



ECONOMIC OVERVIEW & WHAT YOU SHOULD DO IN THE NEW ECONOMIC ORDER

ILLINOIS FINANCIAL FORECAST FORUM

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JASON HEADINGS, CMT, DIRECTOR OF FIXED INCOME

THANK YOU

AGENDA

- The End of a Historic Decade
- Fed Steps In
- What can you do?

THE END OF A HISTORIC DECADE

A REALITY CHECK

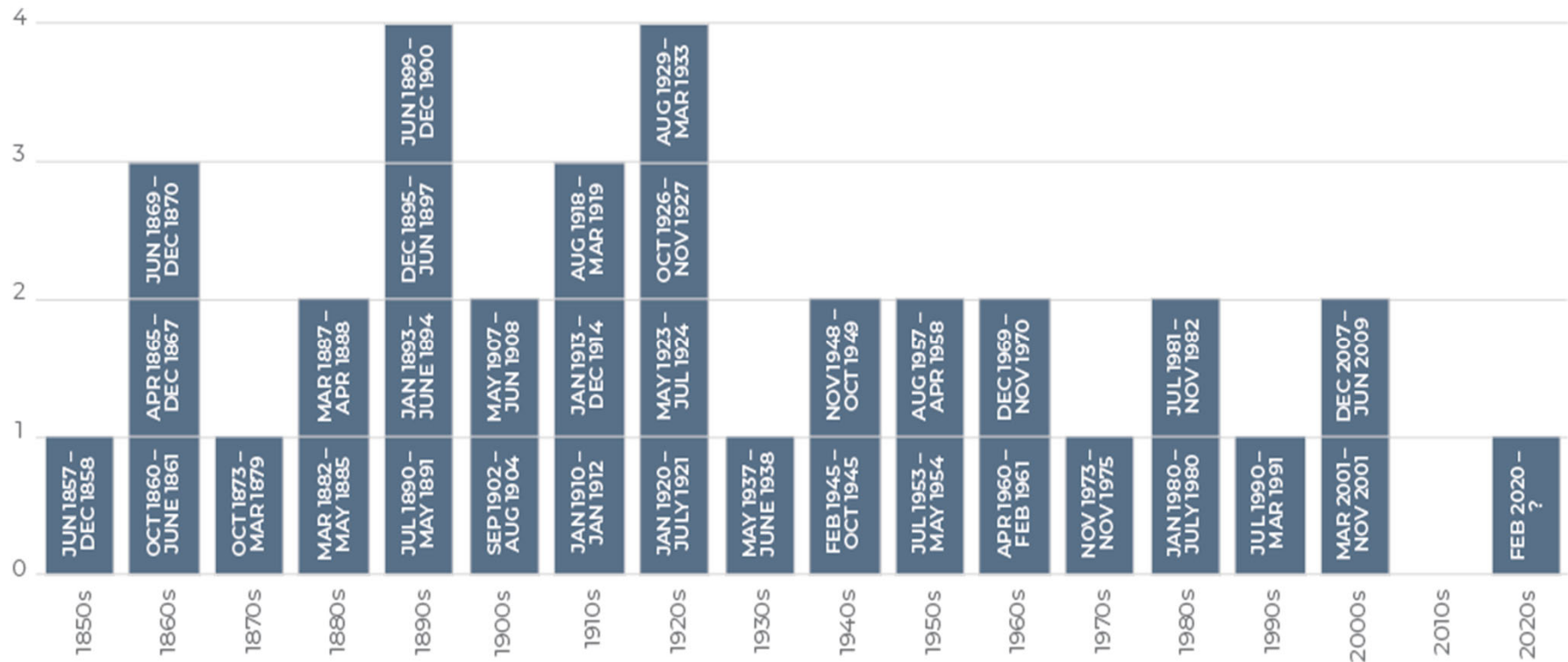
2010–2019

First decade with
NO RECESSION

NO 20% DECLINE
(S&P 500)

THE END OF A HISTORIC DECADE

U.S. Recessions by Decade



Source: NBER



2020—A Year for the Record Books

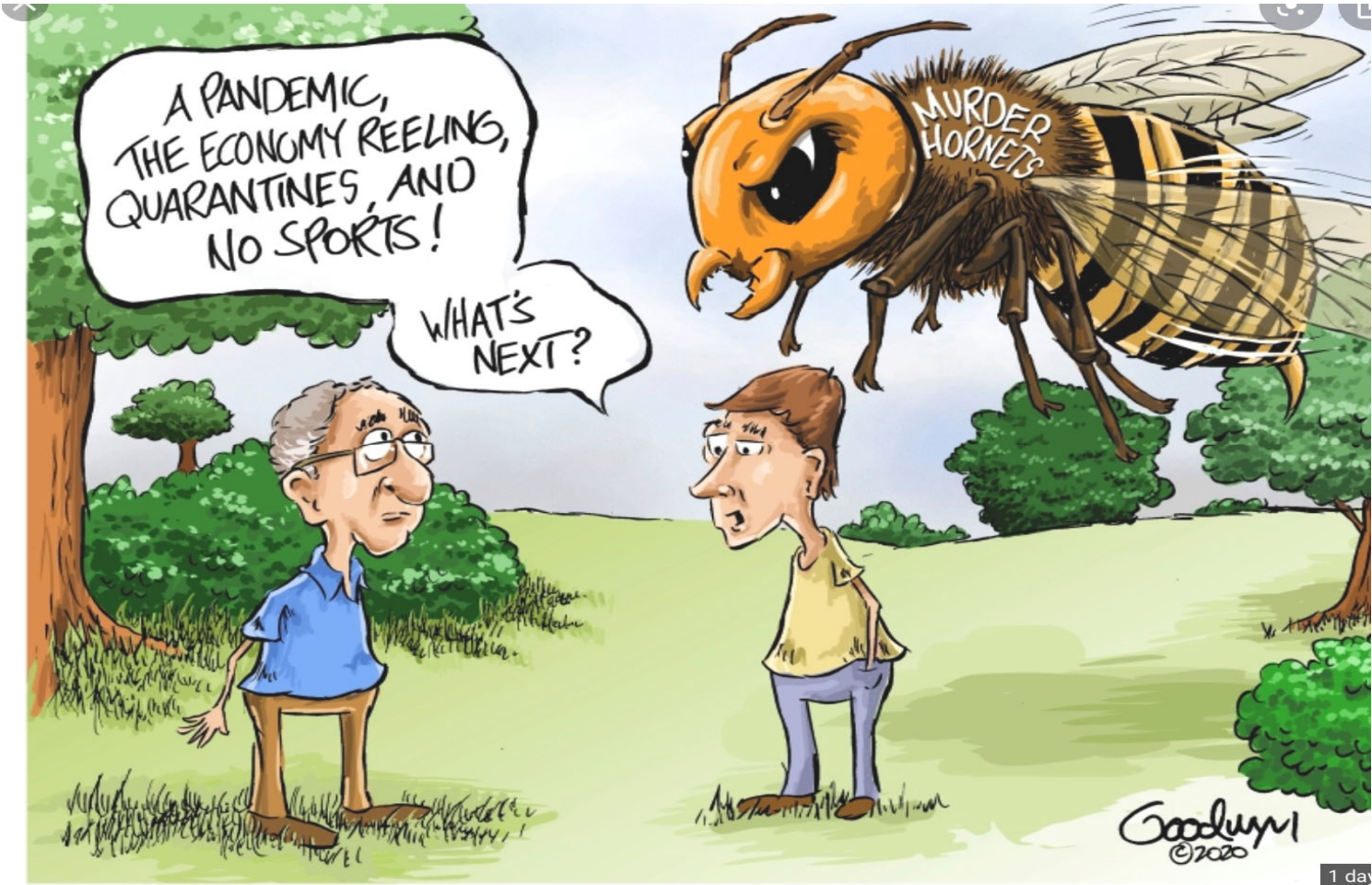
JANUARY 1, 2020 THROUGH SEPTEMBER 30, 2020

2020—A Year For The Record Books

JANUARY 1, 2020 THROUGH SEPTEMBER 30, 2020

- NASDAQ – **Fastest >10% decline** (3 days)
- Longest economic expansion of **128 months** ends in February-NBER
- S&P 500 Index:
 - Quickest **10%** decline in history (6 days)
 - Quickest **20%** decline in history (16 days)
 - Quickest **30%** decline in history (22 days)
- VIX closes at an **all-time high** of 82.69 on March 16
- Largest **single quarterly change** in GDP Q2 (-31.4%)
- March 28th – **largest weekly initial jobless claims** number ever at 6,867,000
- Unemployment jumped from 4.4% in March to its **highest rate ever** in April to 14.7%
- For first time in history, prices of **oil futures were negative** (\$-37.63) – April 2020
- **Largest monthly decrease** in retail sales April (-14.7%)
- S&P 500 Index:
 - Best **50-day return** in history: +37.7%
 - Best **100-day return** in history: +50.8%
- **Most expensive** economic stimulus package ever \$2.2 trillion
- Nonfarm payroll report **largest monthly increase** in May +2.5 million jobs
- **Largest monthly increase** in retail sales May (+18.3%)

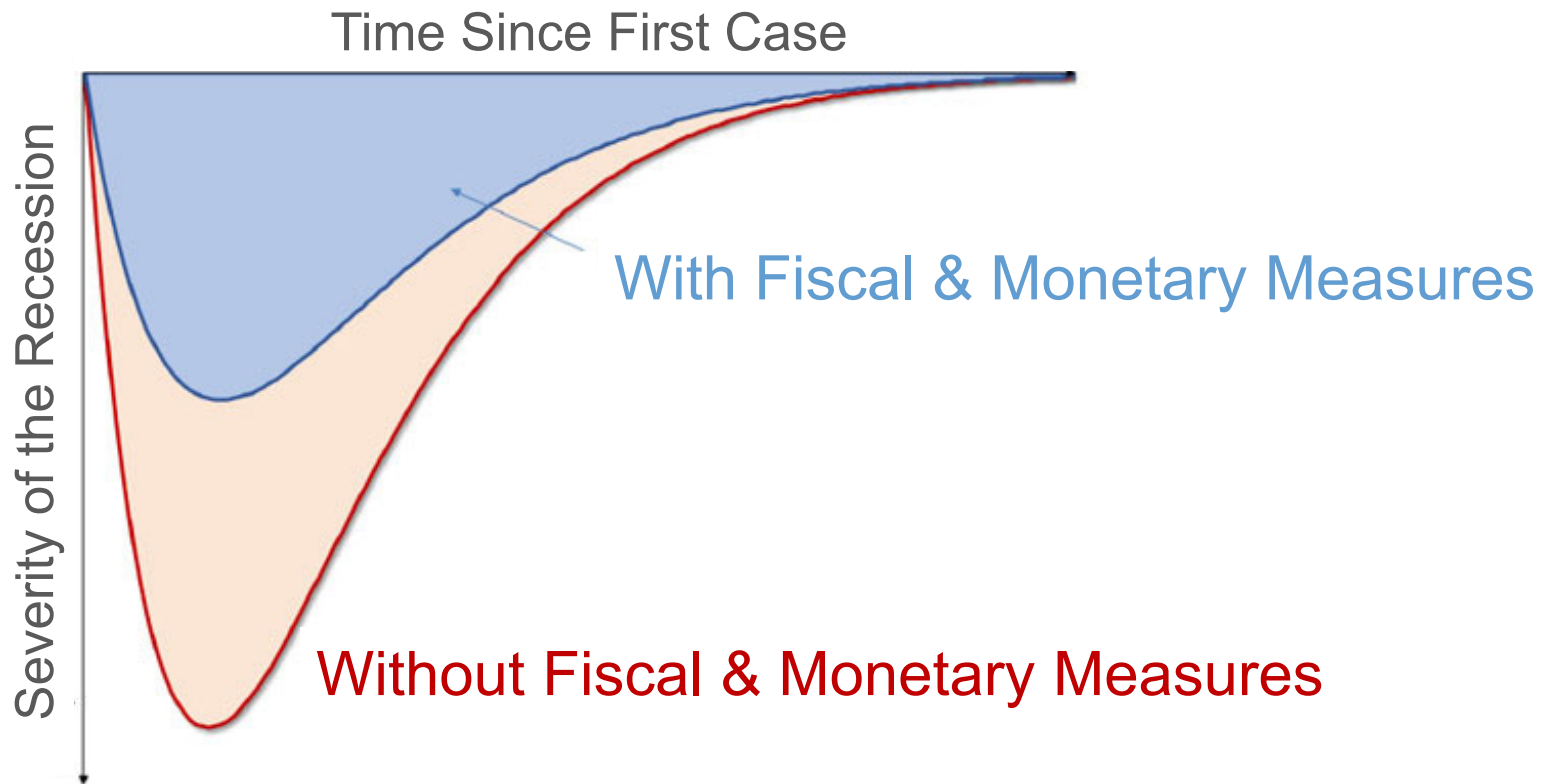
THE END OF A HISTORIC DECADE





THE FED STEPS IN

FLATTENING THE RECESSION CURVE



THE FED STEPS IN

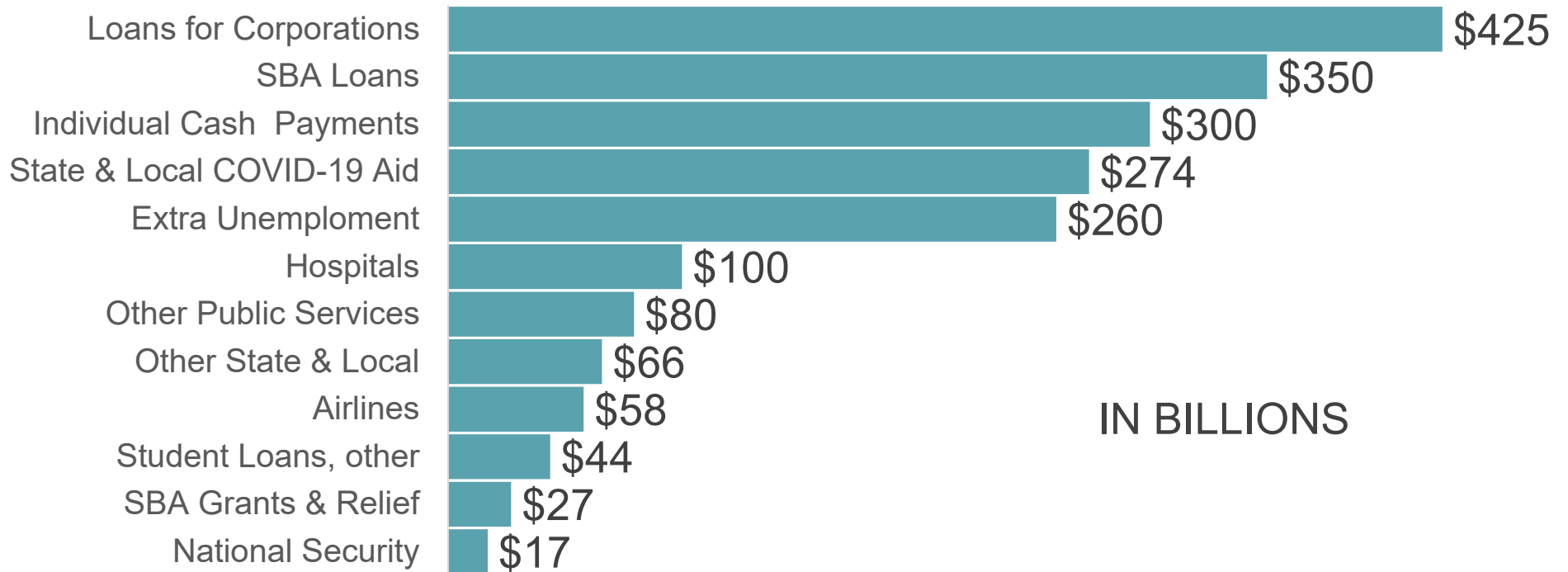
FED ACTIONS

Announced Date	Rate	Action	Who's Impacted	Rationale
March 15 th	0-0.25%	Cut Fed Funds Rate by 100bps (after a 50bp cut on 3/03)	The overall economy	Rates near zero will help recovery and increase inflation. Rates will remain at zero until they are confident that the economy has weathered the effects of the virus and is on track to reach maximum employment and price stability goals
March 15 th	N/A	Fed announces Quantitative Easing and pledges \$700 billion to Treasury and Agency MBS Purchases	Treasury and MBS market	Fed will provide further liquidity in the fixed income market by committing \$500 billion in Treasuries and \$200 billion in MBS Securities
March 15 th	0.25%	Depository institutions may borrow from the discount window for periods as long as 90 days	Depository Institutions	Narrowing the spread of the primary credit rate should help encourage more active use of the window by depository institutions to meet unexpected funding needs.
March 15 th	OIS+0.25%	Fed Swap Lines with Foreign Central Banks	Foreign banks	Lowers the cost USD funding for foreign banks via local central banks
March 15 th	N/A	Fed provides overnight and term repo against Treasuries, MBS, and GSE debt	Primary Dealers	This helps ensure that the supply of reserves remains ample and to support the smooth functioning of short-term U.S. dollar funding markets.
March 23 rd	N/A	Fed pledges asset purchases with no limit	The overall securities market	Previous commitments of fixed dollar amounts, like the \$700 billion worth of Treasuries and MBS securities, are now unlimited. This was done to help markets function more efficiently
April 9 th	N/A	Feds established a Municipal Liquidity Facility	States and Local Governments	\$500 billion in lending will be offered to states and municipalities to help manage cash flow stresses

THE FED STEPS IN

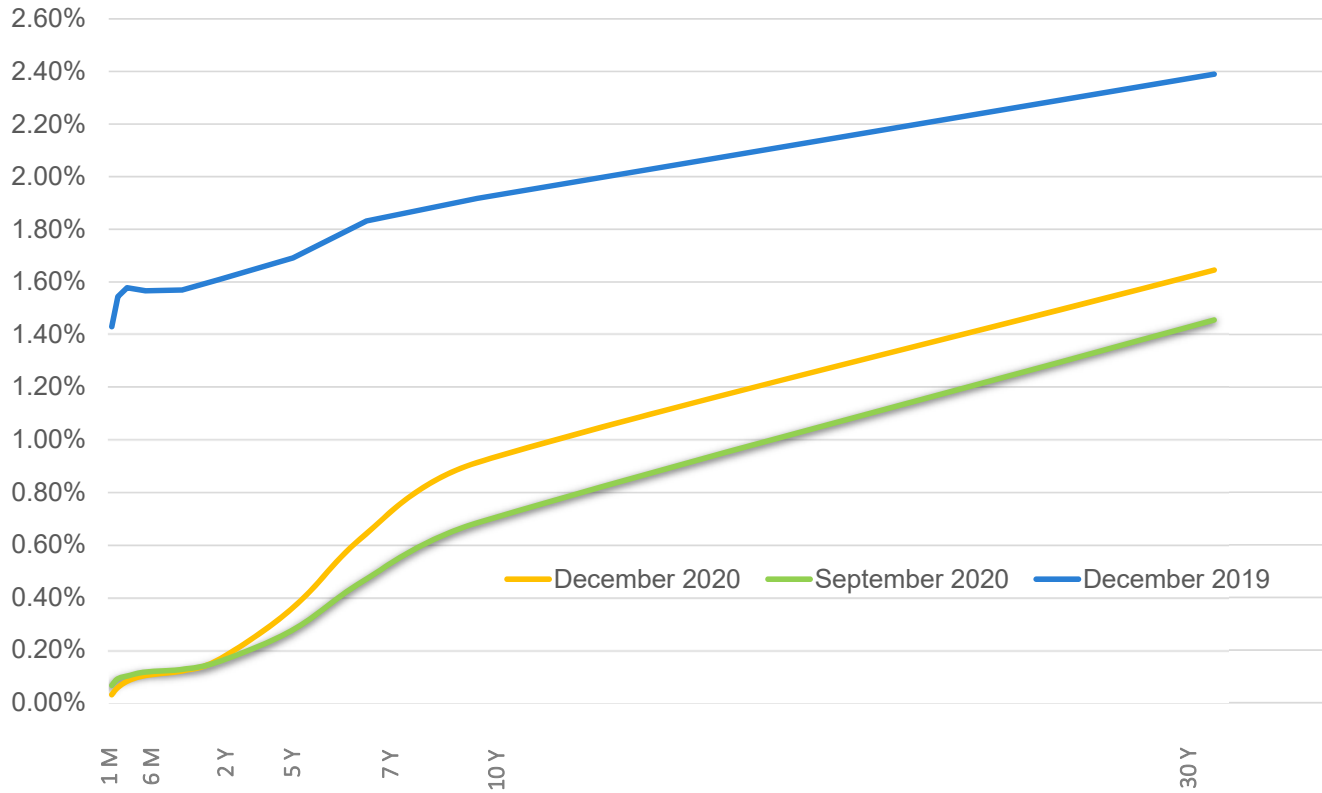
\$2.2 TRILLION FISCAL STIMULUS

CARES ACT



THE FED STEPS IN

U.S. TREASURY YIELD CURVE

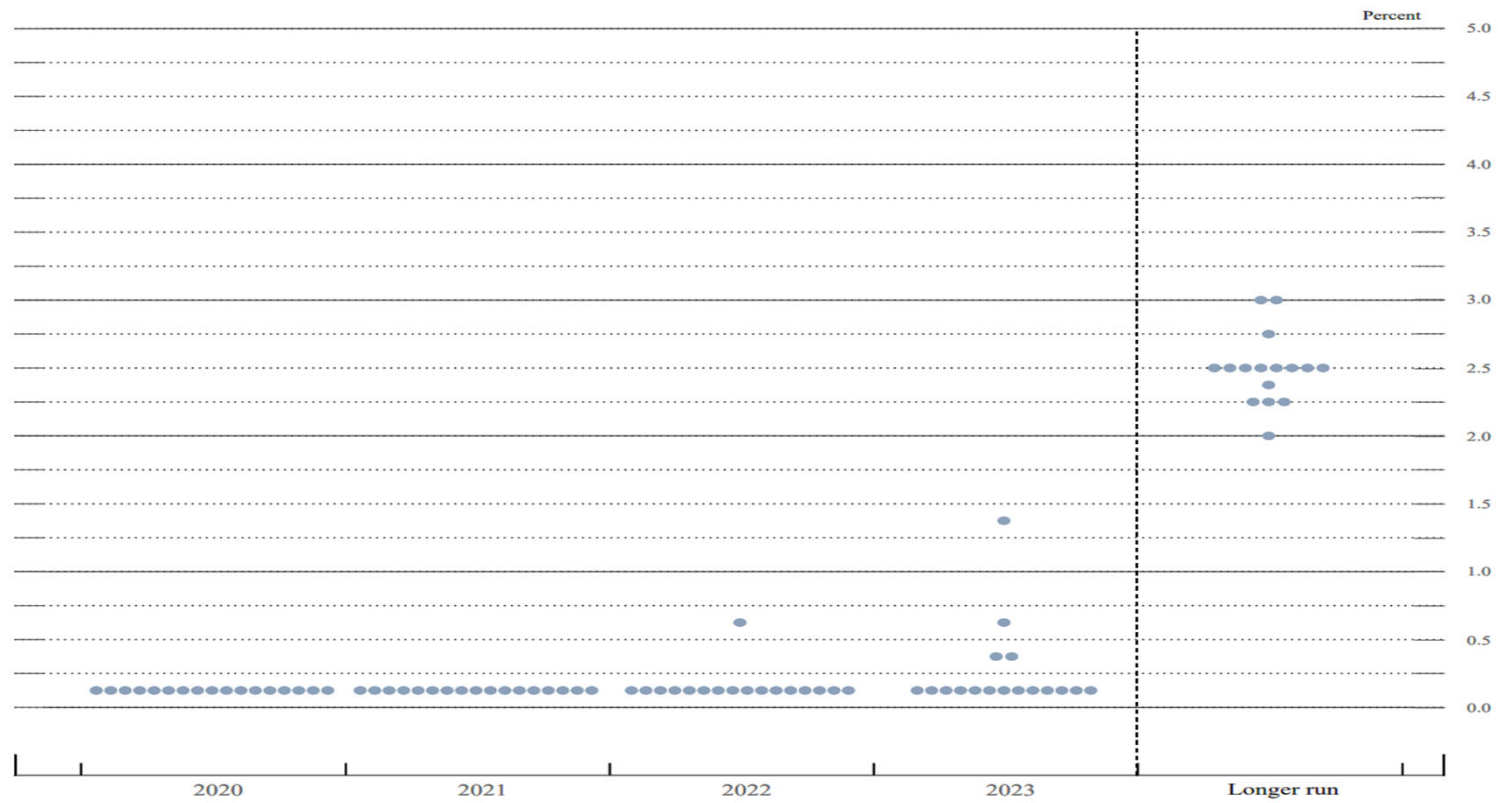


Source: Bloomberg 12/31/2020



THE FED STEPS IN

FEDERAL RESERVE DOT PLOT



Catalysts For Fed Action

WHAT COULD MOVE INTEREST RATES?

VACCINE

INFLATION

FISCAL STIMULUS

EMPLOYMENT



WHAT CAN YOU DO?

THE IMPORTANCE OF HAVING A PLAN

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WHAT CAN YOU DO?

HAVE A PLAN.





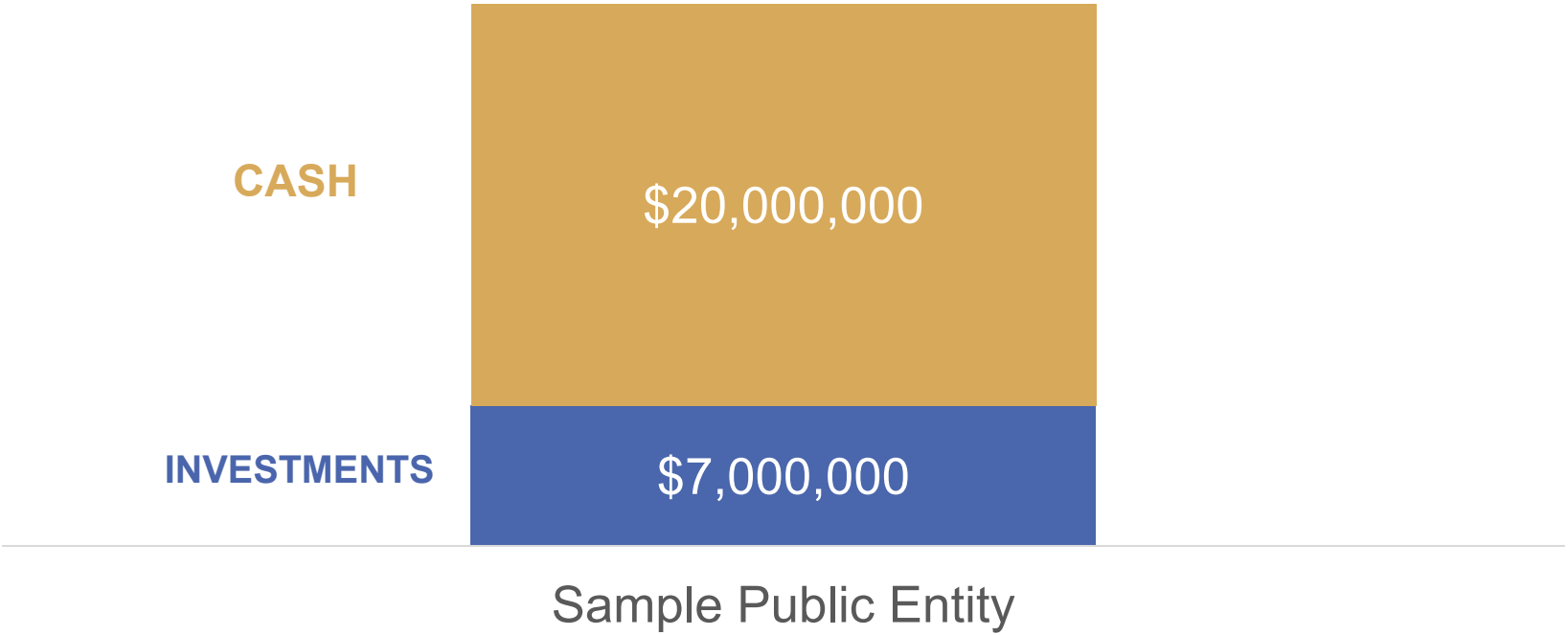
WHAT CAN YOU DO?

1. KNOW YOUR CASH NEEDS

“RIGHT SIZING” YOUR PORTFOLIO THROUGH CASH FLOW ANALYSIS

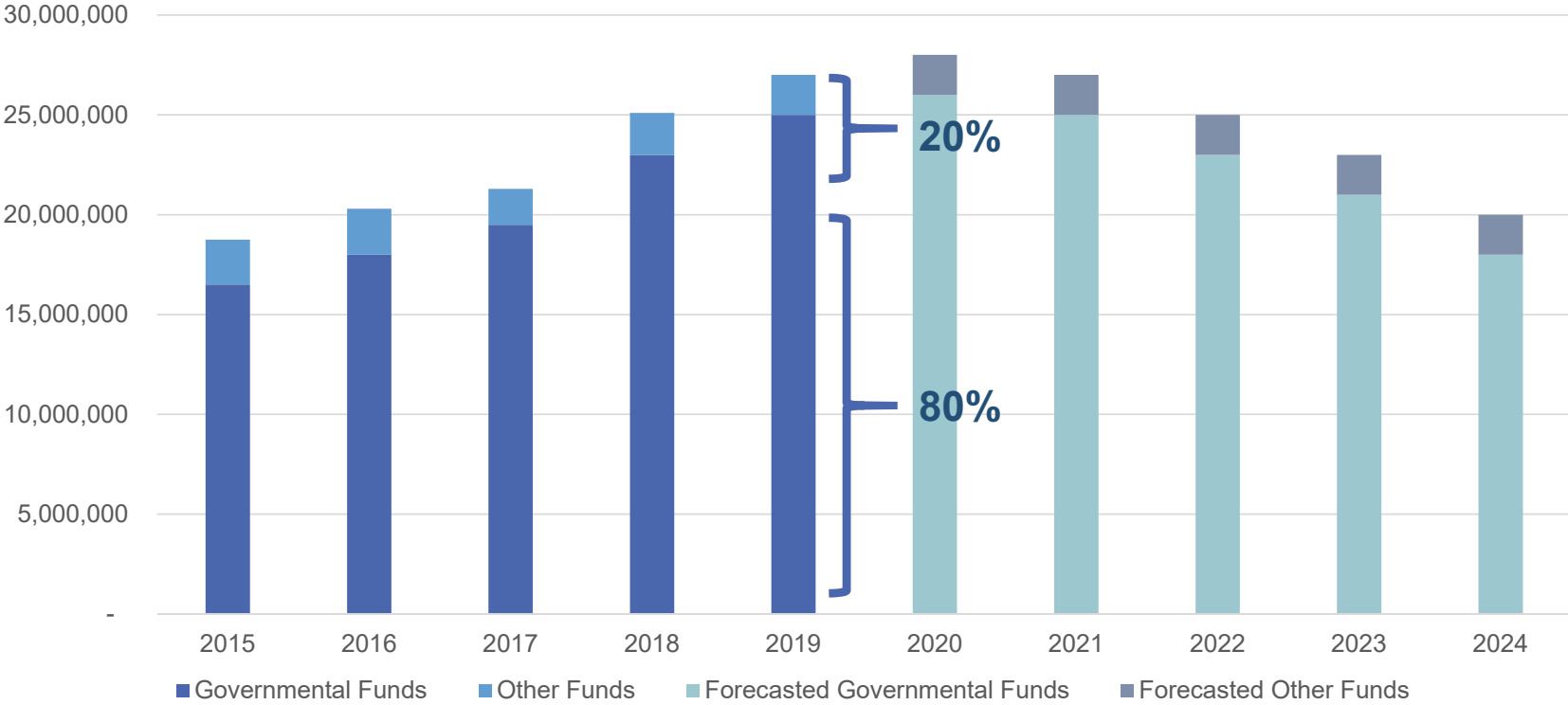
- Cash Management – “Cash” Portfolio
 - Regular operating needs
 - Funds with uncertain time horizon
 - Compensating balance to cover bank service charges
- Investment Management – “Core” Portfolio
 - Cash balance with time horizon typically greater than 6–12 months
 - Apply investment strategy to maximize earnings

THE IMPORTANCE OF HAVING A PLAN

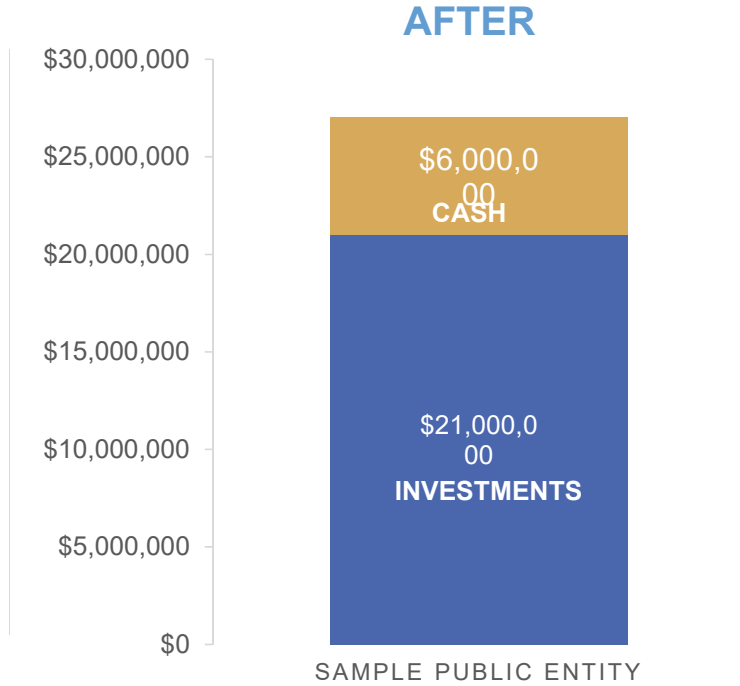
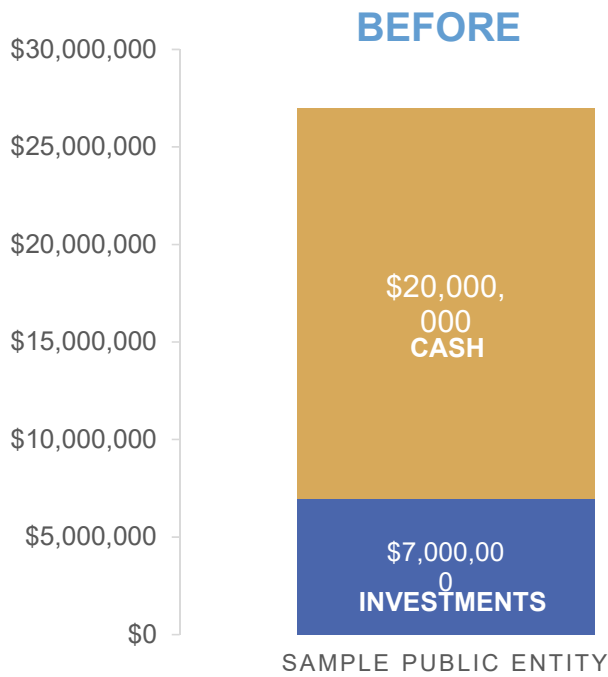


THE IMPORTANCE OF HAVING A PLAN

HISTORICAL CASH FLOW



THE IMPORTANCE OF HAVING A PLAN



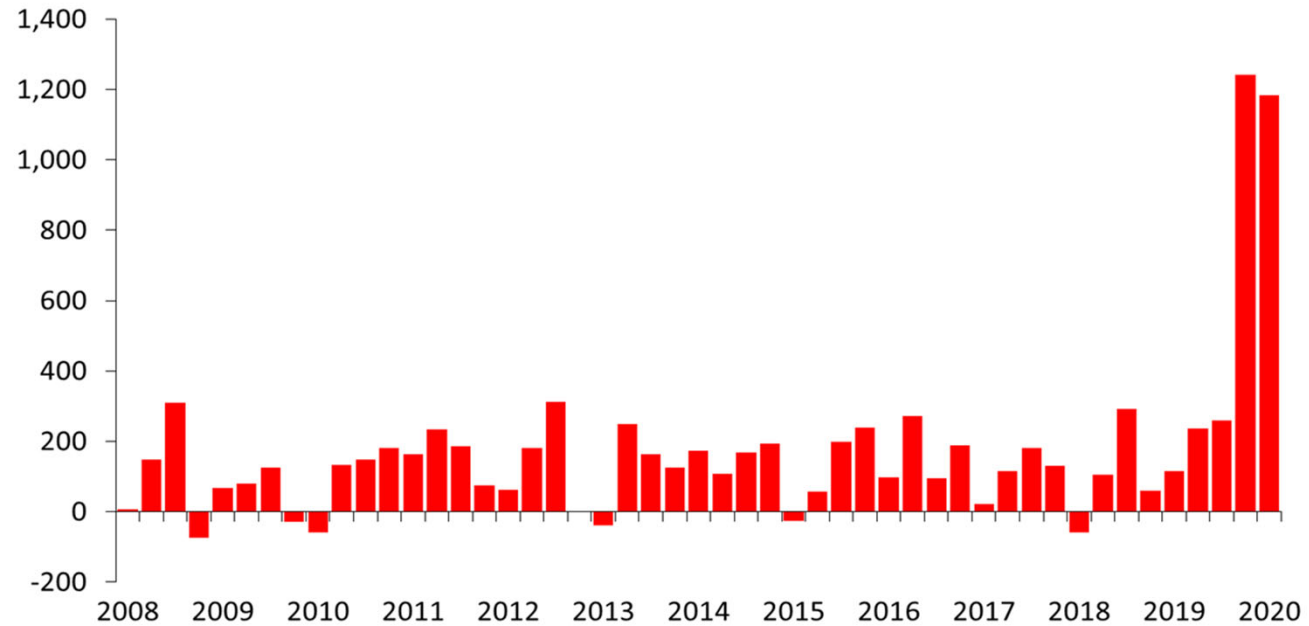
THE IMPORTANCE OF HAVING A PLAN

QUARTERLY CHANGE IN DEPOSITS

AS OF 6/30/2020

All FDIC-Insured Institutions

\$ Billions



Source: FDIC.



THE IMPORTANCE OF HAVING A PLAN

NATIONAL AVERAGE DEPOSIT RATE

0.04%

Source: FDIC



WHAT CAN YOU DO?

2. KNOW WHO IS WHO

WHO WILL HELP YOU INVEST?

KNOW THE TYPES OF SERVICE PROVIDERS

LOCAL GOVERNMENT INVESTMENT POOLS	BANKS	INVESTMENT ADVISORS	BROKERS
<ul style="list-style-type: none">• Know the investments of the LGIP• Look over the annual report• Understand how program works	<ul style="list-style-type: none">• Make sure they understand nuances of public entities• Work with banks you know and trust	<ul style="list-style-type: none">• Acts as a fiduciary in the client's best interest• Who do they work with?• What are their credentials?• Check them out: www.investor.gov	<ul style="list-style-type: none">• Recommends suitable investments• Who do they work with?• What do they do and how much do they charge?• Check them out: www.finra.org

PERFORM THE DUE DILIGENCE BEFORE INVESTING

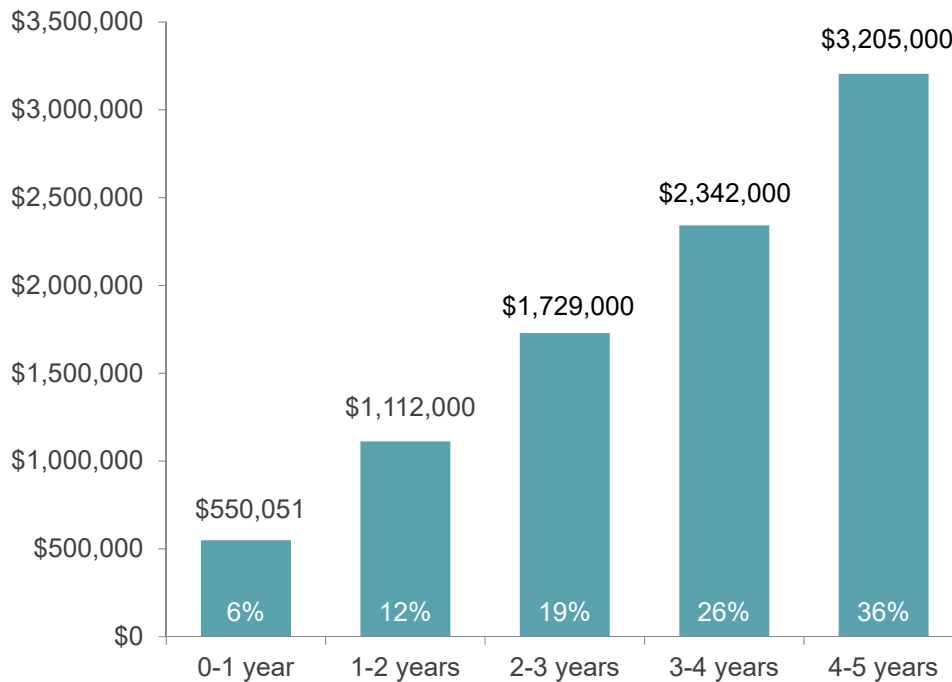
SUITABILITY VS. FIDUCIARY

“People may confuse the terms suitability and fiduciary. Both seek to protect the investor from foreseeable harm or excessive risk. However, the standards of investor care are different. An investment fiduciary is any person who has the legal responsibility for managing someone else’s money. Investment advisors, who are usually fee-based, are bound to fiduciary standards. Broker-dealers, customarily compensated by commission, generally have to fulfill only a suitability obligation.”

Source: Investopedia

THE IMPORTANCE OF HAVING A PLAN

HOW DID IT GET HERE?



\$17,000+ in commissions

What if you need cash?

- New project
- Negotiations
- Funding change





WHAT CAN YOU DO?

3. DON'T GET YOUR FOOT STEPPED ON

MAYBE I SHOULD HAVE SOMEONE ELSE TAKE A LOOK AT THIS...

Hi,

We have some maturities in your portfolio this week. Similar to what we've done in the past, I would like to reinvest these in A1/P1 commercial paper to yield 2.15%.

Thanks,

Questions

- What are my other alternatives?
- What issuers would be purchased?
- Would I remain in compliance?
- What rates are available elsewhere?

PREVIOUS EXECUTION

- 2 purchases of commercial paper
- Both were for 150-day maturity
- Both were sold to yield 2.30%

- These same issuers were shown by other brokers that day to yield 2.76%
- **\$1,916.67 in commission per million**

Issuers purchased:



- 4(a)2 commercial paper

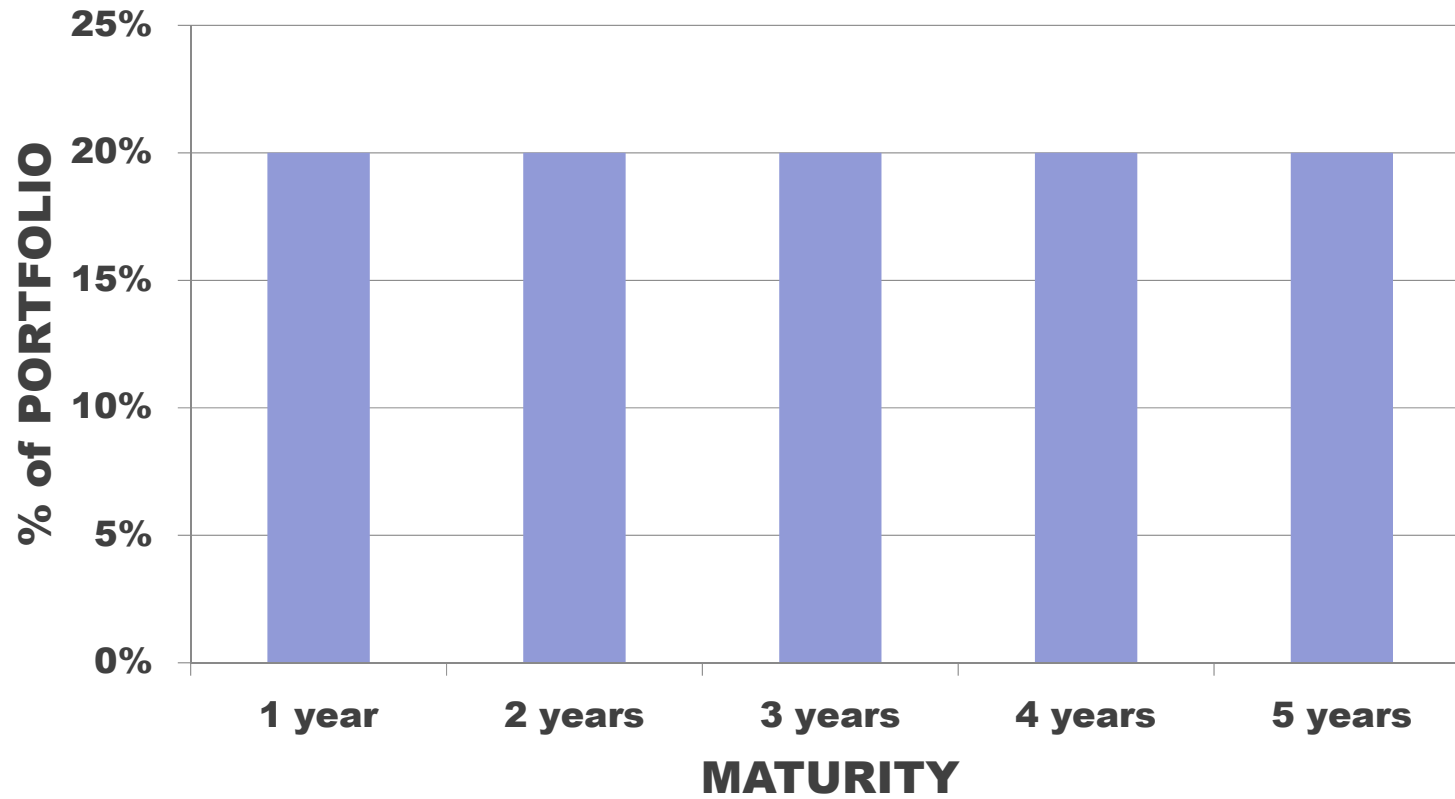


WHAT CAN YOU DO?

4. HAVE A STRATEGY

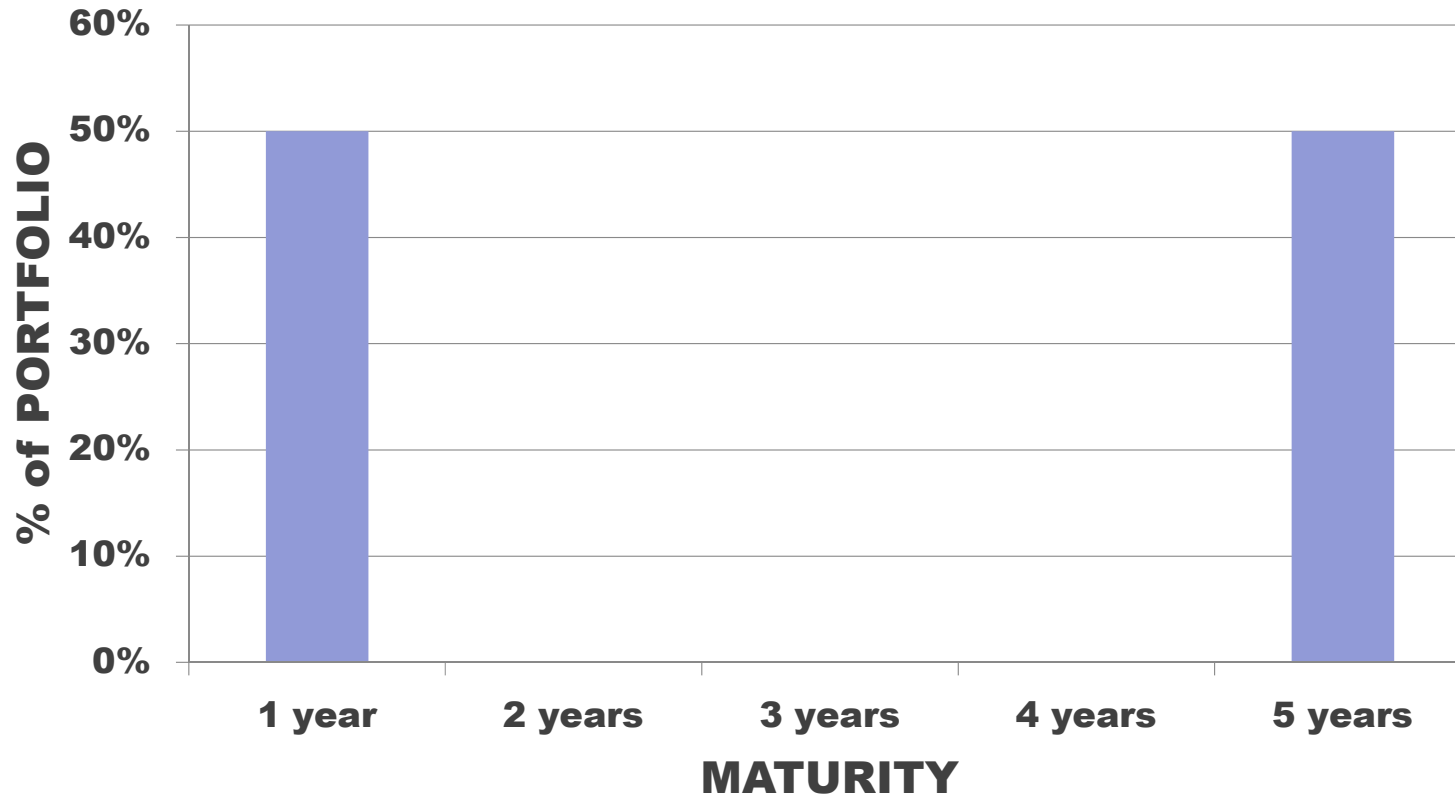
THE IMPORTANCE OF HAVING A PLAN

LADDERED PORTFOLIO



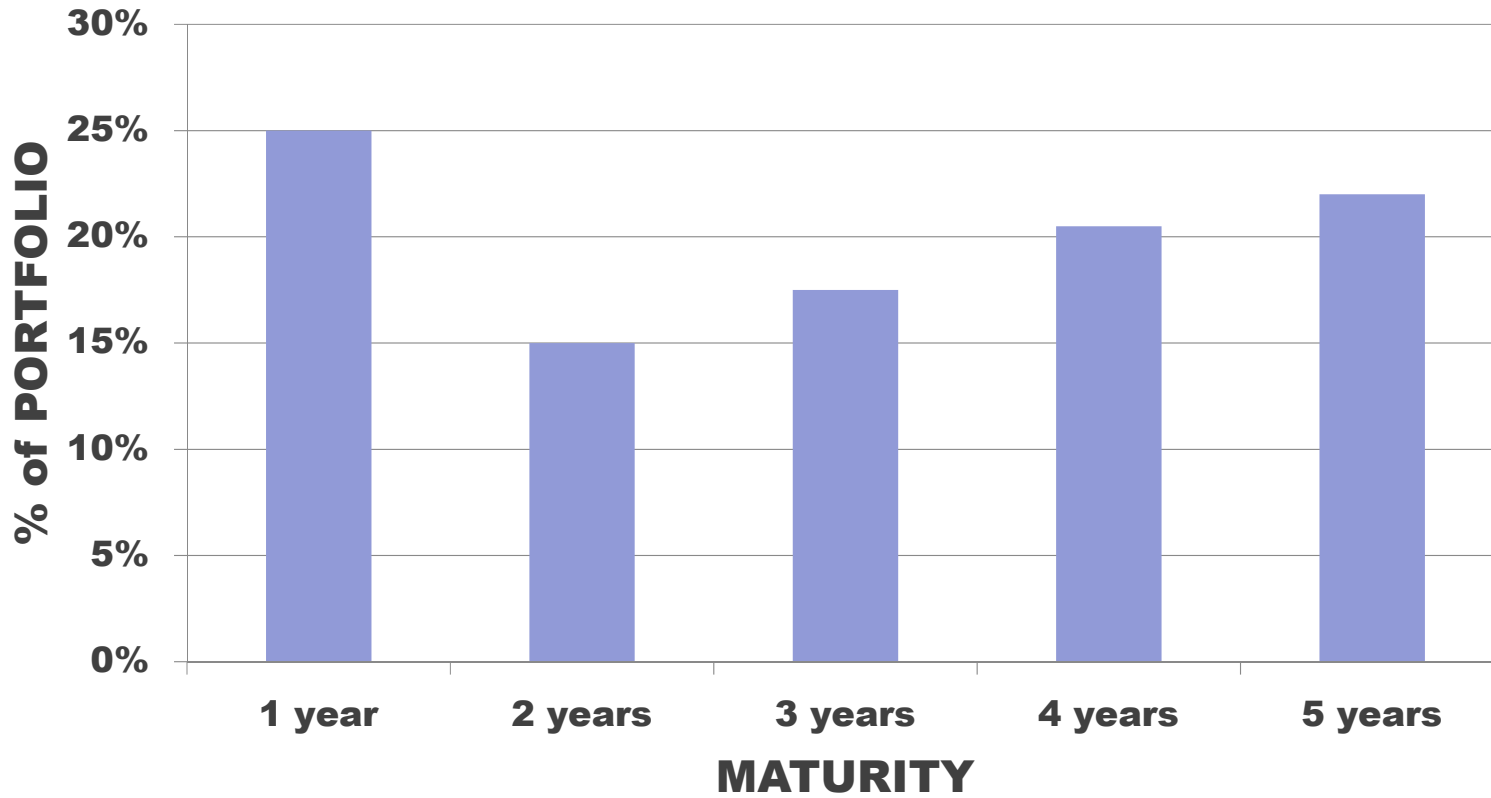
THE IMPORTANCE OF HAVING A PLAN

BARBELL PORTFOLIO



THE IMPORTANCE OF HAVING A PLAN

STRATEGIC PORTFOLIO



THANK YOU

QUESTIONS?



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