

Energy Shock Disrupts Markets

Summary

- U.S. financial markets were volatile in the first quarter as the U.S. and Israel launched military strikes against Iran. The conflict triggered a historic rise in energy prices that stoked inflation fears and lowered expectations for Federal Reserve (Fed) interest rate cuts.
- The broad U.S. equity market posted a loss due to weakness in March. Beneath the surface, the performance of various market segments was mixed. Energy stocks surged during the quarter, while information technology stocks struggled. Value and small-cap equities advanced; growth and large-cap names declined.
- The total return of the investment-grade bond market was essentially flat as optimism about potential Fed cuts gave way to worries about war-induced inflation. In March, U.S. Treasury yields recorded their biggest monthly increase since 2024, ending higher for the full quarter.
- Stability in the U.S. economy and strong corporate earnings bolstered investor sentiment as volatility spiked. We believe markets could remain volatile until geopolitical tensions ease and commodity prices start to normalize.

Early Gains Give Way to March Losses

The first quarter was a volatile period for U.S. financial markets. Most major equity and bond indexes posted gains through February, only to retreat in March amid one of the largest energy shocks in history. For the full quarter, the S&P 500 Index and the Bloomberg U.S. Aggregate Bond Index returned -4.33% and -0.05%, respectively.

A Repricing of the Fed

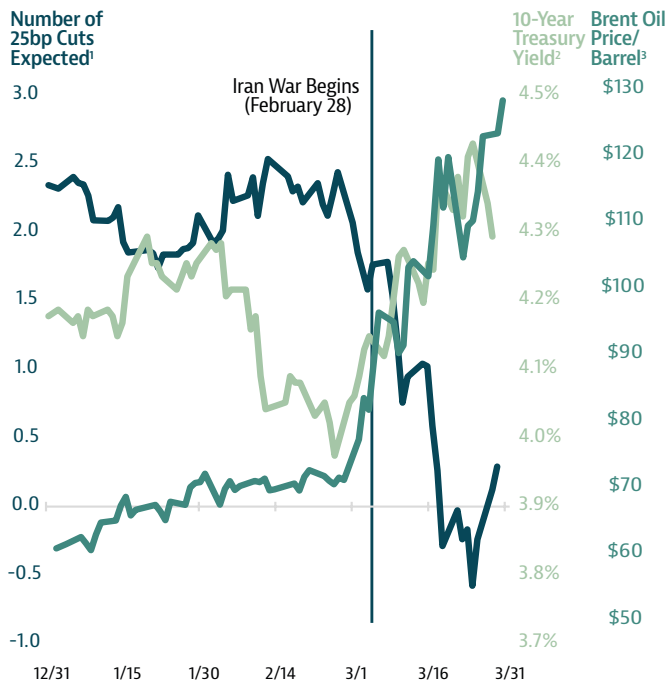
The outlook for Fed interest rate policy was a key driver of positive returns in January and February. During this time, it was widely believed that signs of softness in the labor market, combined with some better-than-expected inflation data, would allow the Fed to cut interest rates later in the year. There were still concerns facing investors, including stress in the private credit markets and questions about whether massive artificial intelligence (AI) investments would generate sufficient returns. Nonetheless, both the S&P 500 Index and Bloomberg U.S. Aggregate Bond Index finished the two-month period in positive territory.

Markets weakened in March after the U.S. and Israel began joint military operations against Iran. Iran retaliated with actions that effectively closed the Strait of Hormuz, a narrow waterway that typically transports approximately 20% of the world's oil supply. Oil prices soared as a result, topping \$100 a barrel for the first time since 2022. Prices of liquefied natural gas, refined petroleum products, and other commodities that pass through the Strait also surged. Worries that higher energy costs would slow the U.S. economy and reignite inflation triggered a sell-off in stocks and a sharp rise in Treasury yields. The Fed held its main policy rate between 3.5% and 3.75% during the quarter, as expected. However, hopes for rate cuts later in 2026 had largely evaporated by March 31.

This commentary was prepared on April 8, 2026, and reflects our view of events at that time. Please visit our website, homesteadfunds.com, for the latest perspectives.

Energy Price Spike Dims Hopes for Rate Cuts and Pushes Yields Higher

1Q 2026 Oil Prices, Expected Fed Cuts, 10-Year Treasury Yield



Source: ¹Bloomberg, ²U.S. Department of the Treasury, ³Federal Reserve Bank of St. Louis, Accessed on April 8, 2026.

Resilience in Equities and Credit

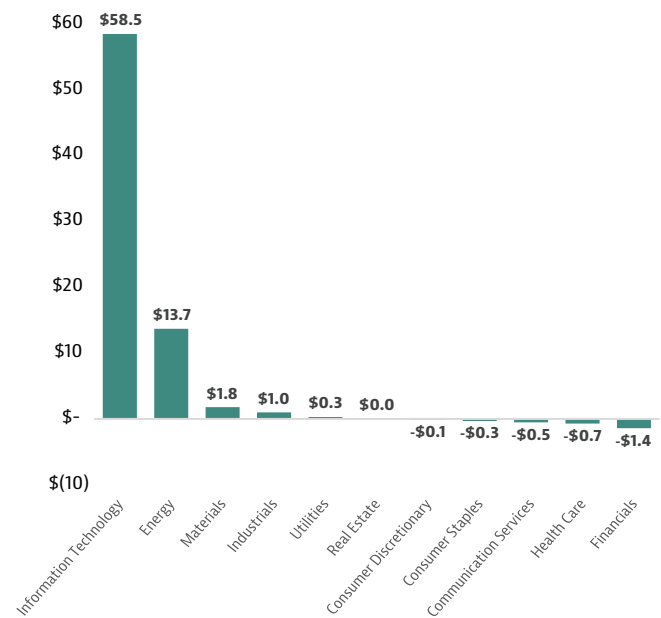
In our view, the broad equity market held up well given the magnitude of the energy shock and its potential implications for growth and inflation. Furthermore, investment-grade credit spreads, which measure the difference in yields between high-quality corporate bonds and similar-duration Treasury securities, widened just modestly. Expectations that initial White House rhetoric on the Iran war would soften in practice may have helped support markets. That said, we believe much of their resilience was due to the stability of the U.S. economy and strong corporate earnings.

Data released during the quarter suggested that, while the job market might be cooling, it remained healthy, with the unemployment rate still at very low levels. In February, retail sales grew at their strongest pace since last July, and industrial production rose for a fourth straight month. Preliminary data for March showed an increase in manufacturing activity and continued expansion in the services sector. Against this backdrop, S&P 500 companies appeared poised to report a sixth straight quarter of

double-digit earnings growth, with first-quarter estimates edging higher after the start of the war. Full-year 2026 estimates also rose after the war began.

Earnings Estimates Increased After the War, Driven by Upward Revisions in Information Technology and Energy

Change in 2026 S&P 500 Net Income Forecast From the Start of the Iran War Through March 31 (in Billions)



Source: Strategas, Published on March 31, 2026.

The Potential for Continued Volatility

We expect U.S. financial markets to remain volatile until tensions in the Middle East ease sufficiently to allow commodity markets to begin normalizing. Until then, the U.S. economy and corporate earnings appear to be holding up, equity valuations look reasonable, and bond investors have the opportunity to earn attractive yields while upgrading credit quality. Furthermore, should commodity prices remain high and start to have a meaningfully negative impact on the economy, we have a Fed that has shown its willingness to step in and provide support when appropriate.

Bonds

The March spike in yields culminated in a flat quarterly performance for the investment-grade bond market. After settling at 3.97% on February 27, the yield on the bellwether 10-year Treasury note closed at 4.44% just a month later. For the full quarter, yields on all but the very shortest Treasuries increased. Short-term rates generally rose faster than longer rates, causing the yield curve to flatten.

Investment-grade credit spreads, while widening somewhat, finished the quarter near historically tight levels. Credit spreads not only weathered the energy shock well but also withstood heavy new supply, which was met with robust investor demand. From January through mid-March, U.S. investment-grade companies issued approximately \$630 billion in debt, the strongest start to a year on record.

Performance Attribution for Our Bond Funds

The Homestead Short-Term Government Securities Fund (HOSGX) returned 0.18% in the first quarter, nearly matching the 0.19% return of its benchmark, the ICE BofA 1-5 Year U.S. Treasury Index, which returned 0.19%. Allocations to non-benchmark sectors, including collateralized mortgage obligations (CMOs) and agency bonds, contributed to relative performance. The fund's underweight in Treasury securities was the only significant detractor from relative results.

The Homestead Short-Term Bond Fund (HOSBX) returned -0.09% in the quarter, while its benchmark, the ICE BofA 1-5 Year Corporate/Government Index, returned 0.17%. The fund's out-of-index allocations to asset-backed securities (ABS) and CMOs had the largest positive impact on relative returns. The main detractor was the fund's underweight in Treasuries.

The Homestead Intermediate Bond Fund (HOIBX) returned 0.02% in the first quarter, modestly outperforming its benchmark, the Bloomberg U.S. Aggregate Index, which returned -0.05%. Security selection among industrial bonds benefited relative results, as did the fund's overweight in ABS. Security selection in agency bonds and an overweight in utilities detracted.

The funds' overall duration is neutral versus their benchmarks, reflecting the uncertain outlook for interest rates in the current environment. In terms of credit, we have capitalized on the new issue calendar to add corporate exposure to the Short-Term Bond Fund and

the Intermediate Bond Fund, being very selective and focusing on higher-quality names. In the Short-Term Government Securities Fund, we are carefully assessing opportunities in the agency mortgage-backed securities market.

Stocks

Geopolitical events drove first-quarter losses in the broad U.S. equity market; however, certain sectors of the market performed well. Energy posted an outsized gain and was, by far, the best-performing sector in the S&P 500 Index on the strength of oil prices. The second-best performer was materials, which also benefited from higher commodity prices. Additionally, the defensive utilities and consumer staples sectors delivered strong returns.

Losses in more heavily weighted sectors dragged the index down. Financials registered the biggest decline on concerns about private credit and the impact on banks of "higher-for-longer" interest rates, among other factors. Consumer discretionary, information technology, and communication services also did poorly, hurt by broad weakness in the Magnificent 7 stocks. These growth-oriented, mega-cap names, which span these three sectors, together represent about one-third of the total market capitalization of the S&P 500 Index.

Reflecting the struggles of the Magnificent 7, growth and large-cap stocks generated losses for the quarter, as measured by various Russell indexes. Conversely, returns for value and small-cap equities were positive.

Performance Attribution for Our Stock Funds

The Homestead Value Fund (HOVLX) returned 1.29% in the first quarter, modestly lagging its benchmark, the Russell 1000 Value Index, which returned 2.10%. Stock selection in the financials and industrials sectors contributed the most to relative performance. Stock selection was also strong in consumer discretionary, where avoiding certain broadline retail exposure was helpful. The fund's underperformance was driven by sector allocations, including underweights in utilities, consumer staples, and energy. Stock selection in health care and communication services further detracted.

Relative to the index, the Value Fund's largest overweight allocations were in the industrials, health care, and communication services sectors. Its largest underweights were in consumer staples, information technology, and utilities.

The Small-Company Stock Fund (HSCSX) returned 0.29% in the first quarter, slightly trailing the 0.89% return of its benchmark, the Russell 2000 Index. Relative performance benefited from stock selection, which was strongest in the information technology and materials sectors. An overweight in industrials was another plus. However, on an overall basis, sector allocations detracted from results versus the index, particularly an underweight in energy. Stock selection in the industrials and health care sectors also dampened relative returns.

Compared with its benchmark, the Small-Company Fund was overweight in the industrials and consumer discretionary sectors. Its largest underweights were in real estate, utilities, and communication services.

During the quarter, we moved both the Value Fund and the Small-Company Fund from an underweight in the energy sector to basically flat exposure relative to their benchmarks. We believe this neutral positioning is appropriate given the uncertainty surrounding the length of the Iran war and its impact on commodity prices.

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 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.

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.

Total Returns as of 3/31/2026

	Average Annual						Since fund's inception
	QTD	YTD	1-yr	3-yr	5-yr	10-yr	
Bond Funds							
Short-Term Government Securities Fund (HOSGX)	0.18%	0.18%	3.42%	3.75%	1.35%	1.50%	2.78%
ICE BofA 1-5 Year U.S. Treasury Index	0.19%	0.19%	3.86%	3.92%	1.48%	1.69%	3.45%
Expense ratio 0.90% (gross) 0.75% (net) (12/31/25) ¹							
Short-Term Bond Fund (HOSBX)	-0.09%	-0.09%	3.87%	4.33%	1.71%	2.15%	3.82%
ICE BofA 1-5 Year Corp./Gov. Index	0.17%	0.17%	4.16%	4.39%	1.74%	2.05%	4.00%
Expense ratio 0.76% (gross) 0.76% (net) (12/31/25)							
Intermediate Bond Fund (HOIBX) ²	0.02%	0.02%	3.96%	3.67%	0.34%	NA	1.69%
Bloomberg U.S. Aggregate Index	-0.05%	-0.05%	4.35%	3.63%	0.31%	1.70%	1.57%
Expense ratio 0.86% (gross) 0.80% (net) (12/31/25) ¹							
Equity Funds							
Value Fund (HOVLX)	1.29%	1.29%	14.67%	14.86%	9.95%	11.99%	10.46%
Russell 1000 Value Index	2.10%	2.10%	15.87%	14.31%	9.43%	10.58%	10.42%
Expense ratio 0.61% (gross) 0.61% (net) (12/31/25)							
Small-Company Stock Fund (HSCSX)	0.29%	0.29%	14.65%	6.89%	2.62%	6.49%	8.08%
Russell 2000 Index	0.89%	0.89%	25.72%	13.05%	3.77%	9.88%	7.62%
Expense ratio 1.09% (gross) 1.09% (net) (12/31/25)							

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.

¹Homestead Advisers has contractually agreed, through at least April 30, 2027, 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.

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.*

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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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