MEEDER PRIVATE WEALTH

Capital Markets 2022 Review and 2023 Outlook

MEEDER

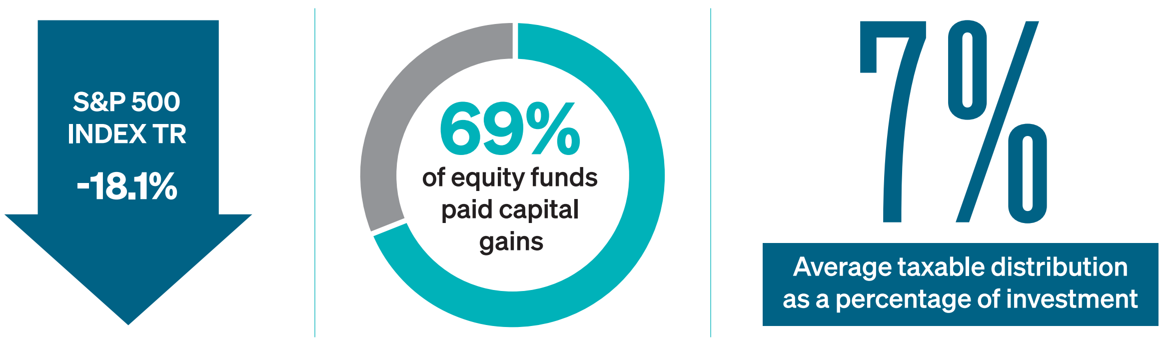
Private Wealth 2022 Review and 2023 Outlook

During the 4th quarter of 2022, we devoted a significant amount of time reviewing potential capital gains exposure for mutual funds and strategies that you can utilize to try and limit that exposure. The result of this analysis concluded that the majority of cases we reviewed would benefit from utilizing individual stock positions to help minimize tax implications.

While many mutual funds were down last year alongside the market, nearly 70% of those funds still paid capital gains—and significant capital gains—to the tune of an average 7% of the investment. These capital gains had the effect of increasing a client's tax liability. Compare that with the private wealth custom SMA structure where the client owns all their individual positions cost basis—versus a mutual fund, where they share that cost basis with everyone else. This structure allowed us to actively manage tax at the individual account level throughout the year and resulted in many of our clients having a significantly reduced tax liability, or said another way, allowed us to generate tax alpha for our clients.

DOUBLE WHAMMY IN 2022

NEGATIVE PERFORMANCE AND CAPITAL GAINS HURT INVESTORS



SOURCE: MORNINGSTAR

U.S. Stock Returns = Russell 3000 Index; U.S. equity funds: Morningstar broad category 'U.S. Equity' (large/mid/small V/B/G) which includes mutual funds and ETFs (and multiple share classes). Average U.S. equity fund Distribution: Capital Gains/Share (% of NAV) based on Morningstar U.S. OE Mutual Funds and ETFs. % = Calendar Year Cap Gain Distributions / Year-End NAV. Distribution is assumed to be made at last day of year and reinvested. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

While active tax management is at the core of private wealth, we also realize that for some clients or some clients' accounts, this is not always their primary objective. Many clients seek a strategy whereby the primary objective is income-producing holdings. Our dividend income strategy, inside of private wealth accounts, is a globally diversified portfolio constructed with income-generating positions, while still looking to grow capital.

Investing in a portfolio of stocks with dividend yield can be appealing for many reasons. Most obvious is their ability to generate extra income. This isn't relevant only for those clients seeking to take income. Many will reinvest the income back into the portfolio, which can significantly increase the total return of that investment over time. Additionally, dividend-focused strategies can help to cushion that decline in periods of market downturns.

DIVIDEND INCOME OBJECTIVES

DIVIDEND INCOME PORTFOLIO

INTRODUCTION AND ADVANTAGES

Yield Focus

50/50 allocations:

- 4.35% for nonqualified accounts
- 5% for qualified

Actively Managed

Allocation changes and screens managed by investment committee

5 Sleeves

- US equity
- International Developed
- International Emerging
- Core Fixed Income
- Opportunistic Fixed income

Personalization

Restrictions, withdrawals, householding, tax transitions at individual account level

Non-Qualified Accounts

Tax-loss harvesting and tax transition

Sleeve Approach

Sleeve approach to allow for greater allocation flexibility

First and foremost, our dividend income portfolio still allows the investor to personalize at the account level. Once that personalization is determined, we implement a thorough security selection screening process with investment committee oversight. The portfolio's primary objective is to achieve yield and dividend-producing holdings. After initial portfolio construction, our team implements active and ongoing stock selection and tilts. This portfolio has historically had a greater value and quality focus. The result is a custom portfolio with an attractive yield, but a portfolio that isn't stretching for that yield by adding unnecessary risk, nor by sacrificing growth potential.

DIVIDEND INCOME PORTFOLIO KEY THEMES

Ability to personalize at the account level

Thorough screening process and committee oversight

Focused on yield and dividend growth

Active stock selection and tilts

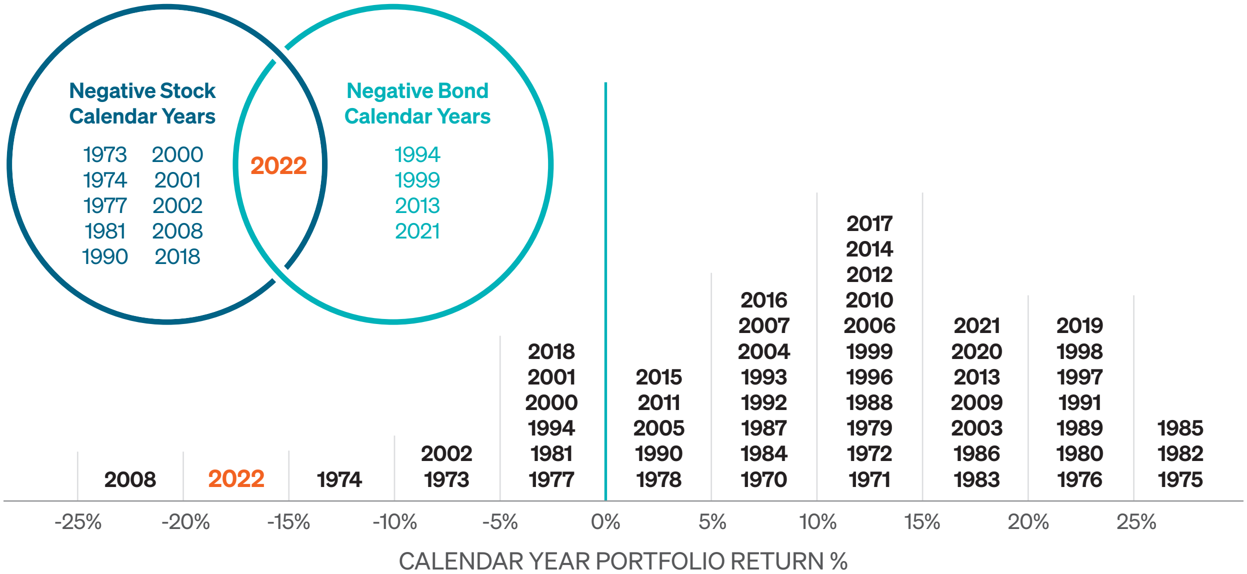
Greater value/quality focus

Expected lower volatility and greater downside protection

"Capital Markets" Review

DIFFICULT YEAR FOR DIVERSIFIED PORTFOLIOS

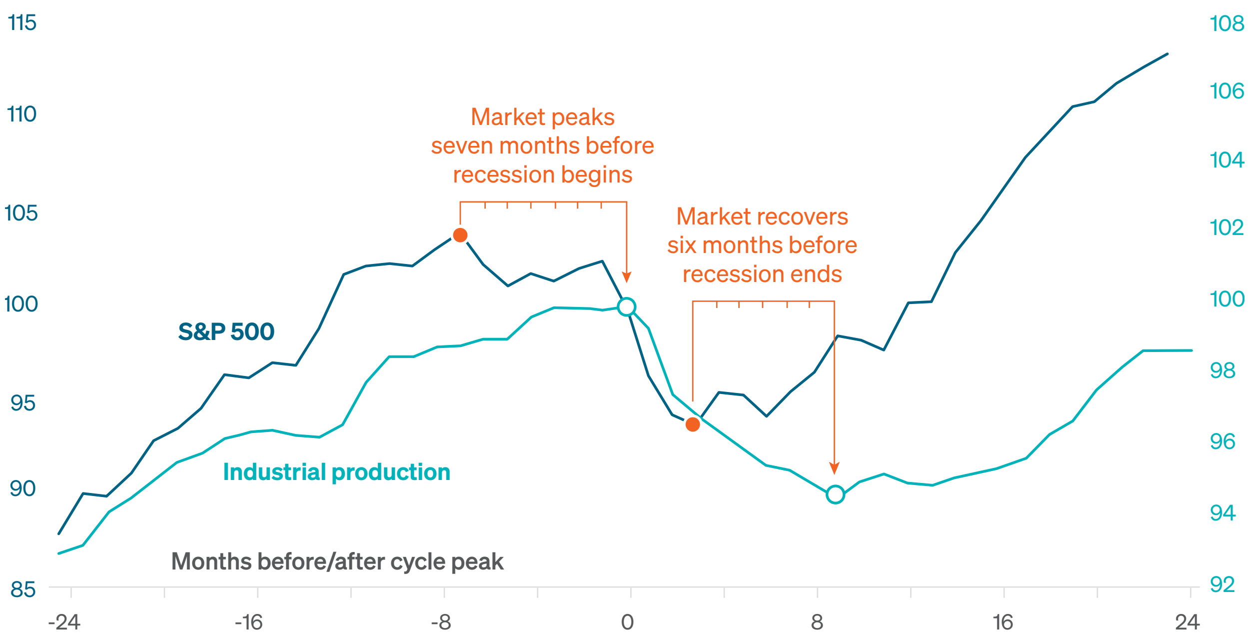
60% STOCK / 40% BOND INDEX PORTFOLIO 1970–2022



SOURCE: RUSSELL

The market environment in 2022 was very challenging for 60/40 investors. While negative returns in equity markets are not surprising, bonds have historically experienced fewer drawdowns. 2022 was not only the sole year since 1970 where equity and fixed income returns were both negative, it was also the second worst year ever for a 60/40 allocation with the worst being the Great Recession. Diversification simply did not work.

THE ECONOMY IS NOT THE STOCK MARKET

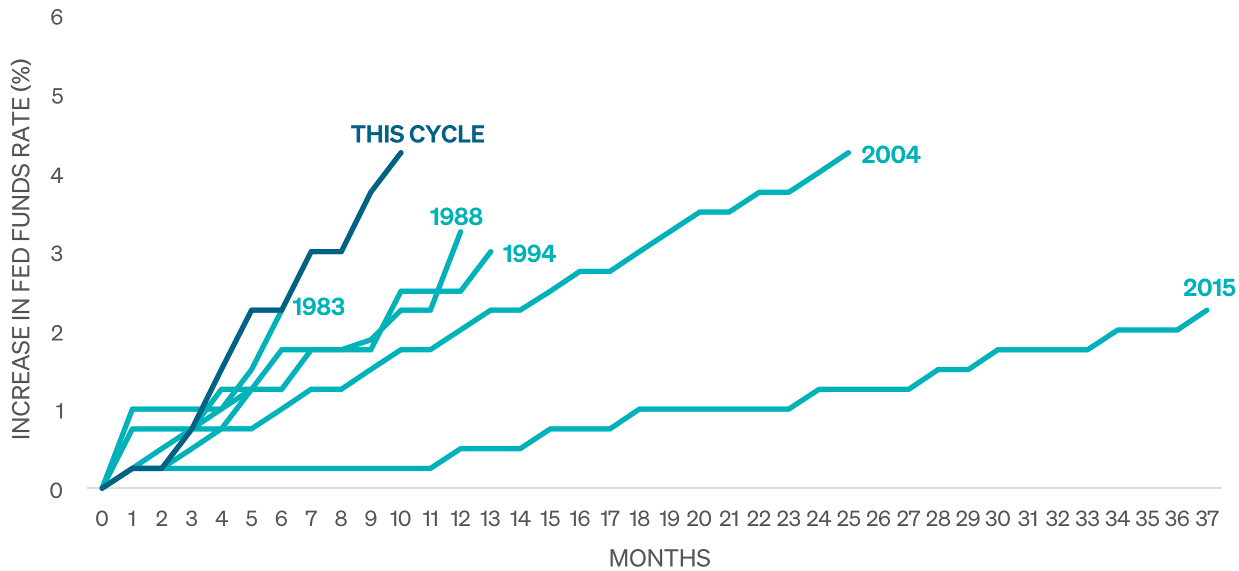


SOURCE: CAPITAL GROUP

A common question we have received recently is whether the US economy will experience a recession. It is important to distinguish between the economy and the stock market. The stock market is a discounting mechanism. It does not price where we are in the moment—rather, it prices what it expects is coming.

The stock market is a leading indicator and tends to bottom and recover before the economic data does. The key takeaway being that timing the market is challenging. Many clients would prefer to wait until the economic data improves before investing. If you wait for the data to improve to get invested, you will have missed the opportunity.

FASTEST RATE HIKING CYCLE SINCE 1983



SOURCE: BLOOMBERG, THE BALANCE

The rate hiking cycle in 2022 has been remarkable. In the 9 months from March to December, the Fed has hiked rates from near zero to 450 basis points. This is the fastest rate hiking cycle since 1983.

One of the key reasons the Fed is hiking rates is inflation.

THE PATH TO LOWER INFLATION

CPI YOY % LIKELY TO BE UNDER 4% BY SUMMER 2023

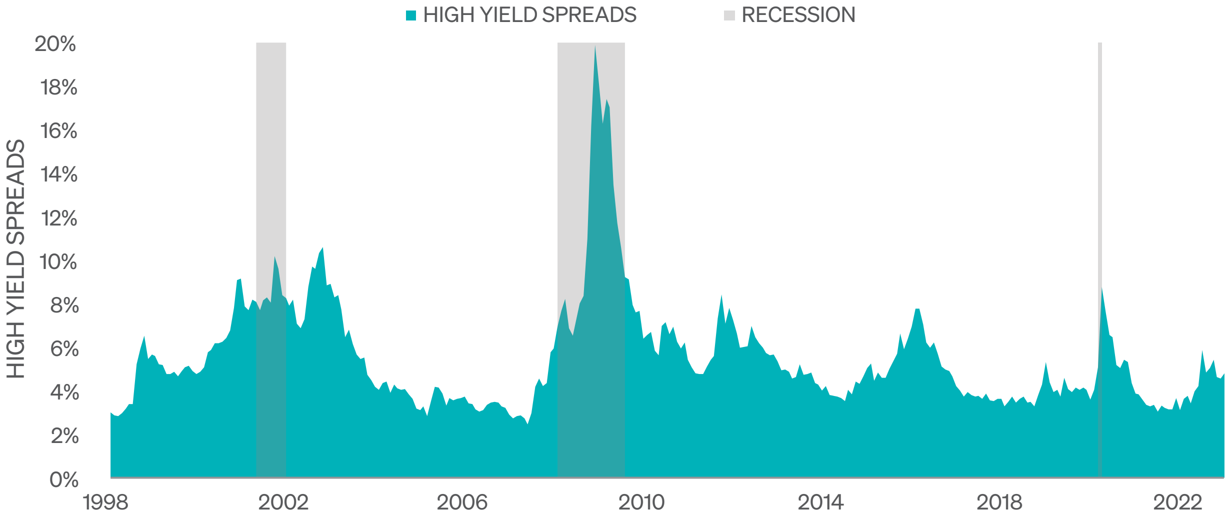
MONTH	-0.1% MOM	+0.0% MOM	+0.1% MOM	+0.2% MOM	+0.3% MOM	+0.4% MOM	FED FUNDS FUTURES
Dec-22	6.5% YOY						
Jan-23	5.6%	5.7%	5.8%	6.0%	6.1%	6.2%	4.33%
Feb-23	4.7%	4.9%	5.1%	5.3%	5.5%	5.7%	4.63%
Mar-23	**3.3%**	**3.6%**	**3.9%**	4.2%	4.6%	4.9%	4.83%
Apr-23	2.9%	3.3%	3.7%	4.1%	4.5%	4.9%	4.83%
May-23	1.8%	2.3%	2.8%	**3.3%**	**3.8%**	4.3%	4.94%
Jun-23	0.3%	0.9%	1.5%	2.2%	2.8%	**3.4%**	4.96%
Jul-23	0.3%	1.0%	1.7%	2.4%	3.1%	3.8%	4.90%
Aug-23	0.0%	0.8%	1.7%	2.5%	3.3%	4.1%	4.90%
Sep-23	-0.4%	0.5%	1.4%	2.3%	3.2%	4.1%	4.81%
Oct-23	-1.0%	0.0%	1.0%	2.0%	3.1%	4.1%	4.67%
Nov-23	-1.2%	-0.1%	1.0%	2.1%	3.3%	4.4%	4.47%
Dec-23	-1.2%	0.0%	1.2%	2.4%	3.7%	4.9%	**4.26%**

SOURCE: BLOOMBERG

There is plenty to digest when it comes to inflation. Inflation peaked at 9.10% in June and has now declined to 6.50% year over year. The table shows how year over year CPI will evolve assuming different monthly rates. Assuming in January that CPI rises by 0.3%, the headline CPI will fall to 6.10%. We expect inflation to continue to fall and likely moderate in the 2–4% range.

It is also important to note that the market is pricing in two to three rate cuts in late 2023. For the Fed to cut rates, it would require further deterioration in economic conditions and inflation to continue to fall.

HIGH YIELD SPREADS

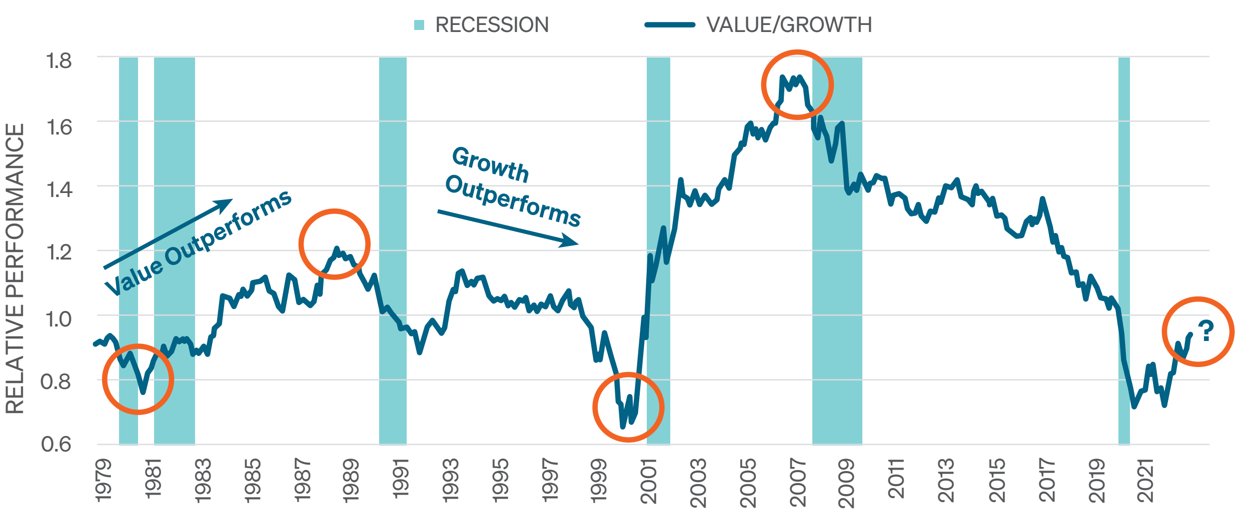


SOURCE: NBER, FRED

The above chart depicts high yield bond spreads relative to Treasury bonds from the late 1990s to the present. The high yield spread reflects the amount of interest over and above the US treasury rate investors demand as compensation for the additional risk of default. High yield spreads are slightly overvalued to history and are not signaling a recession or credit stress.

Our team monitors high yield bond spreads to determine how markets view the credit conditions of corporate borrowers. During recessionary conditions, spreads typically widen significantly and are nearly double where they are currently. We would expect high yield spreads to widen on credit stress from weaker economic conditions or increased potential defaults. We are underweight high yield investments and would prefer to see spreads widen prior to adding exposure.

VALUE VS. GROWTH



SOURCE: COLUMBIA THREADNEEDLE

Here we see the long-term trends between value and growth. When the blue line is upward sloping, value is outperforming, and the opposite is true when the line declines.

As we highlighted previously, growth has outperformed value for over 15 years. From mid-2007 to 2020, the ratio of performance between value and growth investments declined steadily. These cycles are long and can stretch for decades. At the present time, US value stocks are attractive from a valuation perspective relative to US growth investments.

Our team has taken the recent market volatility as an opportunity to reassess portfolio allocations and confirm they are in line with our clients' goals and objectives. Please reach out to our team where we can assist your practice or clients.

What is Meeder Private Wealth?

Meeder Private Wealth is our customized separately managed account (SMA) which is managed with a strategic investment discipline. As we look at the core components of private wealth, it is important to note that we have a vast ability to personalize. This is not a one-size-fits-all approach. Each client is unique with individual goals and objectives, so each portfolio is built specifically to match that client's unique situation. Additionally, as we move through time and the client's goals and objectives change, Private Wealth accounts give us the flexibility to adjust and change as needed.

For risk management we take a holistic approach, as we want to know as much about each client's financial situation as possible. The more information we have about their entire financial picture the more effectively we can manage their investments and ensure we are maintaining their specific risk profile. We can manage accounts around concentrated positions—excluding stocks, sectors, or industries. All this information can be considered and allows our team to build the portfolio to be as effective and efficient as possible while maintaining the agreed-upon risk profile.

An area we consider to be one of the most underserved from a portfolio management standpoint is tax management. Tax management represents a large portion of our conversations with advisors and clients. We implement active and ongoing tax-loss harvesting, as well as gain deferral when needed. The tax loss harvesting approach isn't simply selling stocks that are down at the end of the quarter or the end of the year. This is a more thoughtful approach where every account is reviewed daily to determine whether there are opportunities within the portfolio to harvest losses. This active tax management allows us to maximize after-tax wealth for our clients and generate tax alpha.

Finally, this is a transparent and unbiased approach. While Meeder does offer a full suite of mutual funds, we do not use any proprietary products inside of private wealth accounts. Also, the clients will always be able to see in real-time the positions that are being held in the account, and gain access to our investment team as needed to answer any questions that may arise.

TO LEARN MORE, REACH OUT TO YOUR MEEDER PRIVATE WEALTH PROFESSIONAL TODAY.

MEEDER

PRIVATE WEALTH

6125 Memorial Drive, Dublin, Ohio 43017 | meederinvestment.com | 866.633.3371

0183-MAS-01/31/2023-31577