February 2019

MEEDER
INVESTMENT MANAGEMENT

Monthly Market Commentary

Discussion Points

» Historic Rebound Continues
» February Job Growth Stalls
» March Rate Hike Unlikely

After experiencing the best monthly performance for any January since 1987, the S&P 500 showed strength by rising another 3.2% in February for a year-to-date total return of 11.5%. Small- and mid-cap companies represented by the Russell 2000 and Russell Mid Cap indices extended their gains bringing their 2019 returns to 17.0% and 15.5%, respectively. The performance dispersion between growth and value stocks remains slightly in favor of growth stocks, both styles have returns this year above 11%.

This has been a very unusual time for stocks after experiencing performance extremes within the past few months. As a reminder, near the end of 2018 markets experienced a drawdown of -19.7% officially making it the largest since the Financial Crisis of 2008. After bottoming on December 24th, the S&P's performance abruptly turned positive. What is more unusual is the magnitude of the stock market advance from the December 24th low, as compared to all other 2-month advances from the initial -19% declines from all-time highs. Our research shows that since 1970, there have only been 8 times that the market declined by at least -19% after reaching an all-time high. In some instances, the market ultimately traded lower, while others rebounded. The average 2-month return after the initial -19% drawdown was 5.4%. In this current "V-bottom" recovery, the S&P 500 has gained 18.4% in two months, which is over three times the average return during similar historical periods.

Historical Drawdowns of -19%

All-Time High	Date of -19% Decline	# of Days to Reach -19% Decline	Subsequent 2-Month Return
1/5/1970	5/14/1970	91	-1.4%
1/11/1973	11/26/1973	220	0.1%
11/28/1980	9/25/1981	208	9.5%
8/25/1987	10/19/1987	38	8.1%
7/16/1990	10/17/1990	66	9.1%
7/17/1998	8/31/1998	31	13.4%
3/24/2000	3/2/2001	236	2.7%
10/9/2007	7/2/2008	184	1.3%
	Average	**134**	**5.4%**
9/20/2018	**12/24/2018**	**65**	**18.4%**

Source: Bloomberg, Meeder

As stock markets continue to experience a strong rebound most of the recent economic data remains positive but indicates that the economy could be slowing. The biggest disappointment for investors was likely the February non-farm payrolls report. Analyst consensus estimates expected the U.S. to create 180,000 jobs, but actual results were just 20,000. The good news is that January's actual result of 311,000 jobs nearly doubled expectations. Despite the significant volatility over January and February, the average growth over this time is still a solid 166,000 jobs. The February ISM Manufacturing Index actual results were 54.2, which were less than expected. While missing expectations, any result greater than 50 is a sign that manufacturing continues to expand. Economic GDP growth for the 4th quarter of 2018 results came in at 2.6%, beating expectations.

Fixed income markets experienced little change over the month as the year-to-date return of the Bloomberg Barclay's U.S. Aggregate Bond Index was 1.00%. As growth continues the Fed is watching their preferred measure of inflation, Personal Consumption Expenditures Index, which remains under control at 1.9%. With economic growth seeming to moderate and inflation remaining in check, investors are not expecting a rate hike in March. According to Bloomberg at the time of this writing, markets are forecasting a 0% chance of the Fed hiking short-term interest rates at their next meeting on March 19-20th.

International markets continue to improve despite many economic storm clouds. The United Kingdom voted to leave the European Union on June 23, 2016 and while the final deadline is less than a month away, there remains no clear direction on what Britain will do. U.S. trade negotiations with China remain a serious concern for investors. While talks have continued, there does not appear to be much progress or an end in sight. Developed international markets (MSCI EAFE) has underperformed the U.S. year-to-date, but remain positive at 9.29%, while the MSCI Emerging Markets Index is at 9.01%.

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