July 2017

MEEDER INVESTMENT MANAGEMENT

Monthly Market Commentary

Discussion Points

- DJIA – Hits Multiple New Highs
- VIX – Historic Lows
- Geopolitical Concerns Grow

Equity markets reached all-time record highs in July as the Dow Jones Industrial Average Index finished the month on the brink of 22,000. The S&P 500 continued its ascent upward by 2.06% for July, bringing the year-to-date return to 11.5%. The disparity of performance among market caps and investment styles has continued to become more pronounced. Those with a tilt toward growth and larger capitalization have been the best performers, while those with more value exposure and smaller caps have remained positive, yet significantly lower than their counterparts. In spite of this upward trend in equity markets, the volatility of equity markets is nowhere to be found. This is where the VIX Index comes into play.

The VIX Index is frequently referenced in financial circles and media outlets, and is commonly thought of as the "fear gauge." It is officially known as the Chicago Board Options Exchange Volatility Index and tracks the 30-day implied volatility of the S&P 500 Index. This forward looking statistic is used to measure market risk. A normalized level for the index is generally around 20. Above this, it tends to be a reflection of higher volatility, while levels below this tends to refer to lower volatility. To put this in perspective, during the financial crisis of 2008, the VIX shot up to 80 and did not return back to normalized levels until the end of 2009.

VIX CLOSING BELOW 10 – LAST 20 YEARS

August 1, 1997 – July 31, 2017

DATE	LAST PRICE
11/20/2006	9.97
11/21/2006	9.90
12/14/2006	9.97
1/24/2007	9.89
5/8/2017	**9.77**
5/9/2017	**9.96**
5/25/2017	**9.99**
5/26/2017	**9.81**
6/1/2017	**9.89**
6/2/2017	**9.75**
6/26/2017	**9.90**
7/13/2017	**9.90**
7/14/2017	**9.51**
7/17/2017	**9.82**
7/18/2017	**9.89**
7/19/2017	**9.79**
7/20/2017	**9.58**
7/21/2017	**9.36**
7/24/2017	**9.43**
7/25/2017	**9.43**
7/26/2017	**9.60**

The VIX has closed below 10 only 21 times in the last 20 years. However, 17 of those occurrences have happened in just the past three months.

Source: Bloomberg, JPMorgan 7/31/2017

Over the past few months, the VIX has traded at all-time historic lows. In fact, the VIX has closed below a level of 10 a total of just 21 times in the past 20 years through July 31, 2017. Of the 21 times, 17 instances occurred throughout May, June and July of this year! On Thursday, July 27, 2017, the VIX closed at 9.36, just above the all-time low of 9.31 that was set on December 22, 1993, but managed to hit an all-time intraday low of 8.84 a day earlier. The reason this is so important is that market volatility is a huge factor when looking at the role that emotion plays with respect to investing behavior. When looking at the big picture, there have been 17 pullbacks of 5% or more in the S&P 500 Index since the lows of March 9, 2009, yet we have not seen a pullback of 5% since the drop in the market in the aftermath of the Brexit vote in June 2016. This means that this is the longest we have gone without a 5% pullback in over 20 years and the VIX continues to show historically low volatility.

On the geopolitical front, North Korea continued its quest in attempting to be respected as a military superpower by testing an intercontinental ballistic missile, thought to be capable of carrying a nuclear warhead. Meanwhile, the White House announced more staffing changes, but saw little progress on major legislation initiatives after the Senate failed to approve a repeal of the Affordable Health Care Act. Despite all of this, international equity markets continue to perform extremely well as those 21 developed countries represented by the MSCI EAFE index posted a monthly return of 2.88%, bringing the year-to-date return to over 17%. The MSCI Emerging Markets Index rose 5.88% in July and is up over 25% since the beginning of the year. Some of this performance can be attributed to the U.S. Dollar hitting a two and a half year low at the end of July. A weaker Dollar makes the price of U.S. exports cheaper on foreign soil and is often a reason for increased sales abroad.

Within fixed income markets, emerging market debt has also been a beneficiary of the weaker U.S. Dollar. Treasuries have performed well because bond yields of other developed countries have remained negative, which has put downward pressure on U.S. Treasury rates. In the face of a rising rate environment, high-yield bonds and investment-grade securities have contributed to positive performance as well. At the beginning of the year, the Fed anticipated three rate hikes in 2017. They have executed two hikes thus far, but according to Bloomberg, markets are predicting less than a 40% likelihood of another rate hike from the Fed later this year. Markets are discounting the probability of another rate hike because the Fed is continuing to signal that they will also begin to unwind their $4.5 trillion dollar balance sheet later this year. While they have been transparent about their intent, the timing and the impact that this could have on bond markets is unknown.

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