MEEDER

MEEDER EDGE AND PRIVATE WEALTH

Market Viewpoints

September 2023

Market Highlights

TOTAL RETURNS (AS OF 9/30/23)

EQUITY INDICES	1 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR
S&P 500	-4.8%	13.1%	21.6%	10.2%	9.9%
US Large Cap Growth	-5.4%	25.0%	27.7%	8.0%	12.4%
US Large Cap Value	-3.9%	1.8%	14.4%	11.1%	6.2%
US Small Cap	-5.9%	2.5%	8.9%	7.2%	2.4%
Developed International	-3.4%	7.1%	25.6%	5.8%	3.2%
Emerging Markets	-2.6%	1.8%	11.7%	-1.7%	0.6%
FIXED INCOME INDICES	**1 MONTH**	**YTD**	**1 YEAR**	**3 YEAR**	**5 YEAR**
US Investment Grade	-2.5%	-1.2%	0.6%	-5.2%	0.1%
US High Yield	-1.2%	6.0%	10.2%	1.8%	2.8%

SOURCE: MORNINGSTAR DIRECT, MEEDER INVESTMENT RESEARCH. INDICES: S&P 500 INDEX, RUSSELL 1000 GROWTH, RUSSELL 1000 VALUE, RUSSELL 2000, MSCI EAFE, MSCI EM, BLOOMBERG US AGG BOND, ICE BOFA US HIGH YIELD

EQUITIES

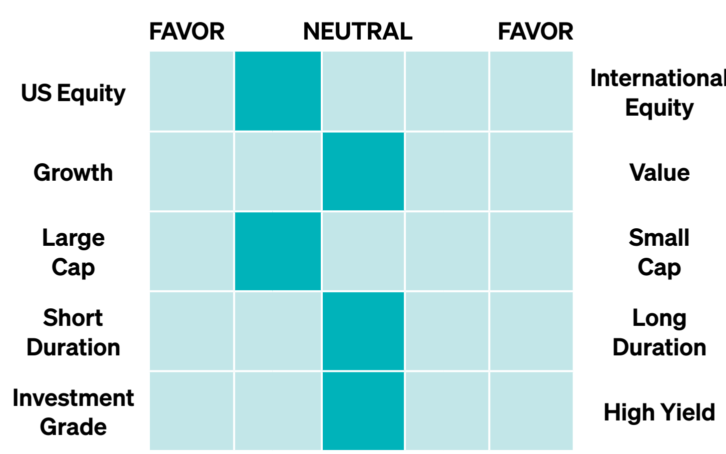
Bearish headwinds prevailed against equities during September as the markets contended with seasonal trends, the Fed's "higher for longer" policy stance, and the looming U.S. government shutdown, which was averted at the 11th hour. Seasonal headwinds shift into a historically stronger October, with the bullish narrative counting on positive earnings growth and renewed soft-landing expectations to propel the markets after back-to-back difficult months. Developed International markets fared slightly better than the U.S. as positive signs of declines in services inflation emerged across European CPI's. Emerging Markets continued to struggle against the backdrop of a rising U.S. dollar.

FIXED INCOME

Bonds were down in September across the major categories, with Investment-Grade crossing into negative territory YTD. Pricing action was driven by the increase in the 10-year Treasury note moving to 4.6% as markets were on edge over the likelihood of the U.S. government shutdown. Higher oil prices also contributed to the bond sell-off as worries of a re-acceleration of inflation bubbled up. However, we did see a slight tick down in the 10-year Treasury at month end as encouraging inflation numbers out of the eurozone and U.S. were released. High-Yield continues to outperform Investment Grade, but cracks are starting to emerge as rates remain elevated.

Portfolio Positioning

- We continue to favor U.S. Equity but are monitoring valuation spreads and signs of further weakness in the U.S. dollar that could warrant an increase in International Equity exposure. The dollar has increased over 6% since its bottom in July causing us to hold steady.
- Large-Caps continue to outperform Small-Caps, earning a slight overweight allocation as market breadth remains weak. Small Caps will remain under stress as long as rates remain elevated, making it difficult to finance operations for many smaller companies.
- We remain neutral on duration as interest rates ticked up in September. It's important to keep in mind that the higher 10-year yields go, the more likely that something will break in the U.S. economy. The effect of this would likely push yields substantially lower, hurting a short-duration position.



Market Insights

The threat of a U.S. government shutdown held markets captive during September as dysfunctional partisan politics have become the norm in Washington. The shutdown was averted as the Senate passed a continuing resolution on spending bills with just hours to spare before the October 1st midnight deadline. Unfortunately, this political game of chicken is far from unprecedented and will continue so long as lawmakers are content to kick the can down the road, this time only until November 17th. Although a shutdown was avoided in this instance, it is useful to look at the market's reaction to prior shutdowns and what lies ahead:

» Fortunately, the financial markets have historically taken government shutdowns in stride. We've had 22 shutdowns since 1976 and the market typically shrugs it off with returns averaging 0.3% during the shutdown and 12.7% in the 12 months after.

» Rebounds tend to be even more meaningful after extended shutdowns, with the last three of over two weeks leading to 12-month forward gains averaging 18%.

» The point is to recognize that these events do and will continue to occur, eventually becoming smaller matters in hindsight for longer-term investors.

» It's certainly possible that the next time proves different, and the consequences of a shutdown and the associated dysfunctional government lead to something much worse. Every subsequent shutdown puts the country's credit rating at risk, as rating agency Moody's has warned. This comes on the heels of Fitch's downgrade of U.S. credit following the debt ceiling crisis.

Not to be outdone, consumers continued their breakneck spending pace alongside the U.S. government. According to the latest Federal Reserve study of household finances, Americans outside the wealthiest 20% of the country have run out of extra savings and now have less cash on hand than they did when the pandemic began. For the bottom 80% of households by income, bank deposits and other liquid assets were lower in June this year than in March 2020, after adjusting for inflation. As we have mentioned previously, this economic pressure point bears attention as it coincides with an increase in credit card debt (now over $1T) and delinquencies which have surpassed pre-pandemic levels.

FIGURE 1

STOCKS TEND TO IGNORE GOVERNMENT SHUTDOWNS

S&P 500 PERFORMANCE DURING GOVERNMENT SHUTDOWNS

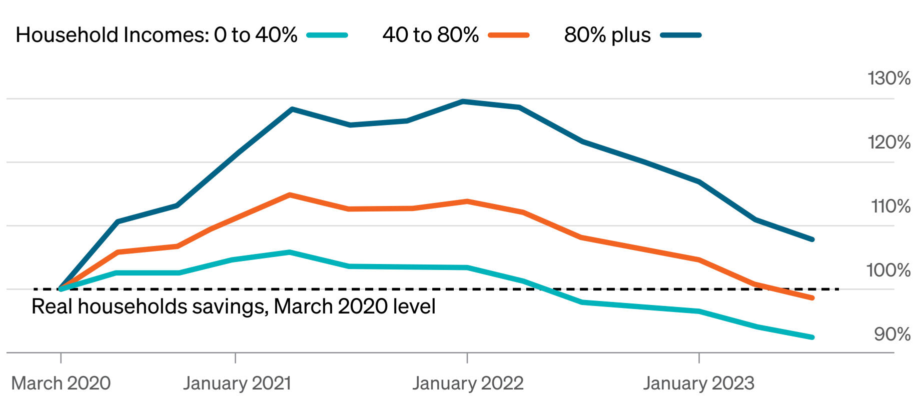
START DATE	END DATE	LENGTH (DAYS)	S&P 500 % RETURN DURING SHUTDOWN	S&P 500 % RETURN 12-MONTHS AFTER SHUTDOWN ENDS
9/30/1976	10/11/1976	12	-3.5%	-6.6%
9/30/1977	10/13/1977	14	-2.5%	12.0%
10/31/1977	11/9/1977	10	0.4%	1.5%
11/30/1977	12/9/1977	10	-1.0%	3.2%
9/30/1978	10/18/1978	19	-2.0%	3.1%
9/30/1979	10/12/1979	13	-4.4%	24.7%
5/1/1980	5/1/1980	1	-0.8%	25.8%
11/20/1981	11/23/1981	4	0.7%	9.3%
9/30/1982	10/2/1982	3	0.3%	36.2%
12/17/1982	12/21/1982	5	2.4%	18.0%
11/10/1983	11/14/1983	5	1.6%	-0.4%
9/30/1984	10/3/1984	4	-2.2%	13.5%
10/3/1984	10/5/1984	3	-0.6%	12.6%
10/16/1986	10/18/1986	3	0.0%	18.4%
12/18/1987	12/20/1987	3	2.5%	11.9%
10/5/1990	10/9/1990	5	-2.1%	23.2%
11/13/1995	11/19/1995	7	1.2%	22.8%
12/15/1995	1/6/1996	23	0.0%	21.3%
10/1/2013	10/17/2013	17	3.1%	8.9%
1/20/2018	1/22/2018	3	0.8%	-7.1%
2/9/2018	2/9/2018	1	1.5%	3.4%
12/22/2018	1/25/2019	35	10.3%	23.7%
Average		9.1	0.3%	12.7%
Median		5.0	0.1%	12.3%
% Higher			54.5%	86.4%

SOURCE: CARSON INVESTMENT RESEARCH, FACTSET 09/20/2023

FIGURE 2

US EXCESS SAVINGS DEPLETED FOR BOTTOM 80% OF HOUSEHOLDS

RAPID ACCUMULATION AND DRAWDOWN OF HOUSEHOLD EXCESS SAVINGS



SOURCE: FEDERAL RESERVE, BLOOMBERG CALCULATIONS
NOTE: MARCH 2020 = 100

Outside the Markets

McDonald's isn't actually a fast-food restaurant but one of the largest commercial real estate companies in the world. The McDonald's brothers opened their first restaurant in 1951, but they eventually sold the McDonald's Corporation to Ray Kroc for pennies on the dollar. He had a brilliant idea for the company that would eventually transform everything. Instead of the normal franchise model, McDonald's would buy the land and rent out the building to the franchisees that were selling the actual burgers. The rent is usually 10% of the restaurant's sales each month. On top of this, McDonald's receives a royalty for the use of their name, image, and likeness. In other words, they were transforming their company from being focused on selling burgers to collecting rent. Today, McDonald's owns some of the best real estate locations in the world. In fact, their portfolio is worth over $40 billion and a majority of their profits comes from the rent that they collect.

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