TARGET RETIREMENT FUNDS QUARTERLY COMMENTARY

As of March 31, 2024

Victory Target Retirement 2030 Fund // Victory Target Retirement 2040 Fund // Victory Target Retirement 2050 Fund // Victory Target Retirement 2060 Fund // Victory Target Retirement Income Fund

Market Commentary

Sometimes the status quo is a good thing. That's certainly what many investors must be thinking these days. The stock market's strong momentum from year-end continued unimpeded into the first three months of 2024. The S&P 500® Index a popular proxy for our domestic stock market—returned approximately 10.6% during the first quarter, making several new all-time highs during the quarter.

In terms of investment styles, both Value- and Growth-oriented equities participated in the impressive rally. Continued excitement over artificial intelligence and the performance of the Technology and Communications sectors helped push the Russell 3000® Growth Index up more than 11% during the quarter. Meanwhile, the Financials and Energy sectors drove value stocks up by more than 8% during the quarter, as measured by the Russell 3000® Value Index. Once again, the largest companies seemed to lead the rally, but small- and mid-cap companies delivered solid returns too.

The performance of equities during the first quarter was impressive by any measure, and perhaps even more so considering that yields also moved higher. Many market participants had been expecting the Federal Reserve to become more accommodative in 2024, and this was largely the catalyst for the strong stock market rally late last year. However, with continued solid economic data, robust job growth, and uncomfortably high measures of inflation, expectations for rate cuts have changed slightly over the past several months.

Yes, it appears that stocks are pricing in the notion of lower rates. But March came and went without rate cuts as many had predicted, and now these expectations have been pushed out until June or beyond. Not surprisingly, yields on both 2-year and 10-year Treasuries rose and ended the first quarter at 4.6% and 4.2% , respectively. Naturally, interest-rate-sensitive fixed income classes, such as Treasuries, struggled in the face of these rising yields. But fixed income sectors with less duration and more credit risk sensitivity, such as high-yield, performed relatively better throughout the quarter.

Typically, a rising rate environment hinders stock prices. Yet equities have seemingly shrugged off the higher yields, as well as all other potential bad news—for the time being. Wars in the Middle East and Eastern Europe continue, as do ongoing disputes with the world's second largest economy (China). Rising energy prices and their impact on inflation might also worry equity investors. Nevertheless, stocks were nothing short of resilient during the first quarter.

Fund Performance and Positioning

The Target Funds delivered solid first quarter absolute returns, thanks largely to the impressive move higher in stocks and continued positive investor sentiment. Equity market gains more than offset rising bond yields, which naturally created some challenges for fixed income assets, particularly those more sensitive to interest rates.

The Target Funds' tactical overweight to equities helped boost relative performance during the first quarter, as did security selection within U.S. large-cap, U.S. small-cap, and international stocks. In contrast, the holdings in lower-volatility equities detracted from performance. This is not altogether surprising since during robust market rallies, investors tend to be less risk averse and less concerned about volatility, often eschewing these lower-volatility stocks and sectors. Also detracting from first quarter performance was a general underweight to U.S. large-cap stocks across the Target Funds series. Although large-cap companies (and more specifically, a narrow group of mega-cap growth stocks) have been leading the market higher, it appears that the rally may be broadening out to include more quality- and value-oriented stocks. That could bode well for the Funds' general investment approach.

In terms of fixed income, the Funds' underlying holdings in investment grade fixed income, which is more credit sensitive and less interest rate sensitive, also fueled relative performance given the upward trending yields during the first quarter.

Looking Ahead

At year-end we were left wondering if the stock market might be getting ahead of itself, and after another impressive quarter, many of the same questions linger. At the forefront, of course, are expectations for lower interest rates. Stocks appear to be pricing in several rate cuts this year, but the timing of such moves (if any) will ultimately depend on future economic and inflation data. Therefore, investors are right to ask: Are market expectations for rate cuts, along with high stock valuations, a cause for concern? Will the recent rally in energy prices reignite inflation? And how will the elevated geopolitical tensions impact stocks and bonds in the coming quarters? As you can see, there is no lack of challenges ahead. Although financial markets were relatively sanguine as we ended the first quarter, we remain vigilant and aim to keep the portfolios balanced between risks and potential rewards.

Not FDIC Insured • May Lose Value • No Bank Guarantee

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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. Read it carefully before investing.

All investing involves risk, including the potential loss of principal. Asset allocation and diversification do not promise any level of performance or guarantee against loss of principal. The Funds will reflect the risks and incur the expenses of the underlying funds in which they invest. The Adviser may be subject to conflicts of interest in allocating the Funds' assets among affiliated Underlying Funds or ETFs (Affiliated Funds), unaffiliated Underlying Funds, or a combination of both. The Adviser may have an incentive to allocate the Funds' assets to those Affiliated Funds for which the net advisory fees payable to the Adviser are higher than the fees payable by other Affiliated Funds, or unaffiliated Underlying Funds. The Adviser or its affiliates receive fees for managing and administering the Affiliated Funds, which also creates a conflict of interest. None of the Funds provide guaranteed income, nor is the principal value of the Funds guaranteed at any time. 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. Mortgage-backed securities ("MBS") and asset-backed securities ("ABS") are subject to credit, prepayment and extension risk and may react differently to changes in interest rates than other bonds. Small movements in interest rates may quickly and significantly reduce the value of certain MBS and ABS. 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. Investments concentrated in an industry or group of industries may face more risks and exhibit higher volatility than investments that are more broadly diversified over industries or sectors. Technology companies are particularly vulnerable to rapid changes in technological product cycles, severe competition and government regulation. The communication services sector may be dominated by a small number of companies which may increase volatility. Companies in this sector are particularly vulnerable to product obsolescence due to technology advances and social media trends. Communication services companies may be negatively affected by pricing competition, security breaches, research and development costs and government regulations. Companies in the financial services sector are subject to extensive government regulation that may affect the scope of their activities, the prices they can charge and capital maintenance. The industry is subject to severe competition and can be significantly affected by market conditions, including interest rate changes. Investments in companies in the energy sector may be subject to substantial government regulation, as well as risks involving changes in energy prices, international political instability, and liability for environmental damage and accidents resulting in loss of life or property. 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.

Discussion based on the Fund share class.

Holdings, if any, are subject to change without notice and should not be considered purchase recommendations.

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