Homestead Funds | Homestead Advisers

2024 Market Outlook

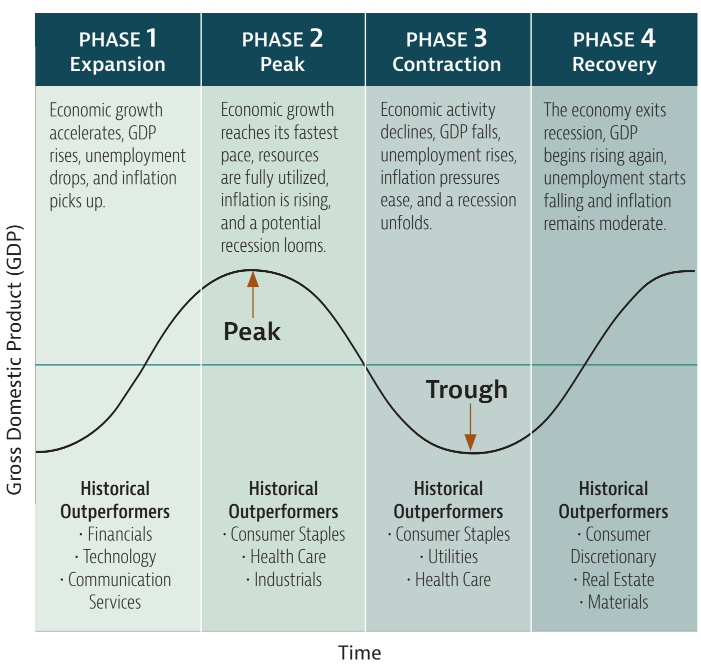
As a More 'Traditional' Economic Cycle Returns, Investment Dynamics Are Shifting

After a 15-year hiatus, the traditional relationship between inflation, interest rates and the economic cycle is reemerging. This backdrop has repriced markets and shifted investment dynamics across stocks and bonds. Here's what we believe investors need to know as they navigate the return to a more traditional economic cycle.

Economy: A Slowdown Is the Expected Result of Rate Hikes

An economic slowdown of some form is still in the cards, we believe. How much will the economy slow down? That's a matter of degree — and one that is not fully predictable. As a conservative team, we tend to take the view that the Federal Reserve has moved sharply higher in a short period of time and that action will drive a commensurate reaction. We also believe the Fed waited too long to begin tackling inflation, and because of that it will have to continue treating inflation for a longer period as well, forcing a harsher impact on the economy in the long run.

A Traditional Cycle of Growth, Inflation and Interest Rates



Stocks: Growth Is No Longer the Only Option

In the near-zero-interest-rate years following the financial crisis, growth stocks were often the top performers. Slower-growth companies just couldn't compete on stock performance in a market environment where the cost of capital was practically free and the highly valued metric was growth.

The Fed's near-zero interest rate policy of 2008 to 2015 was an unprecedented experiment for interest rates, which we believe had a significant effect on all asset values, including stocks. With a return to a more traditional interest rate environment, we think the stage could be set for a broader market than just a select group of top growth names, particularly technology stocks. This normalized rate environment could lead to more traditional value and non-technology stocks also working. In this environment, portfolio managers have the ability to allocate across sector, providing the potential to deliver better performance. Based on historical performance, stocks have been a suitable option for portfolio growth greater than the rate of inflation.

Bonds: Yield Is Back, Baby

Not too long ago, the market mantra was "TINA" — "there is no alternative." There was no alternative to stocks, in other words, because bonds and other interest-rate-driven investments were yielding almost nothing to investors. Indeed, the decade post the financial crisis, many dividend-paying stocks had higher yields than some U.S. Treasuries!

But now, with the return of a traditional economic cycle, the world is right side up again. Bond yields are higher than stock yields, and bonds can once again resume their rightful role in portfolios. For conservative investors who need to preserve wealth, bonds are an option to store value while generating some return. For more moderate or growth-oriented investors, bonds still come into play as a supporting actor in portfolios, providing steady coupon income to buffer the ups and downs of the stock allocation. For institutions, a much broader menu of fixed-income options are available to match balance sheet obligations across maturities.

Inflation has not been a pleasant experience in many respects, and the rate-hike cycle brings its own friction points. But the return to normalcy has been a welcome one in the bond world, where the full menu of investment options is once again useful to savers and investors.

What's New at Homestead Advisers?

The impact of inflation on managing your resources has been challenging. We've heard you!

It's no surprise that recruiting, retaining and rewarding employees is more challenging than ever! With cooperatives in mind, we created resources and programs to help promote financial wellness and retention that may help improve morale, loyalty and performance. To learn more about our programs, scan the QR code above or visit homesteadfunds.com/programs.

Deferred Compensation

Reward your CEO, CFO, HR manager and other highly compensated employees with deferred compensation plans and other supplemental benefits.

Employer-Sponsored Savings Program

You can help employees and their families tackle a top financial challenge — not being prepared for an emergency.

Employee Retention Program

Retain your at-risk and key employees with customized retention programs by role, individual, time programs and rewards.

Employee Financial Wellness Services

Homestead Advisers offers financial education seminars at your cooperative for employees, where we discuss the importance of being financially prepared for life's challenges.

Has your portfolio kept pace with the return of the economic cycle? We are here to help. Reach out to our team anytime to talk about your investments.

Mark Santero
Director, President and CEO

Mark oversees portfolio management, operations, client services, marketing and sales. He is a graduate of Fordham University, where he received a bachelor's degree in finance. Mark received his MBA in finance from Fordham University's Graduate School of Business.

Jim Polk, CFA®
Head of Equity Investments

Jim co-manages Homestead Advisers' equity strategies. He is a graduate of Colby College, where he received a bachelor's degree in English. He received his MBA from the Olin Graduate School of Business at Babson College. Jim holds the Chartered Financial Analyst designation.

Mauricio Agudelo, CFA®
Head of Fixed-Income Investments

Mauricio co-manages Homestead Advisers' fixed-income strategies. He received a bachelor's degree in finance from the University of Maryland, Robert H. Smith School of Business. He minored in business culture and language, with a concentration in Spanish. He holds the Chartered Financial Analyst designation.

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Equity securities generally have greater price volatility than fixed-income securities. The market price of equity securities may go up or down, sometimes rapidly or unpredictably. Equity securities may decline in value due to factors affecting the issuer or equity securities markets generally.

Growth stocks are subject to the risk that returns on stocks within the style category will trail returns of stocks representing other styles or the market overall over any period of time and may shift in and out of favor with investors generally, sometimes rapidly, depending on changes in market, economic, and other factors. Growth stocks can be volatile, as these companies usually invest a high portion of earnings in their business and therefore may lack the dividends of value stocks that can cushion stock prices in a falling market. Also, earnings disappointments often lead to sharply falling prices because investors buy growth stocks in anticipation of superior earnings growth.

Value stocks are subject to the risk that returns on stocks within the style category will trail returns of stocks representing other styles or the market overall over any period of time and may shift in and out of favor with investors generally, sometimes rapidly, depending on changes in market, economic, and other factors. Investments in value securities may be subject to risks that (1) the issuer's potential business prospects will not be realized; (2) their potential values will never be recognized by the market; and (3) their value was appropriately priced when acquired and they do not perform as anticipated.

Debt securities are subject to interest rate risk, credit risk, extension risk, income risk, issuer risk and market risk. The value of U.S. Government securities can decrease due to changes in interest rates or changes to the financial condition or credit rating of the U.S. Government. Investments in asset-backed and mortgage-backed securities are also subject to prepayment risk as well as increased susceptibility to adverse economic developments. High-yield, lower-rated, securities involve greater risk than higher-rated securities.

Neither asset allocation nor diversification guarantee a profit or protect against a loss in a declining market. They are methods used to help manage investment risk.

Investing in mutual funds involves risk, including the possible loss of principal. **Past performance does not guarantee future results.**

Investors should carefully consider fund objectives, risks, charges and expenses before investing. The prospectus contains this and other information about the funds and should be read carefully before investing. To obtain a prospectus, call 1-800-258-3030 or visit homesteadfunds.com.

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