

YEAR IN REVIEW & 2026 OUTLOOK

A world of contradictions

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Persistent inflation, labor market weakness, geopolitical risk and elevated risk asset valuations highlight a world of contradictions.

The Federal Reserve (the Fed) reduced rates by 50 basis points* this year driven by weaker employment data throughout the second half of the year and inflation above the Fed's 2% target. Heading into 2026, expectations for monetary policy broadly point toward continued easing, but growing division within the FOMC has muddled the waters.



AI growth and related debt issuance has broad implications for fixed income markets.

Debt issuance grew in 2025 and investor demand was healthy. While fundamentals are still strong, overall levels of leverage are expected to grow as the AI industry evolves and requires additional debt financing.



We believe fixed income overall remains attractive, but credit markets still offer limited relative value.

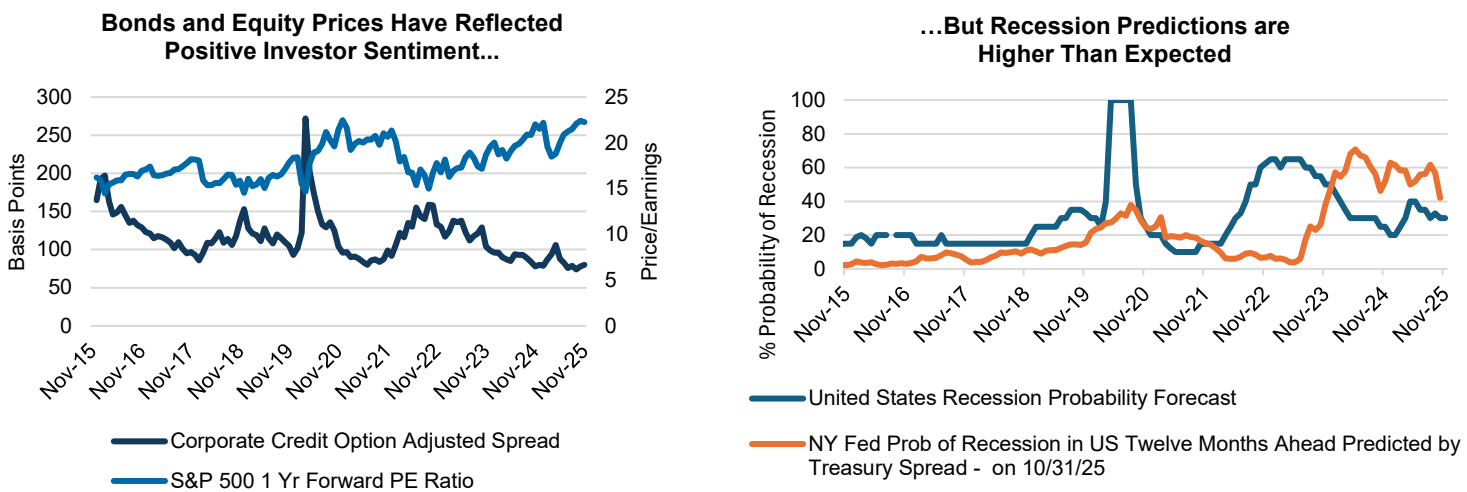
Risk asset valuations are stretched; corporate credit spreads are still below multi-decade lows and equity price-to-earnings ratios are high indicating investors are pricing in a positive outlook. Real yields, which are yields accounting for inflation, however, are still historically elevated.

*A basis point "bps" is 1/100th of a percentage point. See important information and glossary on page 14.

A World of Contradictions

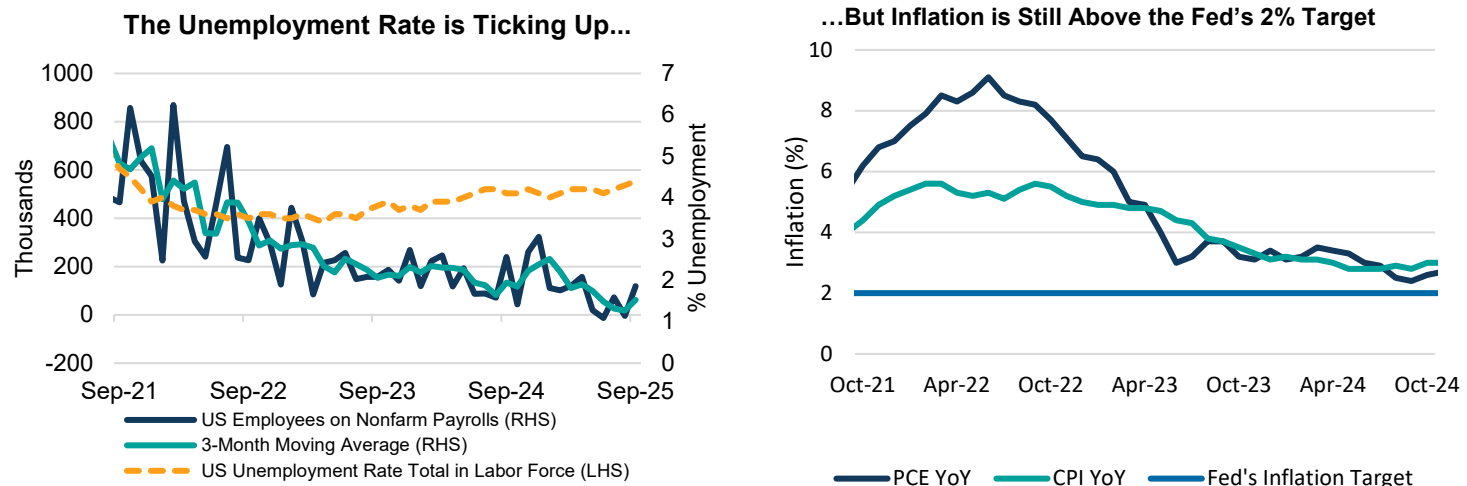
In the second half of 2025 we saw uncertainty surrounding monetary policy continue. While economic data signaled a weaker labor market and inflation persisted above target, risk assets consistently performed positively. Despite prices reflecting positive investor sentiment, markets largely expect a deceleration in economic growth in 2026 driven by multiple factors including tariff policy, employment weakness and stretched valuations. The Fed started to cautiously ease again, but division within the Fed on what represents the largest threat to the economy is likely to continue into 2026, particularly given pressure from various parties to reduce rates. Independent central banking was a theme in 3Q, but all areas of fixed income remained a steadfast asset class for investors looking for real yield, relative value and ballast. As markets project debt issuance for AI to grow, we would expect to see some disruption within the fixed income landscape from a relative value perspective and upward pressure on credit spreads. Credit Spreads are the difference in yield between two bonds of the same maturity but different credit quality, typically measured as the yield difference between a corporate bond and a US Treasury bond of identical maturity. We think of credit spreads as the incremental yield investors receive to compensate for taking on additional credit risk relative to similar duration Treasuries.

This year we have seen data that seems to contradict itself, causing headaches for economic and market forecasters as seen in the first two graphs below:



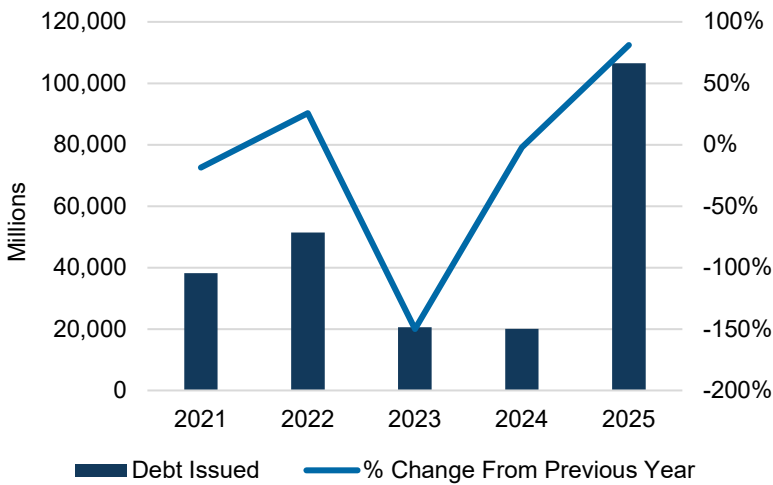
Risk asset prices often rise during recession warnings because markets price in expected policy responses (rate cuts, stimulus) to economic weakness, creating a paradox where bad economic news becomes good news for investors anticipating central bank intervention.

But also, for the Federal Open Market Committee as they attempt to balance their dual mandate of full employment and low inflation.



Source: Bloomberg

Bond Issuance From the Largest Players Grew 81% Year-over-Year in 2025



AI is Here to Stay

Developments in artificial intelligence (AI) adoption and investments have evolved rapidly in 2025. A significant change we observed this year was a shift in emphasis from investing in their large language models to infrastructure like data centers, computing power and semiconductors to support these.

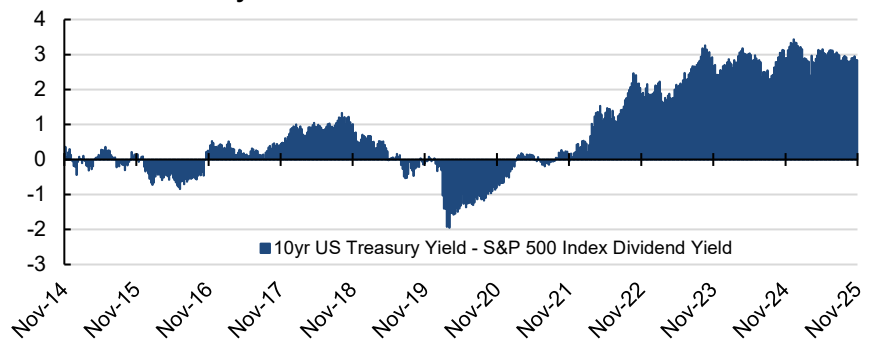
In 2026 we would expect to see significant debt issuance from the largest players, for example, Oracle or Meta, in the space as they source funding to build up these assets and fuel further AI adoption. This is notable because of its implications for most fixed income indices which are issuance driven – meaning companies that issue more debt represent larger proportions of the index.

Source: Bloomberg

Fixed Income's Value Proposition

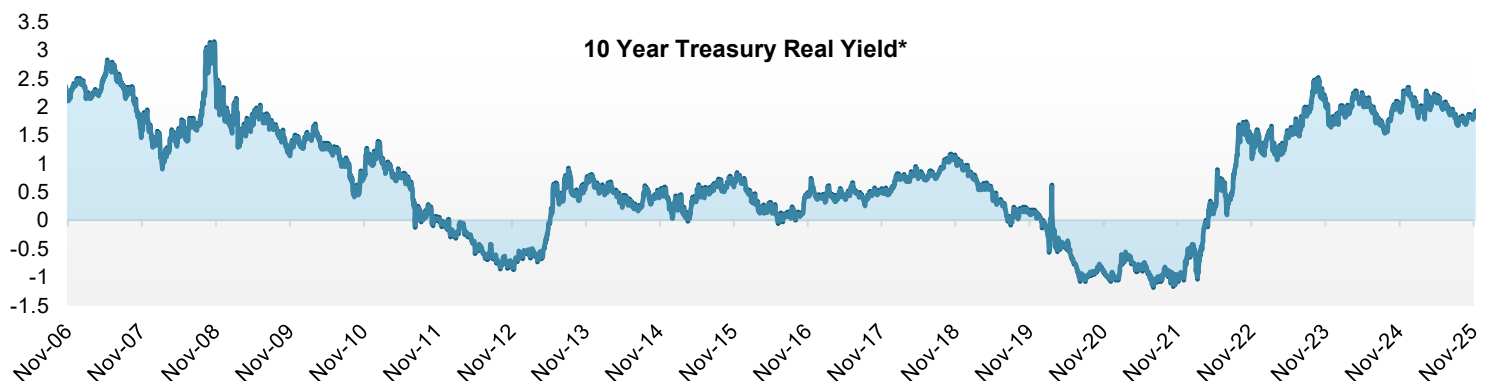
We think fixed income still presents an attractive opportunity for investors. From a relative value perspective, the yield on 10-year Treasury Bonds at the end of November 2025 exceeded the dividend yield of the S&P 500, which in our view, signals that fixed income is attractively priced relative to equities. Real yield, which is yield in excess of inflation, is also still positive and elevated relative to history.

Treasury Yields Far Exceed Dividend Yield of S&P 500



Source: Bloomberg. 10yr US Treasury Yield represented by US Generic Government 10-Year Yield Index.

Past performance is no guarantee of future results. Indexes are unmanaged and do not reflect fees and expenses. One cannot invest directly in an index.



Source: Bloomberg, *As measured by the U.S. Treasury Constant Maturity 10-Year Index

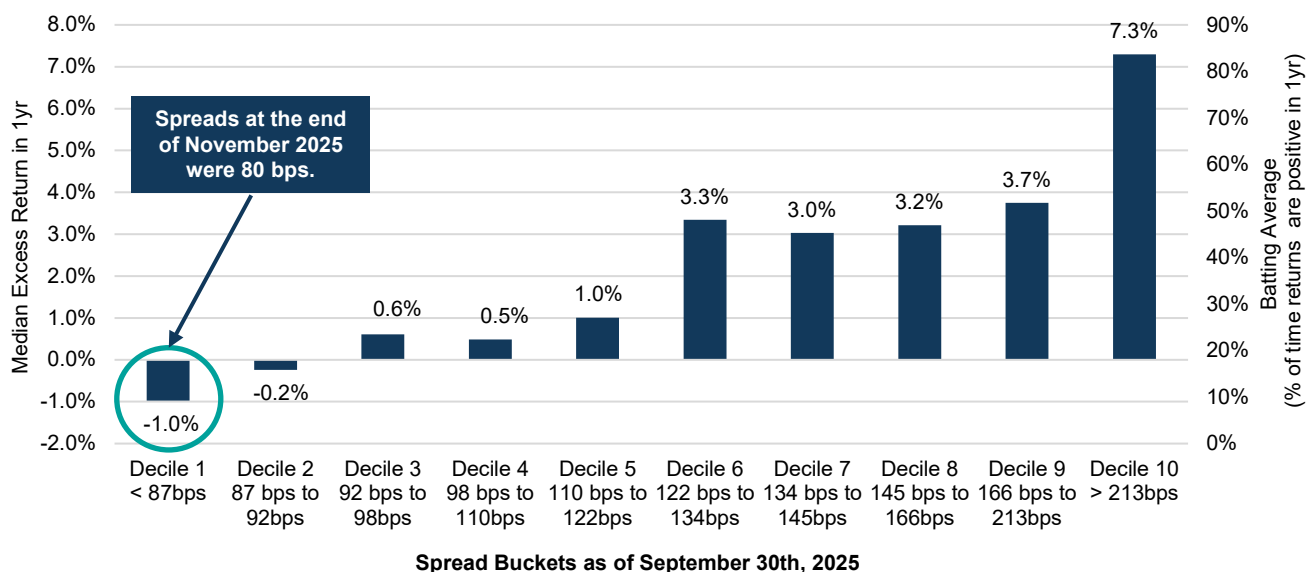
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We are Defensive Regarding Credit Risk

Corporate credit spreads, which are the incremental yield investors receive on corporate bonds to compensate for additional credit risk relative to U.S. Treasuries of similar duration, are in the lowest decile observed over the last 25 years. Historically, when credits spreads have been in this decile, corporate bonds earned, on average, negative excess returns relative to similar duration Treasuries ("Excess Return"). This is the cornerstone of our defensive view on corporate credit. At the end of November 2025, corporate credit spreads were 80 basis points, placing them within the lowest decile.

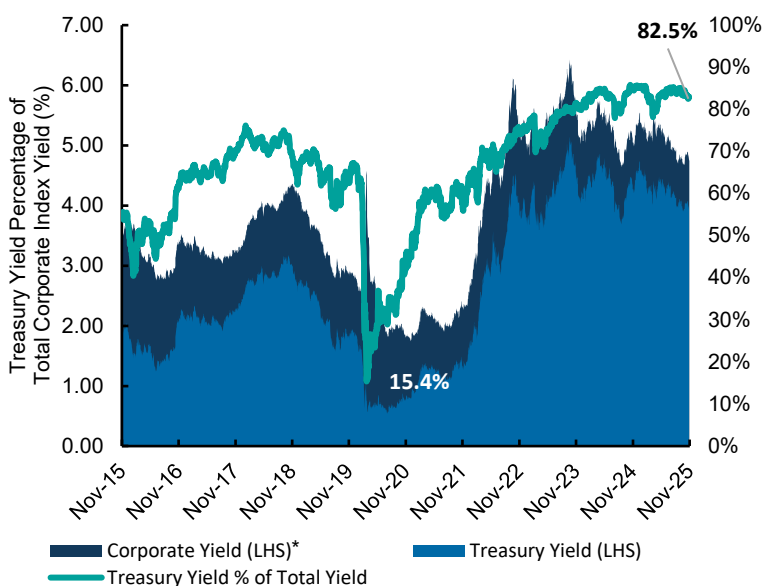
Bloomberg Corporate Index Excess Returns' Relationship with Spread Levels



Source: Bloomberg, This analysis reviews the option adjusted spread to Treasuries of the Bloomberg Corporate Index using daily observations from 9/17/2002 through 3/31/2025. For each daily observation we look at the excess return of the Corporate index over similar duration Treasury bonds 1 year from that date. We then separated the Corporate Index spread data into deciles, where each decile bucket represents an equal percentage of daily spread observations. We then looked at what the median 1-year excess return to similar duration Treasury bonds was for each spread bucket.

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*Bloomberg US Corporate Bond Index

Source: Bloomberg

Treasury Yields Historically Are a High Proportion of Corporate Yields

We remain positive on our outlook for fixed income, despite our defensive positioning regarding credit risk. Elevated Treasury yields have driven higher starting yields across fixed income, as bond investors generally receive the risk-free rate and demand additional spread to compensate for the risk they take on. At the moment, the proportion of corporate credit yield made up of Treasury yield is high, nearing 83% versus 15%, which we saw during the COVID-19 pandemic. This supports our defensive outlook on credit, as investors do not necessarily need to add additional credit risk in search of yield, and our positive assessment of fixed income overall.

Credit Positioning

Overall, we remain defensively positioned within the structure of our mandates, but we see value in specific sectors like Treasuries, Agency Mortgage Backed Securities and Asset Backed Securities. Below are our views on various asset classes with additional details regarding certain sectors on the following pages.

Our Forward-Looking Sector Views

Current sector views are represented by colors (green, orange, blue). Previous month sector views represented by a black dot.

INVESTMENT GRADE		
SECTOR	RELATIVE VALUE	VIEW
Treasury	 OUTPERFORM	We see value in longer-term bonds with yields in the mid/high 4% area. Treasuries have provided relative safety and liquidity as a “risk-free” asset.
Agency MBS	 OUTPERFORM	We continue to find value in the sector. Spreads have tightened but remain wider vs historical relationship to corporates.
Agency CMBS	 MARKETPERFORM	We find Agency CMBS to be fairly valued and potentially defensive play because their prepayment protections insulate cash flows.
Corporate	 UNDERPERFORM	We do not see much value in corporates at the moment. Credit wins over time, but with spreads near their tightest levels in 25 years, the short-term risk/reward setup is unfavorable.
Asset Backed Securities	 OUTPERFORM	We see some value in ABS as it offers a spread advantage relative to corporates, but this has narrowed and is approaching a neutral outlook.
Commercial Mortgage-Backed Securities	 MARKETPERFORM	We see some value in CMBS spreads as they are still wide to corporates but that gap has narrowed and is approaching an underperform rating.
Taxable Municipal Bonds	 MARKETPERFORM	We are neutral in our outlook for Taxable Munis. Historically, taxable munis are defensive in credit sell-offs.
BELOW INVESTMENT GRADE		
High Yield Bonds	 UNDERPERFORM	We do not see much relative value in high yield bonds. Spreads are near the low end of the range we’ve seen over the last 20 years, so we remain cautious. We see value in BB-rated debt within High Yield.
Loans	 UNDERPERFORM	We are cautious on loans at current levels, since demand, mainly from CLOs and other floating rate buyers has caused a wave of repricing with lower spreads.

For illustrative purposes only—not to be construed as investment advice or a recommendation to buy, sell or hold any security. The views expressed are those of Victory Income Investors as of the date noted and are subject to change. The views reflect the relative value of sectors shown based on the forward-looking return expectations over the next 12 months relative to the Bloomberg U.S. Aggregate Index. A defensive stance in fixed income investing involves making choices that prioritize relative safety and stability, even if it means sacrificing some potential returns in exchange for potentially reduced risk. It’s a strategy often favored by investors seeking to protect their portfolios during periods of uncertainty or economic downturns.

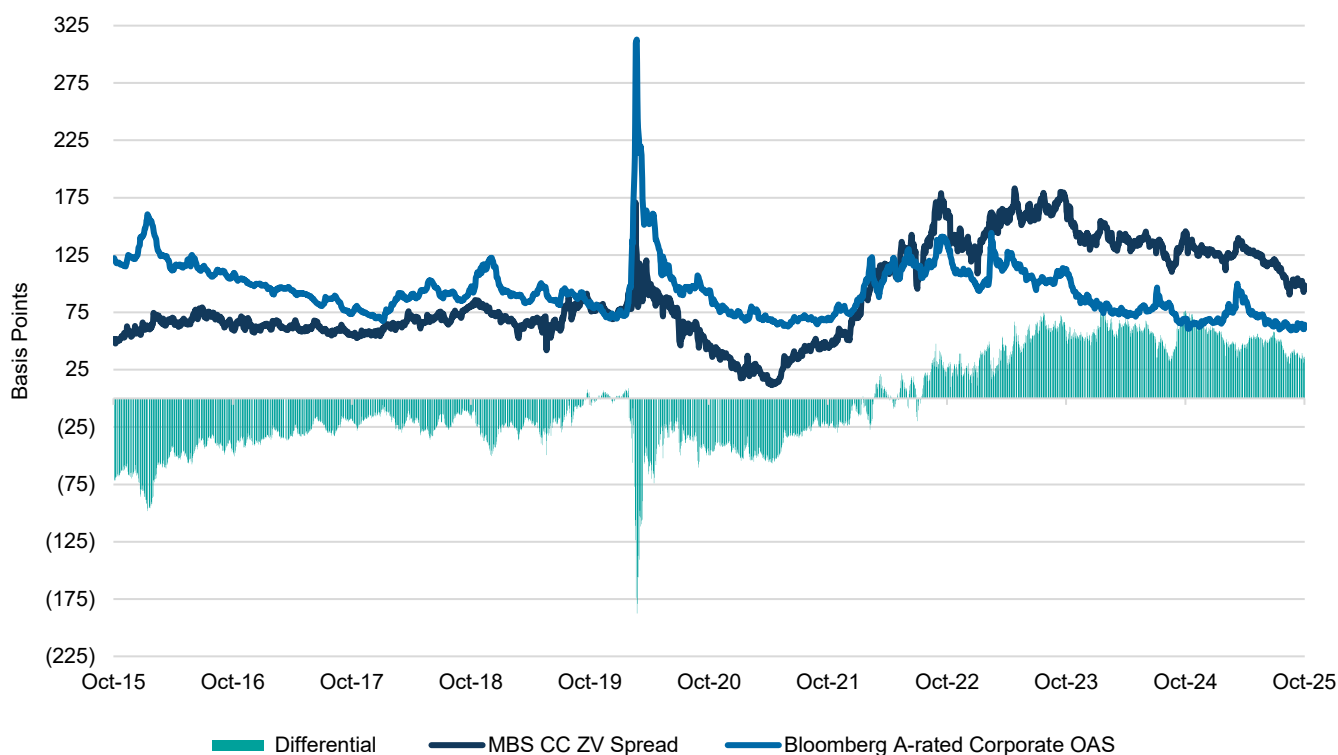
Residential Mortgage-Backed Securities (MBS)

We expect Agency MBS to outperform in 2026. MBS spreads have been volatile but remain wide on both a nominal and OAS basis vs. corporates.

The supply/demand imbalance which caused MBS spreads to widen over the last few years is expected to start rightsizing in 2026. MBS spread should tighten at the margin as bank demand continues to slowly return to the market. That extra demand will be partially offset by increased supply from money managers, who are historically overweight MBS and will sell into spread tightening.

Fed rate cuts, interest rate volatility and GSE privatization will all be factors to watch in 2026.

MBS Current Coupon Zero-Volatility Spreads vs. A-Rated Corporate Bonds



Source: Bloomberg. The Bloomberg MBS OAS is the OAS of the Bloomberg MBS Index. The A-rated Corporate OAS is the OAS of the Bloomberg A-rated Corporate Index.

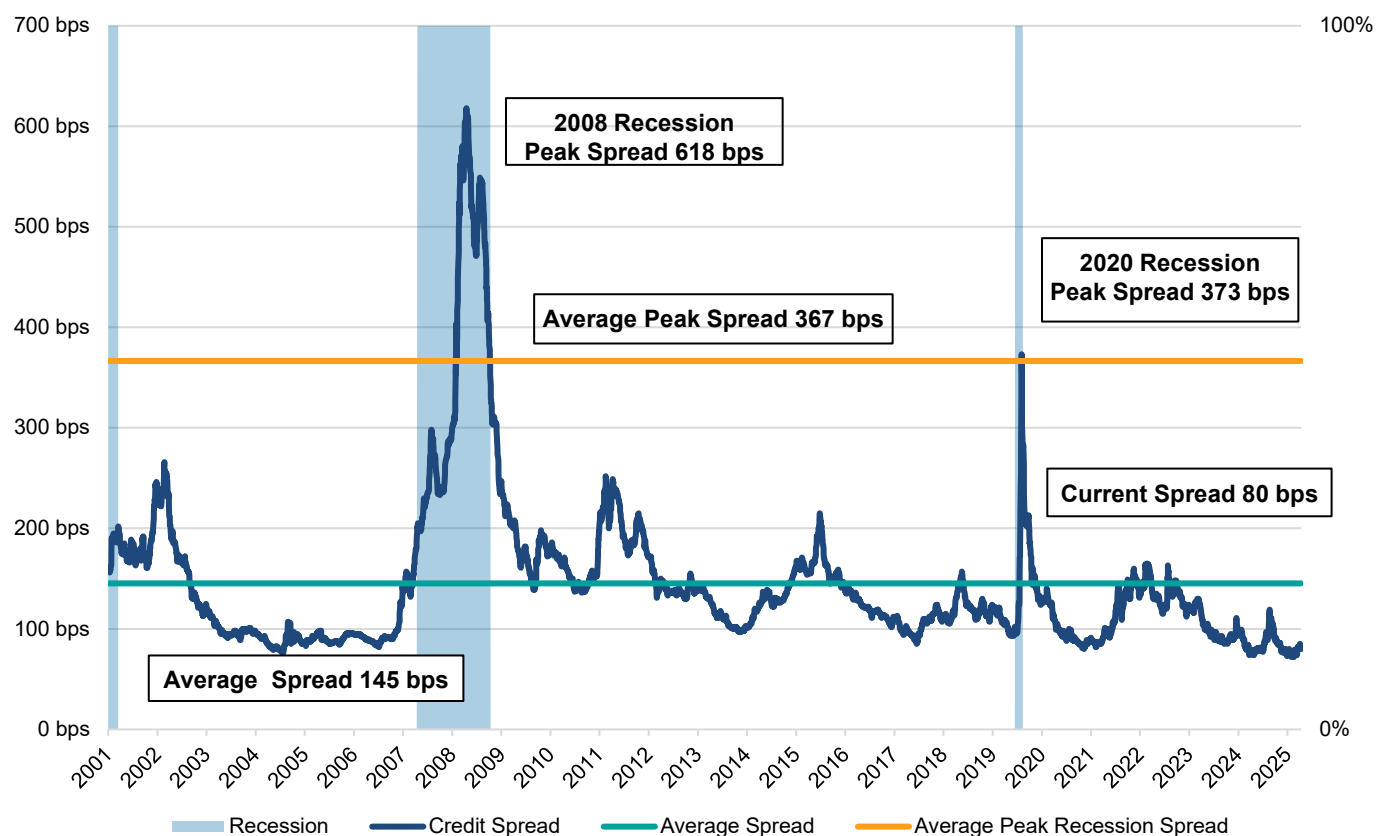
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Investment Grade Corporate Bonds

Corporate balance sheets are in good overall condition and have the capacity to support additional capital expenditures, shareholder returns and M&A. These factors contribute to an outlook for increased corporate issuance in 2026. We've already seen recent issuance increase in the technology sector with AI-related Capex. A more certain trade environment could also encourage debt funded capital expenditures. Recession probability remains low to moderate and all in yields remain attractive. Investment grade spreads remain very low by historical comparison and a cautious and selective approach to credit risk continues to be warranted.

Corporate Credit Spreads During Last US Recessions



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.

Source: Bloomberg Corporate Index, U.S. Recession Indicator (National Bureau of Economic Research)

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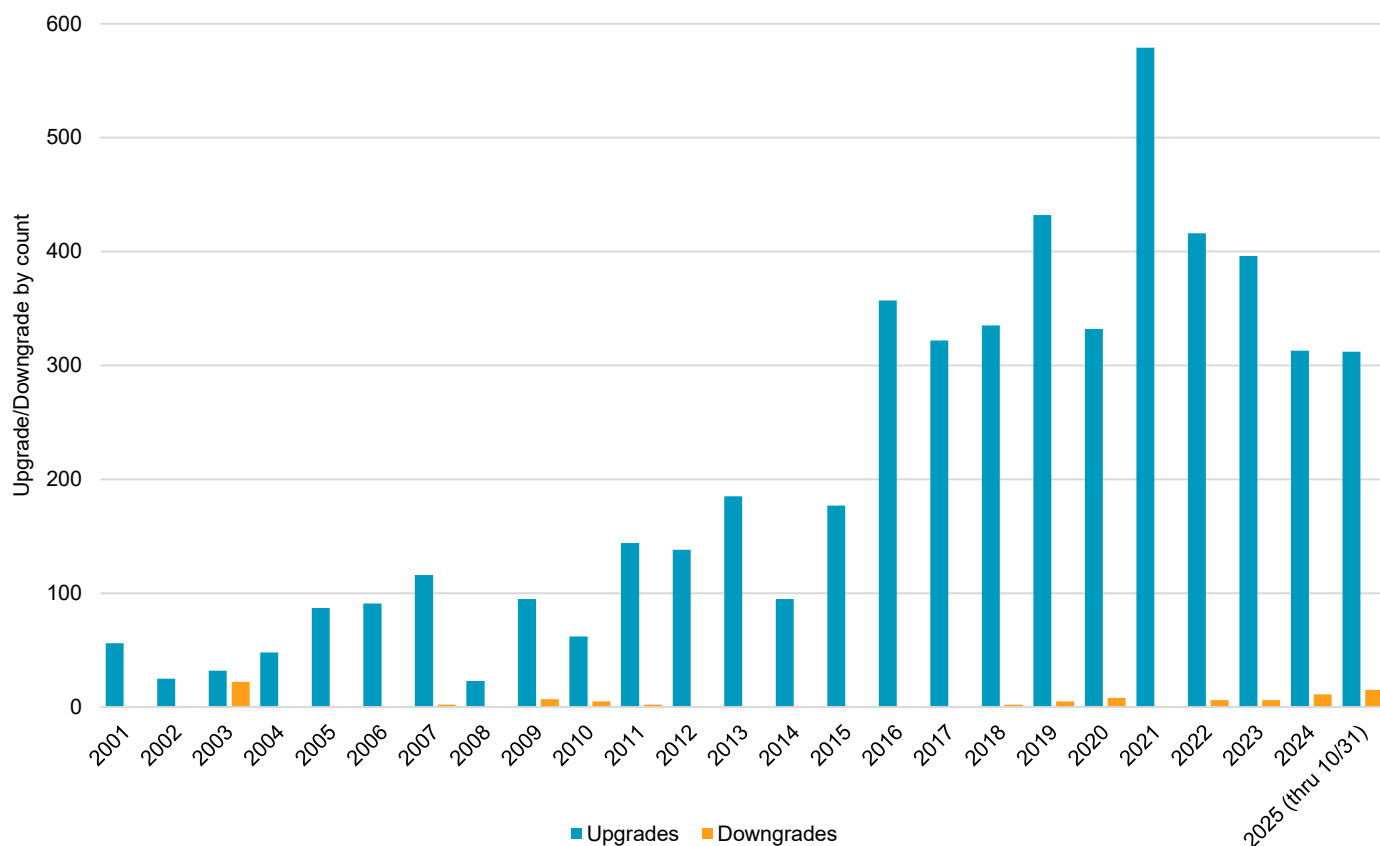
Asset-Backed Securities (ABS)

We expect ABS to Outperform in 2026. The gap between ABS and short corporate bond spreads has narrowed but remains wide relative to the longer-term history.

We focus on the subsectors of the ABS market that have proven to be high in the consumer's payment hierarchy or have demonstrated durability through multiple cycles, such as auto loans, credit cards, and equipment. Conversely, we tend to avoid the more esoteric subsectors of ABS market that have weaker structural features and have not proven their resilience through multiple cycles, such as unsecured "fintech" consumer lending and solar ABS.

These ABS structures have the added benefit of de-leveraging over time which makes ABS a good defensive play and results in predictable upgrades as deals season.

S&P Auto Loan ABS Upgrades vs. Downgrades



As of October 31, 2025

Source: S&P

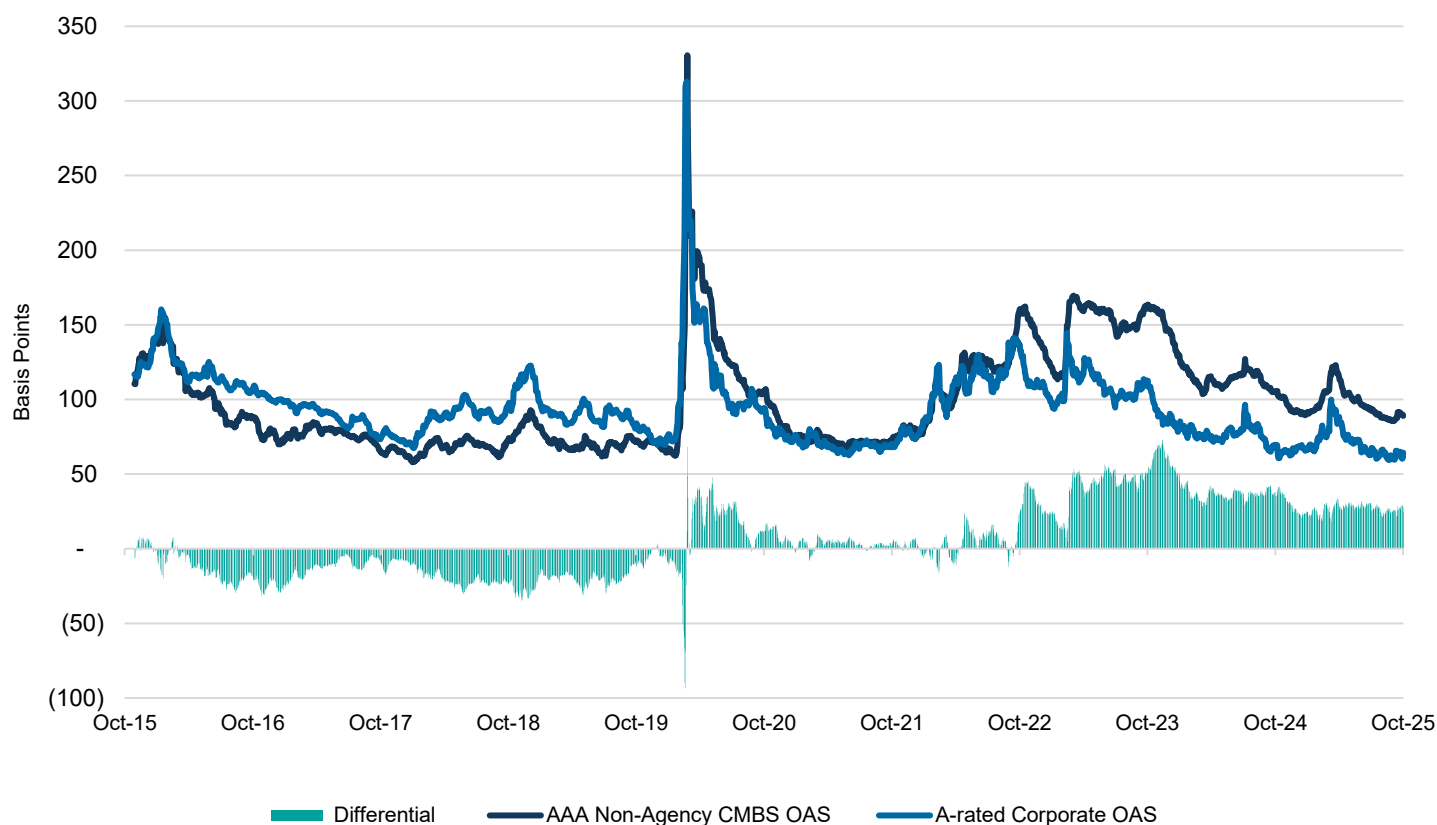
Commercial Mortgage-Backed Securities (CMBS)

We expect CMBS to Market Perform in 2026. The gap between CMBS and corporate bond spreads remains wide relative to the pre-COVID relationship between the two asset classes.

Despite this wider spread relationship for CMBS relative to corps, we temper our CMBS outlook to Market Perform due to the tendency for CMBS to trade with a high beta to corporate spreads, which are near cyclical tight.

Interest rates, the office sector recovery, and data center development remain the primary indicators to watch.

CMBS vs. A-Rated Corporate Bonds



Source: Bloomberg. Indices represented are the Bloomberg Non-Agency Investment Grade CMBS: AAA Total Return Index (I31070US) and the Bloomberg A-rated Corporate Index

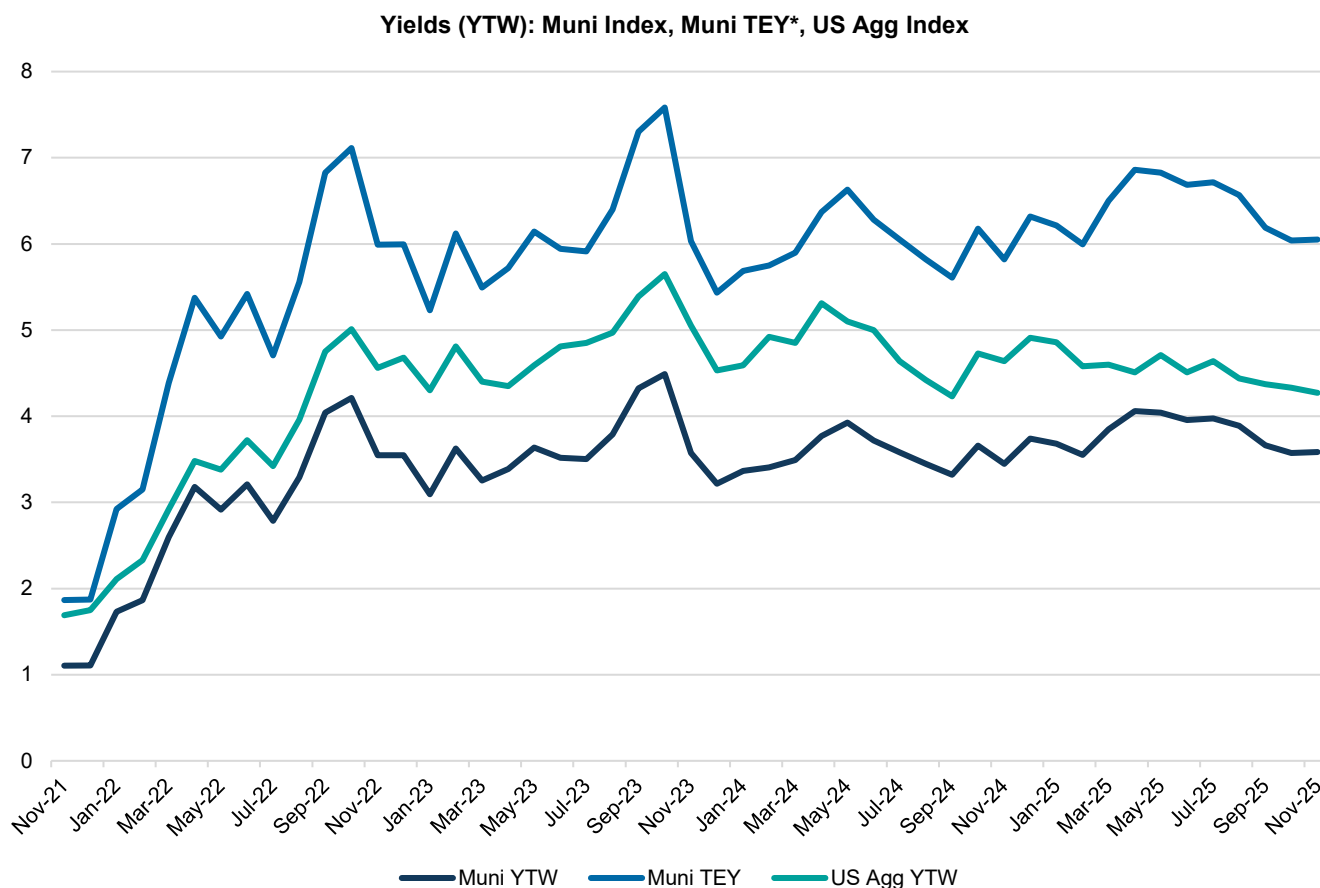
Municipal Bonds

Starting yields for municipal bonds, which we view as a good predictor of long-term returns, remain high. Although these elevated yields have declined slightly since their peak in recent years, they continue to offer an attractive entry point for investors, in our view, particularly on a taxable-equivalent basis. At the end of November 2025, the yield on the Bloomberg Municipal Bond Index was 3.58% which is a taxable-equivalent yield of 6.05% (in the highest tax bracket*). This compares quite favorably to the 4.27% yield of the Bloomberg U.S. Aggregate Bond Index (taxable) for the same time period.

Despite some volatility in the market, we expect municipal credit quality to remain relatively strong. Heading 2026, we anticipate overall stability for the municipal sector as a whole. Credit quality for the industry is bolstered by historically strong levels of reserve funds, on average.

Between elevated yields, strong credit quality and low defaults rates, we continue to view municipal bonds as a solid option for portfolio diversification.

* 40.8% was the highest tax bracket used in calculation.



*Tax Exempt Yield

Source: Bloomberg. Indices represented are the Bloomberg Municipal Index and the Bloomberg US Aggregate Index. The TEY (Tax-exempt yield) is calculated for the highest tax bracket (40.8%).

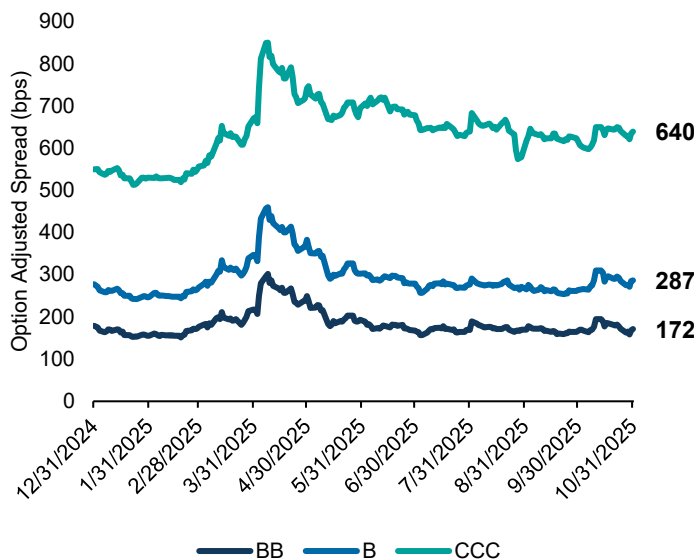
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High Yield Corporate Bonds

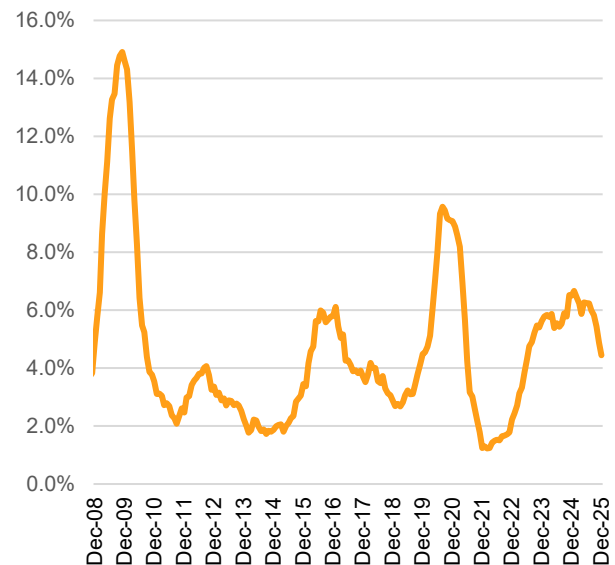
Year-to-date, both the high yield and leveraged loan markets have delivered positive returns, despite significant volatility around liberation day. As the post-election optimism faded, volatility rose, spiking in the week around the initial announcement of new tariff policy. Volatility faded somewhat as tariff policy evolved but this episode was a good reminder of the speed at which change in the market can occur and the need to adapt. As such, we anticipate increased volatility in 2025, as uncertainty increases around trade, monetary and fiscal policies. In light of these conditions, we believe it remains prudent to maintain a disciplined, patient and opportunistic approach in selecting our investment opportunities.

High Yield Spreads



Source: Bloomberg. Indices represented are Bloomberg BB US High Yield Index, Bloomberg B US High Yield Index and Bloomberg CCC US High Yield Index.

US Nonfinancial High Yield Corporate Default Rates



Source: Moody's

High Yield bonds, also known as junk bonds, are bonds that pay higher interest rates because they have lower credit ratings (below BBB) than investment-grade bonds. As such, High Yield credit spreads correlate inversely with credit rating, lower credit ratings generally have higher average credit spreads.

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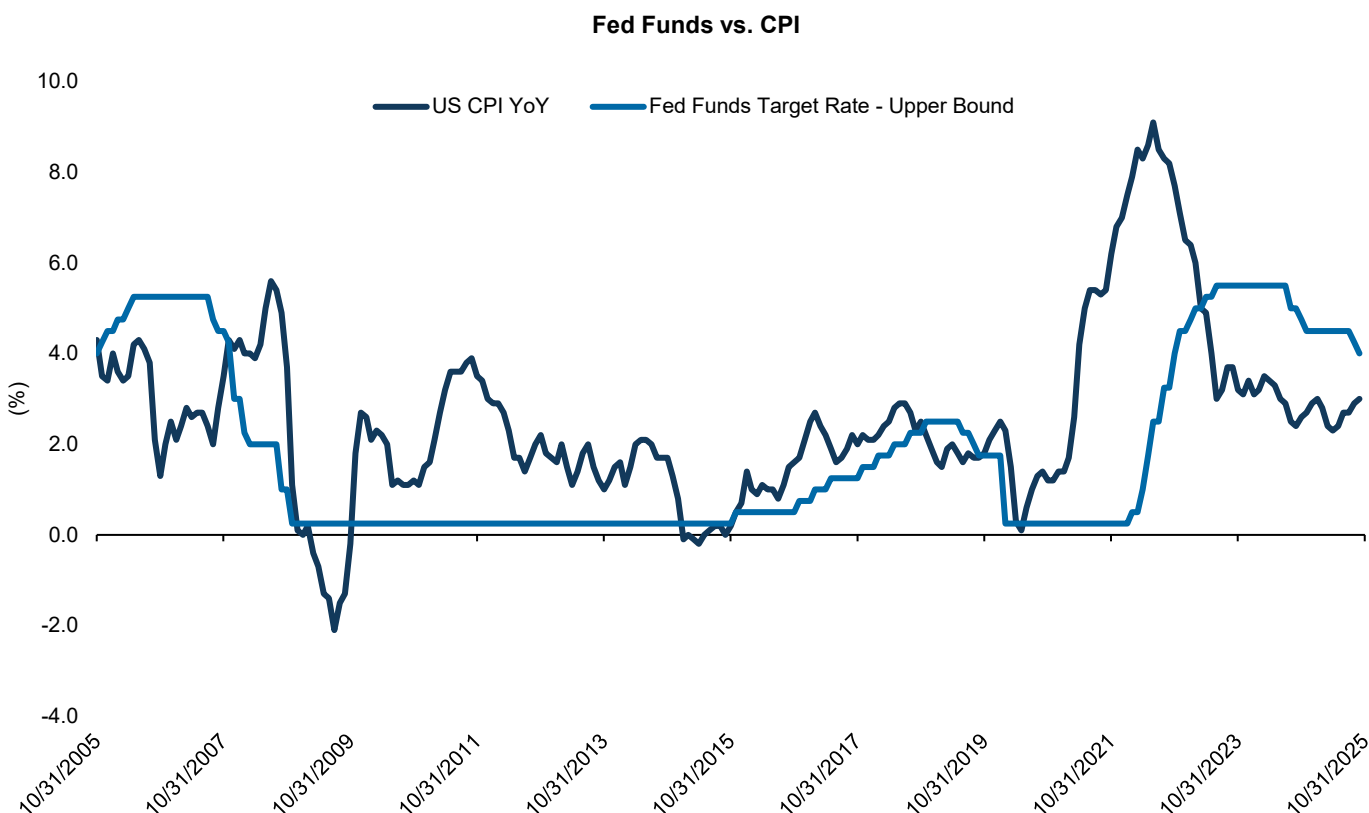
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Money Markets

We expect money market rates to decline in 2026.

Despite the expected decrease in yield, we think money market funds will remain a popular investment choice due to their history of stability, safety and very short duration. These three factors persist and have been a feature of money market funds for decades regardless of the direction of interest rate movements.

History tells us that longer-duration fixed income outperforms money markets as rates decline, so we would caution against an excessive overweight in money market funds. Money markets require continuous repurchase of securities since they mature within days or weeks of issuance in most cases. This requirement to reinvest proceeds is called “reinvestment risk” and is an inherent risk in all short-term instruments. Longer term bonds, in contrast, do not face immediate reinvestment risk because they mature over the course of years and their prices can appreciate with falling rates.



Source: Bloomberg

Fed Funds Target Rate – Upper Bound: Shows the upper limit of the federal funds target range established by the Federal Open Market Committee

You could lose money by investing in a money market fund. Although money market funds seek to preserve the value of your investment at \$1.00 per share, they cannot guarantee they will do so. Certain funds may impose a fee upon sale of your shares. An investment in a money market fund is not a bank account and is not insured or guaranteed by the Federal Deposit Insurance Corporation (“FDIC”) or any other government agency. Fund sponsors are not required to reimburse funds for losses, and investors should not expect that a sponsor will provide financial support to a fund at any time, including during periods of market stress.

Important Information

All investing involves risk, including the potential loss of principal.

Fixed income securities are subject to interest rate, inflation, credit, prepayment, 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.

The value of your investment is also subject to geopolitical risks such as wars, terrorism, trade disputes, 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.

Dividend Yield is total cash dividends paid as a percent of market capitalization at the end of the period.

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 portfolio 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 portfolio.

Price-to-Earnings ratio is the price of a stock divided by its earnings per share.

Credit Spread is the difference in yield between two bonds of the same maturity but different credit quality, typically measured as the yield difference between a corporate bond and a US Treasury bond of identical maturity.

Spread duration measures the sensitivity of a bond's price to changes in credit spreads, rather than to changes in the overall interest rate environment.

CLO (Collateralized Loan Obligation) is a type of structured credit security that pools together a diversified portfolio of leveraged loans and repackages them into multiple tranches with different risk and return profiles.

Decile is a statistical measure that divides a dataset into ten equal parts, with each part representing 10% of the total distribution.

The **1 Year Forward Price-to-Earnings Ratio (Forward P/E)** is a valuation metric that compares a company's current stock price to its expected earnings per share over the next 12 months. Unlike the trailing P/E ratio, which uses historical earnings, the forward P/E incorporates analyst projections of future profitability.

Option Adjusted Spread (OAS) is a sophisticated bond valuation metric that measures the yield spread of a fixed-income security over a risk-free benchmark after removing the value of embedded options. This measurement provides a cleaner assessment of credit and liquidity risk by isolating the compensation investors receive for these factors alone.

Risk Assets represent investments that carry significant uncertainty regarding future returns and potential for capital loss, standing in contrast

to "safe haven" or risk-free assets like government bonds. This classification forms the backbone of modern portfolio theory and drives fundamental investment allocation decisions across institutional and individual portfolios.

Personal Consumption Expenditures (PCE) Index represents the Federal Reserve's preferred measure of inflation, tracking changes in the prices of goods and services consumed by households in the United States. This comprehensive price index has evolved to become the primary benchmark for monetary policy decisions, offering a more nuanced view of inflationary pressures than its more widely known counterpart, the Consumer Price Index (CPI).

Excess Returns represent the additional compensation investors receive for bearing risk beyond what they could earn from a risk-free investment. This fundamental concept drives virtually all investment decision-making, from individual security selection to strategic asset allocation, by quantifying the reward for accepting uncertainty and potential loss.

Liquidity represents one of the most fundamental concepts in finance, referring to how quickly and easily an asset can be converted into cash without significantly affecting its market price. Think of it as the financial equivalent of water - the more liquid something is, the more freely it flows through markets.

Batting Average in finance is the percentage of investment decisions or trades that generate positive returns, calculated as winning trades divided by total trades.

M&A (Mergers and Acquisitions) Corporate transactions where companies combine through mergers (two companies joining to form a new entity) or acquisitions (one company purchasing another), typically to achieve strategic goals like market expansion, cost synergies, or competitive advantages.

Capex (Capital Expenditures) represents the funds a company uses to acquire, upgrade, or maintain physical assets such as property, buildings, equipment, or technology. These are investments in long-term assets that will benefit the company for more than one accounting period.

Margin in finance refers to borrowed money from a broker to purchase securities, where the investor puts up a percentage of the purchase price and the broker lends the remainder, with the securities serving as collateral.

U.S. CPI: The Consumer Price Index measures the monthly changes in prices paid by U.S. consumers. The Bureau of Labor Statistics calculates the CPI as a weighted average of prices for a basket of goods and services representative of aggregate U.S. consumer spending.

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