MEEDER PRIVATE WEALTH

Market Volatility Commentary

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As of April 30, the S&P 500 Index is down -13%, and Bloomberg Barclays Aggregate Bond Index is down more than -9% year-to-date. A 60% SPY and 40% AGG portfolio is down -11.6% over the same time frame and is one of the worst 4-month declines for this portfolio in the last 50 years. It is important for clients to review the data and maintain a longer-term approach.

The major narratives this year have been higher inflation with the Fed on a mission to aggressively hike interest rates, and bond markets responding to the policy pivot — doing the Fed's work by lifting rates across the yield curve. Short-term rates have moved more dramatically than intermediate and long-term rates.

Our team continues to prioritize logic over emotions. For taxable clients, the recent volatility presents an opportunity for tax-loss harvesting and rebalancing allocations to maintain the potential for recovery when the market bounces. Fixed-income allocations have benefited from shorter duration and greater credit exposure. We continue to review allocations for favorable opportunities.

MARKET VOLATILITY

The S&P 500 Index is down -13% year-to-date. The average drawdown in a midterm election year is -17%, but there is a normalization of market volatility. We would not be surprised by greater market volatility or downside with recent trends.

FED AND RATE HIKES

- Market expects fed funds to be at 3.25% at year-end. This is what is priced in the market!
- For the June FOMC Meeting, the futures markets expect the Fed to raise rates by 75 basis points, despite Fed Chair Powell's comment last week that a 75 basis point hike is "not something the committee is actively considering." For the June 15 meeting, the futures market currently shows an 83% probability of a 75 basis point hike.
- Fear and uncertainty tend to be scarier than the actual events themselves. As the Fed starts aggressively hiking rates, the market will have discounted the majority of hikes already.

FIXED INCOME AND YIELD CURVE

- The U.S. bond market has had positive returns, before inflation, in all but four years since 1976. In 1994, when the Fed raised interest rates six times or a total of 2.50 percentage points, bonds lost only -3% in the aggregate.
- Over the long run, the total return of bond portfolios is far more dependent on income than changes in price. Since 1976, over 90% of the average annual return of the U.S. bond market has come from interest and reinvesting it. Longer-term, the yield has historically been a reasonable estimate for the total return over longer time frames.
- US bond market yield has doubled since 12/31/21...and is now yielding 3.60%.

BLOOMBERG BARCLAYS AGGREGATE, TOTAL RETURN
1977-2022

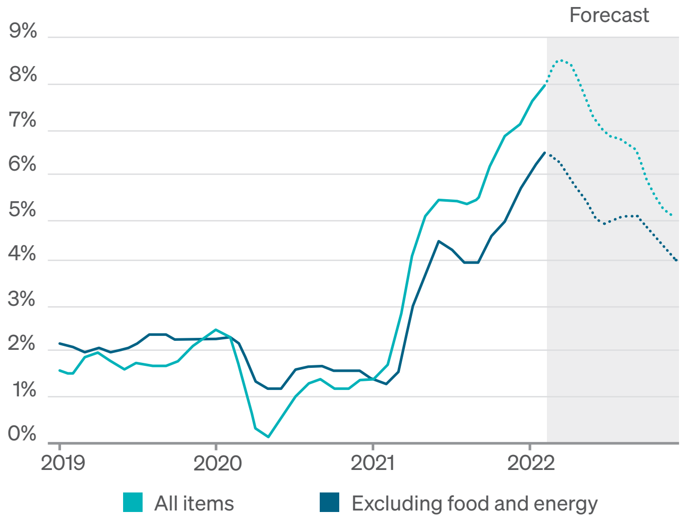
YEAR	RETURN	YEAR	RETURN	YEAR	RETURN
1977	3.0%	1993	9.7%	2009	5.9%
1978	1.4%	1994	-2.9%	2010	6.5%
1979	1.9%	1995	18.5%	2011	7.8%
1980	2.7%	1996	3.6%	2012	4.2%
1981	6.2%	1997	9.7%	2013	-2.0%
1982	32.6%	1998	8.7%	2014	6.0%
1983	8.4%	1999	-0.8%	2015	0.6%
1984	15.1%	2000	11.6%	2016	2.7%
1985	22.1%	2001	8.4%	2017	3.5%
1986	15.3%	2002	10.3%	2018	0.0%
1987	2.8%	2003	4.1%	2019	8.7%
1988	7.9%	2004	4.3%	2020	7.5%
1989	14.5%	2005	2.4%	2021	-1.5%
1990	9.0%	2006	4.3%	YTD 4/30	-9.5%
1991	16.0%	2007	7.0%		
1992	7.4%	2008	5.2%		

SOURCE: BLOOMBERG

INFLATION

- We have seen some “peak inflation” evidence (e.g., U.S. used-car prices -6% since January, shipping costs down 10-20%).
- Core CPI—excluding food and energy prices—already is showing tentative signs of deceleration, moving lower from 0.6% in January to 0.5% in February to 0.3% in March. The question that will drive the policy outlook will not be whether inflation peaked but rather how much inflation has slowed. The market tends to look at whether it is getting better or worse.
- Inflation closer to the Fed target removes the urgency on the pace of tightening required to reduce inflation.

U.S. CONSUMER PRICE INDEX, CHANGE FROM ONE YEAR EARLIER



Note: Figures from March 2022–December 2022 are a Natwest forecast

SOURCES: LABOR DEPARTMENT NATWEST

EARNINGS

Aside from several high-profile earning misses in several technology companies (AMZN, AAPL), S&P 500 EPS are on pace to increase 8% for Q1 based on actual results so far, and estimates for companies yet to report. 2022 revenues are expected to rise 9%.

SENTIMENT

One of the most bullish indicators we see today is due to the extreme levels of bearishness that investors are exhibiting. Sentiment levels are at some of the most bearish readings of the past 50 years.

OUR PORTFOLIO POSITIONING

FIXED INCOME – shorter duration and titled toward credit

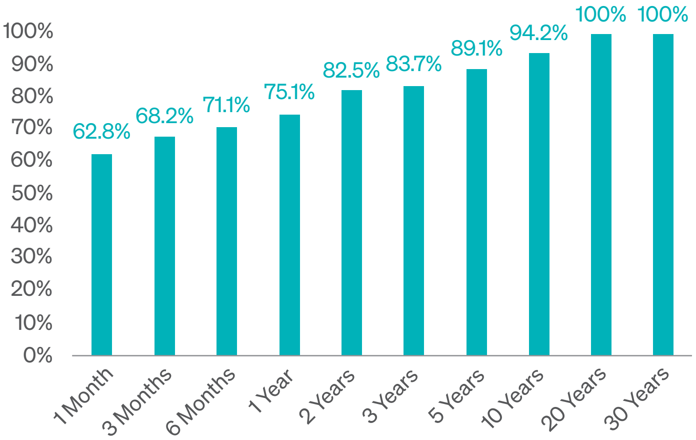
- Our portfolios range between 10-20% lower duration than the index. Given the current yield curve structure, we see more opportunities in the shorter-term credit relative to other areas of the traditional bond market.
- We are focusing on after-tax returns and monitor trading in funds due to recent volatility.
- Our fixed income portfolios have outperformed indexes and exhibited lower volatility. Longer-term, yields are the primary determinant of future returns. We continue to tilt our portfolios toward favorable yields relative to the risk.
- Despite the rising rate environment and higher inflation prints, we still see resilience in the credit landscape for corporations and municipalities broadly.

EQUITY

- Regarding tax management, our team continues to look for opportunities to tax-loss harvest. With the large outflows from equity mutual funds, this is also a great opportunity to increase tax budgets to accelerate the transition from legacy mutual funds which may have higher tax costs.
- We remain overweight in US equities relative to international or emerging markets.
- Income portfolios should be considered for clients with shorter time horizons or higher withdrawal needs. For longer-term investment horizons, there is value in income-oriented portfolios. A prolonged period of higher but falling inflation has historically benefited defensive and value-oriented sectors.

We continue to analyze markets and question which market cycles may be turning. Our team anticipates further changes to portfolios to position for a new cycle of higher but slowing inflation, accompanied by tighter financial conditions.

S&P 500 TOTAL RETURN: PERCENT OF TIME POSITIVE OVER VARIOUS TIMEFRAMES



SOURCE: BESPOKE

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6125 Memorial Drive, Dublin, Ohio 43017 | meederinvestment.com | 866.633.3371

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