

## QUARTERLY MARKET REVIEW | Third Quarter 2026

# Rising Rates Pressure Markets

### Summary

- U.S. Treasury yields rose in the third quarter, resulting in negative returns across the fixed-income markets. The broad equity market was more resilient, posting a modest gain as large-cap technology stocks continued to rally.
- The Federal Reserve (Fed) increased its benchmark interest rate in September, one of several factors that contributed to the rise in yields. It was the central bank's first rate hike in more than three years.
- Returns for both growth and value stocks were positive, with value outperforming growth. Small-cap stocks declined, lagging large caps. The energy and information technology sectors generated strong gains, while utilities and real estate were weak.
- A number of uncertainties, including the outlook for Fed rate policy and the upcoming midterms, could create volatility in the days and months ahead. However, we believe economic and corporate fundamentals have remained solid, which has supported markets. That said, higher rates, persistent inflation, and geopolitical developments could further pressure asset prices.

This commentary was prepared on October 6, 2026, and reflects our view of events at that time. Please visit our website, [homesteadfunds.com](https://homesteadfunds.com), for the latest perspectives.

### Bonds Retreat While Stocks Advance

Rising interest rates weighed on U.S. financial markets in the third quarter, overshadowing a strong corporate earnings season. Treasury yields moved higher across maturities, reflecting resilient economic growth, persistent inflation, tighter monetary policy, and heavy bond issuance. The 10-year Treasury yield finished September at 5.29%, up over 80 basis points — its largest quarterly increase since 1994.

Against this backdrop, the Bloomberg U.S. Aggregate Bond Index returned -3.51%. Rising rates were also a headwind for equities. However, artificial intelligence (AI) remained a dominant market theme, and the S&P 500 Index climbed 2.30% amid continued strength in large-cap technology stocks.

#### 10-Year Yields Touched Multiyear Highs (September 29, 2006 Through September 30, 2026)



Source: Board of Governors of the Federal Reserve System (US) via FRED®; Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity (Quoted on an Investment Basis) [DGS10], retrieved October 6, 2026.

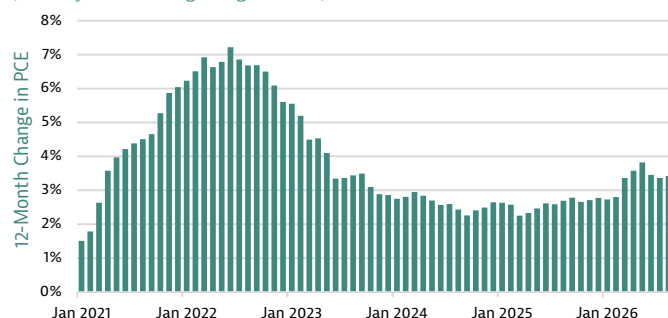
### Healthy Growth, Sticky Inflation

Data released during the quarter suggested that the U.S. economy was growing at a solid pace, following annualized growth of approximately 2.4% in the first half of the year. Real consumer spending continued to increase, posting its largest monthly gain in 17 months in August. Non-defense capital goods orders in the US, excluding aircraft, a proxy for business equipment spending, rose for a fourth straight month through August, led by AI-related demand. Purchasing managers' surveys indicated continued expansion in the manufacturing and service sectors.

The economy's underlying strength contributed to stubborn inflation, as did a sharp increase in oil prices

driven by escalating conflict in the Middle East. Both the Consumer Price Index (CPI) and the Personal Consumption Expenditures Price Index (PCE) hovered around 3.5% over the summer. Core PCE — which excludes food and energy costs and is the Fed's preferred inflation measure — remained stuck at 3.0%.

### Inflation Above Fed's 2% Target Since March 2021 (January 2021 Through August 2026)



Source: U.S. Bureau of Economic Analysis via FRED®, Personal Consumption Expenditures (Chain-Type Price Index) [PCEPLPC1], retrieved October 6, 2026.

### A September Hike

The Fed held its main policy rate steady at its July meeting. However, at the central bank's annual August symposium, Fed Chair Kevin Warsh began laying the groundwork for a September increase. In his keynote address, he said he was hard-pressed to describe financial conditions as restrictive and described progress toward reaching the Fed's 2% inflation target as "modest" over the past two years. Chair Warsh also emphasized the Fed's commitment to achieving 2% inflation. Consistent with his hawkish remarks, the Fed raised rates 25 basis points in September to 3.75%-4%, its first increase since July 2023.

### Looking Forward

Barring the brief COVID-induced recession, the U.S. economy has not experienced a major downturn since the 2008-2009 financial crisis — a period of prolonged growth supported by historically low interest rates. Now that rates appear to be normalizing, the economy faces the prospect of a more traditional business cycle in which sustained higher rates could undermine growth.

While economic data have remained resilient, we are closely monitoring how higher rates are affecting credit quality, AI-related investment, and regional banks' balance sheets, among other factors. It also remains to be seen how much more the Fed will tighten policy. Markets could be volatile in the coming months as investors digest incoming jobs and inflation data, as well as developments in the Middle East and their impact on energy prices. The midterm elections may create additional volatility. Despite

these uncertainties, we believe the economy appears well positioned for a higher-rate environment, and analysts expect corporate earnings to remain strong.

## Bonds

**Rising Treasury yields drove negative total returns in the investment-grade bond market. Credit spreads, which have been range-bound all year, remained stable. Some technology bonds issued in the first half of 2026 underperformed on a spread basis amid heavy issuance to finance AI infrastructure. But overall there were no signs of significant stress in investment-grade corporate credit.**

While losses were broad-based, mortgage-backed securities (MBS) and many collateralized mortgage obligations (CMOs) were particularly weak as the average 30-year fixed mortgage rate surpassed 7%, slowing prepayments, extending duration, and pressuring spreads. Asset-backed securities (ABS), by contrast, were relatively resilient given their shorter durations.

### Performance Attribution for Our Bond Funds

The Homestead Short-Term Government Securities Fund (HOSGX) returned -1.33% in the third quarter, underperforming its benchmark, the ICE BofA 1-5 Year U.S. Treasury Index, which returned -0.82%. Non-benchmark allocations to ABS and agency securities contributed to relative performance. Conversely, out-of-index allocations to MBS and CMOs detracted.

The Homestead Short-Term Bond Fund (HOSBX) returned -1.06% in the quarter, while its benchmark, the ICE BofA 1-5 Year Corporate/Government Index, returned -0.89%. The fund's non-benchmark allocation to ABS benefited relative results. Areas of relative weakness included out-of-index allocations to MBS and CMOs, along with positions in select financial bonds.

The Homestead Intermediate Bond Fund (HOIBX) returned -3.63% in the third quarter, modestly underperforming its benchmark, the Bloomberg U.S. Aggregate Index, which returned -3.51%. Holdings-based attribution showed that an overweight to ABS and allocations to CMOs contributed positively to relative results. Treasury positioning was the largest detractor, while positioning in the utilities sector also weighed modestly on performance.

Across all three funds, we continue to maintain duration near benchmark levels. We are paying close attention to how changes in interest rates could affect our mortgage

holdings and are being particularly mindful of credit quality, especially in corporates. We are also maintaining additional liquidity to capitalize on potential market dislocations as they occur.

### Stocks

**The broad U.S. equity market rose in the third quarter, but leadership narrowed. Energy led S&P 500 Index sectors with a double-digit gain on rising oil prices. Information technology, health care, and communication services also advanced, while the remaining sectors declined, including rate-sensitive utilities and real estate. Although the AI trade remained intact, many semiconductor and data center infrastructure stocks that rallied earlier in the year pulled back.**

Rising rates also weighed on small-cap stocks, which tend to rely more heavily on borrowing than large-caps. Value and growth both posted gains, with value modestly ahead, but the path there was far from straightforward. Through August, value led growth by roughly 7%, but growth erased much of that advantage in September, outpacing value by about 5%.

### Performance Attribution for Our Stock Funds

The Homestead Value Fund (HOVLX) returned 0.54% in the third quarter, underperforming its benchmark, the Russell 1000 Value Index, which returned 2.61%. Top contributors to relative performance included stock selection in the materials sector, an underweight in utilities, and an overweight in energy. The majority of underperformance was due to stock selection in the information technology sector, particularly among semiconductor and semiconductor equipment holdings. Stock selection in health care also detracted.

Relative to the index, the Value Fund's largest overweights are in the industrials, energy, and communication services sectors. Its largest underweights are in consumer staples, real estate, and consumer discretionary.

The Small-Company Stock Fund (HSCSX) returned -10.65% in the third quarter, trailing its Russell 2000 Index benchmark, which returned -7.23%. Relative performance benefited from stock selection in the health care sector and among software companies in information technology. Positioning in industrials was the biggest detractor due to stock selection and an overweight. Industrials was the weakest sector in the benchmark as companies tied to data center construction

and AI infrastructure sold off sharply. Stock selection in consumer discretionary also subtracted meaningfully from relative results.

Compared with its benchmark, the Small-Company Stock Fund's largest overweights are in the industrials, consumer discretionary, and information technology sectors. Its largest underweights are in health care, financials, and utilities.

For both funds, underperformance in select holdings tied to the AI infrastructure buildout was a headwind. We view this as a normalization in prices after outsized gains, not a reflection of deteriorating company fundamentals. The FTSE Russell's June reconstitution of its U.S. equity indexes also presented challenges, as it led to major changes in the funds' benchmarks. During the quarter, we adjusted portfolio exposures to reflect these changes, adding what we believe are high-quality companies trading at attractive valuations.

### Equity Fund Management



**Jim Polk, CFA®**  
**Head of Equity Investments**

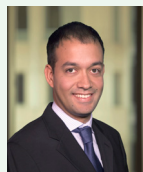
Jim co-manages Homestead Advisers' equity strategies. He is a graduate of Colby College, where he received a BA in English. He received his MBA from the Olin Graduate School of Business at Babson College. He holds the Chartered Financial Analyst designation.



**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 9/30/2026

|                                                                 | Average Annual |        |        |        |        |        | Since fund's inception |
|-----------------------------------------------------------------|----------------|--------|--------|--------|--------|--------|------------------------|
|                                                                 | QTD            | YTD    | 1-yr   | 3-yr   | 5-yr   | 10-yr  |                        |
| Bond Funds                                                      |                |        |        |        |        |        |                        |
| Short-Term Government Securities Fund (HOSGX)                   | -1.33%         | -0.92% | 0.05%  | 3.56%  | 1.14%  | 1.36%  | 2.70%                  |
| ICE BofA 1-5 Year U.S. Treasury Index                           | -0.82%         | -0.39% | 0.72%  | 3.94%  | 1.34%  | 1.57%  | 3.37%                  |
| Expense ratio 0.90% (gross) 0.75% (net) (12/31/25) <sup>1</sup> |                |        |        |        |        |        |                        |
| Short-Term Bond Fund (HOSBX)                                    | -1.06%         | -0.62% | 0.51%  | 4.23%  | 1.52%  | 1.96%  | 3.75%                  |
| ICE BofA 1-5 Year Corp./Gov. Index                              | -0.89%         | -0.30% | 0.84%  | 4.33%  | 1.57%  | 1.89%  | 3.93%                  |
| Expense ratio 0.76% (gross) 0.76% (net) (12/31/25)              |                |        |        |        |        |        |                        |
| Intermediate Bond Fund (HOIBX) <sup>2</sup>                     | -3.63%         | -3.14% | -2.27% | 3.83%  | -0.72% | NA     | 1.14%                  |
| Bloomberg U.S. Aggregate Index                                  | -3.51%         | -2.91% | -1.84% | 4.06%  | -0.64% | 1.14%  | 1.07%                  |
| Expense ratio 0.86% (gross) 0.80% (net) (12/31/25) <sup>1</sup> |                |        |        |        |        |        |                        |
| Equity Funds                                                    |                |        |        |        |        |        |                        |
| Value Fund (HOVLX)                                              | 0.54%          | 10.60% | 13.37% | 17.01% | 10.88% | 12.25% | 10.57%                 |
| Russell 1000 Value Index                                        | 2.61%          | 19.27% | 23.81% | 20.07% | 11.92% | 11.43% | 10.74%                 |
| Expense ratio 0.61% (gross) 0.61% (net) (12/31/25)              |                |        |        |        |        |        |                        |
| Small-Company Stock Fund (HSCSX)                                | -10.65%        | 2.64%  | 4.14%  | 8.24%  | 2.94%  | 6.38%  | 8.02%                  |
| Russell 2000 Index                                              | -7.23%         | 13.71% | 16.20% | 17.72% | 6.34%  | 9.84%  | 7.93%                  |
| 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](http://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.

<sup>1</sup>Homestead 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.

<sup>2</sup>The inception date of this fund is May 1, 2019.

**Consumer Price Index (CPI):** Measures the average change in prices paid by urban consumers for a basket of goods and services. Published by the U.S. Bureau of Labor Statistics.

**Personal Consumption Expenditures (PCE) Price Index:** Measures the change in prices of goods and services purchased by U.S. consumers. Published by the U.S. Bureau of Economic Analysis and preferred by the Federal Reserve as an inflation gauge.

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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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