Q3 2022 QUARTERLY COMMENTARY

President's Perspective

MEEDER

MARKET UPDATE

The S&P 500 Index reentered bear market territory after reaching a low of nearly -25% from its high set in January. The widely followed index has fallen -23.9% year-to-date. The prices of U.S. growth stocks have been hit hard as investor demand plummeted, as buyers now focus on value stocks given the rising interest rate environment. Bond investors were still not able to avoid volatility either. The Bloomberg Aggregate Index is now down -14.6% for 2022. This is the worst year combined on record for the S&P 500 and the Bloomberg Aggregate Index, as both posted negative returns after three quarters this year.

VOLATILITY

The amount of uncertainty in the market environment continues to make it an extremely difficult year for investors to navigate. The Fed continues to reassure the marketplace that they will control inflation by raising short-term interest rates, but inflation has yet to show signs of easing. This was a primary driver of volatility for equities and fixed income securities. The VIX, a measure of future implied volatility for the U.S. stock market, although elevated, surprisingly remains close to its 5-year average. The MOVE Index is a similar metric but measures the implied volatility for bonds. Currently, the MOVE Index is at a level more than double its five-year historical average.

MIDTERM ELECTIONS

Another reason for the increase in market volatility could be because mid-term elections will be held on November 8, 2022. The one thing the market hates more than anything is uncertainty. The increasing possibility that any single party could control both branches of Congress creates more unknowns for investors. Going back to 1950, the average drawdown in midterm election years for the S&P 500 is -17%. During a midterm election year, performance also varies greatly. According to Leuthold, average returns for the S&P 500 going back to 1926 in mid-term election years shows that performance from May through October was just +2.2%. From November to April, following the election, returns spiked to +13.9%.

THE FEDERAL RESERVE

The Federal Open Market Committee has two mandates, which include promoting conditions for maximum employment as well as ensuring price stability. The U.S. labor market remains extremely tight, with the national unemployment rate sitting at just 3.5%. During inflationary periods in the past, unemployment was typically high with little or no job growth. Neither of these conditions exist today. In August, the nonfarm payrolls report added more than 315,000 jobs and was the second lowest level in the past year. Although these monthly levels have declined, growth remains positive.

The second mandate of maintaining price stability has been the Fed's achilleas heel. After the Fed spent months communicating that the recent spike in inflation was transitory, investors are now concerned about whether they can get inflation under control without creating an economic recession. The Fed continues to increase the overnight lending rate as their preferred method of tightening monetary policy. Just this year, the Fed has raised the rate five different times, bringing the rate from 0% to 3.25%. The Fed has remained steadfast in its commitment to controlling inflation, regardless of the consequences. Fed Chair Jerome Powell was even quoted as saying, "While higher interest rates, slower growth, and softer labor market conditions will bring down inflation, they will also bring some pain to households and businesses."

INFLATION

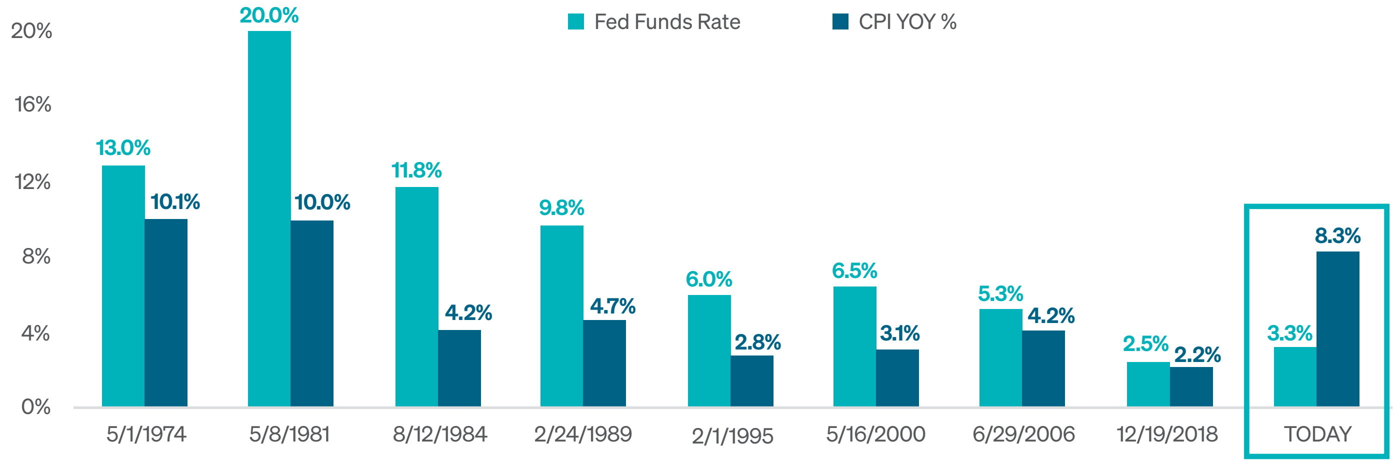
U.S. inflation results were higher than expected in August with a change of 0.1%, despite energy costs falling dramatically over the month. This illustrated that inflation is more widespread than originally thought, as an increase in food costs and medical care negated the help from a 10% decline in gasoline prices. The Federal Reserve is now in a very difficult position. They are trying to eliminate inflation in the U.S., which remains at a stubbornly high level of 8.3%, but need to do so without pushing the economy into a recession. Investors refer to this goal as a "soft landing" for the economy.

INTEREST RATES

The Fed raised rates 0.75% at their September meeting, making it the third hike at that level so far this year. This brings the Federal Funds target range to 3.00%–3.25%. Treasury yields surged as interest rate hikes prevailed. The 10-year Treasury yield climbed past 4%, making it the highest level since 2010. Also, the 2-year Treasury yield reached 4.27%. During late September, the widely followed 10/2-year Treasury yield curve inversion was the steepest it has been since 1981 at -0.51%. Inflation remains the number one concern for investors in the United States, but the problem has now stretched beyond our borders around the globe.

THE FED ISN'T CLOSE TO STOPPING

HISTORICALLY TIGHTENING CYCLES END WHEN FED FUNDS RATE IS ABOVE CPI



SOURCE: STRATEGAS

If history is any indicator of the future, one could predict that the Fed is not close to stopping raising interest rates. According to Strategas, when looking at past inflationary periods going back to 1974, the Fed did not stop raising the Federal Funds rate until that interest rate was higher than the year-over-year CPI. First, it is likely that interest rates will continue to rise significantly. Second, inflation will need to peak and return to more reasonable levels. The likely scenario is that some combination of these two factors will occur. Some economists believe that the more quickly interest rates climb, the greater potential for them to remain high for less time.

ECONOMIC GROWTH

The U.S. suffered two consecutive quarters of negative GDP growth earlier this year. The first quarter of 2022 contracted by -1.6%, and the second quarter fell by -0.6%. Historically, two consecutive quarters of negative GDP growth were used as the unofficial definition of entering an economic recession. An official determination is made by a nonpartisan committee of eight economists called the National Bureau of Economic Research. Rather than relying on a single data point such as GDP, indicators like non-farm payroll employment, household survey employment, personal income, industrial production, wholesale and retail sales, and consumer spending are examples of the data that is analyzed. This group is responsible for reviewing a broader focus of economic statistics so a complete and holistic review of the impact to the economy is made, prior to the determination of if recession.

HOW IS THIS IMPACTING PORTFOLIOS?

At Meeder, we manage investment solutions across different risk profiles and time horizons. Meeder manages strategies using a systematic approach that guides us in the allocation of our portfolios. Many of these solutions employ one or more of our core investment strategies: Growth, Defensive Equity, and Fixed Income.

GROWTH

Investment portfolios comprised of the Growth Strategy maintain a more aggressive objective and typically remain invested in the stock market.

The Fed continued their mission of tightening monetary policy to try and contain inflation that reached a 40-year high. On September 21, the Fed raised short term interest rates 0.75%, making it the third consecutive rate hike at this level, and the fifth rate hike this year. This brought the Federal Funds rate target to 3.25%. More investors started to believe that the Fed would stick to their plan of raising short-term interest rates throughout the remainder of the year and demand for equities plummeted. Equities struggled to gain positive momentum and after significant volatility the S&P 500 Index reached a new year-to-date low. Investors that remained invested in the Growth Strategy experienced more volatility than our Defensive Equity strategies and achieved performance similar to the equity market as represented by the S&P 500 Index.

DEFENSIVE EQUITY

Portfolios that utilize the Defensive Equity Strategy follow a rules-based and data-driven approach using the Meeder Investment Positioning System (IPS) model. This investment model is used to determine the risk relative to the reward available in the marketplace and identify when we should be increasing or decreasing the portfolio's equity exposure.

At the beginning of the quarter, the strategy had a 41% allocation to equities. By the end of July, indicators in the short-term model showed the ratio of advancing stocks to declining stocks steadily improving. This improvement led us to increase the target equity allocation to 50%. In the latter part of August, the intermediate-term model showed an increase in the demand for mutual funds. There were also bullish signs of stock newsletter sentiment and options activity that contributed to the model score and guided us to increase the target equity allocation to 55%. In September, market risk elevated as the Fed implemented their third rate-hike of 0.75%. Momentum and trend indicators deteriorated throughout the month and led us to gradually reduce the equity exposure to 41% by quarter end.

The average equity exposure throughout the quarter was 47%. By having a target equity exposure below 50% throughout the quarter, investors were protected from much of the market volatility that occurred relative to those that were fully invested.

FIXED INCOME

The Meeder Fixed Income Strategy tactically shifts portfolio exposure utilizing our proprietary investment models. These models are designed to actively monitor factors to guide us in determining the credit quality, emerging market debt exposure, and the portfolio's U.S. Treasury duration.

The credit models pointed toward further weakness in credit spreads and price trends, leading the portfolios to have very little exposure to the high yield or emerging market sectors. Volatility factors were also elevated as rates rose, causing the duration models to trend toward shorter maturity exposure. Therefore, we sold longer duration Treasuries and shortened duration in the exposure to investment grade bonds. As volatility subsided early in August and a Fed pivot began to be priced into the market, the duration model signaled we should increase the duration in the portfolio. Duration was marginally extended in the funds but was then reduced for the rest of the quarter as rate volatility and direction caused the model to continue to point to a short duration profile.

Many of the factors for the sector models remained weak into September, leading us to maintain zero percent exposure to high yield and emerging markets. This also led to a very conservative profile in investment grade bonds to end the quarter.

The allocation to investment grade bonds remained relatively steady throughout Q3, but the average duration was decreased as well as a reduction to certain funds with allocations to sectors outside the model parameters.

LOOKING AHEAD

The Federal Reserve's bold execution of tightening monetary policy continues to cause uncertainty for investors. This volatile market environment is a great example of when many investors make investment decisions based on their emotions rather than facts. Environments like these are why we created Meeder's Investment Positioning System (IPS). This series of quantitative models were developed to help determine the risk-reward relationship of the market. This approach is designed to help remove emotion from the decision-making process. By attempting to limit participation in more severe market declines while still providing the opportunity for growth, we help keep clients committed to their investment strategy throughout a full market cycle. Thank you for giving us the opportunity to navigate these financial markets and help you achieve your financial goals.

Sincerely,

ROBERT S. MEEDER
PRESIDENT AND CEO

MEEDER

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