MEEDER INVESTMENT MANAGEMENT

2020 FIXED INCOME OUTLOOK:

Tighter Spreads, Emerging Market Strength and Lower Rates for Longer

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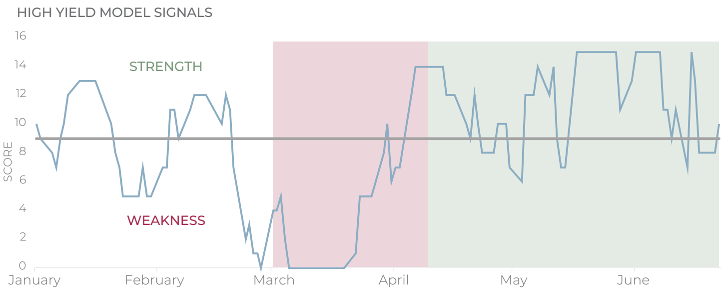
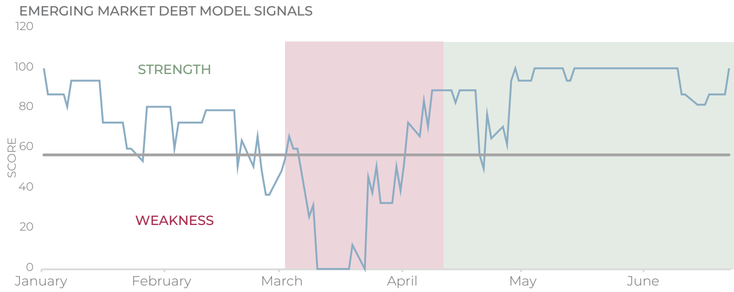
KEY TAKEAWAYS:

- Our fixed income models added significant value over the coronavirus-driven downturn in credit markets earlier this year. We de-risked our high-yield and emerging market exposure prior to the market meltdown in March and have slowly re-risked over the last few weeks as conditions have improved.
- Volatility and macroeconomic factors in our models turned uniformly negative in mid-late March, while momentum turned negative towards the end of March 2020. Looking ahead, momentum and volatility factors suggest strength in high yield bonds, while macroeconomic factors are signaling potential weakness. In Emerging Markets, all factors are uniformly positive.
- In response to our signals, we have increased our exposure to High Yield and Emerging Market debt in our tactical portfolios. We believe the Federal Reserve and global central banks are likely to stay accommodative, thereby providing support to these sectors. Our trading desk has noticed strong demand and record high issuance of corporate bonds this year.

1. NAVIGATING THE CORONAVIRUS-DRIVEN DOWNTURN IN EARLY 2020

Exhibit 1: Our high yield and emerging market debt models signaled weakness prior to the broad market decline in March

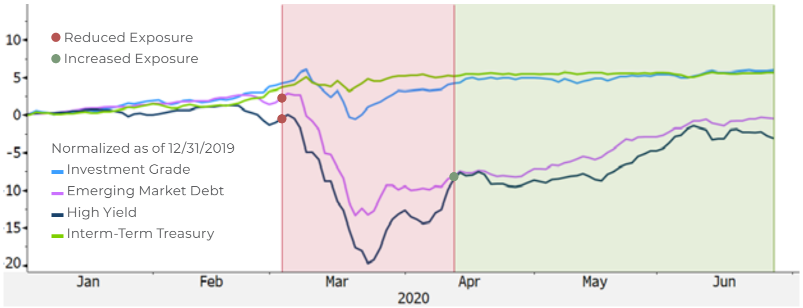




Source: Meeder Investment Management

Our models registered market weakness before the broad market decline in March, leading us to reduce our U.S. high yield and emerging market debt sector exposures during the periods highlighted in red. We increased portfolio exposures to the two sectors in the periods highlighted in green, as our model factors identified strength in those sectors.

Exhibit 2: Our fixed income models added value over the coronavirus-driven downtown in credit markets in early 2020

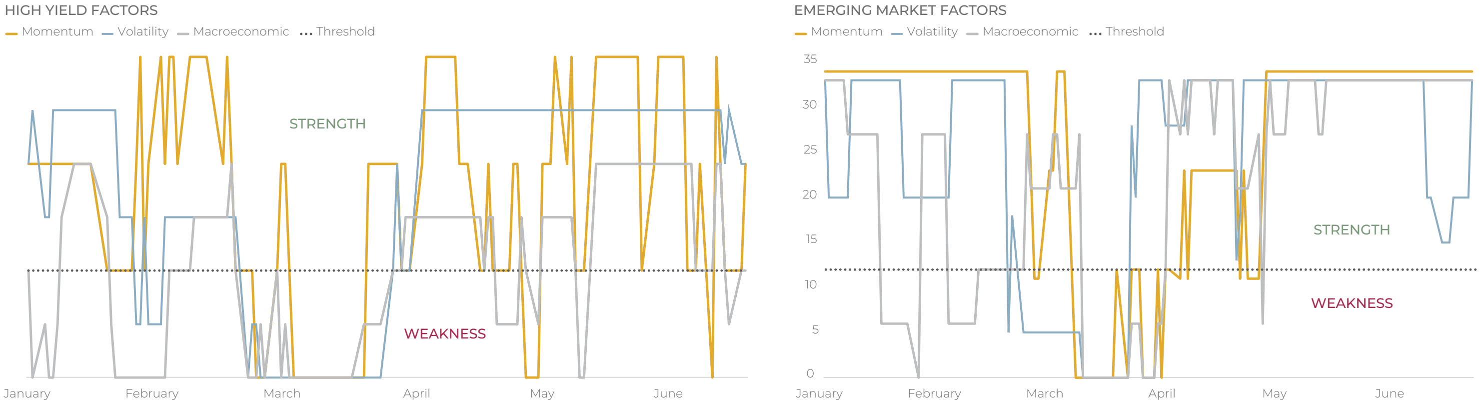


Source: Bloomberg

Our proprietary models added value earlier this year during the coronavirus-related market decline in early March, guiding our portfolio allocations out of High Yield and Emerging Markets during the periods highlighted in red, when the fixed income market faced historic liquidity pressures. It has also guided us to increase exposure in the two sectors, in the periods highlighted in green, as markets began to show signs of improvement in April.

2. INSIGHTS FROM OUR TACTICAL MODELS

Exhibit 3: Momentum, Volatility and Macroeconomic factors have turned positive across High Yield and Emerging Markets



Source: Meeder Investment Management

The charts above exhibit the tactical nature of our proprietary models, with daily factor signals plotted along the dotted line. Market strength exists when a reading is above the line and market weakness when it is below the line. Momentum, volatility, and macroeconomic factors in our models are currently above their thresholds, signaling a continuation of strength in high yield and emerging market bonds. Although macroeconomic factors have weakened in the high yield bond market recently, both sectors continue to exhibit overall strength.

3. PORTFOLIO POSITIONING AND INSIGHTS FROM OUR TRADING DESK

Our fixed income portfolios are currently positioned with an increased weight to high yield and emerging market debt sectors, up from a 0% allocation in mid-March. Our trading desk has noticed strong demand and record high issuance of corporate bonds this year. This is due in part to very strong Federal Reserve actions to support liquidity in the credit markets. Many of the central bank's programs announced as part of their monetary stimulus action in March have yet to launch, giving the Federal Reserve more opportunities to support the market. Global central banks are likely to continue their asset purchases in the near future and stay accommodative, which will facilitate liquidity in the fixed income markets and help support lower yields.

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