Quarterly Market Review

Fourth Quarter 2020

Homestead Funds

This commentary was prepared on January 11, 2021, and reflects our view of events at that time. Please visit our website, homesteadfunds.com, for the latest perspectives.

Summary

- Stock markets extended their rally, buoyed by news of not one but two effective vaccines to control the COVID-19 pandemic in the new year. The decisive outcome of the presidential election was also good for markets, which tend to "dislike" uncertainty. Stocks finished the year at record highs.
- Unemployment remains high in hard-hit industries, including energy, leisure and hospitality, and travel-related companies. However, other areas of the economy have recovered or even outperformed. The housing sector, for instance, is booming, and manufacturing activity is robust.
- Bond markets posted moderate gains, capping off a strong year. U.S. Treasury rates remained at historic lows, with modestly higher yields for longer-dated bond issues. The Federal Reserve's near-zero rates are likely to remain in place for years.

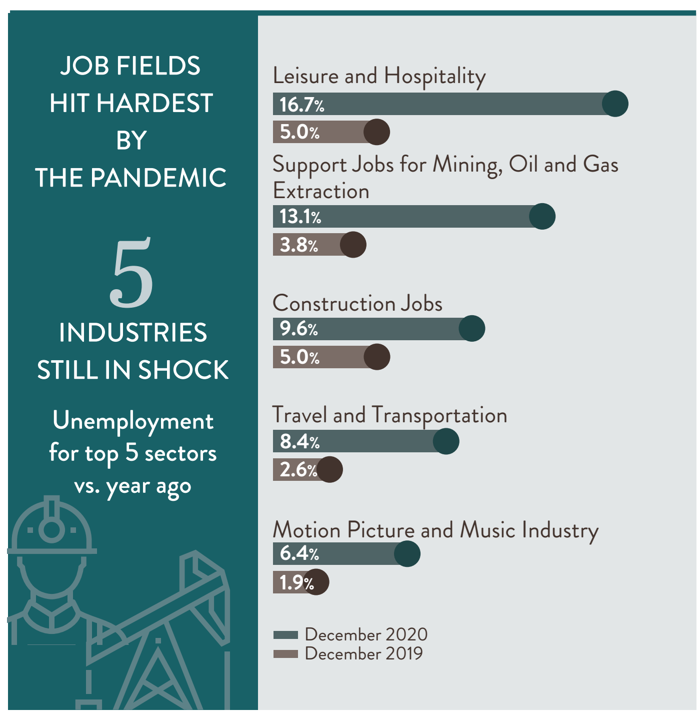
Vaccine Fuels Healthy Finish for Investments

After a historically challenging year for Americans, investment markets finished 2020 with another positive quarter, closing at record highs for stocks.

Even as the COVID-19 pandemic continued to inflict loss of life and economic pain for many, November's momentous news of two effective vaccines buoyed hopes and signaled a light at the end of the tunnel. The news came on the heels of another development: the outcome of the U.S. presidential election. Along with the critically important support from the Federal Reserve and fiscal stimulus packages, these factors drove markets higher to finish a tumultuous year with gains.

The Hardest Hit vs. the Biggest Beneficiaries

The pandemic pressure was unabated for certain sectors through the end of the year. Unemployment remained especially high in some industries, especially in energy sector jobs, hospitality and travel, movies and music production, and personal services.



Source: AARP, 8 Occupations Hit Hardest by the Pandemic in 2020

But unlike a traditional recession where the stress comes from within the economy — raging inflation, perhaps, or a bubble in leveraged financial assets — the COVID-19 recession is an external shock. Its reach does not extend equally to all areas of the economy.

In fact, some sectors even grew their revenue from year-ago levels. The health care and consumer discretionary sectors were forecast for the strongest fourth-quarter revenue growth compared with the same period in 2019, with health care revenues up an estimated 10% and consumer discretionary revenues up an estimated 7% overall.[1]

The housing sector is a good example of a booming beneficiary of the pandemic. For the many Americans who are able to work from home but whose other normal activities are limited, spending on durable goods and home improvements is decidedly up. Sales of patio heaters in the Northeast, for instance, were up more than 1,000% from the year before between March 1 and October 1, according to retailer Overstock.com. The trend has been a boon for home goods retailers and other companies in the consumer discretionary sector.

With mortgage rates at record lows, home sales are also thriving. Existing-home inventories have been picked clean as activity spikes, according to the National Realtors Association. With limited supply and soaring demand for houses, new construction is also prospering.

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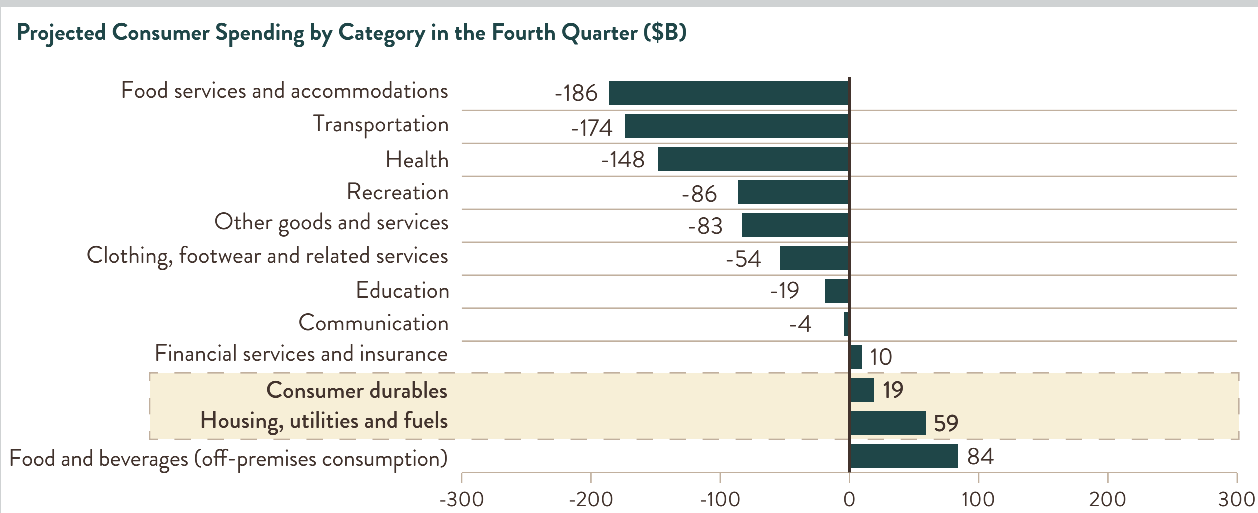
Home-Related Spending Was a 2020 Standout



Source: Brookings, The Decline and Recovery of Consumer Spending in the U.S., December 14, 2020. Chart data from BEA and World Data Lab projections for Q4 2020

[1]FactSet

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Inching Back Toward Normal

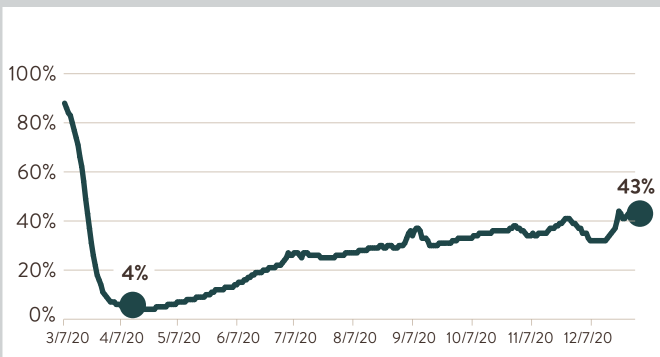
Other sectors are also benefiting as consumers slowly return to normal activities. Air travel is one example. After coming to a near standstill in March and April, the volume of travelers slowly rose into year-end, reaching a weekly traveler volume of about 43% versus the same period in 2019. While travel habits are likely to be one of the last measures to fully recover, the progress was notable. These trends are boosting airlines and related businesses in the industrials sector.

Industrials, materials and energy companies are also enjoying the momentum of a recovering China. Despite the country's early struggles to contain the new virus, its strict measures proved effective over the course of the year. Indeed, analysts forecast that China managed to post positive growth for its economy in 2020, a standout across the globe, even though it deployed more limited fiscal and monetary support programs compared with other major global economies.[2]

A rebound in manufacturing is one source of strength, both for China and for the U.S. In addition to rebounding demand for manufactured goods, manufacturers must make up for depleted inventory levels driven by the supply disruption and shutdown in the early months of the pandemic. We believe this "inventory rebuild" cycle should boost manufacturing activity for an extended period.

Domestic Flight Volumes Begin to Recover

Weekly Flight Passengers vs. Year-Ago Period



Source: Transportation Security Administration

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A Bedrock of Policy Support

In the case of an external shock, as the economy is facing presently with COVID-19, we believe monetary and fiscal policy efforts can prove especially effective. Slashing interest rates is something of a blunt tool, but the policy has proven to be a powerful support mechanism in the recession. For example, low mortgage rates are clearly contributing to the strength in the housing sector, but the Fed's interest rate changes also lower credit card rates and other methods of borrowing for consumers and companies.

The first fiscal package, the CARES Act, was also incredibly effective as an economic support tool. By the end of the fourth quarter, the pressure to pass another stimulus package from the federal government was building (and a second package was passed soon after the new year).

Watching the Continued Risks

Though the economy has come a long way since the March shutdown, serious risks remain. A timely rollout of COVID-19 vaccines is essential, and economic activity will hinge on the success of vaccine distribution. Political instability is also an ongoing issue to watch as a new administration greets a deeply divided country.

[2]Reuters, China's Economic Growth Seen Hitting 44-Year Low in 2020, Bounce 8.4% in 2021 — Reuters poll; October 27, 2020

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Bonds

It was another quarter of positive returns for most bond categories. U.S. Treasury yields remained unchanged for shorter-dated bonds and ticked very slightly upward for longer-dated issues. The Fed's bond-buying and direct lending facilities continued to flood the markets with liquidity. New bond issuance was healthy in the period and met with strong demand, a positive sign for bond markets.

Lending markets continued to function smoothly through the quarter, even as episodes of spiking COVID-19 cases continued to threaten the economic recovery. Fed policymakers continued to demonstrate a strong commitment to the extreme liquidity and the lending programs in place.

In this environment, Treasury rates remained nearly unchanged, with a small increase in yields only in longer-dated bonds. Credit spreads, which are the difference in yield between Treasuries and nongovernment bonds, continued to compress. By the end of the year, the "price of risk" as measured by credit spreads had returned to pre-COVID-19 levels.

Against this backdrop, the Homestead Short-Term Government Securities Fund (HOSGX) returned 0.09% in the fourth quarter, outperforming its benchmark, the ICE BofAML 1-5 Year Treasury Index, which rose 0.02%. Our holdings in U.S. agency-backed issues contributed to outperformance. Agency-backed issues, which are close in credit quality to U.S. Treasuries, underperformed Treasuries in the March downturn but have outperformed as liquidity conditions return to normal.

The Homestead Short-Term Bond Fund (HOSBX) rose 0.82% in the quarter, outperforming its benchmark, the ICE BofAML 1-5 Year Corporate/Government Bond Index, which returned 0.37%. Our corporate bond holdings in the financials and industrial sectors aided relative returns. The fund's underweight to Treasury bonds also boosted performance.

The Homestead Intermediate Bond Fund (HOIBX) returned 1.51% in the fourth quarter, outperforming its benchmark, the Bloomberg Barclays Aggregate Bond Index, which rose 0.67%. The fund's positions in corporate bonds in the financials and industrials sectors contributed to relative performance. An underweight to Treasuries also helped. The fund's overweight position in asset-backed securities detracted slightly from performance.

Stocks

U.S. stocks continued to rally through the fourth quarter, finishing a challenging year with gains. Small-cap benchmarks led performance, followed by large-cap stocks. Value-style benchmarks outperformed growth. The energy sector led returns, and financials also rallied strongly. The real estate, consumer staples and utilities sectors lagged.

Stocks rallied into year-end, buoyed by the news of two effective vaccines to combat COVID-19. The decisive outcome to the presidential election was also generally cheered by investors. Energy stocks led performance as global activity and demand for commodities continued to show improvement. Financials also performed strongly. Banks reported an improved earnings picture as loan loss provisions fell. Higher investment markets and revived M&A activity also benefited financial companies.

The Homestead Value Fund (HOVLX) gained 14.78% in the fourth quarter, trailing its benchmark, the Russell 1000 Value Index, which rose 16.25%. For the full calendar year, the fund returned 7.61%, while the benchmark gained 2.80%.

In the fourth quarter, stock selection in the information technology sector weighed on relative fund performance. An overweight allocation and stock picks in the health care sector also detracted from returns. Conversely, the fund's avoidance of consumer staples stocks contributed to performance, as did stock selection in the materials sector.

Compared with the index, the fund holds a significant overweight in health care and information technology stocks. Its largest underweight allocations are in consumer staples and utilities stocks. With a bottom-up stock-picking process, our portfolio managers note that they consider diversification from a sector perspective, but that they also look at company-level factors to balance the portfolio.

The Small-Company Stock Fund (HSCSX) rose 22.19% in the fourth quarter, trailing its benchmark, the Russell 2000 Index, which gained 31.37%. For the full calendar year, the fund rose 22.08% while the benchmark gained 19.96%.

In the fourth quarter, stock choices in the health care and industrials sectors weighed on the fund's relative performance. Conversely, fund returns were aided by an underweight allocation in utilities stocks and by an overweight allocation to the materials sector.

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Relative to its benchmark, the Small-Company Stock Fund continues to be notably underweight in the consumer discretionary and utilities sectors. The portfolio's most significant overweight continues to be in the information technology sector. It is also overweight in the health care sector. 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.

Total Returns as of 12/31/2020

		Average Annual				
	Q4	1-yr	3-yr	5-yr	10-yr	Since inception
Bond Funds						
> *Short-Term Government Securities Fund* **(HOSGX)**	0.09%	4.13%	2.89%	1.99%	1.43%	3.11%
ICE BofA ML 1-5 Year U.S. Treasury Index	0.02%	4.25%	3.31%	2.33%	1.79%	3.89%
Expense ratio 0.85% (gross) 0.75% (net) (12/31/19)*						
> *Short-Term Bond Fund* **(HOSBX)**	0.82%	5.42%	3.66%	2.87%	2.44%	4.24%
ICE BofA ML 1-5 Year Corp./Gov. Index	0.37%	4.65%	3.69%	2.79%	2.24%	4.45%
Expense ratio 0.79% (12/31/19)						
> *Intermediate Bond Fund* **(HOIBX)****	1.51%	8.70%	NA	NA	NA	8.04%
Bloomberg Barclays U.S. Agg Index	0.67%	7.51%	5.34%	4.44%	3.84%	7.89%
Expense ratio 2.49% (gross) 0.80% (net) (12/31/19)*						
Equity Funds						
> *Value Fund* **(HOVLX)**	14.78%	7.61%	8.77%	12.03%	11.97%	10.28%
Russell 1000 Value Index***	16.25%	2.80%	6.07%	9.74%	10.50%	NA
S&P 500 Value Index	14.49%	1.36%	6.78%	10.52%	10.74%	NA
Expense ratio 0.66% (12/31/19)						
> *Small-Company Stock Fund* **(HSCSX)**	22.19%	22.08%	3.26%	7.94%	9.44%	8.82%
Russell 2000 Index	31.37%	19.96%	10.25%	13.26%	11.20%	8.00%
Expense ratio 1.05% (12/31/19)						

The total returns shown above represent past performance, which does not guarantee future results. Investment return and principal value of an investment will fluctuate. An investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance data quoted. For performance data current to the most recent month-end, call 800.258.3030 or visit homesteadfunds.com.

The expense ratio shows the percentage of fund assets deducted annually to cover operating expenses. Fund expense ratios shown here do not include acquired fund fees and expenses. If applicable, these additional costs are disclosed in the prospectus.

*RE Advisers has contractually agreed, through at least May 1, 2021, to limit the funds' operating expenses to an amount not to exceed 0.75% (Short-Term Government Securities Fund) or 0.80% (Intermediate Bond Fund). This waiver agreement will terminate immediately upon termination of the fund's Management Agreement and may be terminated by the fund or RE Advisers with one year's notice.

**The inception date of this fund is May 1, 2019.

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

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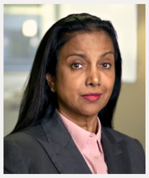
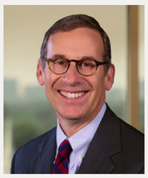
Equity Fund Management

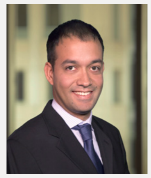


Prabha Carpenter, CFA®
Senior Equity Portfolio Manager
Prabha co-manages RE Advisers' large- and small-cap value strategies. She is a graduate of the University of Madras, where she received a BA in economics. She received her BS degree in business economics and an MBA with distinction in finance from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



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

Bond Fund Management



Mauricio Agudelo, CFA®
Senior Fixed-Income Portfolio Manager
Mauricio manages RE Advisers' fixed-income strategies. He received a BS in finance from the University of Maryland, Robert H. Smith School of Business. He minored in business culture and language, with a concentration in Spanish. He holds the Chartered Financial Analyst designation.

Ivan Naranjo, CFA®, FRM®
Fixed-Income Portfolio Manager
Ivan co-manages RE Advisers' fixed-income strategies. He joined RE Advisers in 2018. Ivan received a BS in finance from the University of Maryland, Robert H. Smith School of Business. He holds the Chartered Financial Analyst and Financial Risk Manager designations.

Prepared: January 11, 2021

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Debt securities are subject to interest rate risk, credit risk, extension risk, income risk, issuer risk and market risk. The value of U.S. government securities can decrease due to changes in interest rates or changes to the financial condition or credit rating of the U.S. government. Investments in asset-backed and mortgage-backed securities are also subject to prepayment risk as well as increased susceptibility to adverse economic developments. High-yield, lower-rated, securities involve greater risk than higher-rated securities. Equity securities generally have greater price volatility than fixed-income securities and are subject to issuer risk and market risk. Value stocks are subject to the risk that returns on stocks within the style category will trail returns of stocks representing other styles or the market overall. Securities of small and medium-sized companies tend to be riskier than those of larger companies.

Index Definitions: The **ICE BofA Merrill Lynch 1-5 Year U.S. Treasury Index** measures the performance of short-term U.S. Treasury securities. The **ICE BofA Merrill Lynch 1-5 Year Corp./Gov. Index** measures the performance of U.S. government and investment-grade corporate debt. The **Bloomberg Barclays U.S. Aggregate Bond Index** is a broad-based benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. The **Dow Jones Industrial Average** measures the stock price performance of 30 actively traded, blue chip companies. The **ISM Manufacturing Index** is an indicator of recent U.S. economic activity based on a survey of purchasing managers at manufacturing firms. The **MSCI EAFE Index** represents the performance of large- and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The **MSCI Emerging Markets Index** represents the performance of large- and mid-cap securities in emerging market countries, including China, South Korea, Taiwan, India and Brazil. The **Russell 1000 Index** is a subset of the Russell 3000 Index and measures the performance of the 1,000 largest companies in the Russell 3000 Index. The **Russell 2000 Index** is a subset of the Russell 3000 Index and measures the performance of the 2,000 largest companies in the Russell 3000 Index. The **Russell 1000 Growth Index** measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. The **Russell 2000 Growth Index** measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values. The **Russell 1000 Value Index** measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. The **Russell 2000 Value Index** measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. The **Standard & Poor's 500 Stock Index** is a broad-based measure of U.S. stock market performance and includes 500 widely held common stocks. The **Standard & Poor's 500 Value Index** is a subset of the S&P 500 Index and consists of those stocks in the S&P 500 Index exhibiting the strongest value characteristics. Indices are unmanaged and investors cannot invest directly in an index. Unless otherwise noted, index performance does not account for any fees, commissions or other expenses that would be incurred. Index returns do not include reinvested dividends.

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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