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INVESTMENT MANAGEMENT

INVESTMENT INSIGHTS MONTHLY COMMENTARY

# Meeder Fixed Income Strategies

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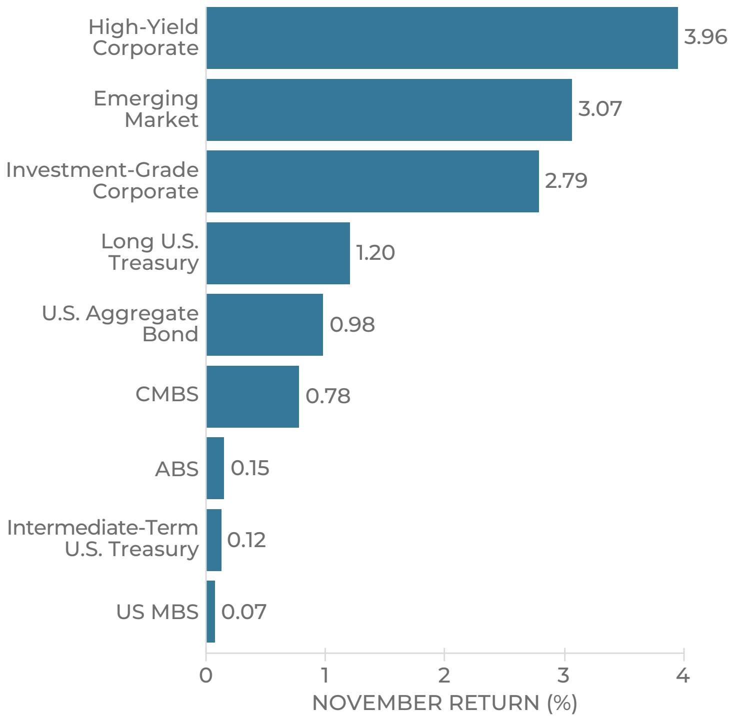
## KEY TAKEAWAYS:

- Increased exposure to high-yield bonds and emerging market bonds added significant value to Meeder fixed income portfolios
- High-yield bonds and emerging market bonds reached historic highs, gaining more than 3% in November
- Emerging market bonds offering 4% yield were more appealing as U.S. dollar weakened and over 25% of global investment-grade bonds offered negative yield

## RALLY IN EMERGING MARKETS AND HIGH-YIELD BONDS LED TO HISTORIC HIGHS

While all major fixed income sectors took in gains in November, high-yield and emerging market bonds were the real winners. Post-election clarity, positive COVID-19 vaccine news, and upbeat corporate earnings data helped high-yield and emerging market bonds rally during the month. Subsiding volatility and stronger global growth expectations tend to support higher returns in both sectors. November's risk-on rally helped both sectors extend their historic highs. High-yield bonds were up 3.96% and emerging market bonds were up 3.07% in November, well ahead of U.S. investment-grade bonds.

EXHIBIT 1: HIGH-YIELD AND EMERGING MARKET BONDS HAD A STRONG RALLY IN NOVEMBER




Source: Bloomberg

## THE DOLLAR'S DECLINE AND LOW YIELDS ACROSS THE GLOBE ADD MORE APPEAL TO EMERGING MARKETS

The U.S. dollar declined in November, returning to levels last seen in early 2018. The dollar is considered a safe haven and it tends to get stronger as volatility spikes. Positive sentiment during the month lowered market volatility, thereby weakening the dollar's appeal. The dollar's weakness tends to be positive for local currency-denominated emerging market bonds.

On another front, governments and corporations across the world issued record debt to combat the impact of the COVID-19 pandemic, pushing negative yielding bonds' level up by more than $700 billion during November. Nearly $18 trillion of global bonds now offer negative yields, which is a new record high. This number represents more than 25% of world's investment-grade bonds.

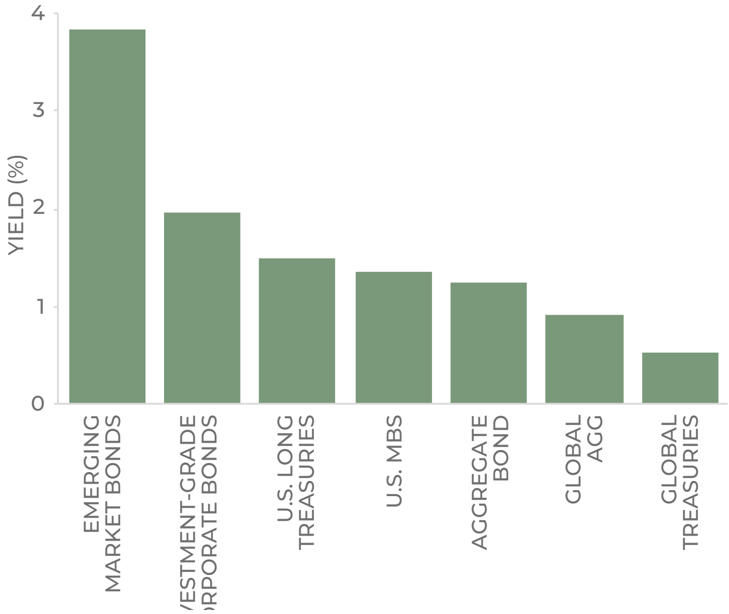
EXHIBIT 2: GLOBAL NEGATIVE YIELDING BONDS' MARKET VALUE REACHES A NEW HIGH


Source: Bloomberg

As for U.S. Treasury yields, the Federal Reserve has expressed their intention to keep the benchmark lending rate in the U.S. near zero until at least 2024 and are not expected to implement a negative rate approach.

Emerging market bonds offering nearly 4% yield in November have been more attractive to income-starved investors in this historically low yield environment.

**EXHIBIT 3: EMERGING MARKET BOND YIELDS OFFER A HIGHER INCOME INVESTMENT-GRADE OPTION**




Source: Bloomberg

Looking ahead, the Biden administration is widely expected to move towards easing global trade restrictions. Emerging markets will likely benefit from this trade rebound over the next couple of years and further provide more opportunities for investors as COVID-19 vaccines help global economies recover in the upcoming years.

## PORTFOLIO POSITIONING AND PERFORMANCE

Meeder's proprietary quantitative fixed income models signaled strength in emerging market bonds and high-yield bonds as momentum and macroeconomic factors improved while volatility subsided mid-month. This led us to increase exposure to high-yield and emerging market bonds in our portfolios in November. Meeder fixed income portfolios maintained the following positions during the month:

### OVERWEIGHT HIGH-YIELD CORPORATE BONDS

Our portfolios increased their exposure to high-yield bonds in November. These positions were a contributor to portfolio performance as high-yield bonds returns led all fixed income sectors during the month.

### OVERWEIGHT USD-DENOMINATED EMERGING MARKET BONDS

Our portfolios increased their exposure to emerging market bonds during the month. This exposure was a contributor to performance as the sector had a strong rally in November. This sector continues to provide income opportunities in our portfolios.

### U.S. TREASURIES AND INVESTMENT-GRADE BONDS

U.S. Treasury and investment-grade bond positions were reduced to accommodate increased exposure to risk-on sectors. This tactical move was a contributor to performance, as treasuries and investment-grade bonds' performance lagged risk-on sectors.

### DURATION POSITIONING

Meeder fixed income portfolios continued to maintain an intermediate-term duration of nearly 5.5 years in November, in line with their benchmark(s).

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Fixed Income asset classes are represented by the following indexes: Bloomberg Barclays US Agg Total Return Value Unhedged USD, Bloomberg Barclays US Corporate Total Return Value Unhedged USD, Bloomberg Barclays US Corporate High Yield Total Return Index Value Unhedged USD, Bloomberg Barclays EM USD Aggregate Total Return Index Value Unhedged USD, Bloomberg Barclays Global Aggregate Index, Bloomberg Barclays Global Agg Treasuries Total Return Index, Bloomberg Barclays US Treasury: Long Index, Bloomberg Barclays US Mortgage Backed Securities (MBS), Bloomberg Barclays Global Agg Neg Yielding Debt Market Value Index; Bloomberg Barclays US CMBS: Erisa Eligible Index, Bloomberg Barclays US Agg ABS Total Return Value Index

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0116-MAM-12/9/20