Q4 2022 QUARTERLY COMMENTARY

President's Perspective

MEEDER

MARKET UPDATE

It is safe to say that investors are happy to see 2022 in the history books after experiencing one of the most challenging years of investing in recent memory. Much of the uncertainty and volatility occurred from inflation levels not seen in 40 years and the Federal Reserve's unprecedented increase in interest rates to combat the high inflation.

Investors with stock market exposure to the S&P 500 index experienced a decline of -18%, the worst-performing year since the Great Financial Crisis in 2008. On the other end of the risk spectrum, fixed-income investments typically achieve positive returns when stocks experience downturns. Although it is common for the Bloomberg U.S. Aggregate Bond index to have intra-year declines in negative territory, there have only been five years where the index has produced a negative total return since 1976. This year the Bloomberg U.S. Aggregate Bond Index total return fell more than -13%, making it the worst-performing year for the index. The next worst-performing year occurred in 1994 when the index fell nearly -3%.

INFLATION ROARS IN 2022

Global supply chain disruptions were blamed early in the year for spurring inflation. Shipping ports experienced backlogs due to a shortage of shipping containers and insufficient dock workers available to unload the cargo ships at the port. Once the ships finally reached the dock, the U.S. also had a national shortage of truck drivers, which caused delays in delivering the shipping containers and ultimately reduced supply, increasing prices.

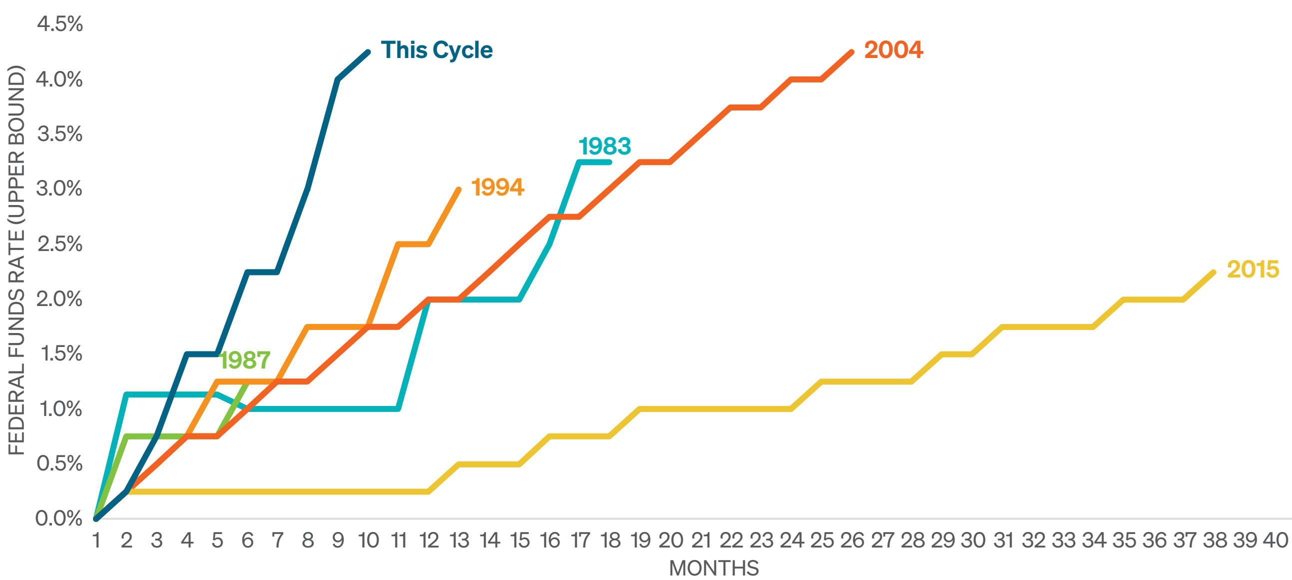
While the supply chain and rising energy costs contributed to inflation, its impact paled in comparison to Congress' spending initiatives that included stimulus payments to help those companies and individuals that suffered financially due to the COVID-19 global pandemic. These spending packages injected trillions of dollars into the financial system and added tremendous liquidity, ultimately accelerating inflation to reach a 40-year high.

The energy sector contributed to inflation as it produced extraordinarily high returns due to concerns about a shrinking global oil supply after Russian troops invaded Ukraine. Russia is the third largest exporter of oil and petroleum products to the U.S. The removal of this supply caused oil prices to surge to more than $120 a barrel. According to AAA, gasoline prices reached their highest recorded U.S. national average price per gallon at $5.01.

THE FED TAKES ACTION

As a result of the massive increase in inflation, the Federal Reserve aggressively raised interest rates throughout the year. Beginning in March, the Fed implemented seven different interest rate hikes throughout 2022, taking the Federal Funds Rate from near zero to a range of 4.25%-4.50%. Figure 1 illustrates how this made it the quickest monetary tightening cycle in recent history. The concern with the Fed rapidly increasing short-term interest rates is that higher interest rates may stall the U.S. economy and potentially push it into a recession.

FIGURE 1
FASTEST RATE HIKING CYCLE SINCE 1983
CURRENT RISING RATE CYCLE FASTEST

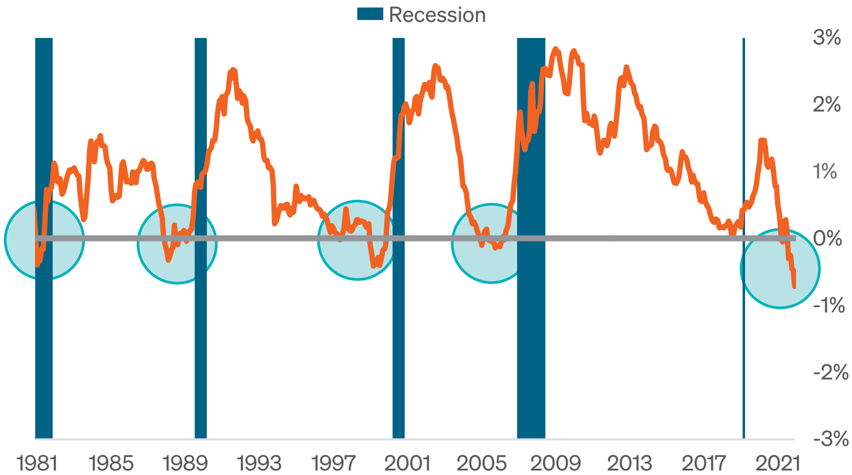


SOURCE: BLOOMBERG

FIGURE 2

YIELD CURVE INVERSIONS AHEAD OF RECESSIONS

U.S. 2-YEAR VS 10-YEAR TREASURY SPREAD (JANUARY 1, 1982 – DECEMBER 31, 2022)



SOURCE: FRED, NBER

21 MONTHS

AVERAGE TIME BETWEEN INVERSION AND RECESSION

INVERTED YIELD CURVE

Investors closely monitor the U.S. Treasury yield curve to look for signs of investor expectations. If the yield on shorter-term debt moves higher than the yield of longer-term debt, it is because investors are concerned about the economy's outlook. Therefore, they buy longer-term debt to reduce their risk.

The two most common maturities that investors compare are the 2- and 10-year Treasuries. When the yield of the shorter-term maturity exceeds the long-term, the yield curve is said to be inverted. An inverted yield curve has historically been a precursor to a recession in the U.S. economy. Since its inversion in 1988, the average time from the initial yield curve inversion to the time of a recession is 21 months, as shown in Figure 2.

IMPACT OF RISING RATES

For consumers, a rising rate environment will magnify the impact of variable interest rate instruments like credit cards. The cost of debt becomes increasingly more expensive with each rate hike. The effect of this chain reaction is already evident in current data. Consumers have less money as the personal savings rate has plummeted. This occurrence likely contributed to the number of active credit card accounts, which recently reaching a new all-time high of 555 million, according to Tradingeconomics.com. In addition, credit card debt is close to reaching an all-time high of nearly one trillion dollars. Why is this significant? GDP measures the growth of the U.S. economy, and consumer spending currently makes up 68% of this figure. Based on the current data, economists question if consumers will still be spending at the same levels to propel GDP growth forward.

HOW IS THIS IMPACTING PORTFOLIOS?

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

GROWTH STRATEGY

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

In the fourth quarter, inflation retreated from a 40-year high but remained stubbornly high. The Federal Reserve raised interest rates twice in the fourth quarter for a total of seven hikes in 2022. The Fed provided guidance, agreeing to slow the pace of future short-term rate increases. The guidance helped equity performance rebound in the fourth quarter but remained down significantly for the year. Rising rates lower the present value of future earnings; therefore, the appetite for growth stocks became much less attractive as yields soared. Investors with positions in Growth Strategy portfolios achieved returns and experienced market volatility similar to that of the broader stock market in the fourth quarter.

DEFENSIVE EQUITY STRATEGY

Portfolios that utilize the Meeder 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 reward in the marketplace and identifies when we should be increasing or decreasing the portfolio's target equity exposure.

At the beginning of the fourth quarter, the IPS model indicated that we should have an equity target exposure of 41%. By the middle of October, the long-term model score worsened due to deteriorating global macro trends and weaker momentum. These factors guided us to reduce the equity exposure to 31%, marking the lowest level for the quarter.

In early November, we increased our exposure to 45% as the intermediate-term model score strengthened due to improvements in sentiment and consumer demand factors. Near the end of the month, expectations for a reduction in the pace of interest rate increases improved our investment model scores, and we increased our stock market exposure to 57%.

Equity markets declined throughout December as the Federal Funds rate climbed to its highest point since 2007. Inflation remained stubbornly high, weakening our long-term model score, as these interest rate environments have historically been challenging for equities. The model signaled that we should reduce our exposure to 51% at the end of 2022.

FIXED INCOME STRATEGY

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

The beginning of the quarter saw the credit models pointing towards weakness in credit sectors and a short-duration positioning. Therefore, the portfolio began early in the quarter without exposure to high-yield or emerging market sectors. A sizeable defensive position remained as increased volatility persisted in the bond market. Spreads began to compress toward the end of the month, and the credit model turned to risk-on.

As volatility subsided early in November the model switched to risk-on, therefore, we added exposure in the high-yield and emerging market sectors. By the end of the month, exposure was increased to both sectors and duration to get closer to a neutral position.

Many factors for the sector models remained risk-on into December and led the portfolio to maintain exposure to high-yield and emerging markets. The investment-grade bond allocation was the main driver in duration for the portfolio and remained steady throughout the quarter. Near the end of the year, the models reversed course and turned to risk-off for the spread sectors. The strategy marginally reduced the exposure to high yield and increased their cash allocation.

A NEW YEAR

Regardless of what the New Year holds for investors, please know that we will continue to follow our data-driven quantitative investment models to provide clarity when making investment decisions. On behalf of all of us at Meeder Investment Management, I wish each of you a healthy and Happy New Year! Thank you for giving us the privilege of helping to achieve your financial goals.

Sincerely,

ROBERT S. MEEDER
PRESIDENT AND CEO

MEEDER

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