

State Farm®

Investment Planning Services

On The Markets – Week ended January 22

State Farm Investment Management (SFIM)

An Important Message

Welcome to ***On The Markets***, your 5-minute guide to understanding the key factors shaping today's shifting investment landscape. At the beginning of each week, the State Farm Investment Management (SFIM) team in Investment Planning Services (IPS) will update you with the most relevant news to help you stay on top of the evolving market story.

We understand that the recent market volatility may have some customers in a panic. However, as you may know, short-term market fluctuations should not prompt a fundamental shift in strategy for achieving your long-term investment goals. Indeed, Behavioral Finance 101 teaches us that emotional investing and trying to time the market are two keys to *compromising* successful investing.

To help you navigate these unprecedented times, through ***On The Markets*** we'll monitor the ongoing impacts from the COVID-19 pandemic, delivering timely updates on asset-class and market returns as well as providing context around market-moving news. In addition, we're making this opportunity available to State Farm customers as well! Investors can access ***On The Markets*** by navigating to statefarm.com > Investments > Mutual Funds > [On The Markets](#).

To take the next step in helping you stay focused on achieving your long-term investing goals, scroll to the next page to begin reading this week's ***On The Markets***.

Questions? Reach out to your State Farm registered agent.



On the Markets – Week ended January 22

State Farm Investment Management (SFIM)



Market Monitor



Asset Class
Returns



Viewpoints

Market Monitor (as of 01/22/21)



Market
Monitor



Equities Back on Track

- All three major U.S. stock indexes rose this week and regained some positive momentum. Better than expected earnings news drove performance further up, with 86% of the S&P 500 companies that had reported fourth-quarter results exceeding analysts' estimates. Optimism over these earnings results and the U.S. political transition helped to lift the NASDAQ over 4%, the S&P 500 2%, and the Dow around 0.6%.



Asset
Class
Returns



Ms. Yellen Goes to Washington

- President Biden has appointed former Federal Reserve Chairwoman Janet Yellen to be the next U.S. Treasury secretary. In her Senate confirmation hearing last week, Ms. Yellen detailed her plan for promoting an economic recovery, pointing to Biden's recent proposal for another \$1.9 trillion in additional government spending. During the conversation, she reiterated the importance of fiscal stimulus as a means to spur economic growth, and emphasized a need for pandemic relief over managing federal debt levels.



Viewpoints



Looking to Sell?

- Sales of previously owned homes rose in 2020 to the highest level in fourteen years, as ultra-low interest rates and remote work during the pandemic increased home-buying demand. Sales climbed 0.7% in December from November to a seasonally adjusted annual rate of 6.76 million. Last month's figure marked a 22% increase over the level recorded in December of the previous year, as existing-home sales totaled 5.64 million in all of 2020, up 5.6% from 2019.



Institutions Cease PAC Contributions

- Many companies across the nation have decided to take a hiatus from political contributions. In light of recent events, these corporations are seeking to distance themselves from party affiliation. J.P. Morgan, America's largest financial institution, has announced that they will be halting all PAC contributions for the next six months due to the riots on Capitol Hill earlier this month. This reduction in financial activism is part of a recent trend that has been implemented by several firms.



Asset Class Returns (as of 01/22/21)

Stocks

Index Total Returns as of 01/22/21 (%)

	CLOSE	WEEK	YTD
S&P 500 Index	3,841.5	2.0	2.4
NASDAQ Composite	13,543.1	4.2	5.1
Dow Jones Industrial Average	30,997.0	0.6	1.4
MSCI EAFE	2,200.0	0.7	2.5
MSCI EM	1,392.9	2.6	7.9

U.S Equity Size and Style Total Returns

1-Week				YTD			
-0.2	1.9	3.9	Large	2.6	2.7	2.7	Large
0.3	0.8	1.8	Mid	3.9	4.0	4.1	Mid
1.3	2.2	2.9	Small	9.2	9.8	10.4	Small
Value	Core	Growth		Value	Core	Growth	

Legend: Better (worse) returns represented by lighter (darker) shades.
Return data from Russell 1000, Russell Mid Cap and Russell 2000 indices.

S&P 500 Sectors (%)

	1 WEEK	YTD
S&P 500 Index	2.0	2.4
Communication Services	5.9	2.1
Consumer Discretionary	3.1	5.0
Consumer Staples	-0.8	-3.7
Energy	-1.6	11.0
Financials	-1.8	3.0
Healthcare	0.6	3.6
Industrials	-0.3	-0.1
Information Tech	4.4	2.1
Materials	-1.2	2.8
Real Estate	1.4	0.7
Utilities	-0.2	0.2

International/Developed (%)

	1 WEEK	YTD
MSCI EAFE Index	0.7	2.5
Europe	0.8	2.0
France	-0.3	-0.1
Germany	1.9	1.3
Italy	-0.4	-1.2
Japan	0.2	2.7
Spain	-1.7	-0.6
Switzerland	1.0	1.3
U.K.	0.0	3.8
	0.7	2.5

Emerging Markets (%)

	1 WEEK	YTD
MSCI EM Index	2.6	7.9
Brazil	-5.5	-5.5
China	5.9	11.8
India	-0.1	3.2
Indonesia	0.7	5.7
Korea	1.0	7.7
Mexico	-3.6	0.8
Russia	-4.2	1.3
Taiwan	4.3	14.1

Source: Morningstar Direct



Asset
Class
Returns

Viewpoints

Asset Class Returns (as of 01/22/21)

Bonds and Commodities



Market
Monitor



Asset
Class
Returns

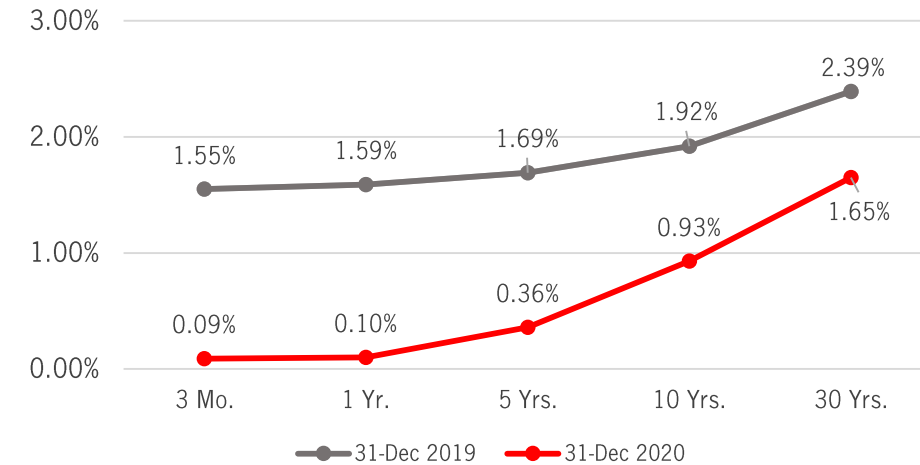


Viewpoints

U.S. Treasury bond yields as of 12/31/20 (%)

Maturity	1-Month Yield	Prior Year End	YTD Change (BPS)
3 Mo.	0.09	1.55	-146
1 Yr.	0.10	1.59	-149
5 Yrs.	0.36	1.69	-133
10 Yrs.	0.93	1.92	-99
30 Yrs.	1.65	2.39	-74

Treasury Yield Curve



U.S. Bond Sectors (%)

	Week	YTD
Aggregate	0.0	-0.7
Convertible	2.1	6.8
Corporate	-0.1	-1.2
High yield	0.2	0.7
MBS	0.0	0.0
Municipal	0.2	0.2
TIPS	0.5	0.2
Treasury	0.1	-1.0

Global Bonds (%)

	Week	YTD
EM Local	-0.2	-1.1
EMD USD	0.2	-1.2
Global Agg	0.1	-0.7
Global Agg Ex-U.S.	0.2	-0.7
Multiverse	0.1	-0.7

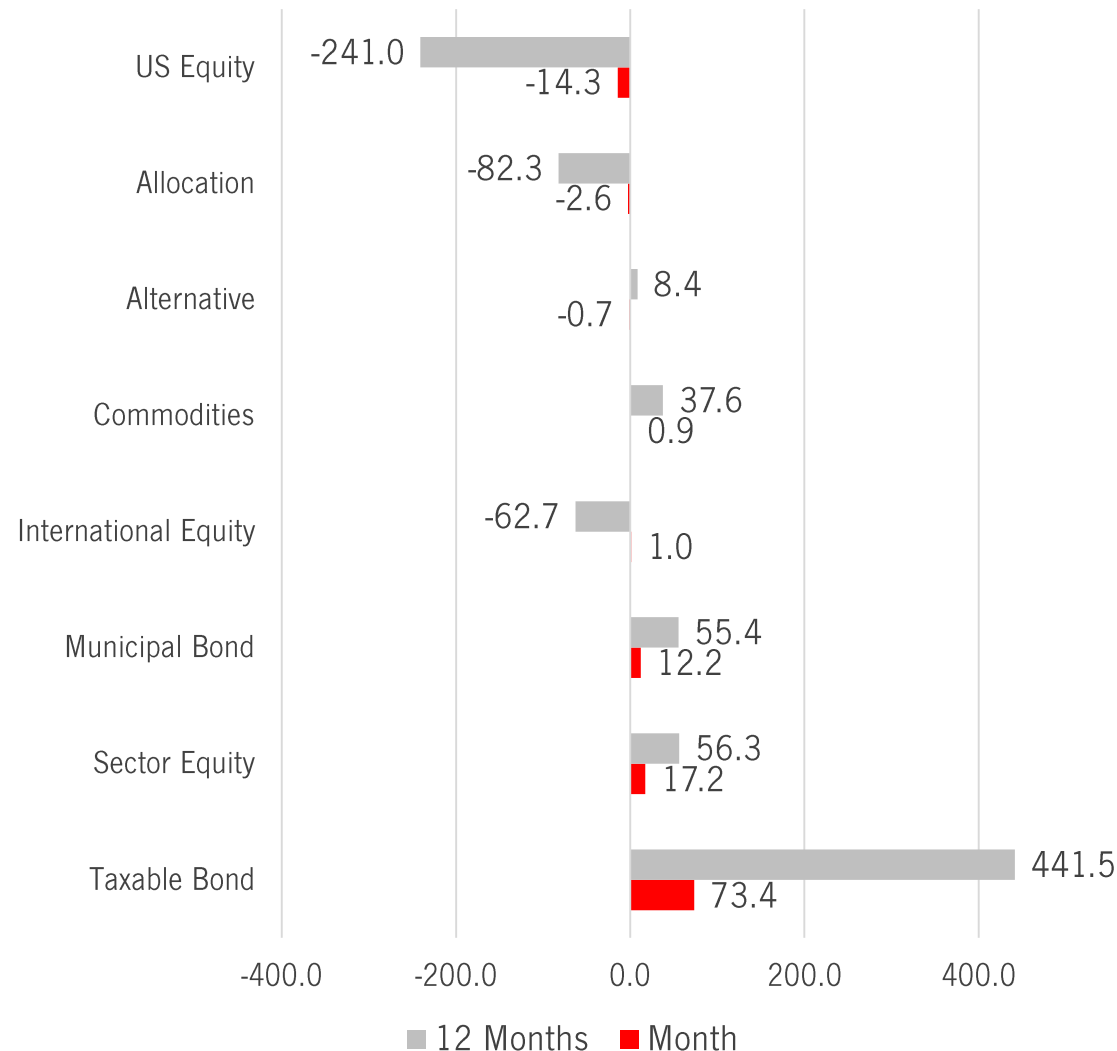
Commodities (%)

	Week	YTD
Commodity Index	-1.7	1.4
Oil (WTI)	-0.3	7.5
Gold	1.4	-2.1

Asset Class AUM Flows (as of 12/31/20)

Fund Industry Overview - Monthly

Total net flows: open-end funds and ETFs (\$B) as of 12/31/20



Leading Morningstar fund categories by monthly net flows (\$B)

	Month	12 Months	Assets
Intermediate Core Bond	28.5	127.0	1192.7
Short-Term Bond	12.2	72.9	532.7
Intermediate Core-Plus Bond	10.5	58.4	840.4
Diversified Emerging Mkts	8.9	-7.1	699.6
Inflation-Protected Bond	5.7	22.4	210.9

Lagging Morningstar fund categories by monthly net flows (\$B)

	Month	12 Months	Assets
Large Blend	-20.3	-82.0	4885.3
Foreign Large Blend	-4.8	-1.6	1332.7
Foreign Large Value	-3.6	-16.4	191.7
Trading-Leveraged Equity	-2.5	-2.0	45.2
Mid-Cap Value	-1.6	-24.7	259.8

Source: Morningstar Direct

Viewpoints

New Administration, Same (Record) Stimulus



Market
Monitor

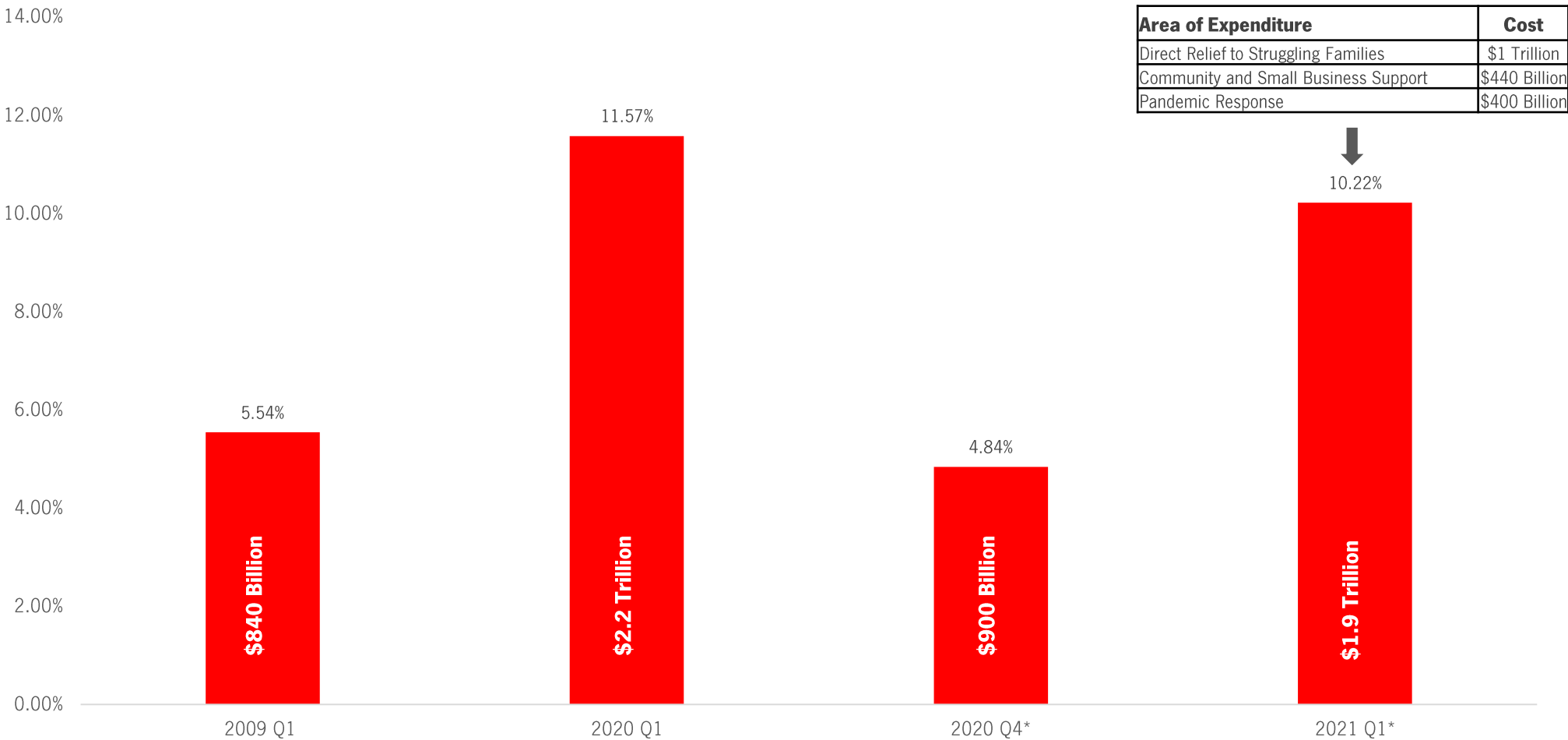


Asset
Class
Returns



Viewpoints

Stimulus Packages as a Percentage of Quarterly GDP



Sources: WSJ, Washington Post



Viewpoints

New Administration, Same (Record) Stimulus



Market
Monitor



Asset
Class
Returns



- With the lingering health crisis and the newly acquired slim Democratic majority in Congress, markets have been pricing in the quick passage of additional stimulus, depicted through new record levels across major equity indices and higher yields in the treasury market. As participants expect the new fiscal spending to be financed through increased Treasury debt issuance, the 10-year yield has climbed back above 1%, levels not seen since last March. The expectation has been reinforced by the weakening labor market outlook, after nonfarm payrolls (NFP) posted the first hiring loss in seven months in December and initial unemployment claims increased to nearly a million during each of the first few weeks of January.
- On January 14th, with the ink still wet on the previous relief measure passed in December, then President-elect Biden unveiled his \$1.9 trillion relief plan named the “American Rescue Plan” (ARP). The President expressed his desire to pass the bill with bipartisan support, rather than using the budget reconciliation option like his predecessor used to pass the Tax Cuts and Jobs Act of 2017 – budget reconciliation allows legislation to pass in the Senate with a simple majority of 51 votes compared to a supermajority of 60 votes needed for a bipartisan effort to pass.
- The plan includes three main categories starting with \$1 trillion in direct relief to families, with half of that amount earmarked for \$1,400 direct checks to individuals, additional relief through increased unemployment benefits, and an extension of the unemployment program through September amongst other items to help struggling families. The second major component is \$440 billion allocated to help support communities and small businesses with \$350 billion set aside for state and local government aid – aid that Republicans have strongly opposed in previous negotiations. Last, the proposed plan allocates \$400 billion to the pandemic response, and while the majority of these funds are focused on school reopening, this section of the bill also provides money for testing and vaccine distribution. Like every piece of legislation, the ARP includes non-COVID-19 related items such as a mandatory \$15 per hour minimum wage and resources to improve cybersecurity – funding that is sure to be opposed by budget hawks.
- As the graph on the previous page shows, the size of the new bill is more than double the \$900 billion measure passed in December, both in an absolute dollar measure and relative to the quarterly gross domestic product (GDP) of the U.S. – raising concerns amongst lawmakers. It is important to recognize that the proposed plan in its current form is a starting place. As Congress works through the details, the expectation is that the final bill, if one passes, will be smaller in size as items that are not directly tied to the pandemic get removed and the overall size of the bill is negotiated lower. Although markets are betting on the quick passage of additional stimulus, investors may be getting ahead of themselves considering it took Congress eight months to pass the second round of stimulus with bipartisan support.

The week ahead: **January 25 – January 29**

January 25

- No major reports scheduled

January 29

- Personal income and consumer spending, U.S. Bureau of Economic Analysis
- University of Michigan Index of Consumer Sentiment

January 26

- U.S. Federal Reserve Board opens two-day policy meeting
- S&P/Case-Shiller 20-City Composite Home Price Index
- Consumer Confidence Index, The Conference Board

January 27

- U.S. Federal Reserve Board concludes two-day policy meeting
- Durable goods orders, U.S. Census Bureau

January 28

- Fourth-quarter GDP, advance estimate, U.S. Bureau of Economic Analysis
- Weekly unemployment claims, U.S. Department of Labor
- The Conference Board Leading Economic Index for the U.S.

Disclosures

Securities, insurance and annuity products are not FDIC insured, are not bank guaranteed and are subject to investment risk, including possible loss of principal. Securities distributed by State Farm VP Management Corp. The State Farm Investment Management team and State Farm Investment Planning Services are a part of State Farm VP Management Corp. Past performance is no guarantee of future results. It is not possible to invest directly in an index. Diversification, Automatic Investment Plans and Asset Allocation do not assure a profit or protect against loss. Investing involves risk, including potential for loss. Current and future portfolio holdings are also subject to risk. Bonds are subject to interest rate risk and may decline in value due to an increase in interest rates. The stocks of small companies are more volatile than the stocks of larger, more established companies. Foreign investments involve greater risks than U.S. investments, including political and economic risks and the risk of currency fluctuations. Emerging markets involve greater risks than U.S. investments due to lower trading volume, political and economic instability, and other governmental limitations on foreign investment policy. The S&P 500® Index tracks the common stock performance of 500 large U.S. companies. Standard & Poor's, S&P, and S&P 500 are registered trademarks of Standard & Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies. The Standard & Poor's Growth Index is comprised of the growth companies within the S&P 500 Index. The Russell Midcap® Index measures the performance of the mid-cap segment of the U.S. equity universe and is a subset of the Russell 1000 Index. The Russell 2000® Index tracks the common stock performance of the 2,000 smallest U.S. companies in the Russell 3000 Index. Russell Investments is the owner of trademarks, service marks, and copy rights related to its respective indexes. The Morgan Stanley Capital International (MSCI EAFE) Index captures large and mid cap representation across Developed Markets countries around the world, excluding the U.S. and Canada. The MSCI Emerging Markets Index captures large- and mid-cap representation across 23 Emerging Markets (EM) countries. The MSCI Japan Index is designed to measure the performance of the large- and mid-cap segments of the Japanese stock market. The Bloomberg Barclays 1-5 Year U.S. Treasury Index measures the performance of short-term U.S. Treasury Securities maturing within one to five years. The Bloomberg Barclays U.S. Aggregate Bond Index represents debt securities in the U.S. investment grade fixed rate bond market. The Bloomberg Barclays Municipal Bond Index is an unmanaged index representative of the tax-exempt bond market. Neither State Farm nor its agents provide tax or legal advice. **You could lose money by investing in the Money Market Fund. Although the Fund seeks to preserve the value of your investment at \$1.00 per share, it cannot guarantee it will do so. An investment in the Fund is not a deposit of a bank and is not guaranteed by the Federal Deposit Insurance Corporation ("FDIC") or any other government agency. The Fund's sponsor has no legal obligation to provide financial support to the Fund, and you should not expect that the sponsor will provide financial support to the Fund at any time.** This recap has been prepared by State Farm VP Management Corp. for informational purposes. The information contained herein has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. Any opinions discussed herein reflect our judgment as of the date of publication and are subject to change without notice. This material should not be considered a recommendation to purchase or sell any security. AP2021/01/9915.4

