MONTHLY FIXED INCOME MARKET UPDATE

USAA® INVESTMENTS
A VICTORY CAPITAL® INVESTMENT FRANCHISE

As of April 30, 2022

Key Takeaways

- April was a difficult month for financial markets. The Consumer Price Index (CPI) touched 40-year highs, the Federal Reserve (the Fed) stepped up its hawkish commentary, and energy prices remained elevated as the Russian invasion of Ukraine ground on for a third month. Against this backdrop, the Treasury's 10- & 2-year curves briefly inverted.
    - **Inflation:** The March CPI reading, as reported in April, came in at 8.5% over the last 12 months, which was the highest increase since 1982. The concern is we have not yet seen the full impact of disruptions to energy prices, supply chains, and other commodities and the potential impacts to inflation from Russia's invasion of Ukraine.
    - **Interest rates and Monetary Policy:** The Fed began raising the Federal Funds rate in March with a 25 basis points (bps) increase. The Fed did not meet in April, but met in early May, where they increased the rate by 50 bps and stated that they anticipate that ongoing increases would be appropriate, potentially as high as 50 bps for the next couple of meetings to address "much too high" inflation. Please see our latest blog post for more details.
    - **Geopolitics:** The Russian invasion of Ukraine ground on, albeit with a shift to the eastern portions of Ukraine from the north and Kyiv. While Treasury and credit markets have largely adjusted to the new geopolitical reality, energy prices continue to be elevated. Oil prices at over $100 per barrel and natural gas prices hovering at nearly $7.50 million BTU reflect fears that Russia will cut off all of Europe from natural gas and that embargoes will prevent Russian oil from reaching the market.
- Fixed Income returns were negative across all major indices. We believe wider credit spreads and a higher Treasury curve were to blame.
    - Early in April, the Treasury curve briefly inverted between the 2-yr and 10-yr points. Within days, though, the curve reverted when the middle and longer segments rose by more than the short end, resulting in a higher, but flattened curve. The 2-year Treasury increased 38 bps during the month and the 10-year Treasury increased 60 bps.
    - Corporate spreads widened during the month, approaching those seen following the initial shock of the invasion of Ukraine. Investment grade corporate bond spreads widened by 20 bps and below investment grade corporates were wider by 57 bps.

What does this all mean?

- We expect the Fed to keep raising rates at the next couple of meetings.
- Fixed income returns year-to-date have been negative, as have equity returns. However, we remind readers of the time-tested diversification benefits of fixed income and that, during the last five cycles, our analysis shows that fixed income returns during a Fed hiking cycle, as measured by the Bloomberg Aggregate Bond Index, were positive.

What to watch this month – 4 narratives

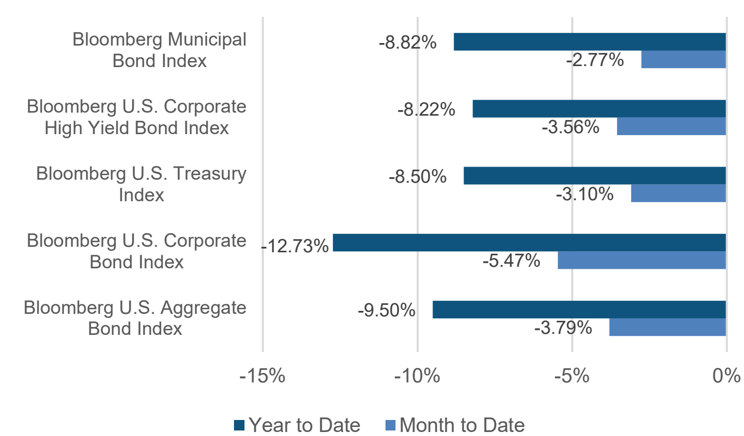
- **First,** how is the Fed's monetary policy developing? The last Federal Open Market Committee (FOMC) meeting was May 5th, where they raised rates by 50 bps. We will be reviewing the accompanying meeting minutes for additional details around the decision-making process for hints on the timing and magnitude of subsequent hikes.
- **Second,** are inflationary pressures lessening? Will inflation, as measured by the Consumer Price Index (CPI), keep rising or will it start to ease and in which categories? We will know more when the next CPI reading is published on May 10th.
- **Third,** is the geopolitical environment improving? How are hostilities playing out in Ukraine, and are Russian oil and natural gas still finding their way to the market?
- **Fourth,** how are oil and natural gas prices moving, and are producers pumping more in response to higher prices?

Muni Minute

- The municipal bond market monthly returns in April were -2.77% according to the Bloomberg Municipal Bond Index.
- Returns were hampered by an increase in muni rates. The 10-year muni AAA rate increased from 2.39% to 2.92% in March.
- Please read on for an extended Muni Minute, with more details on that market's current dynamics

Performance as of April 30, 2022

Returns (%) for Fixed Income Indices



Source: Bloomberg

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.

Credit Market Monitor

Asset Class	Yield	Spread	Trend	Quarter Tight	Quarter Wide	Change MoM	Change QoQ	Change YoY
U.S. Treasury	2.88	-1		0	0	0	0	0
U.S. Corporate	4.31	134		104	144	20	29	46
U.S. Corporate High Yield	7.05	378		309	406	57	38	88
CMBS	3.78	88		66	90	3	19	22
ABS	3.40	69		29	72	11	38	38
A	4.07	112		85	122	17	25	42
BBB	4.61	163		127	170	23	34	52
BB	5.91	272		214	303	42	24	60

	% of Treasuries						
Muni % of Treasuries	93.1%		76.7%	98.4%	-2.2%	4.5%	33.2%

Source: Bloomberg

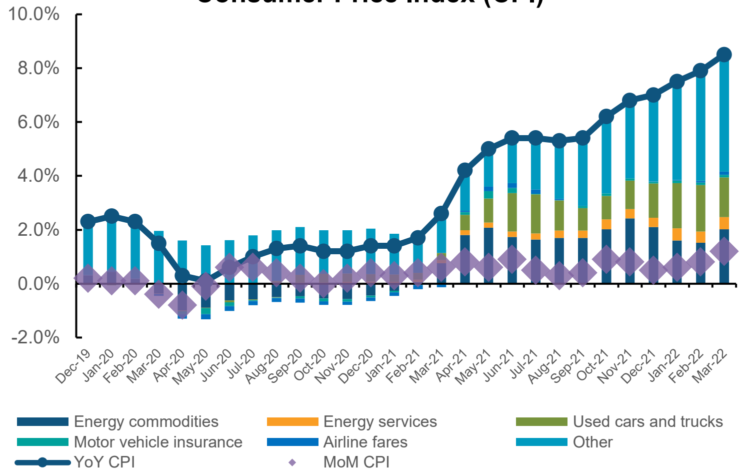
Bonding over Bonds

Our video series on the fixed income markets

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

The Month in Charts

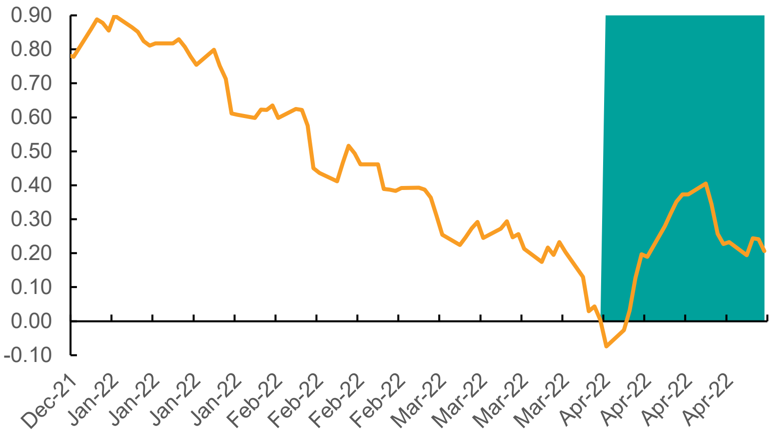
Consumer Price Index (CPI)



Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI) : The March numbers, announced in April, had inflation clocking in at its highest levels in the past forty years. Initially showing up only in the COVID-related sections of the economy like energy, used cars, and travel, inflation has become apparent across all sectors of the economy. Its elevated level, as well as its broad-based nature, supports a more hawkish Fed.

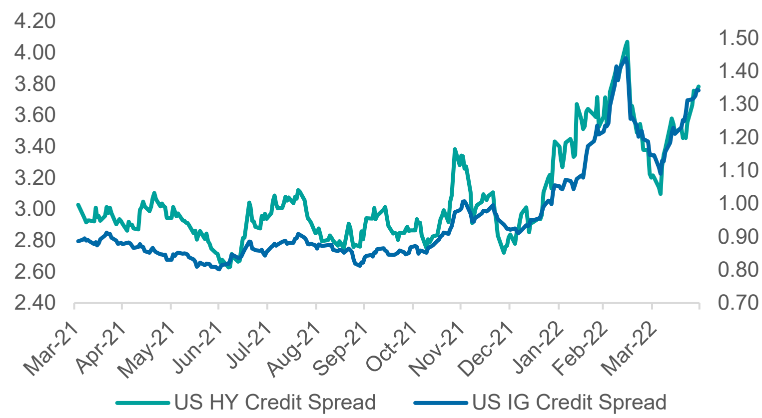
Spread Between 10yr & 2yr



Source: Bloomberg

Curve Flattening: The Treasury curve moved higher in April with the longer segment moving up more than the middle and short segments as expectations of more rate hikes were incorporated into consensus. The difference between the 10-year and 2-year curves briefly inverted at the beginning of April, but by month-end the normal relationship of a 10-year higher than the 2-year had been re-established.

IG & HY Credit Spreads



Source: Bloomberg

Credit Spreads: Corporate spreads in April moved back to the levels tested in February as volatility increased and uncertainties around economic conditions persisted. Wider credit spreads, along higher Treasury rates, were the main drivers of negative performance for fixed income benchmarks for the month.

AAA/U.S. Treasury Ratio (%)

	Current Ratio	1-Month Change	YTD Change	5yr Average
2yr	81.3%	5.0%	47.9%	87.7%
5yr	84.7%	2.4%	37.1%	80.5%
10yr	93.1%	-2.2%	23.6%	88.2%
30yr	102.9%	-3.2%	22.0%	97.8%

Source: Bloomberg

Extended Muni Minute: The income from most bonds issued by local U.S. government entities is tax-exempt. One interesting dynamic in the current market is that the yields from these bonds, generically called municipal bonds, are now very close to those from comparable taxable bonds. There have even been some instances in which municipal yields were higher. Considering this and that the income is tax-exempt, we find that municipal bonds are very cheap by historical standards, regardless of investors' tax brackets.

All investing involves risk, including potential loss of principal.

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. Municipal securities are more vulnerable to unfavorable economic, political and regulatory changes affecting specific municipalities. Some income from municipal securities and muni bond funds may be subject to local tax and could declared taxable and/or subject to the federal alternative minimum tax if federal or state laws change.

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 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 Five-Year Breakeven Inflation Rate represents a measure of expected inflation derived from 5-Year Treasury Constant Maturity Securities and 5-Year Treasury Inflation-Indexed Constant Maturity Securities.

The latest value implies what market participants expect inflation to be in the next 5 years, on average.

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