Homestead Funds

QUARTERLY MARKET REVIEW | Fourth Quarter 2025

Fourth Quarter Gains Cap a Strong Year for Markets

Summary

- Major U.S. equity and bond indexes advanced in the fourth quarter, adding to gains from earlier in the year. Markets climbed higher in response to interest rate cuts from the Federal Reserve (Fed) and strength in the U.S. economy.
- The growth prospects for artificial intelligence (AI) companies further lifted investor sentiment during the quarter. However, returns in the equity market broadened out beyond mega-cap technology stocks, in part due to some volatility in AI names.
- Coupon income was a key contributor to the positive total returns in the bond market. The yield curve continued to steepen as short-term Treasury yields fell, while long yields were flat to slightly higher for the quarter.
- The economic and earnings backdrop appears constructive for markets heading into the new year, but several potential catalysts could pressure asset prices in the coming months. Risks include the uncertain outlook for Fed policy and heightened geopolitical tensions.

This commentary was prepared on January 5, 2026, and reflects our view of events at that time. Please visit our website, homesteadfunds.com, for the latest perspectives.

Markets Build on Earlier Gains

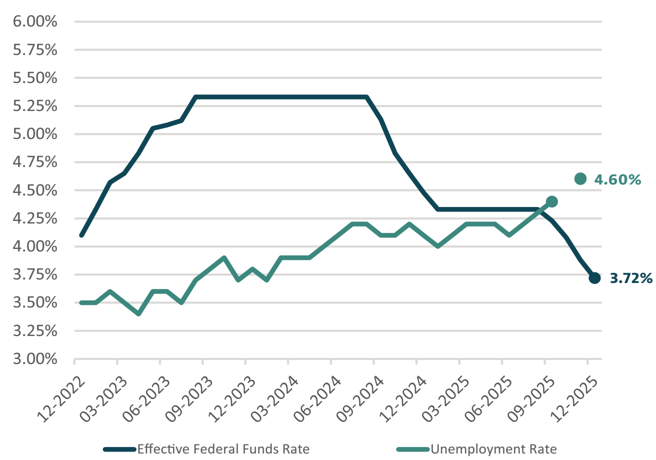
The broad U.S. equity and bond markets finished 2025 on a positive note, with the S&P 500 Index and the Bloomberg U.S. Aggregate Index returning 2.66% and 1.10%, respectively, in the fourth quarter. For 2025, the S&P 500 Index returned 17.88%, marking its third straight calendar year of double-digit gains. The Bloomberg U.S. Aggregate Index returned 7.30% for the year, which was its best annual performance since 2020.

Lower Interest Rates and Economic Strength

The Fed reduced its benchmark interest rate by 0.25% at each of its two policy meetings of the quarter. Inflation remained above the Fed's 2% target; nonetheless, the central bank cut rates in response to a softening in the labor market — softness that was clear despite gaps in the release of economic data due to the government shutdown. The unemployment rate climbed to 4.6% in November; job creation was sluggish, and wages grew at their slowest pace in more than two years.

Labor Market Softness Prompted Fed Rate Cuts

Labor Trends and Fed Policy (2023-2025)



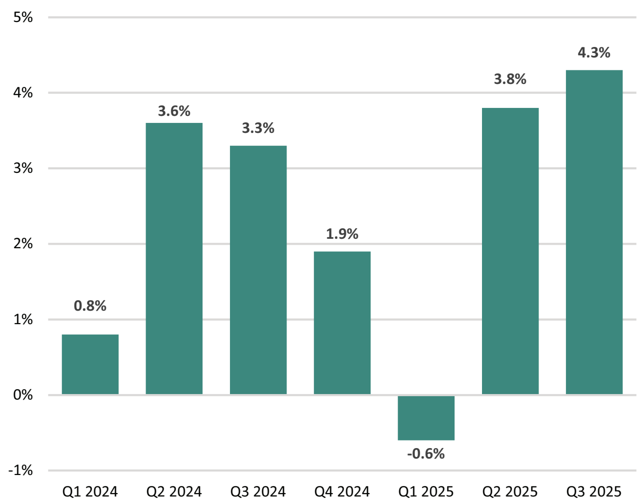
Note: Data for October 2025 were not collected due to the federal government shutdown.

Source: Federal Reserve Bank of St. Louis

Measures of consumer confidence fell alongside the cooling labor market. However, consumer spending was resilient, supported by the spending power of high-income households and the "wealth effect" created by rising asset values. Data released in December showed that consumer spending increased at an annual rate of 3.5% in the third quarter of 2025, driving better-than-expected 4.3% GDP growth for the same period. More recent data suggested that spending remained healthy in the fourth quarter, including a 3.9% rise in holiday sales, as reported by Mastercard SpendingPulse.

Economic Growth Accelerated as 2025 Progressed

Real GDP: Percent Change From Preceding Quarter
(Seasonally Adjusted Annual Rates)



Source: Federal Reserve Bank of St. Louis

In addition to consumer spending, investment in AI infrastructure, including semiconductors and data centers, has been a key contributor to economic growth. Global AI spending reached nearly $1.5 trillion in 2025, an increase of about 50% compared with 2024, based on estimates from research firm Gartner. In the robust spending environment, major AI companies generally reported strong third-quarter earnings growth. AI stocks experienced bouts of volatility in November and December due to a number of factors, including questions about the expected return on these massive investments. However, the Fed's December rate cut, along with a blockbuster earnings report and outlook from a leading manufacturer of AI semiconductors, reignited the AI rally near quarter-end.

Opportunities Ahead

Several dynamics bode well for U.S. financial markets as the new year begins. The unemployment rate is near twenty-year lows, and recent tax cuts should bolster consumer spending. Furthermore, AI-related investment is expected to stay strong; industrial production has shown signs of stabilizing, and the Fed had projected another rate cut by year-end. Against this backdrop, 2026 GDP growth forecasts are hovering around 2%, and the consensus earnings growth estimate for S&P 500 companies is 15%, according to financial services firm FactSet.

Bonds

The investment-grade bond market delivered a modestly positive total return in the fourth quarter, driven by coupon income. Credit spreads, which measure the difference in yields between corporate bonds and similar-duration Treasuries, were essentially unchanged for the period. Likewise, the yield on the bellwether 10-year Treasury note finished the quarter roughly where it had started.

While yields on long-dated Treasuries were flat to slightly higher, yields on Treasuries maturing in two years or less fell in response to Fed rate cuts. As a result, the yield curve continued to steepen. The fourth quarter capped a year of heavy corporate bond issuance, with 2025 investment-grade supply on track to exceed 2024 levels by about 7%. Supply was met with robust demand from investors seeking attractive rates of coupon income, particularly as yields on money market funds declined.

Performance Attribution for Our Bond Funds

The Homestead Short-Term Government Securities Fund (HOSGX) returned 0.97% in the fourth quarter, modestly trailing its benchmark, the ICE BofA 1-5 Year U.S. Treasury Index, which returned 1.12%. Allocations to non-benchmark sectors generally benefited the fund's relative results, led by collateralized mortgage obligations (CMOs) and agency bonds. The fund's underweight in U.S. Treasury securities was the only major detractor from relative returns.

The Homestead Short-Term Bond Fund (HOSBX) returned 1.14% in the quarter, which matched the 1.14% return of its benchmark, the ICE BofA 1-5 Year Corporate/Government Index. The fund's out-of-index allocations to CMOs and asset-backed securities (ABS) contributed the most to relative performance. The only significant detractor was the fund's underweight in U.S. Treasuries.

The Homestead Intermediate Bond Fund (HOIBX) returned 0.90% in the fourth quarter. The fund slightly underperformed its benchmark, the Bloomberg U.S. Aggregate Index, which returned 1.10%. The fund's allocation to CMOs boosted relative performance, as did its emphasis on shorter-maturity ABS, which benefited from the steepening in the yield curve. The fund's underweight in U.S. Treasuries was the primary detractor from relative returns.

During the quarter, we modestly reduced the funds' exposure to lower-quality tiers of the investment-grade corporate bond market, reallocating these assets into Treasuries. With credit spreads at their tightest levels in years, we believe we are not getting compensated to own these lower-quality bonds, especially given our expectations for continued heavy supply in 2026 and the macro risks we have identified.

Stocks

Volatility in AI stocks, coupled with Fed easing and the underlying strength of the economy, contributed to a broadening in the equity market beyond mega-cap technology stocks. Health care was the best-performing sector in the S&P 500 Index after having been the worst performer in the first nine months of the year. The information technology sector posted a gain but trailed the index. The weakest sectors were real estate and utilities, both of which declined.

Fourth quarter returns were positive across most major style and capitalization segments of the equity market, with small-cap stocks hitting record highs. On a relative basis, value stocks beat growth stocks — another shift in leadership from previous quarters — while small caps performed broadly in line with large caps.

Performance Attribution for Our Stock Funds

The Homestead Value Fund (HOVLX) returned 2.51% in the fourth quarter. The fund underperformed its benchmark, the Russell 1000 Value Index, which returned 3.81%. Sector allocations helped performance, led by an overweight in health care and an underweight in consumer staples. However, stock selection detracted. Stock selection was weakest in health care, where the fund lacked exposure to a number of biotechnology names in the index that posted outsized gains. Stock selection in the communication services, information technology, and industrials sectors was also unfavorable.

Relative to its benchmark, the Value Fund's largest overweight allocations are in the industrials and health care sectors. Its largest underweights are in consumer staples, utilities, and information technology.

The Small-Company Stock Fund (HSCSX) returned 1.46% in the fourth quarter, modestly underperforming the 2.19% return of its benchmark, the Russell 2000 Index. On the plus side, stock selection in the industrials, financials, and information technology sectors made significant contributions to relative performance. However, an overweight in industrials dampened relative returns, as did positioning in the health care sector, where both an underweight and stock selection detracted.

In particular, avoiding many biotechnology names had a negative impact on relative performance. Not owning stocks in other speculative areas of the market was also detrimental given the generally "risk-on" environment.

Compared with the index, the Small-Company Stock Fund is most overweight the industrials and consumer discretionary sectors. The portfolio's largest underweights are in utilities, real estate, and communication services.

We are encouraged by the recent broadening in the stock market. In our view, there are many reasonably valued, high-quality stocks with good earnings that, to a large extent, were left behind in the narrow market of 2025. We remain focused on owning these types of stocks in the funds. We believe our emphasis on quality is particularly

Total Returns as of 12/31/2025

	QTD	YTD	Average Annual 1-yr	3-yr	5-yr	10-yr	Since fund's inception
Bond Funds							
Short-Term Government Securities Fund (HOSGX)	0.97%	5.34%	5.34%	4.36%	1.22%	1.60%	2.80%
ICE BofA 1-5 Year U.S. Treasury Index	1.12%	5.74%	5.74%	4.48%	1.34%	1.83%	3.47%
Expense ratio 0.88% (gross) 0.75% (net) (12/31/24)[1]							
Short-Term Bond Fund (HOSBX)	1.14%	5.85%	5.85%	5.11%	1.60%	2.24%	3.85%
ICE BofA 1-5 Year Corp./Gov. Index	1.14%	6.06%	6.06%	4.95%	1.60%	2.19%	4.03%
Expense ratio 0.77% (gross) 0.77% (net) (12/31/24)							
Intermediate Bond Fund (HOIBX)[2]	0.90%	6.53%	6.53%	4.83%	-0.27%	NA	1.75%
Bloomberg U.S. Aggregate Index	1.10%	7.30%	7.30%	4.66%	-0.36%	2.01%	1.64%
Expense ratio 0.86% (gross) 0.80% (net) (12/31/24)[1]							
Equity Funds							
Value Fund (HOVLX)	2.51%	14.54%	14.54%	13.90%	11.80%	11.91%	10.49%
Russell 1000 Value Index	3.81%	15.91%	15.91%	13.90%	11.33%	10.53%	10.43%
Expense ratio 0.62% (gross) 0.62% (net) (12/31/24)							
Small-Company Stock Fund (HSCSX)	1.46%	0.56%	0.56%	8.51%	5.08%	6.50%	8.14%
Russell 2000 Index	2.19%	12.81%	12.81%	13.73%	6.09%	9.62%	7.66%
Expense ratio 1.14% (gross) 1.14% (net) (12/31/24)							

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 homesteadadvisers.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 gross expense ratio is the total annual operating expenses of a fund expressed as a percentage of average net assets, before any fee waivers or expense reimbursements. 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, 2026, 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

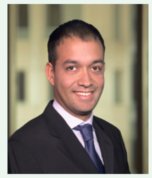
Jim Polk, CFA®
Head of Equity Investments

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. He holds the Chartered Financial Analyst designation.

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.

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 various risks, including, among others, 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 reasons, 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 a number of factors including those relating to the issuer or equity securities markets generally, among others.

Growth and value stocks are subject to the risks, among others, that returns on stocks within these style categories will trail returns of stocks representing another style or the market overall over any period of time, and each style category 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. These companies typically invest a higher portion of their earnings in their businesses and therefore may not offer the level of dividends provided by a number of value stocks, which may have the potential to cushion stock prices in a falling market. Also, earnings disappointments can lead to sharply falling prices because investors frequently 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 to large companies, small and medium-sized companies may face greater business risks because, among other factors, 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 prevailing 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.

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 Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. 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. **NASDAQ** is a major electronic trading platform and focuses on technology and growth-oriented companies. 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.

Past performance does not guarantee future results. Investing in any mutual fund, including the Homestead Funds, involves risk, including the possible loss of principal. *An investment in a mutual fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.*

Before investing in any Homestead Fund, you should carefully consider the fund's investment objectives, risks, charges and expenses before investing. The prospectus contains this and other information about each of the Homestead Funds and should be read carefully before investing. To obtain a copy of the prospectus, call 800.258.3030 or visit homesteadadvisers.com.

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