

Monthly Market Commentary

DISCUSSION POINTS

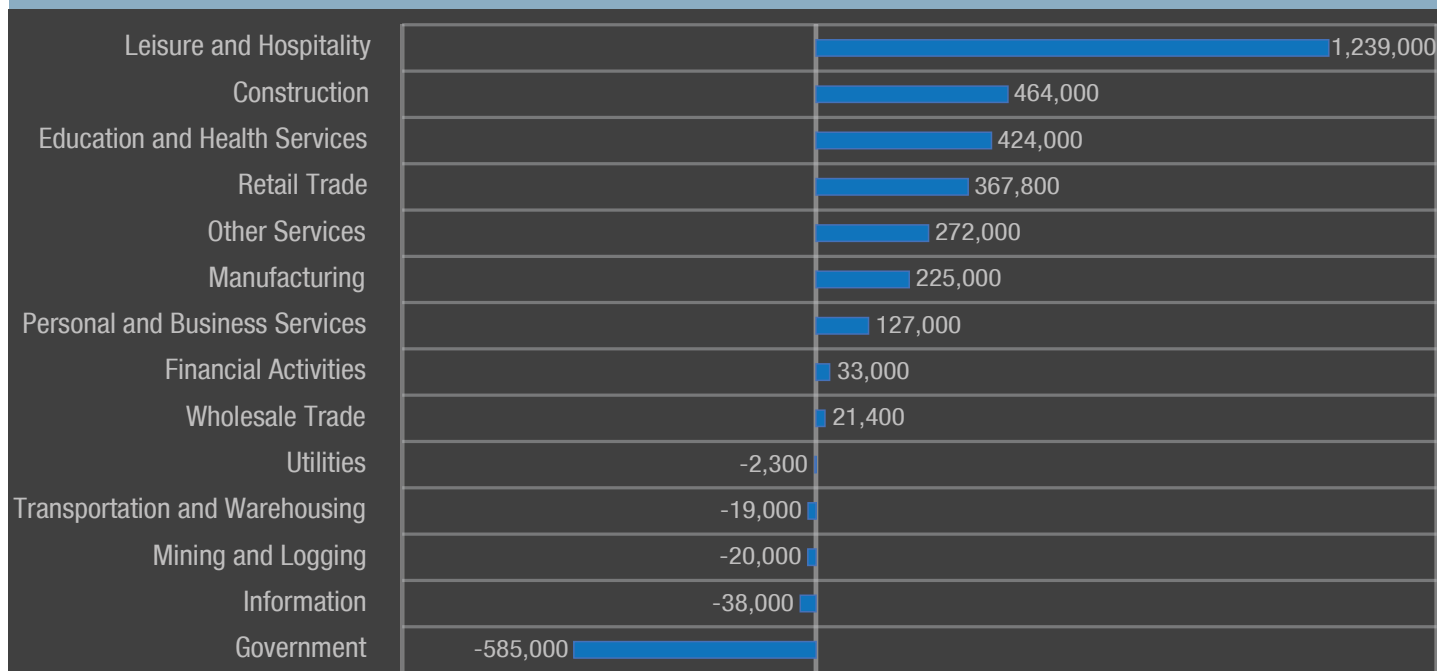
- » U.S. Economy Enters Recession
- » Oil Prices Up Big
- » Positive Jobs Report Stuns

The National Bureau of Economic Research made the official announcement that the U.S. economy entered a recession in February. While many believed that it was inevitable, the Q1 GDP report showed a contraction of 5.0%. While there are various opinions on what is economically necessary to declare a recession, the NBER is tasked with making the official determination. According to the NBER, the recession was due to the “unprecedented magnitude of the decline in employment and production, and its broad reach across the entire economy.” This ended the longest economic expansion on record of 128 months.

It was not surprising that analysts expected the U.S. economy would lose an additional 8.3 million jobs in May. Instead, the Department of Labor’s nonfarm payrolls report showed 2.5 million jobs were added, which made it the biggest monthly increase ever! This abrupt turnaround lowered the U.S. unemployment rate from 14.7% to 13.3%. The Bureau of Labor Statistics showed that the biggest winners included 1.2 million jobs being added in the leisure and hospitality industry, followed by more than 460,000 in construction. The sharp increase in job creation could be a sign that, although this recession might be one of the most severe for reducing economic

BUREAU OF LABOR STATISTICS

Jobs Created In May (1-Month Net Change)



Source: U.S. Bureau of Labor Statistics

productivity and job loss, there is potential that it could also be much shorter than any other in history, should the trend continue.

The ISM Non-Manufacturing PMI Index increased from its April reading of 41.8 to 45.4 in May. This improvement was welcomed by investors as the services industry continues to reopen from the COVID-19 pandemic that suspended operations for many medical and professional personnel. The ISM Manufacturing PMI also improved from last month as the Index rose from 41.5 to 43.1. These readings below 50 indicate that sectors representing services and manufacturing sectors of the economy are contracting. However, they are contracting less and starting to improve.

The U.S. economy's demand for oil continued to rise in May. The price of West Texas Intermediate oil, the most widely used benchmark for the commodity, increased 88% in the month of May. Reports show that more people are traveling privately rather than using public transportation. This increase in fuel consumption, along with cuts from OPEC, helped reduce much of the excess supply that was available in April. Despite the one-month record price increase, WTI prices at the end of May were still down more than 40% year-to-date.

Federal spending increased 53% last month, as the U.S. Treasury Department continues to work with the Federal Reserve to fund the country's massive increase in spending. This month, the Treasury issued a 20-year U.S. Treasury bond for the first time since 1986. The goal is to try and improve the liquidity for long-term Treasuries and make it easier for investors to match long-term liabilities with long-term assets.

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