Homestead
Funds

Quarterly Market Review

First Quarter 2022

Summary

- In a quarter marked by volatility, stocks declined globally. Inflation moved higher, driven by strong consumer demand and ongoing supply chain backlogs, and was then aggravated further by the Russian invasion of Ukraine and the resulting shock to energy markets. Energy, food and housing are the categories demonstrating the greatest pricing pressure.
- Even as inflation heats up, U.S. companies expect to report strong profits for the period. With robust demand, most businesses have been able to pass along climbing prices. Labor markets ticked even tighter. All eyes are on the Federal Reserve (Fed) to tighten monetary conditions at a pace that will cool inflation without stifling economic growth.
- Bonds also declined in the period. Interest rates notched sharply higher for all maturities as markets priced in a much more aggressive path for Fed interest rate hikes. Credit spreads also widened, reflecting the uptick in uncertainty and volatility across markets.

This commentary was prepared on April 6, 2022, and reflects our view of events at that time. Please visit our website, homesteadfunds.com, for the latest perspectives.

The Heat Is On

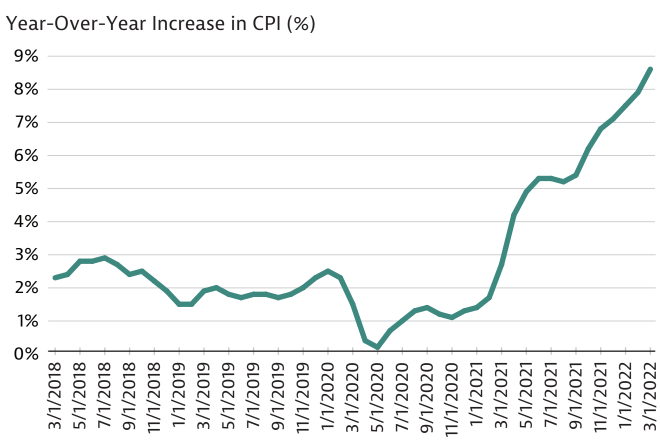
Stocks and bonds both posted negative performance in the first quarter of 2022. With climbing inflation, rising interest rates, ongoing supply chain disruptions and the invasion of Ukraine by Russia, markets weathered volatile conditions. Stocks touched lows for the period in early March but recovered somewhat by the end of the quarter.

Inflation Surges to New Highs

Prices for the Consumer Price Index, a broad measure of prices for goods and services, continued to climb, reaching 7.9% on a year-over-year basis in the report for February. Prices rose at an annual pace of 7.5% in January and 7.1% in December. Gasoline, food and housing prices accounted for the greatest impact. Gasoline prices were up 25.6% in the year ending February, while food prices rose 7.9%, the fastest rate since 1982. Housing prices were up 4.7%.

The worsening trend was driven in part by strong demand. With an economy largely recovered from the shock of COVID-19, consumers are shopping and even returning to some travel. Indeed, cruise operator Carnival Corp. announced that weekly bookings set a new all-time record

Inflation Climbs on Robust Demand, Supply Pressures



Source: U.S. Bureau of Labor Statistics

in March. Household savings rates have retreated back to pre-COVID-19 levels, reflecting the higher pace of household spending. The booming housing market also demonstrates the buying appetite in the economy.

Higher employment levels are a key factor for spending trends. The unemployment rate ticked down even lower to 3.6% in March as jobs were added at a faster clip than expected. Hospitality and leisure jobs were an area of strength as travel and recreation activities rebounded.

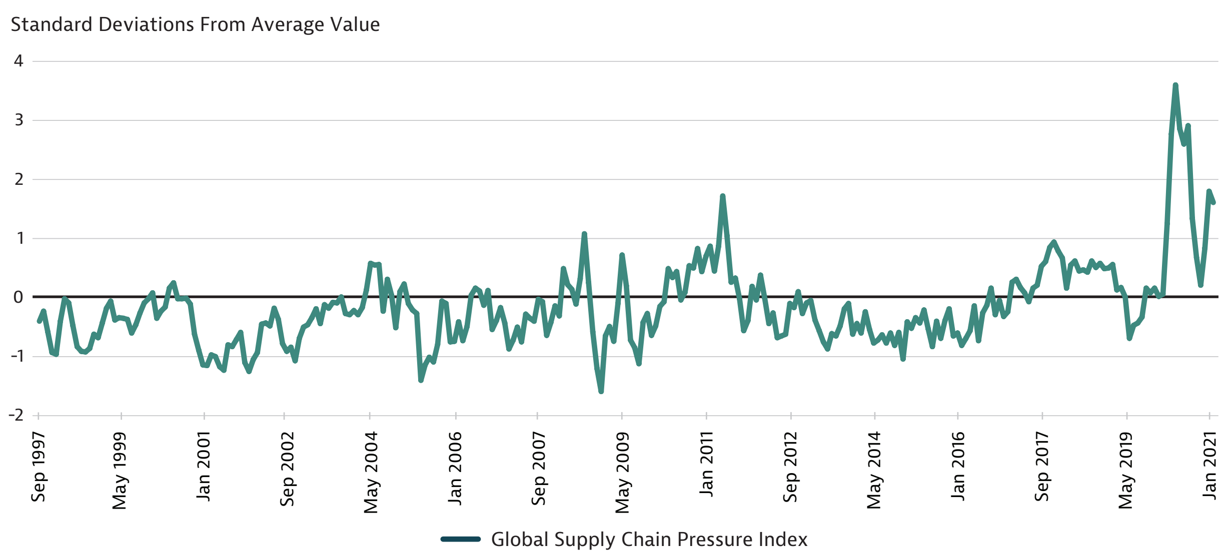
With waves of COVID-19 variants driving periodic shutdowns across the globe, and China's zero-COVID policies in particular, the supply chain issues have not improved as much as economists were forecasting a year ago.

Supply Chain Issues Prove Persistent

Since COVID-19 began, supply chain backlogs and bottlenecks have been problematic — and they're proving difficult to resolve. With waves of COVID-19 variants driving periodic shutdowns across the globe, and China's zero-COVID policies in particular, the supply chain issues have not improved as much as economists were forecasting a year ago. Even the Fed expected supply chain backlogs to ease more substantially, one factor they cited in keeping rates near zero and stimulus programs in place for as long as they did.

Supply chain indexes do show some improvement in global conditions since December, but not by much. The Global Supply Chain Pressure Index, a measure calculated by the Federal Reserve Bank of New York, indicated that backlogs and inventory issues had only retreated a little from December peaks.

Supply Chain Pressure Still Historically High

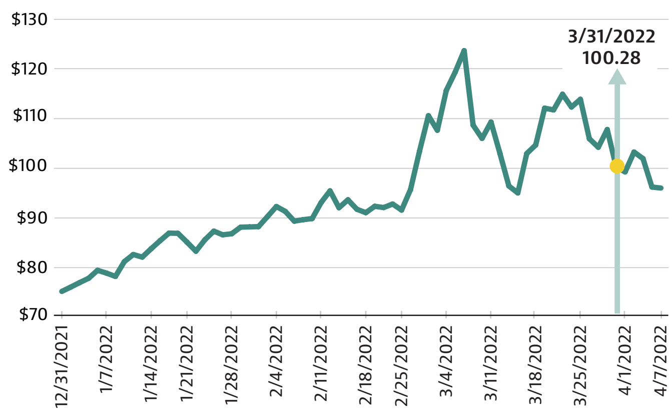


Sources: Bureau of Labor Statistics; Harper Petersen Holding GmbH; Baltic Exchange; IHS Markit; Institute for Supply Management; Haver Analytics; Bloomberg L.P.; authors' calculations.

Ukraine Attack Pressures Commodity Prices

Russia's late-February invasion of Ukraine was a shock to energy markets. Oil prices, which were already climbing steadily, shot up as high as $120/barrel in March. Russia accounts for about 10% of global oil supply. Russia and Ukraine together account for nearly 30% of worldwide wheat supply.

Oil Passess $120/Barrel in the First Quarter



Source: Bloomberg

Consumer and Policymakers Getting Nervous?

Inflation is problematic for households, and it could be rattling consumer confidence. The Consumer Expectations Index, a measure that captures consumer sentiment about the near future, weakened over the first quarter. Consumers cited inflation, especially in gas prices, as a concern.

Meanwhile, with wages up 5.6% in the last year and 1.8 job openings for every unemployed worker, Fed Chair Jerome Powell noted recently that the labor market was approaching an "unhealthy level." When job markets are too tight, they can become a source of inflation.

Powell and other policymakers have drastically changed course in recent months, announcing new plans for interest rate hikes in 2022. They might even enact one or more 0.5% rate increases, in contrast to the typical 0.25% rise they have enacted in the past. They also plan to shrink the Fed's balance sheet substantially. The Fed has been a buyer of U.S. Treasuries, mortgage-backed securities and even corporate bonds to support market liquidity since COVID-19 began.

Bonds

Bond returns were negative in the first quarter. Interest rates climbed for all maturities, rising most for U.S. Treasuries with one- or two-year maturities. High inflation readings changed the outlook for future rate hikes. The Federal Reserve raised interest rates by 0.25% in March, and futures markets priced in expectations for about eight more such hikes in the calendar year. In comparison, at the end of 2021, markets only expected three hikes for this year. The Fed also indicated that it will shrink its balance sheet by as much as $95 billion per month as it aims to tighten monetary conditions.

Credit spreads — the difference in yield for corporate bond issues compared with similar-duration Treasuries — trended wider. Spreads ranged considerably over the quarter, reflecting the added uncertainty in the markets amid inflation and the war in Ukraine. Still, corporate balance sheets are strong, and the likelihood of default among corporate issuers is low.

With higher uncertainty and an inflationary backdrop, the Fed faces a challenge to remove liquidity and raise interest rates at a pace that will cool inflation without pressuring markets or stifling economic growth.

Performance Attribution for Our Bond Funds

Against this backdrop, the Homestead Short-Term Government Securities Fund (HOSGX) returned -2.93% in the first quarter, outperforming its benchmark, the ICE BofA 1-5 Year Treasury Index, which returned -3.16%. The fund's yield curve positioning boosted relative performance thanks to an underweight around the two-year maturity segment.

The Homestead Short-Term Bond Fund (HOSBX) returned -3.27% in the quarter, outperforming its benchmark, the ICE BofA 1-5 Year Corporate/Government Bond Index, which returned -3.49%. The fund is positioned with less duration than its benchmark, which contributed to outperformance as the interest rate curve rose and steepened.

The Homestead Intermediate Bond Fund (HOIBX) returned -5.91% in the first quarter, in line with its benchmark, the Bloomberg Barclays Aggregate Bond Index, which fell -5.93%. Widening credit spreads weighed on fund performance, particularly among issues in the financial and industrial sectors; however, yield curve positioning in Treasuries helped fund performance. The fund's underweight in mortgage-backed securities also contributed to relative returns.

Stocks

Stocks retreated, touching lows for the quarter in early March before recovering somewhat. Small-cap stocks fared worse than large caps, and growth stocks underperformed value stocks. On a sector basis, energy sector stocks rallied sharply as commodity prices jumped. Utilities stocks also had gains. Other sectors trended negative.

Company earnings continued to show growth. Fourth-quarter numbers, as reported during the first quarter, showed that S&P 500 companies grew earnings more than 30%. Analysts are forecasting that S&P 500 companies will report earnings growth of 4.7% for the first quarter. With stock prices down and earnings forecasts slightly up, the price-to-earnings (P/E) ratio of stocks has declined modestly; however, valuations remain above longer-term averages. The P/E ratio is the ratio of a company's share price to the company's earnings per share.

Performance Attribution for Our Stock Funds

The Homestead Value Fund (HOVLX) returned -3.11% in the first quarter, trailing its benchmark, the Russell 1000 Value Index, which returned -0.74%. In the period, the sector's underweight in energy stocks was a top detractor from relative performance as energy prices surged in the quarter. Stock picks in the materials sector also detracted. Conversely, stock selection in the health care and industrials sectors added to returns.

Compared with the index, the fund holds significant overweights in industrials and materials 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 Homestead Small-Company Stock Fund (HSCSX) declined -6.75% in the first quarter, outperforming its benchmark, the Russell 2000 Index, which returned -7.53%. In the period, stock choices in the financials sector contributed to outperformances. Our overweight position and stock choices in industrials were also additive. Conversely, the fund's avoidance of energy stocks and selection in the materials sector detracted from relative returns.

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

Performance Attribution for Our Balanced Fund

The Rural America Growth & Income Fund (HRRLX) returned -5.57% in the first quarter, trailing its custom benchmark, a 60%/40% blend of the Russell 3000 Index and the Bloomberg Barclays Government-Credit Index, which returned -4.91% for the same period.

The fund's stock allocation lagged its benchmark, with the fund's underweight exposure to energy stocks weighing on performance. Stock choices in the materials sector also pressured returns. Conversely, stock selection in the industrials and financials sectors contributed to fund performance. The fund holds its biggest sector overweights in industrials and real estate, compared with its equity benchmark, while the fund's largest underweights are in communication services and energy stocks.

The fund's bond allocation performed in line with its benchmark. The fund's small cash balance helped returns in a period when bonds declined. Bond selection in the financials sector was also additive. Lack of exposure to U.S. Treasuries and an overweight in industrials issues detracted from the fund's relative returns. Compared with 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 3/31/2022

	Q1	Average Annual 1-yr	3-yr	5-yr	10-yr	Since fund's inception
Bond Funds						
Short-Term Government Securities Fund (HOSGX)	-2.93%	-3.61%	0.73%	0.96%	0.79%	2.80%
ICE BofA 1-5 Year U.S. Treasury Index	-3.16%	-3.72%	0.92%	1.16%	1.04%	3.54%
Expense ratio 0.79% (gross) 0.75% (net) (12/31/21)*						
Short-Term Bond Fund (HOSBX)	-3.27%	-3.74%	1.12%	1.45%	1.62%	3.91%
ICE BofA 1-5 Year Corp./Gov. Index	-3.49%	-3.83%	1.16%	1.45%	1.41%	4.11%
Expense ratio 0.79% (12/31/21)						
Intermediate Bond Fund (HOIBX)**	-5.91%	-4.10%	NA	NA	NA	1.97%
Bloomberg Barclays U.S. Aggregate Index	-5.93%	-4.15%	1.69%	2.14%	2.24%	1.72%
Expense ratio 0.91% (gross) 0.80% (net) (12/31/21)*						
Balanced Fund						
Rural America Growth & Income Fund (HRRLX)***	-5.57%	NA	NA	NA	NA	NA
Blended Index	-4.91%	NA	NA	NA	NA	NA
Expense ratio 5.12% (gross) 1.00% (net) (5/01/21)*						
Equity Funds						
Value Fund (HOVLX)	-3.11%	10.10%	14.13%	12.74%	12.85%	10.53%
Russell 1000 Value Index	-0.74%	11.67%	13.02%	10.29%	11.70%	NA
Expense ratio 0.63% (12/31/21)						
Small-Company Stock Fund (HSCSX)	-6.75%	-0.36%	14.19%	6.87%	9.49%	8.88%
Russell 2000 Index	-7.53%	-5.79%	11.74%	9.74%	11.04%	7.84%
Expense ratio 1.06% (12/31/21)						

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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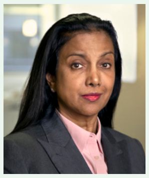
Equity Fund Management



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 in business economics and an MBA with distinction in finance from American University. Prabha holds the Chartered Financial Analyst designation.

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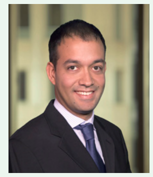
Equity Portfolio Manager

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 in operations research and information engineering. He holds the Chartered Financial Analyst designation.

Jim Polk, CFA®
Head of Equity Investments

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.

Bond Fund Management



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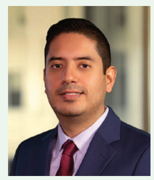
Head of Fixed-Income Investments

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.



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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.

Prepared: April 6, 2022

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Neither asset allocation nor diversification guarantee a profit or protect against a loss in a declining market. They are methods 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 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 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 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. 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.

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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