October 2016

MEEDER
INVESTMENT MANAGEMENT

Monthly Market Commentary

Discussion Points

» U.S. Presidential Election
» All Eyes On the Fed
» Meeder Defensive Equity Position Remains Essentially Fully Invested

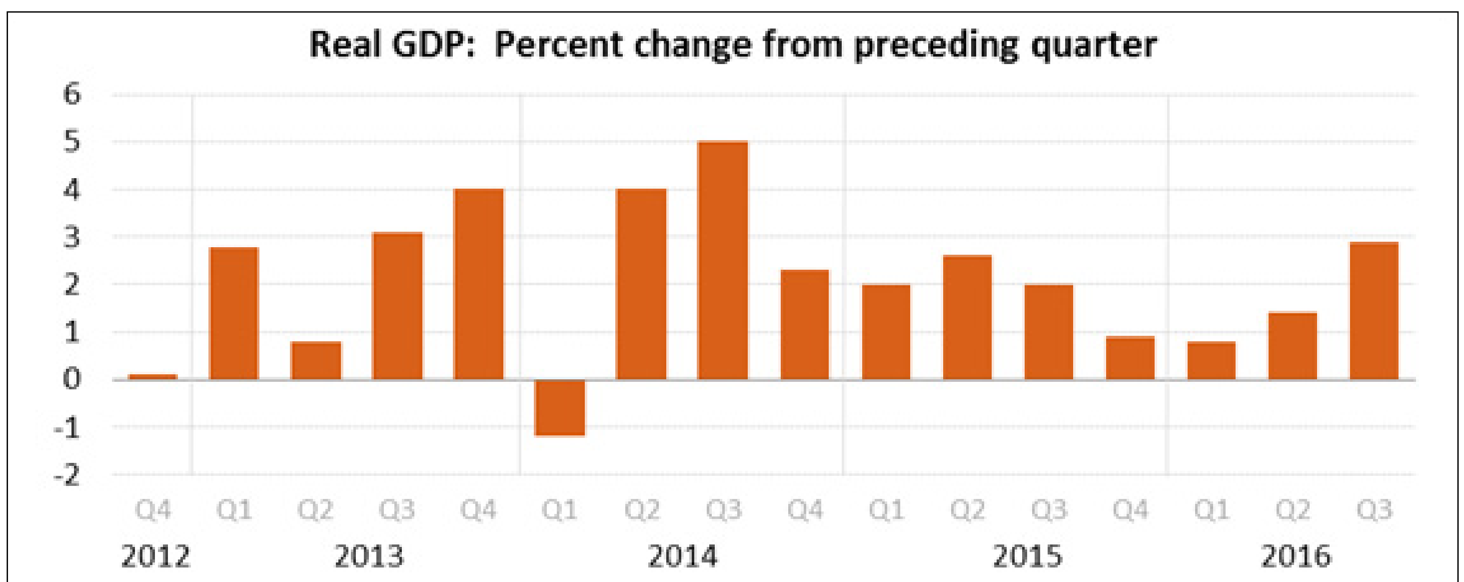
2016 Presidential Election Update

The 2016 U.S. Presidential Election was one that will be talked about for generations. In one of the most controversial and riveting elections in recent history, Donald Trump, the Republican nominee, was elected the 45th President of the United States. As the November 8th election results were being tallied, it became clear very early, that the race was going to be much closer than originally expected. U.S. markets had already priced in a Clinton victory, so as the election results were being announced and continued to favor Trump, the Dow Jones Industrial Average 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. infrastructure in just 5 years. If this investment occurs, it could provide significant job creation and economic growth and ultimately propel markets upward. On November 9th, the DJIA rose 1.4% while the 10-Year Treasury yield finished the day at over 2.0%.

Capital Markets Update as of October 31, 2016

This month, like several others in 2016, was dominated by political headlines and concerns of a potential rate hike by the Federal Reserve later this year. As the presidential race tightened and events unfolded, volatility increased within equity markets and brought uncertainty to the forefront of investors' minds. This trend had a negative effect, as markets entered new territory by declining the last several days of the month. Although the trading range was narrow, it was the first time in 36 years that this had occurred. Performance during October for both equity and fixed income markets, as measured by the S&P 500 and Barclay's Aggregate Index, were negative. The S&P 500 Index was down -1.82% while the widely held bond benchmark fell -0.76%. This brought the YTD returns through October 31st of both indices to 5.87% and 4.99% respectively.

Real GDP: Percent Change from Preceding Quarter
Source: U.S. Bureau of Economic Analysis



The Federal Reserve Open Market Committee decided not to raise the Federal Funds overnight lending rate at their November 2nd meeting. Now, all eyes look to the final FOMC meeting of 2016 that will be held on December 14th. The committee continues to stress that they are data dependent, and the case for an increase in the overnight lending rate continues to strengthen. While the month produced few noteworthy economic data releases, there were continued signs of strength. The most positive economic news was that 3rd quarter GDP increased at a 2.9% seasonally adjusted annualized rate, from just 1.4% the prior quarter. Inventories grew during the 3rd quarter to help boost the overall metric, indicating that manufacturers have enough confidence in the economy to build up their inventories to meet future demand. The October payrolls data release showed that the economy produced 161,000 jobs vs. an expected 175,000. This report reduced the unemployment level down to 4.9%, but on the surface fell short of expectations. The silver-lining from the payrolls data showed that the hourly earnings for workers in the private sector increased 2.8%. This is the largest annual wage growth increase in over 7 years.

The ISM manufacturing index report was slightly ahead of estimates at 51.9 vs. 51.7. A similar index is used to measure U.S. services companies, known as the ISM non-manufacturing index, which fell from a consensus estimate of 56 to 54.8. For both indices, a level above 50 signals that the sector is expanding, while a number below 50 indicates that the sector is contracting. At the time of this writing, markets are now forecasting an 82% likelihood of an FOMC rate hike at the December 14th meeting.

Developed international and emerging markets are experiencing two very different outcomes with regard to performance in 2016. On the developed international front, England's High Court ruled that Parliament must approve the United Kingdom's vote to leave the European Union, also known as Brexit. This has reignited uncertainty throughout the region and the implications this decision could have. Developed international markets (MSCI EAFE Index) were down -2.06% for the month and down -0.35% year-to-date through the end of October. Emerging Markets (MSCI EM Index) on the other hand, continued to post solid gains as year-to-date returns were up 16.30% as of month-end.

Investment Model Output & Positioning

Defensive Equity

The Defensive Equity strategy was based on a model that was developed by Meeder in 1974. This model was designed to analyze the risk/reward relationship of the market. Over the years, the model has been continuously enhanced and refined with technology advancements to incorporate factors and research into our quantitative analysis that reflect the modern investment landscape. By utilizing a multi-discipline and multi-factor approach, we utilize factors from fundamental, macroeconomic, trend/technical and momentum disciplines. This helps us to analyze the risk/reward relationship of the market and determine the level of exposure we should maintain to domestic equities. We started 2016 with a 40% defensive position and increased it to as much as 55% in late January in our unconstrained tactical strategies. Over time, our factors have turned increasingly positive as the year has evolved and indicated a much more favorable risk/reward relationship is present in the stock market. In April, we still held a partially defensive position, but continued to increase our exposure to the stock market until the portfolio was essentially fully invested in May. We have remained fully invested through the end of October as trend and breadth indicators continue to be mostly positive. Our valuation and macroeconomic factors have also remained generally positive.

Equity

Our quantitative theme models are instrumental in helping us determine domestic equity allocations relative to both market-cap and style preferences. These models also provide guidance in determining our concentrations among specific sectors. With respect to each fund's starting allocation, throughout the month of October we held a modest overweight in small-cap with a preference toward value securities. This is primarily due to momentum and volatility factors. With regard to sector allocations, both near and intermediate term momentum, and valuation factors have caused us to maintain a modest underweight to consumer staples. On the other hand, our models have favored technology due to yield curve and valuation factors.

International

Markets across the world have been very dynamic in 2016. Given this environment, our international model has indicated a preference of varying exposures and degrees this year. At the beginning of the year our models favored developed international equity exposure before factors deteriorated. We slowly eliminated all international exposures by early March. Then, our models signaled a preference for emerging markets in early April before factors in the model deteriorated significantly, causing us to eliminate nearly all exposures just before the U.K.'s Brexit vote to leave the European Union. After markets digested the news of Brexit, momentum factors increased to favor international equity exposure over domestic in early August. Therefore, we established a position to both emerging markets and developed international equities. We slowly increased that exposure at the end of October with 8% in emerging market equities, and a 5% weighting to developed international equities. Interestingly, currency factors are now favoring domestic equity positions over international. This is just one example

of factors that are starting to show signs of deterioration and may be suggesting a preference back toward domestic equities in the near future.

Fixed Income

Fixed income markets also felt the brunt of the heightening pressures of the U.S. Presidential election and looming potential rate hike from the Fed in December. These concerns have been a recurring theme throughout the year and October was no exception. In spite of this environment, we continued to adhere to our time-tested, quantitative and model-driven approach. Our models favored exposure in below investment-grade securities due to spread and short-term momentum factors. We also continued to target a duration that was just slightly below the benchmark. Our allocation to below investment grade securities was near 30% and our holdings in emerging market bonds were 16%. Fixed income markets saw the Barclay's Aggregate Index shed over -0.76% for the month. Emerging markets, investment grade securities and treasury category averages were also negative for the month. The Flexible Fixed Income Portfolio continues to follow our model output by allocating higher weightings toward investment grade credit relative to treasuries.

Commentary offered for informational and educational purposes only. Opinions and forecasts regarding markets, securities, products, portfolios or holdings are given as of the date provided and are subject to change at any time. No offer to sell, solicitation, or recommendation of any security or investment product is intended. Certain information and data has been supplied by unaffiliated third-parties as indicated. Although Meeder believes the information is reliable, it cannot warrant the accuracy, timeliness or suitability of the information or materials offered by third-parties.

Advisory services provided by Meeder Asset Management, Inc. and/or Meeder Advisory Services, Inc. Meeder Funds are distributed by Advisor Dealer Services, Inc., member FINRA.

© 2016 Meeder Investment Management

MMC-OCT16 (11/16)