Quarterly Market Review

First Quarter 2021

This commentary was prepared on April 9, 2021, and reflects our view of events at that time. Please visit our website, homesteadfunds.com, for the latest perspectives.

Summary

- The stock market rally passed the one-year mark. The success of the initial vaccine rollout was a key factor driving the return to economic activity and the improving job market in the U.S. Low interest rates from the Federal Reserve, as well as multiple stimulus packages from Congress over the past year, also continued to fuel the recovery.
- Company earnings rebounded, with most sectors reporting a return to pre-COVID-19 profitability. The strength of the recovery also drove long-dated interest rates higher as the prospect of future inflation began to revive.
- Bond markets were mixed. Rising interest rates for five-, 10- and 30-year debt issues pressured bond prices. This trend was somewhat offset by further tightening in credit spreads for non-Treasury bonds, another indicator of a "risk on" environment.

Rebound Continues as Vaccinations Climb

Stocks climbed higher in the first quarter of 2021, extending the market rally past the one-year mark since the pandemic-induced low on March 20, 2020. Though the COVID-19 pandemic continued to inflict loss of life around the globe, significant progress with vaccinations and ongoing policy support — especially within the U.S. — helped the economic and market recovery to secure a deeper hold.

Successful Vaccine Rollout Drives Progress

With three approved vaccines moving through state distribution programs, the U.S. is a global leader in terms of its vaccine production and rollout. About 20% of the U.S. population was vaccinated at the end of the first quarter, one of the highest vaccination rates around the world, according to data from Bloomberg. Israel led vaccinations with more than 54% of its population inoculated, while 15 of the countries tracked by Bloomberg had not yet vaccinated even 1% of their populations as of late March.[1]

A closer look at country-by-country comparisons also lays bare the tragic truth that the U.S. has one of the highest per-million death counts from COVID-19. Indeed, out of 53 countries tracked by Bloomberg for COVID-19 resilience, with 1 being better and 53 being worse, the U.S. is 48th.[2] This is the more reason why the continuing vaccine success is so crucial and represents an enormous victory for scientists, policymakers, federal and state governments, and the private companies conducting vaccine manufacturing and distribution with incredible success overall.

In fact, President Biden set a goal of administering 100 million shots within his first 100 days in office — but that milestone was achieved on day 59, leading the administration to double the target to 200 million shots.[3]

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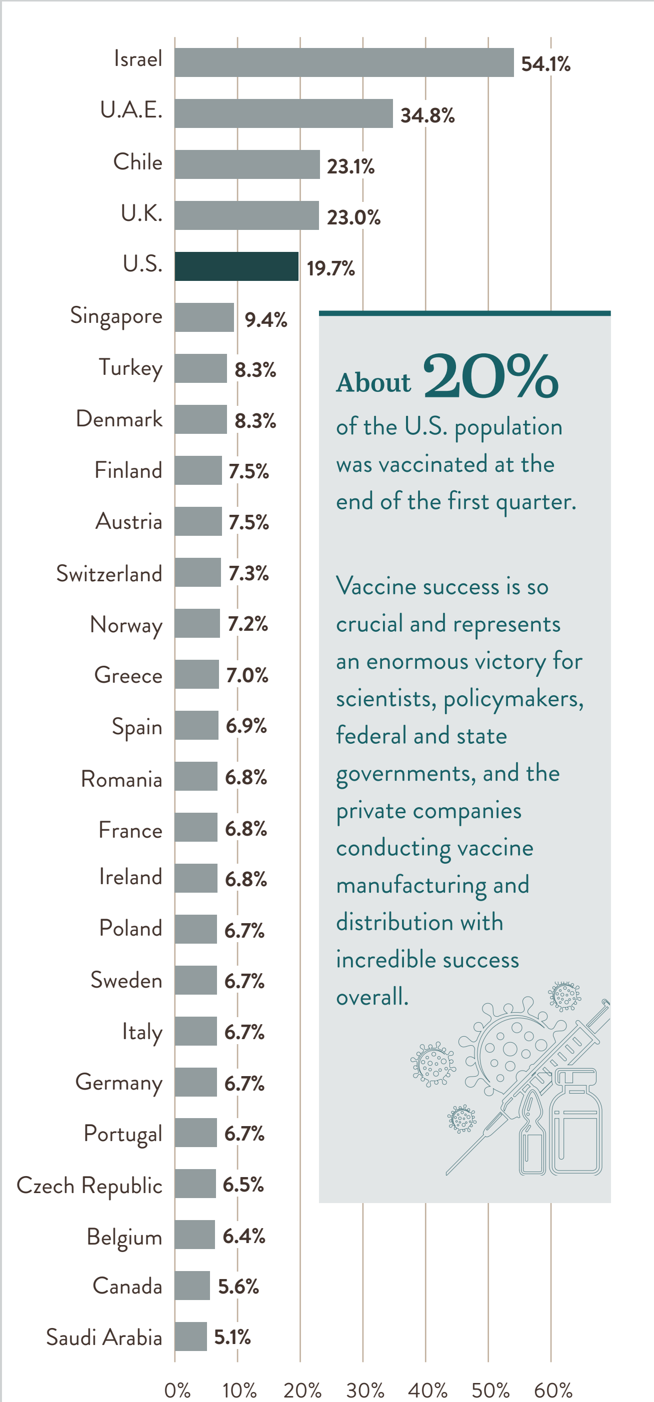
[1]Rource: Bloomberg.com, "The Covid Resilience Ranking," data as of March 26, 2021
[2]Ibid.
[3]CNBC, "Biden Sets New COVID Vaccine Goal of 200 Million Shots Within His First 100 Days," published March 25, 2021

U.S. Scores Highly on Vaccinations

To-Date Vaccination Rate in Countries With 5% Vaccination or Higher



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Source: Bloomberg.com, "The Covid Resilience Ranking," data as of 3/26/21.

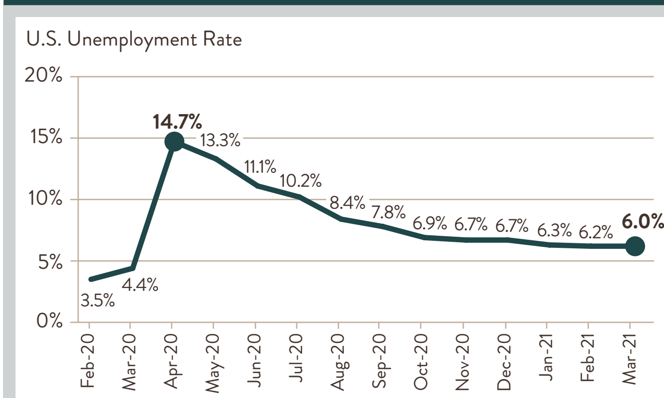
Other Policy Moves Continue to Deliver

Along with the vaccine success, we believe much of the U.S.'s economic and market recovery is due to the policy responses of the Federal Reserve and to the four stimulus packages delivered by Congress since the pandemic began.

We believe the Fed's easing programs — which include near-zero interest rates, lending programs for banks and investors, and bond-buying initiatives — have been extremely effective at staving off Depression-like market panic and the severe impacts that ripple through the economy when lending grinds to a halt. A key goal of the Fed's efforts is to boost the economy enough to see a good response in employment levels. The unemployment rate has continued to improve every month since peaking in April of 2020.

The fiscal response has also been incredibly powerful. In addition to multiple rounds of direct stimulus payments, the COVID-19 relief packages have also provided supplemental weekly unemployment benefits, the Paycheck Protection Program, support for state and local governments, and additional programs such as funding for testing and to help schools reopen. We believe the combined power of these initiatives is clearer every month as the $21.5 trillion-per-year U.S. economy comes significantly closer to normal.[4] An infrastructure program — a Biden initiative with broad political support — stands as another possibility for fiscal stimulus even as the economy is finding stable footing.

Unemployment Continues to Tick Down



Source: Bureau of Labor Statistics

[4]Source: Bureau of Economic Analysis, U.S. Department of Commerce

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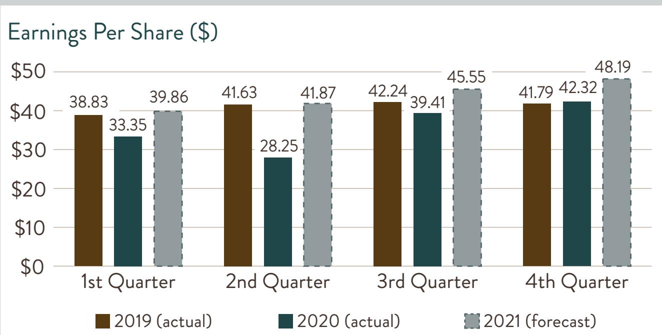
Company Earnings (and Interest Rates) Climbing

Amid this backdrop of support — vaccines, supportive monetary and fiscal policies — company earnings are largely back on track.

Earnings for S&P 500 companies were better than expected in the fourth quarter of 2020, and earnings forecasts for the first quarter of 2021 rose steadily over the three month period.[5] Among sectors, energy and industrials are still struggling with losses or lower earnings compared with year-ago figures.

Earnings Recovering to Pre-COVID Levels

Among S&P 500 Companies



Source: FactSet Earnings Insight, 4/1/21. Earnings represent bottom-up aggregate earnings per share for companies in the index.

For market watchers, interest rates are another key indicator that economic progress is increasingly secure. With the Fed moving its target rate to zero, the "short end" of the yield curve — interest rates on issues maturing in three years or less — fell quickly near zero in 2020 and has stayed put. But longer-dated interest rates, on 10- and 30-year U.S. Treasuries, for example, made a considerable jump upward over the first quarter from early-COVID-19 lows. The average person might notice this reflected in the climbing 30-year mortgage rates. Higher interest rates are ultimately a sign that the market expects more robust inflation ahead — a bedfellow of stronger economic growth.

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Bonds

Bond returns were mixed in the first quarter. Rising interest rates pressured prices of U.S. Treasuries, especially for longer-dated issues. However, credit spreads — the difference in yield for corporate bond issues compared with similar-duration Treasuries — compressed more in the period, boosting returns on corporate issues relative to government bonds.

As rates climbed incrementally, Fed policymakers faced some questions about their public commitment to keep rates near zero "for years" as they have publicly stated. Still, central bankers indicated that they intend to stay the course. In the last rate-hike cycle, just before the pandemic, policymakers had to undo an interest-rate increase that pressured growth more than desired. Their recent comments seem to suggest that they are willing to tolerate higher inflation for some period as long as their supportive policies continue to boost the job market as intended.

Against this backdrop, the Homestead Short-Term Government Securities Fund (HOSGX) returned -0.49% in the first quarter, outperforming its benchmark, the ICE BofAML 1-5 Year Treasury Index, which returned -0.52%. Our exposure to U.S. agency-backed issues boosted the portfolio's performance relative to its all-Treasuries benchmark. Agency-backed bonds are close in credit quality to Treasuries but underperformed in the COVID-19 downturn and have outperformed in the recovery period since.

The Homestead Short-Term Bond Fund (HOSBX) fell -0.63% in the quarter, trailing its benchmark, the ICE BofAML 1-5 Year Corporate/Government Bond Index, which declined -0.52%. Our holdings in asset-backed securities (ABS) and issues from financial institutions helped performance, although the fund trailed its benchmark slightly after the expense ratio was deducted from returns.

The Homestead Intermediate Bond Fund (HOIBX) returned -2.99% in the first quarter, outperforming its benchmark, the Bloomberg Barclays Aggregate Bond Index, which fell -3.37%. The fund's positions in corporate bonds in the financials and industrials sectors contributed to relative performance. Holdings in ABS also helped. The fund's mix of longer-dated Treasuries detracted from performance, as did holdings in mortgage-backed securities.

[5]Source: FactSet Earnings Insight, April 1, 2021.

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Stocks

The rally in U.S. stocks passed the one-year mark. Performance trends from the end of 2020 continued into the first quarter. Small-cap benchmarks again led performance, followed by large-cap stocks. Value style benchmarks outperformed growth. On a sector basis, energy and financials stocks had the highest average returns. The consumer staples, technology and utilities sectors lagged.

As the vaccine rollout exceed expectations in the U.S., economic activity picked up markedly and contributed to strong performance among U.S. companies. While the unemployment rate remains above pre-COVID-19 levels, we believe continued support from the Fed's low interest rates and the sizeable stimulus packages from Congress boosted the outlook and a more stable recovery. The pickup in global growth continued to drive energy prices and energy stocks, while financial companies benefited from rising interest rates. Consumer staples and technology company stocks cooled off as other sectors surged ahead in this later stage of the recovery.

The Homestead Value Fund (HOVLX) gained 10.07% in the first quarter, trailing its benchmark, the Russell 1000 Value Index, which rose 11.26%. In the period, the fund's avoidance of energy-sector stocks detracted from relative performance, as the sector surged higher through the quarter. Stock selection in information technology holdings also weighed on the fund's performance. Conversely, the fund's avoidance of stocks in the lagging consumer staples sector contributed to returns.

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Compared with the index, the fund holds a significant overweight in health care and information technology stocks. 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) rose 12.94% in the first quarter, outpacing its benchmark, the Russell 2000 Index, which gained 12.70%. In the period, stock choices in the health care sector boosted the fund's performance. Stock selection and an overweight allocation to the materials sector also aided returns. Conversely, positioning among consumer discretionary stocks detracted from the fund's performance.

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

Homestead Funds

Total Returns as of 3/31/2021

	Q1	Average Annual 1-yr	3-yr	5-yr	10-yr	Since inception
Bond Funds						
> *Short-Term Government Securities Fund* **(HOSGX)**	-0.49%	1.03%	2.69%	1.66%	1.40%	3.06%
ICE BofA ML 1-5 Year U.S. Treasury Index	-0.52%	-0.09%	3.27%	1.90%	1.73%	3.83%
Expense ratio 0.81% (gross) 0.75% (net) (12/31/20)*						
> *Short-Term Bond Fund* **(HOSBX)**	-0.63%	3.45%	3.42%	2.59%	2.32%	4.18%
ICE BofA ML 1-5 Year Corp./Gov. Index	-0.52%	2.11%	3.69%	2.36%	2.15%	4.39%
Expense ratio 0.78% (12/31/20)						
> *Intermediate Bond Fund* **(HOIBX)****	-2.99%	3.20%	NA	NA	NA	5.29%
Bloomberg Barclays U.S. Aggregate Index	-3.37%	0.71%	4.65%	3.10%	3.44%	4.93%
Expense ratio 1.13% (gross) 0.80% (net) (12/31/20)*						
Equity Funds						
> *Value Fund* **(HOVLX)**	10.07%	55.68%	13.19%	14.07%	12.26%	10.54%
Russell 1000 Value Index***	11.26%	56.09%	10.96%	11.74%	10.99%	NA
Expense ratio 0.65% (12/31/20)						
> *Small-Company Stock Fund* **(HSCSX)**	12.94%	79.98%	8.38%	10.51%	9.63%	9.30%
Russell 2000 Index	12.70%	94.85%	14.76%	16.35%	11.68%	8.47%
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, 2021, to limit the funds' operating expenses to an amount not to exceed 0.75% (Short-Term Government Securities Fund) or 0.80% (Intermediate Bond 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 fund's benchmark was changed to the Russell 1000 Value Index on January 1, 2020.

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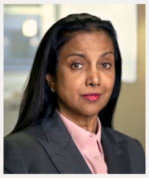
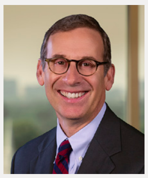
Equity Fund Management



Prabha Carpenter, CFA®
Senior Equity Portfolio Manager

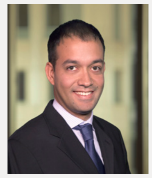
Prabha co-manages RE Advisers' large- and small-cap value strategies. She is a graduate of the University of Madras, where she received a BA in economics. She received her BS degree in business economics and an MBA with distinction in finance from American University. Prabha holds the Chartered Financial Analyst designation.



Jim Polk, CFA®
Senior Equity Portfolio Manager

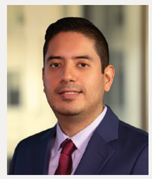
Jim co-manages RE Advisers' large- and small-cap value strategies. He received a BA in English from Colby College and an MBA from the Olin Graduate School of Business at Babson College. Jim holds the Chartered Financial Analyst designation.

Bond Fund Management



Mauricio Agudelo, CFA®
Senior Fixed-Income Portfolio Manager

Mauricio manages RE 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 RE Advisers' fixed-income strategies. He joined RE Advisers in 2018. 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.

Prepared: April 9, 2021

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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. 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 **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.

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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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