

Monthly Market Commentary

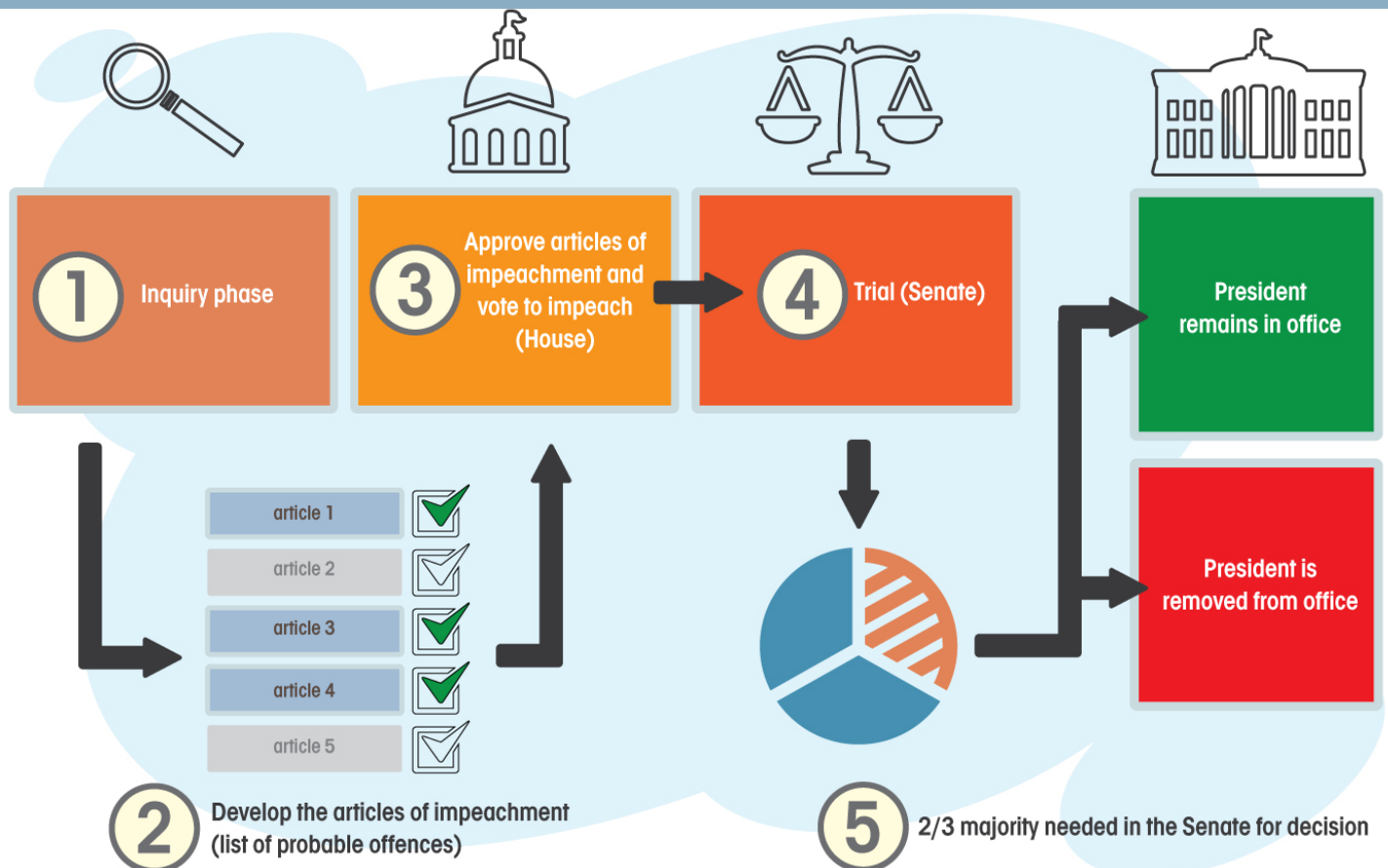
DISCUSSION POINTS

- » Impeachment Update
- » Corona Virus Outbreak
- » Britain Exits European Union
- » USMCA Trade Agreement

On February 5, the U.S. Senate voted to acquit President Donald J. Trump on all charges. The President was exonerated on the abuse of power charge with a vote of 52 to 48, and 53 to 47 on the charge of obstructing Congress. Both votes were along party lines, with all Republicans except one voting to exonerate the President on the obstruction charge. Following Andrew Johnson and

Bill Clinton, President Trump is the third U.S. President in history to be impeached. No President has been convicted and removed from office. While many believe that Richard Nixon was impeached, he resigned from office before the official inquiry was launched. From the time that President Trump was impeached to the time he was acquitted, the S&P 500 Index total return was 4.65%.

THE IMPEACHMENT PROCESS



Source: Here's Why the Constitution is Frustratingly Vague When it Comes to Impeachment (c) 2020 Northwestern University

Stocks represented by the S&P 500 experienced some volatility in the latter part of January before ending the month with a total return that was essentially flat (-0.04%). Mid (Russell Midcap) and small-cap (Russell 2000) equity indices fared worse, falling 0.80% and 3.21% respectively in January. Earnings season is in full swing and 380 companies in the S&P 500 have reported earnings for the fourth quarter. At this time, sales growth is up 3.5% over last quarter and earnings growth has risen just over 1%. The corona virus, Brexit, and the USMCA agreement were some of the most newsworthy events that caused uncertainty for investors. In addition, the day to day events surrounding the impeachment trial loomed in the background. Investors that flocked to the safety of bonds to avoid this volatility were rewarded, as the Bloomberg Barclays U.S. Aggregate Index return was 1.92% for the month.

The corona virus outbreak continues to cause uncertainty for investors. According to the World Health Organization, at the time of this writing, the number of people infected globally has exceeded 60,000 and the number of deaths (all in China) total 1369. While media outlets are extensively covering this outbreak, it is important to put the magnitude of this virus into perspective. By comparison, the CDC estimates that at least 22,000,000 people have contracted influenza just in the U.S., causing more than 12,000 deaths in this flu season alone. Fed Chair Jerome Powell stated that the Federal Reserve is monitoring the economic impact that this virus may have in China and how that could potentially impact other parts of the global economy.

In Europe, voters in the United Kingdom passed the Brexit referendum from June 2016, a declaration to officially leave the European Union. Since the vote, it has not been a smooth process, as the U.K. has had three different Prime Ministers and two general elections before the implementation was finally proclaimed. Britain announced the official separation on January 31, 2020. Many details between Britain and the E.U. remain outstanding but must be resolved before December 31, 2020.

The USMCA trade deal, commonly referred to as NAFTA 2.0, was passed by the Senate in January. This agreement replaces the North American Free Trade Agreement that was originally established in 1994. One notable reform includes mandates that increase the percentage value of any vehicle produced in North America from 62.5% to 75%. Mexican autoworkers will have the freedom to form independent unions and have working conditions established and monitored by the United Nations. In addition, at least 40% of Mexican workers must be in auto plants that pay a minimum wage of \$16 per hour. This is three times the current minimum wage and will provide less of an incentive for U.S. auto manufacturers to move plants from the U.S. to Mexico. Another large provision in the USMCA gives the United States access to start competing in the Canadian dairy market, which was previously not permissible. According to a study by the International Trade Commission, the USMCA is projected to add over \$68 billion to the U.S. economy and create 176,000 new jobs.

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