USAA HIGH INCOME STRATEGY QUARTERLY COMMENTARY

USAA INVESTMENTS
A VICTORY CAPITAL® INVESTMENT FRANCHISE

As of March 31, 2022

Performance Summary

Fixed income fared poorly during Q1 as market dynamics were challenging due to Russia's invasion of Ukraine and the highest inflation readings in the past four decades, leading most to expect the Fed to rapidly tighten monetary policy. As a result, fixed income returns were negative, with widening spreads across the credit spectrum, rising interest rates, and a flattening Treasury curve. The USAA High Income Strategy outperformed its benchmark, the Bloomberg US High Yield 2% Issuer Capped Bond Index for the quarter. The Strategy's underweight to BB-rated credit was the primary driver of relative performance.

Market Update & Commentary

The U.S. bond market, per the Bloomberg U.S. Aggregate Bond Index, returned -5.9% over the first quarter as, overall, bond prices fell. The Aggregate has not performed this poorly over a quarter in more than four decades. The U.S. Treasury component of the Aggregate saw a yield increase of 119 basis points (bps) to 2.4% and returned -5.6%, again on falling bond prices and because yields move inversely to price. Investment grade (IG) corporate bonds returned -7.7% on higher Treasury yields and wider credit spreads. Credit spreads are the additional compensation investors require to hold securities that aren't as safe and liquid as those issued by the U.S. Treasury. Corporate high yield performed better, declining 4.8%, due to high yield's lower sensitivity to interest rates.

	Yield (%)	Spreads (bps)			Returns (%)	
		12/31/2021	3/31/2022	Δ (+/-)	3M	1YR
Investment Grade						
U.S. Treasury	2.4	0	0	0	(5.6)	(3.7)
U.S. Aggregate	2.9	36	40	+4	(5.9)	(4.2)
U.S. Credit	3.5	87	107	+20	(7.4)	(4.2)
Corporate	3.6	92	115	+22	(7.7)	(4.2)
Aa	3.1	57	68	+11	(7.9)	(4.1)
A	3.4	74	94	+19	(7.3)	(4.3)
Baa	3.9	113	140	+27	(7.9)	(4.2)
Crossover	4.7	167	203	+36	(7.1)	(2.5)
High Yield						
U.S. Corporate High Yield	6.2	283	321	+38	(4.8)	(0.7)
Ba	5.1	194	230	+36	(5.9)	(1.5)
B	6.5	312	340	+28	(3.5)	(0.0)
Caa	9.5	555	594	+39	(3.9)	0.8
Ca-D	30.8	2,660	2,752	+92	(3.8)	(5.5)
Structured Product						
U.S. MBS	3.0	32	24	-8	(5.0)	(4.9)
ABS	2.8	38	58	+20	(2.9)	(3.1)
CMBS	3.3	68	85	+17	(5.6)	(4.5)

Corporate credit spreads widened 22 bps to 115 bps, while high yield spreads widened 38 bps to 321 bps. Though corporate investment grade and high yield credit spreads widened during the quarter, both evidenced some recovery from their widest levels of mid-March. Investment-grade rated debt (rated AAA through BBB) performed similarly, regardless of rating, but lower quality (B through CCC) high yield bonds performed better than higher-rated BB bonds.

Asset-backed securities (ABS) returned -2.9% over the first quarter. Collateralized mortgage-backed securities (CMBS) returned -5.6% on 17 bps of spread widening. Agency mortgage-backed securities (MBS) returned -5.0%, as yields on the aggregate component of US Agency MBS increased 102 bps to 3%.

Rising prices—inflation—has become the top macroeconomic concern. The February Consumer Price Index (CPI) printed at 7.9% (annualized),its biggest increase since 1982. Supply chain constraints are a lingering cause, but Russia's invasion of Ukraine (and the resulting economic sanctions) is also a factor in that it promptly drove energy prices higher—West Texas Intermediate crude oil increased over 35% (to $100/barrel) over the quarter. Prices for other commodities, such as wheat (of which Ukraine is a big exporter) to aluminum and palladium (of which Russia is a global supplier), also jumped.

A surging CPI has layered further pressure on the Fed to tame prices. The Federal Reserve increased the federal strategy target rate 25 bps in its March meeting and, at quarter's end, the market was pricing in eight rate hikes in 2022. U.S. Treasury yields saw substantial increases, particularly in the front end of the curve, flattening the Treasury curve significantly. The 2-year Treasury yield increased 160 bps to 2.34%, whereas the 10-year Treasury yield increased also, but only by 83 bps, to 2.34%, the very definition of flat.

Treasury yields initially fell and credit spreads widened on a "risk-off" reaction to the invasion. But, by March 14, investment grade corporate credit spreads had peaked for the quarter and Treasury yields had resumed their climb such that, by quarter-end, they were well above yields before the invasion as inflationary concerns returned to the fore. In all likelihood, these same concerns will prove to be most important for the rest of 2022.

1The yield on the Bloomberg Credit Index vs. the Yield on the Bloomberg Treasury Index. The current multiple is higher than the 40-year average

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Portfolio Performance & Positioning

During the fourth quarter, the USAA High Income Strategy outperformed its benchmark, the Bloomberg U.S. High Yield 2% Issuer Capped Index. Quarterly returns for the Strategy and Index were -4.68% (net of fees) and -4.82%, respectively.

High yield had smaller losses than investment grade corporate bonds during the quarter. On average, high yield bonds have shorter durations than investment grade bonds, making them less sensitive to interest rate increases like occurred throughout the quarter.

High-yield bonds are strongly tied to the performance of their issuing corporations. High-yield issuer balance sheets are currently strong, resulting in 2022 default rates that are expected to be near historic lows. The market is watching how the Federal Reserve will manage rate increases and the potential outcome for the economy. Some economists are forecasting a domestic recession if rates are increased too slowly – which would lead to an increase in defaults.

High yield spreads widened during the quarter and currently represent an average valuation level.

High yield is a diversifying asset class with long-term returns in between equities and a 10-year Treasury index.

See the table below for more information on average annual returns.

Contributors

- An under-allocation to BB-rated credit coupled with interest rate moves helped performance.
- The largest industry contributors to performance were our wireless, technology, midstream and retailing positions.
- Corporate bond selection and our allocation to equities also helped performance.

Detractors

- Holdings in investment-grade bonds and B-rated bonds hurt performance.
- The Strategy's positioning in Banking, Home Construction, Wirelines and Cable & Satellite also tempered performance.
- Cash, holdings in preferred stock, government-related entities, and high yield ETFs detracted from performance.

Performance

Average Annual Returns (%) asof March 31, 2022

USAA High Income Composite	QTD	YTD	1-YR	3-YR	5-YR	10-YR	Since Inception (September 1999)
Gross of Fees	-4.50	-4.50	0.15	4.08	4.32	5.88	7.17
Net of Fees	-4.68	-4.68	-0.59	3.28	3.50	5.00	6.23
Bloomberg US High Yield 2% Issuer Capped Bond Index	-4.82	-4.82	-0.66	4.56	4.68	5.74	–

Past performance cannot guarantee future results. Performance returns for periods of less than one year are not annualized. Returns include reinvestment of dividends and capital gains. Gross-of-fees returns are presented before management and custodial fees but after all trading expenses. 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 equity 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 II of its Form ADV.

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The holdings and sector diversification are presented to illustrate examples of the portfolio's investments and may not be representative of the portfolio's current or future investments. Holdings are as of a point in time and may change at any time.

The USAA High Income Fixed 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 noninvestment-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. 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 seeks to measure 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%. The index does not incur fees and expenses and is not available for direct investment.

Index returns reflect the reinvestment of dividends and capital gains but do not include advisory fees, transaction costs, or other expenses. One cannot invest directly in an index.

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Supplemental information. Performance prior to July 1, 2019, is that of USAA Asset Management Company prior to acquisition by Victory Capital. The prior performance information of the strategy is based on a single representative pooled fund, and managed by the same team from the previous employer. Performance composite results for the periods following June 30, 2019 have followed the performance reporting polices set forth by Victory Capital.

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