

CAPITAL MARKETS COMMENTARY

The Economic Reopening Continues

AS OF MAY 31, 2021



- » Value Stocks Gain Momentum
- » Inflation Rising
- » U.S. Job Openings Reach All-Time High

VALUE STOCKS GAIN MOMENTUM

The S&P 500 Index experienced increased volatility in May but still posted a total return of 0.7%. The performance disparity between value and growth stocks remained elevated throughout the month. Stocks represented by the Russell 1000 Value, Russell Mid Cap Value and Russell 2000 Value Indexes each experienced positive performance as their growth peers remained negative during May. Exports are also increasing, as more factories are getting closer to pre-pandemic output levels. Looking around the globe, developed international and emerging markets stocks, represented by the MSCI EAFE and MSCI EM indices, gained 3.2% and 2.3% respectively in May.

CYBERCRIME STEALS THE HEADLINES

In early May, Colonial Pipeline was a victim of a ransomware attack. This 5,500-mile pipeline is responsible for transporting roughly 45% of the east coast's supply of diesel and jet fuel, equating to approximately 2.5 million gallons per day. Cyberthieves from a group called the DarkSide, used software to lock down data on some of the company's servers and computers and demanded money for an encryption key to regain access. After news broke of the event, U.S. fuel prices at the pump increased to their highest levels in seven years. After the company unsuccessfully tried to regain access to the pipeline, they eventually paid the DarkSide a ransom of \$4.4 million in cryptocurrency. It was

the most recent example highlighting the vulnerability of the U.S. industrial grid and helped contribute to WTI Crude prices reaching a 2-year high.

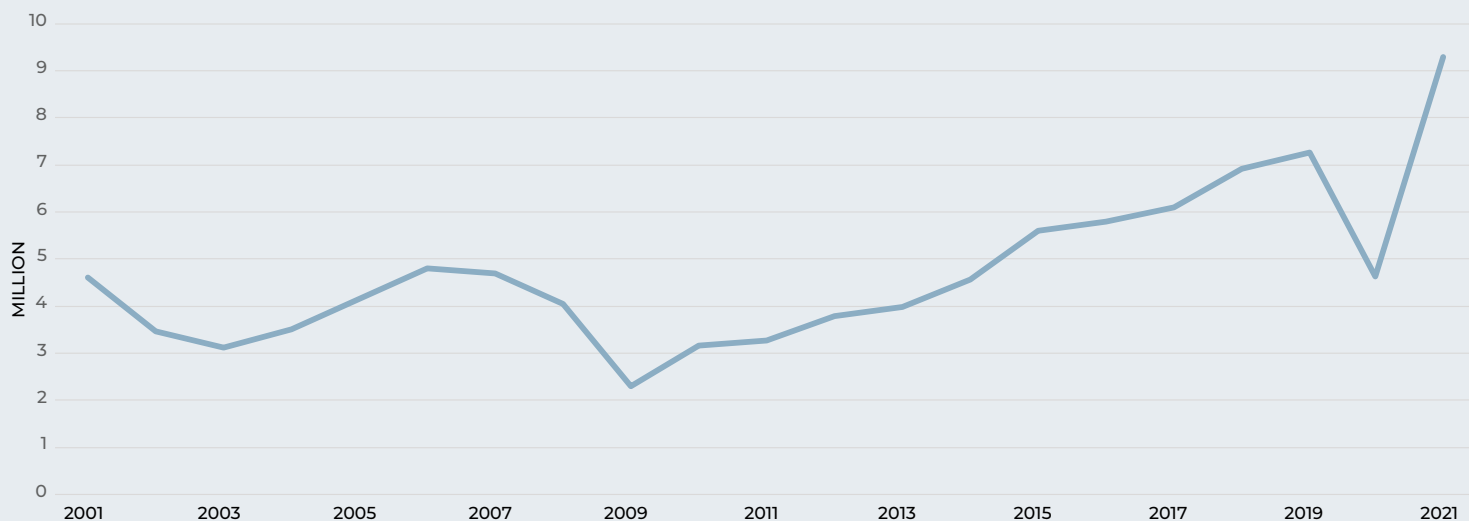
INFLATION RISING

The increase in fuel prices contributed to recent inflation concerns. In addition, the housing market remains red hot. According to the S&P CoreLogic Case-Schiller Index, home prices climbed 13.3% year-over-year. The worldwide spike in demand following the slowdown from the global pandemic has also caused commodities like copper, lumber and steel to reach new highs. The increased demand of these resources, with the limited supply, are examples that continue driving inflation fears. The Federal Reserve may not be able to ignore the fact that in April, inflation in the U.S. climbed to 4.2%, exceeding expectations and reaching its highest level since September 2008.

U.S. JOB OPENINGS REACH ALL-TIME HIGH

As the economic environment strengthened in May, the national unemployment rate fell from 6.1% to 5.8%. According to the Bureau of Labor, the U.S. manufacturing sector improved as the May reading of the ISM Manufacturing PMI Index increased from 60.7 in April to 61.2. Over the same time, the ISM Services PMI Index increased from 62.7 to a record 64.0 in May, making it the highest level recorded for the index. A level above 50 indicates that the sector is expanding,

EXHIBIT A—TOTAL NONFARM U.S. JOB OPENINGS, AS OF APRIL 30



Source: Bureau of Labor Statistics

while a level below 50 shows a contraction. The strength exhibited by these parts of the economy contributed to the U.S. adding 559,000 jobs in May but fell short of economist's projections of 671,000. Although May's jobs report was below expectations, it paled in comparison to April's disappointing results, as analysts forecasted a gain of 978,000 jobs and only 278,000 were added.

Each day, the economy is getting closer to fully reopening, as individual states are lifting COVID-19 restrictions across the country for those that are fully vaccinated. According to the CDC, more than 52% of the population greater than age 18 is fully vaccinated, and more than 63% have received at least one dose. Yet, as these numbers continue to grow, a labor shortage is becoming more widespread. Many businesses are not able to completely reopen, as they are having difficulty finding workers. One of the unintended consequences of COVID-19 relief is that in some cases, the government provided stimulus checks to unemployed workers is more than the employees made while working. Therefore, many unemployed Americans are not returning to work because they are making more money than if they return to work. This contributed to the number of job openings in the U.S., which reached an all-time high of 9.26 million.

WASHINGTON CONTINUES TAX DEBATE

The White House proposed a higher top capital gains tax rate for long-term investments of American households making at least \$1 million. It would be an increase from 23.8% (including the 3.8% Medicare surtax) to 43.4% (including the 3.8% Medicare surtax). This would make it even higher than the top income tax rate of 39.6%. The administration is also considering supporting the American Families Plan. The one unusual caveat is that the White House is considering implementing this tax retroactive from the date of the announcement, which was late April 2021. The administration is also proposing a capital gains tax on unrealized capital gains upon the owner's death. This is not to be confused with estate taxes, which are also commonly referred to as "death taxes." Currently, beneficiaries of stocks with unrealized capital gains can often receive a step-up in cost basis equal to the value as of the date of death.



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