February 2017

MEEDER INVESTMENT MANAGEMENT

Monthly Market Commentary

Discussion Points

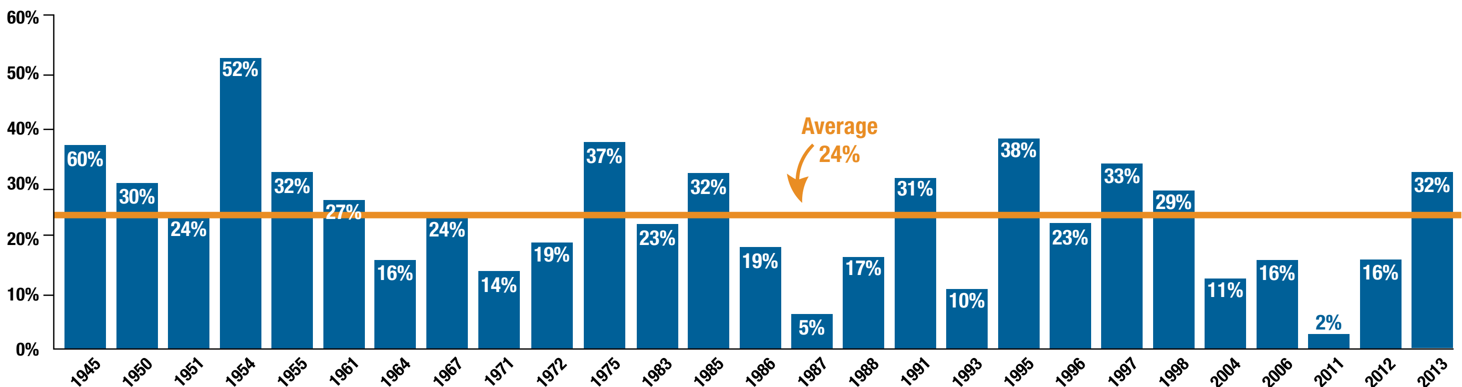
- Volatility for Equity Markets Remain Low
- February Jobs Report Beats Expectations
- Consumers Still Optimistic

For the first two months of 2017, markets have continued their streak of reaching new all-time highs yet they have managed to do so in a rather peculiar manner. The last time that the S&P 500 closed down at least 1% or more was on October 11, 2016. It also has not closed above a 1% threshold during the first two months of 2017. It seems hard to believe, but not when you take a closer look at a volatility index also referred to as the VIX. At the time of this writing, the volatility metric is down over 18% year-to-date and equity markets continue to thrive in this low volatility environment. According to MarketWatch, from 1945 – 2016 there have been 27 calendar years when the S&P was positive for both January and February. During this period, the average annual return for these calendar years was 24%. We are 96 months in to this secular bull market and while history does not always repeat itself, this may be another indication of more good days ahead for investors.

The S&P 500 Index has continued its ascent in 2017 rising 5.94% YTD through the end of February. Mid- and small-cap stock benchmarks as represented by the S&P MidCap 400 and Russell 2000 trail slightly, up 4.28% and 2.33% respectively. Some of this growth can be attributed to the fact that leading economic indicators have continued to provide investors many reasons to believe there is still room to run in this bull market. For example, the ISM Manufacturing Index, which is used as a benchmark for manufacturing productivity, beat estimates for the month rising to a level of 57.7 compared to a consensus estimate of 56.4. The ISM Non-Manufacturing Index is used to monitor productivity for the services industry. February's report for the ISM Non-Manufacturing Index exceeded analyst expectations with a 57.6 report relative to a 56.5 estimate. A level above 50 for either index is a sign of expansion. The economy continued to signal strength when the jobs report for February showed that the private sector added 235,000 jobs compared to a consensus estimate of 200,000. This brought the unemployment level down from 4.8% to 4.7%.

Calendar Year Total Returns

Whenever S&P 500 Rose in January & February Since 1945



Source: CFRA. Past performance is no guarentee of future results.

So what does this mean to the Fed? In a recent statement, Janet Yellen was quoted as saying, “Further gradual hikes in the federal funds rate would be "appropriate" should employment and inflation move in line with expectations.” According to Bloomberg, immediately following Yellen’s statement the probability of a rate hike at the FOMC March meeting rose from 52% to 94%. This led investors to brace for a rate hike that appears to be inevitable, as the 10-year treasury yield rose from 2.36% to 2.46% in a single day. The broader fixed income market, as represented by the Bloomberg Barclays U.S. Aggregate Index is positive 0.87% year-to-date. Within the fixed income asset class, emerging market bonds led the way with the Morningstar category average positive 3.54%, followed by the high yield category which posted returns of 1.25% for the year. When looking abroad, emerging market returns nearly double the returns of developed international markets. The MSCI EM Index was positive 8.70% for the first two months of 2017, while the MSCI EAFE Index was up 4.37%.

American consumers continue to be optimistic about the U.S. economy, as the most recent Consumer Confidence survey levels reached a post-election high at 114.6 for the month compared to a consensus estimate of 111.3. This index is a survey of 3,000 households located across the country that gauges how optimistic consumers are, and how this is impacting their spending and saving behaviors.

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