April 2018

MEEDER INVESTMENT MANAGEMENT

Monthly Market Commentary

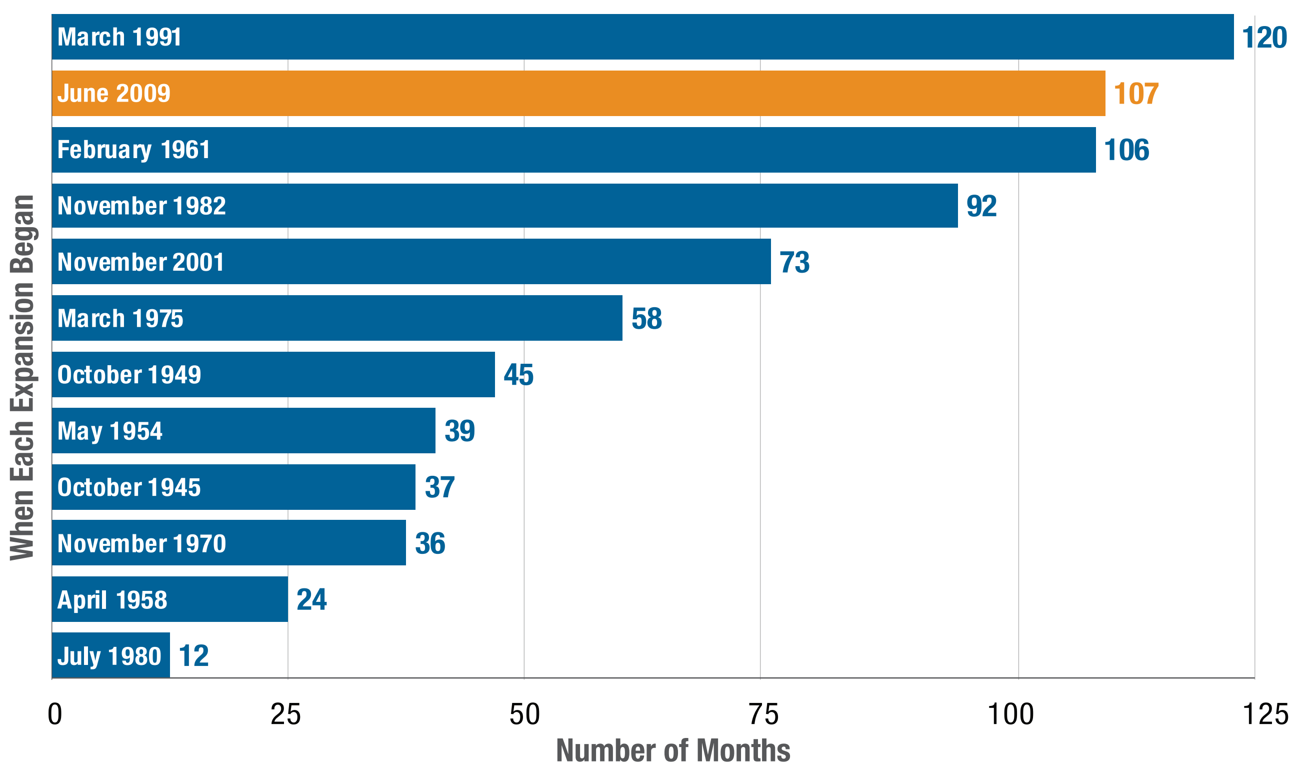
Discussion Points

- » Economy Officially in 2nd Longest Expansion Since WWII
- » S&P 500 Tests Correction Lows
- » 10-Year U.S. Treasury Yield Reaches 3%

Economy

As of April 30, the U.S. economy is now in the 2nd longest economic expansion in our country's history since World War II. According to the National Bureau of Economic Research, the expansion has now reached 107 consecutive months. Since WWII the only expansion longer than the current one began in March 1991 and lasted 120 months. Although this expansion may be "long in the tooth" from historical standards, the economy has recently posted respectable results in a number of areas. For the first quarter, GDP increased by 2.3%, compared to an expected growth rate of 2%. The most notable factor in this report showed that consumer spending, which is responsible for more than two-thirds of the U.S. economy's productivity, fell to just 1.1%. This was the lowest level for spending since the second quarter of 2013. In April, U.S. employers added 164,000 jobs, which was below expectations, however, this was still enough to bring the national unemployment level to an 18-year low of 3.9%. Some economists are concerned that wage growth has continued to remain muted, suggesting that the U.S. unemployment level might not have bottomed yet. This theory suggests that once unemployment finally does reach a low, employers

Longest Economic Expansions Since World War II



Source: National Bureau of Economic Research will be forced to increase wages to attract new and retain existing workers, thus causing wages to increase.

Equities

The S&P 500 Index fell on the first trading day of April to a level of 2581. This was the same point where the market experienced its lows in early February, which officially marked its 10% correction. By the end of April the S&P 500 managed to finish the month with a positive return of 0.38%. At the time of this writing, 449 companies of the S&P have reported earnings for the first quarter. The year-over-year earnings growth rate of 23% has exceeded consensus estimates, while sales growth has increased over 8%. The dispersion among growth and value stocks remains strongly in favor of growth. The difference this year, as opposed to 2017, is that small-cap equities are outpacing large- and mid-cap stocks. The two sectors that had significant swings in April were Energy and Consumer Staples. The Energy sector spiked with over a 9% gain in April, which was primarily due to the rising price of oil which increased over 4%. On the other hand, the Consumer Staples sector is feeling the brunt of this rising rate environment, as the interest rate sensitive sector fell over 4% for the month and is now down -10.7% year-to-date.

Fixed Income

Fixed income markets made headlines this month as the 10-year U.S. Treasury yield closed above 3% for the first time since December 31, 2013. This has been a psychological threshold that many investors have been using as a sign that the yields on fixed income investments are starting rise. While the yield curve isn't currently inverted, investors are keeping a watchful eye as shorter-term yields continue to increase faster than longer-term issues. This is important because an inverted yield curve has historically been a leading indicator of a recessionary environment, as investors are able to earn higher yields on shorter-dated Treasury maturities than longer-dated issues. This occurs when investors are not optimistic about the long-term outlook of the economy. Sellers of long-term debt do not need to offer a higher yield on the bonds because there is not enough demand requiring a higher coupon to sell the securities. Personal Consumption Expenditures or PCE, the Fed's preferred measure of inflation, rose to 1.9% in March. The Fed has stated they are comfortable with a 2% inflation rate. If this metric exceeds its original threshold, it will be interesting to see how long the Fed is willing to let this metric exceed this level or if they tighten monetary policy more quickly than they (and the marketplace) had originally projected.

Geopolitical Update: May 8, 2018

On Tuesday May 8th, President Trump announced that the U.S. will withdraw from the Iranian nuclear deal that was reached by the Obama administration in 2015, and will restore economic sanctions on the country until they officially stop the pursuit of nuclear weapons. The President extended this action by saying, "Any nation that helps Iran in its quest for nuclear weapons could also be strongly sanctioned by the United States." Currently, Iran is the 3rd largest oil producing exporting country. Analysts have forecasted that the sanctions could restrict up to 1 million barrels of oil production per day. Following this announcement, crude oil prices experienced volatility before reaching $70 a barrel for the first time since 2014.

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