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Capital market insights

4th Quarter 2015

Despite volatility, bulls still run

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Strength

Perspective

Allocation

Meaningful conversations begin with *Nationwide Market Insights*℠

Despite volatility, bulls still run

Investors should keep calm and focus on long-term opportunities rather than short-term market movements.

If it looks like a bull and acts like a bull...

- Current indicators of economic growth, improving employment statistics, low oil prices and solid corporate balance sheets are characteristics of bull markets — see chart 1
- Given the continued strength of the U.S. economy, we believe stock volatility will stabilize through the end of the year
- We believe that recent stock volatility only represents a market correction (a 10% or more decline from recent peak) and not the start of a bear market

Keep volatility in perspective

- Until August, 2015 had been a tame year with historically low volatility — see chart 2
- Prior to the August volatility, the year-to-date trading range for the S&P 500 (from the 2015 high to the low) was just 8%. The historical average (since 1928) is 35%
- Even with the significant increase in volatility, 2015 has been a relatively tame year for equities. We've traded within a 14% range (from low to high), which is less than half of the long-term average, and among the lowest on record
- Market corrections generally occur about every 12-18 months. It's been nearly four years since the last correction so the markets were overdue

Run the long-term race

- Stocks historically outperform in the year following a correction — see chart 3
- We believe investors should continue to seek market opportunities with a long-term perspective and manage the risks of investing with a sound asset allocation strategy in mind

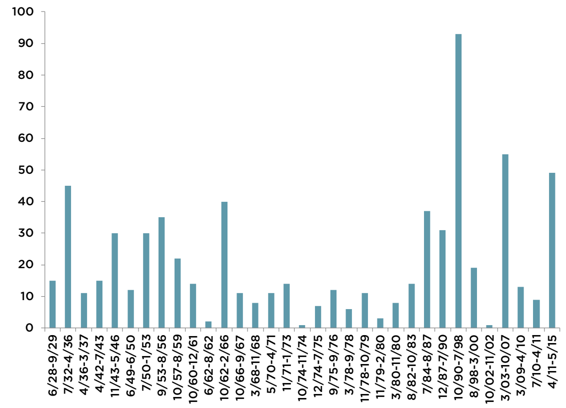
Conclusion

In August, the long-anticipated correction arrived in the equity markets. While significant market moves make great headlines and drive emotional reactions, they shouldn't be the catalyst for investment decisions. Keep your long-term goals and investment plan finely tuned even when times are volatile.

1 Corrections occur regularly, but are usually short-lived

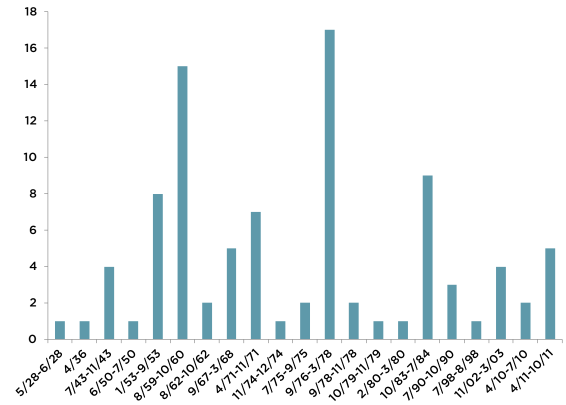
Time between corrections/bear markets

Months



Length of corrections in the S&P 500

Months



The S&P's fall into correction territory ended a relatively long stretch between declines of at least 10%. Across its history, the index has had a drop of this magnitude every 20 months on average and had on only two previous occasions gone as long as this most recent period without such a pullback.

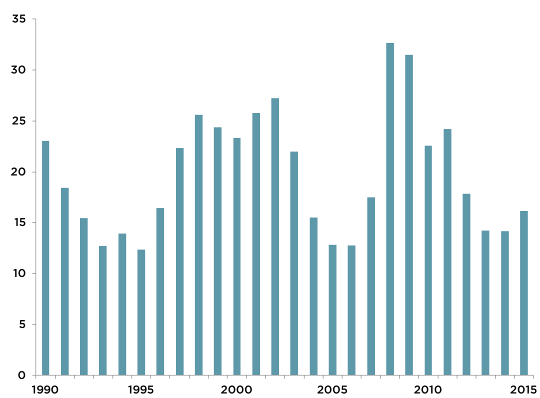
Almost all corrections have ended quickly, with an average length of just over four months and only two instances exceeding one year.

Source: Bloomberg

2 Volatility has been relatively muted

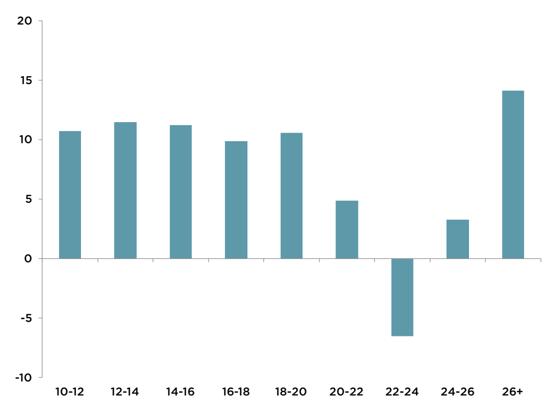
Average daily volatility index

Index



Annual changes in the S&P 500 by prior year level of the volatility index

Percent



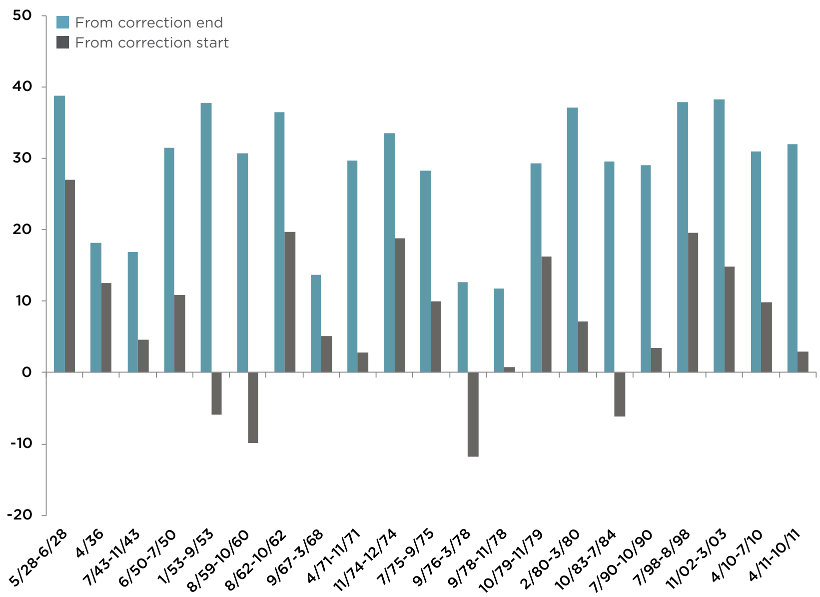
Volatility picked up in the third quarter, but has still been relatively subdued on average for the year. And while volatility has generally been a good reflection of the prevailing market environment, it has been a very poor leading indicator. There has been almost no correlation historically between volatility levels and returns over the subsequent year.

Source: Chicago Board Options Exchange

3 Corrections are followed by strong gains

Changes in the S&P 500 in the year after corrections

Percent



Source: Bloomberg

The bounce back from corrections in U.S. stocks has been reliably robust, with the S&P 500 averaging an increase of 28.8% and never failing to grow at a double-digit pace over the following year.

In fact, the S&P has also averaged a healthy gain in the year after the *beginning* of corrections, falling in only four out of 21 cases and averaging a rise of 7.3% even after incorporating the 10%+ decline.

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

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