MEEDER
INVESTMENT MANAGEMENT

Q2 2021 CAPITAL MARKETS UPDATE

President's Perspective

CAPITAL MARKETS UPDATE AS OF JUNE 30, 2021

» S&P 500 Index Reaches All-time High

» Labor Markets Remain Soft

» Fed Not Yet Concerned About Inflation

U.S. MARKETS

The S&P 500 Index slowly and quietly reached new highs during the second quarter. At the end of the June, the total return for the S&P 500 Index was +15% year-to-date and reached a record high level of 4,297. When looking at Russell Indices, small cap stocks were the best performers followed by mid and large cap stocks. Value oriented companies still outperformed their growth peers, with nearly all the styles posting double digit returns year-to-date. Emerging and developed international markets, as represented by the MSCI EM and MSCI EAFE indices, have year-to-date total returns that are more than +7% and +8% respectively. Bonds, represented by the Bloomberg Barclays Aggregate Bond Index, continue to struggle in this risk-on environment and are -2% year-to-date.

ECONOMY

The U.S. economy showed broad strength throughout the second quarter of 2021. In June, the national unemployment rate remained stable at 5.9%. According to the Bureau of Labor, the U.S. manufacturing sector continued its expansion at a slower rate, as the ISM Manufacturing PMI Index fell slightly from 61.2 in May to 60.6 in June. Over the same period, the ISM Services PMI Index fell from an all-time high of 64.0 to 60.1. A level above 50 indicates that the sector is expanding, while a level below 50 demonstrates a contraction.

The housing market continues to have low inventory, as mortgage rates remain near all-time lows. This has kept single family housing prices elevated across the country. Another contributor is the fact that commodities such as steel, copper and lumber reached new highs earlier this year before retreating. This slowed new housing starts dramatically, as those planning to build homes were forced to delay or abandon construction due to the spike in raw material costs. Part of this increase is likely attributed to the Federal COVID-19 relief legislation that has put trillions of dollars into the U.S. economy to ease the impact from the pandemic and has increased the demand for a limited amount of supply.

THE FED'S VIEW ON INFLATION

The Fed remains committed to fulfilling their dual mandate, which is to help the economy reach full employment and maintain price stability. At the most recent meeting on June 16, the Federal Reserve Open Market Committee met and forecasted that inflation will rise above their 2% threshold up to 3.4% by the end of 2021.

They will remain committed to reacting to inflation once it occurs and not when signs of inflation are beginning to become evident. The Fed also acknowledged that their actions have not always benefitted everyone equally and that certain ethnic and gender groups bore more of the economic burden than other parts of the labor force when they attempted to combat potential inflation.

The Fed also has the opinion that inflation rising above its threshold for a measured amount of time will not cause negative long-term implications for the economy. Currently the Fed believes that the inflation we are experiencing now is from parts of the economy that were impacted by the reopening after the pandemic and that it will be "transitory," or not persistent.

Fed Chair Jerome Powell stated it is "very, very unlikely" that the U.S. would see inflationary pressures like we did in the 1970s. Meanwhile, the U.S. core personal consumption expenditure (PCE) index increased 3.4% year-over-year as of May 2021, making it the highest change since 1992. This index is different from CPI because it excludes the asset classes that have historically experienced more price volatility, such as food and energy. In addition, it also includes medical care expenses paid for by employers.

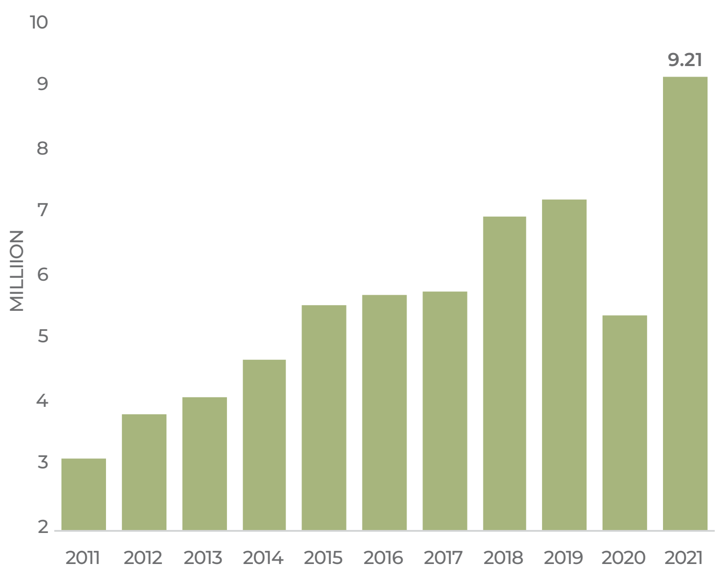
One additional update from the Fed's most recent meeting showed a change in the dot-plot. This is a tool that many economists follow and is a poll of Fed members that forecasts when changes in interest rates could occur. The latest poll indicated that two rate hikes could be possible in 2023 and was a major shift toward monetary tightening from the prior poll. Chairman Powell reiterated that these projections should be taken with a "big grain of salt."

U.S. COVID-19 UPDATE

According to the CDC, more than 58% of the population age 18 and older are fully vaccinated in the U.S., and more than 67% have received at least one dose. The success rate of the vaccinations in use remains excellent. More than 156 million people have been fully vaccinated and less than 700 people of those fully vaccinated have died with COVID-19.

Although the U.S. is getting closer to fully reopening, 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 that amounted to 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 is contributing to a record number of U.S. nonfarm job openings. According to the BLS the U.S. reached more than 9.2 million openings in May.

U.S. NONFARM JOB OPENINGS_SEASONALLY ADJUSTED



SOURCE: BLS

POTENTIAL CAPITAL GAINS TAX CHANGES

Recently, 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% (that includes the 3.8% Medicare surtax) to 43.4% (including the 3.8% Medicare surtax). This would make it even higher than the proposed 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 planning to implement this tax retroactive from the date of the announcement, which was late April 2021. Finally, 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."

WE STAND READY

So much has happened that it is hard to believe we are halfway through 2021. The medical community now agrees that the worst of the pandemic in the U.S. seems to be behind us, as we inch closer to herd immunity. The economy continues to strengthen from the havoc wreaked by this event and life is getting closer to returning to normal, as fans are attending indoor and outdoor sporting events and concerts. Please know that regardless of what the future holds, we will continue to follow our data-driven models and make fact-based decisions when managing our investment portfolios. Thank you for letting us continue to serve you as we stand ready for what lies ahead.

Sincerely,

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PRESIDENT AND CEO

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