CORNERSTONE FUNDS QUARTERLY COMMENTARY

As of December 31, 2024

Victory Cornerstone Equity Fund // Victory Cornerstone Aggressive Fund // Victory Cornerstone Moderately Aggressive Fund // Victory Cornerstone Moderate Fund // Victory Cornerstone Moderately Conservative Fund // Victory Cornerstone Conservative Fund

Market Commentary

Wall Street loves a good cliché. Maybe that's because they sometimes accurately (if playfully) capture the mood of the financial markets. So when we look back at 2024, we think it's fair to say that "markets climbed a wall of worry."

The S&P 500® Index, the most popular proxy for our domestic stock market, surged 25.0% during 2024, and this despite an array of investor concerns that lingered over the course of the year. For starters, investors wondered if the Federal Reserve was ever going to lower interest rates, given that inflation remained uncomfortably high during the first half of 2024. There were also fears that the economy may be heading for recession, particularly during the mid-part of the year when job creation slowed and employment data grew worrisome. And, of course, there have been ever-present geopolitical issues, including terrible wars in Eastern Europe and the Middle East, along with worrisome U.S.-China relations. All these issues took their turn at roiling financial markets at some point. Nevertheless, the domestic economy proved resilient, corporate profits remained relatively robust, and stocks just kept moving higher (i.e., climbing that wall of worry).

During the fourth quarter, the stock market's momentum finally slowed even as the S&P 500 eked out quarterly gains of 2.4%. Stocks surged early in the fourth quarter as investors digested the outcome of U.S. elections and anticipated a new pro-business and lower-regulatory environment. But volatility reared up once again in December. The Fed cut interest rates for the third time at their December FOMC meeting (lowering the federal funds rate a total of 100 basis points* over the course of the year), but Chairman Jerome Powell disappointed the market by suggesting that there may be fewer rate cuts ahead. Given the lofty valuations, some investors took profits and December turned out to be a rough month for stocks.

In terms of investment styles, growth stocks carried the day during the fourth quarter and for the entire year. The Russell 3000® Growth Index returned 6.8% during the fourth quarter, bringing its annual gains to an impressive 32.5%. Meanwhile, the Russell 3000® Value Index declined slightly during the fourth quarter but still delivered solid returns of nearly 14% for the full year.

Importantly, there were interesting developments underlying the broad market. As we've been reporting, mega-cap tech stocks have been the key driving force behind the broad market's ascent over the past several years. While large tech stocks continued to do well, we think it was notable that market breadth finally seemed to improve during the second half of the year, with more companies participating across more industries and even further down the market-cap spectrum. Perhaps investors were taking note of relative valuations once again?

In terms of fixed income, we experienced several periods of elevated volatility as bond investors were trying to decipher both the economic data and path of monetary policy. Despite all this, it's notable that yields did not really move all that far. Yields on the 10-year Treasury began the year around 3.9% and ended 2024 around 4.6%. However, yields on the 2-year note started the year at 4.3% and ended 2024 slightly lower. Perhaps even more important than the actual numbers was the general shift in the overall yield curve, whereby longer-dated bonds once again began yielding more than shorter-term bonds. This un-inversion of the yield curve is generally considered a more normal shape and is typically associated with calmer economic conditions (as opposed to forecasting potential recession).

Fund Performance and Positioning

Although the Cornerstone Series of funds delivered positive absolute returns for the full year, the challenging market conditions in December weighed on fourth quarter returns. During the fourth quarter, our security selection in domestic large-cap stocks, as well as in developed international stocks, detracted from overall performance. As you may know, the Funds in the Cornerstone Series are typically managed with a slight tilt toward value and quality companies, and during the fourth quarter (and for the full year as well), the growth investment style outperformed value. Nevertheless, given the valuation disparity between the largest tech and many other growth-oriented companies versus the rest of the market, we maintain our discipline and continue to see a favorable risk-reward scenario for many quality and value-oriented stocks. We remain committed to our risk-managed approach that slightly favors quality and value-oriented stocks.

Security selection in emerging markets was a net positive for our Funds during the fourth quarter, as was our allocation to shorter-duration fixed income. This proved especially helpful in managing risk as yields rose late in the year, especially after the Federal Reserve suggested that future rate cuts may not be as aggressive as many investors had hoped.

*A basis point is one-hundredth of a percentage point (0.01%).

Looking Ahead

There's no denying that 2024 was a very good year for stocks, and this comes on the heels of a 23% gain for the broad market in 2023. That's two consecutive years of 20%-plus returns, which has happened only a handful of times throughout history. Given those strong returns, we think that it's important to maintain perspective and acknowledge that stocks do not always take giant steps upward year after year. There are plenty of potential risks and uncertainties ahead, and most of these are not new. For example, investors want to know whether the Federal Reserve has truly orchestrated a soft landing of the economy while controlling inflation. Also, will the pro-business and lower-tax policies of a new administration help push stocks higher, or will any new tariffs prove to be inflationary? And how will the Fed adjust monetary policy in the face of these questions?

The reality is that nobody truly knows what's in store for stocks and bonds in the coming year. The one certainty is that there will be ups and downs; however, the important thing is to remain disciplined and stay committed to your long-term goals. For our part, we remain vigilant and aim to keep the portfolios appropriately balanced between risks and potential rewards, and we hope to be in a position to take advantage of any periods of elevated volatility opportunistically.

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