November 2018

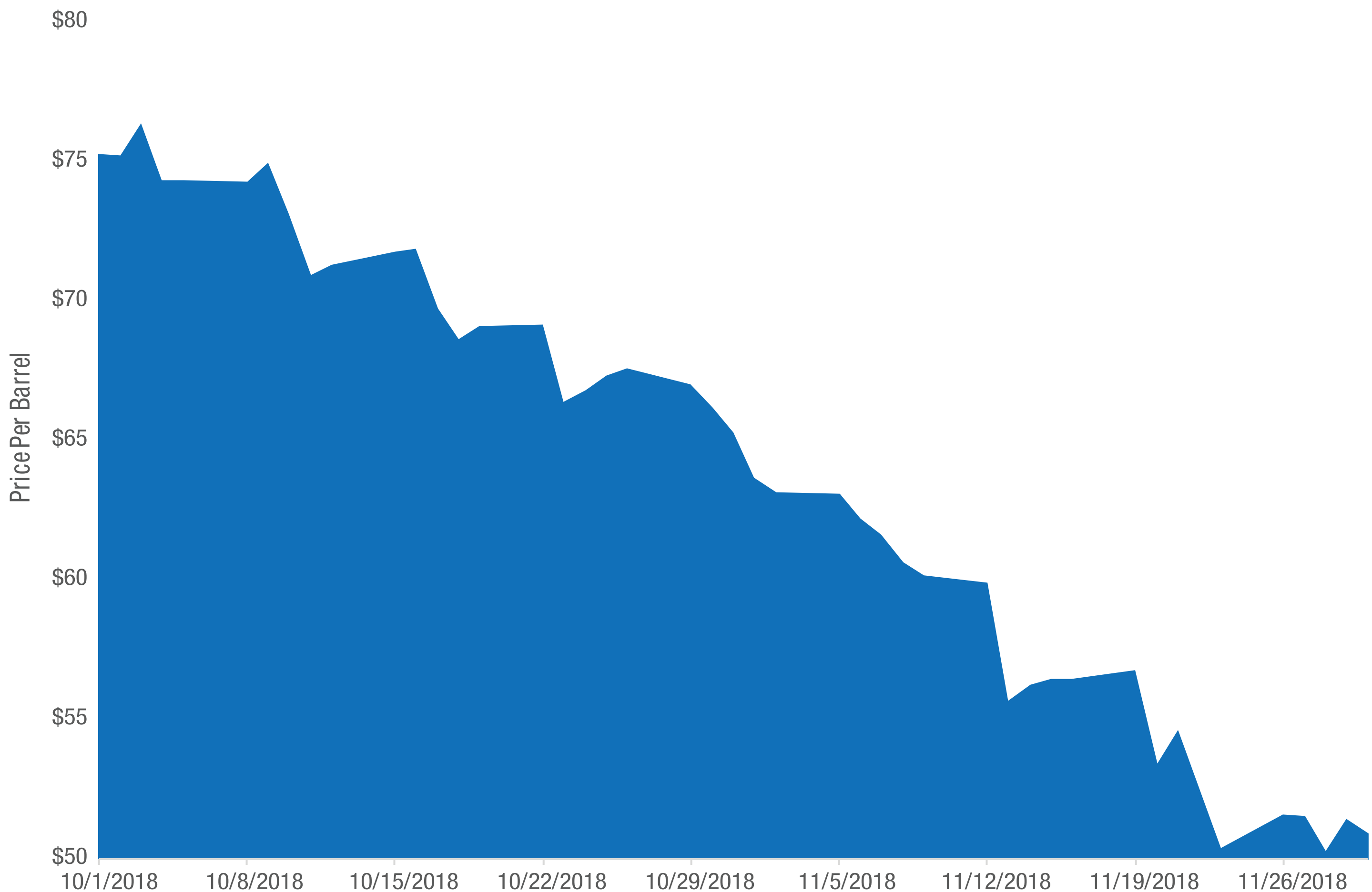
MEEDER INVESTMENT MANAGEMENT

Monthly Market Commentary

Discussion Points

- » Fed Statement Swings Markets
- » Oil Continues to Slide
- » China and U.S. Pause Tariffs

An interesting development occurred in Treasury markets during the first week of December. The yield difference between the 2-year and 10-year Treasury notes fell as low as 0.10%. This was the narrowest yield spread since the summer of 2007. Why is this noteworthy? An inverted yield curve has historically been a predictor of past recessions. However, the point in time from when this occurs to when the S&P 500 index reaches its peak, does not happen immediately. According to LPL research, in 1998 it took over 22 months after the yield curve inverted before the S&P reached its peak. In 2006, it took just over 20 months. Fixed income investors continue to look for clues to the Fed's outlook for interest rates. On October 3rd, Fed Chair Jerome Powell spooked markets by saying that interest rates were "a long way" from neutral, signaling that many more hikes were coming. Equity markets entered correction territory just days following his remarks. In his most recent speech on November 28th, Mr. Powell dramatically softened his tone by saying that the Fed sees the current interest rate level "just below" neutral. Inves-



Source: Bloomberg

tors cautiously welcomed the amended statement. By the time the month was over, the Bloomberg Barclay's U.S. Aggregate Bond Index managed to post a positive return of 0.60% for the month, bringing the year-to-date return to just -1.79%.

Inflation continues to remain under control as the Core PCE Index was 1.8% for October, in line with estimates. Headline inflation wasn't much higher at 2.0%. Some of this can likely be explained by oil inventories increasing in the U.S. for 10 straight weeks. This continues to plague the oil market as the price has fallen over 30% from early October when crude reached a multi-year high of over $76 a barrel. Investors are waiting to see if OPEC will agree to cut production levels at their next meeting to try to improve price levels. The 15-country oil cartel is responsible for the production of roughly 45% of the world's oil.

Equity markets continued to experience volatility in November, yet the S&P 500 Index gained 2.01%, bringing the year-to-date return (through November 30th) to 5.11%. One noticeable change this month within investment styles was that value stocks outpaced growth stocks. Part of this change in trend could be due to analysis from several firms shying away from some popular technology stocks. The "FAANG" stocks (Facebook, Amazon, Apple, Netflix and Google) have each reached bear market territory this month, by falling at least 20% from their 52-week high. Despite this uptick in volatility, consumers are doing their part to support the economy. According to Adobe Analytics, online sales for Black Friday and Cyber Monday shopping each set records of $6.2 and $7.9 billion, respectively, recording an increase of over 23% and 19% from last year. This should help propel economic activity for the final quarter of 2018 as consumer spending makes up roughly 70% of GDP. While many investors would agree that the current market outlook is not ideal, the Leading Index of Economic Indicators for the United States increased 0.1% in October. This is another new all-time high for the index, however, the pace of growth has slowed substantially from prior months.

Tariffs continue to be held responsible for the negative performance of international markets in 2018. The trade war between China and the United States remains front and center, but has temporarily been paused. At the G-20 meeting in Argentina, it was reported that President Trump and Chinese President Xi mutually agreed to postpone escalating tariffs on each other's exports for 90 days. Investors interpreted these talks as a positive first step that could hopefully lead to further negotiations, rather than just kicking the can down the road. Emerging markets in the MSCI EM Index continue to struggle, down -12.24% year-to-date, while developed markets, as represented by the MSCI EAFE Index, are lower by -9.39%. Another contributing reason for this lack of productivity in these international countries relative to the U.S. is the pro-business stance that has driven record-high corporate earnings. It is estimated that roughly half of the record earnings produced by S&P constituent companies were due to a reduction in U.S. corporate tax rates.

Commentary offered for informational and educational purposes only. Opinions and forecasts regarding markets, securities, products, portfolios or holdings are given as of the date provided and are subject to change at any time. No offer to sell, solicitation, or recommendation of any security or investment product is intended. Certain information and data has been supplied by unaffiliated third-parties as indicated. Although Meeder believes the information is reliable, it cannot warrant the accuracy, timeliness or suitability of the information or materials offered by third-parties.

Advisory services provided by Meeder Asset Management, Inc. and/or Meeder Advisory Services, Inc. Meeder Funds are distributed by Advisor Dealer Services, Inc., member FINRA.

© 2018 Meeder Investment Management

MMC-NOV18 (12/18)