Q1 2017

MEEDER
INVESTMENT MANAGEMENT

Progress Report

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Discussion Points

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Reasons to Celebrate

Spring has finally come and the season of new growth, longer days and greener fairways is finally upon us. The first quarter of 2017 will go down as one of the most memorable times of my life.

Far and away the most significant experience of the first quarter for me was the birth of my first grandchild. Meeting her was more incredible than I imagined. The hope and promise of this new baby has been indescribable for our family and I can already see how much fun being a grandpa is going to be.

There were other reasons to celebrate this quarter. Congratulations are in order to our investment team as the Meeder Quantex Fund (FLCGX) was recognized as a 2017 Lipper Fund Award winner. The Quantex Fund was deemed the Best Fund over the 10-year period ending November 30, 2016 in the Mid-Cap Value Funds category out of 26 eligible funds. The Lipper Fund Awards recognize funds that have demonstrated consistent, strong risk-adjusted returns against their peers based on Lipper's proprietary performance-based methodology. Those funds with the most consistent risk adjusted return within their classification of peers are declared the winner over three, five and ten year periods. This is the Quantex Fund's third Lipper Award in the Mid-Cap Value Category in seven years, having received the award for the 3-year period in 2011 out of 140 eligible funds and in 2012 out of 61 eligible funds. To win this award three times is a powerful testament to the work our portfolio managers do each day on behalf of our clients and I am proud to have such dedicated, accomplished professionals on our team.

The first quarter of 2017 also saw the 8th anniversary of the current secular bull market that began in March 2009. From the low on March 9, 2009 through March 31, 2017, the S&P 500 Index earned 249%.

In addition, the Dow Jones Industrial Average hit the elusive 20,000 mark for the first time on January 25, 2017. In February, the Dow saw 12 consecutive days of record highs, something that has only happened two other times in its 120-year history. Then, on March 1, the Dow crossed the 21,000 milestone. While just a few weeks later the Dow fell for eight days in a row, the Index ended the quarter up 4.56%, its best first quarter showing in four years and fourth best since the start of the current secular bull market. As of this writing, we are optimistic about the current market environment and believe there is plenty of room to run for this secular bull market.

Of course, this quarter, like most others, was not without its share of uncertainty. The first three months of 2017 started off a bit ambiguously. Donald Trump was sworn in as the nation's 45th President and had everyone (Republicans and Democrats alike) wondering what was next. He has an ambitious agenda and his first 100 days have not been smooth sailing. Not only has there been uncertainty at home in the U.S., global tensions are high with unrest in Syria, political uncertainty in France, ongoing provocation coming out of North Korea, and the level of mistrust between the U.S. and Russia. Only time will tell how these situations will unfold, but the markets seem unfazed by this uncertainty so far.

Capital Markets Update: 1st Quarter 2017 (As of March 31, 2017)

The first quarter of 2017 witnessed a lot of political turmoil as Donald Trump was inaugurated as the 45th President of the United States. Despite this, the volatility of equity markets behaved in a very modest fashion. March 21st marked first time that the S&P 500 index closed down at least 1% or more in over 110 trading sessions. The last time the markets did so was back on October 11, 2016. It was the longest streak of limited downside for the S&P since 1995. Markets started 2017 off on the right foot by ending January and February each with positive returns. According to MarketWatch, from 1945 – 2016 there have only been 27 calendar years when the S&P was positive for both January and February. During this period, the average annual return for these calendar years was 24%. April 2017 marks the 98th month of this secular bull market and while history does not always repeat itself; this may be another indication of more good days ahead for investors.

The U.S. economy continues to see strength in a number of key areas. In a recent statement, Janet Yellen was quoted as saying, "Further gradual hikes in the federal funds rate would be "appropriate" should employment and inflation move in line with expectations." January and February payrolls exceeded expectations with results of 216,000 and 219,000 respectively. Wage inflation, another closely monitored statistic by the Fed, has also continued to grow this year. Therefore, it was no surprise that the Federal Reserve raised the overnight lending rate at their March 14-15 meeting, making it the second rate hike in just 4 months. This moved the Federal Funds target rate range from 0.50%-0.75% to 0.75%-1.00%. One interesting consideration is that in the near future, the outlook of the Fed could be very different than it is today. There are currently two seats open on the committee and Janet Yellen's term is set to expire in less than a year. While the current Fed members seem to think they have inflation at bay, others wonder how differently their opinion will be once new members join the fold. The real uncertainty comes from the Fed statement after the March meeting that spoke about the Fed's plans to begin reducing the size of their $4.5 trillion dollar balance sheet and what implications that could have on markets.

The biggest surprise of the quarter was the March payroll numbers that are reported after month's end, which were significantly lower than expected. Consensus estimates were 175,000 jobs would be created while the actual number was just 98,000. A number of analysts blame the unseasonably warm weather in February for the above normal results while an unseasonably cold March contributed greatly to the shortfall.

Fixed income markets are up 0.82% for the year, as tracked by the Bloomberg Barclays U.S. Aggregate Bond Index. For the first quarter, equities continued their upward ascent as the S&P 500 Index was positive 6.07%. American consumers continue to be optimistic about the U.S. economy, as the most recent Consumer Confidence survey levels reached a post-election high at 114.6 for the month compared to a consensus estimate of 111.3. This index is a survey of 3,000 households located across the country that gauges how optimistic consumers are, and how this is impacting their spending and saving behaviors. When looking abroad, the MSCI International index has year-to-date returns of 7.39% while emerging markets as represented by the MSCI EM Index have increased 11.49%.

The Next Chapter

As I look forward, I am optimistic about road ahead for my family and the markets. While the last few weeks have seen some struggles domestically and internationally, we have seen this uncertainty before. Economic, geopolitical, and natural events that disrupt our lives on large and small scales have always surrounded us and we know that will not change. The important thing is not to let emotions get in the way of a sound investment strategy. Our firm was built on the ability to navigate turbulent markets, providing value through downside protection and taking advantage of growth opportunities whenever they appear. Our investment team will continue to apply our disciplined investment process across all of our portfolios as we seek to improve investment outcomes for our clients.

On behalf of the entire team at Meeder Investment Management, we thank you for your continued support, trust and confidence.