

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 Short-Term Bond Fund (Institutional Shares) outperformed its benchmark, the Bloomberg 1-3 Year Credit 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
<b>Investment Grade (Moody's Ratings)</b>						
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
<b>High Yield (Moody's Ratings)</b>						
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
<b>Structured Product</b>						
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%.

\* A basis point is one-hundredth of a percentage point (0.01%) and is abbreviated as "bp" (singular) or "bps" (plural).

## Portfolio Performance & Positioning

During the quarter, we increased our allocation to Treasuries and corporates, while decreasing commercial mortgage-backed securities (CMBS) and taxable muni exposure.

### Contributors

- Best performers relative to the index were banking, asset-backed securities (ABS), CMBS, property & casualty, and retailers.
- From a credit perspective, relative to the index, our allocation to BBB and high yield bonds provided the best performance, along with our underallocation to single-A bonds.

- Allocation and selection contributed 85 bps to performance.
- Duration added 1 bp to performance.

### Detractors

- Sectors that detracted from performance relative to the index included Treasuries, tobacco, other industrial, transportation services, and independent exploration & production.
- From a credit perspective, relative to the index, single-A and AA bonds performed the worst.

## Standardized Performance: March 31, 2024

Average Annual Returns (%)

Victory Short-Term Bond Fund	Ticker	Inception Date	Q1 2024	1 Year	5 Year	10 Year	Since Inception	Expense Ratio	
								Gross	Net
Fund Shares	USSBX	06/01/93	1.27	6.61	2.62	2.24	3.67	0.59	0.59
A Shares, without sales charge	UASBX	08/02/10	1.34	6.41	2.42	2.03	2.09	0.90	0.77
A Shares, with sales charge (max. 2.25%)	UASBX	08/02/10	-0.99	4.03	1.95	1.80	1.92	0.90	0.77
Institutional Shares	UISBX	08/01/08	1.41	6.83	2.74	2.34	3.02	0.50	0.50
R6 Shares	URSBX	12/01/16	1.45	7.00	2.83	–	2.78	0.34	0.34
Bloomberg 1-3 Year Credit Index	–	–	0.72	4.66	1.83	1.77	–	–	–

**Past performance does not guarantee future results. The performance quoted represents past performance and current performance may be lower or higher. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. To obtain performance information current to the most recent month-end, visit [www.vcm.com](http://www.vcm.com).** Returns include reinvestment of dividends and capital gains. Performance for periods greater than one year is annualized. Fee waivers and/or expense reimbursements were in place for some or all periods shown, without which fund performance would have been lower. Net expense ratio reflects the contractual waiver and/or reimbursement of management fees through August 31, 2024.

**Carefully consider a fund's investment objectives, risks, charges and expenses before investing. To obtain a prospectus or summary prospectus containing this and other important information, visit [www.vcm.com/prospectus](http://www.vcm.com/prospectus). Read it carefully before investing.**

Not all share classes are available to all investors.

**All investing involves risk, including the potential loss of principal.** In addition to the normal risks associated with investing, fixed income securities are subject to interest rate, inflation, credit and default risk. The bond market is volatile. Bonds and bond funds will decrease in value as interest rates rise and vice versa. Credit risk refers to the possibility that debt issuers may not be able to make principal and interest payments or may have their debt downgraded by ratings agencies. High yield securities may be more volatile, be subject to greater levels of credit or default risk, and may be less liquid and more difficult to sell at an advantageous time or price than higher-rated securities of similar maturity. The Fund is also subject to liquidity risk, which is the risk that the Adviser may not be able to sell a security at an advantageous time or price, which may adversely affect the Fund. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. The value of your investment is also subject to geopolitical risks such as wars, terrorism, environmental disasters, and public health crises; the risk of technology malfunctions or disruptions; and the responses to such events by governments and/or individual companies.

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.

**The Bloomberg U.S. Aggregate Bond Index** measures the investment grade, USD-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS, ABS and CMBS. **The Bloomberg 1–3 Year Credit Index** measures the performance of investment grade corporate debt and sovereign, supranational, local authority and non-U.S. agency bonds that have a remaining maturity of at least one year and less than three years.

Index returns are for illustrative purposes only and do not represent actual Fund performance. Index performance does not reflect management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. **Past performance does not guarantee future results.**

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