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INVESTMENT MANAGEMENT

INVESTMENT INSIGHTS QUARTERLY COMMENTARY

Meeder Fixed Income Strategies

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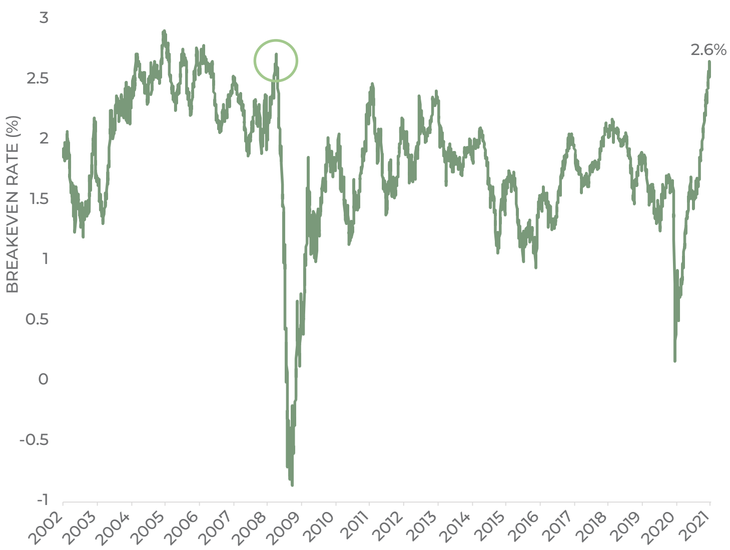
KEY TAKEAWAYS:

- Higher inflation expectations pushed 10-year Treasury yield back to its pre-COVID level above 1.7%, climbing at its fastest pace during a quarter since 2016.
- Investment-grade bonds had their worst quarterly performance since 1981, while high-yield bonds remained positive
- Meeder fixed income portfolios benefitted from increased high-yield bond and shorter duration exposure
- New monetary stimulus will provide more than $300 billion in support to state and local governments

HIGHER TREASURY YIELDS AND INFLATION EXPECTATIONS

The first quarter began with concerns about inflation rising faster in the near-term, as multiple developments pointed to a global economic recovery. In fact, the 5-year breakeven inflation rate, a proxy reflecting market's inflation expectations over the next 5 years, rose to a level not seen since mid-2008. Despite these concerns, global central banks insisted on keeping policy rates near historic lows to support economic activity and lower unemployment levels. The Biden administration also pushed through a massive $1.9 trillion stimulus package in the U.S., and significant progress in vaccine distributions started to ease lockdowns around the world.

EXHIBIT A: 5-YEAR BREAKEVEN INFLATION RATE REACHED 2008-LEVEL



Source: Bloomberg

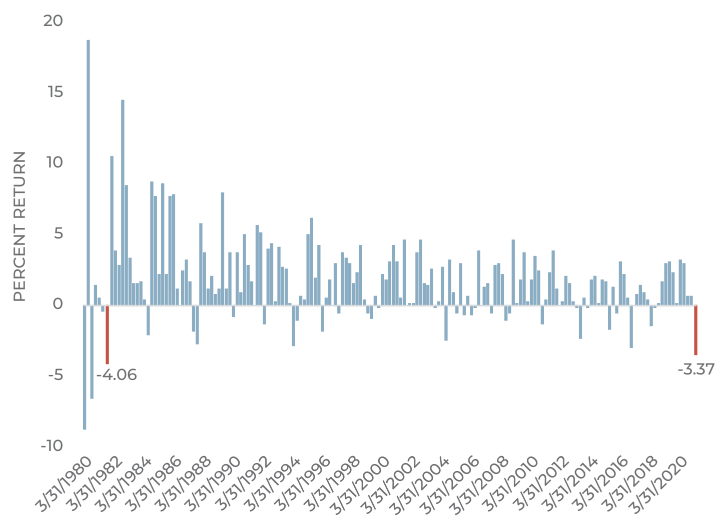
Higher inflation concerns also pushed rates higher on longer-maturity bonds. 10-year Treasury yield increased by 0.83% during the first quarter, climbing at the fastest pace during a quarter since the fourth quarter of 2016.

The Federal Reserve did not share the market's view on rising inflationary pressures and kept lending rates steady on short-maturity bonds. This caused the U.S. Treasury yield curve to steepen. This change in the yield curve is also known as a "bear-steepener" and it typically suggests a rise in prices throughout the economy. The spread between 2-year and 10-year Treasury yields widened sharply to levels last seen in 2015.

INVESTMENT-GRADE BONDS DECLINED WHILE HIGH-YIELD BONDS REMAINED POSITIVE

The fast rise in rates induced market volatility during the quarter and caused fixed income asset prices to drop. The Bloomberg Barclays U.S. Aggregate Bond Index, representing the U.S. investment-grade bond market, was down 3.37% during the quarter, marking its worst quarter since 1981.

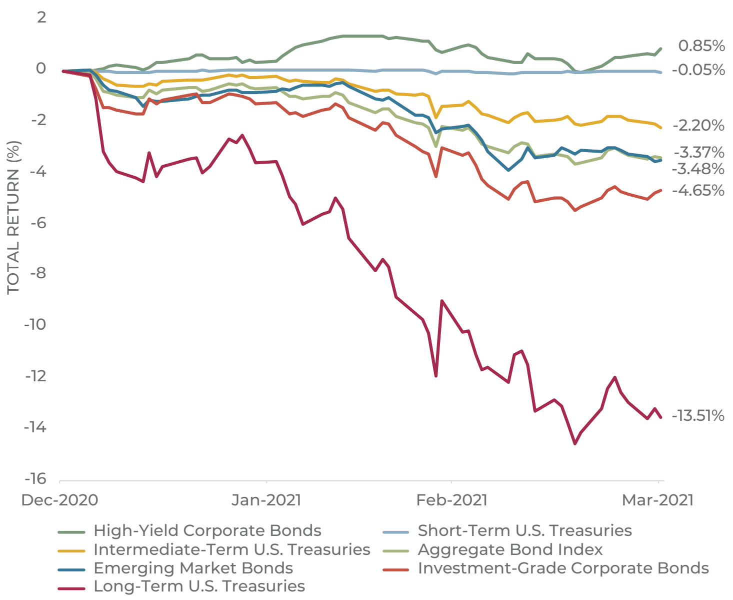
EXHIBIT B: INVESTMENT GRADE BONDS SUFFERED THEIR WORST QUARETLY LOSS SINCE 1981



Source: Morningstar Direct®; data represented by Bloomberg Barclays U.S. Aggregate Bond Index

High-yield bonds performed well as rates increased, as their spread tightened to market cycle highs and acted as a buffer against rising rates. Given the rise in interest rates, high-yield bonds' tendency to have shorter-duration further helped their returns during the quarter.

EXHIBIT C: A SHARP RISE IN YIELDS CAUSED MOST FIXED INCOME SECTORS TO DECLINE DURING THE FIRST QUARTER



Source: Bloomberg

SUPPORT FOR STATE AND LOCAL GOVERNMENTS IN NEW STIMULUS BILL AND ITS IMPACT ON MUNICIPAL BONDS

President Joe Biden signed the American Rescue Plan Act of 2021 bill in early March. This new monetary action provides additional relief to address the continued impact of COVID-19 on the U.S. economy, public health, state and local governments, individuals, and businesses. This bill, totaling $1.9 trillion in stimulus, accounts for a distribution of $195 billion for state, territory, and tribal governments. Cities and counties will receive a total of $130 billion, including $10 billion set aside for infrastructure projects. This funding is much more consistent than the CARES Act of 2020, which only targeted states and the largest cities. Before this bill was signed into law, local municipalities estimated they were facing a combined revenue shortfall of $135 billion for their current year, according to surveys conducted in February by the Nation League of Cities. With this substantial aid being received on state and local levels, we could see a reduction in the amount of municipal bond issuance in the near-term.

A revamp of the tax code is the next item on the agenda for President Biden. The new tax proposal includes a corporate tax rate hike from 21% to 28%, a possible increasing in the individual income tax rate for those earning over $400,000, and higher capital gains taxes for individuals making over $1 million annually.

PORTFOLIO POSITIONING AND PERFORMANCE

Meeder fixed income portfolios are managed with a tactical approach using quantitative models. Rate volatility during the quarter resulted in weakening of momentum and volatility factors in our Credit Quality model in mid-March. This led us to reduce duration exposure within the high-yield sector of our portfolios. 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 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.

OVERWEIGHT HIGH-YIELD CORPORATE BONDS

Our Credit Quality model guided us to remain overweight to high-yield bonds through the quarter. High-yield bonds, represented by the Bloomberg Barclays Corporate High Yield Bond Index, were up 0.85% in Q1 2021. This allocation was a positive contributor to portfolio performance.

UNDERWEIGHT EMERGING MARKET BONDS

Our Emerging Market Bond model caused us to reduce exposure to emerging market bonds throughout the quarter. The emerging market bond sector, represented by the Bloomberg Barclays Emerging Market US-Dollar Denominated Index, was down 3.48% in Q1 2021.

U.S. TREASURIES AND INVESTMENT-GRADE BONDS

Intermediate-term Treasuries, represented by the Bloomberg Barclays U.S. Treasury 3-7 Year Index, were down 2.20% for the quarter, while investment-grade bonds were down 3.37%. Our portfolios were underweight Treasuries and investment-grade bonds during the quarter, which helped relative performance, but these two positions were an overall detractor to portfolio performance.

DURATION POSITIONING

Our fixed income portfolios significantly reduced their duration exposure during the quarter, which was a shift from their duration-neutral position at the beginning of the year.

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Fixed Income asset classes are represented by the following indexes: Bloomberg Barclays US Agg Total Return USD, Bloomberg Barclays US Corporate Total Return USD, Bloomberg Barclays US Corporate High Yield Total Return Index USD, Bloomberg Barclays EM USD Aggregate Total Return Index USD, Bloomberg Barclays U.S. Treasury: 1–3 Year Total Return Index, Bloomberg Barclays U.S. Treasury 3–7 Year Total Return Index Value Index, Bloomberg Barclays US Long Treasury Total Return Index.

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