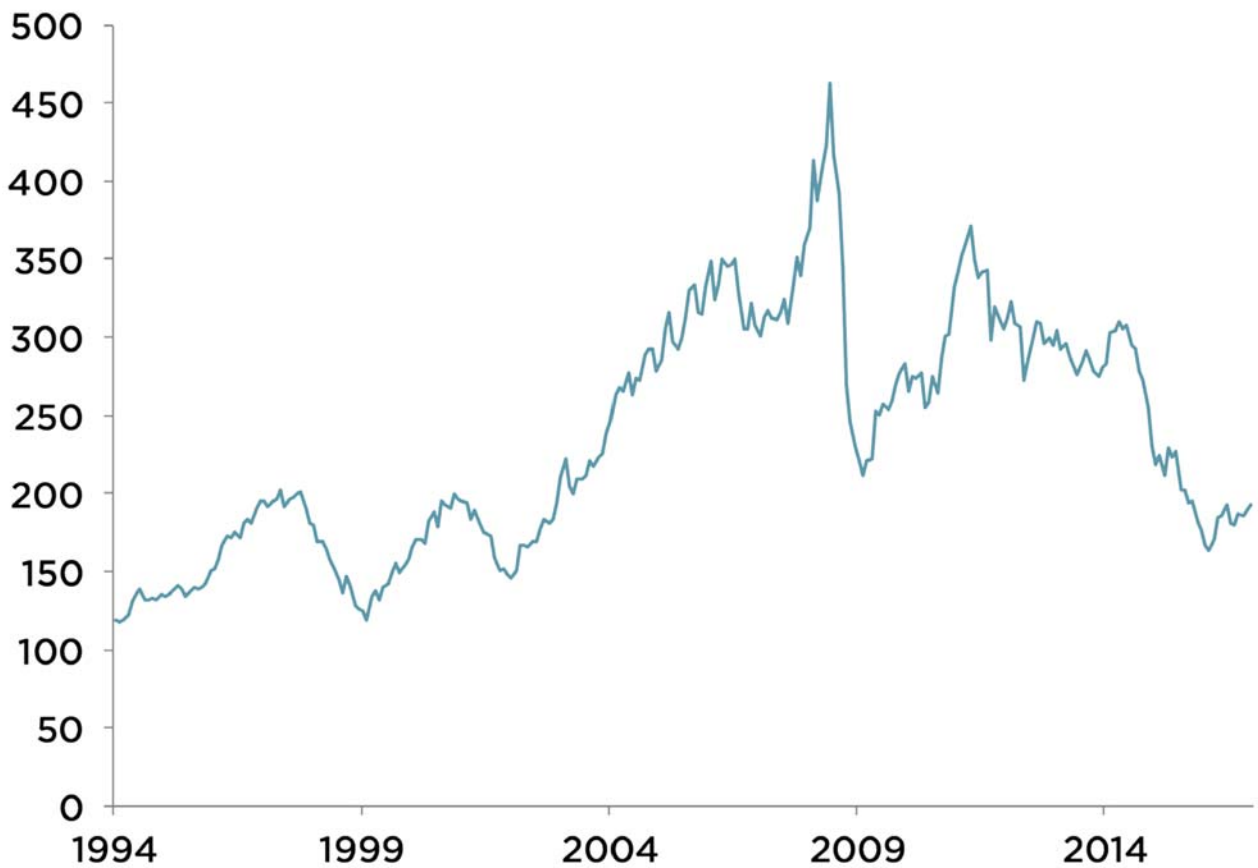
Most fixed income asset classes gained ground in 2016 despite the rise in rates. High yield led the way with its best annual performance since 2009.

Source: Barclays

Commodity prices close out a winning year

The CRB Commodity Index

Index



Commodity prices rose in the fourth quarter to finish off their first annual increase in six years.

Source: Commodity Research Bureau

Energy prices rebound

Yearly changes in commodity index prices

Percent

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Energy 42%	Precious Metals 0%	Industrials 82%	Precious Metals 34%	Precious Metals 7%	Agriculture 6%	Energy 5%	Livestock 14%	Precious Metals -11%	Energy 18%
Agriculture 28%	Livestock -27%	Precious Metals 25%	Agriculture 34%	Energy 5%	Precious Metals 6%	Livestock -4%	Precious Metals -4%	Agriculture -17%	Industrials 18%
Precious Metals 28%	Agriculture -29%	Energy 11%	Industrials 17%	Livestock -1%	Industrials 1%	Industrials -13%	Industrials -7%	Livestock -18%	Precious Metals 8%
Industrials -6%	Industrials -49%	Agriculture 4%	Livestock 10%	Agriculture -16%	Energy -1%	Agriculture -18%	Agriculture -11%	Industrials -25%	Agriculture -4%
Livestock -9%	Energy -52%	Livestock -14%	Energy 2%	Industrials -22%	Livestock -4%	Precious Metals -30%	Energy -44%	Energy -42%	Livestock -7%

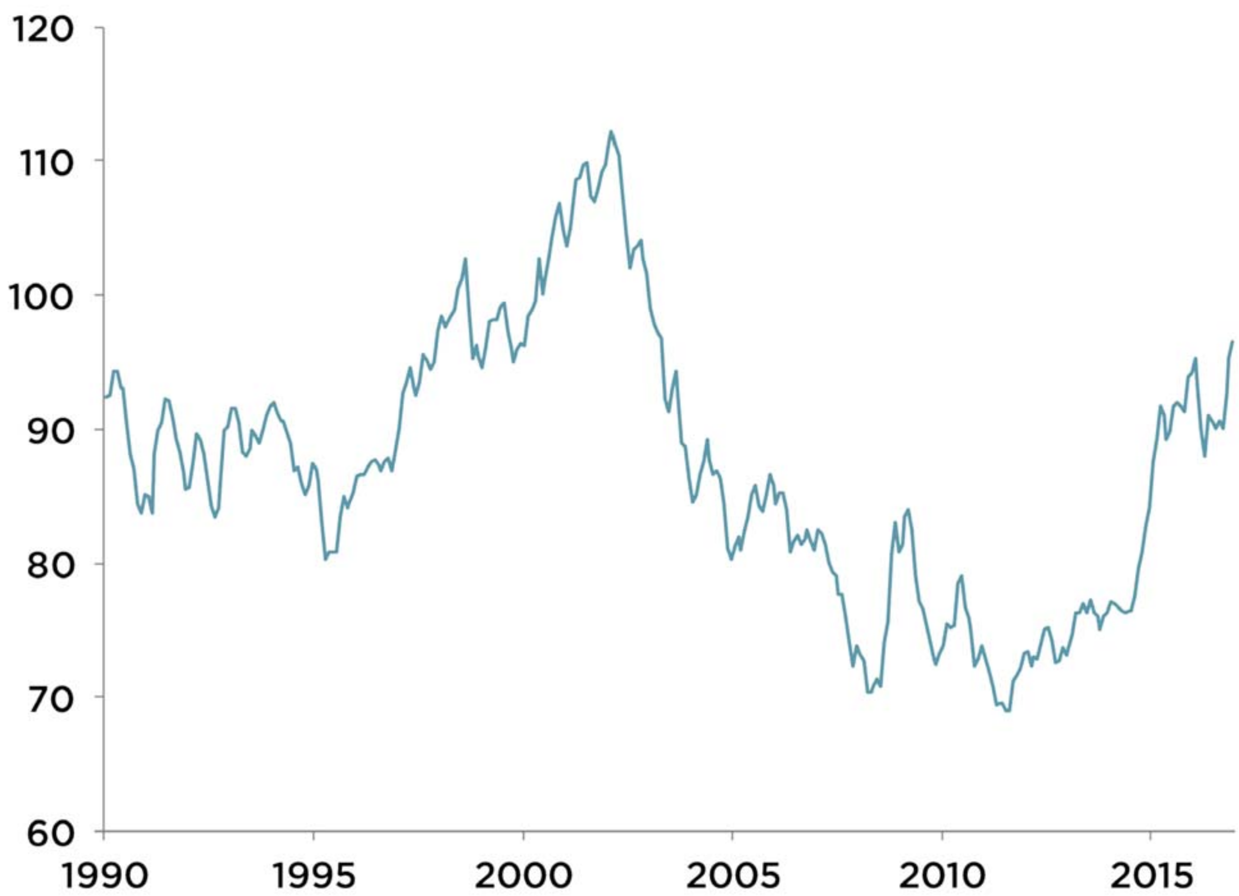
Energy prices rallied strongly in the latter stages of the year, helped by OPEC supply cuts. Precious metals were also up for the year, but they fell throughout the second half on Fed rate hike expectations.

Source: Goldman Sachs

The dollar stabilizes

The trade-weighted dollar index

Index



An increase in the Fed's own expectation for monetary tightening in 2017 helped to propel the dollar higher into the end of the year.

The greenback has now risen four years in a row for the first time since the early 1980s.

Source: Federal Reserve Board of Governors

Late year rally pushed the dollar to another annual gain

Annual currency changes

Percent

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Canadian Dollar 14.4%	Japanese Yen 18.9%	Canadian Dollar 13.6%	Japanese Yen 12.8%	Japanese Yen 5.2%	British Pound 4.4%	Euro 4.0%	Dollar Index 12.8%	Dollar Index 9.3%	Dollar Index 3.6%
Euro 9.5%	Dollar Index 6.0%	British Pound 9.7%	Canadian Dollar 5.2%	Dollar Index 1.5%	Canadian Dollar 2.9%	British Pound 1.9%	British Pound -6.3%	Japanese Yen -0.4%	Canadian Dollar 2.9%
Japanese Yen 6.1%	Euro -4.4%	Euro 2.5%	Dollar Index 1.5%	British Pound -0.5%	Euro 1.7%	Dollar Index 0.3%	Canadian Dollar -9.4%	British Pound -5.7%	Japanese Yen 2.7%
British Pound 1.3%	Canadian Dollar -22.1%	Japanese Yen -2.6%	British Pound -3.6%	Canadian Dollar -2.3%	Dollar Index -0.5%	Canadian Dollar -7.1%	Euro -13.6%	Euro -11.4%	Euro -3.2%
Dollar Index -8.3%	British Pound -35.9%	Dollar Index -4.2%	Euro -7.1%	Euro -3.3%	Japanese Yen -12.8%	Japanese Yen -21.4%	Japanese Yen -13.7%	Canadian Dollar -19.1%	British Pound -19.4%

The dollar was strong again in 2016, although it did lose some ground to the loonie and the yen. The British pound was exceptionally weak thanks to the Brexit vote in June.

Source: Bloomberg

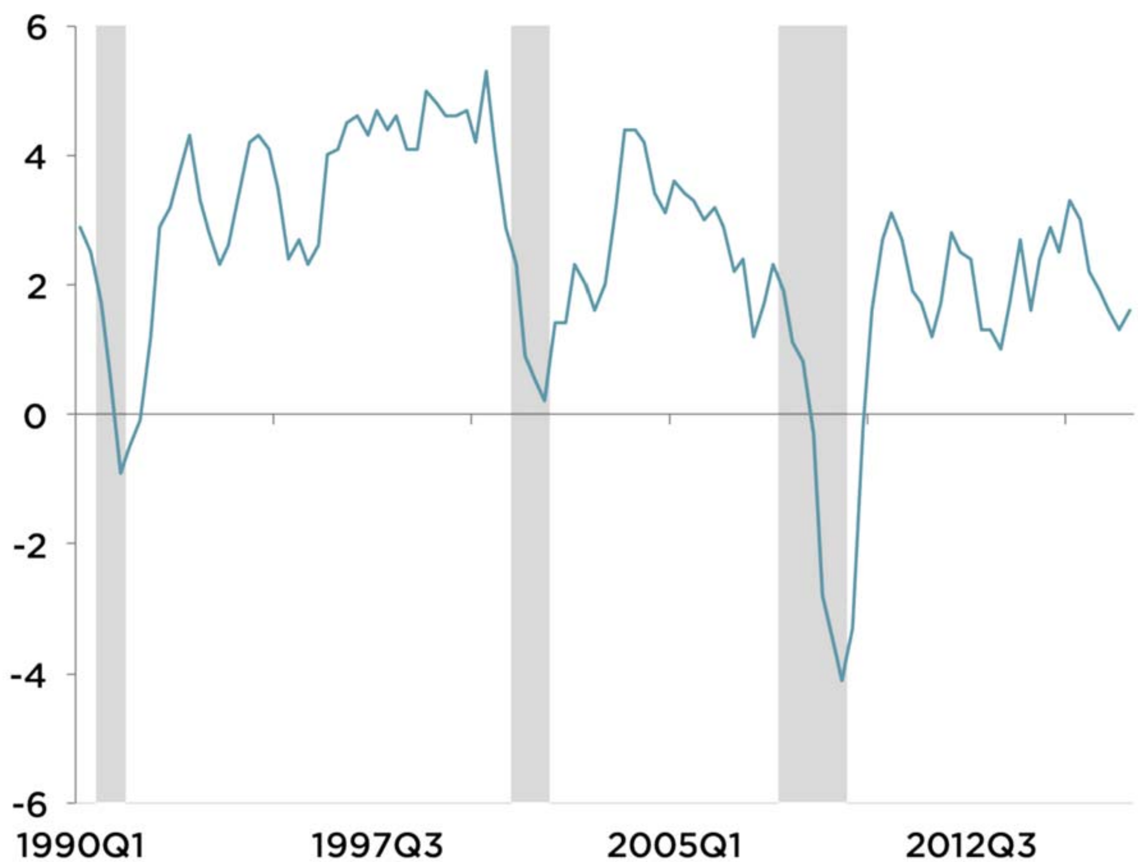
U.S. economy

Highlights

Economic growth is beginning to perk up again

Yearly changes in real gross domestic product (GDP)

Percent



Right on cue, the pace of expansion is rising again after falling to a three-year low in the second quarter.

The growth rate has been range-bound between 1.0-3.0% throughout this cycle and now looks to be back in an uptrend as it was in 2011-12 and 2013-15.

Note: Shaded areas depict recessionary periods

Source: Bureau of Economic Analysis

A bifurcated economy

Yearly changes in the real GDP components

Percent

2009	2010	2011	2012	2013	2014	2015	2016
Government 2.3%	Imports 12.0%	Investment 9.6%	Investment 3.7%	Investment 9.3%	Imports 6.1%	Consumption 2.6%	Exports 2.7%
Exports 0.8%	Investment 11.1%	Exports 4.2%	Exports 2.2%	Exports 5.9%	Investment 3.8%	Investment 2.6%	Consumption 2.2%
Consumption -0.2%	Exports 10.1%	Imports 3.5%	Consumption 1.3%	Imports 2.5%	Consumption 3.5%	Imports 2.5%	Imports 0.4%
Imports -6.2%	Consumption 3.1%	Consumption 1.5%	Imports 0.3%	Consumption 2.0%	Exports 3.0%	Government 2.2%	Government 0.0%
Investment -11.0%	Government -1.1%	Government -3.0%	Government -2.2%	Government -2.8%	Government 0.3%	Exports -2.2%	Investment -2.3%

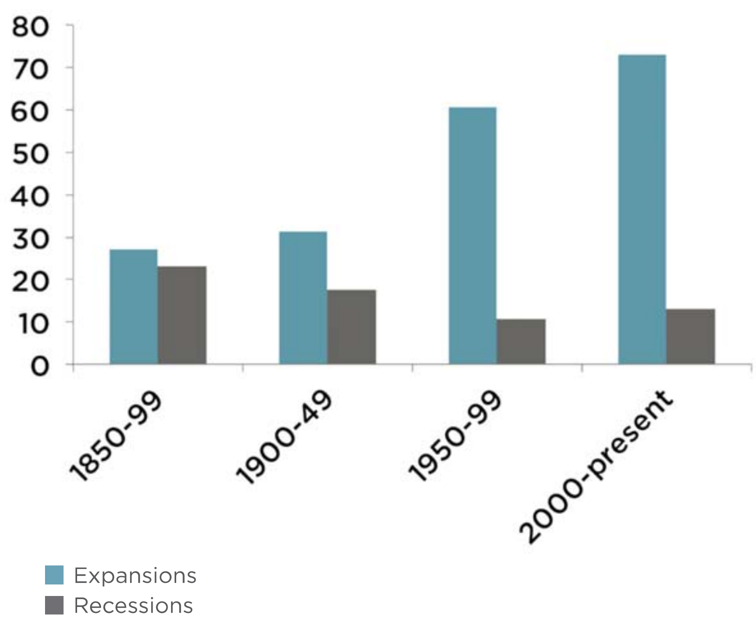
Investment spending fell for the first time in seven years in 2016, but it did start to show signs of improvement in the fall and early winter. Exports bounced back, but they could be under pressure again in 2017 now that the dollar has rallied.

Source: Bureau of Economic Analysis

Recovery has a long way to run

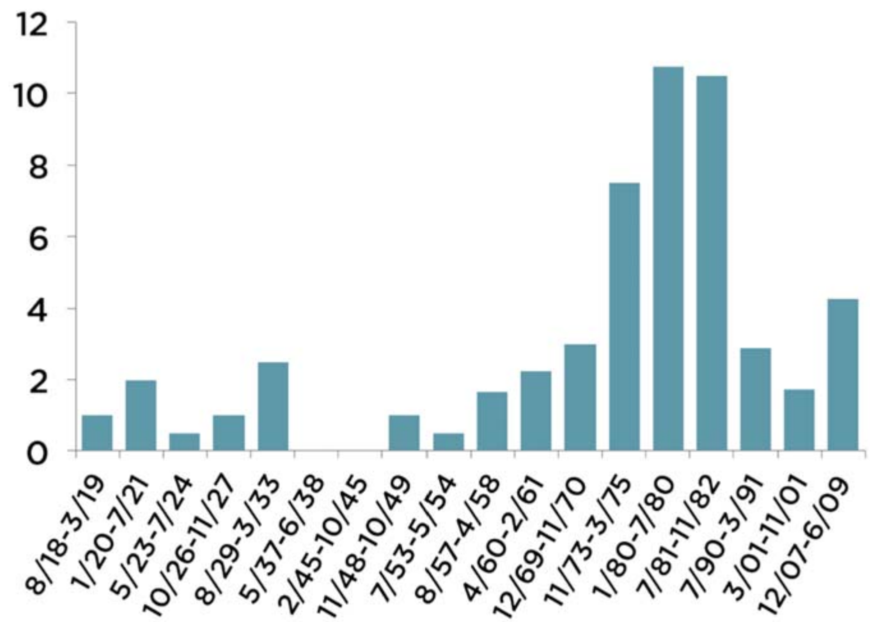
Average length of economic expansions & recessions

Months



Changes in benchmark Fed interest rates ahead of recessions

Percent



The expansion is now seven and a half years old, but it is far from overextended by recent standards. Over time, recoveries have grown longer while recessions have generally gotten shorter. Each of the last three expansions lasted longer than six years and together averaged almost eight years in length.

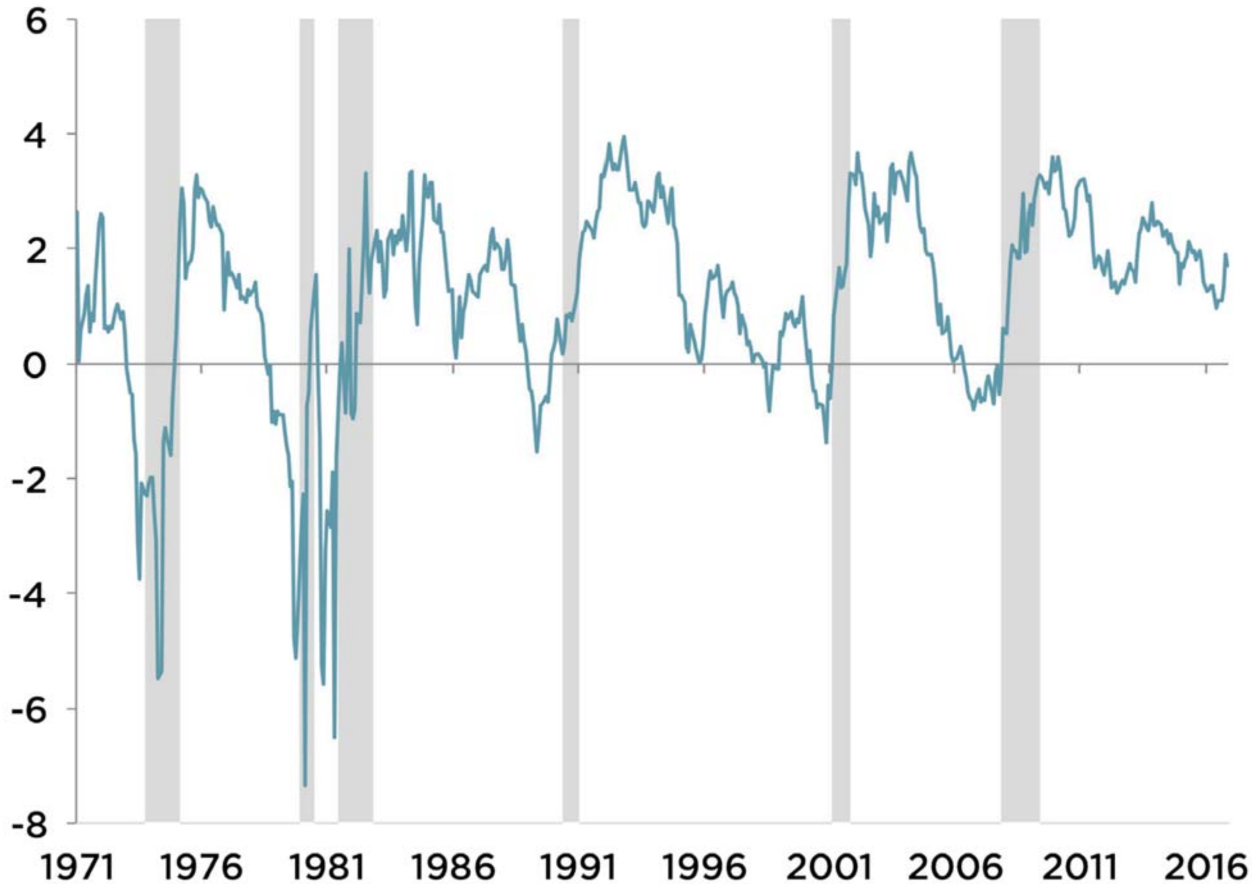
More to the point, these cycles ended as all modern cycles did — via tighter monetary policy from the Federal Reserve. With the Fed indicating that it is likely to raise rates only gradually from here, the next recession continues to appear distant.

Source: National Bureau of Economic Research, Bloomberg

The yield curve is pointing to continued expansion

Spread between the 10-year U.S. Treasury yield and the federal funds target rate

Percent



The indicator that best encapsulates the stance of monetary policy relative to the state of the economy is the yield curve — the spread between long- and short-term interest rates.

In fact, the curve has been the single best leading indicator of economic performance, as it has inverted in front of every modern recession and has steepened before every recovery.

The curve had been flattening for much of 2014, 2015, and the first half of last year, but it widened out again in the wake of the election. It will take substantially more Fed tightening from here for monetary policy to be truly restrictive and for this recovery to be in jeopardy.

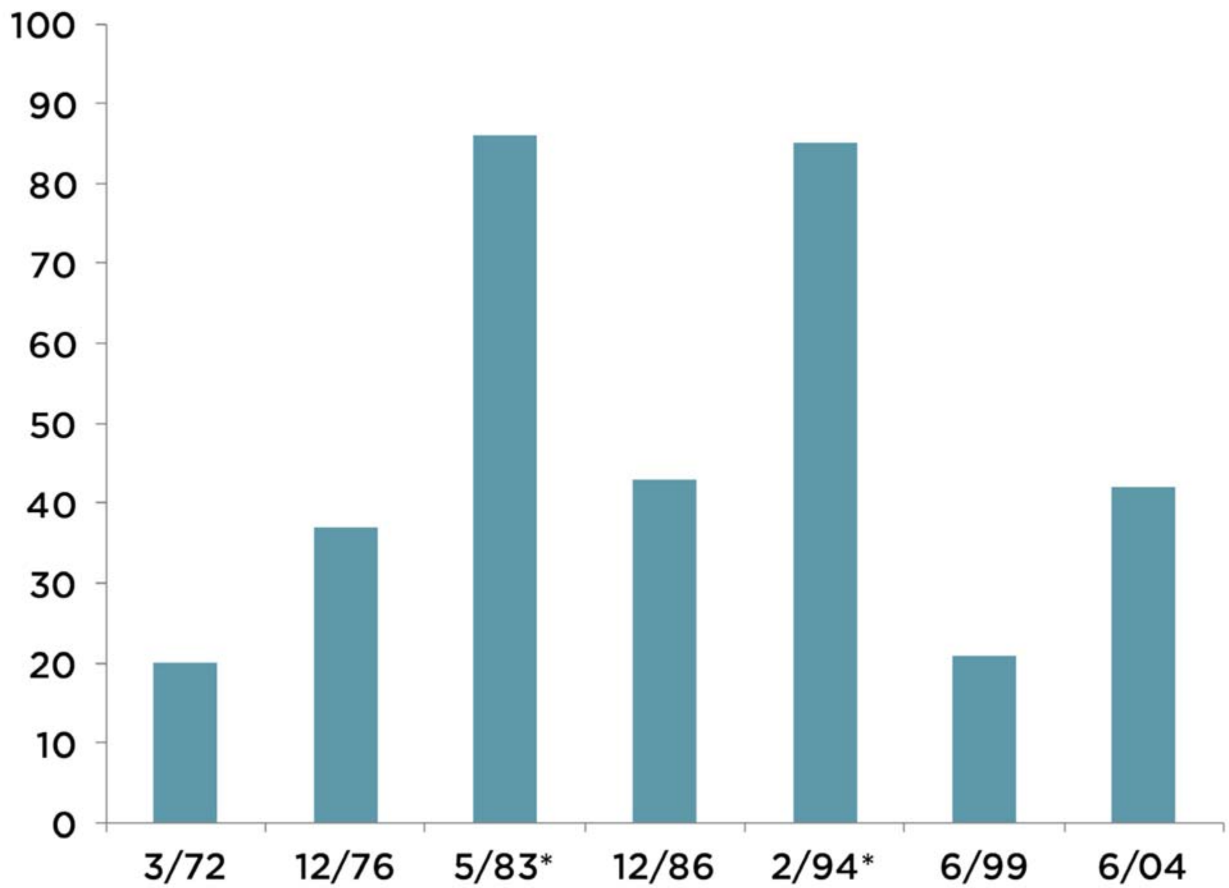
Note: Shaded areas depict recessionary periods

Source: Bloomberg

Rate hikes only start the process by which the cycle will end

Time between the start of Federal Reserve tightening cycles and the beginning of recessions

Months



Because of the time it takes to flatten or invert the yield curve, it has taken years on average between the start of Fed rate hike cycles and the onset of recessions.

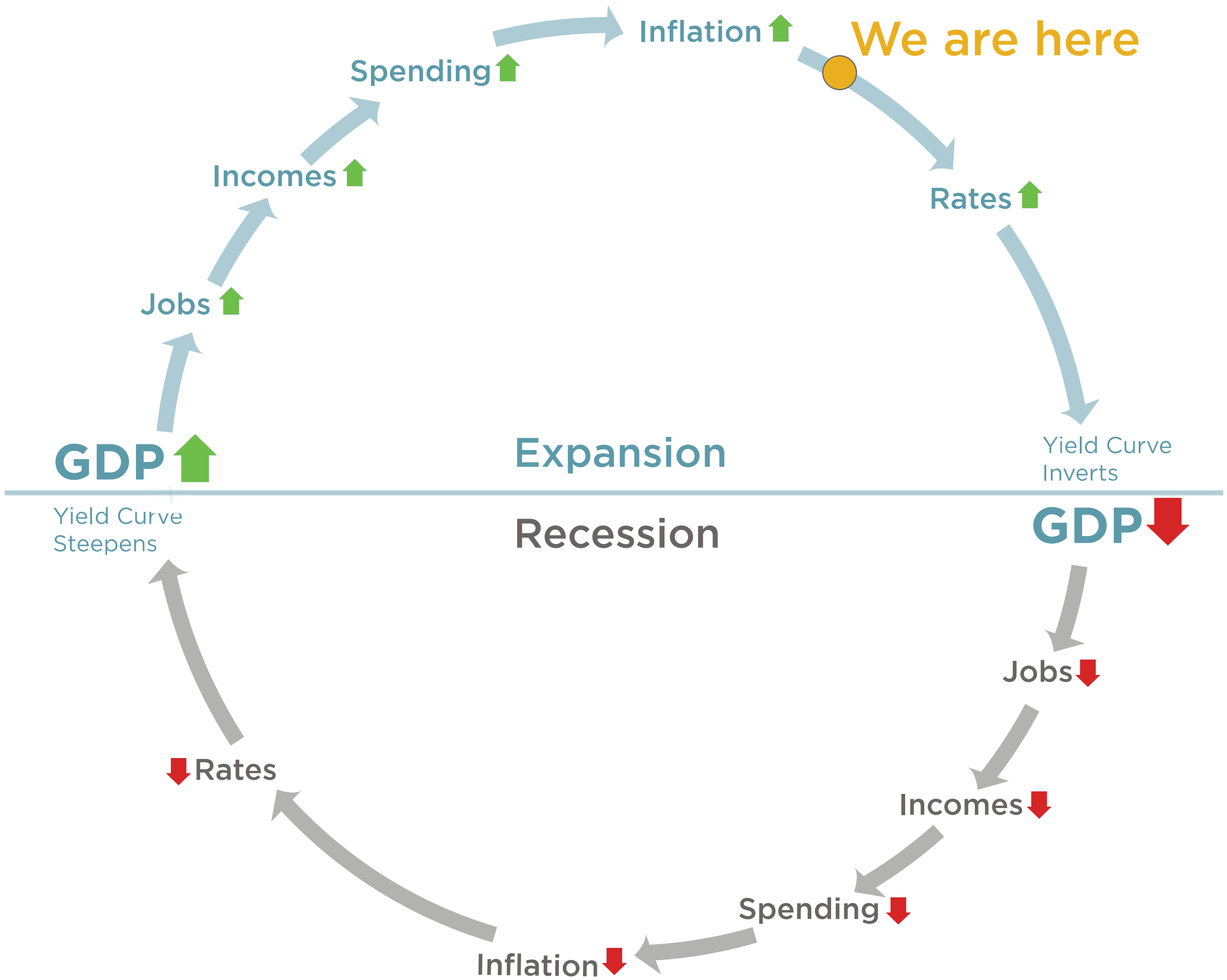
After the beginning of the last seven monetary tightening cycles, it took an average of nearly four years before the economy stopped growing. Even excluding the two episodes in which the Fed was able to raise rates without igniting a recession, the average was still nearly three years.

It takes time for rate hikes to work their way through the economy and become truly restrictive. That point in this cycle is still well into the future, even as the Fed resumed tightening before the end of 2016.

Note: Asterisks represent soft landings

Source: Federal Reserve Board of Governors

Where are we in the business cycle?



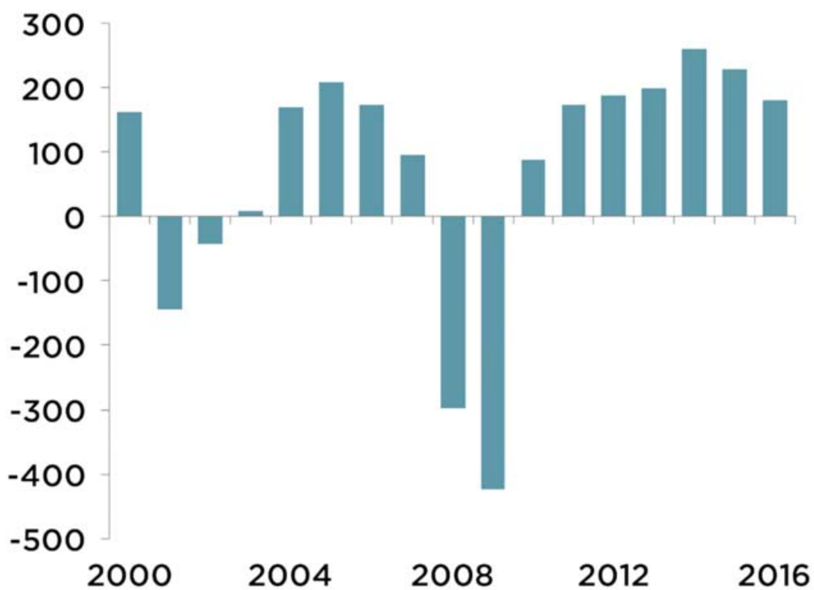
Expansions and recessions are amplified through the labor market before being ended via changes in inflation and interest rates.

Those shifts are a long time in developing, though, and are still in their early stages in this cycle.

Feedback loops remain intact

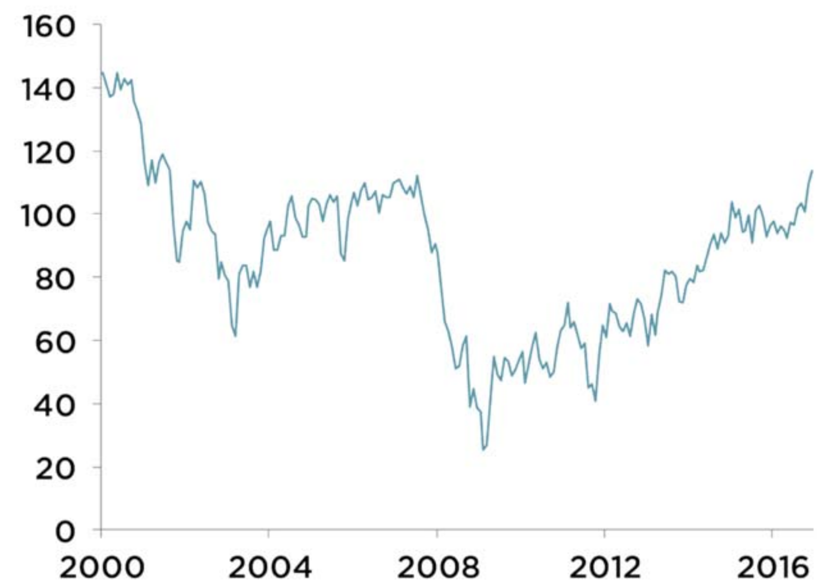
Average monthly changes in nonfarm payroll employment

Thousands



Consumer confidence

Index



Job growth remains quite healthy even after slowing over the last two years. The labor market has now been in recovery mode for seven years, pushing joblessness lower by any measure and driving up the pace of wage growth.

Confidence is not coincidentally rising and consumer spending is advancing at a healthy clip. We are still not to the euphoria stage that often comes this deep into the cycle, but we are slowly moving in that direction.

Sources: Bureau of Labor Statistics, The Conference Board

Nearly all major industries are adding workers

Yearly changes in employment growth by major groups

Percent

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 YTD
Education 3.0%	Education 2.7%	Education 1.9%	Transportation 3.5%	Services 3.4%	Hospitality 3.3%	Construction 3.7%	Construction 6.1%	Construction 4.7%	Services 2.6%
Hospitality 1.9%	Government 0.8%	Government -0.3%	Services 3.3%	Hospitality 2.9%	Services 3.2%	Hospitality 3.4%	Transportation 5.0%	Education 3.2%	Education 2.3%
Services 1.6%	Hospitality -2.2%	Hospitality -2.4%	Education 1.7%	Construction 2.6%	Transportation 2.8%	Services 3.1%	Services 3.4%	Services 3.2%	Financial 1.8%
Government 1.3%	Financial -2.6%	Retail -3.7%	Hospitality 1.6%	Retail 2.0%	Construction 2.1%	Retail 2.5%	Hospitality 3.0%	Hospitality 3.0%	Hospitality 1.7%
Retail 1.1%	Transportation -3.4%	Financial -4.1%	Manufacturing 1.0%	Education 2.0%	Education 2.0%	Transportation 1.9%	Education 2.3%	Transportation 2.3%	Construction 1.6%
Transportation 0.4%	Information -3.8%	Services -4.3%	Retail 1.0%	Transportation 1.9%	Manufacturing 1.3%	Information 1.9%	Manufacturing 1.7%	Financial 1.9%	Retail 1.4%
Information -0.3%	Retail -4.5%	Information -5.7%	Financial -0.8%	Manufacturing 1.8%	Financial 1.3%	Education 1.2%	Financial 1.6%	Retail 1.8%	Government 0.9%
Financial -1.3%	Services -4.6%	Transportation -6.3%	Government -1.0%	Financial 0.6%	Retail 1.0%	Financial 1.1%	Retail 1.4%	Information 1.1%	Transportation 0.9%
Manufacturing -1.9%	Manufacturing -6.5%	Manufacturing -10.7%	Information -2.3%	Information -0.1%	Information -0.1%	Manufacturing 1.1%	Government 0.6%	Government 0.4%	Information 0.2%
Construction -2.5%	Construction -10.5%	Construction -15.6%	Construction -3.3%	Government -1.4%	Government -0.3%	Government -0.3%	Information 0.3%	Manufacturing 0.2%	Manufacturing -0.5%

Jobs continue to be added across almost every major sector of the economy. The widespread nature of payroll gains is another sign that the labor market is on firm footing.

Source: Bureau of Labor Statistics

A mixed record for tax cuts

The largest income tax cuts in modern U.S. history

Act	Effective Date	Current Dollar Tax Cut in First Year ($ Billions)	Percent of GDP	One Year Consumer Spending Acceleration (%)	One Year Real GDP Acceleration (%)
Revenue Act of 1964	Feb. 26, 1964	11.5	1.68	1.0	-0.8
Economic Recovery Tax Act of 1981	Aug. 13, 1981	38.3	1.19	-1.2	-7.0
Jobs and Growth Tax Relief and Reconciliation Act of 2003	May 28, 2003	136.6	1.19	1.1	2.2

Of the many proposals Donald Trump laid out on the campaign trail, perhaps none is as likely to come to near-term fruition as a sharp reduction in personal income tax rates.

Lower taxes can enhance economic efficiency by improving the allocation of resources, but they shouldn't be viewed as a near-term panacea for economic growth.

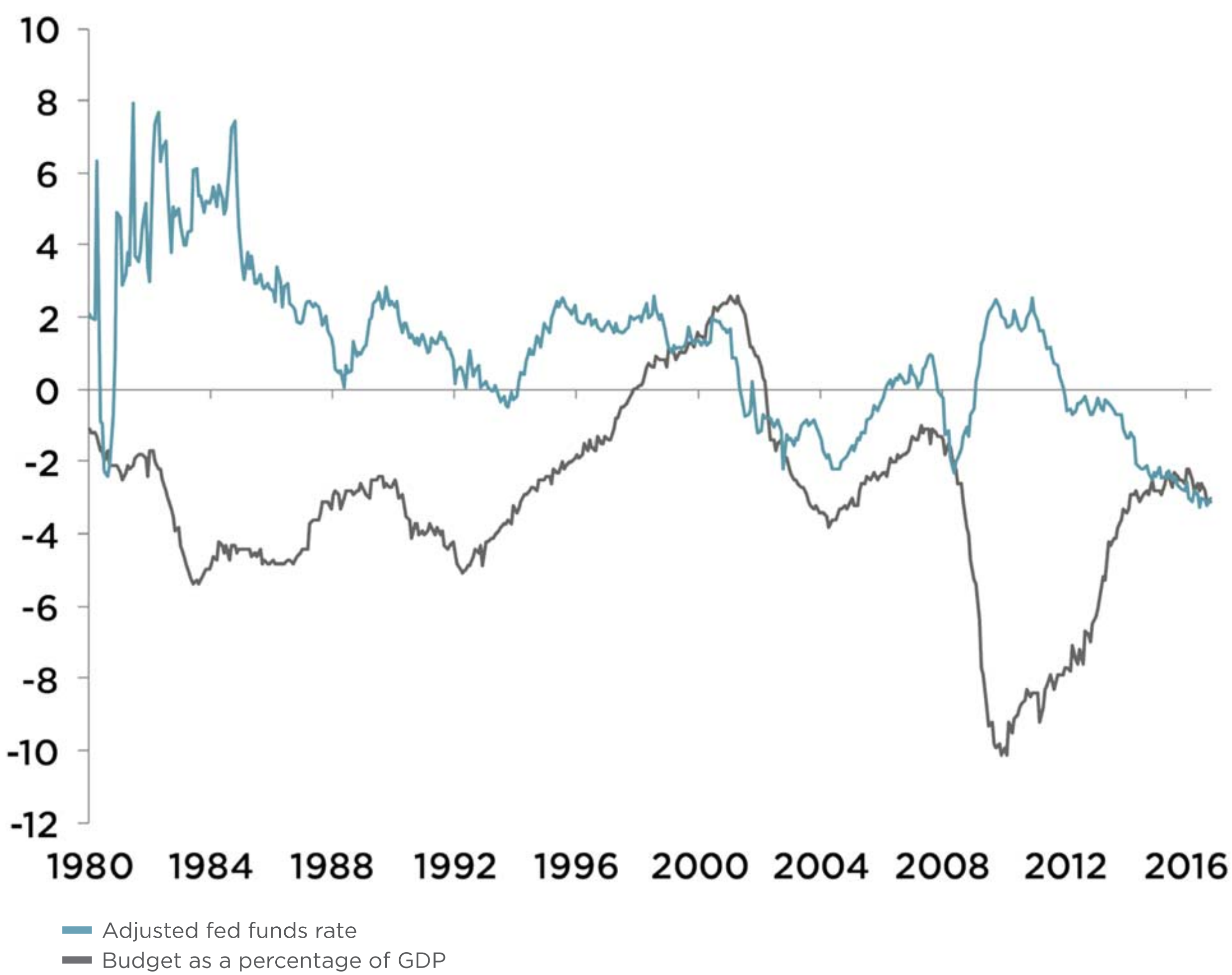
In fact, real GDP growth actually decelerated in the first year after the big tax cuts in the mid-1960s and early-1980s. The economy eventually strengthened in both cases, but the results were not immediate.

Source: The Tax Foundation

Monetary policy often offsets fiscal stimulus

Adjusted federal funds rate and fiscal budget balance as a percentage of GDP

Percent



Sources: U.S. Treasury, Federal Reserve Board of Governors

One reason that tax cuts haven't always given an unambiguous lift to economic growth is that they have at times coincided with monetary policy restraint.

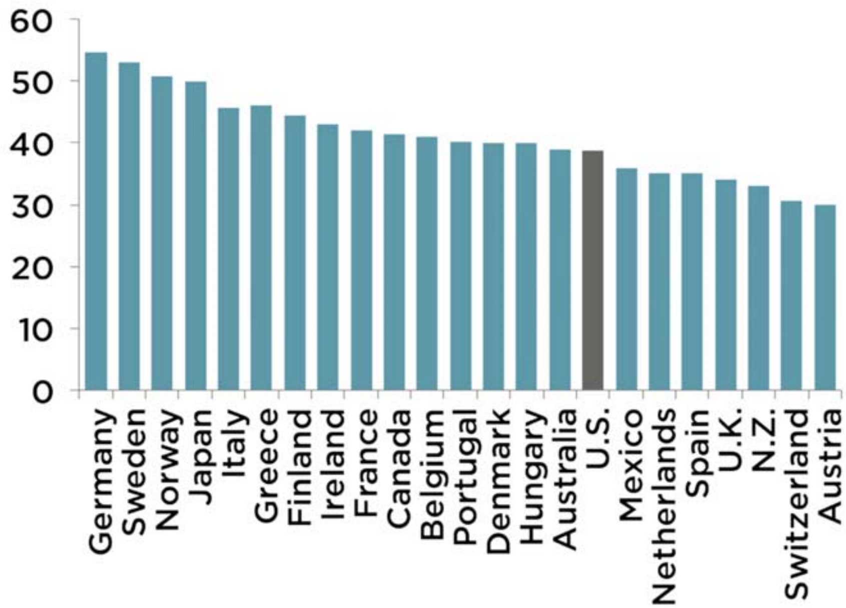
Shortly after the Economic Recovery Tax Act was signed into law in 1981, for example, the Fed reversed a nascent easing cycle and pushed its benchmark interest rate up to 15.0%, well above the prevailing rate of inflation.

In recent months, several Fed officials have hinted that fiscal stimulus could allow higher interest rates in 2017 and beyond, suggesting that the pro-growth effects of lower taxes could again be dampened.

Tax cuts elsewhere make the U.S. corporate rate highest in the developed world

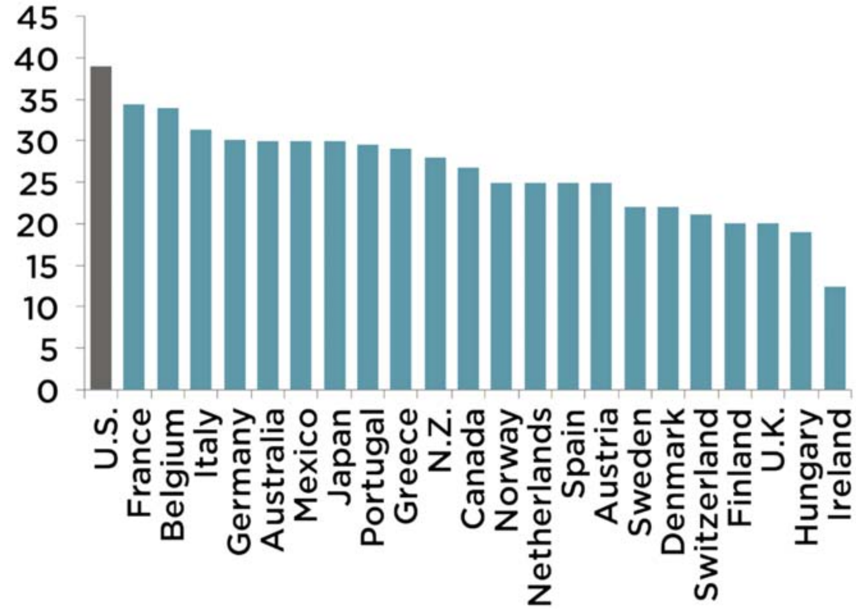
The combined corporate tax rate in the OECD countries, 1990

Percent



The combined corporate tax rate in the OECD Countries, 2015

Percent



The U.S. had one of the lowest corporate tax rates in the world a generation ago, but tax cuts in other countries since have left that same rate the very highest in the OECD.

The Trump administration has proposed cutting the corporate tax rate to 15%, which, even after allowing for the potential closing of loopholes, would still likely have a noticeable near-term impact on profitability.

Sources: Organization for Economic Co-operation and Development

Western states continue to top the job growth table

Changes in nonfarm payrolls

Percent

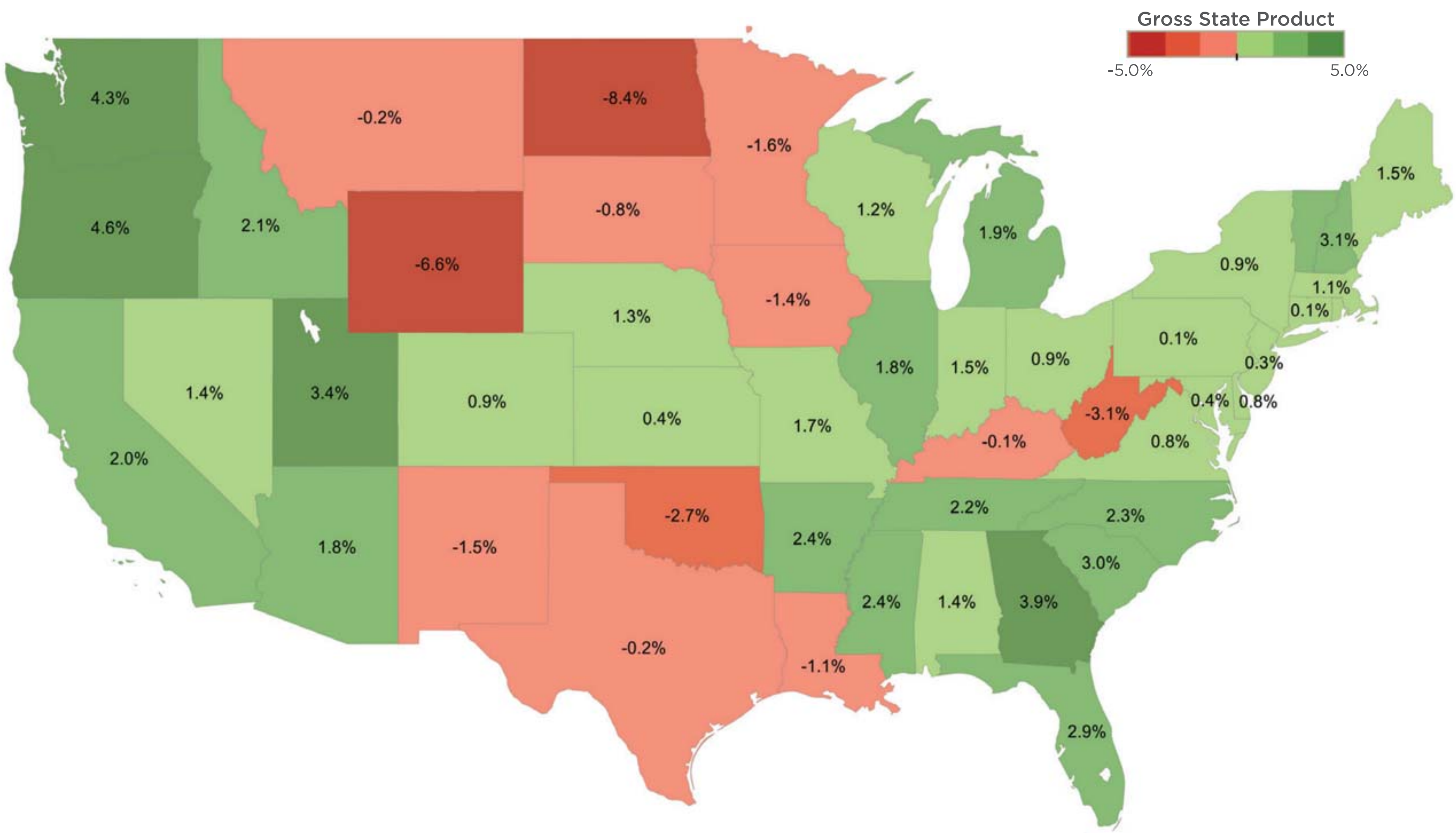
2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 YTD
Wyoming 3.7%	North Dakota 1.7%	North Dakota 0.1%	North Dakota 4.4%	North Dakota 7.2%	North Dakota 5.7%	North Dakota 3.2%	Nevada 4.2%	Idaho 4.1%	Florida 3.1%
Texas 3.1%	Alaska 1.5%	Alaska -1.1%	Alaska 2.7%	Michigan 2.6%	Utah 3.7%	Utah 3.1%	North Dakota 4.1%	Utah 3.6%	Oregon 2.9%
Utah 3.0%	Wyoming 1.0%	West Virginia -2.1%	Texas 2.3%	Utah 2.6%	Texas 3.4%	Colorado 3.0%	Colorado 3.8%	Florida 3.2%	Washington 2.8%
Louisiana 2.5%	Oklahoma 0.6%	South Dakota -2.4%	South Carolina 1.9%	West Virginia 2.3%	Colorado 2.7%	Nevada 3.0%	Texas 3.7%	Oregon 3.2%	Nevada 2.7%
Washington 2.5%	South Dakota 0.6%	New York -2.5%	Michigan 1.6%	Wyoming 2.3%	California 2.6%	Florida 2.9%	Florida 3.5%	Arizona 3.2%	Utah 2.7%
Colorado 2.0%	Texas 0.5%	Massachusetts -2.5%	Delaware 1.5%	Texas 2.3%	Hawaii 2.4%	California 2.8%	Georgia 3.4%	California 3.1%	Hawaii 2.2%
Montana 1.9%	Louisiana 0.3%	Maryland -2.6%	Utah 1.5%	Tennessee 2.2%	Oklahoma 2.4%	Texas 2.7%	Oregon 3.2%	Tennessee 3.0%	Georgia 2.1%
Nebraska 1.7%	West Virginia -0.1%	Vermont -2.6%	Kentucky 1.5%	Idaho 2.2%	Florida 2.3%	Oregon 2.7%	Utah 3.1%	Colorado 2.9%	Missouri 2.1%
North Dakota 1.7%	Nebraska -0.2%	Maine -2.6%	Pennsylvania 1.4%	Colorado 2.2%	Arizona 2.2%	Washington 2.5%	Washington 3.0%	Georgia 2.8%	N Hampshire 2.1%
Oklahoma 1.7%	Kansas -0.2%	N Hampshire -2.7%	Oklahoma 1.4%	Indiana 2.2%	Washington 2.1%	Idaho 2.4%	California 2.9%	South Carolina 2.8%	South Dakota 2.0%

Source: Bureau of Labor Statistics

Energy-dependent states have been hit by falling prices

Annual changes in gross state product

Percent



Source: Bureau of Economic Analysis

2017 Forecasts

Nationwide Economics Forecast

	2014	2015	2016E	2017F
Real GDP	2.4%	2.6%	1.7%	2.5%
Unemployment Rate	6.2%	5.3%	4.9%	4.5%
Inflation (CPI)	1.2%	0.4%	1.9%	2.5%
10-Year Treasury Note	2.17%	2.27%	2.50%	2.85%

Source: Haver Analytics (actuals); Nationwide Economics (estimates and forecasts)

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The experience, intelligence and perspective of Nationwide's staff economists and market analysts assure advisors and clients of a relevant viewpoint that's easy to understand. You may be able to apply this information to specific financial planning situations for your clients.

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NFM-13126AO.11 (1/17)