

QUARTERLY MARKET REVIEW | Second Quarter 2026

AI Fuels Double-Digit Equity Gains

Summary

- Major U.S. equity indexes rallied in the second quarter amid growing confidence in the artificial intelligence (AI) investment cycle. Total returns for U.S. bond indexes were modestly positive, tempered by rising Treasury yields.
- Strength in equities was broadly based across sectors, style, and market capitalizations. Information technology was the clear sector winner, with several AI-related names posting record or near-record quarterly gains. Growth stocks outperformed value stocks, and small-caps outpaced large caps.
- Credit spreads tightened slightly; however, coupon income was the main contributor to positive returns in the investment-grade bond market. New issuance of corporate debt was met with strong investor demand.
- Looking forward, higher-than-expected inflation and uncertainty surrounding the midterm elections could trigger bouts of volatility. We are closely monitoring AI-related capital expenditures (capex) for any signs of a slowdown, although we believe it could accelerate from here.

This commentary was prepared on July 7, 2026, and reflects our view of events at that time. Please visit our website, homesteadfunds.com, for the latest perspectives.

A Strong Quarter for Stocks

U.S. equities delivered robust gains in the second quarter. The S&P 500 Index rose 15.20%, marking its 12th-best quarterly performance since 1950. The Russell 2000 Index returned 21.49% — its 8th-best quarterly performance. Volatility in Treasury yields pressured fixed income, and the Bloomberg U.S. Aggregate Bond Index returned a modest 0.67%.

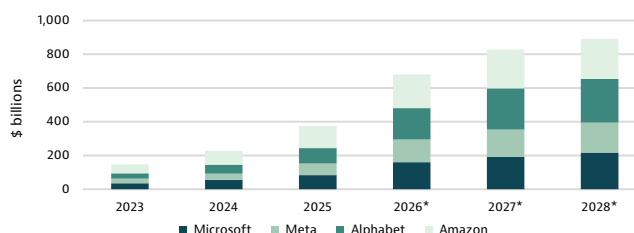
An AI-Powered Rally

Enthusiasm for AI was the key driver of equity market performance. Operators of large-scale IT infrastructure — "hyperscalers" — reported strong AI capex and raised their spending forecasts, a trend illustrated in the chart below. Meanwhile, the beneficiaries of these considerable outlays, including semiconductor and data storage companies, announced strong quarterly revenues and earnings. Hyperscaler revenues also grew as demand for cloud infrastructure to support AI applications accelerated. Led by upward revisions for AI companies, analysts raised their 2026 S&P 500 earnings growth estimates over the quarter.

A steep drop in oil prices was another tailwind for the AI trade, as it eased concerns that higher inflation would lead to higher interest rates and slow the funding wave powering the AI buildout. Following weeks of negotiations, the U.S. and Iran reached an interim peace agreement that called for a reopening of the Strait of Hormuz, a narrow waterway through which roughly 20% of the world's oil typically flows. As tensions subsided, oil prices retreated toward pre-conflict levels.

Historic AI Capex Cycle Is Showing No Signs of Slowing

Actual and Estimated AI Capex for the Largest Hyperscalers



*Estimate

Source: Bloomberg, retrieved July 7, 2026

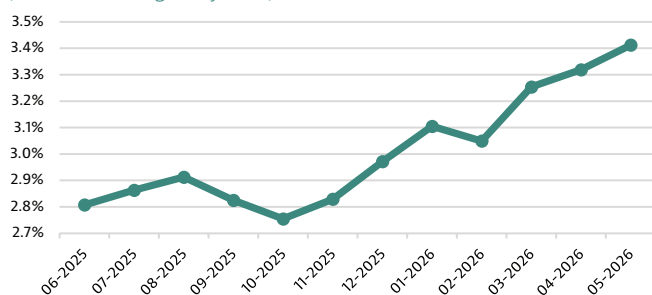
A Shifting Outlook for Fed Policy

The impacts of AI rippled unevenly through the U.S. economy. Higher industrial production and rising household wealth supported steady spending among wealthier consumers, while lower-income households spent more cautiously, relying on tax refunds to offset the pinch of higher gas prices. In addition, the labor market remained resilient, with payrolls expanding by an average of approximately 110,000 jobs per month from April through June.

The Federal Reserve (Fed) held its benchmark interest rate at 3.5%-3.75% during the quarter, as expected. However, strength in the economy and stubbornly high inflation led markets to start pricing in at least one 25-basis-point rate hike by year-end. Although the decline in oil prices offered some relief, core inflation — which excludes energy and food prices and is the primary concern of the Fed — climbed higher. Expectations of Fed tightening contributed to volatility in Treasury yields, particularly at the front end of the curve. At his first meeting as Fed chair in June, Kevin Warsh alleviated worries that he might be susceptible to political pressure to loosen policy, as he

The Fed's Preferred Inflation Gauge Has Been Rising

Annual Change in the Core Personal Consumption Expenditures (June 2025 Through May 2026)



Source: U.S. Bureau of Labor Statistics via FRED®, Personal Consumption Expenditures Excluding Food and Energy (Chain-Type Price Index) [PCEPILFE], retrieved July 6, 2026.

offered no hint of a rate cut.

AI Capex and Inflation in Focus

Looking ahead, one of the biggest risks we see is the potential for AI-related capex to slow or decline. While current momentum shows no signs of abating, any pause would have meaningful implications given its outsized influence on the economy and markets. Inflation also warrants close attention, as an upside surprise could prompt the Fed to start raising rates. The midterm elections and two expected mega-cap IPOs — OpenAI and Anthropic, both slated for late 2026/early 2027 — are additional sources of uncertainty.

Even with the strong rally in equities, we believe valuations remain reasonable, supported by tangible earnings growth. Fixed-income valuations are less compelling; however, all-in yields remain attractive, providing a solid foundation for future returns.

Bonds

The investment-grade bond market generated a positive total return in the second quarter, driven by coupon income. Treasury yields rose across most maturities, with the largest increases in one- to three-year rates, causing the curve to flatten. Despite the volatility in yields, credit markets were resilient, and investment-grade spreads tightened. That said, the compression in spreads was modest, resulting in minimal impact on returns.

New bond issuance remained robust as companies sought financing for capital-intensive AI expansion. Notably, the leading hyperscalers borrowed more in the first five months of 2026 than they did in all of 2025 — and more than in 2020-2024 combined. Spreads were tight, but attractive overall yields spurred strong demand, and investors readily absorbed the new deals.

Performance Attribution for Our Bond Funds

The Homestead Short-Term Government Securities Fund (HOSGX) returned 0.23% in the second quarter, performing in line with its benchmark, the ICE BofA 1-5 Year U.S. Treasury Index, which returned 0.23%. Allocations to non-benchmark sectors broadly contributed to relative performance, led by collateralized mortgage obligations (CMOs). The fund's underweight in Treasury securities was the only major detractor.

The Homestead Short-Term Bond Fund (HOSBX) returned 0.54% in the quarter, outperforming the 0.42% return of its benchmark, the ICE BofA 1-5 Year Corporate/Government Index. Relative results benefited from allocations to spread sectors, including asset-backed securities (ABS), CMOs, and financial and industrial corporate bonds. Positioning in Treasuries dampened performance versus the index.

The Homestead Intermediate Bond Fund (HOIBX) returned 0.49% in the second quarter, while its benchmark, the Bloomberg U.S. Aggregate Bond Index, returned 0.67%. Sector allocations helped relative performance, including allocations to ABS, CMOs, and financial and industrial bonds. Security selection among mortgage-backed securities (MBS) detracted due to

heightened volatility in Treasury yields and exposure to some lower-coupon mortgage pools.

We continue to look at the new issue market for corporates, although it is challenging to find significant value there. We are also pursuing opportunities in the ABS and non-agency MBS markets, primarily for the Short-Term Bond Fund and the Intermediate Bond Fund.

Stocks

Information technology was the best-performing sector in the S&P 500 Index, led by semiconductors and semiconductor equipment stocks. Industrials came next, followed by consumer discretionary and financials. After leading in the first quarter, energy was the only sector to post a meaningful loss, hurt by falling oil prices.

All major style and capital segments of the U.S. equity market generated double-digit gains. Growth stocks modestly outperformed value stocks, a reversal from value leadership earlier in the year. Small-cap equities outperformed large caps by a wide margin for a second straight quarter. In addition to participating in the AI boom, small caps, which are generally more economically sensitive than large caps, benefited from the strength in the U.S. economy.

Performance Attribution for Our Stock Funds

The Homestead Value Fund (HOVLX) returned 8.60% in the second quarter, underperforming the 13.87% return of its benchmark, the Russell 1000 Value Index. Stock selection in the financials sector was the top contributor to relative results, where certain banks and capital market holdings did particularly well. Positioning in information technology was the biggest detractor. The fund's tech stocks posted very strong gains; however, the portfolio did not own some of the benchmark's best performers — stocks with returns as high as 100%-250%.* In addition, the fund was underweight information technology.

Compared with its benchmark, the Value Fund's largest overweights are in the industrials, health care, and energy sectors. Its largest underweights are in information technology, consumer staples, and utilities.

The Small-Company Stock Fund (HSCSX) returned 14.54% in the second quarter, underperforming its benchmark, the Russell 2000 Index, which returned 21.49%. Stock selection in the materials sector was the top contributor to relative performance, and a lack of exposure to utilities also helped. Stock selection in information technology

was a key area of relative weakness, particularly among semiconductor and software names. Stock selection in health care was another notable detractor.

Relative to the index, the Small-Company Stock Fund's largest overweights are in the industrials and consumer discretionary sectors. Its largest underweights are in real estate, utilities, and information technology.

FTSE Russell recently completed the June reconstitution of its U.S. equity indexes, which led to significant changes in the funds' benchmarks. Among the changes were an increased allocation to the information technology sector in the Russell 1000 Value Index and a larger biotechnology weighting in the Russell 2000 Index. As a result, we will be selectively adding information technology exposure to the Value Fund and biotechnology exposure to the Small-Company Stock Fund.

*Factset, retrieved on July 2, 2026

Equity Fund Management



Jim Polk, CFA®
Head of Equity Investments

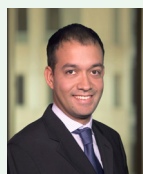
Jim co-manages Homestead Advisers' equity strategies. He is a graduate of Colby College, where he received a BA in English. He received his MBA from the Olin Graduate School of Business at Babson College. He holds the Chartered Financial Analyst designation.



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 6/30/2026

	Average Annual						Since fund's inception
	QTD	YTD	1-yr	3-yr	5-yr	10-yr	
Bond Funds							
Short-Term Government Securities Fund (HOSGX)	0.23%	0.41%	2.43%	4.12%	1.38%	1.49%	2.76%
ICE BofA 1-5 Year U.S. Treasury Index	0.23%	0.43%	2.71%	4.30%	1.51%	1.64%	3.43%
Expense ratio 0.90% (gross) 0.75% (net) (12/31/25) ¹							
Short-Term Bond Fund (HOSBX)	0.54%	0.45%	3.00%	4.68%	1.72%	2.11%	3.81%
ICE BofA 1-5 Year Corp./Gov. Index	0.42%	0.60%	3.06%	4.74%	1.76%	1.99%	3.98%
Expense ratio 0.76% (gross) 0.76% (net) (12/31/25)							
Intermediate Bond Fund (HOIBX) ²	0.49%	0.51%	3.48%	4.09%	0.00%	NA	1.70%
Bloomberg U.S. Aggregate Index	0.67%	0.62%	3.79%	4.16%	0.08%	1.54%	1.61%
Expense ratio 0.86% (gross) 0.80% (net) (12/31/25) ¹							
Equity Funds							
Value Fund (HOVLX)	8.60%	10.00%	18.31%	16.25%	10.39%	12.54%	10.64%
Russell 1000 Value Index	13.87%	16.26%	27.12%	17.78%	11.17%	11.52%	10.74%
Expense ratio 0.61% (gross) 0.61% (net) (12/31/25)							
Small-Company Stock Fund (HSCSX)	14.54%	14.88%	23.19%	10.11%	4.34%	7.64%	8.52%
Russell 2000 Index	21.49%	22.57%	40.78%	18.60%	6.98%	11.62%	8.29%
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.

Top 10 Holdings (as of March 31, 2026)

Value Fund: JPMorgan Chase & Co., 4.5%; Exxon Mobil Corp., 4.4%; Parker-Hannifin Corp., 3.5%; Alphabet, Inc., 3.4%; Lam Research Corp., 3.1%; Northrop Grumman Corp., 3.0%; Walmart, Inc., 2.9%; Deere & Co., 2.9%; Citigroup, Inc., 2.7%; AbbVie, Inc., 2.6%

Small-Company Stock Fund: Plexus Corp., 3.8%; Advanced Energy Industries, Inc., 3.6%; Applied Industrial Technologies, Inc., 3.5%; Gildan Activewear, Inc., 3.3%; Globus Medical, Inc., 3.3%; Federal Signal Corp., 3.2%; Element Solutions, Inc., 2.7%; CACI International, Inc., 2.6%; OPENLANE, Inc., 2.6%; FB Financial Corp., 2.6%

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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.

Artificial intelligence (AI) technologies are evolving rapidly, and their potential benefits, limitations, risks, and regulatory framework continue to develop. Expectations regarding the growth, adoption, and commercial impact of AI may not be realized and could be affected by various factors, including technological advancements, competitive pressures, legal and regulatory developments, cybersecurity risks, and market conditions. The pace and nature of AI innovation, adoption, and regulatory oversight remain uncertain and may materially affect companies that develop, provide, or rely on AI-related technologies and services.

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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