MEEDER
INVESTMENT MANAGEMENT

Q1 2021 CAPITAL MARKETS UPDATE

President's Perspective

CAPITAL MARKETS UPDATE: Q1: 2021

TRANSITION OF POWER

There were several historic events that took place during the first quarter of 2021. On January 6th, demonstrators broke into the U.S. Capital to protest the certification of the electoral college. Later in the month, Joe Biden was sworn in to become the 46th President of the United States, and the oldest to ever hold the position. In addition, Kamala Harris became the first woman, Black American and South Asian American to hold the office of Vice President. The National Guard secured the event that was restricted to a limited number of attendees after the U.S. Capital was stormed just weeks prior.

STOCK ROTATION

Just as our country's leadership transitioned, so has the stock market's. While the price of the S&P 500 Index increased by more than 6% in the first quarter and reached a new high, the most notable event was the rotation of investors moving out of growth stocks and into value. The Russell indices, including the 1000 Value, Mid-Cap Value, and 2000 Value, were up more than 11%, 13%, and 21%, respectively, at the end of March. The performance of growth stocks, represented by 1000 Growth and Mid-Cap Growth were roughly flat, while the 2000 Growth index was positive by over 4% for the quarter.

TREASURY YIELDS RISE

A significant reason for this rotation is the rapid rise in the yield on the 10-year U.S. Treasury during the past year. In March, the yield moved up to 1.77%, reaching its highest level since January 2020. This increase is thought to be a major reason why there is less demand for growth stocks and more for value stocks. Growth companies often invest in long-term expansionary projects, which can reduce current cash flows. They do this for the opportunity to potentially have greater cash flows in the future. Therefore, when yields on longer-term bonds rise, it discounts the present value of future cash flows for these companies. On the other hand, value stocks will often distribute a portion of their income periodically in the form of dividends, making them more attractive in this rising rate environment.

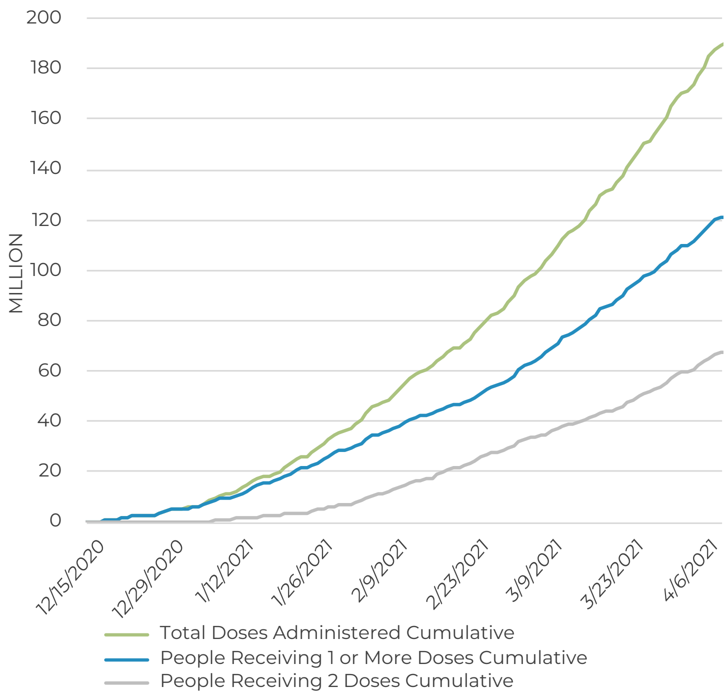
In simple terms, when bonds pay higher yields, they tend to become more attractive to investors. The inverse relationship between stocks and bonds will sometimes cause investors to consider moving out of lower-yielding stocks and into the steady income of bonds. This is the tradeoff that has been going on between the bond and stock markets forever.

Rising rates also impact areas outside of the stock market. Consider one of the most direct ways in which Treasury yields impact the average consumer: mortgage rates. As yields rise, banks charge a higher rate of interest for mortgages of similar duration. Due to many banks borrowing money short-term in the form of checking and savings accounts, and lending long-term, rising rates are generally good for the Financials sector. While the correlation is not perfect, the 10-year Treasury yield impacts 15-year mortgages, just as the 30-year yield influences 30-year mortgages. As interest rates rise, the cost to borrow money becomes increasingly expensive and makes it more challenging for people to purchase homes. This negatively impacts GDP growth, which may impact the stock market.

COVID-19 PROGRESS

On a very positive note, significant progress was made in the fight against COVID-19 during the first quarter. The FDA approved Johnson & Johnson's Janssen COVID-19 vaccine for emergency use. In addition to Pfizer and Moderna, this is the third vaccine approved for emergency use. The prevention rate for contracting COVID-19 after receiving the Johnson & Johnson shot is less than the other vaccines at 66%; however, it prevented 100% of hospitalizations and deaths and only requires a single dosage.

It also adds the benefit of remaining stable for up to three months when stored at refrigerated temperatures of 35° to 46° Fahrenheit. The vaccines from Pfizer and Moderna have created some logistical struggles, as these vaccines need to be kept incredibly cold at -94° and -4°F, respectively. While an additional hurdle for healthcare workers, the logistical effort is worth it as a study of healthcare workers showed that even just one injection of a two-shot recommended dosage of Pfizer or Moderna were each 80% effective in preventing COVID-19.



SOURCE: CDC

Johnson & Johnson is also collaborating with pharmaceutical giant Merck to increase production of their newly approved vaccine. The new collaboration has committed to produce and deliver 100 million doses by the end of June 2021 and 1 billion doses by the end of this year. The addition of this vaccine, along with the current production efforts, gave President Biden enough confidence to assure Americans that a vaccine will be available for every adult in the country by the end of May. The President increased his administration's goal of 100 million vaccines being administered to Americans, to 200 million in the first 100 days of his office. According to the CDC, the U.S. is administering more than 2.8 million injections per day with 36.4% of Americans receiving at least 1 dosage of a vaccine, while 22.3% of the population is fully vaccinated.

AMERICAN RESCUE PLAN ACT

One of the quickest ways to incentivize spending is through stimulus. That is why the U.S. Government is helping those economically impacted by COVID-19, approving a $1.9 trillion stimulus plan called the American Rescue Plan Act. Approximately $450 billion of the $1.9 trillion will send 158.5 million Americans that qualify, under established income thresholds, a payment of $1,400. The act also includes a provision for families that meet these income thresholds to receive a tax credit of $3,600 per child under the age of six. Those with children ages 6–17 may also qualify for an annual tax credit of $3,000 per child as well. There are several other measures in the legislation that will provide funding for programs to help those indirectly impacted as well.

THE REOPENING

The reopening of the U.S. economy and the passing of the $1.9 trillion COVID relief bill is increasing forecasts for GDP growth in 2021. As this massive influx of capital is expected to have a significant impact to the U.S. economy. In fact, some analysts have projected 2021 GDP to grow by as much as 10%. Prices of WTI crude oil also climbed above $60 a barrel, as the reopening of the U.S. economy looks more favorable. Fed Chair Jerome Powell stated that the economic reopening could "create some upward pressure on prices." However, Powell attempted to calm fears by reiterating that if inflation rises above the Fed's 2% targeted level for a couple of quarters, it will not have a material impact on long-term expectations.

HOW IS THIS IMPACTING PORTFOLIOS?

At Meeder, we manage investment solutions across different risk profiles and time horizons. Meeder manages these strategies using a systematic approach that guides us in the allocation of our portfolios. Many of these solutions employ one or more of our core investment strategies: Growth, Defensive Equity and Fixed Income.

GROWTH

Investment portfolios comprised of the Growth Strategy maintain a more aggressive objective and typically remain invested in the stock market. In the first quarter, the political landscape became clearer as the transition of power in the U.S. took place. The 10-year Treasury yield rose to 1.77% during the first quarter to levels not seen since early 2020. This was a contributing factor to a change in leadership as investors rotated out of growth stocks and into their value peers. Despite this transition being a reason for an increase in market volatility in February, those investors that remained in the Growth Strategy portfolios received the best performance returns in our risk-based portfolios.

DEFENSIVE EQUITY

Portfolios that utilize the Defensive Equity Strategy follow a rules-based and data-driven approach using the Meeder Investment Positioning System (IPS) model. This model is used to determine the risk relative to reward in the marketplace and identifies when we should be increasing or decreasing the portfolio's target equity exposure.

At the beginning of the quarter, the Meeder IPS model indicated that we have an equity target exposure of 100%. This was primarily driven by the strength in the short- and long-term model scores. The long-term model remained in very positive territory, as both long-term trends and market breadth were extremely positive in January. The short-term model showed improvement early in the quarter after the Georgia Senate run-off election results as we saw an extremely large inflow of purchases into bearish ETF's relative to bullish ETF's. We view this negative sentiment from a contrarian perspective, and it lifted the short-term model score. Near the middle of the quarter, there were nearly two times the number of securities that advanced than those that declined, on the New York Stock Exchange. This very positive market breadth contributed to the strong IPS score.

By the end of March, the long-term model continued to show a combination of strong trends, improving macroeconomic data, and low credit risk, all providing support. Market risk continued to decline throughout the quarter and was significantly below its long-term average. While stock market volatility remained elevated during the past 12 months, it recently returned to its pre-pandemic level. These were primary factors as to why the IPS guided us to remain 100% invested throughout the first quarter of 2021 and captured the market's rebound to all-time highs.

FIXED INCOME

The Meeder Fixed Income Strategy tactically shifts portfolio exposure utilizing our proprietary investment models. These models are designed to actively monitor factors to guide us in determining the credit quality, emerging market debt exposure, and the portfolio's U.S. Treasury duration.

Momentum factors in our Emerging Market model indicated weakness in mid-January, leading us to reduce portfolio exposure to the emerging market bond sector. Our portfolios remained overweight to high-yield bonds through the quarter, which was a positive contributor to portfolio performance.

Rate volatility during the quarter resulted in the weakening of momentum and volatility factors in our Credit model mid-March. This led us to reduce duration exposure within our fixed income portfolios significantly during the quarter. Our Emerging Market model indicated continued weakness in momentum and currency factors through March, which led us to further reduce exposure to emerging market bonds in our portfolios. Our relative underweight in Treasuries and investment-grade bonds during the quarter helped relative performance.

CLOSER TO NORMAL

As things in the U.S. continue to reopen and life starts to look more "normal," this pandemic provided time to reflect and appreciate all the small things that many of us used to take for granted. While it is not over, this global and historic event has highlighted many struggles and tragedies, but it has also made what is truly important much clearer. I want to thank all of you for entrusting us to help you meet your financial goals. It is something we will never take for granted.

Sincerely,

ROBERT S. MEEDER
PRESIDENT AND CEO

MEEDER INVESTMENT MANAGEMENT

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

0107-MIM-4/14/2021-6606