August 2016

Monthly Market Commentary

Discussion Points

- Fed Chair Janet Yellen gives guidance from Jackson Hole, WY symposium
- August ISM and Payroll numbers disappoint
- Meeder Defensive Equity position remains fully invested

For the period ending August 31, 2016

Federal Reserve Chair Janet Yellen delivered remarks from Jackson Hole, Wyoming on August 26th. While, this annual meeting is a time when investors have historically been given more guidance on the Fed's outlook for the near term, the focus remains the same. The committee maintains that gradual rate increases in the federal funds overnight lending rate will be appropriate over time, but they remain steadfast on the timing being data dependent. The committee was encouraged by an increase in household spending, sustained low unemployment levels in the labor markets, and GDP growth. Yellen continued by saying that "the case for an increase in the federal funds rate has strengthened in recent months."

After Yellen's statement, the likelihood of a fed rate hike in September immediately rose to 36%. Just one week later, the August ISM manufacturing index reported its second-consecutive monthly decline. The number reported was just 49.4 vs. an expected 52.2. An index level above 50.0 signals that the manufacturing sector is expanding, while a number below 50 indicates that the manufacturing sector is contracting. A similar index is used to measure U.S. services companies. This measure, known as the ISM non-manufacturing index, fell from a strong 55.5 to just 51.4 in August. Consensus estimates forecasted the reading to be 55.0. While the drop did not come close to meeting expectations, it is worth emphasizing that the index did show expansion and has continued to do so for the last 79 consecutive months. This news coincided with a weak jobs report for the month, which showed the economy created just 151,000 jobs vs. an expected 180,000, causing the unemployment rate to remain at 4.9%. These reports have tempered expectations for a rate hike at the September Federal Open Market Committee (FOMC) meeting. At the time of this writing, expectations for the FOMC to exercise a rate increase on the federal funds rate are at 24%.

% Chance September Fed Funds Hike (12/31/2015-9/9/2016)

Source: Bloomberg

Fixed income markets have continued to benefit from the increasing uncertainty surrounding the Federal Reserve as investors have continued to flock toward the safety of bonds. According to the most recent data available from Morningstar, in July of 2016 alone over $22.49 billion flowed into fixed income assets. This trend has helped propel major indexes like the Barclays U.S. Aggregate Bond Index this year to a positive return of 5.86%. The only other major asset class to have positive inflows in July was commodities. Although supply levels of oil remain elevated, prices seem to have stabilized and have now exited bear territory. Crude oil prices rose from just over $41/bbl. last month to close at $46/bbl.

Equity markets, as represented by the S&P 500 Index, remained virtually flat for August, posting a return of just 0.14%, bringing the 2016 total return to 7.82%. Looking abroad, emerging markets, as measured by the Emerging Markets Index, continued to have a strong performing year by rising 2.49% in the month of August, bringing the year-to-date return to 14.55%. The U.S. Dollar weakened, shedding 3.79% since the start of 2016 and, with all things being equal, a weaker U.S. dollar should add momentum to the sales of exports as this will make prices cheaper to foreign markets. The MSCI EAFE has yet to benefit from this as the index is positive by just 0.49% so far in 2016.

INVESTMENT MODEL OUTPUT & POSITIONING UPDATE

Defensive Equity

Our defensive equity model is designed to analyze the risk/reward relationship of the market. The output of this assessment helps us allocate our domestic equity assets. This model is comprised of a variety of factors from major investing disciplines that include fundamental, macroeconomic, trend/technical and momentum discipline components. At the beginning of 2016, we started with a 40% defensive position and increased it to as high as 55% in late January in our unconstrained tactical strategies. Since then, our factors have turned increasingly positive as the year has evolved and has indicated a much more favorable risk/reward relationship is present in the stock market. We entered April with a partially defensive position, but continued to increase our exposure to the stock market until the portfolio was fully invested in May. We have remained fully invested through the end of August as trend and breadth indicators continue to be favorable. Our valuation and macroeconomic factors have remained mostly positive while sentiment factors have been neutral.

Equity

Our models guide our allocations relative to growth, blend, and value. They also assist us when evaluating opportunities relative to market capitalization ranges and help to determine our domestic equity exposure. At the end of the month, our model outputs continued to favor value relative to growth. Much of this can be attributed to momentum and volatility factors. Relative to each fund's starting allocation, we hold a modest overweight to small-cap with a tilt toward value. With regard to sector allocations, poor valuations have caused us to avoid utilities while our models continue to favor the technology sector.

International

In our international model, short-term momentum factors are in favor of international exposure. Currency metrics and global economic indicators favor international regions as well. We maintained a small allocation to emerging market equities, however, at the end of July, our models indicated the start of a shift in their preference back toward developed international based on near-term momentum and currency factors. Therefore, we started the month of August by establishing a tactical position in developed international equities and also increased our holdings in emerging market equity securities.

Fixed Income

U.S. Treasuries ended August with the largest monthly loss since June 2015, which was also their second monthly loss this year, following Yellen's statement from Jackson Hole. Shorter-dated maturities on the yield curve performed better than the longer-dated maturities in August. High yield and emerging market securities in our portfolios beat their respective peer group averages for the month, while investment grade securities had mixed results. Our models continued to favor below investment grade fixed income assets throughout August. As a result, our allocation to high yield securities was over 30% and our weighting to emerging market bonds was near 17%. Our duration in the portfolio remains slightly less than that of the Barclays U.S. Aggregate Bond Index. The Flexible Fixed Income Portfolio continues to follow our model output by allocating higher weightings toward investment grade credit over treasuries.

Past performance is not a guarantee of future results. Investing in securities involves inherent risks, including the risk that you can lose the value of your investment. There is no assurance that the investment process will lead to successful results. Opinions and forecasts regarding sectors, industries, companies, countries and/or themes, portfolio composition and holdings are as of August 31, 2016 and are all subject to change at any time, based on market and other conditions, and should not be construed as a recommendation of any specific security, industry, or sector.

The Portfolios are not mutual funds or other commingled investment vehicles registered with the U.S. Securities and Exchange Commission. The Portfolios are exposed to the risks of the mutual funds in which they invest (the "Underlying Funds"), directly in proportion to the allocation of each Portfolio to the Underlying Funds. Returns and net asset values of the Underlying Funds may be affected by political or economic conditions, the risks of investing in domestic and foreign equity and fixed income securities, as well as regulatory requirements. The Underlying Funds that make-up each Portfolio are subject to change, based on changes in market conditions, as well as for other reasons.

Investors are advised to consider the investment objectives, risks, charges, and expenses of the Meeder Funds and portfolios carefully before investing. This information can be found in the Meeder Funds prospectus and the prospectus of each Underlying Fund. A copy of the Underlying Funds prospectus can be obtained by directly contacting the Underlying Fund Company. To request or receive a copy of the Meeder Funds prospectus or information about Meeder Portfolios, contact Client Services at (866) 633-3371 or visit www.meederfunds.com.

The S&P 500 Index is a market value-weighted index of common stocks considered representative of the broad market. The MSCI EAFE Index (Europe, Australia, Far East) is an equity index which captures large and mid cap representation across Developed Markets countries around the world, excluding the U.S. and Canada. With 910 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. The MSCI Emerging Markets Index captures large and mid cap representation across 23 Emerging Markets (EM) countries. With 822 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. The Barclays Capital U.S. Aggregate Bond is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, Mortgage-Backed Securities (agency fixed-rate and hybrid ARM pass-throughs), Asset-Backed Securities and Commercial Mortgage-Backed Securities. The U.S. Aggregate rolls up into other Barclays Capital flagship indices such as the multi-currency Global Aggregate Index and the U.S. Universal Index, which includes high-yield and emerging markets debt. The U.S. Aggregate Index was created in 1986, with index history backfilled to January 1, 1976. One cannot invest directly in an index.

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