



# VictoryShares Core Intermediate Bond ETF

QUARTERLY COMMENTARY • Q4 // December 31, 2024

## Executive Summary

Fixed income experienced a weaker fourth quarter driven largely by an upward swing in the Treasury yield curve. Inflation trended sideways throughout the quarter, and economic data indicated the U.S. economy remains strong. Despite kicking off a monetary easing cycle in September and cutting the federal funds rate by 25 basis points (bps)\* in November and December, the Federal Reserve (“the Fed”) concluded the year on a more hawkish note than markets expected at the beginning of the fourth quarter. Election volatility came and went, but markets have priced in stickier inflation based on the new administration’s proposed policies and on expectations for a continued resilient economy. Against this backdrop, the VictoryShares Core Intermediate Bond ETF outperformed its benchmark, the Bloomberg U.S. Aggregate Bond Index, for the quarter ended December 31, 2024.

## Market Update & Commentary

Monetary policy uncertainty and election volatility caused yields to seesaw throughout the fourth quarter of 2024, with the 10-year U.S. Treasury yield beginning the quarter at 3.7% and concluding the year at 4.6%. The YoY Consumer Price Index (CPI) decreased throughout much of the year but rose slightly in the fourth quarter, ending at 2.7%. While not necessarily an indicator that inflation will materially rebound, this gave investors, and the Fed, reasons to reconsider the pace of future rate cuts as the risk of re-acceleration is not zero. Throughout the quarter markets reduced rate cut expectations from six cuts in 2025 to merely two cuts in response to uncertainty surrounding future inflation and a U.S. economy that continues to chug along against previously forecasted odds. Unemployment hovered around 4% during the fourth quarter.

In conjunction with monetary policy, election results and potential policy changes colored market sentiment in Q4 2024. Markets began to price in some of the inflationary risk the shift in political power may bring. This caused the yield curve to shift upward as longer-dated Treasuries crept up and short-term yields came down as a result of the Fed’s widely anticipated interest rate cuts. As the long end of the Treasury yield curve steepened in December, it finally normalized after spending two years inverted. The rise in longer-term yields is largely driven by rising real yields, which indicates to us that investors are better compensated for taking on inflation risk. While fixed income yields are off the peaks we have seen in the past few years, the recent increase offers an attractive entry point for fixed income investors.

Investor compensation for adding credit risk remains low – credit spreads tightened throughout the quarter amidst a strong economic backdrop.

	Yield (%)	Spreads (bps)			Returns (%)	
		12/31/2024	9/30/2024	Δ (+/-)	3M	1YR
<b>Investment Grade (Moody's Ratings)</b>						
U.S. Treasury	4.5	-	-	-	(3.1)	0.6
U.S. Aggregate	4.9	34	36	-2	(3.1)	1.3
U.S. Credit	5.3	77	84	-7	(3.0)	2.0
Corporate	5.3	80	88	-8	(3.0)	2.1
Aa	5.0	44	46	-2	(3.9)	0.2
A	5.2	68	73	-5	(3.3)	1.6
Baa	5.5	97	110	-13	(2.6)	3.0
Crossover	6.1	155	165	-10	(0.9)	5.3
<b>High Yield (Moody's Ratings)</b>						
U.S. Corporate High Yield	7.6	287	300	-12	0.2	8.2
Ba	6.5	179	180	-1	(0.5)	6.3
B	7.6	278	281	-4	0.3	7.4
Caa	10.4	550	689	-139	2.3	15.1
Ca-D	20.2	1,613	1,610	+3	2.2	48.3
<b>Structured Product</b>						
U.S. MBS	5.3	43	42	+1	(3.2)	1.2
ABS	4.7	43	63	-20	(0.1)	5.0
CMBS	5.2	81	94	-13	(1.5)	4.7

Source: Bloomberg

Credit spread levels are a useful pulse check for how the market is perceiving risk, and the historic levels of tightness currently seen demonstrate that fixed income markets are not pricing in a dislocation in the short term. Fixed income yields rose, which drove negative performance across asset classes over the quarter, with credit sectors being the top performers in Q4. Year-to-date fixed income performance was positive across asset classes. The Bloomberg U.S. Aggregate Bond Index concluded the quarter at -3.1%.

\*A basis point is one-hundredth of a percentage point (0.01%) and is abbreviated as “bp” (singular) or “bps” (plural).



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## Portfolio Performance & Positioning

The Fund slightly reduced its exposure to corporates and increased exposure to Treasuries and agency mortgage-backed securities (MBS).

## Contributors

- > The Fund's asset allocation and security selection within corporate bonds contributed positively to performance.
- > Banking and consumer non-cyclicals were sub-sectors that contributed positively.
- > Agency MBS also contributed positively to performance.
- > An overweight to and security selection within AAA and BBB rated securities were the largest credit rating factors benefiting performance.

## Detractors

- > Cable & satellite detracted from performance during the quarter.

## ANNUALIZED RATE OF RETURN (%)

VictoryShares Core Intermediate Bond ETF (UITB)	QTR	YTD	1YR	3YR	5YR	Since Inception Oct 24, 2017	Expense Ratio (%)	
							Gross	Net
Net Asset Value (NAV)	-2.93	1.91	1.91	-1.64	0.38	1.72	0.39	0.39
Closing Market Price	-2.96	1.81	1.81	-1.62	0.38	1.74		
<b>Index</b>								
Bloomberg U.S. Aggregate Bond Index	-3.06	1.25	1.25	-2.41	-0.33	–		

**Past performance does not guarantee future results. The performance data quoted represents past performance and current performance may be lower or higher. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. To obtain performance information current to the most recent month-end, visit [www.victoryshares.com](http://www.victoryshares.com). ETF shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Brokerage commissions will reduce returns. Market price returns are based on the price of the last reported trade on the Fund's**

primary exchange. If you trade your shares at another time, your return may differ. Returns include reinvestment of dividends and capital gains. Performance for periods greater than one year is annualized. Fee waivers and/or expense reimbursements were in place for some or all periods shown, without which Fund performance would have been lower. Net expense ratio reflects the contractual waiver and/or reimbursement of management fees through October 31, 2025. Index performance is shown for illustrative purposes only. Indexes are unmanaged and one cannot invest directly in an index.



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## SECTOR WEIGHTING (%)

Sector	UITB	Bloomberg US Aggregate Idx
ABS	12.2	0.5
CMBS	3.7	1.5
Finance	8.9	8.2
Government Related	2.5	4.4
Industrials	15.0	14.0
Mortgage-Backed	12.1	25.1
Treasury	41.7	44.1
Utilities	3.0	2.3
Cash	1.0	—

## FUND TOP 10 HOLDINGS

	Weighting (%)
U.S. Government	56.55
JP Morgan	0.38
Wheels Fleet Lease Funding 1 LLC	0.32
Bank of America Corp.	0.28
Merchants Fleet Funding LLC	0.28
Bank Of New York Mellon Corp.	0.26
American Express Credit Account Master Trust	0.25
Bank of America Credit Card Trust	0.23
Morgan Stanley	0.22
Regions Financial Corp.	0.22

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](http://www.vcm.com/prospectus). Read it carefully before investing.

**All investing involves risk, including the potential loss of principal.** The Fund has the same risks as the underlying securities traded on the exchange throughout the day. Redemptions are limited, and commissions are often charged on each trade. ETFs may trade at a premium or discount to their net asset value. 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. Mortgage-backed securities (MBS) 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. The Fund is also subject to liquidity risk, which is the risk that the Adviser may not be able to sell a security at an advantageous time or price, which may adversely affect the Fund. 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. Fund holdings and sector allocations are subject to change, may differ from the Index, and should not be considered investment advice.

**Average Effective Duration** is a duration calculation for bonds that have embedded options. This measure of duration takes into account the fact that expected cash flows will fluctuate as interest rates change and is, therefore, a measure of risk.

**Beta** is a measure of the volatility, or systematic risk, of a security or portfolio relative to the market or a benchmark.

**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.

**Market Capitalization** is the total dollar value of all outstanding shares computed as number of shares times current market price.

**Market Price** is the price of the last reported trade on a fund's primary exchange.

**Net Asset Value** or **NAV** is a fund's total assets minus its total liabilities, divided by the number of outstanding shares.

**Premium/Discount %** indicates whether an ETF is currently trading at a higher or lower price than the current value of the securities in that portfolio.

**Yield Curve** shows yields (interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity.

**Credit Quality** ratings on underlying securities of the fund reflect the highest long-term rating from S&P, Moody's, or Fitch, and are converted to the equivalent S&P major rating category. S&P rates securities in descending order as AAA, AA, A, BBB, BB, B, CCC, CC, C and D. Unrated securities do not necessarily indicate low quality. Below-investment-grade is represented by a rating of BB and below. Quality ratings are subject to change.

**The Bloomberg U.S. Aggregate Bond Index** measures the investment grade, USD-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS, ABS and CMBS.

Effective on or about February 28, 2025, Foreside Fund Services, LLC ("Foreside") will no longer serve as the distributor to the VictoryShares® ETFs. Victory Capital Services, Inc. ("VCS"), an affiliate of the Fund's adviser, will replace Foreside in this capacity. VCS and its affiliates are not affiliated with Foreside.

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