MEEDER INVESTMENT MANAGEMENT

AUGUST 31, 2020 REVIEW

MONTHLY MARKET COMMENTARY

» S&P 500 Index Reaches All-Time High
» Initial Jobless Claims Trend Lower
» Fed Changes Approach to Inflation

Stock Market Reaches New High

While the economy continues to be fragile, the stock market, as represented by the S&P 500 Index, finished August at an all-time high. After the S&P benchmark experienced a -34% drawdown in the first quarter, it roared back to reach a new all-time high this month in record speed. The S&P 500 had the best performing month of August since 1984 as the total return benchmark increased 7.19% for the month and has gained 9.74% year-to-date. This was aided in part by the S&P 500 Index having its best 100-day percentage gain in history. On August 13, 2020, the S&P 500 Index increased 50.8% in 100 trading days. This also contributed to the widening performance gap between growth and value styles of investing. The performance of large-cap stocks represented by the Russell 1000 Growth and Russell 1000 Value indices are +30.5% and -9.4% respectively year-to-date.

YTD PERFORMANCE AS OF AUGUST 31, 2020

	Value	Blend	Growth
Large-Cap	**-9.35%**	9.74%	**30.47%**
Mid-Cap	**-10.82%**	-0.41%	**15.54%**
Small-Cap	**-17.71%**	-5.53%	**6.15%**

Source: Morningstar Direct; Bloomberg; Large Value: Russell 1000 Value TR Index, Large Blend: S&P 500 Index TR, Large Growth: Russell 1000 Growth Index TR, Mid Value: Russell Midcap Value Index TR, Mid Blend: Russell Midcap Index TR, Mid Growth: Russell Midcap Growth Index TR, Small Value: Russell 2000 Value Index TR, Small Blend: Russell 2000 Index TR, Small Growth: Russell 2000 Growth Index TR.

U.S. ECONOMY STABILIZING

Many investors and economists are still trying to understand the disconnect between the performance of the stock market and the health of the U.S. economy as it recovers from the economic destruction left by the COVID-19 pandemic. GDP for the second quarter was revised upward from -32.9% to -31.7%, yet it remains the worst single quarter drop ever. Initial jobless claims fell to 971,000 at the beginning of August, making it the first time that the weekly report fell below 1 million. The second occurrence happened in the final week of August as 881,000 filed for unemployment benefits for the first time. While the trend is moving down, the prolonged impact of joblessness is starting to spread to other areas of the economy. According to a survey by Apartment List, at the beginning of August, 32% of consumers acknowledged being behind on their mortgage or rent payments. The U.S. nonfarm payrolls report also showed that nearly 1.4 million jobs were created in August. This was the 3rd consecutive month of positive job gains. Despite this improvement, the U.S. still needs to create 11 million additional jobs to return to the level prior to the COVID-19 pandemic. The national unemployment rate made a substantial progress by dropping from 10.2% in July to 8.4% in August.

In the face of a recession, consumers that remain employed are spending money on big ticket items. New U.S. home sales for July were just released and showed there were 901,000 single-family homes purchased in the U.S., which represented an increase of nearly 14% from the prior month. Manufacturing levels, as measured by the ISM Manufacturing PMI Index, exceeded analyst expectations for August with a result of 56.0, increasing from July's 54.2 reading. ISM Services PMI Index reading fell from 58.1 in July to 56.9 in August. ISM levels that exceed 50 typically indicate that the sector is expanding, while a contraction is occurring when it is below 50. The price of WTI crude benefitted from an increase in manufacturing output in the U.S. and China. The price of WTI reached $43 per barrel at the end of August, making it the 4th consecutive monthly price increase after is historic fall in April.

THE FED CHANGES APPROACH ON INFLATION

At the Fed's annual Jackson Hole meeting, the central bank announced that it is revising its approach to try to stimulate inflation to reach their 2% benchmark, for a sustained period. The new policy is designed to allow inflation to exceed the threshold "for some time," before increasing interest rates. This language suggests that equity investors will have even more time to enjoy the certainty of rates being "lower for longer." Since the financial crisis of 2007–2008, inflation has yet to exceed the 2% guideline for any significant period. Historically, the Fed has proactively increased interest rates as the economy gets closer to reaching full employment to prevent the economy from overheating and controlling inflation.

The central bank is also mindful that the U.S. economy is not working as efficiently as it could be for some employees. A recent report released by the Federal Reserve showed that workers earning less than $40,000 accounted for 39% of the job cuts in March due to the economic downturn from COVID-19. Workers with income levels between $40,000 and $100,000 made up 19%, while just 13% of workers above $100,000 became unemployed. The goal of this change in methodology is to get the economy to benefit a larger number of lower-income workers, before tightening monetary policy in the future. The Fed believes that this approach will allow U.S. economic growth to continue for a longer period with full employment, before inflation becomes a considerable problem.

There are some positive signs that a modest recovery is underway. WTI oil is now trading above $40 per barrel, which has not occurred since the beginning of March. Also, the ISM Manufacturing PMI Index is trending higher after showing a slight contraction at 49.8 in June, to an expansionary result of 50.9 at the end of July. The ISM Non-manufacturing Index also increased from June to July with readings of 57.1 and 58.1, respectively.

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