Quarterly Market Review

Fourth Quarter 2024

Summary

- In the fourth quarter, most stocks posted small gains, topping off a strong year. A clear election win for President-elect Trump boosted market confidence. The outcome also paved the way for pro-business moves in tax and regulatory policy. Large-cap and growth stocks performed best, while small-cap and value stocks were slightly down. Economic trends were quite stable, with strong GDP growth and hiring over the quarter.
- The Federal Reserve enacted small interest-rate cuts in November and December 2024 as expected. However, policymakers pulled back on rate-cut plans for 2025 as inflation measures showed some stubbornness. The Fed now projects just two rate cuts for the coming year.
- Bond prices generally fell as yields moved higher. Intermediate- and long-term bond issues saw the biggest yield move.

This commentary was prepared on January 7, 2025, and reflects our view of events at that time. Please visit our website, homesteadfunds.com, for the latest perspectives.

Stocks Finish Up for Another Strong Year

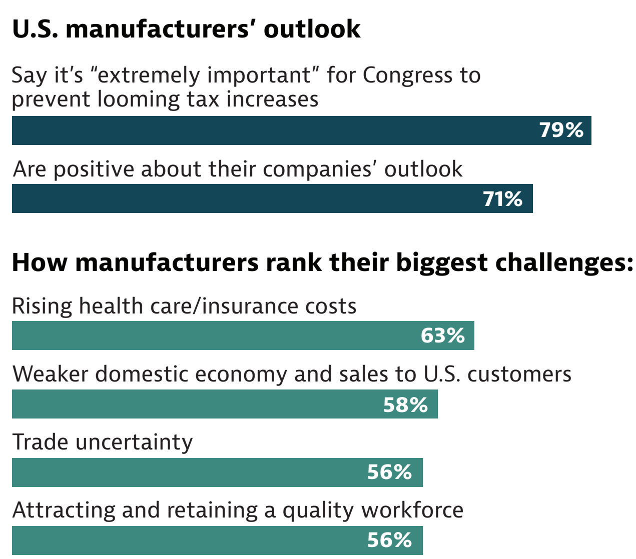
2024 was another strong year for stocks, with small added gains in the fourth quarter for some indexes. For the three-month period, growth stocks outperformed value, and large caps outperformed small caps. Most categories of bonds were down as interest rates rallied higher.

Election Drove a November Rally

The U.S. election was a big event for markets, driving stocks higher in November. Investors cheered the clarity of the election outcome. President-elect Donald Trump's administration is expected to resume its pro-business stance. Possible deregulation may be a tailwind to businesses if companies face lower compliance costs. They could also see more flexibility for mergers and acquisitions.

The Republican term could mean an extension to the 2017 tax cuts, which are currently set to expire at the end of 2025. In a December 2024 industry survey, 79% of U.S. manufacturers said it was critical to them that the tax increases are prevented.

Tax Cuts Are Extremely Important to Manufacturers



Source: National Association of Manufacturers, December 2024

However, Trump's anticipated policies could muddy the outlook for inflation and interest rates. If enacted, tariffs could have an inflationary effect. Immigration actions could also be inflationary if the labor pool shrinks while employment demand continues. Economists raised the issue that inflation could be affected if the presidential administration intervenes in monetary policy by the Federal Reserve, a policymaking body that is designed to remain independent of the White House.

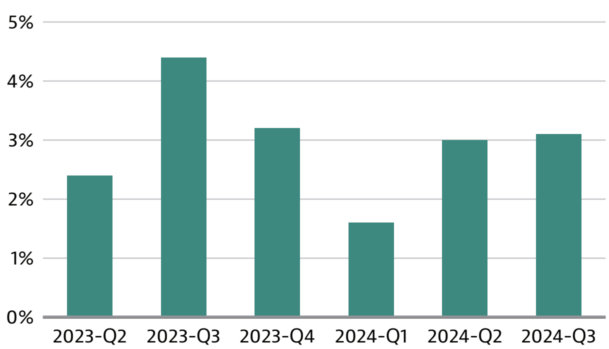
The Economy Grew in 2024

Economic growth has been solid across 2024 in the U.S. Third-quarter figures released at the end of the year showed that the economy grew at an annualized rate of 3.1% in real terms (i.e., after accounting for the effect of inflation).

This strength was reflected in the job market over the year as well. The unemployment rate remained near 4% as 2024 came to a close, barely changed from where the year started. Consumer sentiment was also positive, rising a little over the fourth quarter. With steady income and confidence, consumers continued to spend over the holiday period.

The Economy Grew at a Healthy Pace Again in 2024

Real GDP: Percent change from preceding quarter
(Seasonally adjusted annual rates)



Source: U.S. Bureau of Economic Analysis

Consumer sentiment was also positive, rising a little over the fourth quarter. With steady income and confidence, consumers continued to spend over the holiday period.

Inflation Remains a Risk

As they strive to lock in a "soft landing" from the inflation of recent years, policymakers continued to keep a close watch on inflation and its response to interest rate changes. The Fed made two more small rate cuts in the fourth quarter as expected. But expectations for further rate cuts shifted. Fed officers indicated that recent inflation trends have proven more stubborn than they would like. They lowered 2025 guidance to two anticipated rate cuts, down from four.

Bonds

Interest rate moves posed a hurdle for bonds in the fourth quarter. While the Fed's November and December rate cuts brought the shortest-term yields down, the yields for most other Treasury maturities climbed higher. Higher yields tend to depress bond prices, leading to negative returns. Regular interest payments offset the effect to some degree, yet most bonds had negative performance.

Recent moves in interest rates have restored the yield curve to a traditional upward-sloping shape. In this state, long-dated interest rates are higher than short-dated interest rates. After two years of being "inverted," the steepening curve could suggest that markets see rates and the economy to be more aligned. Inverted yield curves, in contrast, suggest that a recession could be coming.

Treasury yields are just one piece of total bond yields. The other piece, the credit spread, ended the fourth quarter slightly tighter. Credit spreads measure the gap in yield between corporate bonds and similar-duration Treasuries. Tighter spreads tend to reflect a period when companies are healthy and the market perceives a positive outlook.

Performance Attribution for Our Bond Funds

The Homestead Short-Term Government Securities Fund (HOSGX) returned -0.80% in the fourth quarter, in line with its benchmark, the ICE BofA 1-5 Year Treasury Index, which returned -0.77%. The fund's overweight exposure in agency bonds and collateralized mortgage obligations (CMOs) boosted performance. Yield curve positioning in U.S. Treasuries detracted from fund returns.

The Homestead Short-Term Bond Fund (HOSBX) returned -0.45% in the quarter. The fund outperformed its benchmark, the ICE BofA 1-5 Year Corporate/Government Bond Index, which returned -0.66%. The fund's performance was helped by its overweight positions in asset-backed securities (ABS), CMOs and financial sector bonds. There were no significant detractors from relative performance.

The Homestead Intermediate Bond Fund (HOIBX) returned -2.95% in the fourth quarter. The fund outpaced its benchmark, the Bloomberg U.S. Aggregate Index, which returned -3.06%. The fund benefited from overweights in ABS, CMOs and a small cash position. However, yield-curve positioning in Treasuries and selection in MBS passthroughs weighed on relative returns.

Stocks

Stocks had a mixed quarter. Election results prompted a November rally, but gains were pared in December as markets reacted to a changing outlook for inflation and rates. Across stocks, large caps and growth styles enjoyed the strongest performance. Small caps and value stocks were flat or down. On a sector basis, consumer discretionary and communications services stocks led performance. Utilities and consumer staples stocks were laggards.

Company earnings growth was generally positive. At quarter-end, analysts were forecasting year-over-year earnings growth of 11.9% for the fourth quarter. Multiples on stocks remained above average, with the forward price-to-earnings ratio on S&P 500 Index stocks above 21x as of the end of the year. The five-year average is about 19.7x.

Performance Attribution for Our Stock Funds

The Homestead Value Fund (HOVLX) returned -1.45% in the fourth quarter. It outperformed its benchmark, the Russell 1000 Value Index, which returned -1.98%. In the period, the fund's stock selection in the financials and communications services sectors contributed to relative performance. Conversely, stock selection in information technology and consumer discretionary stocks weighed on relative returns.

Compared with the index, the fund has overweight exposure in the industrials, communications services and health care sectors. Its largest underweight allocations are in consumer staples and utilities stocks. With a bottom-up stock-picking process, our portfolio managers note that they consider diversification from a sector perspective but that they also look at company-level factors to balance the portfolio.

The Small-Company Stock Fund (HSCSX) returned 2.71% in the fourth quarter. It outpaced its benchmark, the Russell 2000 Index, which returned 0.33%. In the period, an overweight allocation and stock selection in the industrial sector boosted the fund's relative returns. Stock choices and underweight positioning in the health care sector also helped. Conversely, stock choices in financials and a lack of consumer staples stocks weighed on relative performance.

Relative to its benchmark, the Small-Company Stock Fund is most underweight in the real estate, health care and consumer staples sectors. The portfolio's most significant overweights are in the industrials, information technology and materials sectors. As in the Value Fund, the Small-Company Stock Fund's portfolio managers assemble the portfolio with a bottom-up approach, applying a company-specific approach to diversification.

As they strive to lock in a "soft landing" from the inflation of recent years, policymakers continued to keep a close watch on inflation and its response to interest rate changes.

Total Returns as of 12/31/2024

	QTD	YTD	Average Annual 1-yr	3-yr	5-yr	10-yr	Since fund's inception
Bond Funds							
Short-Term Government Securities Fund (HOSGX)	-0.80%	3.07%	3.07%	0.68%	0.98%	1.12%	2.71%
ICE BofA 1-5 Year U.S. Treasury Index	-0.77%	3.41%	3.41%	0.73%	1.05%	1.37%	3.39%
Expense ratio 0.84% (gross) 0.75% (net) (12/31/23)[1]							
Short-Term Bond Fund (HOSBX)	-0.45%	4.09%	4.09%	1.13%	1.52%	1.70%	3.79%
ICE BofA 1-5 Year Corp./Gov. Index	-0.66%	3.91%	3.91%	0.98%	1.33%	1.70%	3.96%
Expense ratio 0.76% (gross) 0.76% (net) (12/31/23)							
Intermediate Bond Fund (HOIBX)[2]	-2.95%	1.68%	1.68%	-2.15%	0.13%	NA	0.93%
Bloomberg U.S. Aggregate Index	-3.06%	1.25%	1.25%	-2.41%	-0.33%	1.35%	0.67%
Expense ratio 0.89% (gross) 0.80% (net) (12/31/23)[1]							
Equity Funds							
Value Fund (HOVLX)	-1.45%	14.31%	14.31%	6.83%	10.41%	10.26%	10.38%
Russell 1000 Value Index	-1.98%	14.37%	14.37%	5.63%	8.68%	8.49%	10.26%
Expense ratio 0.64% (gross) 0.64% (net) (12/31/23)							
Small-Company Stock Fund (HSCSX)	2.71%	8.52%	8.52%	1.83%	9.24%	5.88%	8.43%
Russell 2000 Index	0.33%	11.54%	11.54%	1.24%	7.40%	7.82%	7.47%
Expense ratio 1.07% (gross) 1.07% (net) (12/31/23)							

The total returns shown above represent past performance, which does not guarantee future results. Investment return and principal value of an investment will fluctuate. An investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance data quoted. For performance data current to the most recent month-end, call 800.258.3030 or visit homesteadfunds.com.

The expense ratio shows the percentage of fund assets deducted annually to cover operating expenses. Fund expense ratios shown here do not include acquired fund fees and expenses. If applicable, these additional costs are disclosed in the prospectus. The net expense ratio is the expense ratio minus the portion of expenses waived or reimbursed.

[1]Homestead Advisers has contractually agreed, through at least April 30, 2025, to limit the fund's operating expenses to an amount not to exceed 0.75% (Short-Term Government Securities Fund) or 0.80% (Intermediate Bond Fund) of the fund's average daily net assets. Operating expenses exclude interest; taxes; brokerage commissions; other expenditures that are capitalized in accordance with generally accepted accounting principles; other extraordinary expenses not incurred in the ordinary course of the fund's business; and acquired fund fees and expenses such as the fees and expenses associated with an investment in (i) an investment company or (ii) any company that would be an investment company under Section 3(a) of the Investment Company Act of 1940, as amended (the "1940 Act"), but for the exceptions to that definition provided for in Sections 3(c)(1) and 3(c)(7) of the 1940 Act. This waiver agreement will terminate immediately upon termination of the fund's Management Agreement and may be terminated by the fund upon 60 days' notice.

[2]The inception date of this fund is May 1, 2019.

Equity Fund Management

Mark Iong, CFA®
Equity Portfolio Manager

Mark co-manages the Homestead Advisers' large-cap strategies. Mark is a graduate of Cornell University, where he received a BS in operations research and information engineering. He holds the Chartered Financial Analyst designation.

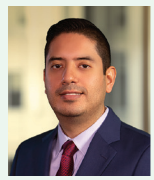
Jim Polk, CFA®
Head of Equity Investments

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

Bond Fund Management

Mauricio Agudelo, CFA®
Head of Fixed-Income Investments

Mauricio co-manages Homestead Advisers' fixed-income strategies. He received a BS 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.



Ivan Naranjo, CFA®, FRM®
Fixed-Income Portfolio Manager

Ivan co-manages Homestead Advisers' fixed-income strategies. Ivan received a BS in finance from the University of Maryland, Robert H. Smith School of Business. He holds the Chartered Financial Analyst and Financial Risk Manager designations.

This material represents an assessment of the market and economic environment at a specific point in time and is not intended to be a forecast of future events or a guarantee of future results. Forward-looking statements are subject to certain risks and uncertainties. Actual results, performance or achievements may differ materially from those expressed or implied. Information is based on data gathered from what we believe are reliable sources. It is not guaranteed as to accuracy, does not purport to be complete and is not intended to be used as a primary basis for investment decisions. It should also not be construed as advice meeting the particular investment needs of any investor.

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

The standard definition of a recession offered by the National Bureau of Economic Research (NBER) is two consecutive quarters of declining economic growth.

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, among other factors, 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.

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 and 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. Growth stocks can be volatile, as these companies usually invest a high portion of earnings in their business and therefore may not provide 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. 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 not be recognized by the market; and (3) they will not perform as anticipated.

As a general matter, securities of small and medium-sized companies tend to be riskier than those of larger companies. Compared with large companies, small and medium-sized companies may face greater business risks because they may lack the management depth or experience, financial resources, product diversification or competitive strengths of larger companies, and they may be more adversely affected by economic conditions. There also may be less publicly available information about smaller companies than larger companies. In addition, these companies may have been recently organized and may have little or no operational or performance track record. Diversification does not guarantee a profit or protect against loss in a declining market. It is a method used to help manage investment risk.

Index Definitions: The **ICE BofA 1-5 Year U.S. Treasury Index** measures the performance of short-term U.S. Treasury securities. The **ICE BofA 1-5 Year Corp./Gov. Index** measures the performance of U.S. government and investment-grade corporate debt. The **Bloomberg U.S. Aggregate Index** is a broad-based benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. The **Dow Jones Industrial Average** measures the stock price performance of 30 actively traded, blue chip companies. The **ISM Manufacturing Index** is an indicator of recent U.S. economic activity based on a survey of purchasing managers at manufacturing firms. The **MSCI EAFE Index** represents the performance of large- and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The **MSCI Emerging Markets Index** represents the performance of large- and mid-cap securities in emerging market countries, including China, South Korea, Taiwan, India and Brazil. The **Russell 1000 Index** is a subset of the Russell 3000 Index and measures the performance of the 1,000 largest companies in the Russell 3000 Index. The **Russell 2000 Index** is a subset of the Russell 3000 Index and measures the performance of the 2,000 largest companies in the Russell 3000 Index. The **Russell 1000 Growth Index** measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. The **Russell 2000 Growth Index** measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values. The **Russell 1000 Value Index** measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. The **Russell 2000 Value Index** measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. The **Standard & Poor's Stock Index** is a broad-based measure of U.S. stock market performance and includes 500 widely held common stocks. The **Standard & Poor's 500 Value Index** is a subset of the S&P 500 Index and consists of those stocks in the S&P 500 Index exhibiting the strongest value characteristics. Indices are unmanaged, and investors cannot invest directly in an index. Unless otherwise noted, index performance does not account for any fees, commissions or other expenses that would be incurred. Index returns do not include reinvested dividends. The **Consumer Confidence Index** is an indication of future developments of households' consumption and saving, based upon answers regarding their expected financial situation, their sentiment about the general economic situation, unemployment and capability of savings. The **University of Michigan Consumer Sentiment Index** is a consumer confidence index published monthly by the University of Michigan. The **Services Purchasing Manager Index** tracks economic activity in the services sector.

Investing in mutual funds involves risk, including the possible loss of principal. An investment in a mutual fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. **Past performance does not guarantee future results.**

Before investing in any Homestead Fund, you should carefully consider the fund's investment objectives, risks, charges and expenses. The prospectus contains this and other information about the funds and should be read carefully before investing. To obtain a copy of the prospectus, call 800.258.3030 or visit homesteadadvisers.com.

Homestead Funds' investment adviser and/or administrator, Homestead Advisers Corp., is an SEC-registered investment adviser. Homestead Funds are distributed by Homestead Financial Services Corp. Homestead Advisers Corp. and Homestead Financial Services Corp. receive compensation from the Homestead Funds for serving in these roles. Homestead Advisers Corp. and Homestead Financial Services Corp. are indirect, wholly owned subsidiaries of the National Rural Electric Cooperative Association (NRECA). 01/25