MONTHLY FIXED INCOME MARKET UPDATE

USAA® INVESTMENTS
A VICTORY CAPITAL® INVESTMENT FRANCHISE

As of March 31, 2023

Key Takeaways

1. Regional bank failures resulted in a banking crisis during the month and a substantial sell-off in bank equities and bonds, particularly for regional banks.
2. Credit spreads widened over the month but were offset by lower Treasury yields, leading to positive fixed income returns for March.
3. Despite the market turmoil and stress on the banking system, The Federal Reserve ("The Fed") increased interest rates by 25 basis points* ("bps") to combat persistent inflation.

*Basis point "bps" is 1/100th of a percentage point.

The Month in Charts

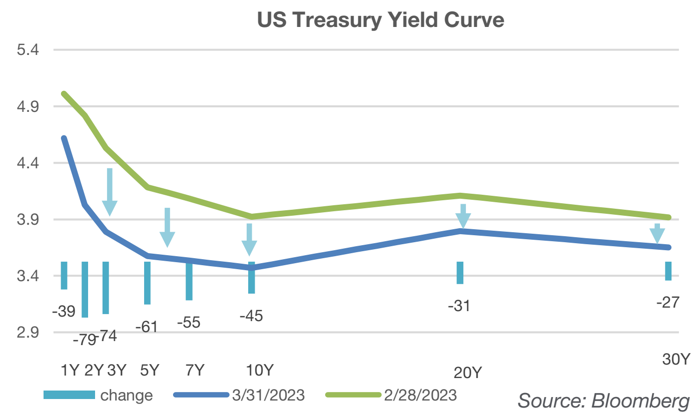
Spreads widened over the month as a result of several bank failures. Investment grade spreads were ~14 bps wider month over month and high yield spreads were ~40 bps wider. Spreads, however, finished the month off their highs, potentially indicating some stabilization.

				Quarter		Change		
Asset Class	Yield	Spread	Trend	Tight	Wide	MoM	QoQ	YoY
U.S. Treasury	3.83							
U.S. MBS	4.51	63		36	65	17	11	39
U.S. Corporate	5.17	138		114	163	14	8	23
U.S. Corporate High Yield	8.59	452		384	516	40	-16	131
CMBS	5.20	143		100	143	40	24	58
ABS	4.94	85		51	85	29	10	27
A	4.99	119		95	144	15	8	25
BBB	5.45	167		141	190	16	8	27
BB	6.83	286		240	350	18	-12	56

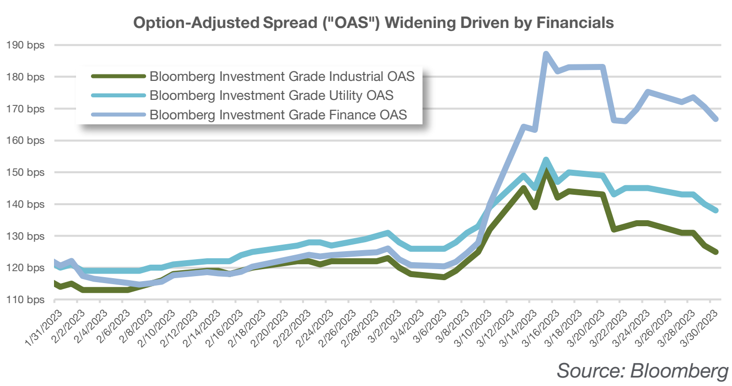
Source: Bloomberg; Asset Classes represented by: ICE BofA US Treasury & Agency Index, Bloomberg US Agg Total Return Value Unhedged USD, ICE BofA US High Yield Index, ICE BofA US Fixed Rate CMBS Index, ICE BofA US Fixed Rate Asset Backed Securities Index, Bloomberg US Agg A Total Ret Index, Bloomberg US Agg Baa Total Ret Index, Bloomberg Ba US High Yield TR Index.

*Basis point "bps" is 1/100th of a percentage point.

The Treasury yield curve shifted downwards as investors fled for safer securities. The most pronounced decline was for the two-year Treasury yield that fell ~79 bps month over month.

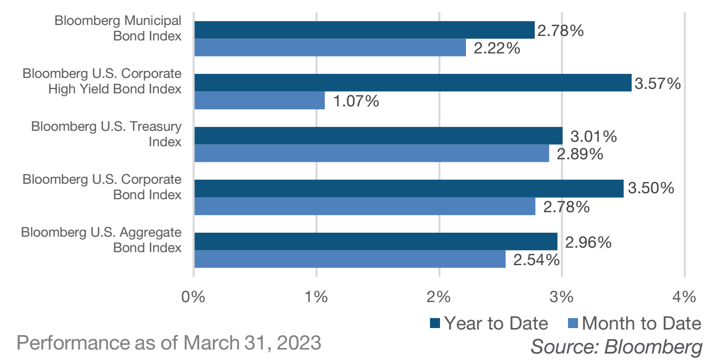


Bank spreads widened more than other sectors and were the largest contributor to the overall sell-off. Decisive government actions have since been taken to stem the panic by insuring all depositors at the failed banks and providing additional liquidity to the banking system through the Bank Term Funding Program.



Fixed income indices had positive returns. Though credit spreads widened on the banking crisis, the decline in the Treasury yield curve more than offset the widening, resulting in positive returns in March for all bond indices.

Returns (%) for Fixed Income Indices



Our Current Thinking

The Federal Reserve's task of combatting persistent inflation is made more difficult given the heightened uncertainty from the banking system. Due to the expectation for tightening financial conditions and the subsequent slowing of growth, the Fed Funds rate priced into the futures market for January 2024 fell by over 100 bps in March! While it is virtually impossible to predict the path of interest rates and the economy, we remain confident in fundamental verities, such as the importance of fixed income as a diversifier in portfolio returns and a generator of portfolio income.

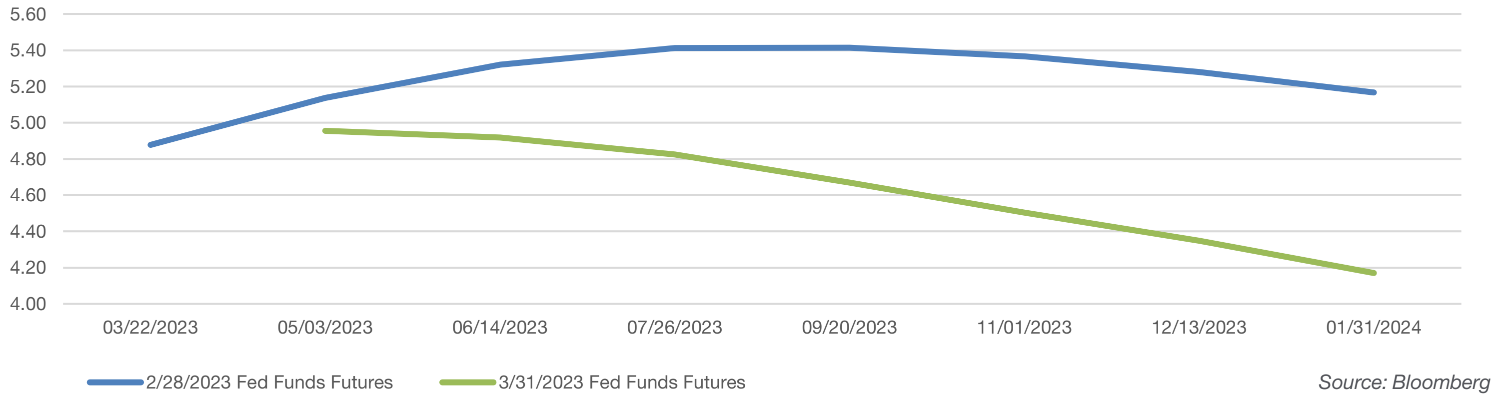
Bonding over Bonds
Our video series on the fixed income markets

In our #BondingOverBonds video series, experts discuss notable activity in the fixed income markets: Watch Now

Past performance is no guarantee of future results.
Index returns do not reflect management fees, transaction costs or expenses; one cannot invest directly in an index.

With the banking system stressed, investors revised lower their expectations for how high the Fed might push interest rates. The market consensus is now that the terminal Fed funds rate will be lower, and that the Fed may cut rates sooner because of the more fragile banking system and the knock-on economic effects from tighter lending standards. The inherent unpredictability of interest rates underscores why we, as an essential element of our philosophy, do not rely on tactical duration positioning to drive performance.

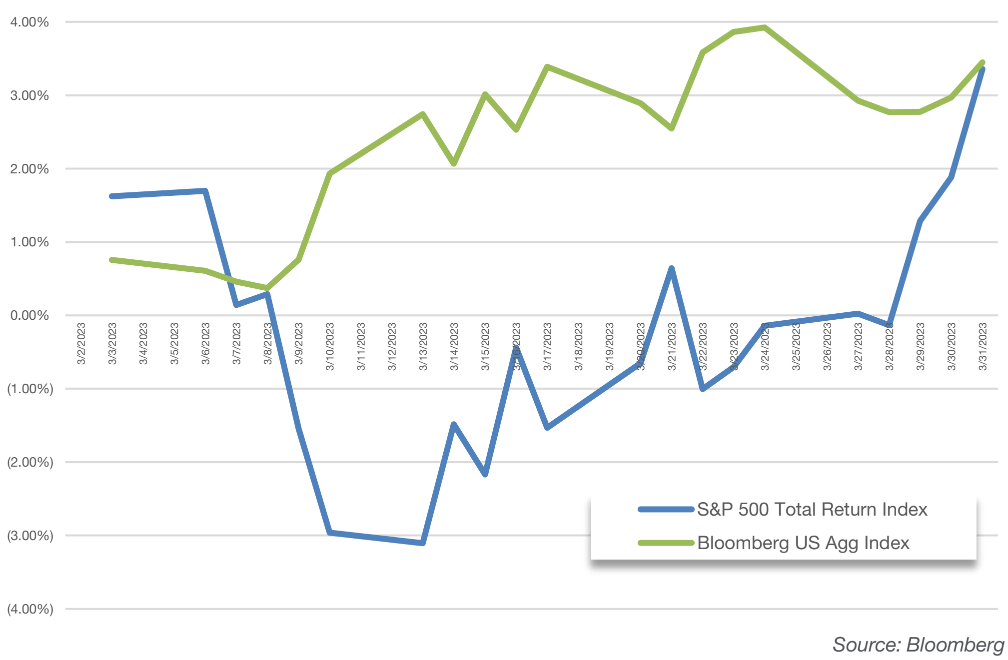
Federal Funds Futures Decline on Banking Crisis



Source: Bloomberg

Fixed income served as a diversifier during a volatile month. The decline in Treasury rates led fixed income higher while equity markets fell during the month.

Bloomberg US Agg Total Returns Exceed S&P 500



Source: Bloomberg

What to Watch in the Month Ahead

In the month ahead we will be monitoring the following economic releases for insight into developing financial conditions:

- **Corporations will begin to report first quarter earnings.** We will monitor their remarks for their assessments of the economic environment and the health of the economy.
- **On April 7:** The change in nonfarm payrolls and the unemployment rate, which will provide clues on if the economy is still running "hot"
- **On April 12:** The next CPI release, which may indicate if inflation remains stubbornly high
- **On April 27:** The next GDP release, which will provide insights on if the economy is slowing

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. Interested parties are strongly encouraged to seek advice from qualified tax and financial experts regarding the best options for your particular circumstances.

The opinions are as of the date noted and are subject to change at any time due to changes in market or economic conditions.

Credit spread is the difference in yield between a U.S. Treasury bond and another debt security of the same maturity but different credit quality. Credit spreads are the additional compensation that investors require to hold securities that are not as safe and liquid as those issued by the US Treasury.
The Treasury Yield Curve shows the relationship between the US bond yield and the time to maturity. Yield and price have an inverse relationship. As the yield curve lowers, the price of bonds increase.

Tenor: the length of time until a debt is due.

Core CPI: CPI excluding food and energy.

Consumer Price Index (CPI), a popular measure of inflation and deflation calculated by the Bureau of Labor Statistics, measures the monthly change in prices paid by U.S. consumers.

V21.047 // March 2023 USAA Fixed Income Monthly Update COM