MEEDER
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CAPITAL MARKETS COMMENTARY

Looking Ahead to 2021: Investment Implications of Potential Covid-19 Vaccine, Possible Divided U.S. Government and Accommodative Monetary Policy

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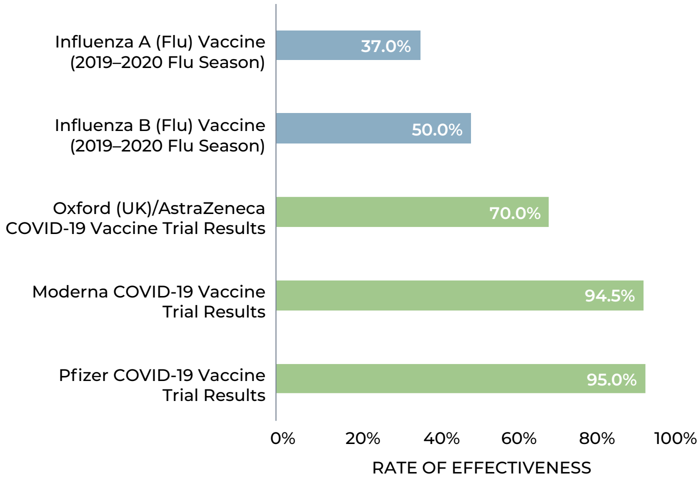
KEY TAKEAWAYS:

- **A POTENTIAL COVID-19 VACCINE IN 2021 WOULD BE A BIG POSITIVE FOR THE ECONOMY.** Moderna, Pfizer and AstraZeneca have all separately released what appears to be promising results for COVID-19 vaccine candidates. A widely available and effective vaccine for the virus in 2021 could benefit economic activity very significantly.
- **A DIVIDED U.S. GOVERNMENT HAS HISTORICALLY BEEN VERY ATTRACTIVE FOR STOCKS.** The S&P 500 Index has averaged a return of 15.9% a year during a divided government—3% higher than the average return from 1950–2019. Should the executive and legislative branches be divided (depending on results of the Georgia Senate race), the chances of significant pieces of legislation being passed become smaller, providing investors with the potential of more certainty about the future.
- **U.S. STOCKS ARE LIKELY IN A SECULAR BULL MARKET.** U.S. real GDP has rebounded 33% in Q3 2020 after falling 31% in Q2 2020, while U.S. stocks have risen sharply off their lows in late March 2020. The combination of overwhelming fiscal and monetary stimulus has likely succeeded in halting deleveraging by businesses and consumers brought on by the COVID-19 recession. We expect credit to expand going forward and the business cycle to continue for many years to come.
- **MONETARY POLICY IS LIKELY TO REMAIN ACCOMMODATIVE.** With inflation still below targets, and elevated unemployment rates, central banks around the world are likely to keep interest rates anchored to near zero levels for the foreseeable future.

POTENTIAL COVID-19 VACCINE IN 2021 WOULD BE A BIG POSITIVE FOR THE ECONOMY

EXHIBIT A: TRIAL RESULTS FOR COVID-19 VACCINES SHOW A VERY HIGH RATE OF EFFECTIVENESS

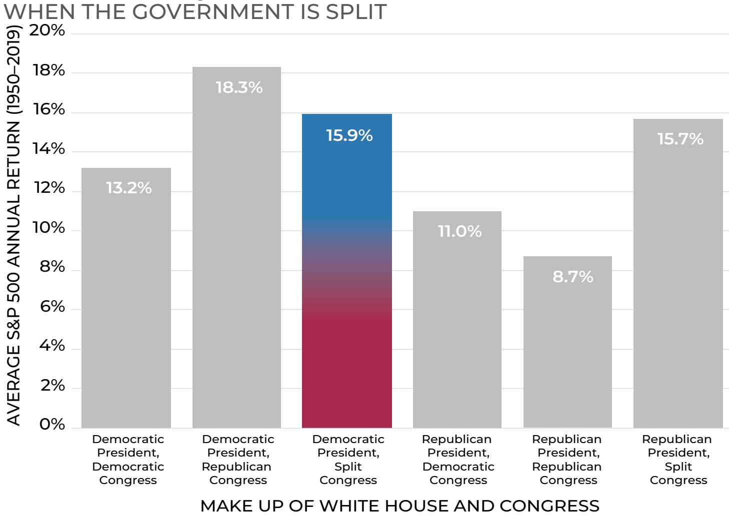


Source: CDC, University of Oxford, Moderna, Pfizer

Given the economic disruption caused by COVID-19 due to shutdowns and quarantines, a widely available and effective vaccine for the virus would likely benefit economic activity significantly by allowing a return to normal life for billions of people around the world. As Exhibit A shows, Moderna, Pfizer/BioNTech, and Oxford (UK)/AstraZeneca have all separately released promising results of clinical trials for potential COVID-19 vaccines. Historically, vaccines available for the common flu have had between a 40 to 60% success rate at preventing infection. Results for the COVID-19 vaccine are demonstrating effectiveness as high as 95%, which is much higher than most scientists anticipated.

A DIVIDED U.S. GOVERNMENT HAS BEEN ATTRACTIVE FOR U.S. STOCKS

EXHIBIT B: U.S. EQUITIES HAVE HISTORICALLY DONE WELL WHEN THE GOVERNMENT IS SPLIT

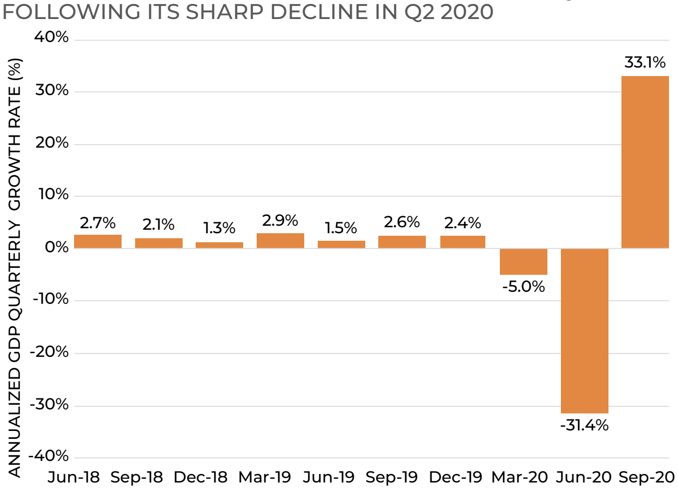


Source: LPL

Based on a historical analysis of stock market returns, should we have a divided government—a Democratic president and split Congress—it would offer one of the most attractive opportunity sets for stock market investors. The results of the Georgia Senate race on January 5, 2021, will provide investors with more clarity on this front. The S&P 500 Index has averaged 15.9% a year with a Democratic President and a divided Congress—about 3% higher than the average return on the S&P 500 from 1950-2019. One explanation for this is the higher degree of certainty about the future that a divided government provides investors. Should the House of Representatives and Senate be divided, the chances of any significant pieces of legislation being passed becomes smaller.

U.S. STOCKS ARE LIKELY IN A SECULAR BULL MARKET

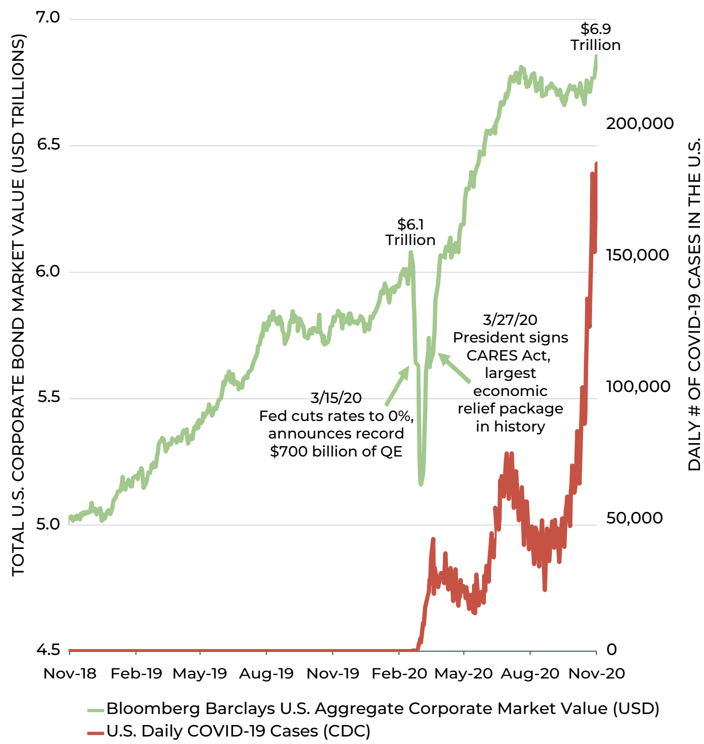
EXHIBIT C: U.S. GDP GREW AT A RECORD PACE IN Q3 2020 FOLLOWING ITS SHARP DECLINE IN Q2 2020



Source: Bloomberg

Massive fiscal and monetary stimulus in 2020 in response to the economic damage from COVID-19 has resulted in a sharp bounce back for the economy and stock market. U.S real GDP has rebounded 33% in Q3 2020 after falling 31% in Q2 2020. While the S&P 500 has rallied more than 40% off its bear market low on March 23, the Russell 2000 small-cap and S&P 400 mid-cap indexes have gained more than 80% and 79% respectively during this same time frame. In addition, we have observed strong participation from a variety of sectors and industries outside of the big tech stocks that have dominated performance in recent years. These are historically characteristics of a healthy stock market and an economic expansion.

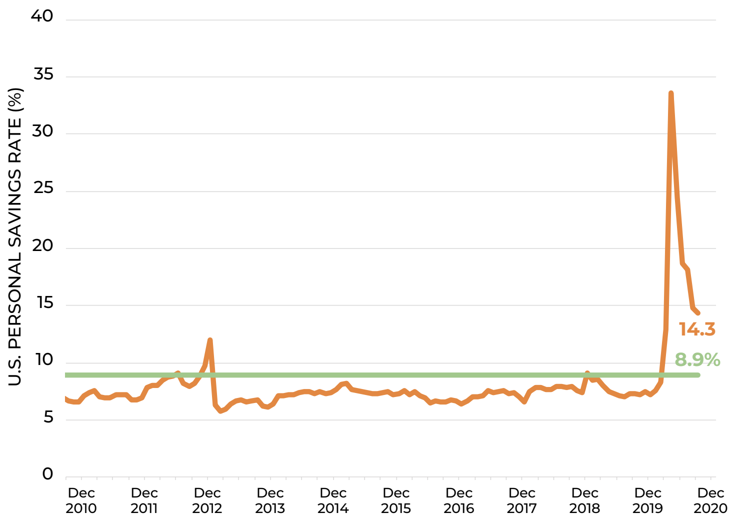
EXHIBIT D: FISCAL AND MONETARY SUPPORT HAS ENABLED CORPORATE BOND MARKETS TO RECOVER AND EXPAND DESPITE THE GLOBAL COVID-19 PANDEMIC



Source: Bloomberg

Evidence suggests that the combination of fiscal and monetary stimulus has likely succeeded in halting—and reversing—deleveraging by businesses and consumers. Exhibit D shows the market value of U.S. investment grade bonds. It suggests that credit expansion continue, with year-to-date U.S. bond issuance already surpassing $2 trillion through the end of October 2020. That is already higher than any calendar year in history. As economic activity picks up again, we expect credit to expand and the business cycle to continue for many years to come.

EXHIBIT E: HIGH U.S. PERSONAL SAVINGS RATES MAY PROVIDE FUEL FOR FUTURE ECONOMIC GROWTH

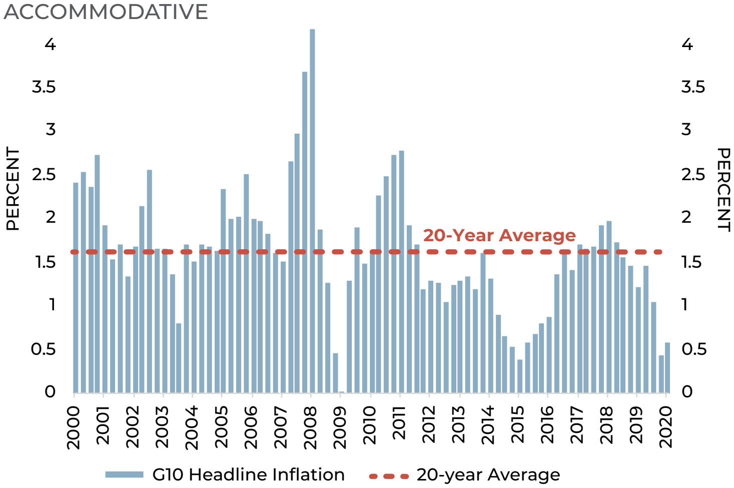


Source: FRED (Federal Reserve Bank of St. Louis)

As we move into 2021, we expect credit to continue to expand, helping the economic recovery. In addition, pent up savings may help boost the economy too. The most recent data suggests that U.S. consumers are saving more than 14% of their income, which is more than 5% higher than its long-term average of 8.9% (1959–present). A widely available vaccine could improve consumer sentiment, leading to a potential unwind of the large savings consumers have built up over the last year or so.

MONETARY POLICY IS LIKELY TO REMAIN ACCOMMODATIVE

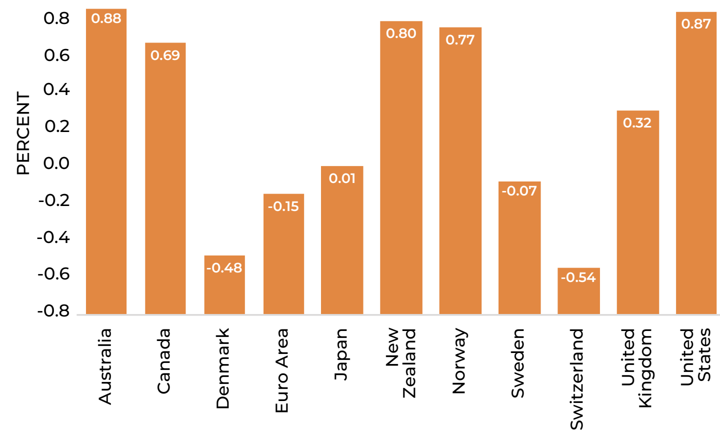
EXHIBIT F: LOW HEADLINE INFLATION ACROSS G-10 ECONOMIES WILL LIKELY KEEP GLOBAL CENTRAL BANK POLICIES ACCOMMODATIVE



Source: Bloomberg

Headline inflation levels remain low across much of the developed world. G-10 economies' average headline inflation number remains well below its 20-year average. The Federal Reserve and other global Central Banks are likely to keep their respective policy rates low until they see significant uptick in inflation figures. The Federal Reserve is expected to keep their benchmark short-term interest near zero percent through at least 2023.

EXHIBIT G: LOWER INFLATION EXPECTATIONS ARE KEEPING 10-YEAR GLOBAL BOND YIELDS BELOW 1%



Source: Bloomberg

Lack of inflationary pressures are keeping yield premiums low across much of the global government debt. 10-year global bond yields that typically respond to inflation by rising, remain below one percent, and in some cases negative, across most developed economies. This implies market expectations of low interest rates over the next few years.

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