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A QUARTERLY NEWSLETTER FOR HOMESTEAD FUNDS' CLIENTS

Money Smarts at the Holidays

You probably won't be surprised to hear this: Thanksgiving is America's favorite holiday. It's tied for first with Memorial Day, with Christmas a close second. About eight in 10 Americans say they love these holidays.[1]

Most of us will point to the beloved traditions of these special days for their popularity. Aunt Carol's famous pie, Grandpa's card tricks, family and friends laughing around a table together — the emphasis on connection and joy brings abundance to American homes each year.

But in the special case of Thanksgiving, we can't discount the powerful effects of gratitude itself. Researchers have long known that gratitude is extremely good for us. Giver and receiver both feel the glow of gratitude, and even bystanders who witness gratitude are lifted by the experience![2]

A grateful mindset could even help your finances. Humans are famously prone to prioritizing the now while putting less value on the future; it's one of the reasons we're not always great at saving. One study found that an emphasis on gratitude made people more patient on a financial decision, suggesting that gratitude might help us put more value on the future.[3]

In this issue, we consider some of the financial factors at work around the holidays. Read on for insights about holiday spending and budgeting, as well as year-end deadlines to remember for money-related decisions. Holidays can bring some stress and burden, but we believe a thoughtful approach to your money at year-end might just give you that extra boost of abundance and gratitude that the holiday season is all about. ■

How to tackle holiday finances

Our year-end holidays are such an important part of American culture — and often an expensive part, too. Last year, holiday spending recovered fully to pre-pandemic trends. Consumers planned to spend an average of $1,652 on holiday gifts, food and travel in 2023, according to research from Deloitte.[4]

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Source notes on page 4

THANKSGIVING TOPS THE RANKINGS

Gratitude, togetherness and food seem to be the most prized values in American merrymaking

% of people who have a positive opinion

Thanksgiving	**78%**
Memorial Day	**78%**
Christmas	**77%**
Mother's Day	**74%**
Father's Day	**72%**

Source: YouGov, "The Most Popular National & Religious Events"

Even though holiday spending is a fairly predictable expense, the fact is that most Americans do not save up ahead of time to be prepared. A survey from Bankrate found that more than half of Americans felt financially burdened at the holidays, and only a small share — 27% — specifically had money set aside or budgeted for holiday expenses.[1] Most people try to be careful with spending; 87% said they planned to use some kind of money-saving strategy for holiday outlays, such as buying less, seeking out discounts or starting their holiday spending earlier. Quite a few put holiday costs on credit cards to be paid off later.

HOLIDAY SPENDING BY THE NUMBERS

$1,652
average expected spending on gifts, food and travel in 2023

54%
feel financially burdened at the holidays

27%
of Americans had money set aside or budgeted for holiday expenses

87%
planned to use some kind of money-saving strategy to manage costs

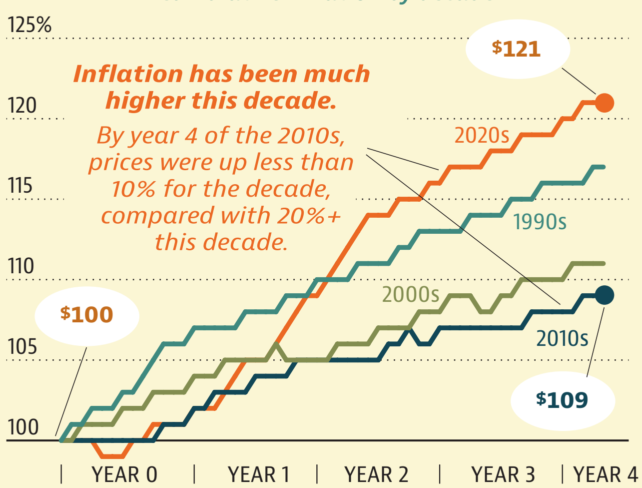
Sources: Deloitte, Bankrate

The lasting toll of recent inflation

The pace of inflation has subsided from 2022's highs, but that doesn't mean consumers have seen relief from the rise in prices. In other words, maybe prices aren't rising as quickly today, but neither have they fallen back down since the pandemic surge. The effect adds up.

HIGHER INFLATION TAKES A TOLL ON HOLIDAY SPENDING

Cumulative inflation by decade



Sources: Federal Reserve Bank of St. Louis, Homestead Funds calculations

Using actual inflation data from the chart on the left, a "basket of goods" that cost $100 at the start of the 2020s would cost about $121 in mid-2024. By comparison, a $100 outlay at the start of the 2010s would be just $109 by the same mid-decade point. If households haven't seen their wages rise at the same pace as their expenses, they may feel a financial squeeze on their spending. That's a painful pinch on holiday feasting, gassing up cars for travel, gift-giving and other holiday costs.

Failing to plan is planning to fail

We believe it's important to keep your good habits of saving and contributing to investment accounts even during the holiday season. Starting a holiday savings stockpile ahead of peak shopping season could prove useful. Likewise, spreading holiday purchases out over several months could also be a manageable way to fund your festivities without finding yourself in credit card debt at year-end.

Setting a budget might also keep your expenses down. Budgeting could help shoppers to curb impulsive choices and take more time to shop around or find alternatives.

Another effective way to manage spending can be to set "rules of thumb." For instance, you could set family rules such as gift limits or simple rules for yourself about how to spend.

GIFTS THAT KEEP ON GIVING

Think of ways to emphasize gratitude and connection to bring joy with your gifts.

- **Give an experience,** such as movie tickets and a candy treat to share
- Give an annual **museum membership** for a favorite hobby
- **Plan a game night** together
- **Assemble a photo album** to reminisce over
- **Surprise them with dinner** made from a favorite childhood recipe

Lowering the burden, increasing the joy

If you can lower the financial burden of the holidays, you might be able to increase the joy. What people love about the holidays is the connection, celebratory traditions and shared meals. When your finances are low-stress, you might be able to reap the most from your holiday season. ■

[1] Bankrate, "Survey: 50% of holiday shoppers will begin before Halloween, 54% report feeling financially burdened"

5 important deadlines to watch at year-end

Year-end is not just a frenzy of holiday activity — it often presents a frenzy of financial activity, too. Taxes are a big factor, of course. Financial transactions and other changes that happen before December 31 can affect your tax filing for the calendar year. Plan ahead, as many people may rush to tackle these deadlines at year-end.

1 Charitable giving

December is a peak month for charitable giving. Donations to qualified nonprofits, such as those organized as 501(c)(3)s, can usually be deducted from taxable income for the same calendar year. The charitable ambiance of the holiday season, along with the tax-driven deadline, are typically a powerful force in driving year-end donations. According to Philanthropy Roundtable, about two-thirds of American families make charitable donations each year.

DEADLINE: December 31

You could be investing with the aim of increasing what you can give in the future. Ready to open an account?
Speak with your financial advisor.

2 Tax-deductible contributions to your retirement accounts

You can contribute to your own tax-advantaged savings accounts before year-end to capture the tax benefits in that calendar year. This includes workplace plans such as a 401(k) and traditional IRA accounts.

Contributions to workplace retirement plans such as 401(k)s must be made before December 31 to count toward your 2024 tax benefits. IRAs tend to be a little more flexible, allowing for contributions up to the tax-filing date of April 15 the following year to qualify toward the tax filing of the previous calendar year.

Remember that contributions to a Roth IRA do not affect your taxable income for 2024, but there are dollar limits on each year's contribution, so the calendar still matters.

DEADLINE: December 31 for 401(k) or workplace plan contributions

April 15 for IRA contributions

No IRA? Talk to your advisor about opening one today.
It's easy!

3 Taking your required minimum distributions (RMDs)

If you are 73 or older in 2024, you'll need to take RMDs from your retirement account(s) before December 31. If it's your first year of RMDs, the IRS allows you a grace period to take your withdrawal before the following April. However, you will still need to take the current year RMD as well. Two RMDs in one year means more taxable income which could result in a bigger tax bill. Discuss with a tax advisor before delaying your first RMD.

It's important to note that the age requirements changed recently, causing some exceptions to these rules for those who turned 72 last year or who hold "designated" Roth accounts in their workplace plans. Be sure to consult with a tax advisor if you're not clear on your requirements.

DEADLINE: December 31 for most people 73 or older

April 1, 2025, for those who turn 73 in calendar-year 2024 and are taking their first RMD

4 Converting a traditional IRA to a Roth IRA

Some investors might see an appealing opportunity to convert their traditional IRA to a Roth IRA, if their personal tax situation suits it. Converting a traditional IRA to a Roth is a taxable event. The two accounts have different tax treatments, so the fine print is quite important here. All traditional IRA holders can make a conversion, but they must pay income taxes in 2024 on the amount converted. If you are younger than 59 ½, a conversion could trigger a 10% penalty under certain conditions, in addition to generating taxes due. If you are considering a conversion, definitely consult a tax expert to talk about your specific situation.

5 Enrolling in workplace benefits, Medicare or Affordable Care Act plans

Benefits are extremely important to American families, so the related deadlines should get a big red circle on your calendar. Check with your HR team to be aware of enrollment deadlines at your workplace for such things as your medical insurance benefits.

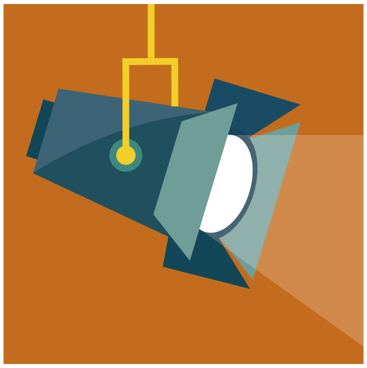
If you're enrolled in Medicare, remember that the annual open enrollment period is October 15 to December 7, if you want to change or add on to your plan. If you're signing up for an insurance plan from the Affordable Care Act (ACA), open enrollment is November 1 to December 15 for plans beginning at the start of 2025.

DEADLINES:

Workplace benefits: Deadlines vary (check with HR)
Medicare open enrollment: October 15 to December 17
ACA open enrollment: November 1 to December 15 ■

News Briefs

Barron's Profiles Homestead Value Fund's Long-Term Success



The Homestead Value Fund (HOVLX) was recently profiled in Barron's for its strong performance and long-term investment approach. Focusing on high-quality companies with strong management teams and competitive advantages, the fund is managed with the mindset of a pension-plan manager.

According to Jim Polk, head of equity investments, the "market has become much more short-term-oriented, with algorithms and day traders. What we try to do is find companies that we can own for a long time." In today's fast-paced, algorithm-driven market, our equity team's patient, value-oriented strategy has delivered above-average risk-adjusted return versus its large-cap value peers on a five-year annualized average.

Read the full article at: ***homesteadfunds.com/barrons***

***Source notes** from page 1*

[1] YouGov, "The Most Popular National & Religious Events"

[2] New York Times, "Gratitude Really Is Good for You. Here's What the Science Shows"

[3] Today, "Be thankful, save more: Study says gratitude helps us reach financial goals"

[4] 2023 Deloitte holiday retail survey

DEFINITIONS FOR PAGE 3

Traditional IRAs let you save for retirement using pre-tax dollars.

Roth IRAs use after-tax contributions to grow your retirement savings.

401(k)s are employer-sponsored plans to help you save for retirement.

501(c)(3) status grants tax exemption to qualifying organizations.

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. Value stocks are subject to the risk, among others, that returns on stocks within this 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, among others, that (1) the issuer's potential business prospects will not be realized; (2) their potential values will not be recognized by the market; and (3) they will not perform as anticipated.

Homestead Funds does not offer legal or tax advice. Please consult the appropriate professional regarding your individual circumstance.

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 800.258.3030 or visit homesteadfunds.com.

The views expressed are those of the individuals as of July 29, 2024, and may have changed since that date. The opinions stated may contain forward-looking statements and may discuss the impact of domestic and foreign markets, industry and economic trends, and governmental regulations of the funds and their holdings. Such statements are subject to uncertainty, and the impact on the funds might be materially different from what is described here.

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