INVESTMENT INSIGHTS MONTHLY COMMENTARY

Meeder Fixed Income Strategies

BY AMISHA KAUS, PORTFOLIO MANAGER · NOVEMBER 2020

KEY TAKEAWAYS:

- Market volatility spiked with uncertainty on multiple fronts
- Stimulus expectations steepened the U.S. Treasury yield curve, with 10-year treasury yield climbing to nearly 0.90%
- High yield bonds remained positive even as they gave up early momentum
- Overweight positioning in high yield bonds was a positive contributor to Meeder portfolios in October

VOLATILITY SPIKES AS MARKET UNCERTAINTY PERSISTS ON MULTIPLE FRONTS

The month of October noted sentiment swings in the markets from bouts of optimism to pessimism as investors faced many unknowns. Investors awaited news on COVID-19 vaccine, dealt with rising economic threat from global resurgence in COVID-19 cases, faced a deadlock in the U.S. fiscal stimulus bill, and remained uncertain on the fate of the US Presidential election. Judging by the record level of mail-in voting for this year's Presidential election, investors expected the decision process to drag out for days. The investment-grade market lacked a general direction as the resulting policy implications remained unclear for much of the month, ultimately settling lower at month-end.

Rising uncertainty pushed yields higher, casting downward pressure on prices in most fixed income asset classes. It triggered a spike in market volatility and the U.S. Treasury volatility gauge, the MOVE Index, rose to a level last seen in early June. The MOVE index had noted historically low readings in September. Gauges of credit risk in the investment-grade market, as measured by credit default swaps, rose during the month indicating a lack of appetite for risk, even in the high-quality bond market. Safe-haven instruments like 10-year U.S. Treasury bonds also ended the month in negative territory. The 10-year U.S. Treasury returns were negative, as the benchmark yield rose to nearly 0.90%, its highest level since June.

FIXED INCOME SECTOR RETURNS	OCTOBER	YTD
U.S. Aggregate Bond Index	-0.45%	6.32%
Intermediate-term Treasury Index	-0.44%	6.80%
Investment Grade Corporate Index	-0.18%	6.44%
U.S. Mortgage-backed securities Index	-0.04%	3.58%
High Yield Corporate Index	0.51%	1.13%
Emerging Market Debt Index	-0.12%	1.82%

EXHIBIT A: 10-YEAR TREASURY YIELD REACHED EARLY-JUNE LEVEL

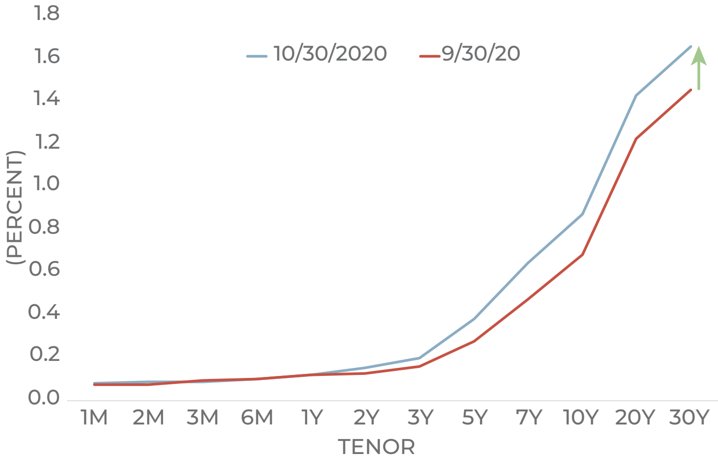
Source: Bloomberg

One front that remained steady last month was the Federal Reserve's commitment to an accommodative monetary policy for the foreseeable future. The FOMC meeting in October proved to be non-eventful as the Federal Reserve maintained its stance on keeping short-term lending rates lower for longer. The central bank support has kept the corporate bond market strong in the aftermath of the pandemic and we expect it to continue to provide stability as needed. Although, recent statements by FOMC members shows more emphasis on the need for another fiscal stimulus in the U.S. to sustain the current economic recovery.

U.S. FISCAL STIMULUS EXPECTATIONS MOVED THE TREASURY YIELD CURVE

The U.S. Treasury yield curve steepened in October, as the short-term rates remained steady, while the longer maturities moved slightly higher. Yields for 20-year and 30-year treasuries have recovered back to levels seen in early March, before the widespread COVID-related shutdowns impacted the U.S. economy. Even though a second round of U.S. fiscal stimulus was not passed by the U.S. Congress in October, the increase in rates was partly driven by expectations that an agreement will follow the Presidential election results.

EXHIBIT B: U.S. TREASURY YIELD CURVE STEEPENED

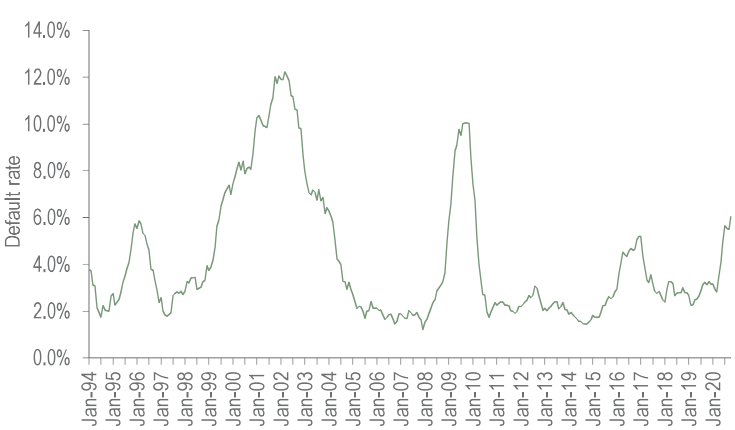


Source: Bloomberg

A TALE OF TWO HALVES FOR HIGH YIELD BONDS

In line with U.S. stocks, high yield bonds gained momentum in early October as investors were still optimistic about the progress on U.S. fiscal stimulus talks and held out hopes for a COVID-19 vaccine. Their direction changed swiftly in the second half of the month as COVID-19 cases started to rise and fresh lockdown measures in some economies casted doubts on the continuation of global economic recovery. Despite a drop in momentum in the second half, the high yield sector ended the month positive, with the high yield index taking in 0.51% in gains. On the risk front, defaults rose in the month of October, leaving the default rate elevated well over 6%. Credit rating downgrades for companies rated high yield also continued to outpace rating upgrades during the month, adding to the level of risk. Given the heightened volatility in high yield bond sector, our strong conviction in a tactical approach to the high yield sector remains strong.

EXHIBIT C: U.S. HIGH YIELD DEFAULT RATES REMAIN HIGH



Source: J. P. Morgan

OUTLOOK

A second round of fiscal stimulus in U.S. is highly likely in the upcoming months, although the size of the stimulus depends on the Presidential election's outcome. We expect any additional stimulus to be additive to the U.S. economy, thereby helping subside market volatility. With the uncertainty surrounding the results of this year's Presidential election, we expect market volatility to persist in the near-term, highlighting the need for an active, tactical approach in risk sectors.

PORTFOLIO POSITIONING AND PERFORMANCE

Our proprietary quantitative fixed income models recorded an increase in high yield and emerging market debt volatility factors. Emerging market debt sector also exhibited weakness in momentum factors. During the month of October, Meeder fixed income portfolios maintained the following positions:

OVERWEIGHT HIGH-YIELD CORPORATE BONDS

High yield corporate bond positions were a contributor to performance in October as high yield bonds were one of the few positive spots in the fixed income landscape. These positions remain unchanged and have provided a higher level of income and continue to provide positive attribution.

OVERWEIGHT USD-DENOMINATED EMERGING MARKET BONDS

This position was a detractor from performance as emerging market bonds lost momentum in October. This sector continues to be a source of higher income in our portfolios.

U.S. TREASURIES AND INVESTMENT GRADE BONDS

U.S. Treasury and investment grade bond positions were a detractor last month as yields climbed across much of the curve.

DURATION POSITIONING

Meeder fixed income portfolios continued to maintain an intermediate-term duration of nearly 5.5 years in October, in line with their benchmark.

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INVESTMENT MANAGEMENT

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

Fixed Income asset classes are represented by the following indexes: Bloomberg Barclays US Aggregate Bond Index, Bloomberg Barclays US Treasury: Intermediate Index, Bloomberg Barclays US Corporate Bond Index, Bloomberg Barclays US Mortgage Backed Securities (MBS) Index, Bloomberg Barclays US Corporate High Yield Bond Index , Bloomberg Barclays Emerging Markets Hard Currency Aggregate Index, Bloomberg Barclays Municipal Bond Index Total Return Index

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