Q4 2024

# Quarterly Perspectives

MEEDER

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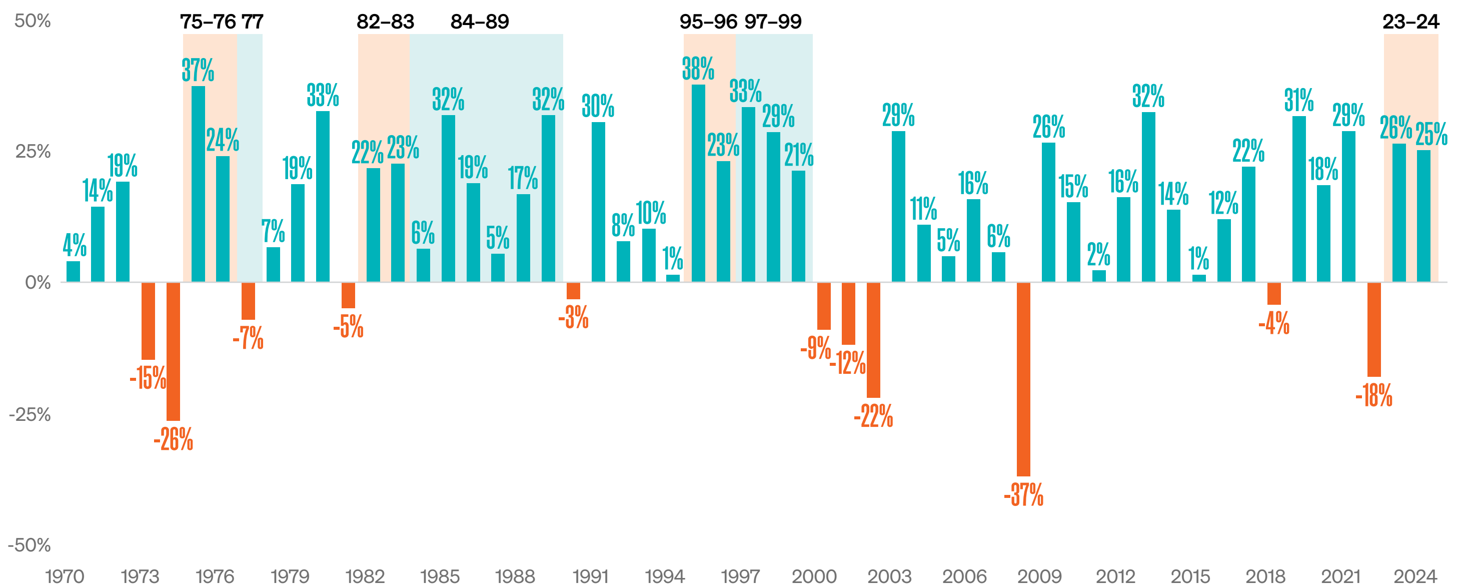
## Strong 2-Year S&P 500 Rally

The fourth quarter of 2024 provided mixed results across various market segments, but the calendar year delivered robust performance. The S&P 500 Index posted an impressive 25% return for the year. This was the second consecutive year of 20%+ gains for the S&P 500, a rare occurrence. As illustrated in **Figure 1**, going back to 1970, there have only been three other instances of back-to-back 20%+ annual returns: 1995–1996, 1982–1983, and 1975–1976.

FIGURE 1

**STRONG 2-YEAR RALLY BY EQUITIES**

S&P 500 Annual Total Returns (1970–2024)




SOURCE: BLOOMBERG

History suggests that strong performance following such periods is not uncommon. In two of these three prior instances, highlighted by the green shading in **Figure 1**, the market delivered exceptional returns in the years that followed. While no one can predict the future, history provides a reassuring perspective: a strong trend does not necessarily mean the rally is over.

## Asset Class Returns Varied Greatly

Despite the dominance of the S&P 500, other areas of the stock market also performed solidly, albeit at lower levels. As shown in **Figure 2**, the S&P 500 Equal-Weighted Index, mid-cap stocks, and small-cap stocks delivered returns ranging between 11% and 14% for the year. Growth stocks, represented by the Russell 1000 Growth Index, were a standout, returning more than 33%—more than double the 14% return of the Russell 1000 Value Index. Much of this disparity is driven by the exceptional performance of the "Magnificent 7": Apple, Microsoft, Amazon, Alphabet, Meta, Nvidia, and Tesla. These companies led the market and continued to post strong earnings, justifying their valuations and solidifying their leadership in the global economy.

FIGURE 2
**ASSET CLASS RETURNS**
**As of 12/31/24**

| U.S. EQUITY | | Q4 | 2024 |
| --- | --- | --- | --- |
| U.S. Large Cap Equity | S&P 500 | 2.4% | 25.0% |
| U.S. Equal-Weight SPX | S&P 500 EW | -1.9% | 13.0% |
| U.S. Mid-Cap Equity | S&P 400 | 0.3% | 13.9% |
| U.S. Small-Cap Equity | Russell 2000 | 0.3% | 11.5% |
| U.S. Large-Cap Growth | Russell 1000 Growth | 7.1% | 33.4% |
| U.S. Large-Cap Value | Russell 1000 Value | -2.0% | 14.4% |
| **INTERNATIONAL EQUITY** | | **Q4** | **2024** |
| Developed Markets | MSCI EAFE | -8.1% | 4.4% |
| Emerging Markets | MSCI EM | -7.9% | 8.0% |
| **FIXED INCOME** | | **Q4** | **2024** |
| U.S. Investment Grade | Bloomberg U.S. Aggregate | -3.1% | 1.3% |
| U.S. High Yield | Bloomberg High-Yield | 0.2% | 8.2% |
| Cash | 3-month U.S. Treasury | 1.2% | 5.3% |

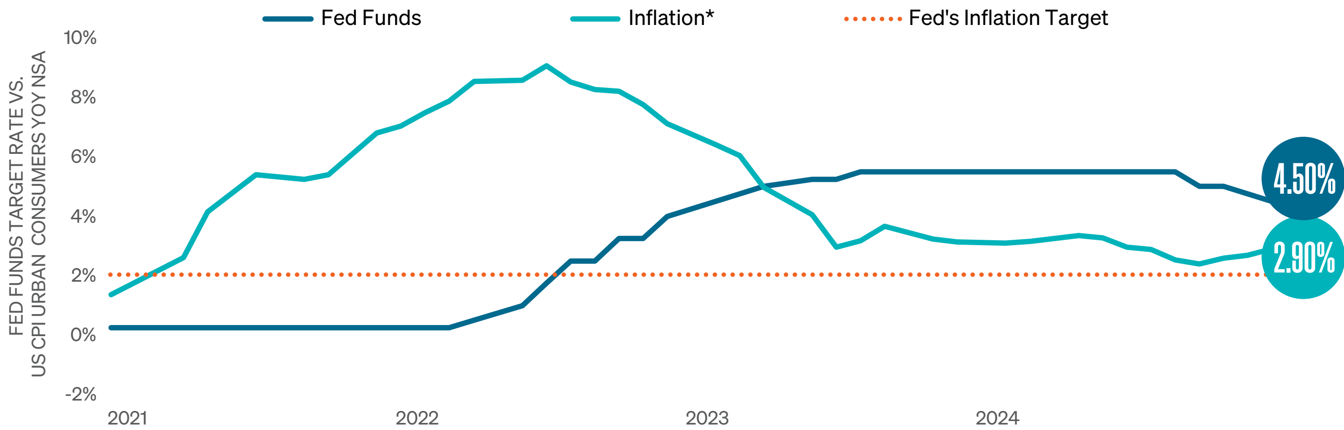
INDICES: BLOOMBERG

International stocks faced more headwinds than U.S. stocks in 2024, weighed down by a strengthening U.S. dollar. Developed markets, represented by the MSCI EAFE Index, returned only 4.5%, while emerging markets, represented by the MSCI Emerging Markets Index, achieved an 8% return. Meanwhile, fixed-income markets experienced volatility as Federal Reserve policy dominated headlines throughout the year.

# The Fed Shifts Policy

The Federal Reserve played a pivotal role in shaping market dynamics throughout the year as it worked to curb inflation while supporting economic growth. As shown in **Figure 3**, the Consumer Price Index (CPI) spiked from below 2% to over 9% in 2021 and 2022. To address this, the Fed raised interest rates aggressively, with the upper bound on short-term rates peaking at 5.50%. After the Fed saw a sustained downward trajectory in inflation toward their 2% long-term target, they became comfortable with reducing the magnitude of their restrictive policy.

FIGURE 3
**THE FED STARTS CUTTING RATES**
**January 1, 2021–December 31, 2024**

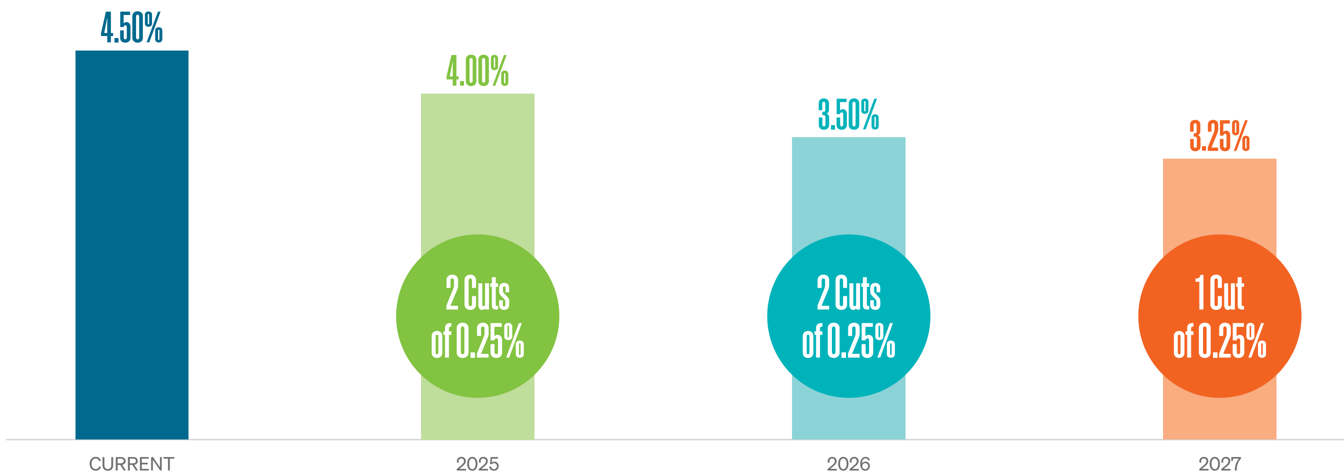



SOURCE: BLOOMBERG, AS OF 12/31/2024. *INFLATION REPRESENTED THE US CPI URBAN CONSUMERS YEAR-ON-YEAR (YOY)

On September 18, 2024, the Fed signaled a shift in policy by cutting rates by 50 basis points for the first time since 2022. Two additional 25 basis point cuts in November and December combined to reduce rates by 100 basis points in the fourth quarter. However, despite these cuts, long-term interest rates moved higher toward year-end, driven by robust economic growth and strong labor market conditions.

The Federal Reserve released its updated Summary of Economic Projections at its December meeting, which offered a more gradual and extended timeline for interest rate reductions compared to the projections made in September. This outlook signals the Fed's commitment to balancing price stability with economic growth. While there could always be changes, **Figure 4** illustrates the Fed's current outlook on short-term interest rates to help investors plan accordingly.

FIGURE 4
**FED'S RATE PROJECTIONS**
**As of December 18, 2024**




SOURCE: FOMC MEETING DECEMBER 18, 2024

## Economic Data Remains Strong

Other economic indicators also remained encouraging. Third-quarter GDP growth exceeded expectations while the labor market continued to impress. In December, the U.S. economy added 256,000 nonfarm payroll jobs, well above the 160,000 forecast and exceeded November's 212,000 figure. The unemployment rate also fell to 4.1% in December, down from 4.2% the prior month. These signs of resilience suggest that while inflation remains sticky, the broader economy is maintaining its momentum.

## Looking Ahead to 2025

As we enter 2025, several key factors will shape the capital markets landscape. A new presidential administration with a dramatically different agenda will take office in January, introducing potential shifts in fiscal policy, trade policy, and economic priorities. Meanwhile, the Federal Reserve will continue its careful balancing act of stabilizing inflation while fostering economic growth. While introducing some uncertainty, these developments also open the door to new opportunities.

The strong market performance of the past two years provides a solid foundation as we look ahead. History has shown that such periods of robust returns often set the stage for future growth. The resilience of the U.S. economy, bolstered by corporate innovation and strong earnings, remains a key driver of optimism for the year to come.

While challenges remain, the positive momentum generated by strong market leadership and economic adaptability has positioned the U.S. economy and equity markets for continued progress. A disciplined, long-term approach will be critical for navigating short-term uncertainties and capturing the opportunities that lie ahead.

## How is This Impacting Portfolios?

Meeder manages investment strategies that utilize a multi-discipline and multi-factor investment approach that guides us in allocating our portfolios. We manage investment solutions across an array of risk profiles and time horizons. Many of these solutions employ one or more of our core investment strategies: Growth, Defensive Equity, and Fixed Income.

### GROWTH EQUITY STRATEGY

Investment portfolios employing the Meeder Growth Strategy maintain a more aggressive objective and typically remain invested in the stock market. The Growth Strategy delivered strong returns for the second year in a row. The fourth quarter of 2024 began with strong momentum in U.S. equity markets. The S&P 500 reached new all-time highs in October, ultimately finishing the year with a 25% total return. Lower risk levels as indicated by the VIX and MOVE indexes, and robust market breadth supported the performance of U.S. stocks. Optimism surrounding the U.S. presidential election in November further propelled markets, driven by expectations of potential deregulation and tax cuts. This strong domestic environment provided a significant boost to our domestic equity holdings.

However, the strategy's allocation to international equities weighed on overall performance relative to its domestic-focused peers. International markets, represented by the MSCI EAFE Index, underperformed with returns of just 4.5%. The MSCI EM Index, representing emerging markets, finished with a gain of 8%. A strengthening U.S. dollar and slower economic growth abroad were key headwinds, reducing the dollar-denominated returns of these holdings. While emerging markets showed signs of stabilization later in the quarter, these gains were not enough to offset the relative underperformance of non-U.S. equities.

## DEFENSIVE EQUITY STRATEGY

Portfolios utilizing the Meeder Defensive Equity Strategy follow a quantitative, rules-based, and data-driven approach using the Meeder Investment Positioning System (IPS) model. This investment model analyzes risk relative to reward available in the marketplace and identifies when to increase or decrease the portfolio's target equity exposure.

The S&P 500 reached new all-time highs early in October, bringing its year-to-date return to over 21%. Risk measures, such as the VIX and MOVE indexes, remained at or below average levels, signaling a low-risk environment. However, as the quarter progressed, expected market volatility increased in anticipation of the November election and the Federal Reserve's upcoming meetings.

Throughout October, equity markets exhibited robust momentum and breadth, with the S&P 500's total return index nearing a 25% gain for the year. However, elevated valuations in the context of higher interest rates remained a challenge for the long-term model. Investor sentiment became increasingly bullish during the month, a contrarian indicator that often signals caution. Despite this, overall risk levels remained low, which has historically been a positive driver for equities.

In November, optimism surrounding the U.S. presidential election and expectations of economic policies, such as deregulation and tax cuts, propelled equity markets higher. U.S. indexes reached new all-time highs, and all trend and momentum factors in the short-term model were positive. Market risk measures continued to decline, with the VIX falling well below its long-term average and the MOVE index stabilizing near average levels.

While optimism drove markets higher, contrarian signals, such as bearish options activity and fund flows, contributed positively to the intermediate-term model. By the end of the month, the S&P 500 posted impressive returns, closing at all-time highs. Low market risk and sustained momentum benefitted our fully invested positioning within the Meeder Defensive Equity Strategy.

The final month of the year also brought a temporary spike in market volatility following the Federal Reserve's updated policy outlook. The Fed indicated a more gradual pace of rate cuts in 2025, prompting a pullback in equities and a brief doubling of the VIX. However, markets quickly rebounded after a lower-than-expected inflation report reignited investor optimism. Major indexes recovered by mid-December, the VIX retreated to below-average levels, and the MOVE index remained muted.

As the month progressed, equities remained near or at all-time highs, supported by low risk levels and strong momentum. Bearish sentiment in investor surveys and newsletters—a positive contrarian indicator—further supported the intermediate-term model score. Although elevated valuations and higher bond yields kept the long-term model score in negative territory, the overall outlook for equities remained favorable.

## FIXED INCOME STRATEGY

The Meeder Fixed Income Strategy tactically shifts portfolio exposure utilizing our proprietary investment models. These models actively monitor economic and market-related factors to guide us in determining the allocations of credit quality, emerging market debt exposure, and portfolio duration.

At the start of the quarter, our models identified opportunities in high-yield bonds, prompting an overweight allocation relative to investment-grade debt. This positioning was supported by the Fed's transition to an easing cycle and a favorable economic backdrop.

In the early part of the quarter, emerging market debt (EMD) also offered attractive opportunities due to a weakening U.S. dollar and positive momentum in the sector. However, as the dollar strengthened in the middle of October, we exited our emerging market debt position, shifting to an underweight stance. Concurrently, as long-term yields rose and the yield curve steepened, we adjusted portfolio duration to a neutral 5.9 years, which was later shortened to 5.0 years by month-end.

Throughout November, we maintained our overweight allocation to high-yield bonds, which continued to benefit from economic growth and declining market volatility. Emerging market debt remained underweight as the strengthening U.S. dollar and rising interest rates created headwinds for the sector. With long-term rates continuing to rise and the curve steepening further, we gradually shortened our portfolio duration to 4.3 years by mid-month and slightly further to 4.2 years by month-end. This shorter duration was a tactical shift from higher rates and inflationary pressures.

Late in November, volatility in emerging market debt eased, and momentum in the sector improved, prompting us to reintroduce a small allocation to EMD. This shift reflected our model's ability to capture opportunities in dynamic market environments while managing overall portfolio risk.

December brought significant adjustments to our fixed-income strategy as economic and market conditions evolved. Early in the month, we extended the portfolio duration to 5.7 years as long-term yields stabilized, signaling a more favorable environment for longer-duration bonds. At the same time, our overweight allocation to high-yield bonds continued to reflect confidence in the Fed's easing cycle and economic resilience.

Momentum in emerging market debt remained strong early in the month, reinforcing our modest exposure. However, by mid-December, the strengthening U.S. dollar and rising inflation prompted us to once again exit EMD positions. As inflationary pressures persisted and long-term rates resumed their upward trajectory, we shortened the portfolio duration to 4.3 years and later to 4.2 years to mitigate risk. This adjustment positioned the portfolio to better weather the challenges of a rising rate environment.

## INDEX DEFINITIONS:

**S&P 500 Index:** The Index tracks the stock performance of 500 of the largest companies listed on stock exchanges in the United States. It is one of the most followed equity indices and includes approximately 80% of the total market capitalization of U.S. public companies.

**S&P 500 Equal Weight Index (EWI):** The Index is the equal-weight version of the widely-used S&P 500. The index includes the same constituents as the capitalization-weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight—or 0.2% of the index total at each quarterly rebalance.

**Russell 1000 Growth Index:** The Index measures the performance of the large-cap growth segment of the US equity universe. It includes those Russell1000 companies with relatively higher price-to-book ratios, higher I/B/E/S forecast medium-term (2 year) growth and higher sales per share historical growth (5 years). The Russell 1000® Growth Index is constructed to provide a comprehensive and unbiased barometer for the large-cap growth segment. The index is reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect growth characteristics.

**Russell 1000 Value Index:** The Index measures the performance of the large-cap value segment of the US equity universe. It includes those Russell 1000 companies with relatively lower price-to-book ratios, lower I/B/E/S forecast medium term (2 year) growth and lower sales per share historical growth (5 years). The Russell 1000® Value Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. The index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics

**Russell Midcap Index:** The Index is a subset of the Russell 1000® Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap® Index represents approximately 27% of the total market capitalization of the Russell 1000® companies, as of the most recent reconstitution. The Russell Midcap Index is constructed to provide a comprehensive and unbiased barometer for the mid-cap segment. The index is completely reconstituted annually.

**Russell 2000 Index:** The Index is constructed to provide a comprehensive, unbiased barometer of the small-cap segment of the U.S. equity market. A subset of the Russell 3000 Index, it includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

**MSCI EAFE Index:** The Index is an equity index that captures large and mid-cap representation across 21 Developed Markets countries* worldwide, excluding the U.S. and Canada. With 783 constituents, the index covers approximately 85% of each country's free float-adjusted market capitalization. MSCI EM Index: The Index captures large and mid-cap representation across 24 Emerging Markets (E.M.) countries. With 1,440 constituents, it covers approximately 85% of each country's free float-adjusted market capitalization.

**MSCI EM Index:** The Index captures large and mid-cap representation across 24 Emerging Markets (E.M.) countries. With 1,440 constituents, it covers approximately 85% of each country's free float-adjusted market capitalization.

**Bloomberg US Corporate High Yield Bond Index:** The Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on the indices' EM country definition, are excluded. The US Corporate High Yield Index is a component of the US Universal and Global High Yield Indices. The index was created in 1998 with history backfilled to July 1, 1983.

**Bloomberg U.S. Aggregate Bond Index:** The Index is a broad-based flagship benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, fixed-rate agency MBS, ABS, and CMBS (agency and non-agency). Provided the necessary inclusion rules are met, U.S. Aggregate-eligible securities also contribute to the multi-currency Global Aggregate Index and the U.S. Universal Index. The U.S. Aggregate Index was created in 1986, with history backfilled to January 1, 1976.

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