MEEDER
INVESTMENT MANAGEMENT

INVESTMENT INSIGHTS QUARTERLY COMMENTARY

Meeder Fixed Income Strategies

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KEY TAKEAWAYS:

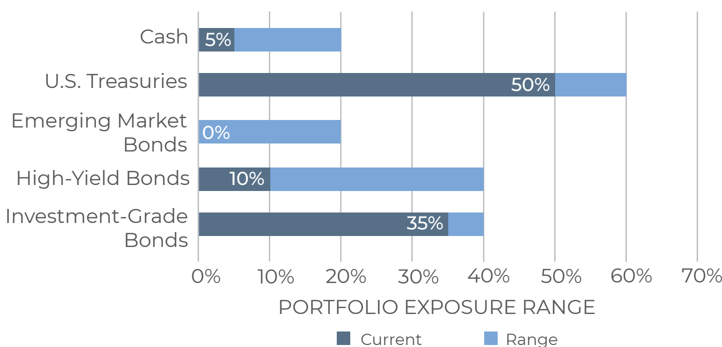
- Lack of momentum and higher volatility led to risk-off positioning in Meeder portfolios
- High-yield and investment-grade bonds were overall contributors to Meeder portfolios' performance
- Supply chain issues, impeded by labor shortages pushed consumer prices higher
- Inflationary pressures could push Treasuries to first annual loss since 2013
- Federal Reserve may reduce monetary support and see leadership changes this year

MARKET PERFORMANCE AND MEEDER PORTFOLIO POSITIONING

Congress has been debating potentially increasing or suspending the debt limit for the U.S. government by mid-October. Lack of an agreement could mark the first U.S. government default in history, impacting the U.S. government's credibility to pay financial obligations and delay many crucial payments including military pay and Social Security benefits. The fast-approaching deadline for government shutdown led to risk-off market sentiment towards the end of the quarter.

Quantitative fixed income models that guide our tactical portfolio decisions led us to reduce credit and duration risk in Meeder fixed income portfolios during the third quarter. Momentum and volatility factors in our Credit Quality model weakened in mid-July, leading us to decrease high-yield positions in our portfolios. Additional weakness in the momentum factors in late-September guided us to further reduce our portfolios' exposure to high-yield bonds. Momentum, volatility, and macroeconomic factors in our Emerging Market model indicated weakness in late-September, leading us to exit all emerging market bond positions in our fixed income portfolios.

EXHIBIT 1: MEEDER FIXED INCOME PORTFOLIO POSITIONING



CONTRIBUTORS

- High-yield corporate bonds: High-yield bonds were up 0.9% in Q3 2021 and are up 4.5% year-to-date.
- Investment-grade bonds: The broad investment-grade bond market, represented by the Bloomberg U.S. Aggregate Bond Index, was up 0.1% in the third quarter, but is still down 1.6% year-to-date.

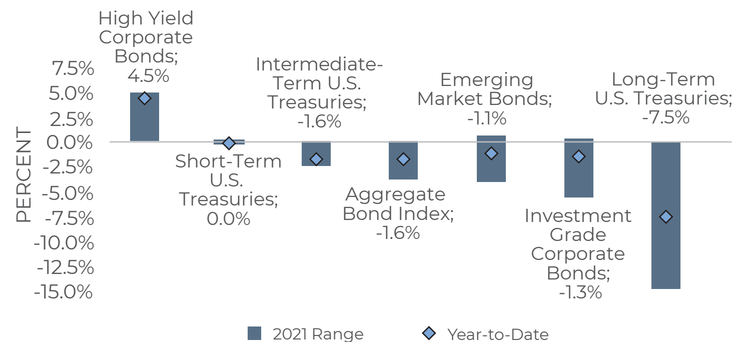
DETRACTORS

- Emerging Market bonds: Emerging market bonds were down 0.6% in Q3 2021 and are down 1.1% year-to-date.
- U.S. Treasuries: Intermediate-term U.S. Treasuries were down 0.1% in Q3 2021 and are down 1.6% year-to-date. Short-term U.S. Treasuries were up 0.1% in Q3 2021 and are down less than 0.1% year-to-date.

DURATION POSITIONING

Meeder fixed income portfolios' duration was reduced during the third quarter, remaining well below the broad bond market benchmark, the Bloomberg U.S. Aggregate Bond Index.

EXHIBIT 2: YTD-2021 FIXED INCOME SECTOR PERFORMANCE

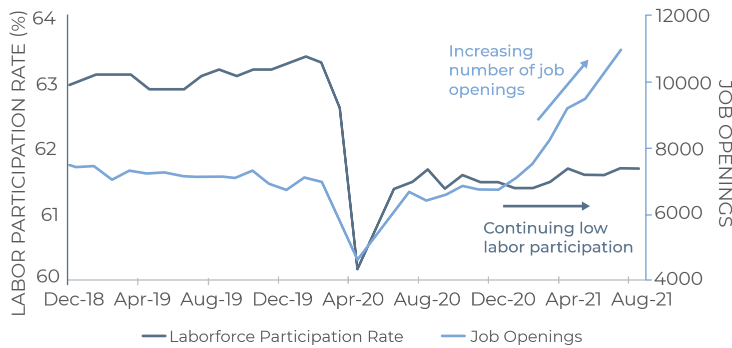


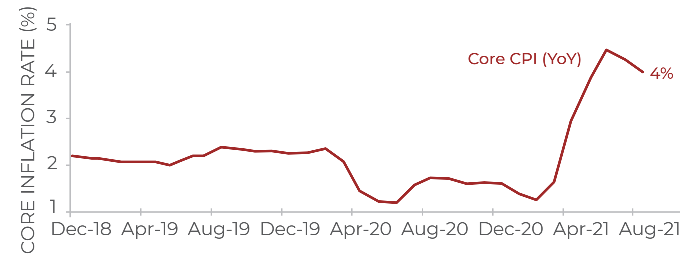
Source: Bloomberg

INTEREST RATES UNDER PRESSURE WITH LABOR SHORTAGES AND HIGH INFLATION

Growth in momentum trends slowed globally as delta variant related COVID cases surged during the third quarter. Overall weakness in the labor market and a low labor force participation rate added to the ongoing supply chain issues and pushed consumer prices higher. Inflation, as marked by year-over-year Core CPI, remained higher than 4% throughout the quarter. The debate over whether the elevated prices are persistent or transitory has brought up discussions of stagflation, an environment where persistently high inflation is paired with slow economic growth and high unemployment.

EXHIBIT 3: LABOR MARKET WEAKNESS, DEMAND AND SUPPLY CONSTRAINTS PUSHED CONSUMER PRICES HIGHER

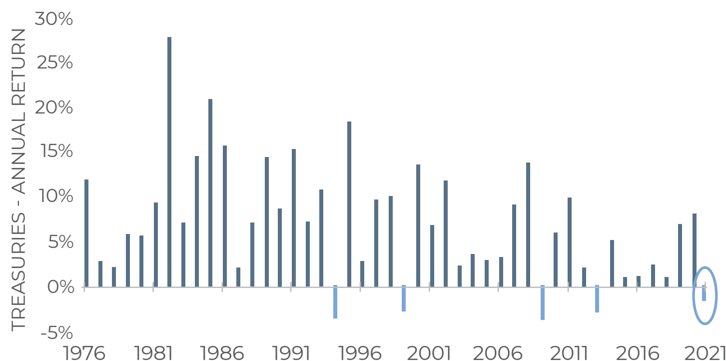




Source: Bureau of Labor Statistics and Bloomberg

Inflationary concerns along with expectations of the upcoming monetary support withdrawal starting in November pushed interest rates higher at the end of the third quarter, keeping U.S. Treasury returns in negative territory for the year. The 10-year U.S. Treasury yield reached to a high of 1.565% in September, a level not seen in mid-June.

EXHIBIT 4: INFLATIONARY PRESSURES COULD LEAD TREASURIES TO THEIR FIRST ANNUAL LOSS SINCE 2013

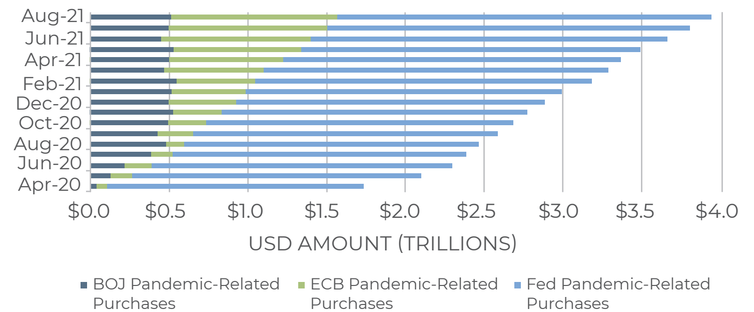


Source: Bloomberg

GLOBAL CENTRAL BANKS PLAN TO ROLL BACK MONETARY SUPPORT

Global central banks have been working to maximize stability of prices and employment since the pandemic began in early 2020. The Federal Reserve started an additional monthly purchase of $120B in U.S. Treasuries and agency mortgages to stimulate the economy last year. The European Central Bank (ECB) has maintained a similar $865B Pandemic Emergency Purchase Program and has signaled their intention to keep interest rates negative through 2023. The Bank of Japan (BOJ) has set purchase limits for ETFs, J-REITS, and corporate bonds of $110B, $1.6B, and $180B, respectively, until the end of March 2022.

EXHIBIT 5: MONETARY POLICY SUPPORT BY THE CENTRAL BANKS REMAINS HIGH



Source: Bank of Japan and Bloomberg

With increasing market expectations of a reduction in post-pandemic monetary support measures across the globe, a rise in interest rates around late-2022 is reasonably expected. In August this year, Fed Chairman Jerome Powell indicated in his commentary that an improvement in U.S. employment numbers would empower the U.S. central bank to consider reducing the current level of monetary support measures.

The Federal Reserve dot plot projections, a view of where policymakers expect the Federal Funds rate to be in the future, has changed significantly over the last three months. A higher number of members in the September FOMC meeting have targeted at least a 0.25% interest rate hike in 2022 and at least a 0.50% interest rate hike in 2023, which is higher than their June forecast. The next FOMC meeting is November 2nd-3rd, where markets could expect to get more guidance on future rate increases and the central bank's plan to wind down their post-pandemic asset purchases.

In addition to monetary policy decisions, the Federal Reserve is expected to undergo several central bank official changes over the next one-year period, leaving the Biden administration in charge of potentially revamping the Fed's leadership.

EXHIBIT 6: UPCOMING CHANGES IN THE FEDERAL RESERVE LEADERSHIP

NAME	POSITION	END OF TERM	REASON
Jerome Powell	Chairman	February 2022	Term expiration, remains on Board
Richard Clarida	Vice Chairman	September 2022	Term expiration
Randal Quarles	Vice Chairman for Supervision	October 2021	Term expiration, remains on Board
Eric Rosengren	President, Federal Reserve Bank of Boston	September 2021	Early retirement, health concerns
Robert Kaplan	President, Federal Reserve Bank of Dallas	October 2021	Early retirement, questions regarding his financial disclosures

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DISCLAIMER

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

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