MEEDER
INVESTMENT MANAGEMENT

SECTOR UPDATE 2020:

Coronavirus Pandemic Intensifies Rotation into Technology and Healthcare

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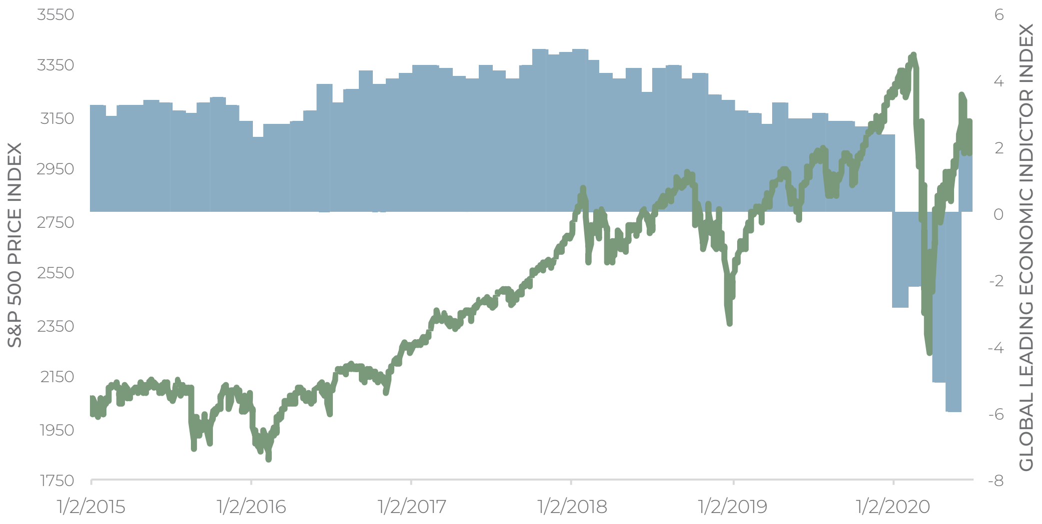
KEY TAKEAWAYS:

- In our opinion, the recent 40%+ stock market rally has legs. One supporting data point from our Long-Term model is the historical reversal in the Global Leading Economic Indicator. The Index is suggesting potential further gains in the economy and stocks over the next 12–18 months.
- While the S&P 500 Index is down less than 2% so far in 2020, investors have been rotating out of "old" economy sectors—such as Financials, Industrials and Energy—and into "new" economy sectors—such as Technology, Healthcare and Consumer Discretionary. Technology has been the biggest beneficiary and Energy has been the biggest loser of the rotation, in terms of percentage share of market cap gained and lost.
- Our tactical equity portfolios are overweight Technology, Consumer Discretionary and Healthcare, and underweight Consumer Staples, Industrials, Communication Services, Financials and Utilities. Our sector biases are based on bottom-up industry and stock scoring models, which tilt towards value and momentum, amongst other factors.

1. RECENT STOCK MARKET RALLY HAS LEGS

Exhibit 1: Recent data shows a historical reversal in the Global Leading Economic Indicator Index along with the S&P

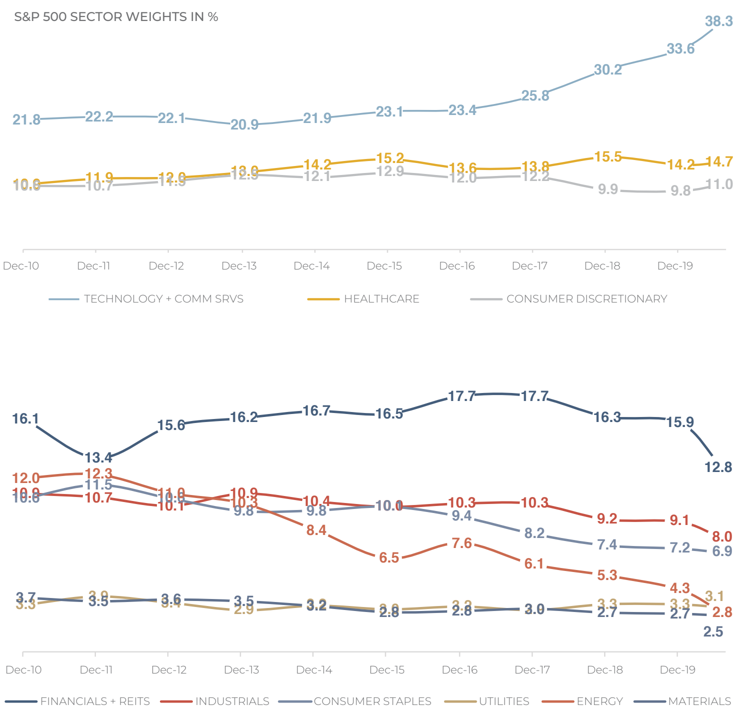


Source: Goldman Sachs, Bloomberg.

Economic indicators from around the globe are rebounding in a big way. Our measure of global leading economic indicators has moved from the worst reading in its history to nearly neutral in a matter of months. This index is comprised of more than 20 different leading economic indicators from developed countries such as the U.S, Japan, and Germany, along with key metrics from emerging economies like China and South Korea. While the success of re-opening economies varies city by city, the overall data around the world is positive so far.

2. INVESTORS ARE ROTATING OUT OF "OLD" AND INTO "NEW" ECONOMY SECTORS

Exhibit 2: Technology has been the biggest beneficiary and Energy has been the biggest loser of the rotation this year



Source: Bloomberg, Meeder Investment Management.

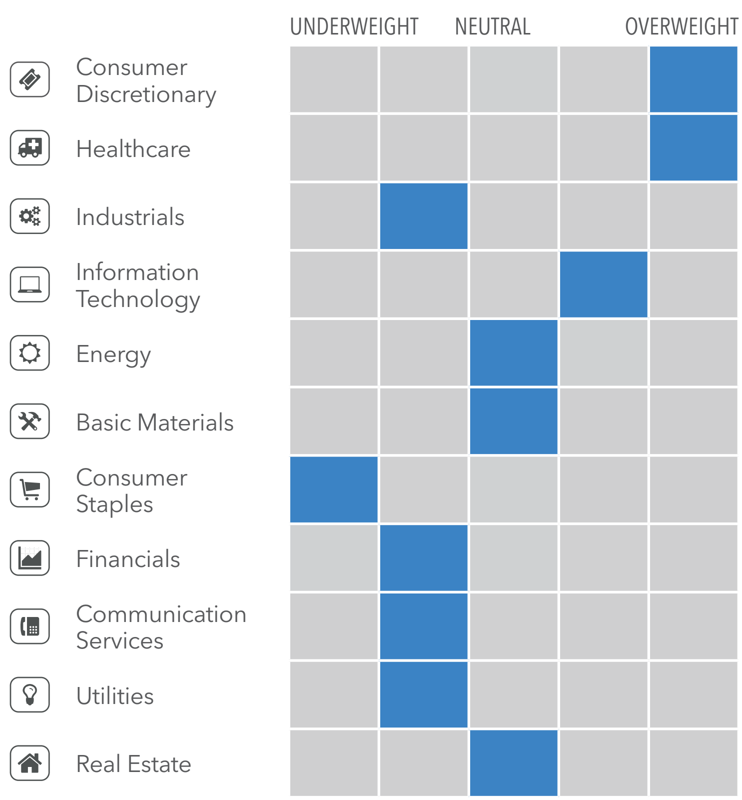
Beneath the S&P 500's volatility in 2020 exists a massive sector rotation from "old" economy to "new" economy sectors. Technology + Communication Services stocks alone have increased their market share in the S&P 500 Index from 23.1% in 2015 to more than 38% this year. On the other end of the spectrum, the total combined market capitalization of the Financial, Industrial, Materials, and Energy sectors are just over 21%. These four industries accounted for nearly 36% of the index just five years ago. While the trend existed before this year, the COVID-19 pandemic has essentially hit the fast forward button on this evolution in the business landscape.

3. WE ARE OVERWEIGHT TECHNOLOGY, CONSUMER DISCRETIONARY AND HEALTHCARE

Our tactical funds and portfolios are overweight the Technology, Consumer Discretionary, and Healthcare sectors. A large share of these "new" economy stocks have provided consistent profitability and positive momentum at relatively attractive prices. On the other hand, defensive stocks in the Consumer Staples and Utilities sectors still carry hefty valuations, when taking into consideration their below-average earnings and relative underperformance. In addition, many companies in the Financial sector face obstacles in the "lower for longer" interest rate environment they find themselves in.

Exhibit 3: We are overweight Technology, Consumer Discretionary, and Healthcare

SECTOR PREFERENCES



Source: Meeder Investment Management.

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