

## Victory Target Retirement 2030 Fund // Victory Target Retirement 2040 Fund // Victory Target Retirement 2050 Fund // Victory Target Retirement 2060 Fund // Victory Target Retirement Income Fund

### Market Commentary

After a rocky start to the fourth quarter, financial markets found their footing and coasted into year-end in what could only be described as a festive mood. Certainly October was a difficult month, with both stock and bond markets facing severe headwinds. Chief among these was the notion that the Federal Reserve was not yet finished with its aggressive rate-hike campaign. Bond prices were under pressure as the 10-year Treasury yield climbed and hovered around 5%, its highest level of the year. More importantly, this was widely interpreted as a warning sign for future economic growth. In fact, many pundits were expecting an imminent recession, and stocks declined early in the quarter to reflect that possibility.

Fortunately, it was a false alarm and sentiment flipped as we approached year-end. Economic growth proved resilient, corporate earnings continued to meet or exceed expectations, labor markets eased, and key measures of inflation moderated. Taming inflation has been the Fed's primary focus, and although it remained above the stated 2% target late in the year, it was trending in the right direction and far below peak levels. This gave the Fed the leeway to back off—and likely end—the historic rate-hike campaign.

Ultimately, investors looked at the data, deciphered the Fed's messaging with regard to future interest rate hikes, and decided that the coast was clear. Stocks and bonds rallied strongly in November and December. In terms of the numbers, the S&P 500® Index—the most popular proxy for our domestic stock market—increased approximately 11.7% during the fourth quarter, bringing full-year 2023 gains to 26.3%. Bond prices also rallied during the fourth quarter as yields across the curve moved lower. Yields on both 2-year and 10-year Treasuries fell and ended the year at 4.25% and 3.88%, respectively.

### Fund Performance and Positioning

The Target Funds delivered solid fourth quarter and full-year absolute returns, benefiting from positive sentiment across financial markets and robust returns from both equity and fixed income assets. The Funds' tactical overweight to equities, as well as our security selection in U.S. small-caps, contributed positively to fourth quarter performance. Another positive was the Funds' allocation to gold and mining stocks. This was a reversal from the prior quarter, when gold was an underperforming asset in the face of rising yields. Perhaps this exposure to gold will remain a tailwind now that we have reached the terminal interest rate—the peak in this rate-hike cycle.

There were a few detractors to performance in the fourth quarter, including our underlying growth and value-oriented holdings in mid-cap U.S. equities. In addition, we have been carefully managing risks and underweighting certain rate-sensitive sectors, such as real estate investment trusts (REITs), throughout most of the Federal Reserve's rate-hike cycle. But when interest rate expectations moderated late in the year, the downtrodden REIT sector rebounded. In terms of fixed income, the overall shorter duration profile of the Target Retirement Funds' portfolios detracted from performance. This was also due to the shifting interest rate expectations as we approached year-end.

### Looking Ahead

Yes, the year ended on a strong note, and both bonds and stocks enjoyed the positive sentiment. Investors cheered the (assumed) end of the rate-hike cycle, and 2023 proved to be an impressive bounce-back year compared to a very challenging 2022. However, we always aim to keep an even keel, both in strong up markets and during turbulent times. Nothing is certain, and unexpected risks can and do emerge. Still, we remain cautiously optimistic that the Federal Reserve has been able to control inflation and remove excess liquidity from the markets without ruining the economy. Of course, challenges persist, so we continue to monitor the data and the broader economic landscape, and we remain ready to manage risks and position the Funds for long-term success.

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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.

Holdings, if any, are subject to change without notice and should not be considered purchase recommendations.

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