As of May 31, 2019

MEEDER
INVESTMENT MANAGEMENT

Monthly Market Commentary

Discussion Points

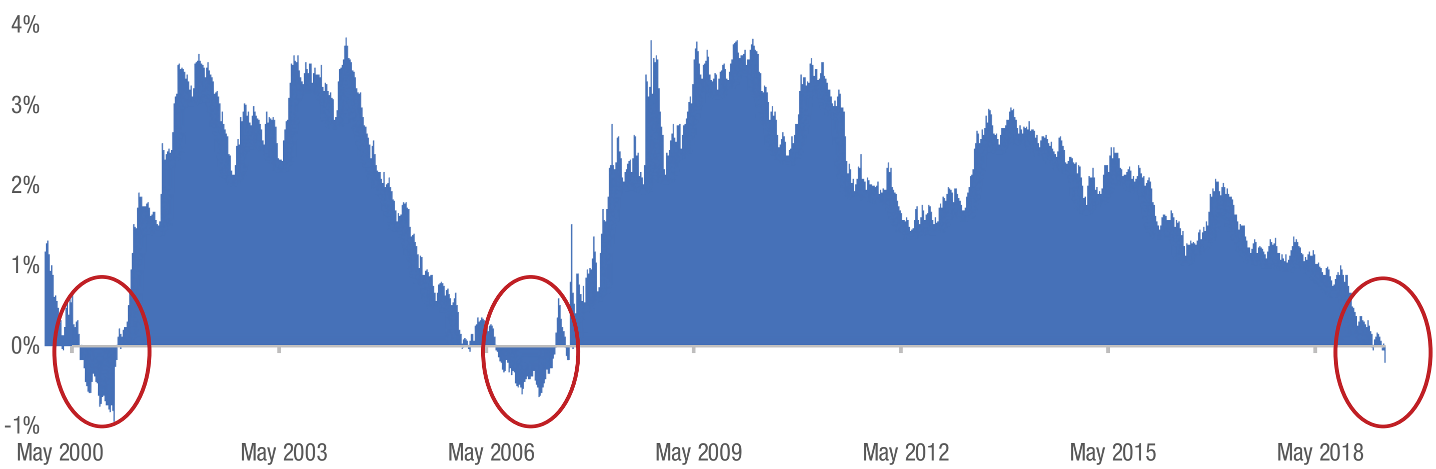
- Stocks Fall in May
- Signs of Economy Slowing
- Yield Curve Inverts

Markets experienced rocky performance as the S&P 500 fell -6.35% in May. Other market caps felt even more pain as the S&P MidCap Index and Russell 2000 Index fell -7.97% and -7.75% respectively during the month. Investors were not able to escape the volatility abroad as developed international markets represented by the MSCI EAFE dropped -4.80% while emerging markets (MSCI EM) fell -7.26%. This year the stock market has been unusually positive, so it is worth taking a deeper dive to learn the what the primary drivers were of this month's dramatic turn of events.

Economic data released throughout May confirmed that the U.S. economy's momentum is slowing from previous levels. The most notable example was the May nonfarm payrolls report where expectations were that the economy created 180,000 jobs. Unfortunately, actual results revealed that just 75,000 jobs were created. In addition, average hourly earnings rose just 0.2%. Manufacturing levels as measured by the ISM Index were 52.1, lower than analyst expectations of 53.0. While growth is still occurring, as indicated by a result greater than 50, it is the weakest level for the index since October 2016. Service-related companies as represented by the ISM Nonmanufacturing index exceeded estimates of 55.0 with a level of 56.9 in May. While positive, this remains substantially below 60.8 high set last September.

Another concern for investors occurred when the 10-year U.S. Treasury yield fell below the 3-month yield. Since 2000, this was the third cycle an inversion

10-Year Minus 3-Month U.S. Treasury Yield



Source: Federal Reserve Bank of St. Louis in the yield curve of these maturities has occurred. As longer-term bond yields fall below shorter-term yields, it suggests concerns about future economic growth. Investors are unwilling to be compensated with additional yield for a longer dated maturity given the current uncertainty present in the marketplace. However, the Fed continues to try and show their commitment to economic growth. In a recent speech Fed Chair Jerome Powell said that the central bank will "Act as appropriate to sustain the expansion, with a strong labor market and inflation near our symmetric two percent objective." According to Bloomberg at the time of this writing, investors are pricing in a 75% likelihood that short-term interest rates will be lower in July than they are now and are projecting nearly a 100% likelihood by the Fed's December meeting. Investors with fixed income exposure captured one of the only positive areas of the market in May as the Bloomberg Barclay's Aggregate Index rose 1.78% for the month.

Some investors also believe the Fed is closely watching the international trade talks and would reduce short-term interest rates should there be economic fallout from the ongoing trade war. While there is no resolution to trade talks between the U.S. and China, a new trade concern made headlines. Frustrated by the number of undocumented migrants entering the country, President Trump announced that the U.S. would begin imposing a 5% tariff on all Mexican goods entering the U.S. if the country did not attempt take steps to prevent illegal immigrants from entering the U.S. The President stated that if no measures were taken, the tariff rate would incrementally rise to 25% this October. If this were to occur, the auto industry would be one of the most negatively impacted as nearly a quarter of automobiles produced in North America were made in Mexico.

Despite the worrisome headlines around economic growth and trade, the U.S. consumer appears to remain strong. Light vehicle sales climbed to an annualized rate of 17.3 million units in May exceeding expectations of 16.9 million making it an increase of 5.9% from April. Car sales are viewed as important indicators of consumer spending and are considered a leading indicator. While this seems positive, according to Experian, the average amount borrowed to buy a new vehicle hit a record high $32,187 in the first quarter.