Homestead Funds

Quarterly Market Review

First Quarter 2024

Summary

- The first quarter extended the stock rally, with stocks touching new highs. Corporate earnings reports and other markers of economic activity were strong. Most sectors of the stock market fared well, delivering broad-based gains as opposed to other periods when the tech-dominant "Magnificent 7" captured all the growth.
- While inflation continued to moderate from pandemic peaks, it displayed a little more staying power than preferred. The Federal Reserve (Fed) held interest rates steady, delaying the highly anticipated rate cuts for now. Futures-market predictions came closer to matching the Fed's forecasts for the first time in many months, now pricing in two to three cuts by year-end.
- Bonds were mixed. With interest rates inching higher in reaction to sturdier inflation, Treasuries posted flat or negative performance. Agency issues and high-yield issues performed somewhat better.

Record Highs for Stocks as Economic Strength Continues

2024 started with a strong quarter for stocks, driving many to new record highs. Bonds were more mixed. Stronger-than-expected inflation reports boosted interest rates higher and prolonged the wait for a first interest rate cut from the Federal Reserve Bank (Fed). It was a quarter of strong economic signals and positive sentiment.

The momentum of artificial intelligence (AI) and its business uses continued to propel stock performance, but gains also extended to most other sectors across the stock market. Small-cap stocks lagged their large-cap counterparts yet still delivered positive returns.

Strong Economy + Stock Gains = More Spending

Economic activity carried over from a robust 2023, with strength continuing to show up in employment numbers, corporate earnings, and such measures as the Institute of Supply Management's manufacturing and services reports.

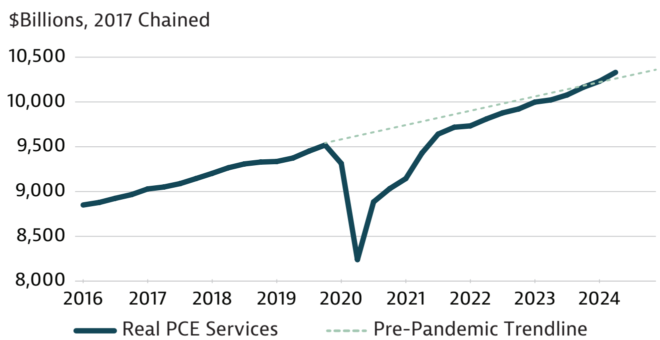
With good labor market dynamics and high stock market values, consumers could be enjoying a "wealth effect" boost to their spending. Indeed, real consumer spending jumped higher in February, the latest month for which data is available. Spending on services was particularly strong and is now higher than the pre-pandemic trendline. Higher commodity prices, especially for energy, also reflected the healthy economic demand.

Inflation Pumps the Brakes on Rate Cuts

Economic strength can have a flip side, which is continued upward pressure on prices. After moderating at the end of 2023, inflation reports ran a little hotter than expected in the first quarter. Producer prices were a source of inflation, boosted in part by the higher dollar value of commodities.

Fed policymakers elected to hold interest rates steady through the quarter and broadcast a patient mindset about the timing of future rate cuts. Futures markets updated to reflect adjusted expectations of about two to three cuts over the year, coming closer to the Fed's forecasts.

Inflation-Adjusted Spending on Services Now Above Pre-Pandemic Trendline

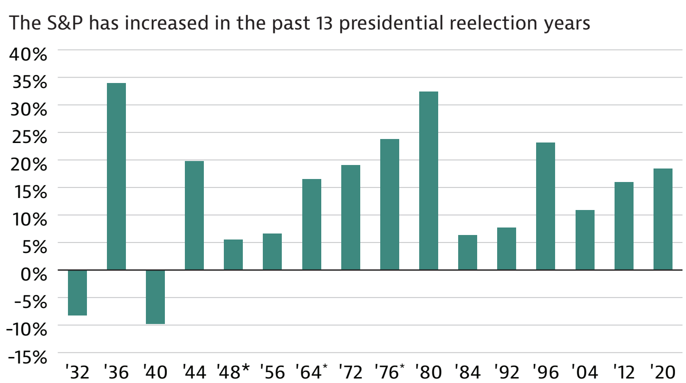


Source: Commerce, Haver, SMBC Nikko

Watching for Election-Year Trends

With the presidential election looming this fall, it remains to be seen if 2024's investment performance will align with longer-term election-year patterns — but the first quarter's performance offers a head start. Stock markets have historically fared well in election years where the incumbent president is running for reelection.

The Last Incumbent Election Year With Stock Losses Was 1940



*1948 Truman assumed office after Franklin D. Roosevelt's death; in 1964 Johnson assumed office after John F. Kennedy's death; in 1976 Ford assumed office after Nixon resigned — all sought additional terms.

Source: Strategas

Bonds

In the first quarter, bonds faltered a bit as interest rates notched higher. Rates rose for most bond maturities by about a quarter of a percentage point. The yield curve continues to be inverted, as it has been since mid-2022. An inverted yield curve has historically been a reliable predictor of coming recession, though there are few signs of a downturn in the current environment. The Atlanta Federal Reserve's real-time estimate of GDP growth, known as GDPNow, showed first-quarter growth estimates at a 2%-4% annual pace over the course of the first quarter. This steady demand has been a contributor to renewed inflation pressure.

The other component of bond yields, the credit spread, compressed slightly in the first quarter. Credit spreads measure the difference in yield between corporate bonds and similar-duration Treasuries. New issuance in the bond market was also quite healthy in the first quarter, including debt to finance renewed merger and acquisition activity. Both compressing spreads and healthy issuance reflect a market that has stable financials and favorable credit conditions.

Performance Attribution for Our Bond Funds

Against this backdrop, the Homestead Short-Term Government Securities Fund (HOSGX) returned 0.14% in the first quarter, outperforming its benchmark, the ICE BofA 1-5 Year Treasury Index, which returned -0.02%. The fund's overweight exposure in agency bonds and mortgage-backed securities boosted returns. An underweight to U.S. Treasuries also aided relative performance. There were no significant detractors in the quarter.

The Homestead Short-Term Bond Fund (HOSBX) returned 0.49% in the quarter, outpacing its benchmark, the ICE BofA 1-5 Year Corporate/Government Bond Index, which returned 0.20%. The fund's overweight position in asset-backed securities (ABS) boosted returns, as did underweight exposure in U.S. Treasuries. Positioning in financials and industrials bonds was also additive. There were no significant detractors in the fund's performance for the first quarter.

The Homestead Intermediate Bond Fund (HOIBX) returned -0.43% in the first quarter, outperforming its benchmark, the Bloomberg U.S. Aggregate Index, which returned -0.78%. The fund's positioning in ABS, industrials and financials bonds all boosted relative performance. Positioning in U.S. Treasuries detracted slightly, as did the fund's lack of holdings in commercial mortgage-backed securities, which benefited the benchmark's returns.

Stocks

Stocks continued their upward march in the first quarter, with nearly all sectors enjoying positive returns. In terms of style, growth outperformed value. In terms of market capitalization, large caps outperformed small caps. On a sector basis, communications services, energy and information technology were top performers for S&P 500 Index stocks. Real estate was the only sector with losses for the first quarter.

Company earnings continued to improve. As of quarter-end, analysts were forecasting 3.6% year-over-year earnings growth for S&P 500 Index companies. Revenues are projected to grow by 3.5% year over year. Stock valuations are currently above five- and 10-year averages based on forward earnings.

Performance Attribution for Our Stock Funds

The Homestead Value Fund (HOVLX) returned 12.34% in the first quarter, outpacing its benchmark, the Russell 1000 Value Index, which returned 8.99%. In the period, the fund's stock selection in the communications services and health care sectors contributed to outperformance. Conversely, stock selection in the consumer discretionary and industrials sectors detracted from performance compared with the benchmark.

Compared with the index, the fund holds overweights in health care, communications services and consumer discretionary stocks. Its largest underweight allocations continue to be 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 7.40% in the first quarter, outperforming its benchmark, the Russell 2000 Index, which returned 5.18%. In the period, stock selection in the industrials and financials sectors boosted the fund's relative performance. Conversely, stock selection in the information technology and consumer discretionary sectors weighed on returns.

Relative to its benchmark, the Small-Company Stock Fund is most underweight in the consumer staples, utilities and real estate sectors. The portfolio's most significant overweights are in the industrials, materials and information technology 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.

Performance Attribution for Our Balanced Fund

The Rural America Growth & Income Fund (HRRLX) returned 4.16% in the first quarter, trailing its custom benchmark, a 60%/40% blend of the Russell 3000 Index and the Bloomberg Intermediate U.S. Government/Credit Bond Index, which returned 5.89% for the same period.

The fund's stock allocation underperformed its benchmark. Stock selection and underweight exposure in the information technology sector detracted from the fund's performance against its benchmark. Positioning in the real estate sector also weighed on performance. Conversely, stock selection in the consumer discretionary and materials sectors boosted performance for the period. Compared with the equity benchmark, the fund holds in the industrials and health care sectors. Its biggest underweights are in the information technology and communications services sectors.

The fund's bond allocation outperformed its benchmark. An underweight in U.S. Treasuries boosted fund performance relative to the benchmark. An overweight in agencies was also additive. Conversely, the fund's underweight in financials and selection in industrials both detracted from relative returns.

Company earnings continued to improve. As of quarter-end, analysts were forecasting 3.6% year-over-year earnings growth for S&P 500 Index companies.

Total Returns as of 3/31/2024

	Q1	Average Annual 1-yr	3-yr	5-yr	10-yr	Since fund's inception
Bond Funds						
Short-Term Government Securities Fund (HOSGX)	0.14%	2.80%	-0.52%	0.86%	0.92%	2.68%
ICE BofA 1-5 Year U.S. Treasury Index	-0.02%	2.42%	-0.59%	0.96%	1.12%	3.36%
Expense ratio 0.84% (gross) 0.75% (net) (12/31/23)[1]						
Short-Term Bond Fund (HOSBX)	0.49%	3.66%	-0.21%	1.31%	1.42%	3.77%
ICE BofA 1-5 Year Corp./Gov. Index	0.20%	3.26%	-0.36%	1.26%	1.44%	3.94%
Expense ratio 0.76% (12/31/23)						
Intermediate Bond Fund (HOIBX)[2]	-0.43%	2.38%	-2.22%	NA	NA	0.64%
Bloomberg U.S. Aggregate Index	-0.78%	1.70%	-2.46%	0.36%	1.54%	0.36%
Expense ratio 0.89% (gross) 0.80% (net) (12/31/23)[1]						
Balanced Fund						
Rural America Growth & Income Fund (HRRLX)[3]	4.16%	9.21%	N/A	NA	NA	-0.07%
Blended Index[4]	5.89%	18.17%	N/A	NA	NA	4.60%
Expense ratio 2.31% (gross) 1.00% (net) (12/31/23)[1]						
Equity Funds						
Value Fund (HOVLX)	12.34%	28.34%	10.83%	12.95%	11.26%	10.57%
Russell 1000 Value Index	8.99%	20.27%	8.11%	10.32%	9.01%	9.84%
Expense ratio 0.64% (12/31/23)						
Small-Company Stock Fund (HSCSX)	7.40%	19.84%	3.74%	10.78%	6.46%	8.64%
Russell 2000 Index	5.18%	19.71%	-0.10%	8.10%	7.58%	7.45%
Expense ratio 1.07% (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, 2024, to limit the fund's operating expenses to an amount not to exceed 0.75% (Short-Term Government Securities Fund), 0.80% (Intermediate Bond Fund) or 1.00% (Rural America Growth & Income 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.

[3]The inception date of this fund is May 1, 2021.

[4]The fund's Blended Index is a 60%/40% blend of the Russell 3000 Index and the Bloomberg Intermediate U.S. Government/Credit Bond Index.

Equity Fund Management

Mark Iong, CFA®
Equity Portfolio Manager
Mark co-manages the Rural America Growth & Income Fund and 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 Bachelor of Arts degree 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.

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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 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.

Loans are subject to risks involving the enforceability of security interests and loan transactions, inadequate collateral, liabilities relating to collateral securing obligations and the liquidity of the loans.

Growth and 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. 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. 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.

Securities of small and medium-sized companies tend to be riskier than those of larger companies. Compared to large companies, small and medium-sized companies may face greater business risks because they lack the management depth or experience, financial resources, product diversification or competitive strengths of larger companies, and they may be more adversely affected by poor economic conditions. There 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 track record of success.

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 **Blended Index** is composed of the Russell 3000 and the Bloomberg Intermediate U.S. Government/Credit Bond Index in a static 60/40 allocation. The Russell 3000 is a market capitalization-weighted benchmark index made up of the 3000 largest U.S. stocks, which represent about 98% of the U.S. equity market. The Bloomberg Intermediate U.S. Government/Credit Bond Index is a broad-based flagship benchmark that measures the non-securitized component of the U.S. Aggregate Index with less than 10 years to maturity. Indices are unmanaged and investors cannot invest directly in an index. 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. **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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