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Capital Markets Commentary

MEEDER

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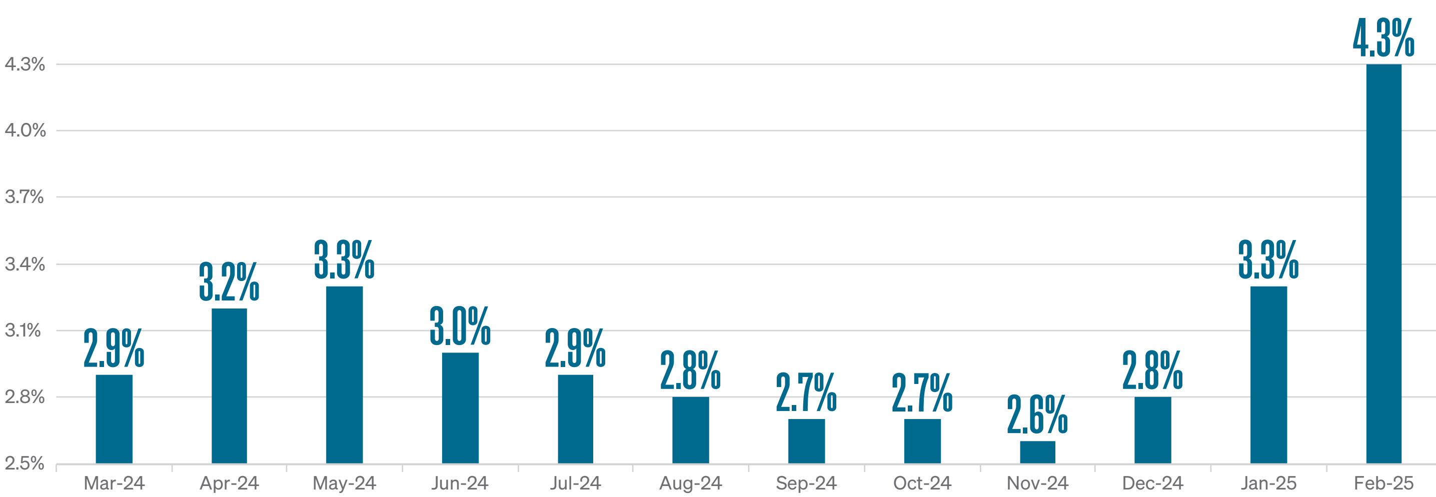
Tariffs Ignite Inflation & Growth Concerns

On February 1st, President Trump announced tariffs on imports from Mexico, Canada, and China. The potential tariffs on Mexico and Canada are 25%, and China is 10%. Canadian energy imports received a reduction of 10%. The tariffs are part of an effort of the administration's efforts to curb illegal immigration and prevent the distribution of narcotics from entering the United States from their respective countries. This action prompted swift calls to President Trump from leaders of Mexico and Canada to begin a negotiation process to delay the effective date for 30 days while details are refined.

Consumer Sentiment Declines

At the start of February, the University of Michigan's consumer sentiment survey revealed a shift in inflation expectations, with Americans anticipating higher inflation over the next year. Consumers now expect inflation to rise to 4.3%, a full percentage point increase from their expectations in January. This increase in inflation expectations is substantial because consumer sentiment plays a key role in impacting spending and investment decisions. Persistent concerns about inflation could put additional pressure on the Federal Reserve as it assesses its next policy moves. While recent data had pointed to cooling inflation trends, this survey suggests that households remain wary of higher prices in the near term.

CONSUMER SENTIMENT 1-YEAR INFLATION EXPECTATIONS



SOURCE: UNIVERSITY OF MICHIGAN

Economists worry that the Fed could be in a difficult position if these tariffs stoke inflationary pressures and dampen economic growth. U.S. GDP expanded at an annualized rate of 2.3% in the fourth quarter, missing expectations of 2.6%. This level was also down substantially from the 3.1% growth experienced in Q3 2024. It was the first time since Q1 of 2023 that the category fixed investment contracted, impacted the most by a reduction in spending on equipment and structures.

Labor Markets Remain Solid

The U.S. economy added 143,000 jobs in January, less than the expected level of 169,000. This result was still considered positive because the Bureau of Labor Statistics revised November and December's results higher by 51,000 and 100,000 respectively. The U.S. labor market received more positive news when January's unemployment rate declined from 4.1 to 4.0%.

The Fed Pauses

The Federal Reserve met in January and voted unanimously to keep rates at the current range of 4.25-4.50%. Jerome Powell stated that the Fed would continue to remain an independent body and would not be swayed nor comment on what any elected officials are saying. According to CME FedWatch, expectations on the expected number of interest rate cuts in 2025 have fallen to just two. The likelihood of the Fed cutting rates by 0.25% at their March meeting has fallen to just 17%.

Although the Fed is making significant progress in curbing inflation, it remains higher than they would like. For example, January's PCE inflation increased 0.30% month-over-month for a year-over-year increase of 2.6%. This result was in line with analyst estimates but is the highest level for PCE since May of 2024 and is the fourth consecutive monthly increase.

So Goes January, So Goes the Year?

AS OF JANUARY 31, 2025	MONTH
S&P 500 Index TR USD	2.78%
Russell Mid Cap Index TR USD	3.85%
Russell 2000 Index TR USD	2.62%
MSCI EM Index NR USD	1.79%
MSCI EAFE Index NR USD	5.26%
Bloomberg U.S. Aggregate Bond Index TR USD	0.53%

SOURCE: MORNINGSTAR

The January Barometer is a reference that investors use that implies the stock market's performance in January is often a predictor of performance for the remainder of the year. Since 1928, when the S&P 500's return for the first week of January is positive, there's a 68% chance the full month will be, too. And, when both the first week and the month of January both finish in positive territory, the market has gone on to rise 64% of the time for the rest of the year, averaging a 10.1% gain.

But what if January's performance is negative? If so, the odds drop to a 54.5% chance of gains, with an average return of 3.1% for the rest of the year. While history does not always predict the future, January's trends can help shape expectations.

China Disrupts Competition In A.I. Race

On January 20, China unveiled its latest version of the artificial intelligence model called DeepSeek, sending shockwaves through financial markets. Industry experts say the model outperforms American models at a fraction of the cost and sent stocks of artificial intelligence chip makers plunging. DeepSeek reportedly was created in just two months at a cost of just $6 million. Investors will be watching closely to see how U.S. companies adapt their AI investment strategies in response. There is also growing speculation that the U.S. government may tighten restrictions on AI chip exports and supply chains to protect its competitive edge in the global AI race.

INDEX DESCRIPTIONS

S&P 500 Index: The Index tracks the stock performance of 500 of the largest companies listed on stock exchanges in the United States. It is one of the most followed equity indices and includes approximately 80% of the total market capitalization of U.S. public companies.

The Russell Midcap® Index: The index is a subset of the Russell 1000® Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap® Index represents approximately 27% of the total market capitalization of the Russell 1000® companies, as of the most recent reconstitution. The Russell Midcap Index is constructed to provide a comprehensive and unbiased barometer for the mid-cap segment. The index is completely reconstituted annually.

Russell 2000 Index: The Index is constructed to provide a comprehensive, unbiased barometer of the small-cap segment of the U.S. equity market. A subset of the Russell 3000 Index, it includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

MSCI EM Index: The Index captures large and mid-cap representation across 24 Emerging Markets (E.M.) countries. With 1,440 constituents, it covers approximately 85% of each country's free float-adjusted market capitalization.

MSCI EAFE Index: The Index is an equity index that captures large and mid-cap representation across 21 Developed Markets countries* worldwide, excluding the U.S. and Canada. With 783 constituents, the index covers approximately 85% of each country's free float-adjusted market capitalization. MSCI EM Index: The Index captures large and mid-cap representation across 24 Emerging Markets (E.M.) countries. With 1,440 constituents, it covers approximately 85% of each country's free float-adjusted market capitalization.

Bloomberg U.S. Aggregate Bond Index: The Index is a broad-based flagship benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, fixed-rate agency MBS, ABS, and CMBS (agency and non-agency). Provided the necessary inclusion rules are met, U.S. Aggregate-eligible securities also contribute to the multi-currency Global Aggregate Index and the U.S. Universal Index. The U.S. Aggregate Index was created in 1986, with history backfilled to January 1, 1976.

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