Quarterly Market Review

Third Quarter 2021

Homestead Funds

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

Summary

- After five quarters of rallying, U.S. stocks paused. Demand remained strong through the economy, but the continued battle against COVID-19 has caused persistent supply chain problems around the globe. Limited inventory and price inflation both resulted from the imbalance between supply and demand. The labor market also posted lower-than-expected numbers.
- Though analysts expect third-quarter earnings to come in strong, earnings forecasts for the longer term softened incrementally. Widespread inflation also prompted a changing outlook for the monetary policy of the Federal Reserve (Fed). The Fed expects to begin pulling back asset purchases from the bond market in November, sooner than estimates from the prior quarter.
- Bond returns were also close to flat for the period. Interest rates softened midquarter as the delta variant drove COVID-19 cases higher and presented headwinds to the recovery, but rates rallied higher by quarter-end as inflation numbers make future rate hikes more likely.

Stocks Pause as Inflation Persists

Stock markets touched new highs in early September before retreating modestly back to midsummer prices. Most U.S. stock benchmarks were flat or slightly down for the full three-month period. Bond performance was also flat to negative.

The trend marks a pause in the rally after five straight quarters of stock gains. A mix of headwinds convened, pressuring the earnings outlook while also changing expectations for monetary policy support. With a resurging COVID-19 caseload, higher prices on many goods and services, supply chain bumps and labor-market challenges, a number of factors slowed stock market momentum. Still, the economic recovery remains intact, with trends such as job creation and home purchases in good shape while M&A activity and home prices hit new all-time highs.

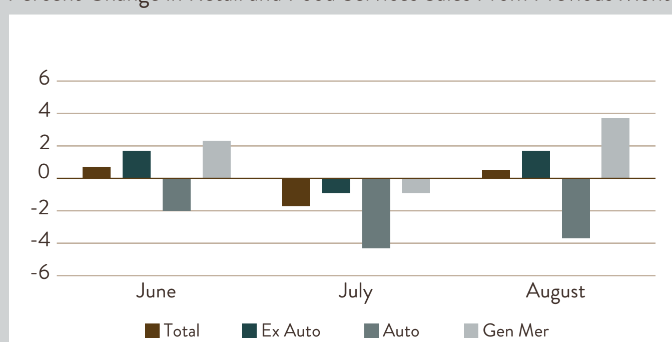
Demand Powers Ahead

Strong demand continues to drive economic activity in the U.S. Monthly retail reports were generally solid, showing healthy increases for retail orders for general merchandise in June and August, though July was a bit weaker.

One notable exception was spending on autos. Autos are one area of the economy where spending is typically boosted when interest rates are low, because many purchases are financed. However, sales appear to be limited because car and truck inventories are sparse amid supply chain backlogs. The global shortage of semiconductor chips is a major bottleneck for automakers, as new vehicles rely heavily on digital technology.

Healthy Marks for Spending — Except on Autos

Percent Change in Retail and Food Services Sales From Previous Month



Source: U.S. Census Bureau, Advanced Monthly Retail Trade Survey, September 16, 2021
Data adjusted for seasonal variation and holiday trading-day differences but not for price changes.

Without the inventory issues, we believe auto sales would likely be strong. Indeed, other sectors connected to low interest rates are showing a continued boom in demand, including home purchases and corporate merger and acquisition (M&A) activity. Both sectors hit new highs in recent months.

Snags Along the Way

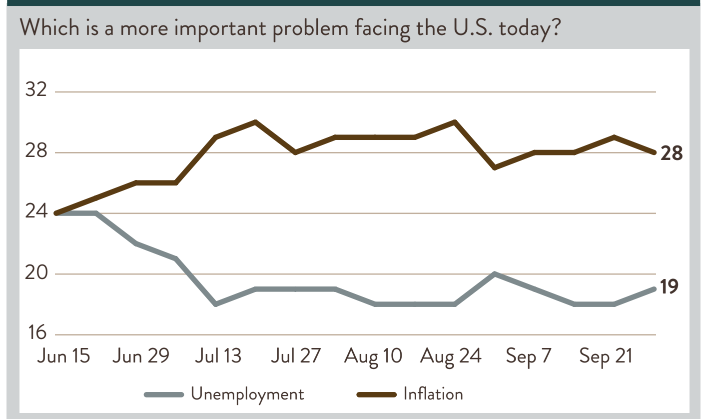
The dip in auto sales is a fitting example of the problems facing the market at present — that robust demand is bumping into product shortages and delays. As the world continues to combat the COVID-19 pandemic, constraints on both labor and raw materials are driving persistent supply chain problems. Waves of factory closures, congestion at ports and high shipping costs all continued through the third quarter. The barriers in semiconductor production affect manufacturing beyond autos, pressuring tech sectors, appliances, equipment production and more. Retail goods such as shoes and clothes have also been seriously affected.

The labor market in the U.S. is another segment of the economy that can't seem to keep up with surging demand. The unemployment rate has drifted steadily lower since spiking early in the pandemic; however the number of employed people in the U.S. has not returned to pre-COVID-19 levels, and job openings have touched record highs. In contrast, employment in the U.K. has surged back to pre-COVID-19 levels in recent months. U.S. employment may be hampered by child care shortages and school closures or by more complex demographic trends.

With these conditions across the U.S., unemployment is not the biggest concern facing Americans today: it's inflation. The combination of strong demand and limited supply across the economy is driving steady price pressure. Gasoline was up 43% from levels a year ago as of August; natural gas was up 21%, and electricity was up 5%. Food-away-from-home prices were up almost 5%. Used cars and trucks rose 32% in price, while new vehicle prices increased 8%.

Not all categories were rising so quickly. Food-at-home and shelter prices only rose about 3% over the year, while medical care was only up 0.4%. Still, the rapid increase for many key categories presents a challenge to households. Wages, which were about 4% higher in August from levels a year ago, are healthy yet have not kept pace with some prices.

Inflation Ranks Higher on the Worry List



Source: Strategas Economist/YouGov poll.

Changing Outlook for Fed Support, Earnings

These dynamics have influenced the outlook for monetary policy support from the Fed and for company earnings.

Interest rate targets remained unchanged, but Fed policymakers have indicated they will begin to taper the broader asset-buying programs that have flooded bond markets and corporate balance sheets with liquidity. This process is familiar to markets, which witnessed the same procedure when it came time for the Fed to withdraw extreme support after the financial crisis of 2008-09. First the asset purchase programs were unwound, then interest-rate hikes came later. At present, markets are forecasting the first interest rate hike late in 2022.

Earnings forecasts have also changed in light of recent economic trends. Company earnings have enjoyed a robust recovery since the early days of COVID-19 shutdowns; analysts are forecasting that third-quarter earnings for companies in the S&P 500 Index will come in about 28% higher than levels a year ago. However, forecasts have begun to soften a bit for later quarters. With higher input prices and inflationary headwinds facing consumers, analysts see slightly less momentum for earnings growth in the medium term.

Recovery Remains Intact

Though the third quarter marked a pause for stock performance, the broader picture remains healthy for the economy and for markets. Fed policy continues to be supportive, and demand indicates confidence among consumers.

Bonds

Bond returns were flat to negative in the third quarter. Interest rates declined slightly during the period as the delta variant swept across the U.S. and threatened reopening demand, but rates later recovered back to second-quarter levels (or even slightly higher) as inflation persisted throughout the economy. Credit spreads — the difference in yield for corporate bond issues compared with similar-duration Treasuries — trended slightly tighter. The stability of credit spreads indicates that corporate balance sheets are strong and that the likelihood of default among corporate issuers is low.

Fed policymakers adjusted their plans for withdrawing some of the extreme liquidity in bond markets, thanks to continued momentum in inflation. In contrast with second-quarter comments that they would begin to unwind asset purchases in early 2022, policymakers now expect to begin tapering the programs late this year. Still, interest rates are forecast to remain low. Markets currently project the first rate increase to come late next year.

Performance Attribution for Our Bond Funds

Against this backdrop, the Homestead Short-Term Government Securities Fund (HOSGX) returned -0.12% in the third quarter, trailing its benchmark, the ICE BofAML 1-5 Year Treasury Index, which returned 0.00%.

The Homestead Short-Term Bond Fund (HOSBX) returned -0.10% in the quarter, trailing its benchmark, the ICE BofAML 1-5 Year Corporate/Government Bond Index, which returned 0.03%.

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The Homestead Intermediate Bond Fund (HOIBX) returned -0.08% in the third quarter, trailing its benchmark, the Bloomberg Barclays Aggregate Bond Index, which rose 0.05%. Our yield-curve positioning in longer-dated Treasuries weighed slightly on returns.

Stocks

The rally in U.S. stocks paused for many broad categories of companies. Performance was mixed among benchmarks. Large caps generally outperformed small caps, but there was no clear trend in terms of growth- versus value-style benchmarks. On a sector basis, financials led performance, while industrials and materials stocks lagged.

Companies continue to report strong earnings growth, but the persistent inflation and supply chain bumps in the economy changed the outlook slightly. Some companies face sales constraints because inventories can't meet demand, and inflation pressures the outlook for future consumer spending. Stock valuations retreated slightly, though they remained at higher-than-average levels on a price-to-earnings (P/E ratio) basis. M&A activity continued at a record-setting pace in the quarter.

Performance Attribution for Our Stock Funds

The Homestead Value Fund (HOVLX) returned -1.66% in the third quarter, trailing its benchmark, the Russell 1000 Value Index, which fell -0.78%. In the period, stock selection in health care holdings detracted from fund performance. Stock choices and an overweight allocation in industrials stocks also weighed on relative returns. Conversely, stock choices in communications services and financials companies boosted the fund's performance.

Compared with the index, the fund holds significant overweights in industrials 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) fell -4.40% in the third quarter, in line with its benchmark, the Russell 2000 Index, which declined -4.36%. In the period, stock choices in the health care sector boosted fund returns, though an overweight allocation detracted slightly. The fund's underweight allocation and stock selection in communication services stocks also contributed to relative performance. Conversely, stock choices in industrials names and lack of holdings in the energy sector detracted from fund returns.

Relative to its benchmark, the Small-Company Stock Fund continues to be notably underweight in the consumer discretionary and real estate 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. 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.

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

Performance Attribution for Our Balanced Fund

The Rural America Growth & Income Fund (HRRLX) returned -0.20% in the third quarter, trailing its custom benchmark, a 60%/40% blend of the Russell 3000 Index and the Bloomberg Barclays Intermediate Government-Credit Index, which returned -0.02% for the same period.

The fund's stock allocation slightly lagged its benchmark, with stock selection in the real estate and health care sectors weighing on performance. Conversely, stock choices in the information technology and consumer discretionary sectors aided fund returns. The fund holds its biggest sector overweights in real estate and industrials, compared with its equity benchmark, while the fund's largest underweights are in communication services and consumer staples stocks.

The fund's bond allocation performed in line with its benchmark. Holdings in the industrials sector boosted fund performance, while holdings in asset-backed securities (ABS) detracted very slightly. Compared with its bond benchmark, the fund holds overweights in corporate bonds and agency-issued bonds and is underweight in U.S. Treasury holdings.

Homestead Funds

Total Returns as of 9/30/2021

	Q3	1-yr	3-yr	5-yr	10-yr	Since fund's inception
		Average Annual				
Bond Funds						
> *Short-Term Government Securities Fund* **(HOSGX)**	-0.12%	-0.44%	2.56%	1.57%	1.19%	3.00%
ICE BofA ML 1-5 Year U.S. Treasury Index	0.00%	-0.40%	3.24%	1.80%	1.45%	3.76%
Expense ratio 0.81% (gross) 0.75% (net) (12/31/20)*						
> *Short-Term Bond Fund* **(HOSBX)**	-0.10%	0.60%	3.19%	2.40%	2.26%	4.12%
ICE BofA ML 1-5 Year Corp./Gov. Index	0.03%	0.18%	3.64%	2.21%	1.95%	4.33%
Expense ratio 0.78% (12/31/20)						
> *Intermediate Bond Fund* **(HOIBX)****	-0.08%	0.61%	NA	NA	NA	5.10%
Bloomberg Barclays U.S. Aggregate Index	0.05%	-0.90%	5.36%	2.94%	3.01%	4.70%
Expense ratio 1.13% (gross) 0.80% (net) (12/31/20)*						
Balanced Fund						
> *Rural America Growth & Income Fund* **(HRRLX)*****	-0.20%	NA	NA	NA	NA	NA
Blended Index	-0.02%	NA	NA	NA	NA	NA
Expense ratio 2.26% (gross) 1.00% (net) (5/01/21)*						
Equity Funds						
> *Value Fund* **(HOVLX)**	-1.66%	32.30%	11.47%	13.63%	14.98%	10.52%
Russell 1000 Value Index****	-0.78%	35.01%	10.07%	10.94%	13.51%	NA
Expense ratio 0.65% (12/31/20)						
> *Small-Company Stock Fund* **(HSCSX)**	-4.40%	39.02%	8.62%	9.93%	12.52%	9.12%
Russell 2000 Index	-4.36%	47.68%	10.54%	13.45%	14.63%	8.27%
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.

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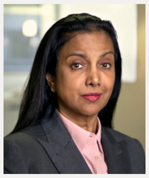
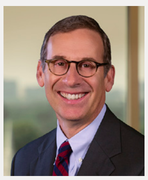
****The fund's benchmark was changed to the Russell 1000 Value Index on January 1, 2020.

Equity Fund Management



Prabha Carpenter, CFA®
Senior Equity Portfolio Manager

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.



Jim Polk, CFA®
Senior Equity Portfolio Manager

Jim co-manages the Value, Small-Company Stock and Rural America Growth & Income funds. 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.

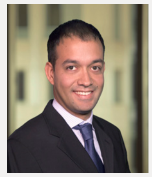
Peter Blackstone
Senior Equity Analyst

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.

Mark Iong, CFA®
Senior Equity Analyst

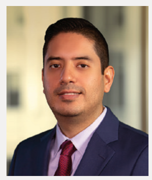
Mark co-manages the Rural America Growth & Income Fund and supports the equity strategies. Mark is a graduate of Cornell University, where he received a BS degree in operations research and information engineering. He holds the Chartered Financial Analyst designation.

Bond Fund Management



Mauricio Agudelo, CFA®
Senior Fixed-Income Portfolio Manager

Mauricio co-manages the Short-Term Government Securities. Short-Term Bond, Intermediate Bond and Rural America Growth & Income funds. 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 the Short-Term Government Securities. Short-Term Bond, Intermediate Bond and Rural America Growth & Income funds. 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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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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