VICTORY HIGH INCOME STRATEGY
QUARTERLY COMMENTARY

VICTORY income investors
A VICTORY CAPITAL® INVESTMENT FRANCHISE

As of March 31, 2024

Executive Summary

Fixed income experienced some volatility in the first quarter of 2024. Inflation prints came in above or at expectations throughout the quarter, and the Federal Reserve (the Fed) kept rates stable. Performance was driven by an upward shift in the Treasury curve, as yields moved up and the market priced in higher rates for longer. Against this backdrop, the Victory High Income Strategy underperformed its benchmark, the Bloomberg US High Yield 2% Issuer Capped Bond Index, for the quarter ended March 31, 2024.

Market Update & Commentary

At the beginning of 2024 markets were very optimistic that the Fed would cut rates aggressively. Coming off the rally in the last two months of 2023, interest rate futures pricing reflected nearly seven rate cuts in 2024 at the beginning of the quarter. But the Fed's "wait and see" approach to lowering rates left market participants struggling to align on a single narrative and throughout the course of the quarter, rate cut expectations dimmed in response to higher-than-expected inflation and a remarkably strong labor market.

Nonfarm payrolls increased throughout the quarter, continuing a trend of persistent employment growth. By the end of March, the market had reconciled itself to expectations of only three or maybe even two rate cuts during 2024. The market's intense focus on economic reporting this quarter drove timing expectations for the first rate cut further into 2024, from March to June at the earliest. Evolving expectations for the future of the federal funds rate caused the Treasury curve to rise across all tenors, and the rise in yields led to negative returns across most broad bond indices with the exception of high yield.

The Consumer Price Index, a popular measure of prices paid, and thus, inflation, increased to 3.7% from 3.1% during Q1 2024. These past three months investors discovered the Fed was not bluffing when Chairman Powell noted in December that should economic conditions change, keeping rates higher for longer is not out of the question. While the Fed maintains that the data do not materially change their economic outlook, there is a small but nagging concern that the Fed may need to reframe the path forward should inflation be stickier than expected. As a result of recent inflation prints subverting expectations and a particularly resilient labor market, all eyes stay on the Fed and future monetary policy.

	Yield (%)	Spreads (bps)			Returns (%)	
		3/31/2024	12/31/2023	Δ (+/-)	3M	1YR
Investment Grade (Moody's Ratings)						
U.S. Treasury	4.4	-	-	-	(1.0)	0.1
U.S. Aggregate	4.8	39	42	-3	(0.8)	1.7
U.S. Credit	5.3	84	93	-9	(0.4)	4.1
Corporate	5.3	89	98	-9	(0.4)	4.4
Aa	4.9	43	47	-4	(1.0)	1.9
A	5.2	76	84	-8	(0.6)	3.7
Baa	5.5	110	121	-11	(0.1)	5.6
Crossover	6.2	160	183	-22	0.6	8.1
High Yield (Moody's Ratings)						
U.S. Corporate High Yield	7.8	303	323	-20	1.5	11.2
Ba	6.6	184	201	-17	1.1	9.1
B	7.5	277	317	-40	1.4	11.5
Caa	12.2	737	751	-14	2.1	16.6
Ca-D	21.7	1,483	1,173	+310	13.2	36.7
Structured Product						
U.S. MBS	5.0	49	46	+3	(1.0)	1.4
ABS	5.2	54	68	-14	0.7	4.3
CMBS	5.3	96	126	-30	0.8	4.4

Source: Bloomberg

Credit spreads tightened across fixed income asset classes apart from mortgage-backed securities in the first quarter. Tighter credit spreads indicate lower compensation for taking on additional risk. Fixed income showed mixed performance in the first quarter, driven by a rising yield curve. The upward movement in yields resulted in negative returns for the Bloomberg U.S. Aggregate Bond Index at -0.78%.

Portfolio Performance & Positioning

During the quarter, we increased our allocation to cash and decreased our allocation to the following sectors: cable & satellite, media, leisure, and energy-related sectors. At the same time we increased our holdings in technology, consumer cyclical, and some select retailers. We reduced our holdings in lower-rated CCC and low-B credits and added higher-quality BBB- credits and BB+ credits.

Contributors

- The best performing sectors were asset-backed securities, airlines, technology, and consumer non-cyclical.
- From a credit perspective, our security selection within BB-rated credits most aided performance.
- Security selection within transportation, technology, and consumer non-cyclical all benefited performance.

Detractors

- An overweight to media and an underweight to energy-related names detracted from performance.
- From a credit perspective, low-rated CCC names detracted from performance due to our security selection within these credits.
- Our allocation to cash holdings detracted from performance.

Performance

Average Annual Returns (%) as of March 31, 2024

Victory High Income Strategy	QTD	YTD	1-YR	3-YR	5-YR	10-YR	Since Inception (September 1999)
Gross of Fees	1.01	1.01	11.36	2.70	4.05	4.28	6.91
Net of Fees	0.81	0.81	10.48	1.91	3.24	3.44	5.98
Bloomberg US High Yield 2% Issuer Capped Bond Index	1.47	1.47	11.15	2.19	4.19	4.44	–

Past performance cannot guarantee future results. Returns for periods greater than one year are annualized. Returns are expressed in U.S. dollars and reflect the reinvestment of dividends and other earnings. Composite and benchmark returns are presented net of non-reclaimable withholding taxes, if any. Gross-of-fees returns are presented before management and custodial fees but after all trading expenses. Net-of-fees returns reflect gross performance less investment management fees. Net-of-fees returns are calculated by deducting 1/12 of the highest tier of the standard fee schedule in effect for the period noted (the model fee). The composite model fee for each period is either the highest tier of the current fee schedule or a higher value, whichever is required to ensure the model composite net-of-fee return is lower than or equal to the composite net-of-fee return calculated using actual fees. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. The firm's fees are available on request and may be found on Part 2A of its Form ADV.

VictoryFunds®

All investments carry a certain degree of risk, including the possible loss of principal, and an investment should be made with an understanding of the risks involved with owning a particular security or asset class.

The Victory High Income Composite includes all institutional and retail portfolios invested in a broad range of U.S. dollar-denominated high-yield securities, including bonds (often referred to as “junk” bonds), convertible securities, leveraged loans, or preferred stocks, with an emphasis on non-investment-grade debt securities. Although the composite will invest primarily in U.S. securities, it may invest without limit in dollar-denominated foreign securities and to a limited extent in non-dollar-denominated foreign securities, including in each case emerging-markets securities. The strategy aims to deliver a total return primarily through a yield-focused portfolio that offers a high level of current income. High yield bonds carry increased levels of credit and default risk and are less liquid than government and investment grade bonds. Portfolios in the composite have a target average maturity of 5-10 years. The composite creation date is July 2019 and the composite inception date is September 1999. The benchmark of the composite is the Bloomberg U.S. High Yield 2% Issuer Capped Bond Index. Prior to 4/24/2023, the name of this composite was the USAA High Income Fixed Income Composite.

The benchmark of the composite is the **Bloomberg U.S. High Yield 2% Issuer Capped Bond Index**. The Bloomberg U.S. High Yield 2% Issuer Capped Bond Index is an index comprised of fixed rate, non-investment-grade debt securities that are dollar denominated and nonconvertible. The index limits the maximum exposure to any one issuer to 2%.

Index returns are provided to represent the investment environment during the periods shown. Index performance does not reflect management fees, transaction costs or expenses that would be incurred with an investment. One cannot invest directly in an index. **Past performance does not guarantee future results.**

Information relating to portfolio holdings is based on the representative account in the composite and may vary for other accounts in the strategy due to asset size, client guidelines and other factors. The representative account is believed to most closely reflect the current portfolio management style.

Victory Capital Management Inc. (VCM) is a diversified global investment adviser registered under the Investment Advisers Act of 1940 and comprises multiple investment franchises: Integrity Asset Management, Munder Capital Management, New Energy Capital Partners, NewBridge Asset Management, RS Investments, Sophus Capital, Sycamore Capital, THB Asset Management, Trivalent Investments, Victory Income Investors (formerly USAA Investments, a Victory Capital Investment Franchise), and the VictoryShares & Solutions Platform. Munder Capital Management and Integrity Asset Management became part of the VCM GIPS firm effective November 1, 2014; RS Investments and Sophus Capital effective January 1, 2017; Victory Income Investors, effective July 1, 2019; THB Asset Management, effective March 1, 2021, and New Energy Capital effective November 1, 2021. Effective September 1, 2023, INCORE Capital Management is no longer part of the VCM GIPS firm.

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Victory Capital claims compliance with the Global Investment Performance Standards (GIPS®).

The opinions are as of the date indicated and are subject to change at any time due to changes in market or economic conditions. The comments should not be construed as a recommendation of individual holdings or market sectors, but as an illustration of broader themes.

Advisory services offered by Victory Capital Management Inc., an SEC-registered investment adviser, 15935 La Cantera Parkway, San Antonio, TX 78256.

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