

Quarterly Market Review

First Quarter 2025

Summary

- Stocks ended the first quarter in the red, stymied by a slowing economy, rising inflation and investor uncertainty. After a post-inauguration surge in January, major market averages fell as investors grew increasingly concerned over the impact of new U.S. trade policy on economic growth. Value stocks generally beat growth names, and large-caps outperformed small- and mega-caps. Large-cap value stocks managed to eke out a small gain.
- Despite the quarter's market volatility, economic indicators such as gross domestic product (GDP) growth, labor, inflation and housing are all still relatively strong.
- The Federal Reserve (Fed) held rates steady at both of its first-quarter meetings, adopting a wait-and-see stance toward tariffs and their longer-term impact on inflation. At its March meeting, the Fed lowered projections for economic growth and employment while raising projections for inflation. The Fed still has two rate cuts penciled in for this year.
- Bonds prices generally rose as yields fell. Treasuries generally performed better than corporates, as a flight to safety helped widen credit spreads over the quarter.

This commentary was prepared on April 4, 2025, and reflects our view of events at that time. Please visit our website, homesteadfunds.com, for the latest perspectives.

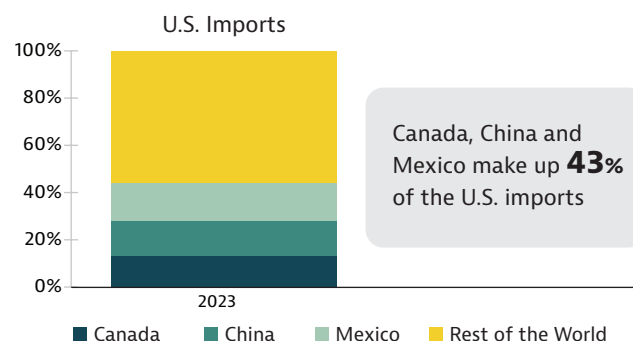
Inauguration Primes Rally, Uncertainty Fuels Retreat

Investors came into the new year with high expectations for a pro-business, pro-growth, regulation-light approach by the incoming Trump administration. That anticipation spurred a stock rally in January. Investor enthusiasm helped overcome inflationary fears from a warmer-than-expected December jobs report and an unexpected announcement of a China-based AI start-up that spooked Silicon Valley. Upbeat Q4 corporate earnings and milder-than-expected inflation news helped lift markets. Investors cheered a flurry of policy announcements and executive orders following Inauguration Day. All three major stock averages posted solid monthly gains in January.

Enthusiasm quickly turned to anxiety as investors fretted over the new administration's quick-moving and often-unpredictable trade policy. The trade war started with the U.S.'s three largest trading partners: Canada, Mexico and China. Together they make up close to half of all U.S. imports. Waves of tariff talk, announcements and retaliation unfolded over the rest of the quarter. Investors struggled to parse the impacts of each wave, as some U.S. tariffs were delayed while others were clawed back. Sticky inflation and the pace of economic growth also weighed on market performance.

Tariff Targets 1, 2 and 3

Canada, China and Mexico became the first group of tariff targets for one reason: They are the three biggest targets in terms of imports.



Source: Apollo Academy, "Tariffs on Mexico, Canada, and China Would Have a Significant Impact on the US Economy"

Trade policy fatigue was punctuated by short intraday relief rallies. White House announcements on tariff reprieves or delays, upbeat comments about the economy from the Fed, and overall positive inflation data helped soothe investors' nerves and buffer losses.

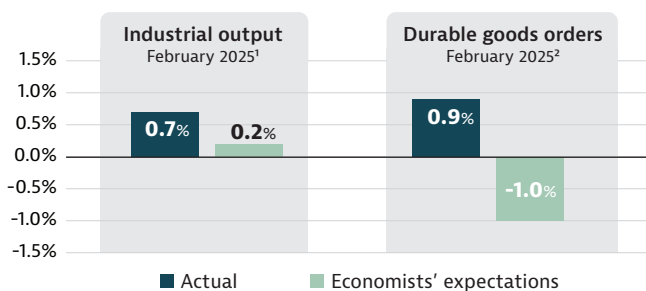
Mixed Economic Data

Ongoing tariff announcements in the first quarter upended GDP growth assumptions of many economists and market participants alike. Meanwhile, the final estimate of Q4 GDP (2.4% growth) marked the ninth of the past 10 quarters in which year-over-year GDP growth exceeded 2%.

Mixed economic signals fueled investor uncertainty over the quarter. Waning consumer confidence and spending (and higher consumer expectations for future inflation) weighed on investor sentiment. Weather-related impacts, including California wildfires and cold snaps, also negatively impacted wide swaths of the economy.

On the upside, the labor market has yet to be impacted substantially by the first-quarter economic environment. Inventory and prices of new homes have improved as sales have slowed (albeit the same cannot yet be said of existing homes). Manufacturing bounced back more than expected as companies front-loaded ordering supplies ahead of tariffs. And while still a bit sticky, both headline and core CPI came in cooler than expected for February.

Manufacturing: An Upside Surprise



Sources: ¹Trading Economics, ²Reuters

Despite the quarter's market volatility, economic indicators such as GDP growth, labor, inflation and housing remained relatively strong.

The Fed as a Stabilizer

The Federal Open Market Committee (FOMC) held rates steady at both of its meetings in the first quarter. Amid a volatile quarter, it was a stabilizing influence.

At its January meeting, the FOMC voted to keep the fed funds rate at the 4.25%-4.50% target range, a widely expected move that marked a new phase in monetary policy. Meeting minutes revealed just how broadly comfortable FOMC members were holding steady on interest rates given the "high degree of uncertainty" posed by consumer demand and changes in trade policy. Testifying before the Senate Banking Committee on February 10, Fed Chair Jerome Powell told lawmakers the Fed doesn't "need to be in a hurry" to lower interest rates further given the economy was currently "strong overall."

At its meeting last month, the Fed lowered projections for economic growth and employment while raising projections for inflation. Powell acknowledged that progress toward the Fed's 2% inflation target is "probably delayed for the time being" while the Fed maintains its wait-and-see stance toward tariffs and its longer-term impact on inflation. The FOMC meets again in May.

Bonds

Bonds rallied broadly over the quarter, as investors increasingly looked to safety. Treasury prices rose and yields fell amid a flight to quality. The yield on the bellwether 10-year Treasury note dropped 40 basis points over the quarter. The overall yield curve was positively sloping but still fairly flat. Credit spreads widened considerably over the quarter. Credit spreads measure the gap in yield between corporate bonds and similar-duration Treasuries.

Performance Attribution for Our Bond Funds

The Homestead Short-Term Government Securities Fund (HOSGX) returned 2.05% in the first quarter, in line with its benchmark, the ICE BofA 1-5 Year Treasury Index, which returned 2.00%. The fund's security selection and duration positioning in U.S. Treasuries contributed positively to both relative and absolute performance. By contrast, exposure to agency and mortgage bonds detracted from performance.

The Homestead Short-Term Bond Fund (HOSBX) returned 1.82% in the first quarter. The fund fell roughly in line with its benchmark, the ICE BofA 1-5 Year Corporate/Government Bond Index, which returned 2.00%. The fund's exposure to financial sector bonds, collateralized mortgage obligations and security selection in agency bonds contributed to performance. Our underweighting in Treasuries detracted from performance.

The Homestead Intermediate Bond Fund (HOIBX) returned 2.50% in the first quarter. The fund slightly underperformed its benchmark, the Bloomberg U.S. Aggregate Index, which returned 2.78%. Security selection in Treasuries overcame our underweighting there and was the biggest positive contributor to performance. However, our overweighting in financial and industrial corporate bonds — both of which underperformed the benchmark — detracted from performance.

Stocks

Investors had to contend with rising inflation, a slowing economy and a climate of uncertainty from the administration's new trade policy. Big tech generally led declines over the quarter. Performance varied greatly, with the tech-heavy Nasdaq Composite falling more than 10%, the Standard & Poor's 500 Index dropping over 4% and the Dow Jones Industrial Average declining 0.9%. For the broad market, consumer discretionary (-14.6%) and technology (-13.8%) were the worst-performing S&P 500 sectors, while energy (+10.6%) was by far the best-performing sector.

Large-cap value stocks were one of the few style categories to finish the quarter in the green, with the Russell 1000 Value returning 2.1%. By contrast the Russell 1000 Growth Index returned -10.0%. Small-caps followed a similar pattern, with the Russell 2000 Value Index (-7.7%), the Russell 2000 Index (-9.5%) and the Russell 2000 Growth Index (-11.1%) all suffering negative total returns.

Performance Attribution for Our Stock Funds

The Homestead Value Fund (HOVLX) returned 1.18% in the first quarter. It underperformed its benchmark, the Russell 1000 Value Index, which returned 2.14%. The fund's stock selection in the healthcare and consumer discretionary sectors contributed to relative performance. Conversely, stock selection in communication services stocks weighed on relative returns.

Compared with the index, the fund has overweight exposure in the health care, industrials and communications services 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 -12.3% in the first quarter. It underperformed its benchmark, the Russell 2000 Index, which returned -9.48%. An overweight allocation and stock selection in the industrial sector boosted the fund's relative returns. Conversely, stock choices in financials and real estate and a lack of utilities stocks weighed on relative performance.

Relative to its benchmark, the Small-Company Stock Fund is most underweight in the real estate, utilities 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.

Total Returns as of 3/31/2025

	Average Annual						Since fund's inception
	QTD	YTD	1-yr	3-yr	5-yr	10-yr	
Bond Funds							
Short-Term Government Securities Fund (HOSGX)	2.05%	2.05%	5.04%	2.37%	0.88%	1.26%	2.76%
ICE BofA 1-5 Year U.S. Treasury Index	2.00%	2.00%	5.50%	2.49%	0.70%	1.47%	3.43%
Expense ratio 0.88% (gross) 0.75% (net) (12/31/24) ¹							
Short-Term Bond Fund (HOSBX)	1.82%	1.82%	5.46%	2.88%	1.63%	1.83%	3.82%
ICE BofA 1-5 Year Corp./Gov. Index	2.00%	2.00%	5.78%	2.86%	1.33%	1.80%	4.00%
Expense ratio 0.77% (gross) 0.77% (net) (12/31/24)							
Intermediate Bond Fund (HOIBX) ²	2.50%	2.50%	4.68%	0.68%	0.20%	NA	1.31%
Bloomberg U.S. Aggregate Index	2.78%	2.78%	4.88%	0.52%	-0.40%	1.46%	1.11%
Expense ratio 0.86% (gross) 0.80% (net) (12/31/24) ¹							
Equity Funds							
Value Fund (HOVLX)	1.18%	1.18%	2.95%	8.38%	16.89%	10.23%	10.34%
Russell 1000 Value Index	2.14%	2.14%	7.18%	6.64%	16.15%	8.79%	10.26%
Expense ratio 0.62% (gross) 0.62% (net) (12/31/24)							
Small-Company Stock Fund (HSCSX)	-12.03%	-12.03%	-11.11%	-0.13%	12.30%	4.10%	7.84%
Russell 2000 Index	-9.48%	-9.48%	-4.01%	0.52%	13.27%	6.30%	7.00%
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 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.

¹Homestead 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.

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

Equity Fund Management



Mark Long, 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.

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. He holds the Chartered Financial Analyst designation.

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.

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.

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 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.

Investing in any mutual funds, including 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. **Past performance does not guarantee future results.**

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 the 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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