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MEEDER INVESTMENT MANAGEMENT

Progress Report

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Discussion Points

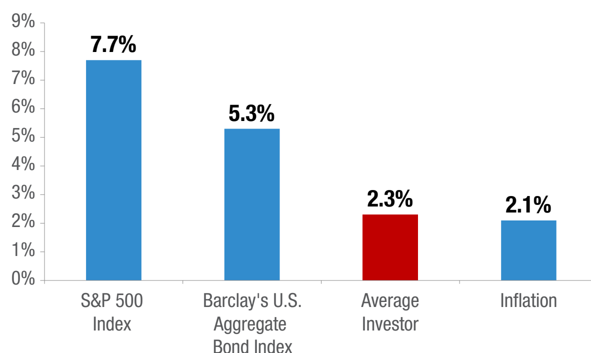
» Volatility Takes a Holiday: Market events of Q2 2017
» News headlines vs. the VIX
» 2nd quarter capital markets update

Volatility Takes a Holiday

Summer is here and we're halfway through the year. It's vacation time for many—with cookouts, swimming pools, and time with family and friends the general order of the day. It's also a time to reflect on what's transpired over the past quarter and the first half of 2017.

A phrase I've used often this year is "We certainly live in interesting times." Whether it's the daily news coming out of the White House (and on Twitter), what's happening or not happening on Capitol Hill, political change in the United Kingdom and France, or the ongoing antagonism coming from North Korea, each of these topics on their own is enough to focus on. But combined, they provide us with constant "Breaking News" headlines, information overload and the
sense that chaos prevails.

20-Year Annualized Returns by Asset Class 1997-2016



Source: Morningstar Direct; Bloomberg; Informa Investment Solutions; Dalbar. Past performance is no guarantee of future results. It is not possible to directly invest in an index. Inflation is represented by the Consumer Price Index. Average Investor is represented by Dalbar's average asset allocation investor return, which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. Returns are annualized (and total return where applicable) and represent the 20-year period ending 12/31/16 to match Dalbar's most recent analysis.

Unfortunately, news headlines have a tendency to create noise that can distract investors from staying on track with their investments. This noise can lead to emotional decisions, taking investors on a roller-coaster ride from optimism to fear and back again. Over time, this emotional decision-making has kept the average investor from barely keeping pace with inflation. As you can see in the chart below, over the past 20 years, the average investor has only realized an average annual return of 2.3% primarily as a result of being led by emotions.

Market volatility also plays a role in driving emotional behavior. A widely used indicator of investor fear is the VIX. Its proper name is the Chicago Board Options Exchange Volatility Index, but you'll often hear it referred to as the VIX. It is a forward-looking indicator of the expected 30-day volatility of the S&P 500 Index, which measures market risk. VIX values greater than 20 imply that volatility is high while values that are below this tend to be a reflection of low volatility. For example, after the financial crisis in the fall of 2008, the VIX climbed to a high of 80 and did not return to normalized levels until the end of 2009.

Have you looked at the VIX recently? It seems like volatility has gone on holiday or an extended vacation. As I mentioned, when the VIX is below 20, that signals a low-volatility environment. When the VIX is below 10, which has only happened 11 times in the past 20 years, that indicates that volatility is extremely low. In the table below, you can see that of the 11 occurrences of the VIX coming in below 10, seven of those times have occurred in just the past two months.

Again, this is just another indication that despite all the headlines and breaking news, the markets remain unfazed and focused on

VIX Closing Below 10 – Last 20 Years

July 1, 1997 - June 30, 2017

Date	VIX–Last Price
11/20/2006	9.97
11/21/2006	9.9
12/14/2006	9.97
1/24/2007	9.89
5/8/2017	9.77
5/9/2017	9.96
5/25/2017	9.99
5/26/2017	9.81
6/1/2017	9.89
6/2/2017	9.75
6/26/2017	9.9

Source: Bloomberg, JPMorgan – 6/30/2017

fundamentals. Those investors that can avoid the noise and remain focused on their long-term investment goals will be in a better position to achieve those goals than those that can't.

Market Review

The U.S. stock market continued advancing in the second quarter of 2017 as corporate earnings growth, consumer confidence, business confidence, the Fed and employment numbers all continued pushing the markets to new highs.
For the quarter ending June 30, 2017, the S&P 500 Index was up 3.09%. Year-to-date, the S&P 500 is up 9.35%.

The continuation of the stock market's rally for the first half of 2017 was due in part to strong earnings results that were released in April. The earnings growth was broad based and bounced substantially to post an increase in earnings of 14.5% year-over-year. Part of this earnings recovery was due to the rebound in commodity prices within the energy sector coming off their lows over a year ago. According to FactSet, even if the earnings from energy companies were excluded, the year-over-year growth would still be up 8.3%. This rebound in earnings continues to solidify the rise in equity markets. While energy earnings were stronger than a year ago, the price of oil is still far from reaching levels seen in recent years.

As impressive as U.S. stock market returns were for investors, markets outside the U.S. did even better, driven in part by a falling U.S. dollar. Returns around the globe were positive in the second quarter, as emerging markets and international developed markets outpaced the U.S. handily. Few investments in the marketplace have benefitted from a weaker dollar more than emerging markets countries. Year-to-date, the MSCI Emerging Markets Index is up 18.4% as of June 30 while the MSCI EAFE Index, which represents 21 developed international markets, has risen 14.2%.

The Barclay's U.S. Aggregate Bond Index has maintained a low profile this year, returning 2.24% year-to-date. Fixed income headlines were primarily dominated by monetary policy this quarter. The Fed raised the Federal Funds overnight lending rate by 0.25% in June, which was the second rate hike this year, and the third increase in just six months. The Fed continues to stand by its original estimate of three rate hikes for 2017. Minutes from the recent Fed meeting outlined the next tool the Fed will use to manage economic growth – paring back its balance sheet. Besides the ability to raise or reduce short-term rates, the Fed has a $4.5 trillion balance sheet and they intend to reduce this amount over the next few years, which may also have the effect of allowing longer-term rates to rise gradually. While history has shown us that slow tightening cycles by the Fed have not negatively impacted the long-term growth of equity markets, unwinding the Fed's balance sheet is an untested experiment.

The U.S. Bureau of Labor Statistics released the Employment Report for the month of June and showed that employment increased in health care, social assistance, financial activities, and mining. More specifically, the Report showed the addition of 222,000 non-farm payrolls, which was significantly higher than estimates of about 173,000. The Report was largely seen as another "Goldilocks Report," pointing to a job market that is sustaining a modestly-growing economy without much fear of inflation. Those 222,000 new jobs added in June bring the 2017 monthly average to 180,000 – another positive indicator for the economy. It's true that the unemployment rate inched up from a 16-year low to 4.4%, but only because more individuals are returning to the work force, which is a good thing. June's Report also showed that wages are rising at a 2.5% rate, higher than the average of 2.0% from the 2010-2015 time period. Finally, the Report showed upward revisions to April and May payrolls of another 47,000 jobs to the numbers reported earlier in the year.

Looking Ahead

While there are political and social headlines dominating the news, corporate earnings are strong, unemployment is low, interest rates are stable, inflation is tame and consumers are confident – all supporting reasons why the markets keep hitting new highs.

We haven't seen much volatility and market corrections are a part of the investing landscape. However, with solid earnings growth and the fact that we continue to see decent economic data, we continue to believe that there is still room to run in this current secular bull market.

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

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