Homestead
Funds

Quarterly Market Review

Third Quarter 2023

Summary

- The market rally paused in the third quarter, as rising interest rates drove losses among both stocks and most bonds, especially longer-dated issues. The Federal Reserve (Fed) hiked rates by 0.25% again in July. Interest rates climbed generally, with longer-dated maturities seeing the sharpest increases as job and other economic data came in strong. The theme of "higher for longer" prevailed, as the Fed indicated that interest rates would need to stay elevated for an extended time in order to contain the upside risks to inflation.
- Stocks generally trended down in this environment, with rate-sensitive sectors such as utilities and real estate faring worst. Energy stocks led returns as oil prices surged amid OPEC+ production cuts.
- The negative returns in bond investments were driven by climbing interest rates, while credit spreads remained steady in the quarter. Though the yield curve is still inverted, it flattened out somewhat as the long end of the yield curve notched higher amid strong economic data.

This commentary was prepared on October 16, 2023, and reflects our view of events at that time. Please visit our website, homesteadfunds.com, for the latest perspectives.

Rising Rates Pause the Market Rally

In the third quarter, stock and bond benchmarks were both generally down, pausing the market rally of the first half. The ongoing climb in interest rates dominated market sentiment in the period. The Fed hiked interest rates by another quarter of a point in July. Policymakers indicated that they expect rates to stay "higher for longer," a refrain that echoed across markets during the quarter as longer-dated interest rates in particular notched higher in response to the Fed's comments and continued signs of strength in economic activity over the period.

Repricing for inflation risks to the upside

Since the Fed began its inflation fight in late 2022, market watchers have been trying to forecast a turning point when the Fed will stop hiking rates and turn the corner into a cycle of cutting interest rates. The Fed announced this quarter that it had updated its own forecasts to reflect rates staying higher for longer, accounting for upside risks to inflation.

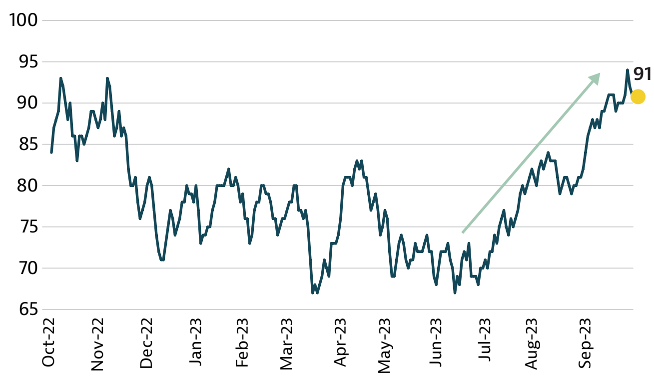
Inflation numbers have come steadily down since peaking at an almost 9% annual pace in mid-2022. The September reading, the latest figure released during the third quarter, showed inflation down to a 3.7% annual pace. Still, the Fed has said that prices for services remain sticky, and housing prices have also remained stubbornly high amid tight housing supply.

Inflation numbers have come steadily down since peaking near a 9% annual pace in mid-2022.

Oil prices jumped on another supply squeeze this quarter as well. Following the OPEC+ agreement to restrict oil production announced earlier in the year, energy prices surged in the third quarter after steeper cuts from Saudi Arabia began in the summer. That was beneficial for energy-sector stocks, but costly oil is tough on consumers and on the policymakers trying to keep a lid on price increases. Alongside strong economic reports and volatile energy prices over the third quarter, the inflation data paint a picture showing continued risks to the upside.

Oil Prices Were Up as OPEC+ Cut Production

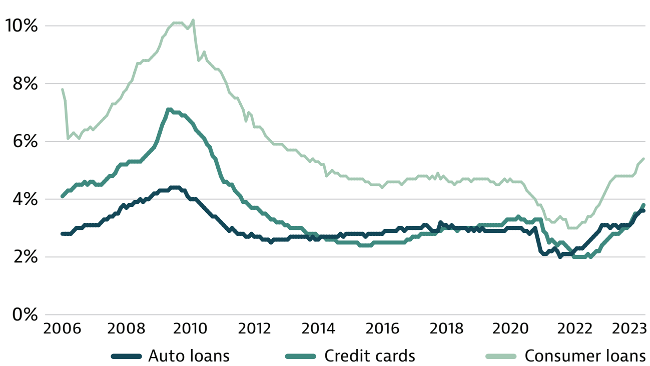
West Texas Intermediate (WTI) — Cushing, OK, USD per Barrel



Source: Federal Reserve Economic Data

Delinquency Rates Have Inched Higher on Consumer Debts

Delinquencies by type of debt, 2006 to June 2023



Source: The Washington Post, data from Equifax/Moody's Analysis

Some cracks emerge in consumer health

If the economy isn't cooling off as fast as the Fed originally anticipated, it's also apparent in the consumer life of Americans. Employment figures remained strong in the third quarter, and consumer spending reports also showed that most households have continued to spend with confidence.

Some cracks have emerged in consumer health, however, particularly among the lowest-income brackets of households. Delinquency rates for consumer loans, credit cards and auto loans have all climbed since the start of the year. With higher interest rates on credit cards and federal student loan payments resuming in October, households with debt could be facing even more pressure in the months ahead.

Bonds

In the third quarter, bond returns were flat or down, depending on the benchmark, as interest rates continued to climb. Short-term rates went slightly higher, but the bigger jump was in longer-term interest rates, which reacted to the shifting expectations among policymakers and markets that interest rates would stay higher for longer. The outlook for a recession remains unresolved, as the yield curve continued to be inverted; however, because long-term rates climbed more than short-term rates, the curve was less inverted than before, possibly signaling that the recession risk had retreated compared with earlier periods.

The other component of bond yields, the credit spread, remained steady during the third quarter. Credit spreads measure the difference in yield between corporate bonds and similar-duration Treasuries. After widening sharply during the March failure of Silicon Valley Bank, spreads have since come back down and held in a stable zone. Steady credit spreads reflect stable pricing for risk.

Performance Attribution for Our Bond Funds

Against this backdrop, the Homestead Short-Term Government Securities Fund (HOSGX) returned 0.29% in the third quarter, outperforming its benchmark, the ICE BofA 1-5 Year Treasury Index, which returned 0.23%. The fund's overweight to agencies boosted performance in the period, as did exposure to asset-backed securities (ABS). Conversely, positioning in Treasuries and mortgage-backed security (MBS) passthrough issues detracted modestly from fund returns.

The Homestead Short-Term Bond Fund (HOSBX) returned 0.22% in the quarter, trailing its benchmark, the ICE BofA 1-5 Year Corporate/Government Bond Index, which returned 0.29%. The fund's holdings in ABS, industrials and financials bonds boosted returns in the period relative to the benchmark. Positioning in Treasuries detracted from the fund's relative performance.

The Homestead Intermediate Bond Fund (HOIBX) returned -2.91% in the third quarter, outperforming its benchmark, the Bloomberg U.S. Aggregate Index, which returned -3.23%. The fund's holdings in ABS, industrials and financials bonds all contributed to relative performance, as did its allocation to collateralized mortgage obligation securities. Conversely, holdings in U.S. Treasuries detracted due to yield curve positioning relative to the benchmark's holdings. The portfolio team has continued to add to MBS positions as an area of opportunity in recent quarters.

Stocks

Stocks fell in the third quarter, with negative performance across categories of stocks. Growth and value stocks performed similarly. Small caps fared worse than large caps. On a sector basis, the energy sector was the top performer in the quarter, delivering gains as oil prices surged on production cuts. Most other sectors had losses, with rate-sensitive utilities and real-estate stocks declining the most.

Earnings trends were muted, with analysts forecasting another year-over-year decline in quarterly earnings for the third quarter. The consensus forecasts project that S&P 500 Index companies will see earnings for companies in the S&P 500 Index down -0.3% on a year-over-year basis, which is less negative than in recent quarters. Revenues are expected to grow about 1.7% year over year for the third quarter. The price-to-earnings ratio, a measure of stock valuation, ticked lower.

Performance Attribution for Our Stock Funds

The Homestead Value Fund (HOVLX) returned -1.41% in the third quarter, outpacing its benchmark, the Russell 1000 Value Index, which returned -3.16%. In the period, the fund's stock choices in the communications services and materials sectors boosted relative performance. Conversely, stock selection in the information technology and financials sectors detracted from results.

Compared with the index, the fund holds significant overweights in health care, communications services and industrials 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) returned -5.94% in the third quarter, trailing its benchmark, the Russell 2000 Index, which returned -5.13%. In the period, stock selection in the materials and consumer discretionary sectors weighed on relative performance. Conversely, stock picks and an underweight allocation to health care boosted returns. Stock choices in financials also aided performance.

Relative to its benchmark, the Small-Company Stock Fund is most underweight in the consumer staples and utilities 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 -3.81% in the third quarter, trailing its custom benchmark, a 60%/40% blend of the Russell 3000 Index and the Bloomberg Intermediate U.S. Government/Credit Bond Index, which returned -2.26% for the same period.

The fund's stock holdings underperformed the benchmark. Stock selection in the consumer staples and industrials sectors detracted from relative returns. Conversely, stock choices in the energy and consumer discretionary sectors boosted the fund's returns.

The fund's bond allocation performed in-line with its benchmark. The fund's positioning in industrials and financials bonds boosted relative returns. An overweight in agency-issued bonds also aided performance. Conversely, holdings in commercial MBS and MBS passthrough securities detracted from performance. Compared with 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 9/29/2023

	Q3	1-yr	3-yr	5-yr	10-yr	Since fund's inception
		Average Annual				
Bond Funds						
Short-Term Government Securities Fund (HOSGX)	0.29%	2.06%	-1.74%	0.55%	0.58%	2.61%
ICE BofA 1-5 Year U.S. Treasury Index	0.23%	2.13%	-1.76%	0.93%	0.83%	3.31%
Expense ratio 0.80% (gross) 0.75% (net) (12/31/22)*						
Short-Term Bond Fund (HOSBX)	0.22%	3.03%	-1.42%	0.92%	1.15%	3.70%
ICE BofA 1-5 Year Corp./Gov. Index	0.29%	2.73%	-1.56%	1.17%	1.14%	3.89%
Expense ratio 0.76% (12/31/22)						
Intermediate Bond Fund (HOIBX)**	-2.91%	1.05%	-4.66%	NA	NA	0.65%
Bloomberg U.S. Aggregate Index	-3.23%	.64%	-5.21%	0.10%	1.13%	-0.91%
Expense ratio 0.87% (gross) 0.80% (net) (12/31/22)*						
Balanced Fund						
Rural America Growth & Income Fund (HRRLX)***	-3.81%	3.78%	N/A	NA	NA	-4.57%
Blended Index****	-2.26%	13.09%	N/A	NA	NA	-0.53%
Expense ratio 2.85% (gross) 1.00% (net) (12/31/22)*						
Equity Funds						
Value Fund (HOVLX)	-1.41%	17.82%	11.44%	7.70%	10.23%	10.00%
Russell 1000 Value Index	-3.16%	14.44%	11.05%	6.23%	8.45%	9.40%
Expense ratio 0.62% (12/31/22)						
Small-Company Stock Fund (HSCSX)	-5.94%	13.62%	8.21%	3.16%	5.44%	7.99%
Russell 2000 Index	-5.13%	8.93%	7.16%	2.40%	6.65%	6.84%
Expense ratio 1.05% (12/31/22)						

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, 2024, to limit the fund's 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) of the Fund's average daily net assets. Operating expenses exclude interest; taxes; brokerage commissions; other expenditures that are capitalized in accordance with generally accepted accounting principles; other extraordinary expenses not incurred in the ordinary course of the Fund's business; and acquired fund fees and expenses such as the fees and expenses associated with an investment in (i) an investment company or (ii) any company that would be an investment company under Section 3(a) of the Investment Company Act of 1940, as amended (the "1940 Act"), but for the exceptions to that definition provided for in Sections 3(c)(1) and 3(c)(7) of the 1940 Act. This waiver agreement will terminate immediately upon termination of the Fund's Management Agreement and may be terminated by the Fund upon 60 days' 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

Mark Iong, 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.

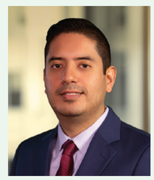
Jim Polk, CFA®
Head of Equity Investments

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.

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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.

Equity securities generally have greater price volatility than fixed-income securities. The market price of equity securities may go up or down, sometimes rapidly or unpredictably. Equity securities may decline in value due to factors affecting the issuer or equity securities markets generally.

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.

Growth and 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 over any period of time and may shift in and out of favor with investors generally, sometimes rapidly, depending on changes in market, economic, and other factors. Growth stocks can be volatile, as these companies usually invest a high portion of earnings in their business and therefore may lack the dividends of value stocks that can cushion stock prices in a falling market. Also, earnings disappointments often lead to sharply falling prices because investors buy growth stocks in anticipation of superior earnings growth. Investments in value securities may be subject to risks that (1) the issuer's potential business prospects will not be realized; (2) their potential values will never be recognized by the market; and (3) their value was appropriately priced when acquired and they do not perform as anticipated.

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 over any period of time and may shift in and out of favor with investors generally, sometimes rapidly, depending on changes in market, economic, and other factors. Investments in value securities may be subject to risks that (1) the issuer's potential business prospects will not be realized; (2) their potential values will never be recognized by the market; and (3) their value was appropriately priced when acquired and they do not perform as anticipated.

Securities of small and medium-sized companies tend to be riskier than those of larger companies. Compared to large companies, small and medium-sized companies may face greater business risks because they lack the management depth or experience, financial resources, product diversification or competitive strengths of larger companies, and they may be more adversely affected by poor economic conditions. There may be less publicly available information about smaller companies than larger companies. In addition, these companies may have been recently organized and may have little or no track record of success.

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. The **University of Michigan Consumer Sentiment Index** is a consumer confidence index published monthly by the University of Michigan.

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 1-800-258-3030 or visit homesteadfunds.com.

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