

Quarterly Market Review

Fourth Quarter 2022

Summary

- Stocks and bonds both rose in the fourth quarter, ending the three-quarter streak of losses across both asset classes. Market sentiment brightened on signs that inflation may have peaked mid-year. Job data remained healthy, even as interest rates climbed higher. Spending was generally solid, though some consumers are showing signs of strain, with more people carrying credit card balances month to month.
- A mild recession could be on the horizon for 2023, according to market consensus, and company earnings showed signs of softening. Analysts revised their earnings forecasts down over the quarter, now expecting a fourth quarter decline of 4.1% (year over year) in earnings for companies in the S&P 500 Index.
- Bonds posted better returns as interest rates remained more stable this quarter. The Federal Reserve Bank did hike rates two additional times as expected, driving short-term interest rates higher, but long-term interest rates were essentially unchanged. The yield curve was still inverted, historically a signal of a coming recession.

This commentary was prepared on January 13, 2023, and reflects our view of events at that time. Please visit our website, homesteadfunds.com, for the latest perspectives.

Inflation Turns a Corner

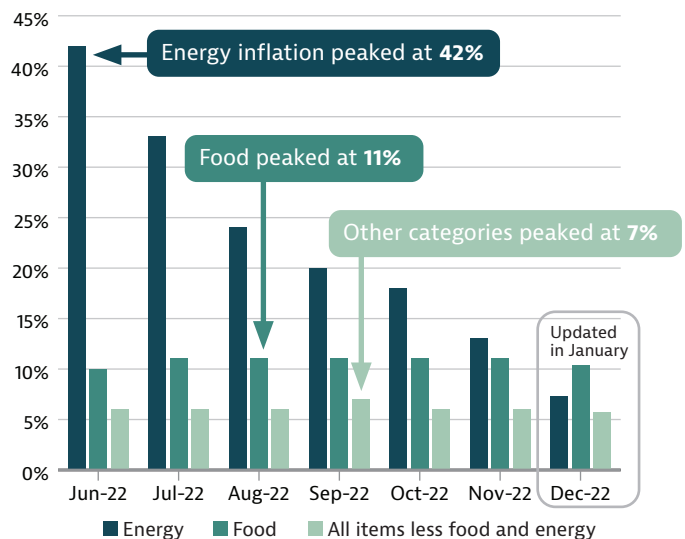
Stocks and bonds both delivered positive returns in the fourth quarter, breaking their three-quarter streak of losses. Market sentiment rallied amid signs that inflation had turned a corner. The Federal Reserve Bank (Fed) implemented two additional interest rate hikes, capping off a year where short-term rates climbed a full 4.25%.

Reassuring news from inflation reports

The ongoing inflation pressure on consumers eased somewhat in the quarter. Overall inflation levels peaked in June of 2022, driven especially by energy prices at the time. Inflation in food prices peaked in August. In other non-food, non-energy spending categories, inflation appears to have peaked in September. Readings remained elevated in the fourth quarter, but markets were increasingly assured that the extreme shocks had passed and the Fed's rate-hike campaign was producing results. In that respect, our portfolio managers categorized the fourth quarter as "the least-eventful quarter of 2022."

Inflation Remains High But is Down from Peaks

Inflation (year-over-year) by category



Source: Bureau of Labor Statistics

The inflation picture is a balancing act for policymakers, who aim to restrain economic growth enough to cool prices while avoiding a major recession. Economic momentum persisted during the fourth quarter, supporting the Fed's move to enact more interest rate hikes. One contributor to the positive economic picture is steady consumer spending, which did continue through year end. According to figures from GlobalData, the total dollar amount of consumer spending was up in 2022 about in-line with inflation, meaning that the quantities of items purchased remained roughly flat from the year before.

Signs of consumer stress emerge

Some consumers are struggling to keep up. 46% of credit card holders carried an ongoing balance on their credit cards in December, compared with 39% the year before, according to data from Bankrate.com.

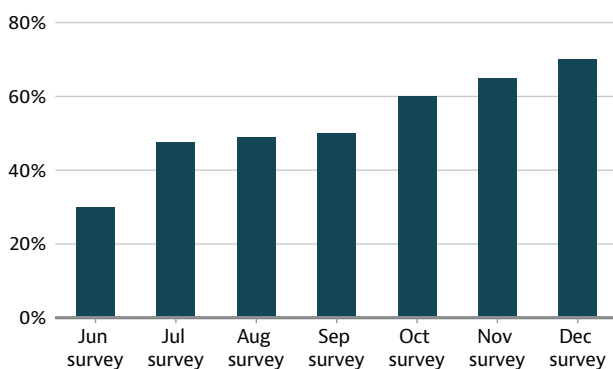
Indeed, a recession could be in the cards for the year ahead. According to a December survey of economists by Bloomberg.com, the U.S. faces a 70% chance of recession in 2023. The yield curve, which tracks the market interest rates for U.S. Treasuries across short and long maturities, continued to be inverted in the fourth quarter, also a signal of potential recession.

A varying picture by sector

Another sign of softening activity is the downshift in company earnings expectations over the period. According to FactSet, earnings for companies in the S&P 500 Index are forecast to decline -4.1% year-over-year in the fourth quarter.

Economists Forecast a Recession in 2023

Odds of recession in next year



Source: Bloomberg

The situation varies considerably by sector. The energy sector, for example, is enjoying expected earnings growth of more than 60% compared to a year ago, buoyed by the commodity rally, higher demand and low comparisons from the year-ago period. Industrials are also enjoying strong profit growth. Companies in the materials and consumer discretionary sectors face more headwinds, with double-digit declines forecast for fourth-quarter earnings. The job market is also different sector to sector. Job data has continued to be strong overall, but substantial layoffs were announced in the period across a number of information technology, financial services and automotive companies.

Bonds

Most broad benchmarks showed positive returns for bonds. Interest rates climbed higher for short-term maturities but remained largely unchanged for medium-term maturities. Yields on long-term maturities inched slightly higher. The Fed raised interest rates by 0.75% in November and again by 0.50% in December, hiking by 4.25% altogether across 2022.

When interest rates move higher, it tends to dampen bond returns. However, non-government bonds enjoyed an additional performance boost from tightening credit spreads. Credit spreads measure the difference in yield between corporate bonds and similar-duration Treasuries, and they generally reflect the "price of risk" in the market. Despite the prospect of recession in the year ahead, the price of risk dropped a little in the fourth quarter, boosting bond returns.

The yield curve was still inverted at quarter end, meaning that two-year yields were higher than 10-year yields. Recessions have historically been preceded by inverted yield curves. Still, companies remain in healthy condition with strong balance sheets and decent earnings performance.

Performance Attribution for Our Bond Funds

Against this backdrop, the Homestead Short-Term Government Securities Fund (HOSGX) returned 0.65% in the fourth quarter, trailing its benchmark, the ICE BofA 1-5 Year U.S. Treasury Index, which returned 0.95%. For the calendar year, the fund returned -5.41%, in-line with the benchmark return of -5.25%. The fund's positioning in agencies detracted from performance in the period due to yield curve positioning as short-term rates rose again.

The Homestead Short-Term Bond Fund (HOSBX) returned 1.09% in the quarter, in-line with its benchmark, the ICE BofA 1-5 Year Corporate/Government Index, which returned 1.22%. For the calendar year, the fund returned -5.72%, slightly trailing the benchmark which returned -5.54%. The fund's holdings in corporate securities aided performance, as did fund positioning in Treasuries.

The Homestead Intermediate Bond Fund (HOIBX) returned 1.38% in the fourth quarter, trailing its benchmark, the Bloomberg U.S. Aggregate Index, which returned 1.87%. For the calendar year, the fund returned -13.38%, trailing its benchmark which returned -13.01%. Overweight positioning in ABS (asset-backed securities) and MBS (mortgage-backed securities) detracted from performance. Holdings in the financials sector and a small cash position in the fund both contributed to returns.

Stocks

Stocks rose in the fourth quarter, breaking the three-quarter negative streak. Value stocks outperformed growth stocks. Performance was mixed across small caps and large caps, with no clear leader across benchmarks. On a sector basis, most sectors delivered gains in the quarter. Energy, materials and industrials led performance. Communications services and information technology were laggards.

Profit margins remain solid for companies in the S&P 500 Index. Revenue growth has diminished somewhat but company health remains relatively positive, given the headwinds. Earnings forecasts were downgraded over the fourth quarter while stock prices were rising, driving the price-to-earnings (P/E) ratio up toward the 10-year average.

Performance Attribution for Our Stock Funds

The Homestead Value Fund (HOVLX) gained 15.49% in the fourth quarter, outperforming its benchmark, the Russell 1000 Value Index, which returned 12.42%. For the calendar year, the fund returned -5.5%, outperforming the benchmark return of -7.54%. In the period, the fund's stock choices and overweight position in the industrials sector boosted performance, as did stock selection in financials. Conversely, stock choices in communications services and a small cash position detracted from relative performance.

Compared to the index, the fund holds significant overweights in industrials, health care 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 Small-Company Stock Fund (HSCSX) rose 9.87% in the fourth quarter, outpacing its benchmark, the Russell 2000 Index, which returned 6.23%. For the calendar year, the fund returned -16.91%, outperforming the benchmark return of -20.44%. In the period, stock selection and an overweight allocation in the industrials sector boosted relative performance. Stock choices in the health care sector also aided returns. Conversely, the fund's underweight allocation and stock selection in the energy sector weighed on performance. Stock choices in financials also detracted from returns.

Relative to its benchmark, the Small-Company Stock Fund is notably underweight in the energy and consumer staples sectors. The portfolio's most significant overweights are in the industrials 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) rose 4.31% in the fourth quarter, lagging its custom benchmark, a 60%/40% blend of the Russell 3000 Index and the Bloomberg Intermediate U.S. Government/Credit Bond Index, which returned 5.03% for the same period. For the calendar year, the fund returned -14.18%, outperforming the benchmark return of -14.59%.

The fund's stock holdings underperformed their benchmark. Stock selection in the financials and real estate detracted from relative returns. Conversely, the fund's stock choices in the consumer discretionary sector boosted fund returns, and an overweight allocation to industrials also aided performance. The fund holds its biggest sector overweights in industrials and real estate, compared to its equity benchmark. The fund's largest underweights are in communication services and energy stocks.

The fund's bond allocation underperformed its benchmark. The fund's interest rate positioning in agencies weighed on performance, as did exposure to financials. Conversely, the fund's avoidance of U.S. Treasuries helped returns, as did its holdings in industrials. Compared to its bond benchmark, the fund holds overweights in corporate bonds and agency-issued bonds. It is underweight in U.S. Treasury holdings.

Total Returns as of 12/31/2022

	Average Annual					Since fund's inception
	Q4	1-yr	3-yr	5-yr	10-yr	
Bond Funds						
Short-Term Government Securities Fund (HOSGX)	0.65%	-5.41%	-0.90%	0.36%	0.40%	2.63%
ICE BofA 1-5 Year U.S. Treasury Index	0.95%	-5.25%	-0.77%	0.66%	0.71%	3.36%
Expense ratio 0.79% (gross) 0.75% (net) (12/31/21)*						
Short-Term Bond Fund (HOSBX)	1.09%	-5.72%	-0.57%	0.76%	1.08%	3.73%
ICE BofA 1-5 Year Corp./Gov. Index	1.22%	-5.54%	-0.67%	0.87%	1.01%	3.94%
Expense ratio 0.79% (12/31/21)						
Intermediate Bond Fund (HOIBX)**	1.38%	-13.38%	-2.36%	NA	NA	-0.70%
Bloomberg U.S. Aggregate Index	1.87%	-13.01%	-2.71%	0.02%	1.06%	-0.77%
Expense ratio 0.91% (gross) 0.80% (net) (12/31/21)*						
Balanced Fund						
Rural America Growth & Income Fund (HRRLX)***	4.31%	-14.18%	N/A	NA	NA	-6.26%
Blended Index****	5.03%	-14.59%	N/A	NA	NA	-5.07%
Expense ratio 5.12% (gross) 1.00% (net) (12/31/21)*						
Equity Funds						
Value Fund (HOVLX)	15.49%	-5.50%	8.34%	8.74%	12.25%	10.18%
Russell 1000 Value Index	12.42%	-7.54%	5.96%	6.67%	10.29%	NA
Expense ratio 0.63% (12/31/21)						
Small-Company Stock Fund (HSCSX)	9.87%	-16.91%	6.98%	2.00%	7.47%	8.09%
Russell 2000 Index	6.23%	-20.44%	3.10%	4.13%	9.01%	6.94%
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. The net expense ratio is the expense ratio minus the portion of expenses waived or reimbursed.

*Homestead Advisers has contractually agreed, through at least April 30, 2023, 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 Homestead 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 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



Prabha Carpenter, CFA®
Senior Equity Portfolio Manager

Prabha co-manages Homestead Advisers' equity strategies. 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.



Mark Long, CFA®
Equity Portfolio Manager

Mark co-manages 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.

On or about February 10, 2023, Prabha Carpenter will retire from Homestead Advisers and will no longer serve as a co-manager of the Funds. In addition, effective February 10, 2023, Mark Long will serve as a co-manager of the Value Fund and the Small-Company Stock Fund.

Prepared: January 13, 2023 | Updated: February 27, 2023

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 guarantee a profit or protect 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. 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 on 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 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 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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