Q1 2025

Quarterly Perspectives

MEEDER

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A Strong Start to the Year

The first quarter of 2025 was a reminder that financial market narratives can shift quickly. After two years of strong equity performance, markets entered the new year with optimism. Investors anticipated that declining inflation and a resilient labor market would prompt the Federal Reserve to begin cutting interest rates by midyear. January followed through on those hopes, delivering broad-based gains across asset classes.

The S&P 500 rose 2.78% in January, while mid-cap stocks outperformed with a 3.85% gain. Developed international equities, represented by the MSCI EAFE Index, advanced 5.26%, and emerging markets added 1.79%. Even the bond market participated in the rally, with the Bloomberg U.S. Aggregate Bond Index returning 0.53%. This early strength was supported by steady job creation—the U.S. economy added 143,000 jobs in January—and easing inflation, particularly in energy prices. The Federal Reserve held rates steady at 4.25%–4.50%, as expected, reinforcing the "soft landing" narrative that had carried markets through late 2024.

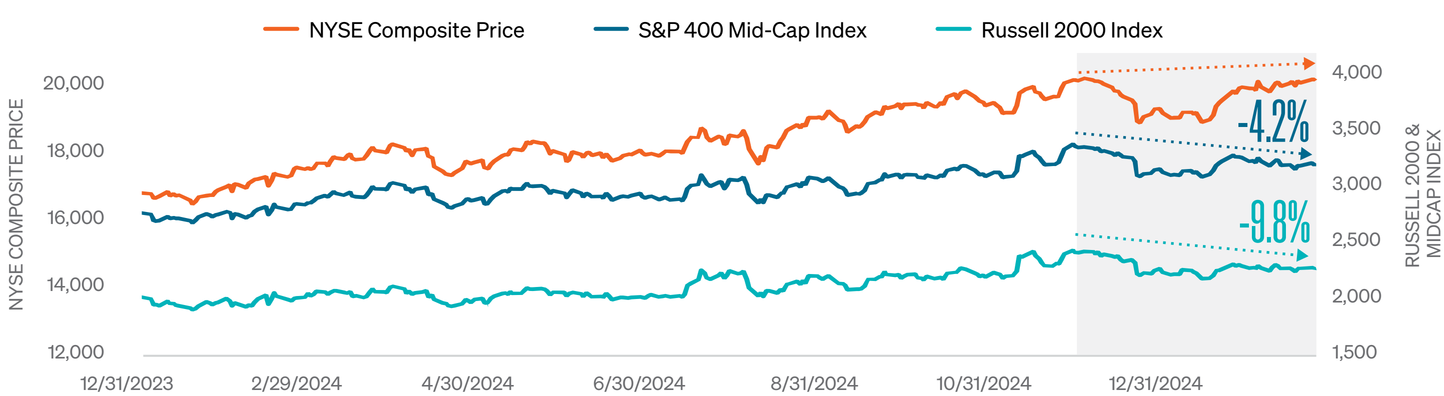
Trade Tensions Resurface

In February, the market's momentum met resistance after an abrupt shift in U.S. trade policy triggered renewed concerns. On February 1, the White House announced new tariffs—25% on imports from Canada and Mexico, with a 10% exemption for Canadian energy products. Tariffs on Chinese imports were set at 10% in February but were scheduled to increase to 20% in March. The administration framed these measures as part of a broader effort to curb illegal immigration and restrict the flow of narcotics into the United States. The policy shift had immediate effects on investor sentiment.

The University of Michigan's 1-year inflation expectations survey reflected a sharp rise in consumer concerns, with expectations jumping from 3.3% in January to 4.3% in February. Why is this important? It matters because perception drives behavior. If consumers expect prices to rise, they spend differently, affecting the broader economy.

By mid-February, signs of fragility began to emerge beneath the surface. While large-cap indices continued to climb, participation narrowed. Small- and mid-cap stocks, which had closely tracked large-cap gains through the end of last year, began to lag as illustrated in **FIGURE 1**. Breadth indicators—such as advance-decline lines and the number of stocks reaching new 52-week highs turned decisively negative.

FIGURE 1
LARGE-, MID-, & SMALL-CAPS
December 31, 2023–February 18, 2025



SOURCE: BLOOMBERG

Additionally, the market saw a rotation away from the "Magnificent 7" mega-cap growth names (Alphabet, Amazon, Apple, Microsoft, Meta, NVIDIA, and Tesla) into more defensive areas of the market, reflecting growing caution among investors.

Market breadth also deteriorated significantly. The number of NYSE-listed stocks making new 52-week highs dropped from 471 in late 2024 to just 78 by mid-February. Only 55% of NYSE stocks remained above their 200-day moving average, even as the S&P 500 hovered near record levels. This growing divergence between index performance and underlying participation raised early concerns about the durability of the rally.

Growing Caution in March

March added further confirmation to this trend. Market breadth weakened, corporate earnings guidance softened, and concerns about consumer demand and global stability mounted. As investor uncertainty increased, volatility crept higher. Defensive positioning gained traction among institutional investors, and fixed-income markets saw bond yields fluctuate as Fed expectations shifted in response to emerging macro risks. These risks caused performance among major indices to fluctuate significantly throughout the quarter as illustrated in **FIGURE 2**.

FIGURE 2

PERFORMANCE UPDATE

	MONTH 3/1/25–3/31/25	QTR 1/1/25–3/31/25	1 YEAR 4/1/24–3/31/25
MSCI EM NR USD	0.63%	2.93%	8.09%
MSCI EAFE NR USD	-0.40%	6.86%	4.88%
S&P 500 TR USD	-5.63%	-4.27%	8.25%
S&P MidCap 400 TR	-5.47%	-6.10%	-2.71%
Russell 2000 TR USD	-6.81%	-9.48%	-4.01%
Bloomberg US Agg Bond TR USD	0.04%	2.78%	4.88%

SOURCE: MORNINGSTAR

Tariffs Trigger a Sell-Off

This caution became fear in early April when the U.S. administration announced an extensive list of sweeping new tariffs. While markets had priced in some trade action, the scope and severity caught investors off guard. A baseline 10% tariff was imposed broadly, with significantly higher effective rates targeting key trading partners. Analysts estimate that this policy shift will push the U.S. effective tariff rate to 25%, which is a level not seen since the pre-WWII era. The equity market responded with one of its most severe short-term selloffs in history. From April 2-April 4, the S&P 500 fell over 10%, joining only three other instances of a magnitude this great since 1952: Black Monday in 1987, the 2008 financial crisis, and the COVID-19 economic shutdown in 2020.

Economic and Policy Implications of Tariffs

The economic implications are substantial. Tariffs act as a tax on imported goods, forcing businesses to either absorb the cost, reduce margins, or pass it along to consumers through higher prices. Both of these factors are negative for economic growth. Some firms may relocate supply chains to offset the impact, but those shifts are neither quick nor inexpensive. This environment of uncertainty weighs heavily on business investment, consumer confidence, and market expectations.

Inflation surveys conducted before the tariff announcement already hinted at building pressure. The Richmond Fed's business inflation expectations rose above 7% over the next six months, reaching the highest level in decades. Similarly, the University of Michigan's one-year consumer inflation outlook climbed to nearly 5%, well above the Federal Reserve's 2% target. These indicators are expected to rise further in the wake of the tariff announcement, complicating the Fed's policy path.

Market Sentiment Turns Bearish

Widely followed economists have taken note. Goldman Sachs increased its recession probability forecast from 35% to 45%, while JPMorgan revised its estimate from 40% to 60%. While a downturn is not inevitable, the odds of slower growth or contraction have risen. Federal Reserve Chair Jerome Powell acknowledged the complexity of the moment, noting that the Fed is "well-positioned to wait for greater clarity," emphasizing it is "too soon to say what will be the appropriate path for monetary policy."

Meanwhile, investor sentiment has turned decisively negative. The CBOE Volatility Index (VIX) surged to 52—its highest reading since March 2020, reflecting extreme levels of fear in the market. The AAII sentiment survey showed bearish investor sentiment reaching 62%, levels previously seen only during the 2008 crisis and the COVID-19 shock. Historically, such extreme readings have often occurred near market bottoms, but there is no guarantee of a quick recovery. In fact, in 2008, similar pessimism persisted for months before markets began to stabilize.

What Comes Next? Base-Building vs. V-Bottom

Going back to 1970, there have been 12 declines of 19% or more as illustrated in **FIGURE 3**. Why include 19% declines when conventional wisdom says you have to have at least a 20% decline to declare it a bear market? The reason is that all of these declines were at least 19%, but 3 of the 12 never actually reached the 20% threshold.

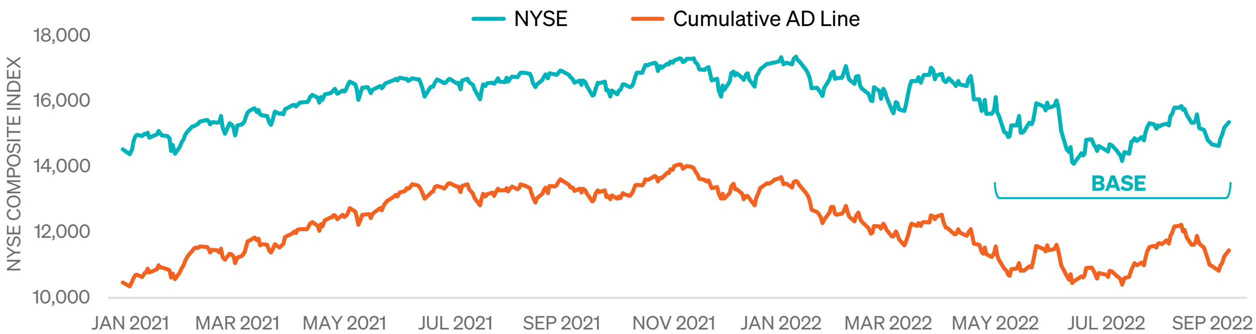
FIGURE 3
S&P 500 PRICE DECLINES 19% OR MORE
From 1970

MARKET PEAK	DATE OF 19% DRAWDOWN	NO. OF TRADING DAYS TO REACH 19% DRAWDOWN	BASE BUILT OR V-BOTTOM
1/5/1970	5/14/1970	91	Base Built
1/11/1973	11/26/1973	220	Base Built
11/28/1980	9/25/1981	208	Base Built
8/25/1987	10/19/1987	38	Base Built
7/16/1990	10/11/1990	60	Base Built
7/17/1998	8/31/1998	31	V-Bottom
3/24/2000	3/2/2001	236	Base Built
10/9/2007	7/2/2008	184	Base Built
04/29/2011	10/3/2011	108	Base Built
09/20/2018	12/24/2018	65	V-Bottom
02/19/2020	3/11/2020	15	V-Bottom
01/03/2022	6/13/2022	111	Base Built
02/19/2025	4/8/2025	34	???

SOURCE: BLOOMBERG

History suggests two probable paths forward. The more common outcome following a sharp decline is a base-building process in which markets trade sideways in a range over several months, allowing sentiment to stabilize and fundamentals to catch up. This pattern has occurred in roughly 75% of bear markets since 1970. The most recent example of this occurred in 2022 and is illustrated in **FIGURE 4.**

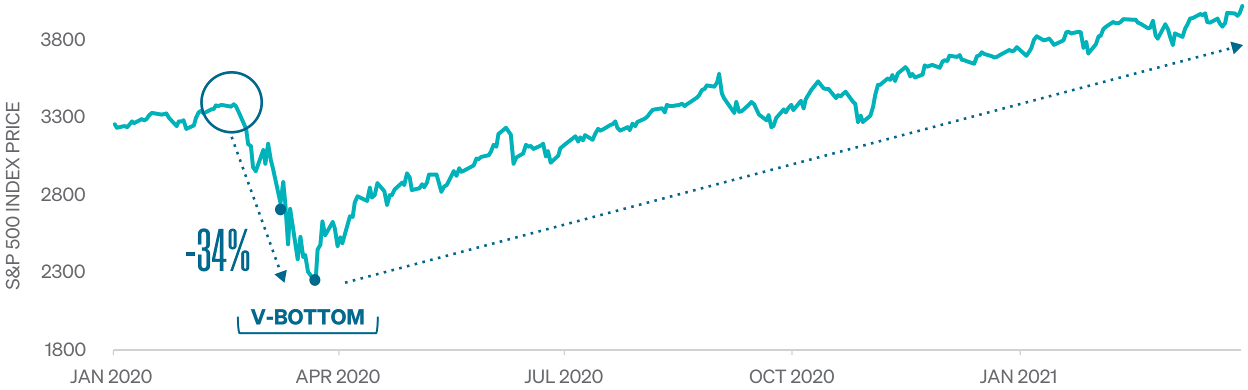
FIGURE 4
NYSE COMPOSITE INDEX
January 1, 2021 through September 12, 2022



SOURCE: BLOOMBERG

The less frequent but more rapid bounce back is a V-bottom recovery, where stocks rebound sharply, similar to the shape of the letter "V." Historically, these occurrences have been fueled by policy intervention or stimulus by central banks or government stimulus. The most recent example occurred in 2020 and is illustrated in **FIGURE 5**. While difficult to predict, these periods of dislocation often create opportunities for long-term investors that remain committed to their investment strategy over a full market cycle.

FIGURE 5
S&P 500 V-BOTTOM 2020



SOURCE: BLOOMBERG, MEEDER

Looking Forward

In times of heightened uncertainty and volatility, it is essential to stay grounded in long-term objectives. While market swings can be unsettling, history shows that patient investors who remain focused on their goals tend to be rewarded over a full market cycle. This environment also serves as a reminder to review your portfolio and ensure that your investment strategy aligns with your risk tolerance and time horizon.

At Meeder, our investment process uses a weight-of-the-evidence approach to remove emotion from the decision-making process to navigate through uncertainty. We continuously evaluate trends in market risk, economic data, and investor behavior to guide our strategies. With inflation still above the Fed's comfort zone and monetary policy in a holding pattern, we believe a balanced and flexible approach remains key. Our models help us assess risks and rewards—and adjust positioning accordingly when the data calls for it.

As we move into the second quarter, we will remain diligently focused on trade policy developments, inflation trends, and market breadth. Though the path forward may be uneven, a disciplined approach combined with broad diversification remains one of the most effective ways to navigate uncertain markets.

How Is This Impacting Portfolios?

Meeder manages investment strategies that utilize a multi-discipline and multi-factor investment approach that guides us in allocating our portfolios. We manage investment solutions across an array of 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 employing the Meeder Growth Strategy maintain a more aggressive objective and typically remain invested in the stock market. The Growth Strategy delivered strong returns early in the quarter as markets rallied. The first quarter of 2025 began with strength and optimism, buoyed by easing inflation, steady job growth, and expectations for Federal Reserve rate cuts later in the year. January saw broad-based gains, with the S&P 500 up 2.78% and mid-cap stocks rising even more sharply. International markets also participated, as developed international and emerging markets indices posted solid gains. Bond markets moved higher as well, supported by softer inflation and a stable policy stance from the Fed. But February brought a stark shift in tone. Unexpected U.S. trade actions—new tariffs on imports from Canada, Mexico, and China—spurred inflation fears and undermined consumer confidence. Breadth weakened, small- and mid-cap stocks lagged, and investors rotated into defensive sectors as uncertainty grew.

In response to shifting global market conditions, the strategy increased its exposure to developed international equities. Improving economic data from Europe and Japan, combined with attractive valuations and a weakening U.S. dollar, created a favorable backdrop for non-U.S. markets. Developed international equities outperformed U.S. large caps during the quarter, and the allocation shift added meaningful diversification to the portfolio's overall equity exposure.

Because the portfolio remains fully invested, this strategy did experience more volatility than other strategies. However, despite the evolving macro and political landscape, the Meeder Growth strategy capitalized on growth opportunities across global markets. History suggests that while uncertainty remains in the near term, such dislocations often set the stage for long-term opportunities.

DEFENSIVE EQUITY STRATEGY

Portfolios utilizing the Meeder Defensive Equity Strategy follow a quantitative, rules-based, and data-driven approach using the Meeder Investment Positioning System (IPS) model. This investment model analyzes risk relative to reward available in the marketplace and identifies when to increase or decrease the portfolio's target exposure.

During the first quarter of 2025, the Defensive Equity Strategy maintained a fully invested posture through much of January and February, driven by a favorable mix of low market volatility and contrarian investor sentiment. The VIX and MOVE indices are measures of expected volatility in equity and bond markets. During this time, both remained well below their long-term averages, signifying a stable market environment. Meanwhile, investor sentiment became increasingly bearish, with retail investor surveys, options positioning, and newsletter sentiment all registering extreme pessimism. From a contrarian perspective, we viewed this as a bullish indicator, and it contributed to very positive short- and intermediate-term model scores. As a result, the strategy remained 100% invested from early January through February 7. However, concerns began to mount in late February and early March around stretched equity valuations, weakening market breadth, and rising inflation expectations. These factors contributed to a reduction in equity exposure to 95% on February 28, then to 92% on March 14.

March marked a steady transition from cautious optimism to heightened defensiveness. As the month progressed, equity market volatility ticked higher, particularly in response to growing concerns over trade tensions and signs of economic deceleration. The RISK component of the model, which had been supportive for most of the quarter, turned neutral by mid-March as volatility approached long-term averages. More importantly, deterioration in market internals became increasingly evident: only 15% of sub-industries showed positive momentum, a sharp decline from earlier in the quarter. This weakening breadth identified fewer stocks contributing to index-level gains and raised questions about the sustainability of the rally. On March 21, equity allocation was reduced again to 89% as model readings became more mixed. Despite the extreme bearish sentiment that kept the intermediate-term model at its most positive level, the long-term model score remained negative due to elevated valuations, persistent inflation pressures, and a weakening earnings outlook. Heading into April, the strategy adopted a more defensive stance, reflecting the rising fragility in equity markets even before the shock of the April 2 tariff announcement.

The turning point came in early April when the U.S. administration announced a sweeping set of new tariffs that significantly altered the market landscape. The announcement imposed a baseline 10% tariff across a broad set of imports, with higher effective rates targeting strategic partners, and caught investors by surprise with a larger-than-expected tariff rate and broader scope of the countries that were included in the tariffs. Investors reacted swiftly and severely. From April 2 to April 4, the S&P 500 fell more than 10%, marking one of the steepest short-term equity market declines since 1952. In response, the strategy further reduced equity exposure to 73% as both short-term and long-term model signals deteriorated. Market breadth collapsed, with only 8% of sub-industries exhibiting positive momentum over the prior month. At the same time, both the VIX and MOVE indices surged above their long-term averages, turning the RISK component of the model negative. While bearish sentiment across surveys, options markets, and newsletters reached historic extremes, longer-term concerns around elevated valuations, rising inflation, and weakening earnings momentum kept the strategy defensively positioned. As of mid-April, the Defensive Equity Strategy remains at a 73% equity allocation, reflecting a balanced posture: cautious about structural market headwinds but attentive to the potential opportunities that can emerge from extreme investor pessimism.

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 that guide us in determining the allocations of credit quality, emerging market debt exposure and portfolio duration.

Throughout the first quarter of 2025, the Meeder Fixed Income Strategy has remained active and responsive to changing market conditions, particularly as the Federal Reserve initiated its rate-cutting cycle, inflation data evolved, and global macro dynamics shifted. We entered the year with a short duration of 4.2 years, a defensive stance intended to manage interest rate risk as inflation remained stubborn and yields were trending higher. At that time, we also held an overweight position in high yield credit, reflecting confidence in economic growth and the supportive backdrop of early Fed easing. Emerging market debt remained underweight due to continued strength in the U.S. dollar. In late January, as inflation data cooled and interest rates declined, we extended duration to 6.5 years by month-end and slightly above our benchmark.

Through February, as the U.S. dollar weakened and positive momentum in global markets grew, we shifted to an overweight position in emerging market debt. By mid-February, we began to adopt a slightly more cautious stance in light spreads widening, reflecting a more defensive posture, and shifted our allocation to a higher credit quality of high-yield bonds.

In March, spreads in the high yield market began to widen, prompting a more cautious stance despite maintaining the overweight. We increased the duration further to 6.7 years, reflecting expectations for additional rate cuts and a supportive rate environment. We remained overweight in emerging market debt through most of the month, balancing attractive yields with increasing geopolitical and currency risk.

In response to renewed strength in the U.S. dollar and rising global uncertainties, we exited our position in emerging market debt in early April, reallocating to U.S. Treasuries and shifting back to an underweight posture in EM debt. At the same time, we extended the duration to 7.1 years, taking advantage of declining rates. However, this was shortly followed by an additional duration reduction to 6.7 years to recalibrate interest rate exposure and better align with the risk/reward profile as market conditions evolved.

Duration has shifted materially over the quarter—from 4.2 years at the start of January to 6.7 years currently—highlighting our active stance in managing interest rate sensitivity in response to changing inflation and Fed policy dynamics. As we move into the second quarter, we remain focused on balancing income generation with risk management. We continue to monitor inflation, monetary policy, and credit conditions closely to align with our portfolio positioning.

INDEX DEFINITIONS:

S&P 500 Index: The Index tracks the stock performance of 500 of the largest companies listed on stock exchanges in the United States. It is one of the most followed equity indices and includes approximately 80% of the total market capitalization of U.S. public companies.

S&P 400 Index: The S&P MidCap 400® provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500®, is designed to measure the performance of 400 mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment.

Russell 2000 Index: The Index is constructed to provide a comprehensive, unbiased barometer of the small-cap segment of the U.S. equity market. A subset of the Russell 3000 Index, it includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

MSCI EM Index: The Index captures large and mid-cap representation across 24 Emerging Markets (E.M.) countries. With 1,440 constituents, it covers approximately 85% of each country's free float-adjusted market capitalization.

MSCI EAFE Index: The Index is an equity index that captures large and mid-cap representation across 21 Developed Markets countries* worldwide, excluding the U.S. and Canada. With 783 constituents, the index covers approximately 85% of each country's free float-adjusted market capitalization. MSCI EM Index: The Index captures large and mid-cap representation across 24 Emerging Markets (E.M.) countries. With 1,440 constituents, it covers approximately 85% of each country's free float-adjusted market capitalization.

Bloomberg U.S. Aggregate Bond Index: The Index is a broad-based flagship benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, fixed-rate agency MBS, ABS, and CMBS (agency and non-agency). Provided the necessary inclusion rules are met, U.S. Aggregate-eligible securities also contribute to the multi-currency Global Aggregate Index and the U.S. Universal Index. The U.S. Aggregate Index was created in 1986, with history backfilled to January 1, 1976.

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6125 Memorial Drive, Dublin, Ohio 43017 | 1.866.633.3371 | meederinvestment.com

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