

QUARTERLY MARKET REVIEW | Second Quarter 2025

Stocks Navigate Myriad of Hurdles

Summary

- Stocks ended the second quarter in the green, overcoming short- and medium-term hurdles — navigating new trade policy and geopolitical tensions — in a complete reversal of Q1. After investors digested the Trump administration's "Liberation Day" tariffs announced on April 2, markets recovered as progress unfolded with respect to new trade deals negotiated with major U.S. trading partners. Growth stocks soundly beat value names, and mega- and large-caps outperformed small-caps.
- The housing market began to soften over the quarter. Inflation has generally held steady, but it has also shown slight upticks recently. The labor market is still a bright spot, and although GDP contracted in Q1, projections for Q2 are trending higher.
- The Federal Reserve held rates steady at 4¼% to 4½% during both second-quarter meetings, maintaining a wait-and-see approach on tariffs' inflation impact. Despite ongoing concerns about inflation and GDP outlook expressed at the June meeting, the Fed still anticipates two rate cuts this year.
- Bond prices were mixed as the yield curve steepened during the quarter, with yields declining for maturities of seven years and under while increasing at the long end. Despite intra-quarter volatility, credit spreads tightened quarter over quarter.

This commentary was prepared on July 7, 2025, and reflects our view of events at that time. Please visit our website, homesteadfunds.com, for the latest perspectives.

Liberation Day Shocks, April 9 Marks Bottom

In April, uncertainty vexed major market averages, which ended the month mixed with considerable intra-month volatility. Soon after the closing bell rang on April 2, the White House announced its "Liberation Day" tariffs. Global markets fell overnight, and U.S. stock averages and Treasury yields declined over several sessions as a flurry of subsequent announcements kept investors guessing.

Then on April 9, President Trump announced a 90-day pause on most tariffs, and markets pushed higher. The S&P 500 gained 9.5% — its largest one-day increase in 17 years. Stocks then slipped again, however, as China retaliated with reciprocal tariffs on U.S. goods, and investor uncertainty overcame positive economic news — including an upbeat Consumer Price Index report showing that year-over-year core inflation rose at its slowest rate in more than four years.

S&P 500 posts 3rd biggest one-day gain since WWII

| | |
|----------------------|--------------|
| October 13, 2008 | 11.58% |
| October 28, 2008 | 10.79% |
| April 9, 2025 | 9.52% |
| March 24, 2020 | 9.38% |
| March 13, 2020 | 9.29% |
| October 21, 1987 | 9.10% |
| May 17, 1948 | 7.93% |
| March 23, 2009 | 7.07% |
| April 6, 2020 | 7.03% |
| November 13, 2008 | 6.92% |

Source: CNBC

The sharp market rebound on April 9, after President Trump announced a 90-day pause on tariffs highlighted the intra-day, intra-month and intra-quarter volatility.

Stocks regained some momentum mid-month after several money center banks reported Q1 numbers above expectations. But investors were unsettled again following Federal Reserve Chair Jerome Powell's concerns that tariffs would likely "move us further away from our goals," which

includes keeping inflation in check. Stocks rallied late in the month on news that the administration intended to de-escalate tariff tensions with China. Mega-cap tech stocks led the market's advance, several of which reported upbeat quarterly results.

May Certainty Flowers into Rebound

Stocks rebounded strongly in May as certainty around trade increased and investor anxiety lessened.

The month started out on an upswing, thanks to solid quarterly corporate reports from mega-cap tech companies. The S&P 500 ended a nine day winning streak on May 5, its longest in 20 years. Stocks largely looked past a cautionary Fed statement following its two-day May meeting. Then the U.S. and China agreed to dial back some tariffs, sparking a powerful rally. Soft inflation data also helped push stock prices higher. By the middle of May's second full week, the S&P 500 had erased its year-to-date losses.

Stocks largely moved past the news that credit rating agency Moody's downgraded the United States. Momentum picked up further after Memorial Day weekend, rallying on news that the European Union had agreed to speed up trade talks with the U.S.

The S&P 500 finished out its best month since 2023 and its strongest May in 30 years.

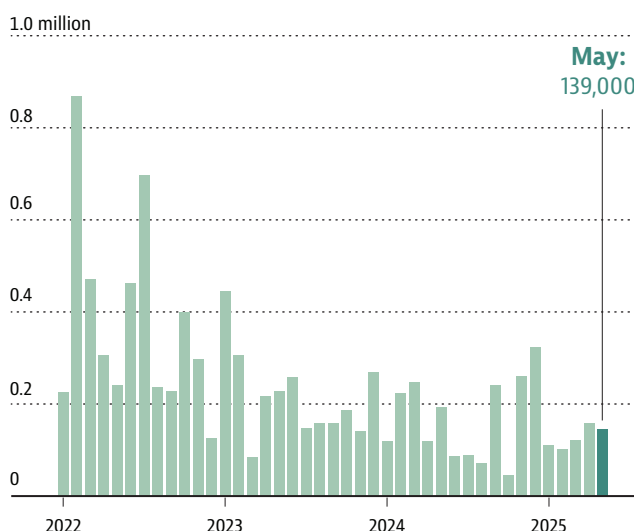
June Powers Up on More Trade Deals

Stocks logged another month of solid gains in June, with most coming early and late in the month.

June began with mega-cap tech names — particularly artificial intelligence (AI) chipmakers — leading the broader market higher. Leadership conversations between the U.S. and China fueled continued investor optimism for a trade agreement between the two countries. And an above-expectations May jobs report also pushed stocks higher; the S&P 500 closed above 6,000 for the first time since February, and the Dow erased all its 2025 year-to-date losses.

The second and third weeks of the month saw markets go sideways or decline, as an up-and-down mix of news netted out. Upbeat comments about trade talks between the U.S. and China and a better-than-expected wholesale inflation report bolstered markets, while the escalated conflict in the Middle East put pressure on all three major averages and pushed oil prices higher.

Nonfarm payrolls, change from a month earlier



Note: Seasonally adjusted

Source: Labor Department

Markets moved higher after a preliminary estimate showed job growth in May came in above economists' expectations, despite slowing from April's pace.

Markets rallied ahead of the Fed's widely expected decision to keep rates steady, while geopolitical tensions dampened sentiment.

The final week of the quarter saw markets advance as a shaky ceasefire in the Middle East gradually firmed up and the White House telegraphed flexibility on the looming July 8 tariff deadlines. Solid corporate earnings, a still-strong labor market and a recovery in AI-related stocks provided some underlying strength to the rally — with the S&P 500 and Nasdaq hitting all-time highs.

Bonds

Bond prices were mixed over the quarter as the yield curve steepened, with yields declining on shorter maturities while increasing at the long end. Credit spreads, which measure the gap in yield between corporate bonds and similar-duration Treasuries, tightened during the quarter. The yield on the bellwether 10-year Treasury note rose modestly by two basis points to end at 4.23%. The curve steepened as the market began to price in potential rate cuts in the second half of the year. Corporate bonds and other spread products performed well on a total return basis relative to Treasuries and the benchmark.

Performance Attribution for Our Bond Funds

The Homestead Short-Term Government Securities Fund (HOSGX) returned 1.20% in the second quarter. The fund underperformed its benchmark, the ICE BofAML 1-5 Year Treasury Index, which returned 1.36%. The fund's allocation to collateralized mortgage obligations (CMOs) and Agency bonds contributed the most to returns, while our relative underweighting in U.S. Treasuries detracted from performance.

The Homestead Short-Term Bond Fund (HOSBX) returned 1.38% in the second quarter. The fund underperformed its benchmark, the ICE BofAML 1-5 Year Corporate/Government Bond Index, which returned 1.49%. The fund's security selection in and overweight to financial and industrial sector bonds were the biggest positive contributors, while our underweight to Treasuries and exposure to asset-backed securities (ABS) — where the benchmark has no exposure — were also significant contributors.

The Homestead Intermediate Bond Fund (HOIBX) returned 0.95% in the second quarter, trailing the 1.21% total return of its benchmark, the Bloomberg Barclays Aggregate Bond Index. Financial and industrial sector bonds, along with mortgage-backed securities contributed the most to fund performance, while security selection in Treasuries (where we were also underweight) detracted from performance.

Stocks

Major market averages pushed to new highs over the second quarter, through geopolitical tensions and a zigzag trade policy that exacerbated investor uncertainty. In contrast to Q1, AI-driven names and mega-cap tech generally led gains over the second quarter. All major stock indices posted gains, with the tech-heavy Nasdaq Composite surging nearly 18%, the Standard & Poor's 500 Index climbing nearly 11%, and the Dow Jones Industrial Average advancing 5%. For the broad market, information technology, communication services and industrials were the best-performing S&P 500 sectors, while energy and healthcare were the worst-performing sectors.

In a reversal from Q1, large-cap value stocks underperformed large-cap growth stocks. The Russell 1000 Value Index only advanced 3.8% in the second quarter, while the Russell 1000 Growth Index rose nearly 18%. Small caps followed a similar pattern, with the Russell 2000 Value Index rising 5% while the Russell 2000 Growth jumped 12%.

Performance Attribution for Our Stock Funds

The Homestead Value Fund (HOVLX) returned 5.27% in the second quarter. It outperformed its benchmark, the Russell 1000 Value Index, which returned 3.79%. The fund's stock selection in the information technology and communication services sectors drove much of its relative outperformance, while industrials and financials also contributed positively with slight outperformance versus the benchmark. Conversely, the fund's overweight in health care and stock selection in energy and consumer discretionary detracted from relative performance.

Compared with the index, the fund has overweight exposure in the health care, industrials and communications services sectors. Its largest underweight allocations are in consumer staples and utilities stocks. With a bottom-up stock-picking process, our portfolio managers note that they consider diversification from a sector perspective but that they also look at company-level factors to balance the portfolio.

The Small-Company Stock Fund (HSCSX) returned 6.60% in the second quarter. It underperformed its benchmark, the Russell 2000 Index, which returned 8.50%. An overweight in industrials, along with an underweight in the fund's real estate, contributed the most to overall performance. Conversely, stock choices in materials, financials, health care and information technology detracted from relative performance.

Relative to its benchmark, the Small-Company Stock Fund is most underweight in the real estate, utilities and consumer staples sectors. The fund's most significant overweights are in the industrials and information technology sectors. As in the Value Fund, the Small-Company Stock Fund's portfolio managers assemble the portfolio with a bottom-up approach, applying a company-specific approach to diversification.

Total Returns as of 6/30/2025

| | Average Annual | | | | | | Since fund's inception |
|---|----------------|--------|--------|--------|--------|--------|------------------------|
| | QTD | YTD | 1-yr | 3-yr | 5-yr | 10-yr | |
| Bond Funds | | | | | | | |
| Short-Term Government Securities Fund (HOSGX) | 1.20% | 3.27% | 5.41% | 3.17% | 0.93% | 1.38% | 2.78% |
| ICE BofA 1-5 Year U.S. Treasury Index | 1.36% | 3.39% | 6.07% | 3.23% | 0.92% | 1.61% | 3.45% |
| Expense ratio 0.88% (gross) 0.75% (net) (12/31/24) ¹ | | | | | | | |
| Short-Term Bond Fund (HOSBX) | 1.38% | 3.23% | 6.11% | 3.92% | 1.34% | 1.99% | 3.83% |
| ICE BofA 1-5 Year Corp./Gov. Index | 1.49% | 3.52% | 6.42% | 3.75% | 1.27% | 1.95% | 4.01% |
| Expense ratio 0.77% (gross) 0.77% (net) (12/31/24) | | | | | | | |
| Intermediate Bond Fund (HOIBX) ² | 0.95% | 3.48% | 5.61% | 2.74% | -0.40% | NA | 1.41% |
| Bloomberg U.S. Aggregate Index | 1.21% | 4.02% | 6.08% | 2.55% | -0.73% | 1.76% | 1.26% |
| Expense ratio 0.86% (gross) 0.80% (net) (12/31/24) ¹ | | | | | | | |
| Equity Funds | | | | | | | |
| Value Fund (HOVLX) | 5.27% | 6.50% | 10.80% | 14.77% | 14.58% | 10.98% | 10.42% |
| Russell 1000 Value Index | 3.79% | 6.00% | 13.70% | 12.76% | 13.93% | 9.19% | 10.30% |
| Expense ratio 0.62% (gross) 0.62% (net) (12/31/24) | | | | | | | |
| Small-Company Stock Fund (HSCSX) | 6.60% | -6.22% | 0.28% | 7.39% | 9.59% | 4.88% | 8.02% |
| Russell 2000 Index | 8.50% | -1.79% | 7.68% | 10.00% | 10.04% | 7.12% | 7.26% |
| Expense ratio 1.14% (gross) 1.14% (net) (12/31/24) | | | | | | | |

The total returns shown above represent past performance, which does not guarantee future results. Investment return and principal value of an investment will fluctuate. An investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance data quoted. For performance data current to the most recent month-end, call 800.258.3030 or visit 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, 2026, 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; brokerag5e commissions; other expenditures that are capitalized in accordance with generally accepted accounting principles; other extraordinary expenses not incurred in the ordinary course of the fund's business; and acquired fund fees and expenses such as the fees and expenses associated with an investment in (i) an investment company or (ii) any company that would be an investment company under Section 3(a) of the Investment Company Act of 1940, as amended (the "1940 Act"), but for the exceptions to that definition provided for in Sections 3(c)(1) and 3(c)(7) of the 1940 Act. This waiver agreement will terminate immediately upon termination of the fund's Management Agreement and may be terminated by the fund upon 60 days' notice.

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

Equity Fund Management



Mark Long, CFA®
Equity Portfolio Manager

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

Analyst designation.

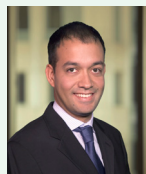


Jim Polk, CFA®
Head of Equity Investments

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.

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.

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 risk, 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.*

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.

Homestead Funds' investment adviser and/or administrator, Homestead Advisers Corp., is an SEC-registered investment adviser. Homestead Funds are distributed by Homestead Financial Services Corp. Homestead Advisers Corp. receives compensation from the Homestead Funds for serving in these roles. Homestead Advisers Corp. and Homestead Financial Services Corp. are indirect, wholly owned subsidiaries of the National Rural Electric Cooperative Association (NRECA). 07/25