October 2019 Review

MEEDER INVESTMENT MANAGEMENT

Monthly Market Commentary

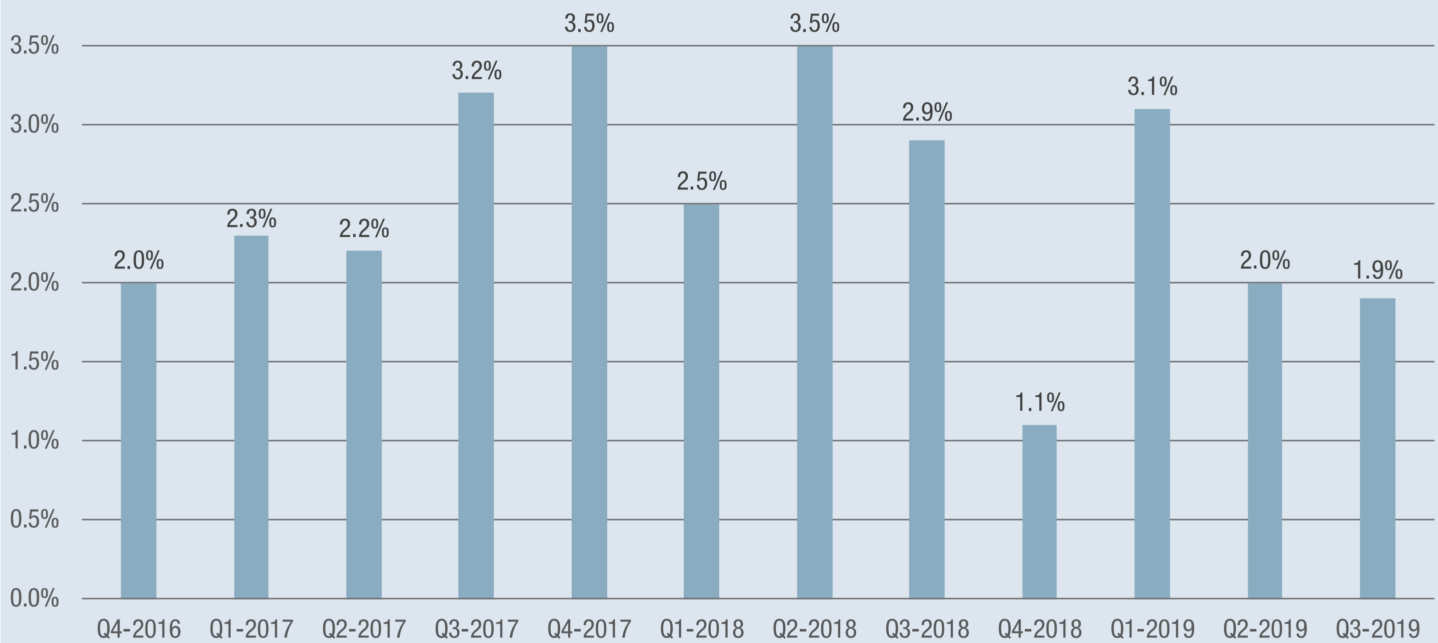
DISCUSSION POINTS

- » Market Hits New High
- » S&P 500 Earnings as Expected
- » Fed Cuts Rates for a 3rd Time

The S&P 500 Index was positive 2.2% for the month of October as investors witnessed the stock market reach another all-time high. This brought the year-to-date total return of the S&P 500 to 23.2%. The general trend of growth stocks outperforming their value peers extended throughout the month. This year, small-cap stocks remain the weakest performing market cap of U.S. equities, but the Russell 2000 Index is up over 17%. When looking at sectors, technology has been the standout rising over 36%. Earnings season is underway with nearly half of the companies within the S&P 500 Index reporting results. While sales growth has expanded by roughly 3.5%, most earnings announcements have been in line with expectations with the average showing no growth. Nonfarm payrolls for October grew by 128,000, which was more than expected despite the union strike by the United Auto Workers.

U.S. GDP GROWTH RATE

Percent Change From Preceeding Quarter



Source: Bureau of Economic Analysis, Seasonally Adjusted Annual Rates

GDP

As the stock market continues its trend higher, the U.S. economy is starting to show some signs of slowing. U.S. GDP results for the third quarter grew 1.9% versus analyst expectations of 1.6%. While this increase was welcomed by investors, it is important to reflect that just one year ago the U.S. economy grew by 2.9%. While we do not believe this current result is a sign for concern, some of the growth is easing as the benefits from tax reform and increased government spending are essentially being offset by the impact of trade tariffs being imposed on the U.S. This is hitting the manufacturing sector especially hard as validated by the ISM PMI index continues to show a contraction.

China

The world's second largest economy, China, is also feeling the impact of this dispute as their measure of economic growth recently fell to a 30-year low. Media reports state that the U.S. and China are moving closer to finalizing the first round of a trade agreement. News of this progress helped bolster market sentiment. Despite this, returns for emerging markets represented by the MSCI EM Index remain positive 10.4% this year, but have struggled relative to developed international markets. The MSCI EAFE Index which tracks companies within developed international regions have posted returns of 16.9% thus far in 2019.

The Fed

The Federal Reserve met at the end of October and again cut rates by 0.25%, making the overnight lending rate between banks at a range of 1.50% to 1.75%. This was the third cut at this level of 2019 and helped bonds represented by the Bloomberg Barclays Aggregate Index increase their year-to-date total return to 8.9%. The statement that the Fed issued after the cut provided some insight on the committee's positioning. One of the key phrases that was omitted in the Fed's statement was the committee would "act as appropriate to sustain the expansion." In place of this statement was, "The Committee will continue to monitor the implications of incoming information for the economic outlook as it assesses the appropriate path of the target range for the federal fund rate." Many investors are interpreting that it is unlikely additional rate cuts will be made by the Fed until economic growth subsides.