Homestead Funds

Quarterly Market Review

Second Quarter 2024

Summary

- Stocks had mixed performance in the second quarter. Large-cap, growth-oriented tech names posted continued gains as artificial intelligence (AI) momentum persisted, but many other segments of the stock market were flat or down. Company earnings forecasts remained positive, though there were hints of weaker consumer activity at quarter-end.
- Inflation reports were positive, with the consumer price index (CPI) retreating back toward an annualized rate of 3%. Still, policymakers held interest rates steady and emphasized a view that rates would likely stay "higher for longer," prompting markets to push out forecasts for future rate cuts.
- Bonds also delivered flat or mixed returns. Interest rate levels inched slightly higher over the period as the prospect of rate cuts was delayed toward the end of the year. Bond coupons generated most of the quarter's returns, with many corporate and agency bonds outperforming U.S. Treasuries.

This commentary was prepared on July 1, 2024, and reflects our view of events at that time. Please visit our website, homesteadfunds.com, for the latest perspectives.

Mixed Performance for Both Stocks and Bonds

The second quarter delivered mixed performance for investments. Large-cap growth stocks climbed higher as AI momentum continued to boost technology-oriented names. Other stock styles and sectors, however, were mostly flat or down in the period. Bonds were flat or modestly up. Stubborn consumer price levels prolonged the outlook for high interest rates, as expectations for a rate cut were pushed out again.

Inflation Retreats, But Slowly

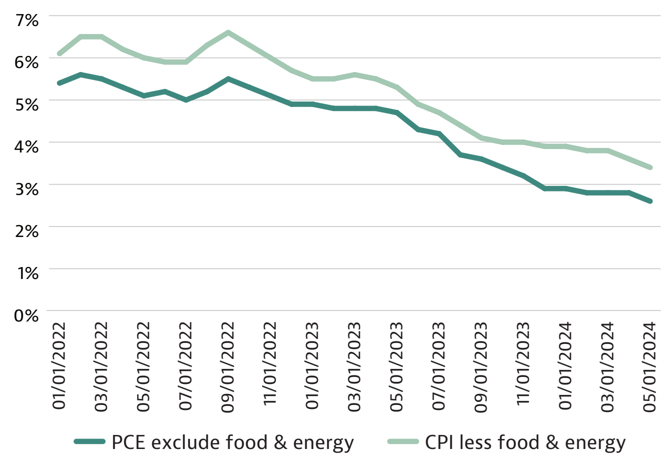
Closely watched inflation reports showed signs of continued progress in the fight against price pressures, though the process has been slow. Measures of core inflation, meaning price changes excluding volatile food and energy components, showed that the pace of inflation retreated again in the second quarter. Policymakers continued to emphasize that interest rates could remain "higher for longer," cautioning markets not to expect rate cuts too soon.

Rent prices have proven to be an especially sticky component of price pressures, with housing costs contributing significantly to the surprising upside in inflation year to date. Economists say that the problem is particularly regionalized to the Northeast and Midwest, where housing supply has not expanded much in recent years, while the West and South regions of the U.S. have had more construction, and recently, less inflation. Some also speculate that the "last mile" of the ongoing inflation fight will prove to be the most stubborn.

Inflation reports were positive, with the CPI retreating back toward an annualized rate of 3%.

Inflation Progress Is Slow, Especially 'Last Mile'

Core Inflation (year-over-year % change in prices)



Source: Federal Reserve Bank of St. Louis

Hints of Consumer Stress

The Federal Reserve's real-time estimates of second-quarter GDP growth drifted lower as the quarter played out, reflecting some softening trends toward the end of the period.

Consumer spending seemed marginally weaker, particularly among the lower-income tiers of the economy. Earnings reports for some fast-food and retail chains suggested that consumers were pulling back on spending, though other companies such as airlines and pricier restaurants reported growth. Higher interest costs and stubborn price levels could be pressuring some pockets of the economy more than others.

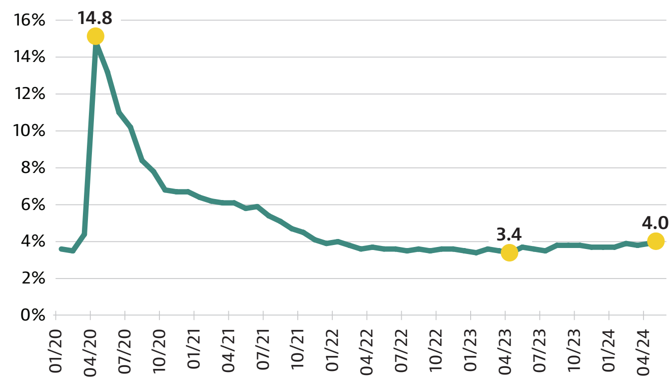
Company earnings forecasts remained positive, though there were hints of weaker activity from consumers at quarter-end.

Job Market Yet to Show Sustained Weakness

The labor market is still healthy, by most measures. The unemployment rate was around 4% in the second quarter, a level considered to be "full employment" by economists. Job openings remained supportive, with the May report showing 1.2 job openings per unemployed worker. At the recent peak, the ratio of openings per unemployed worker was 2.0 in May 2022.

Unemployment Remains at Low Levels

Unemployment rate (%)



Source: Bureau of Labor Statistics

Bonds

In the second quarter, bonds were mostly flat or slightly higher. Treasury interest rates rose modestly for longer-dated bonds, though rates were basically flat for short-dated issues. As interest rates were nearly static, coupon payments generated most of the returns for bonds.

The yield curve remains inverted, meaning that short-term rates are slightly higher than long-term rates. An inverted yield curve has historically been a reliable predictor of a looming recession, though it has currently been inverted for nearly two years while growth has continued. With inflation still above target levels, policymakers expect that interest rate cuts will be delayed. At quarter end, the markets were forecasting about 70% probability that rates would be cut by 0.25% to 0.75% in September.

The other component of bond yields, the credit spread, compressed marginally in the second quarter. Credit spreads measure the difference in yield between corporate bonds and similar-duration Treasuries. Compressing spreads tend to reflect a market that has stable financials and favorable credit conditions.

Performance Attribution for Our Bond Funds

Against this backdrop, the Homestead Short-Term Government Securities Fund (HOSGX) returned 0.84% in the second quarter, in line with its benchmark, the ICE BofA 1-5 Year Treasury Index, which returned 0.82%. The fund's overweight exposure in agency bonds and collateralized mortgage obligations boosted returns. Yield curve positioning in U.S. Treasuries detracted from relative performance.

The Homestead Short-Term Bond Fund (HOSBX) returned 0.76% in the quarter, trailing its benchmark, the ICE BofA 1-5 Year Corporate/Government Bond Index, which returned 0.89%. The fund's overweight position in asset-backed securities (ABS) boosted returns. Overweights in financials and industrials bonds was also additive. Yield curve positioning in U.S. Treasuries detracted from relative performance.

The Homestead Intermediate Bond Fund (HOIBX) returned 0.05% in the second quarter, in line with its benchmark, the Bloomberg U.S. Aggregate Index, which returned 0.07%. The fund's positioning in ABS, industrials and agency bonds all boosted relative performance. Positioning in U.S. Treasuries detracted slightly due to yield curve positioning relative to the benchmark.

Stocks

Stock performance was mixed across sectors and styles in the second quarter. Growth-oriented large-cap stocks fared best, delivering strong gains for the period. Value and small-cap indexes declined. On a sector basis, information technology, communications services and utilities were top performers for S&P 500 Index stocks. Materials, industrials and energy were laggards. About half of sectors had gains, while half had losses.

Company earnings seemed to be in good shape over the period. As of quarter-end, analysts were forecasting 8.8% year-over-year growth in earnings for companies in the S&P 500 Index. Revenues were expected to grow 4.6% year over year.

Measures of core inflation, meaning price changes excluding volatile food and energy components, showed that the pace of inflation retreated again in the second quarter.

Performance Attribution for Our Stock Funds

The Homestead Value Fund (HOVLX) returned -2.19% in the second quarter, in line with its benchmark, the Russell 1000 Value Index, which returned -2.17%. In the period, the fund's stock selection in the information technology and communications services sectors contributed to relative performance. Conversely, stock selection and sector positioning in the consumer discretionary and health care sectors detracted from performance compared with the benchmark.

Compared with the index, the fund holds overweights in communications services, health care and industrial 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 -5.51% in the second quarter, trailing its benchmark, the Russell 2000 Index, which returned -3.28%. In the period, stock selection in the industrials and financials sectors detracted from the fund's relative performance. Conversely, stock selection in the information technology and health care sectors boosted returns.

Relative to its benchmark, the Small-Company Stock Fund is most underweight in the consumer discretionary, consumer staples and utilities sectors. The portfolio's most significant overweights are in the industrials, information technology and materials 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 6/30/2024

		Average Annual				
	Q2	**1-yr**	**3-yr**	**5-yr**	**10-yr**	**Since fund's inception**
Bond Funds						
Short-Term Government Securities Fund (HOSGX)	0.97%	4.53%	-0.27%	0.76%	0.94%	2.69%
ICE BofA 1-5 Year U.S. Treasury Index	0.80%	4.16%	-0.35%	0.76%	1.15%	3.36%
Expense ratio 0.84% (gross) 0.75% (net) (12/31/23)[1]						
Short-Term Bond Fund (HOSBX)	1.26%	4.94%	-0.12%	1.17%	1.45%	3.76%
ICE BofA 1-5 Year Corp./Gov. Index	1.09%	4.77%	-0.17%	1.06%	1.45%	3.94%
Expense ratio 0.76% (12/31/23)						
Intermediate Bond Fund (HOIBX)[2]	-0.38%	3.20%	-2.92%	0.14%	NA	0.62%
Bloomberg U.S. Aggregate Index	-0.71%	2.63%	-3.02%	-0.23%	1.35%	0.36%
Expense ratio 0.89% (gross) 0.80% (net) (12/31/23)[1]						
Equity Funds						
Value Fund (HOVLX)	9.88%	19.84%	7.74%	11.63%	10.36%	10.41%
Russell 1000 Value Index	6.62%	13.06%	5.52%	9.01%	8.23%	9.69%
Expense ratio 0.64% (12/31/23)						
Small-Company Stock Fund (HSCSX)	1.48%	8.09%	0.04%	8.16%	5.72%	8.32%
Russell 2000 Index	1.73%	10.06%	-2.58%	6.94%	7.00%	7.24%
Expense ratio 1.07% (12/31/23)						

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.

[1]Homestead 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.

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

Equity Fund Management

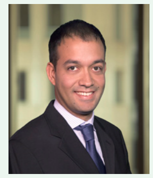
Mark Iong, CFA®
Equity Portfolio Manager

Mark co-manages the Homestead Advisers' large-cap strategies. Mark is a graduate of Cornell University, where he received a BS in operations research and information engineering. He holds the Chartered Financial Analyst designation.

Jim Polk, CFA®
Head of Equity Investments

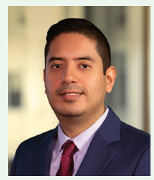
Jim co-manages Homestead Advisers' equity strategies. He is a graduate of Colby College, where he received a BA in English. He received his MBA from the Olin Graduate School of Business at Babson College. Jim holds the Chartered Financial Analyst designation.

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.

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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 ensure a profit or protect against loss. 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 **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. 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 mutual funds involves risk, including the possible loss of principal. **Past performance does not guarantee future results.**

Investors should carefully consider fund 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 prospectus, call 1-800-258-3030 or visit homesteadfunds.com.

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