



Q3 2024

Quarterly Perspectives

Quarterly Capital Markets Commentary

Significant milestones and market shifts defined the third quarter of 2024 as investors continued navigating a complex economic landscape. The biggest news of the quarter occurred when the Federal Reserve cut short-term interest rates by 50 basis points at their September meeting, the first reduction since the monetary tightening cycle began in March 2022. Fed Chair Jerome Powell also signaled the possibility of two more cuts before year-end, likely 50 basis points in total.

PERFORMANCE RETURNS

As of 9/30/2024

BENCHMARK	3RD QTR	YTD
S&P 500 INDEX TR USD	5.89%	22.08%
S&P MIDCAP 400 INDEX TR USD	6.94%	13.54%
RUSSELL 2000 INDEX TR USD	9.27%	11.17%
MSCI EM NR USD	8.72%	16.86%
MSCI EAFE NR USD	7.26%	12.99%
BLOOMBERG U.S. AGGREGATE BOND TR USD	5.20%	4.45%

SOURCE: MORNINGSTAR, S&P

Equity markets maintained their upward trend, hitting a record high of 5,762.48 by the end of the quarter. This strong performance was driven by a broad rally across U.S. sectors, fueled by improving economic fundamentals and more accommodative monetary policy. The expectation of lower interest rates fueled a significant shift in market leadership as investors rotated out of large-cap growth and tech stocks and into small- and mid-cap value-oriented companies. The rotation was one of the defining themes of the quarter. Performance was nearly the exact opposite of what occurred during the 1st half of the year.

LARGE ROTATION IN THIRD QUARTER

Style Box Returns

1ST HALF 2024				Q3 2024			
	Value	Blend	Growth		Value	Blend	Growth
Large-Cap	5.8%	15.3%	23.6%	Large-Cap	9.1%	5.9%	3.7%
Mid-Cap	0.4%	6.2%	11.7%	Mid-Cap	9.5%	6.9%	4.6%
Small-Cap	-0.9%	1.7%	4.4%	Small-Cap	10.2%	9.3%	8.4%

SOURCE: BLOOMBERG. S&P 500 GROWTH INDEX TR, S&P 500 INDEX TR, S&P 500 VALUE INDEX TR, S&P 400 GROWTH INDEX TR, S&P 400 MID-CAP INDEX TR, S&P 400 VALUE INDEX TR, RUSSELL 2000 GROWTH INDEX TR, RUSSELL 2000 INDEX TR, AND RUSSELL 2000 VALUE INDEX TR USED FOR STYLE PERFORMANCE REPRESENTATION

While technology stocks delivered impressive returns in the first half of 2024, their momentum slowed in the third quarter, with the information technology sector posting a meager 0.02% return. Sectors that lagged in the first half of 2024 due to higher interest rates rebounded strongly in the third quarter in anticipation of future rate cuts. For example, sectors such as real estate, utilities, and consumer staples experienced a resurgence as investors repositioned in anticipation of lower borrowing costs. Real estate and utilities posted gains of over 17% for the quarter. This rapid shift in sector leadership underscores the importance of tactical allocation as market dynamics are evolving quickly with changes in interest rate policy.

LARGE ROTATION IN U.S. SECTORS

Sector Returns

S&P SECTORS	1ST HALF 2024	Q3 2024
Technology Select Sector TR USD	18.01%	0.02%
Energy Select Sector TR USD	10.58%	-2.88%
Financial Select Sector TR USD	10.17%	10.66%
Utilities Select Sector TR USD	9.44%	19.37%
Consumer Staples Select Sector TR USD	8.01%	9.05%
Health Care Select Sector TR USD	7.81%	6.07%
Industrial Select Sector TR USD	7.75%	11.55%
Materials Select Sector TR USD	4.14%	9.70%
Consumer Disc Select Sector TR USD	2.44%	10.22%
Real Estate Select Sector TR USD	-2.45%	17.17%

SOURCE: MORNINGSTAR S&P SECTORS TOTAL RETURN PERFORMANCE USD INDEX DATA UTILIZING GICS CLASSIFICATIONS

Labor Market and Economic Data

Economic data throughout the quarter remained robust, particularly in the labor market. September's jobs report exceeded expectations, with non-farm payrolls adding 254,000 new jobs, easily surpassing the forecast of 140,000. The unemployment rate also surprised to the downside, falling to 4.1% in September, compared to expectations of 4.3% and down from 4.2% in August. These strong labor market figures indicate that the U.S. economy remains resilient, nearing the end of the year.

However, not all economic indicators were positive. The ISM Manufacturing PMI in September was 47.2, the same as August and signaling an ongoing contraction in the manufacturing sector. This result contrasted with the ISM Services PMI, which rose to 54.9 in September, its highest level since February 2023. The divergence between manufacturing and services highlights the uneven nature of the economic recovery, with the services sector benefiting more from consumer demand.

Inflation and Future Fed Rate Cuts

While inflation has moderated from its peak in 2022, it remains a key concern for the Federal Reserve. September's inflation report indicated that price pressures are easing, with the annual inflation rate falling to 2.4%, the lowest level since February 2021. Inflation remains above the Fed's 2% target, and the Fed's path to further rate cuts will remain data-dependent and closely monitored. The timing and magnitude of these rate cuts will define the environment for equity and fixed-income markets.

Fixed Income: Yield Movements and Bond Market Volatility

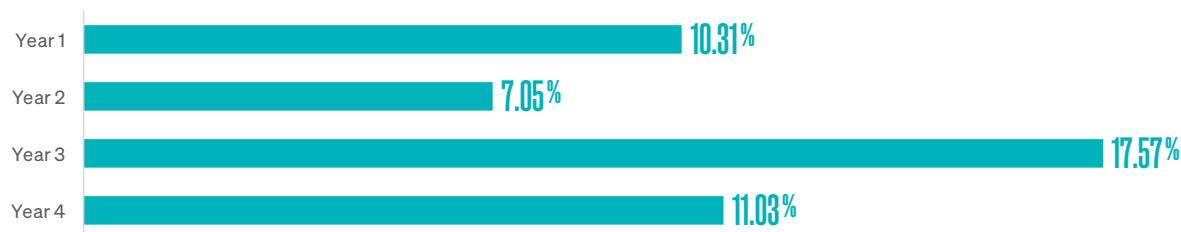
The bond market experienced considerable volatility throughout the quarter, driven by shifting expectations of interest rates. Although yields on longer-dated Treasuries fell earlier in the quarter, they reversed course after the September rate cut. The rise in long-term yields illustrates the market's recalibration of growth and inflation expectations.

High-yield bonds extended their outperformance, supported by narrowing credit spreads and strong corporate fundamentals. Investment-grade bonds also posted gains during the rate-cutting period, though rising yields in the latter part of the quarter capped some of these gains. Bond investors continue to weigh the benefits of lower short-term rates against the risk of stickier long-term inflation.

U.S. Presidential Election

As the U.S. Presidential election approaches, it's critical to recognize how history can provide valuable insights for investors. Since 1928, the S&P 500 Index has shown distinct performance patterns across the four-year presidential cycle. Typically, returns are more subdued in the first two years of a U.S. Presidential term, with Year 1 averaging a total return of 10.31% and Year 2 slightly lower at 7.05%. Some believe the first two years typically have lower returns because the administration focuses on implementing policy. Year 3 consistently stands out as the strongest performer, delivering an average return of 17.57%. This surge is usually attributed to policies and economic conditions that aim to bolster growth ahead of re-election campaigns. Year 4 returns tend to moderate slightly but remain strong, with an average of 11.03%. Understanding these patterns can help investors navigate the potential volatility of an election year and capitalize on historical trends.

RETURNS BY U.S. PRESIDENTIAL TERM YEAR
Average S&P 500 Index Total Returns: Calendar Years 1928–2023



SOURCE: BLOOMBERG

Moving Forward

As we look toward the fourth quarter of 2024 and the year ahead, several factors will shape the outlook for capital markets. The Fed's ongoing rate cuts will remain a central focus, with investors closely monitoring economic data, particularly inflation and the labor market. The potential for further easing provides a supportive environment for both equities and fixed income, though elevated valuations in certain sectors may temper future gains.

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 EQUITY 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 results in the third quarter of 2024, benefiting from positive momentum in the equity markets. The Federal Reserve's decision to cut short-term interest rates by 50 basis points in September sparked a broad market rally and was the first cut since 2020. The S&P 500 reached a record high of 5,762.48 by quarter-end, driven by improving economic conditions and optimism around accommodative monetary policy. One of the defining shifts of the quarter was the rotation out of large-cap growth and tech stocks into small- and mid-cap value-oriented companies, creating new opportunities for the strategy to capitalize on broader market gains.

Sectors that previously underperformed due to higher interest rates, such as real estate, utilities, and consumer staples, experienced a strong resurgence. Real estate and utilities posted gains of over 17%, benefiting from lower borrowing costs and renewed investor confidence. In contrast, technology stocks, which had led the market in the first half of the year, saw a slowdown, with the information technology sector delivering a modest 0.2% return.

As the Federal Reserve prepares for further rate cuts, the Growth Strategy is well-positioned to capture opportunities across sectors benefiting from shifting market dynamics. With a tactical focus on adapting to evolving economic conditions, the strategy remains poised to navigate opportunities in companies that thrive in a more favorable accommodative monetary environment. Investors in the Meeder Growth Strategy experienced more volatility than other strategies this quarter, but those who remained invested achieved the highest returns in our portfolio suite.

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 equity exposure.

At the end of June, the Meeder Defensive Equity Strategy held a 95% net equity exposure, balancing the challenges of elevated valuations, inflation, and restrictive interest rates, which kept the long-term model score in negative territory. However, bearish fund flows and positive U.S. economic sentiment bolstered the intermediate-term model. Market risk remained notably low, with equity and interest rate volatility near 5-year lows, supporting a high equity allocation.

By early July, we reduced equity exposure to 91% due to ongoing pressure from elevated valuations and declining sub-industry momentum. The long-term model continued to reflect these headwinds, but bearish fund flows remained positive from a contrarian perspective for the intermediate-term outlook. Following a softer-than-expected CPI report in mid-July, we increased equity exposure to 100%. A surge in market breadth, particularly in smaller-cap stocks, alongside continued low market volatility, further strengthened the long-term and intermediate-term model scores.

The strategy maintained an equity exposure of 100% throughout late July and August as market risk remained subdued. Despite an uptick in volatility in early August due to concerns over the U.S. labor market, the long-term model score improved as market breadth and momentum strengthened. The intermediate-term model remained strong, supported by bearish sentiment indicators like fund flows and options activity. Both equity and bond market volatility as measured by the VIX and MOVE indexes, respectively, retraced to lower levels by mid-August, reinforcing the positive outlook for equities.

Throughout September, the Meeder Defensive Equity Strategy maintained 100% net equity exposure as the long-term model score continued improving, supported by strong momentum in domestic and international equity markets. A 50-basis point Fed rate cut helped propel the S&P 500 to new all-time highs, further boosting the long-term outlook for stocks. The intermediate-term model remained neutral, with bullish investor sentiment balanced by bearish fund flows. Expected equity market volatility (VIX) is now below its 5-year average, creating a favorable environment for equities. This reduction remains the main driver of our 100% equity allocation.

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 allocations of credit quality, emerging market debt exposure, and portfolio duration.

The Fixed Income Strategy began the third quarter with an overweight position in high yield relative to investment-grade debt. The carry (yield) on high yield remained attractive as the outlook for capital appreciation in higher-quality bonds was limited. We also maintained an overweight in emerging market debt, benefiting from reduced market volatility. Meanwhile, our duration stance remained neutral due to uncertainty surrounding a potential Fed rate cut in September, which had a 65–75% probability at the time.

In mid-July, the certainty around a September rate cut further increased, leading us to extend the portfolio duration to about one year longer than the Bloomberg Aggregate Index. High yield spreads tightened, reflecting continued economic strength, and our overweight in emerging market debt benefited from a weakening U.S. dollar and positive momentum. With a 25-basis point rate cut fully priced in, the market anticipated further rate cuts through the remainder of 2024.

In August, we saw some volatility in high-yield spreads, widening briefly before rallying again. Despite this, the sector remained favorable due to mean-reverting factors. We continued to be overweight in emerging market debt as the dollar weakened further, supporting this position. Toward the end of August, we returned to a neutral duration stance after the yield curve steepened, with short-term rates dropping faster than long-term rates.

The Fed started relaxing monetary policy in September with a 50-basis point cut. We maintained our overweight in high yield as spreads improved, and the carry remained attractive. Our emerging market debt position continued to benefit from weakness in the U.S. dollar. The portfolio's duration remained neutral as the yield curve steepened further, signaling a more normal rate environment with two-year yields below ten-year yields, positioning us well for the remainder of the year.



INDEX DESCRIPTIONS

Russell 1000 Growth: The index measures the performance of the large-cap growth segment of the US equity universe. It includes those Russell 1000 companies with relatively higher price-to-book ratios, higher I/B/E/S forecast medium-term (2 year) growth and higher sales per share historical growth (5 years). The index is completely reconstituted annually.

S&P 500 Growth Index: The Index measures constituents from the S&P 500 that are classified as growth stocks based on three factors: sales growth, the ratio of earnings change to price, and momentum.

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 500 Value Index: The index measures constituents from the S&P 500 that are classified as value stocks based on three factors: the ratios of book value, earnings and sales to price.

Russell 1000 Value Index: The index measures the performance of the large-cap value segment of the US equity universe. It includes those Russell 1000 companies with relatively lower price-to-book ratios, lower I/B/E/S forecast medium-term (2 years) growth, and lower sales per share historical growth (5 years). The index is completely reconstituted annually.

S&P 400 MidCap Growth Index: The index measures constituents from the S&P MidCap 400 that are classified as growth stocks based on three factors: sales growth, the ratio of earnings change to price, and momentum.

S&P 400 MidCap Index: This index gauges the U.S. mid-cap equities sector and is the most widely followed mid-cap index. To be included in the index, a stock must have a total market capitalization between \$5.8 billion and \$15.8 billion.

S&P 400 MidCap Value Index: The index measures constituents from the S&P MidCap 400 that are classified as value stocks based on three factors: the ratios of book value, earnings and sales to price.

Russell 2000 Growth Index: The Index measures the performance of the small-cap growth segment of the US equity universe. It includes those Russell 2000 companies with relatively higher price-to-book ratios, higher I/B/E/S forecast medium term (2 year) growth and higher sales per share historical growth (5 years). The Russell 2000 Growth Index is constructed to provide a comprehensive and unbiased barometer for the small-cap growth segment. The index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect growth characteristics.

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.

Russell 2000 Value Index: The Index measures the performance of the smallcap value segment of the US equity universe. It includes those Russell 2000 companies with relatively lower price-to-book ratios, lower I/B/E/S forecast medium term (2 year) growth and lower sales per share historical growth (5 years). The Russell 2000 Value Index is constructed to provide a comprehensive and unbiased barometer for the small-cap value segment. The index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics.

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 US 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.

S&P Utilities Select Sector: The Index comprises those companies included in the S&P 500 that are classified as members of the GICS® utilities sector.

S&P Technology Select Sector: The Index comprises those companies included in the S&P 500 that are classified as members of the GICS® technology sector.

S&P Real Estate Select Sector: The Index comprises those companies included in the S&P 500 that are classified as members of the GICS® real estate sector.

S&P Materials Select Sector: The Index comprises those companies included in the S&P 500 that are classified as members of the GICS® materials sector.

S&P Industrial Select Sector: The Index comprises those companies included in the S&P 500 that are classified as members of the GICS® industrials sector.

S&P Health Care Select Sector: The Index comprises those companies included in the S&P 500 that are classified as members of the GICS® health care sector.

S&P Financial Select Sector: The Index comprises those companies included in the S&P 500 that are classified as members of the GICS® financials sector.

S&P Energy Select Sector: The Index comprises those companies included in the S&P 500 that are classified as members of the GICS® energy sector.

S&P Consumer Disc Select Sector: The Index comprises those companies included in the S&P 500 that are classified as members of the GICS® consumer discretionary sector.

S&P Cons Staples Select Sector: The Index comprises those companies included in the S&P 500 that are classified as members of the GICS® consumer staples sector.

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