February 2020 Review

MEEDER INVESTMENT MANAGEMENT

Monthly Market Commentary

DISCUSSION POINTS

- » Coronavirus Outbreak
- » S&P Fastest Drawdown in History
- » Volatility Spikes

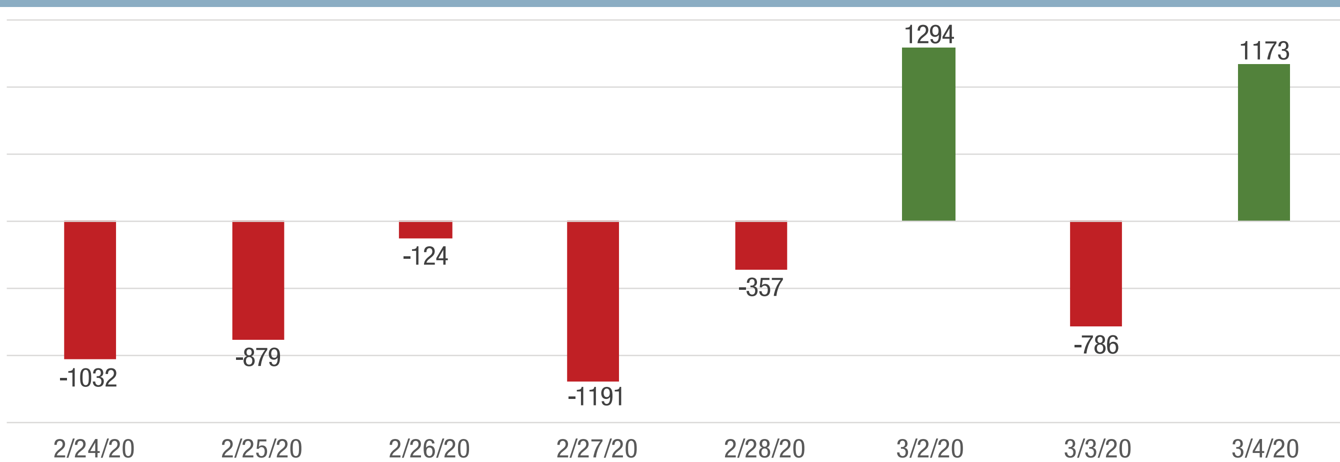
In a surprise move on March 3, the Federal Reserve made an emergency 0.50% cut to short-term interest rates. This brought the Federal Funds overnight lending rate between banks to a target range of 1.00% to 1.25%. The Federal Reserve has faced increasing pressure to cut rates amidst the rise in concern among market participants over the global spread of the coronavirus. This decision was unanimous among the voting members of the committee. The Fed's unexpected rate cut caused prices of short-term bonds to soar as rates plummeted. U.S. Treasury yields of the 30- and 10-year maturities reached all-time lows of 1.21% and 0.66% respectively. The Fed will still hold their regularly scheduled meeting on March 17-18 and markets are anticipating an additional 0.25% cut.

The coronavirus took center stage around the world, as the uncertainties of the potential economic impact of the virus are still unknown. The U.S. stock market experienced significant volatility toward the end of February into the beginning of March, as the virus was confirmed in the Middle East, Europe and the United States. U.S. stock markets experienced the fastest correction in history, as the S&P 500 index fell nearly 13% in just six trading days. Since then, volatility has remained pronounced, as the Dow Jones Industrial Average experienced its largest single-day point gain and its largest single-day point loss in history.

Although China, the world's second largest economy, remains the most impacted with over 80% of the confirmed cases, there is concern that the global supply chain may impact businesses and the world economy. In 2003, China's GDP made up just 4% of the global economy and now China represents 15%. Because of the increasingly globalized economy, some U.S. economists have lowered their GDP forecast for the first quarter of 2020.

VOLATILITY IS BACK

DJIA Daily Point Swings



Source: CNBC

In February, nonfarm U.S. payrolls easily exceeded estimates of 175,000 by creating 273,000 jobs. The unemployment rate also dropped from 3.6% to 3.5%, and new single-family home sales surged to a 12 ½ year high in February. According to CNBC, the Fed's surprise rate cut provided almost 13 million borrowers the opportunity to refinance existing mortgage debt by at least 0.75%, which could provide an increase to disposable income.

On the political front, the race for the 2020 Democratic nominee became clearer. After the dust settled from Super Tuesday, the eight-candidate field was whittled down to two clear frontrunners. The leading candidates for the Democratic ticket are Joe Biden and Bernie Sanders. Interestingly, after Biden's sweep of the southern states, healthcare stocks rallied dramatically the following day. This is likely because Biden has made it clear in his campaign that he would build off the existing Affordable Care Act and maintain private insurance.

OPEC failed to reach an agreement around oil productions levels after the month of March. This caused oil prices to reach multi-year lows, as demand continues to wane in the wake of the coronavirus.

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