

## Market Commentary

U.S. equities finished the fourth quarter well into positive territory, trimming the extent of their losses for the full year. The market's gains were achieved in October and November, when signs that inflation had peaked alongside less hawkish commentary from U.S. Federal Reserve Chairman Jerome Powell raised hopes that the central bank would end its interest rate hiking cycle in early 2023. Indeed, both the Fed and the European Central Bank raised their benchmark overnight lending rates by a more modest 50 basis points in mid-December. Also supporting sentiment, the Chinese government began to ease the zero-COVID policy that had weighed on global economic growth for much of 2022. However, stocks retreated into year-end as investors focused on the impact of higher rates on economic growth and corporate earnings in the coming year.

U.S. small-cap stocks posted positive returns in the quarter, as reflected in the 6.23% return for the Russell 2000® Index. Within the Index, 10 of 11 sectors posted gains, with only health care finishing in negative territory. The industrials, financials and energy sectors led contributions to the Index's return for the quarter.

## Fund Performance and Positioning

During the quarter, the USAA Small Cap Stock Fund posted a positive total return while outperforming its benchmark, the Russell 2000® Index.

Sector allocation led positive contributions to the Fund's performance relative to the benchmark for the quarter, while security selection also proved additive. Selection was most beneficial within health care, industrials and consumer discretionary.

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The opinions are as of the date noted 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.

Discussion based on the Fund share class. Other classes are available and may have different performance characteristics.

Holdings, if any, are subject to change without notice and should not be

considered purchase recommendations.

The Russell 2000® Index is a market-capitalization-weighted index that measures the performance of the 2,000 smallest-cap companies in the Russell 3000® Index, which is made up of 3,000 of the largest U.S. stocks.

An index is unmanaged and not available for direct investment; therefore, its performance does not reflect the expenses associated with the active management of an actual portfolio.

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