Homestead Funds

Quarterly Market Review

Third Quarter 2024

Summary

- The third quarter brought gains in both stocks and bonds, along with a long-awaited interest rate cut from the Federal Reserve (Fed). Among stocks, top performers included small-cap stocks, value-oriented styles and rate-sensitive sectors, such as utilities and real estate. Company earnings growth forecasts cooled slightly from last quarter but remain positive year over year.
- Steady progress on inflation opened the door to interest-rate cuts. In late September, the Fed delivered a 0.50% cut to its overnight policy rate. The downward move is the first since the Fed began hiking rates in March of 2022 to combat surging inflation.
- Bonds climbed higher as yields tracked lower. The most pronounced shift was in shorter-term yields, which fell by 0.8% to 1.1%. Longer-term yields also declined but by less, with 10-year U.S. Treasury yields down about 0.6% and 30-year yields down about 0.4%.

This commentary was prepared on October 3, 2024, and reflects our view of events at that time. Please visit our website, homesteadfunds.com, for the latest perspectives.

Rate Cut Buoys Stocks and Bonds

The third quarter was positive for both stocks and bonds. Continued progress in inflation enabled policymakers to make a long-anticipated interest rate cut in September, trimming the target rate by 0.50%. Markets rallied across most investment categories. Small-cap stocks and value investing styles led performance, though the quarter's gains were broad-based across styles and sectors. Bonds also delivered positive returns, boosted by higher bond prices and falling yields. Markets expect more rate cuts to come before year-end.

Finally, the Rate Cuts Arrive

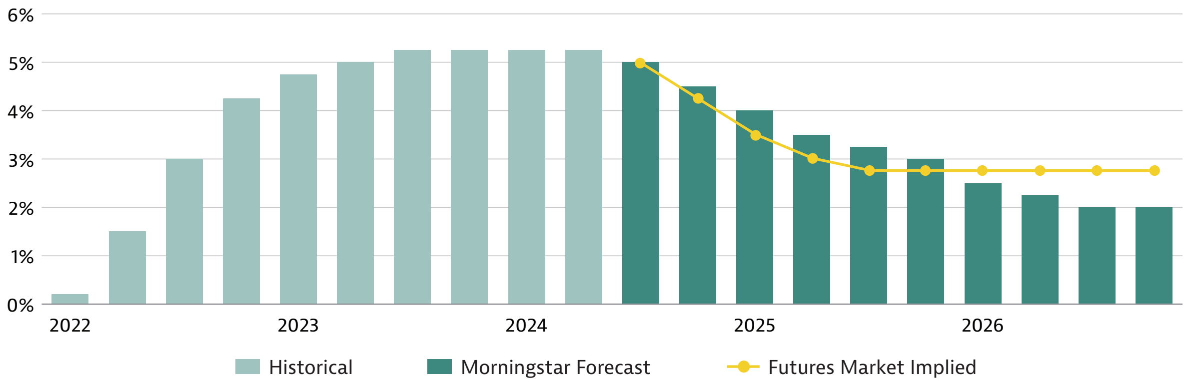
Inflation continued its slow retreat over the period, making way for the Fed to finally cut interest rates — something that market watchers had been anticipating all year. Core inflation, which excludes volatile food and energy prices, was 3.2% year over year in August data, the latest available at quarter-end.

In setting interest rate policy, the Fed must consider both inflation and employment. The job market remains healthy, though it has signaled some slight cooling in terms of job openings and the unemployment rate. Given the current status of inflation and employment, markets expect that the Fed will continue to trim interest rates gradually in the quarters to come.

Interest rate cuts often come in periods when an economic slowdown is looming. Does that mean the current cuts are a sign of recession around the corner? Not necessarily.

More Rate Cuts Expected for Fed's Target Rate

Federal Funds Rate (%) Expectations (Bottom of Target Range)



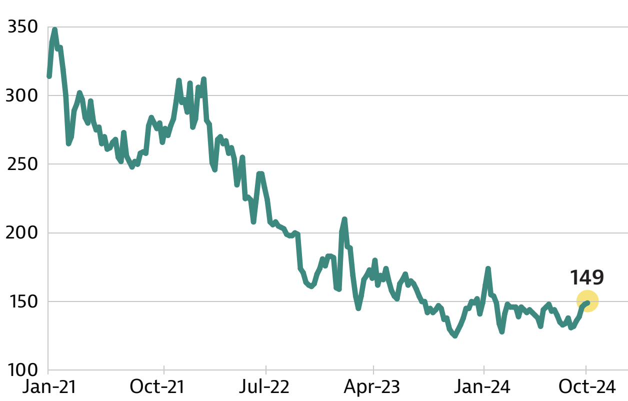
Source: Morningstar, "How Much Will the Fed Cut Interest Rates?"
There is no guarantee that the forecasted inflation rates are accurate or will be achieved.

What Happens After Rate Cuts

Interest rate cuts often come in periods when an economic slowdown is looming. Does that mean the current cuts are a sign of recession around the corner? Not necessarily. There are other historical periods where rate cuts did not precede a recession.

Mortgage Applications Are on the Upswing

MBA Mortgage Applications Purchase Index



Source: Strategas

Today's policymakers are still aiming for a "soft landing," a difficult goal of taming high inflation without causing a recession. So far, so good; economic growth still looks positive. Recent readings of service-sector activity, as measured by the Institute of Supply Management Services Index, have been at a steady level over 50, reflecting positive growth, though the smaller manufacturing sector has been contracting mildly for the past two years.

Amid high employment, consumer sentiment remains solid as well. The real estate market could be poised for a potential uptick in activity. Mortgage applications have turned higher in the short period since market interest rates eased.

A Quiet Start to Election Season

Going into the last quarter of the year, the U.S. election will be a key event in global news. Yet consumers may be less interested in the event or its effect on their financial position than in prior years. In the August report on consumer confidence from the Conference Board, researchers said there were fewer write-in responses about the upcoming election compared with 2016 and 2020 cycles.

Bonds

In the third quarter, bonds delivered positive returns. In response to the Fed's pivot in interest rate policy, Treasury yields fell across maturity ranges. Short- and intermediate-dated issues fell by 0.8% to 1.1%, while yields on long-dated Treasuries fell by less. Lower yields drove bond prices up, contributing to positive returns. Ongoing yield payments also contributed to bond returns.

Given the new policy phase, the shape of the yield curve has shifted significantly after nearly two years of being inverted, where short-term rates were higher than long-term rates. The yield curve has "steepened," meaning that the upward slope is more pronounced. Markets expect more rate cuts to come, with futures markets pricing in another 0.50% to 0.75% of cuts before year-end.

The other component of bond yields, the credit spread, ended the third quarter slightly tighter. Credit spreads measure the difference in yield between corporate bonds and similar-duration Treasuries. Tighter spreads tend to reflect a market that has stable financials and favorable credit conditions.

Performance Attribution for Our Bond Funds

Against this backdrop, the Homestead Short-Term Government Securities Fund (HOSGX) returned 2.89% in the third quarter, lagging its benchmark, the ICE BofA 1-5 Year Treasury Index, which returned 3.39%. The fund's overweight exposure in agency bonds and mortgage bond issues weighed on performance in the quarter.

The Homestead Short-Term Bond Fund (HOSBX) returned 3.26% in the quarter, trailing its benchmark, the ICE BofA 1-5 Year Corporate/Government Bond Index, which returned 3.48%. The fund's overweight position in asset-backed securities (ABS) weighed on relative performance, as did exposure to mortgage bond issues. However, a utility bond holdings boosted performance.

The Homestead Intermediate Bond Fund (HOIBX) returned 5.16% in the third quarter, in line with its benchmark, the Bloomberg U.S. Aggregate Index, which returned 5.2%. The fund's yield-curve positioning and underweight exposure in Treasuries boosted relative performance. In contrast, exposure to ABS securities detracted from performance. Collateralized mortgage obligations also detracted from returns.

Stocks

It was a positive period for stocks. Value-oriented and small-cap investment styles led returns, though most styles enjoyed positive returns. On a sector basis, utilities and real estate stocks were the top performers for S&P 500 Index stocks. Energy stocks posted modest losses for the quarter. Information technology and communications services stocks were also laggards.

Company earnings growth trended lower on an aggregate basis but remained in positive territory. At quarter-end, analysts were forecasting year-over-year earnings growth of 4.6% for the third quarter. Valuations were above the 10-year average on a forward-earnings basis.

Performance Attribution for Our Stock Funds

The Homestead Value Fund (HOVLX) returned 5.56% in the third quarter, trailing its benchmark, the Russell 1000 Value Index, which returned 9.43%. In the period, the fund's stock selection in the information technology and communications services sectors detracted from relative performance. Conversely, stock selection and overweight exposure in consumer discretionary stocks contributed to performance compared with the benchmark.

Compared with the index, the fund has overweight exposure in the industrials, communications services and consumer discretionary sectors. 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 4.11% in the third quarter, trailing its benchmark, the Russell 2000 Index, which returned 9.27%. In the period, stock selection in the health care and consumer discretionary sectors detracted from the fund's relative performance. Conversely, stock selection in the financials and materials sectors boosted returns compared with the benchmark.

Relative to its benchmark, the Small-Company Stock Fund is most underweight in the real estate, consumer discretionary and utilities sectors. The portfolio's most significant overweights are in the industrials, information technology and energy 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.

Total Returns as of 9/30/2024

	Q3	Average Annual 1-yr	3-yr	5-yr	10-yr	Since fund's inception
Bond Funds						
Short-Term Government Securities Fund (HOSGX)	2.89%	7.25%	0.73%	1.18%	1.25%	2.76%
ICE BofA 1-5 Year U.S. Treasury Index	3.39%	7.45%	0.76%	1.28%	1.49%	3.45%
Expense ratio 0.84% (gross) 0.75% (net) (12/31/23)[1]						
Short-Term Bond Fund (HOSBX)	3.26%	8.13%	0.99%	1.65%	1.76%	3.83%
ICE BofA 1-5 Year Corp./Gov. Index	3.48%	8.10%	0.97%	1.57%	1.81%	4.02%
Expense ratio 0.76% (gross) 0.76% (net) (12/31/23)						
Intermediate Bond Fund (HOIBX)[2]	5.16%	11.78%	-1.25%	0.75%	NA	1.53%
Bloomberg U.S. Aggregate Index	5.20%	11.57%	-1.39%	0.33%	1.84%	1.28%
Expense ratio 0.89% (gross) 0.80% (net) (12/31/23)[1]						
Equity Funds						
Value Fund (HOVLX)	5.56%	28.32%	10.31%	12.92%	11.03%	10.51%
Russell 1000 Value Index	9.43%	27.76%	9.03%	10.69%	9.23%	9.90%
Expense ratio 0.64% (gross) 0.64% (net) (12/31/23)						
Small-Company Stock Fund (HSCSX)	4.11%	19.63%	2.93%	9.96%	6.66%	8.41%
Russell 2000 Index	9.43%	26.76%	1.84%	9.39%	8.78%	7.53%
Expense ratio 1.07% (gross) 1.07% (net) (12/31/23)						

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.

[1]Homestead Advisers has contractually agreed, through at least April 30, 2025, to limit the fund's operating expenses to an amount not to exceed 0.75% (Short-Term Government Securities Fund) or 0.80% (Intermediate Bond 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.

[2]The inception date of this fund is May 1, 2019.

Equity Fund Management

Mark Iong, CFA®
Equity Portfolio Manager

Mark co-manages the 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.

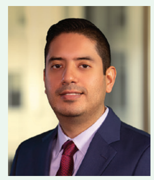
Jim Polk, CFA®
Head of Equity Investments

Jim co-manages Homestead Advisers' equity strategies. He is a graduate of Colby College, where he received a BA 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.

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 guarantees a profit or protects 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, among other factors, 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.

Growth and value stocks are subject to the risk, among others, that returns on stocks within this 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 not provide 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 not be recognized by the market; and (3) they will not perform as anticipated.

As a general matter, securities of small and medium-sized companies tend to be riskier than those of larger companies. Compared with large companies, small and medium-sized companies may face greater business risks because they may lack the management depth or experience, financial resources, product diversification or competitive strengths of larger companies, and they may be more adversely affected by economic conditions. There also 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 operational or performance track record. Diversification does not guarantee a profit or protect against loss in a declining market. It is a method used to help manage investment risk.

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 **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 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. The **Services Purchasing Manager Index** tracks economic activity in the services sector.

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 visit homesteadfunds.com.

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