JANUARY 2023

Capital Markets Commentary

MEEDER

- » U.S. Equity Breadth Strengthens
- » Fed Closer to Containing Inflation
- » U.S. Labor Markets Remain Tight

A Great Start to 2023

MARKET UPDATE

The S&P 500 Index had a total return of 6.28% in January, marking a great start for stock investors in 2023. The rally in January was supported by strong breadth across market capitalizations and styles. Small and mid-cap stocks contributed to the strong performance of equities. The monthly total return for the Russell 2000 Index and S&P MidCap Index were +9.75% and +9.23% respectively.

THE FED

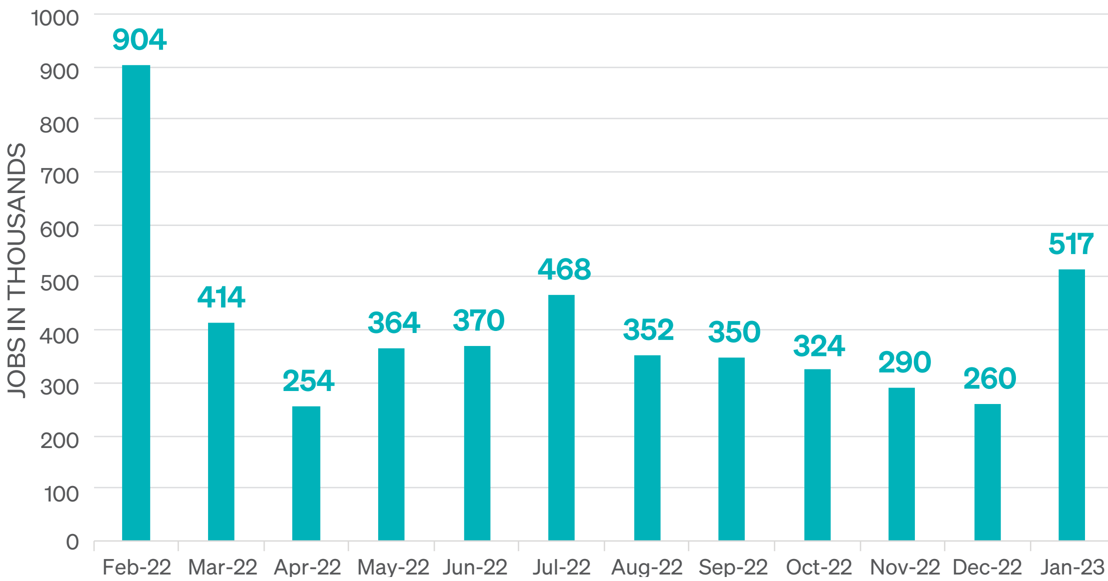
The increase in the demand for equities is likely because the Fed appears to be getting closer to obtaining their goal of containing inflation. More economic data is indicating that inflation is trending downward. The reduction in the likelihood of further rate hikes is also driving an increase in demand for growth stocks. Rising long-term rates lower the present value of future earnings and is the reason we saw such a shift in demand toward value stocks as the Fed continues their most aggressive tightening cycle since 1983. Lower interest rates increase the present value of a company's future cash flows. Diminishing expectations of future rate hikes has also reduced expected bond market risk significantly.

U.S. ECONOMY

The U.S. economy GDP expanded by +2.9% in the fourth quarter, exceeding analyst estimates of 2.6%. A deeper look into this data showed that consumer spending declined from the previous quarter but was offset by an increase in government spending.

Manufacturing, as represented by the ISM Non-Manufacturing Index, slipped to 47.4 in January. This was lower than estimates of 48, and the lowest level for the index since May of 2020. The ISM Non-Manufacturing Index represents activity in the Services sector. The Index jumped from just 49.2 in December to 55.2 in January in a sharp move. This data is closely monitored by investors because it is a great indicator of what we can expect to see from the economy moving forward. A level above 50 indicates expansion while a level below 50 indicates that the sector is contracting.

MONTHLY U.S. NON FARM PAYROLLS REPORT



SOURCE: BUREAU OF LABOR STATISTICS

LABOR MARKETS

Labor markets remain extremely tight as the private sector non-farm payrolls report showed the U.S. created 517,000 jobs in January, which was significantly higher than analyst estimates of 185,000. This marked the highest monthly jobs gain since July of 2022. The national unemployment rate fell from 3.5% to 3.4%, marking the lowest level since May 1969.

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6125 Memorial Drive, Dublin, Ohio 43017 | 1.866.633.3371 | meederinvestment.com

0116-MAM-2/16/23-32179