

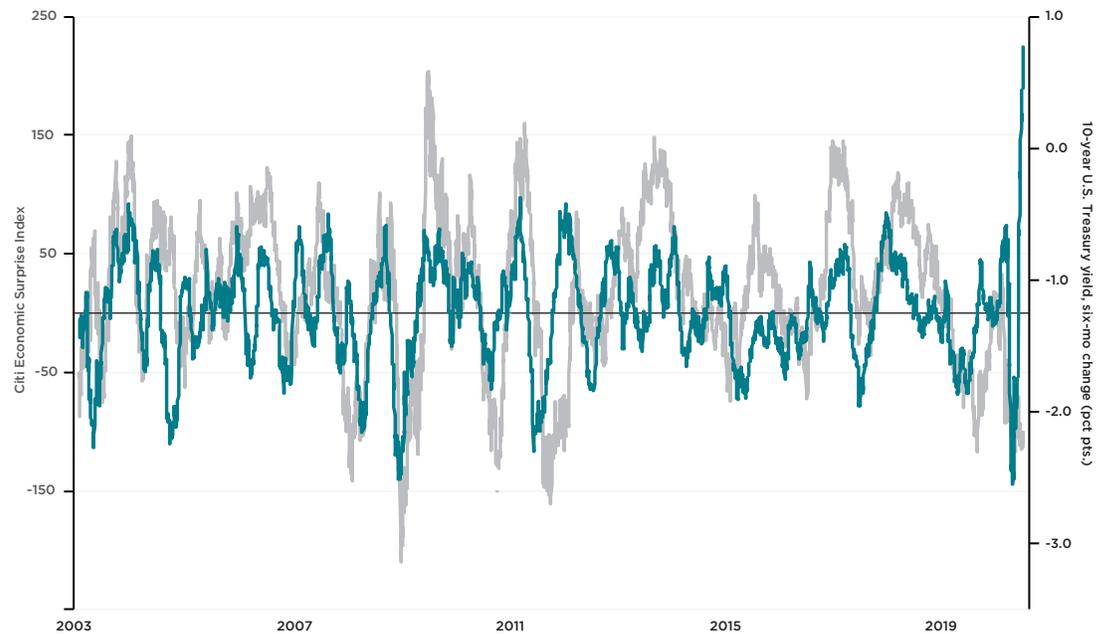
Is the recovery for real? Bonds may offer a clue.



The bond market may provide the best signal of the outlook for economic recovery.

Is it a “head fake” moment for the economic recovery?

Citi Economic Surprise Index vs. Six-month change in 10-year U.S. Treasury yields, 2003 to July 2020



At the start of this year, the bond market and stock market told two completely different stories. Equity markets, on the heels of a 31% gain in 2019, hit record highs in February. Valuations also rose to near 20-year highs and investor sentiment was extended. The bond market’s view, however, was more consistent with recessionary conditions: low interest rates; a flat yield curve; and a Federal Reserve in easing mode. While it’s absurd to suggest the bond market predicted a global pandemic, fixed income investors historically operate with more caution and skepticism than equity investors.

Since April, the trajectory of economic data has reversed from the shocks of the early pandemic shutdown. One way to view this reversal is the Citi Economic Surprise Index, which measures how close actual economic numbers come in relative to analyst expectations. In April, this index hit a record low of -145, as no analyst expected the extent of the COVID-19 economic damage. The index is currently at a record high of +224, as recent data easily surpassed pessimistic assumptions.

Historically, the bond market has closely tracked this index; interest rates rose when actual data beat expectations, then fell when the data missed. More recently, however, the two lines have dramatically diverged—interest rates are now hovering near historic lows even as economic data suggest improvement. While it’s reasonable to assume the combination of aggressive Fed stimulus and general pessimism is causing the divergence, this indicator bears watching as it could signal the current recovery is a head fake.



This material is not a recommendation to buy, sell, hold or roll over any asset, adopt an investment strategy, retain a specific investment manager or use a particular account type. It does not take into account the specific investment objectives, tax and financial condition or particular needs of any specific person. Investors should discuss their specific situation with their financial professional.

Except where otherwise indicated, the views and opinions expressed are those of Nationwide as of the date noted, are subject to change at any time and may not come to pass.

Past performance does not guarantee future results. Current performance may be lower or higher than the past performance shown.

Nationwide Funds are distributed by Nationwide Fund Distributors LLC (NFD), member FINRA, Columbus, Ohio.

Nationwide Investment Services Corporation (NISC), member FINRA, Columbus, Ohio.

Nationwide, the Nationwide N and Eagle and Nationwide is on your side are service marks of Nationwide Mutual Insurance Company.
© 2020 Nationwide

NFM-19896AO (7/2020)