USAA EMERGING MARKETS FUND QUARTERLY COMMENTARY

USAA MUTUAL FUNDS

As of December 31, 2022

Market Commentary

Emerging-market stocks generated a robust gain of 9.70% in the fourth quarter, helping recapture a portion of the loss incurred over the first nine months of the year. The category was boosted by hopes that developed-market central banks could be nearing the end of their long series of interest rate increases. Investors were further cheered by signs China was abandoning the zero-COVID policy that had impeded the country's economic growth throughout 2022. The quarter was also highlighted by substantial rebounds in a number of countries that had underperformed in the previous downturn. Among these were Turkey, the technology-sensitive markets of South Korea and Taiwan, and countries in Eastern Europe. Latin America also registered gains, building on its positive showing in the third quarter. Oil-producing nations, such as Indonesia and those in the Middle East, were among the few to experience losses over the past three months. Crude oil prices trended lower, causing energy stocks to give back some ground after strong outperformance earlier in the year.

A strong recovery in emerging-market currencies versus the U.S. dollar further aided returns for U.S. investors. This represented a key shift from the year's first three quarters, when weakness in emerging-market currencies exacerbated the effects of the downturn in equities.

Fund Performance and Positioning

USAA Emerging Markets Fund finished slightly behind the 9.70% return for its benchmark, the MSCI Emerging Markets Index, in the fourth quarter. Country allocations had a neutral effect on results. An underweight in Saudi Arabia was the leading contributor, while an underweight in China was the largest detractor. Stock selection was a net detractor, with the majority of the adverse impact occurring in China and Brazil.

Information technology, industrials, and health care were the Fund's top sector overweights at the end of the period. Communication services, financials, and utilities were its most notable underweights. With respect to geographic positioning, Korea, Mexico, and Indonesia were the Fund's largest overweights, while key underweight positions included China, South Africa, India, and a number of Middle Eastern nations.

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