November 2016

MEEDER INVESTMENT MANAGEMENT

Monthly Market Commentary

Discussion Points

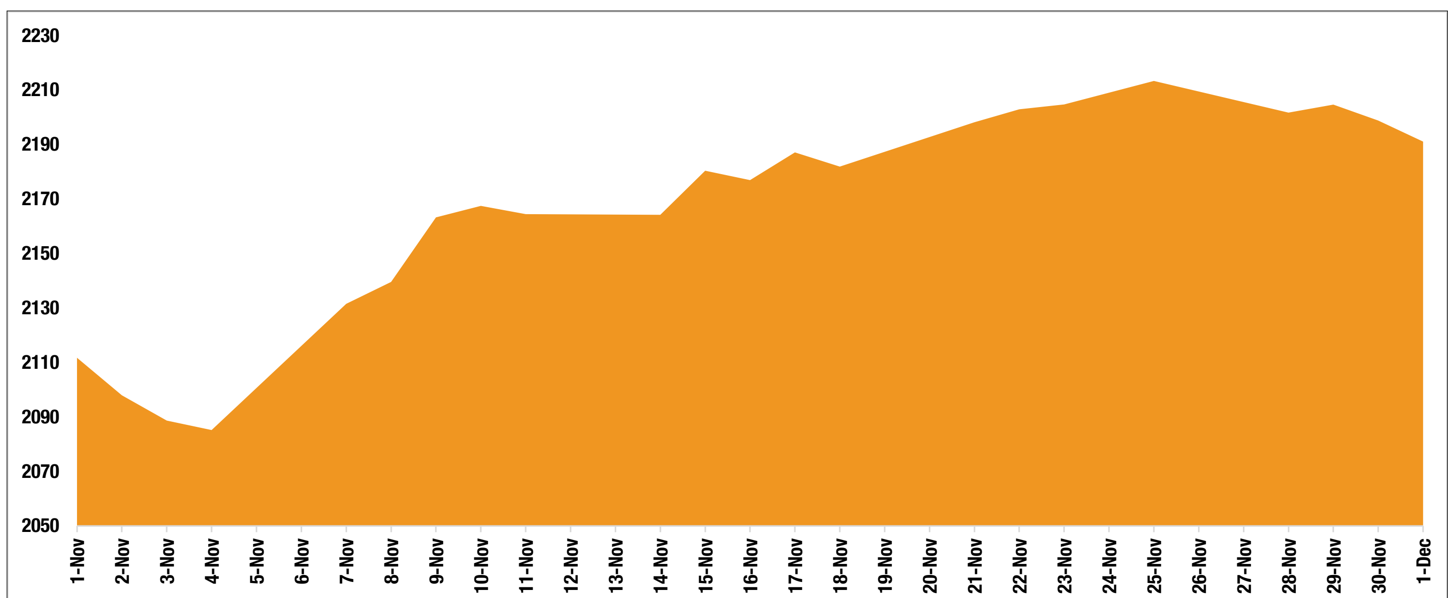
» U.S. Presidential Election
» All Eyes On the Fed
» 3rd Quarter GDP

Capital Markets Update as of November 30, 2016

Several of the market events that occurred during November 2016 will likely be talked about for generations. The Dow Jones Industrial Average (DJIA) started the month by ending a 9-day losing streak that started the month prior. It was the first time in 36 years the DJIA had finished in negative territory for that many consecutive days. On November 8th, the 2016 U.S. Presidential Election concluded in one of the most controversial and riveting elections in recent history. Donald Trump, the Republican nominee was elected as the 45th President of the United States. Very early on as the voting results were being tallied, it became evident that the race was going to be much closer than pollsters and pundits had originally anticipated. U.S. markets had already priced in a Hillary Clinton victory, so as the election results were being announced and continued to favor Trump, the DJIA Futures dropped more than 800 points before turning positive when markets opened the following morning. Markets quickly turned the pessimism into optimism after listening to the President-Elect's victory speech. One key pledge in Trump's campaign was to spend over $550 billion to overhaul the U.S.'s aging infrastructure within just a 5-year timeframe. If the expenditure occurs, it could provide meaningful job creation and significant economic growth for the country. The following day, the DJIA reflected this optimism by rising 1.4%.

The DJIA and S&P 500 reached multiple new all-time highs throughout the month of November while the U.S. Dollar reached its highest level since 2003. Fixed income markets experienced volatility as the Bloomberg Barclays Aggregate Bond Index fell -2.37% for the month. The 10-year treasury showed signs of instability as the yields at beginning and end of the month were 1.83% and 2.38% respectively. According to Bloomberg, at the time of this writing the likelihood of the Fed hiking rates at their December meeting is over 95%. While rate increases are typically used by the Fed to temper economic growth, investors should view this as a positive sign that the U.S. economy is now resilient enough

S&P 500 Index November 2016
Source: Bloomberg



to handle the rate increase. The Fed has acted slowly in the timing and telegraphing of their rate hikes, as the economy has rebounded from the financial crisis lows in March 2009. The Fed meeting held in December 2015 was the only time the Fed has increased the overnight lending rate since June 2006.

There was a lot of positive economic data released throughout the month and markets responded accordingly. GDP for the 3rd quarter rose to 3.2% from just 1.4% the previous quarter. This data also gave consumers optimism about the future, as Consumer Sentiment for October was 93.8 vs. a consensus estimate of 91.6. While this increase was an improvement, the Consumer Confidence Index, which surveys 3000 households, trounced estimates of 101.2 to post a reading of 107.1. When looking at manufacturing, the Institute of Supply Management (ISM) Manufacturing Index reported continued growth in November with the index jumping to 53.2 vs. an expected 52.2. The ISM also reports a non-manufacturing index which measures the productivity of the services industry. This index grew at its fastest rate in over 13 months, to a level of 57.2 vs. a forecasted level of 55.2. Anytime either of these two reports indicate a monthly reading above 50, it is a sign of expansion within the sector. A monthly report below the level of 50 signifies that the sector is contracting. All of this positive news for the U.S. economy was confirmed with a huge boost from labor markets as the private sector created over 216,000 jobs compared to an estimated 165,000 which helped bring the national unemployment rate down from 4.9% to 4.6%.

Investment Model Output & Positioning

Defensive Equity

The Defensive Equity strategy was based on a model that was developed by Meeder in 1974. The model was designed to analyze the risk/reward relationship of the U.S. stock market. We have continued to enhance and refine this model throughout the years to incorporate factors and research into our quantitative analyses to help us navigate changing and dynamic markets. The Defensive Equity model is divided into a Short-Term and Long-Term model and is comprised of a number of factors from major investing disciplines including fundamental, macroeconomic, trend/technical and momentum components. Since May of 2016, we had been fully invested in equity markets. After the U.S. Presidential Election, some factors in our models started to deteriorate as markets continued to move higher. The Long-Term model produced a negative reading due to a decline in sentiment, breadth, and interest rate factors, while the Short-Term model remained positive. We therefore reduced our equity exposure by approximately 6% in our unconstrained tactical strategies. Our long-term model continued to deteriorate throughout the month as breadth in the equity market narrowed. The short-term model switched from a positive to neutral reading near the end of the month due to sentiment factors. It is important to note that Meeder views sentiment as a contrarian factor, so when there appears to be a heightening optimism or euphoria present in the marketplace, our models will show signs of deterioration. At that time, we increased in our defensive position in our tactical unconstrained portfolios to 25%.

Equity

Market capitalization and style preferences are determined by our quantitative theme models when making U.S. equity allocations. These models are instrumental in helping us determine our market-cap and style preferences. They also help us determine our concentrations to weightings in specific styles and sectors. With respect to each fund's starting allocation throughout the month of November, we held a slight overweight in small-cap equities with a preference toward value securities.

International

At the beginning of November, we held equity exposure of 8% in emerging markets and 5% in developed international. Our international model had momentum and currency factors shift from a preference in international toward domestic equity. After this shift occurred early in the month, we cut our developed international equity position to 4% and our emerging market position to just 2%. As the month progressed, the models continued to favor domestic holdings to an even greater degree, leading us to exit all of our positions in international equities.

Fixed Income

At the beginning of the month we held an allocation of over 16% in Emerging Market Debt. Early in the month, our Emerging Market (EM) model factors showed signs of deterioration and switched to favor domestic positions. We then gradually reduced our holdings in EM debt to just over 5% at the end of the month. The majority of this was reallocated to investment-grade securities which ended the month near 49%. Our below investment-grade exposure in Total Return Bond and Short-Term Bond portfolios remained consistent throughout the month at near 30%. The remainder of the portfolio was allocated to U.S. treasuries. The Flexible Fixed Income Portfolio continues to follow our model output and allocate larger weightings toward investment- grade credit relative to U.S. Treasuries.

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MMC-Nov 16 (12/16)