Quarterly Market Review

Second Quarter 2021

This commentary was prepared on July 12, 2021, and reflects our view of events at that time. Please visit our website, homesteadfunds.com, for the latest perspectives.

Summary

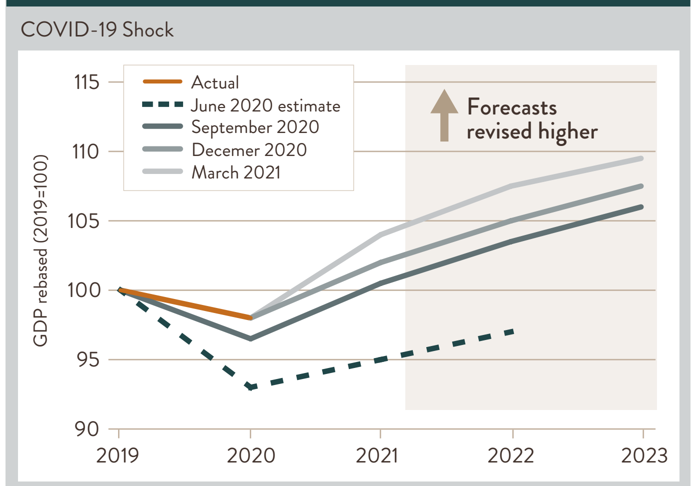
- U.S. stocks continued to rally. As economic activity inched closer to normal, some commodity shortages, supply-chain bottlenecks and pockets of rebounding demand caused surges in certain prices. By the end of the period, some of these bumps had already begun to normalize. The pandemic continued to weigh on some regions with lower vaccination rates and persistent infection levels.
- As the outlook for the economy brightened, earnings expectations ticked higher for U.S. companies and profit margins were strong. Oil prices also climbed, reflecting the healthier operating environment.
- Bond returns were modestly positive. Interest rates eased for longer-dated yields as the Federal Reserve indicated a willingness to start removing some liquidity and consider medium-term rate increases if inflation persisted at a high level.

The Bumpy Road Back

Stock markets rallied higher, marking the fifth straight quarter of gains. Economic activity inched closer to normal around the country, while fiscal and monetary stimulus efforts continued to support the recovery's momentum. Interest rates retreated from first-quarter levels as the prospect of long-term inflation eased slightly.

Since the shock of COVID-19 hit the economy over a year ago, the outlook for the recovery has gotten brighter over time. Looking at analysts' projections of U.S. GDP, the path of economic activity has been revised upward each quarter.

GDP Expectations Revised Higher Each Quarter



Forward-looking estimates may not come to pass.
Source: BlackRock, "2021 global outlook–update"

INTRODUCING: THE RURAL AMERICA GROWTH & INCOME FUND

In May of this year, we introduced a new RE Advisers-managed mutual fund to the Homestead Funds lineup: the Rural America Growth & Income Fund.

It's a balanced fund, meaning it holds both stocks and bonds. Under normal market conditions, the fund seeks to invest 30% to 70% of assets in each asset class. The fund also has a mandate to invest in businesses and sectors important to the economic development of rural America.

We will begin covering fund performance and strategy in this quarterly update, as we do for all of the other RE Advisers-managed Homestead Funds.

Globally, nearly a quarter of the population had been vaccinated by the end of June, but the World Health Organization cautioned that the pandemic had not yet slowed around the world.

It hasn't been a perfectly smooth journey. The national vaccination effort has been fairly successful, but inoculation rates have diverged sharply across regions, enabling continued spread of the coronavirus in less-vaccinated areas. The highly contagious delta variant became more prevalent and hospitalizations began to creep upward again in the early weeks of summer. Globally, nearly a quarter of the population had been vaccinated by the end of June, but the World Health Organization cautioned that the pandemic had not yet slowed around the world. Many countries are still awaiting access to vaccine supply, especially poorer nations.

Disruptions Along the Way

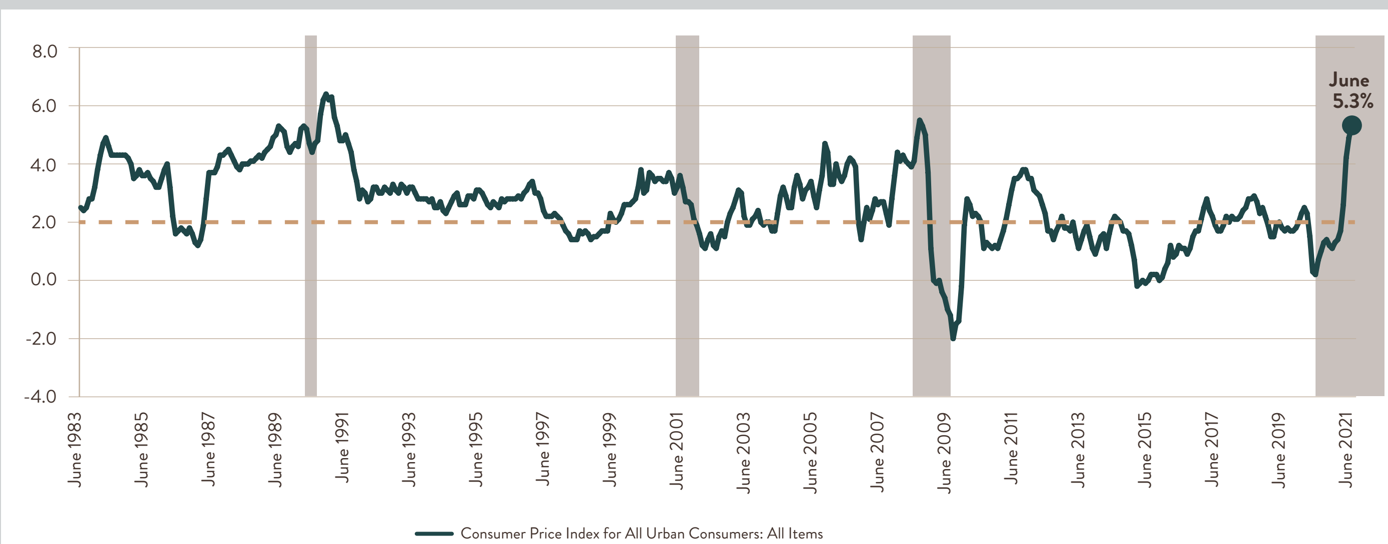
With restarting sectors have come price surges, shortages and other disruptions. Airlines, for example, have seen ticket prices climb sharply as they struggle to bring aircraft, pilots and flight attendants back into service fast enough to meet revived demand. However, looking farther out in time, projected flight schedules and fares for the fall reflect more normalcy.

The same pattern is visible across other pockets of the economy. Lumber prices spiked in early May amid high demand for home construction and remodeling in the face of supply shortages — and the same pattern struck other commodities, such as copper and corn. Bottlenecks in container shipping and manufacturing supply chains have contributed to lurching prices.

These short-term price bumps reflect the fits and starts that come with "un-pausing" the global economy. Among monetary policymakers, a key question is whether these price spikes will prove durable: Is inflation here to stay or just a blip? Federal Reserve bankers have maintained that "reopening" inflation is most likely temporary and will peter out over time. Indeed, as the quarter came to a close, price surges in such commodities as lumber had peaked and waned. Still, some price increases, such as higher oil prices, seem to have more staying power.

Inflation Speeds Up

Inflation surged in the quarter, but policymakers expect price levels to normalize. Fed Chair Jerome Powell has also made it clear that he would like to see inflation run a bit higher than the 2% target for a while.



Source: Federal Reserve Bank of St. Louis

Homestead Funds

Earnings Move Higher

Despite the bumps along the way, company earnings have enjoyed a robust recovery, driving upward revisions to earnings forecasts over the second quarter. This trend could be due in part to overly pessimistic downward revisions last year, where company analysts were projecting worse outcomes for 2021. Higher earnings expectations also reflect the uptick in GDP growth as well as much higher commodity prices.

These higher earnings reflect momentum in sales but also the improved profit margins at U.S. companies. Companies in the S&P 500 are expected to report profit margins around 11.8% in the second quarter, higher than the five-year average of 10.6%. Profit margins are equal to earnings as a percentage of total sales, and stronger margins are a sign that operating costs are under control.

Bonds

Bond returns were generally positive in the second quarter. Interest rates retreated slightly for longer-term maturities, boosting bond prices marginally. Credit spreads — the difference in yield for corporate bond issues compared with similar-duration Treasuries — compressed further, also boosting bond prices. Credit spreads are near lows last seen in 2004, an indication that corporate balance sheets are strong and that the default outlook for corporate issuers is low.

Fed policymakers announced in the quarter that they were considering policy changes in early 2022 to withdraw some of the extreme liquidity in bond markets, a sign that market conditions have stabilized from the COVID-19 shock. Still, interest rates are forecast to remain low for the foreseeable future.

Performance Attribution for Our Bond Funds

Against this backdrop, the Homestead Short-Term Government Securities Fund (HOSGX) returned 0.08% in the second quarter, in line with its benchmark, the ICE BofA Merrill Lynch 1-5 Year Treasury Index, which returned 0.11%. The fund's yield curve positioning in Treasuries was additive to performance.

The Homestead Short-Term Bond Fund (HOSBX) rose 0.51% in the quarter, outperforming its benchmark, the ICE BofA Merrill Lynch 1-5 Year Corporate/Government Bond Index, which returned 0.30%. Our corporate holdings in financials and industrials helped performance in the quarter.

The Homestead Intermediate Bond Fund (HOIBX) returned 2.25% in the second quarter, outperforming its benchmark, the Bloomberg Barclays Aggregate Bond Index, which rose 1.83%. The fund's Treasury holdings contributed to outperformance thanks to a mix of longer-dated Treasuries, which rallied as interest rates eased. Exposure to mortgage-backed securities was also additive, as was the fund's position in industrial and financial corporate bonds.

Stocks

The rally in U.S. stocks continued. Large-cap benchmarks delivered the strongest returns, followed by small-cap stocks. Style benchmarks were mixed, with growth outperforming among large-cap stocks and value outperforming among small-cap stocks. On a sector basis, energy, technology and real estate stocks led performance. Utilities stocks lagged, as did consumer staples and industrials stocks.

With the pickup in economic activity and stronger commodity prices, companies in the U.S. were optimistic about second-quarter earnings forecasts. Stocks rose in value but not quite as much as earnings expectations, which led to easing stock valuations on a price-to-earnings (P/E ratio) basis. Some of the surges in pricing or supply shortages eased over the period, offering some reassuring signs that the bump in inflation could be transitory. The massive fiscal and monetary stimulus provided in recent quarters continue to offer support for the economy, for labor markets and for consumer confidence.

Performance Attribution for Our Stock Funds

The Homestead Value Fund (HOVLX) gained 6.49% in the second quarter, outpacing its benchmark, the Russell 1000 Value Index, which rose 5.21%. In the period, stock selection in information technology holdings boosted fund performance. Stock choices in communications services names also added to fund returns. Conversely, stock choices and an overweight allocation in the industrials sector weighed on performance, as did the fund's avoidance of holdings in the energy sector, which performed well as commodity prices rose.

Homestead Funds

Compared to the index, the fund holds significant overweights in health care and information technology stocks. Its largest underweight allocations are in consumer staples and energy 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) rose 5.37% in the second quarter, outpacing its benchmark, the Russell 2000 Index, which gained 4.29%. In the period, stock choices in the health care sector boosted the fund's performance. Stock selection in the materials sector also aided returns. Conversely, stock choices and an underweight allocation among communications services stocks detracted from performance, as did the fund's avoidance of holdings in the energy sector.

Relative to its benchmark, the Small-Company Stock Fund continues to be notably underweight in the consumer discretionary and energy sectors. The portfolio's most significant overweights are in the industrials and health care 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.

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.

Performance Attribution for Our Balanced Fund

The Rural America Growth & Income Fund (HRRLX) rose 0.20% from its inception on May 1 to the end of the second quarter. The fund trailed its custom benchmark, a 60%/40% blend of the Russell 3000 and the Bloomberg Barclays Intermediate U.S. Government/Credit Bond Index, which returned 1.95%.

The fund's stock allocation slightly lagged its benchmark, with stock selection in the information technology and industrials sectors weighing on performance. Conversely, an overweight allocation and stock choices in the real estate sector aided fund returns. The fund holds the biggest overweights in the real estate and industrials sectors, relative to its equity benchmark, and largest underweights in the consumer staples and energy sectors.

The fund's bond allocation performed in line with its benchmark. U.S. Treasury holdings boosted fund performance thanks to yield-curve positioning. Holdings in the industrials sector also boosted returns, while exposure among U.S. government agency issues and minor cash holdings detracted from relative returns. Compared to its bond benchmark, the fund holds overweights in corporate bonds and agency-issued bonds and is underweight in U.S. Treasury holdings.

Total Returns as of 6/30/2021

	Q2	Average Annual 1-yr	3-yr	5-yr	10-yr	Since fund's inception
Bond Funds						
> *Short-Term Government Securities Fund* **(HOSGX)**	0.08%	0.14%	2.73%	1.60%	1.30%	3.03%
ICE BofA ML 1-5 Year U.S. Treasury Index	0.11%	-0.27%	3.26%	1.76%	1.59%	3.80%
Expense ratio 0.81% (gross) 0.75% (net) (12/31/20)*						
> *Short-Term Bond Fund* **(HOSBX)**	0.51%	1.10%	3.41%	2.49%	2.27%	4.16%
ICE BofA ML 1-5 Year Corp./Gov. Index	0.30%	0.57%	3.73%	2.22%	2.03%	4.36%
Expense ratio 0.78% (12/31/20)						
> *Intermediate Bond Fund* **(HOIBX)****	2.25%	1.44%	NA	NA	NA	5.75%
Bloomberg Barclays U.S. Aggregate Index	1.83%	-0.33%	5.34%	3.03%	3.39%	5.23%
Expense ratio 1.13% (gross) 0.80% (net) (12/31/20)*						
Balanced Fund						
> *Rural America Growth & Income Fund* **(HRRLX)*****	NA	NA	NA	NA	NA	NA
Blended Index	NA	NA	NA	NA	NA	NA
Expense ratio 2.26% (gross) 1.00% (net) (5/01/21)						
Equity Funds						
> *Value Fund* **(HOVLX)**	6.49%	42.56%	15.52%	14.74%	12.87%	10.68%
Russell 1000 Value Index****	5.21%	43.68%	12.42%	11.87%	11.61%	NA
Expense ratio 0.65% (12/31/20)						
> *Small-Company Stock Fund* **(HSCSX)**	5.37%	57.47%	10.06%	11.05%	10.47%	9.44%
Russell 2000 Index	4.29%	62.03%	13.52%	16.47%	12.34%	8.57%
Expense ratio 1.12% (12/31/20)						

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.

*RE Advisers has contractually agreed, through at least May 1, 2022, to limit the funds' 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). This waiver agreement will terminate immediately upon termination of the fund's Management Agreement and may be terminated by the fund or RE Advisers with one year's notice.

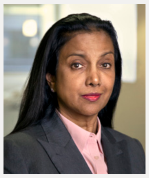
**The inception date of this fund is May 1, 2019.

***The inception date of this fund is May 1, 2021.

****The fund's benchmark was changed to the Russell 1000 Value Index on January 1, 2020.

Homestead Funds

Equity Fund Management



Prabha Carpenter, CFA®
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Prabha co-manages the Value, Small-Company Stock and Rural America Growth & Income funds. She is a graduate of the University of Madras, where she received a BA in economics. She received her BS degree in business economics and an MBA with distinction in finance from American University. Prabha holds the Chartered Financial Analyst designation.

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Peter co-manages the Rural America Growth & Income Fund and supports the equity strategies. He is a graduate of Trinity College, where he received a BA in economics and an MBA with a specialization in finance from Boston University.

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Senior Equity Analyst

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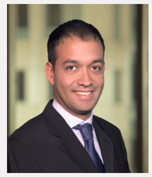
Bond Fund Management



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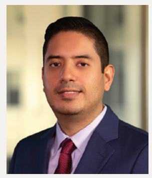

Ivan Naranjo, CFA®, FRM®
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Diversification does not guarantee a profit or protect against a loss in a declining market. It is a method used to help manage investment risk.

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. 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. Equity securities generally have greater price volatility than fixed-income securities and are subject to issuer risk and market risk. 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. Securities of small and medium-sized companies tend to be riskier than those of larger companies.

Index Definitions: The **ICE BofA Merrill Lynch 1-5 Year U.S. Treasury Index** measures the performance of short-term U.S. Treasury securities. The **ICE BofA Merrill Lynch 1-5 Year Corp./Gov. Index** measures the performance of U.S. government and investment-grade corporate debt. The **Bloomberg Barclays U.S. Aggregate Bond 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 Barclays 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 Barclays

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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 500 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.

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 download a PDF at homesteadfunds.com.

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