MONTHLY FIXED INCOME MARKET UPDATE

USAA® INVESTMENTS
A VICTORY CAPITAL® INVESTMENT FRANCHISE

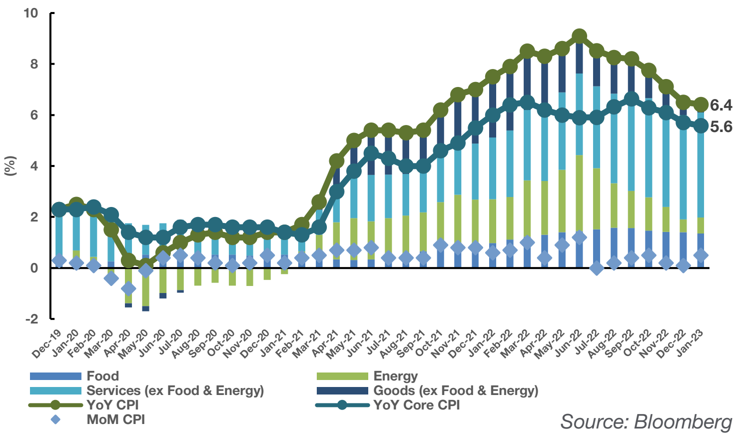
As of February 28, 2023

Key Takeaways

1. Fixed income returns were broadly negative in February due to an increase in yields across the Treasury curve.
2. Better-than-expected economic numbers and stubbornly high inflation numbers led the market to begin expecting an extended monetary tightening cycle.
3. Corporate credit spreads barely budged during the month despite the rising risk of recession.

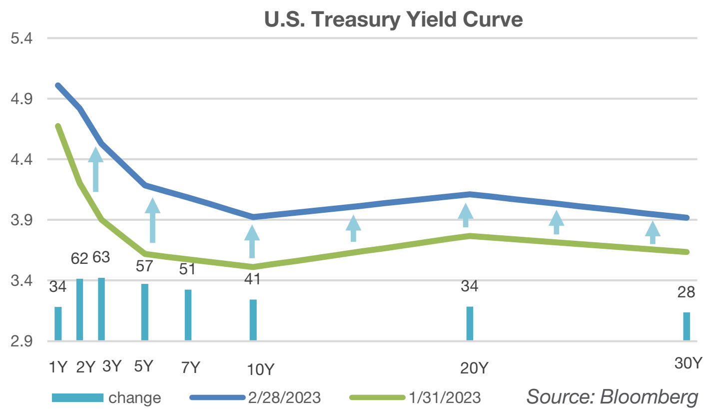
The Month in Charts

Inflation declined at a slower rate than in the previous months. February saw the seventh straight month of declines in the Consumer Price Index (“CPI”), but the rate of change decreased month over month. The slowing decline supported the emerging narrative that rates may need to stay elevated for longer to bring down inflation and could trigger a recession.



Source: Bloomberg

The Treasury curve shifted up on mounting concerns of an extended tightening cycle. Every segment of the curve shifted up by at least 30 bps, except the 30-year section, which shifted up by 28 bps.



Source: Bloomberg

Fixed income spreads were roughly flat month over month and, in our opinion, do not reflect the increased risk of recession from a longer hiking cycle. Investment grade spreads were only ~5 basis points* (“bps”) wider, and high yield spreads were only ~2 bps tighter month over month.

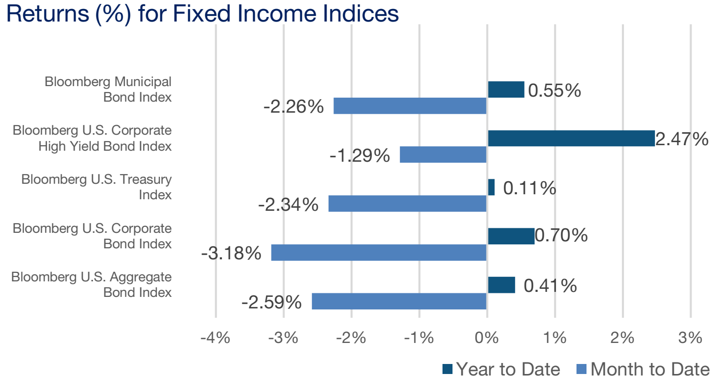
				Quarter		Change		
Asset Class	Yield	Spread	Trend	Tight	Wide	MoM	QoQ	YoY
U.S. Treasury	4.38							
U.S. MBS	4.76	46		36	56	10	-5	18
U.S. Corporate	5.51	123		114	134	5	-9	2
U.S. Corporate High Yield	8.68	412		384	470	-2	-55	53
CMBS	5.36	103		100	128	-4	-24	19
ABS	5.29	55		55	103	-8	-45	11
A	5.34	104		95	114	4	-9	2
BBB	5.76	151		141	163	5	-11	3
BB	7.15	268		240	300	6	-21	-1

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.

Fixed income indices had negative returns. While credit spreads largely held stable, the increase in the Treasury yield curve resulted in negative returns in February.

Returns (%) for Fixed Income Indices



Performance as of February 28, 2023

Source: Bloomberg

Our Current Thinking

We remain defensive because we do not think current credit spreads fully reflect the rising risk of a recession from an extended period of higher rates. We continue to rely on our process of credit-intensive, fundamental research to uncover value within corporate credit and structured products.

Bonding over Bonds

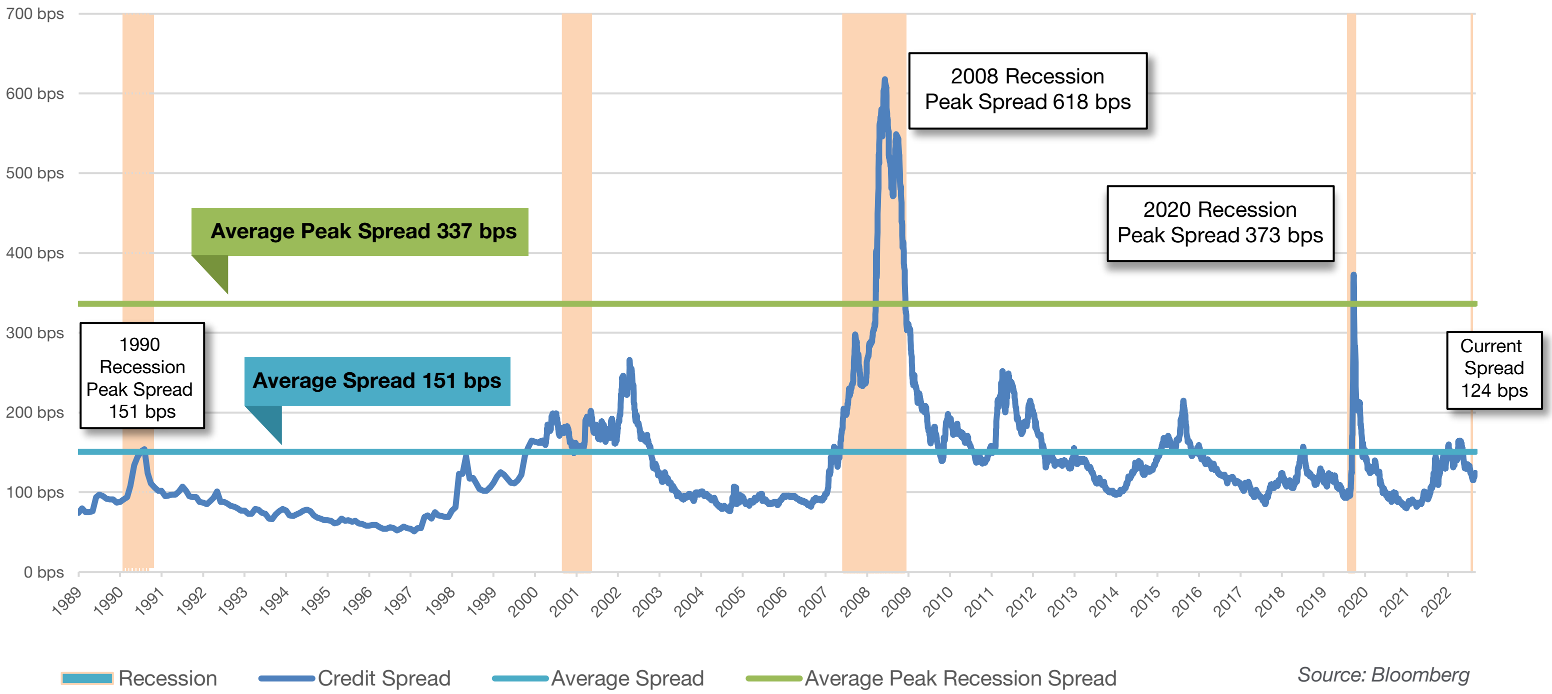
Our video series on the fixed income markets

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.

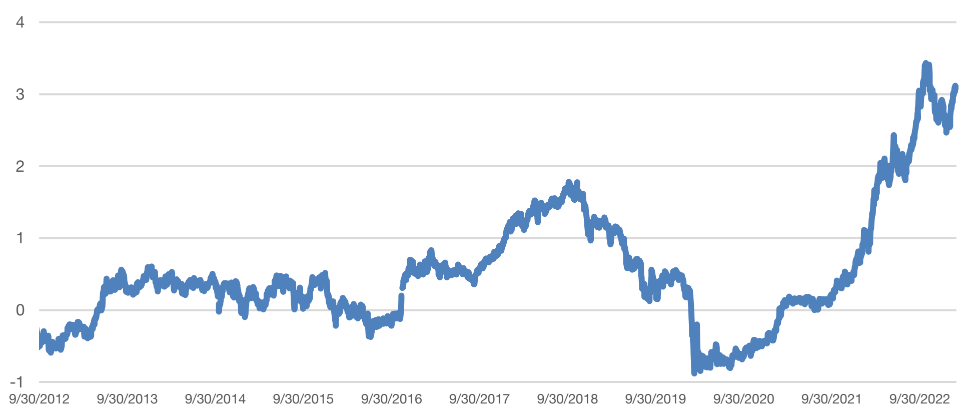
Corporate Credit Spreads During Last U.S. Recessions



Source: Bloomberg

While our positioning in credit is increasingly defensive, we maintain that fixed income remains a compelling investment because yields are some of the highest in over a decade and are very attractive compared to the dividend yield of major equity indices.

Bloomberg U.S. Aggregate Yield-to-Worst less S&P 500 Dividend Yield (%)



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:

- **On March 10:** The change in nonfarm payrolls which, in addition to the initial jobless claims, will offer the most recent information on unemployment;
- **On March 14:** The next CPI release, which will provide insight as to if inflation is still slowing;
- **On March 22:** The next FOMC rate decision, which is expected to be another 25 bps hike.

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 // February 2023 USAA Fixed Income Monthly Update COM

20230302-2766689

MONTHLY MUNICIPAL BOND MARKET UPDATE

USAA® INVESTMENTS
A VICTORY CAPITAL® INVESTMENT FRANCHISE

As of February 28, 2023

Key Takeaways

- Municipal bond year-to-date returns are up slightly for the year, with a very strong January being nearly erased by a weak February. February's weakness was caused by the market's anticipation that the Fed will need to extend the fight against inflation – *see chart 1*
- Credit spreads remain much wider over this time last year, (despite some slight tightening in the first two months of the year), providing good opportunities – *see chart 2*
- Starting yields (which we view as a good predictor of long-term returns) are much higher over this time last year. Munis continue to look attractive, particularly on a tax-equivalent basis – *see chart 3*
- Muni credit quality remains strong and default rates remain low – *see chart 4*

The Month in Charts

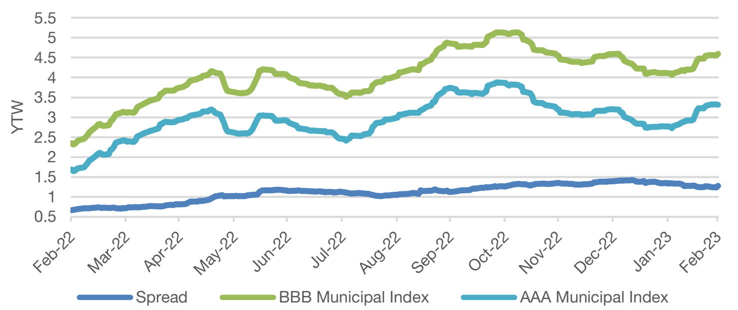
CHART 1

Index	2/28/2023 YTD Return	12/31/2022 YTD Return
Bloomberg Municipal Bond Index	0.55%	-8.53%
Bloomberg U.S. Aggregate Bond Index	0.41%	-13.01%
Bloomberg U.S. Universal Index	0.57%	-12.99%
Bloomberg U.S. Treasury Index	0.11%	-12.46%

Source: Bloomberg

CHART 2

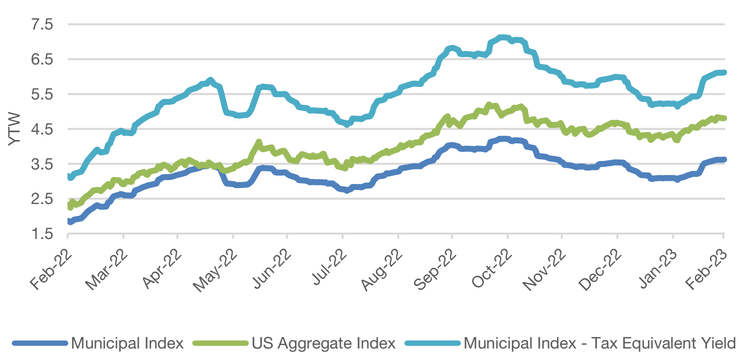
BBB vs AAA Municipal Index Spread



Source: Bloomberg

CHART 3

Municipal vs US Aggregate vs Municipal Index - Tax Equivalent Yield



Source: Bloomberg

CHART 4

Credit Quality	10-Year Cumulative Default Rates	
Moody's Rating	Municipals	Corporates
Aaa	0.00%	0.35%
Aa	0.02%	0.76%
A	0.10%	1.96%
Baa	1.06%	3.45%
Investment Grade	0.09%	2.17%
Speculative Grade	6.94%	28.92%
All Rated	0.15%	10.36%

Source: Moody's

Our Current Thinking

We remain committed to our core competency of evaluating, taking, and managing credit risk in the municipal market. We continue to build our portfolios bond-by-bond, relying on our assessment of fundamental credit risk and attempting to capture and distribute incremental yield in an effort to drive higher long-term income to our investors. While there might be some volatility in the muni market in the short term, we remain confident that the right approach is to focus on what matters in the long term. We believe municipal bonds continue to represent an attractive investment opportunity on a relative basis. At the end of February 2023, the yield on the Bloomberg Municipal Bond Index was 3.62%, which is a taxable-equivalent yield of 6.12% (in the highest tax bracket). After factoring in the benefit of the tax exemption, munis look attractive vs. the (taxable) Bloomberg U.S. Aggregate Bond Index, which yielded 4.81% at quarter-end.