May 2017

MEEDER INVESTMENT MANAGEMENT

Monthly Market Commentary

Discussion Points

- Strong Earnings for 1st Quarter
- Disparity Between Styles Widens
- June Rate Hike Appears Imminent

Equity markets continued to show strength during the month of May. The S&P 500 posted returns of 1.41% for the month, which brought the year-to-date return to 8.66%. The recent driver of this growth in the equity market can be attributed to a couple of notable things. The first contributor has been an increase in earnings growth for U.S. companies. According to Bloomberg, S&P 500 earnings for the first quarter of 2017 bounced substantially with an increase of 14.5% year over year. Much of this increase can be attributed to the rebound in energy prices off of their previous lows. This rebound in earnings and energy prices continues to solidify the rise in equity markets.

As this rise has progressed, an interesting thing to note is the massive disparity in domestic equities among growth and value, as well as market cap sizes. Simply put, the larger the market capitalization and more growth exposure there has been, the better the performance has been on a year-to-date basis. On the other hand, the smaller the cap range and more value exposure there was, the worse the performance. While breadth in the marketplace is closely watched among many equity investors, the question remains, “What seems to be driving large cap growth stocks?” According to Ned Davis, over the past 3 months there are six large-cap growth stocks in the S&P 500 that have been responsible

Equity Style Analysis

	Value	Blend	Growth
Large-Cap	2.97%	8.66%	14.30%
Mid-Cap	3.63%	4.30%	11.07%
Small-Cap	-2.86%	1.48%	1.48%

Performance is year to date through May 31, 2017. Categories on the chart above are represented by the following indices; Large-Cap Growth: Russell 1000 Growth TR, Large Cap Value: Russell 1000 Value TR, Large Cap Blend: S&P 500 TR, Mid-Cap Growth: Russell Mid-Cap Growth TR, Mid-Cap Blend: Russell Mid-Cap TR, Mid-Cap Value TR: Russell Mid-Cap Value TR, Small-Cap Growth: Russell 2000 Growth TR, Small-Cap Blend: Russell 2000 TR, Small-Cap Value Russell 2000 Value TR. Data provided by Morningstar.

Source: Bloomberg May 31, 2017

for the benchmark maintaining its gains since March. Those stocks—Facebook, Amazon, Netflix, Alphabet, Apple and Microsoft—have collectively accounted for a market-cap weighted gain of 11.9%. Because of the participation of these names, the S&P has remained roughly flat. Without these six stocks, the S&P return would be down -1.8% over the same time period.

On an economic front, GDP growth for the first quarter was revised upward from 0.7% to 1.2%. While this number is still considerably lower than the 4th quarter result of 2.7%, the revised improvement was encouraging as an increase in consumer spending was one of the catalysts for the revision.

The closing price for oil as measured by WTI Crude at the end of May was $48.33 a barrel. At an OPEC meeting in late may, members agreed to extend their production cut of nearly 1.8 million barrels a day through March 2018. While some in the market were hoping for a larger reduction to help boost the price of oil further, others viewed this as a time to increase production. According to Baker Hughes, the last week in May was the 5th consecutive weekly increase for drilling rigs coming online. Over a longer timeframe, the U.S. rig count for drilling rigs going online has increased by 508 rigs for a total of 916 from just one year ago on June 2, 2016.

As for the bond markets, the Bloomberg Barclay's U.S. Aggregate Bond index was up 0.77% for the month of May, which pushed the year-to-date performance up to 2.38%. According to Bloomberg, at the time of this writing, the market was pricing in a 94% likelihood of a 0.25% rate increase by the FOMC at their June 14th meeting. The 10-year Treasury yield fell 0.12% in May to end the month at 2.21%. The 2-year Treasury yield started and ended the month at 1.28%, which has continued to compress the spreads between these widely traded treasuries. At the time of this writing the 10- and 2-year Treasury spread is just 0.84% apart. The last time we saw these levels was September of 2016 and prior to that it was 2007.

International equity markets continued to earn substantial returns relative to domestic equity markets thus far in 2017. Developed international markets, as represented by the MSCI EAFE, had positive returns of 3.67% for the month, bringing the year-to-date return to a stout 14.01%. Emerging markets were close behind in their monthly return of 2.96% for May, yet still lead the major indices with a 17.25% return in the first five months of 2017. Some of this recent performance can be attributed to the resolution of the French Presidential Elections. There was a great deal of uncertainty surrounding this event due to candidate Marine Le Pen's anti-Euro and anti-European Union agenda relative to that of her liberal centrist opponent, Emmanuel Macron. Markets were reassured after Macron's win that there would not be another set of Brexit-like uncertainties looming for years to come.