VICTORY income investors®

Active Management.
Independent Perspectives.
Serving Fixed Income Investors Since 1970.

2025 MID-YEAR OUTLOOK

Uncertainty Reigns

20250630-4604082

Our 2025 Mid-year fixed income outlook is driven by three themes

Uncertainty remains elevated.

Markets are always uncertain, but the shifts in trade and fiscal policy, and geopolitical challenges are causing elevated levels of uncertainty that we expect to continue in the second half of the year.

Fixed income could offer ballast and additional diversification amidst the uncertainty.

While we are defensively positioned regarding credit risk, prioritizing safety and stability, we maintain a positive outlook for fixed income. Treasury yields remain elevated, real yields are positive, and fixed income is attractive relative to equities.

Credit markets are priced for perfection.

Corporate credit spreads are at levels which historically have not offered investors excess returns relative to similar duration Treasuries. Therefore, we are defensively positioned regarding credit risk.

20250630-4604082

Uncertainty Reigns

The economy has proven to be quite resilient despite elevated policy uncertainty. Corporate profitability remains robust and the unemployment rate, although off its lows, remains at a low level. While the inflation rate has trended down, the cumulative impact of price increases has taken a toll on the consumer. Coupled with the uncertainty over the final levels of U.S. tariffs, which have generated concern over economic growth as well as inflation, the probability of a recession has increased to 40%, up from 20% at year-end 2024, according to Bloomberg median consensus. At a minimum, the tariff situation has led to an expectation of slower growth and increased economic uncertainty.

We Believe Fixed Income is Attractive for Three Reasons

1. Real yields are positive

2. Valuations are attractive relative to equities

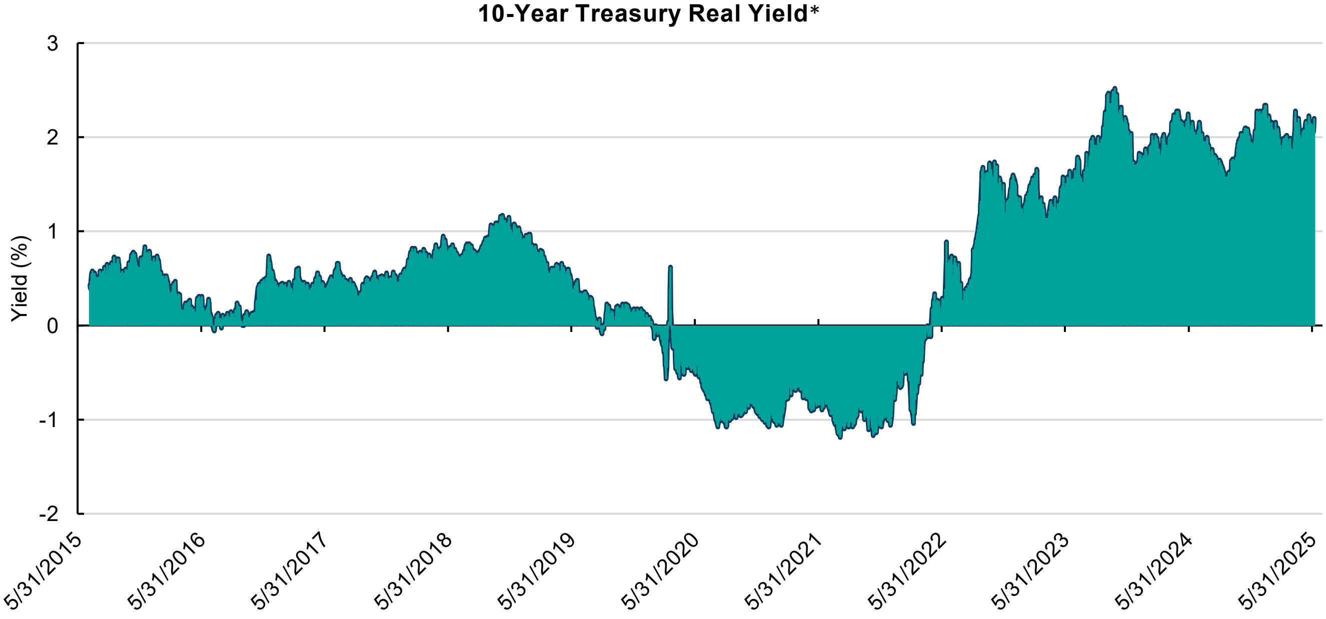
3. Fixed Income's role as ballast

---

1 Real Yields are Positive

Real yield, which is yield in excess of inflation, is positive and elevated relative to history.

10-Year Treasury Real Yield*



*As measured by the U.S. Treasury Constant Maturity 10-Year Yield Index

Source: Bloomberg

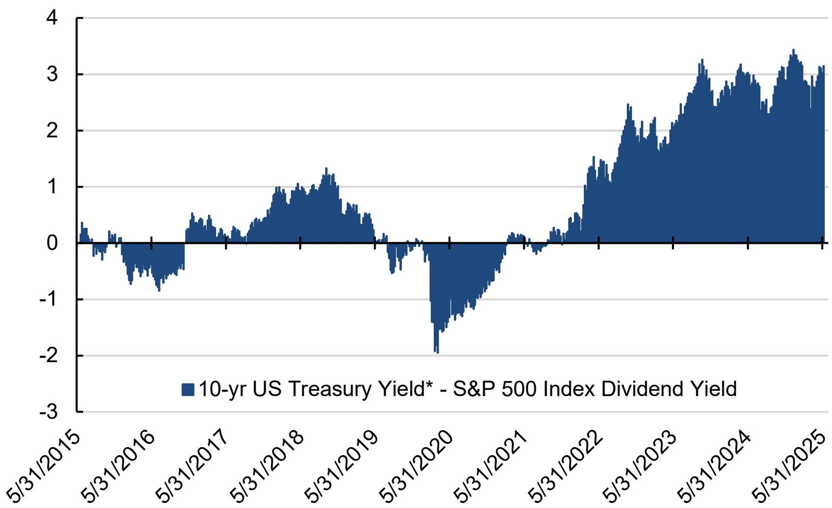
Past performance is no guarantee of future results. Indexes are unmanaged and do not reflect fees and expenses. One cannot invest directly in an index.

2

Valuations are Attractive Relative to Equities

The yield on 10-year Treasury Notes exceeds the dividend yield of the S&P 500, which, in our view, indicates that fixed income is attractively priced relative to equities.

Treasury yields far exceed dividend yield of S&P 500



* US Generic Government 10-Year Yield Index

Source: Bloomberg

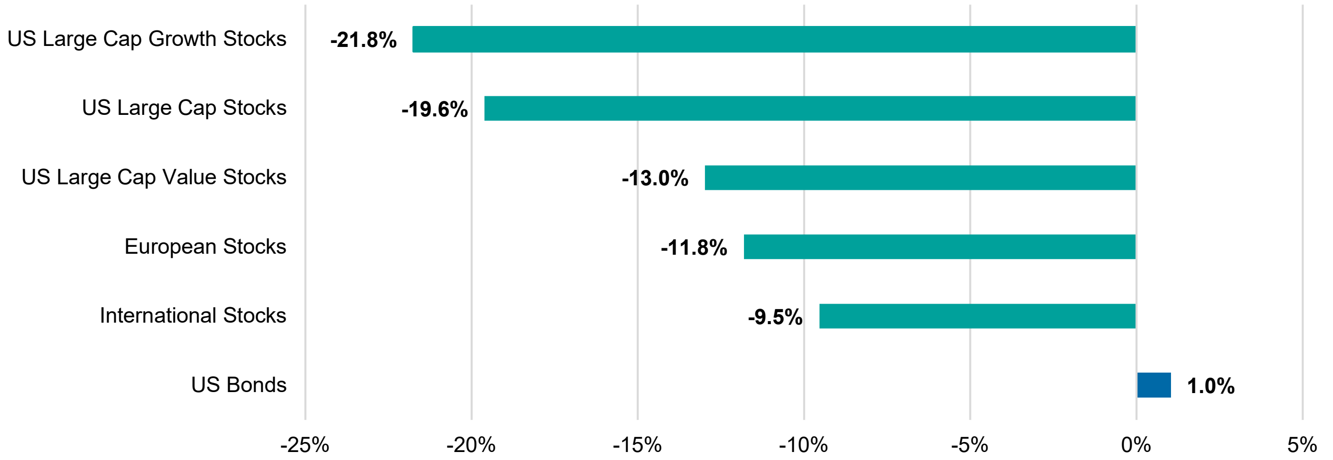
Past performance is no guarantee of future results. Indexes are unmanaged and do not reflect fees and expenses. One cannot invest directly in an index.

3

Fixed Income's Role as Ballast

We think fixed income has resumed its role as portfolio ballast. Fixed income does not need to be negatively correlated to equities all the time, just at the right time. The right time is when there is a meaningful drawdown in equities, such as what we saw from February - April 2025.

Total Return Pre-Liberation Day Peak to Post-Liberation Day Through (2/19/25 - 4/8/25)



Source: Bloomberg, Indices referenced are the Bloomberg Aggregate Index (US Bonds), STOXX Europe 600 Index (European Stocks), MSCI World Excluding U.S. Index (International Stocks),Bloomberg Large Cap Value Index (US Large Cap Value Stocks),Bloomberg Large Cap Index (US Large Cap Stocks), and Bloomberg Large Cap Growth Index (US Large Cap Growth).

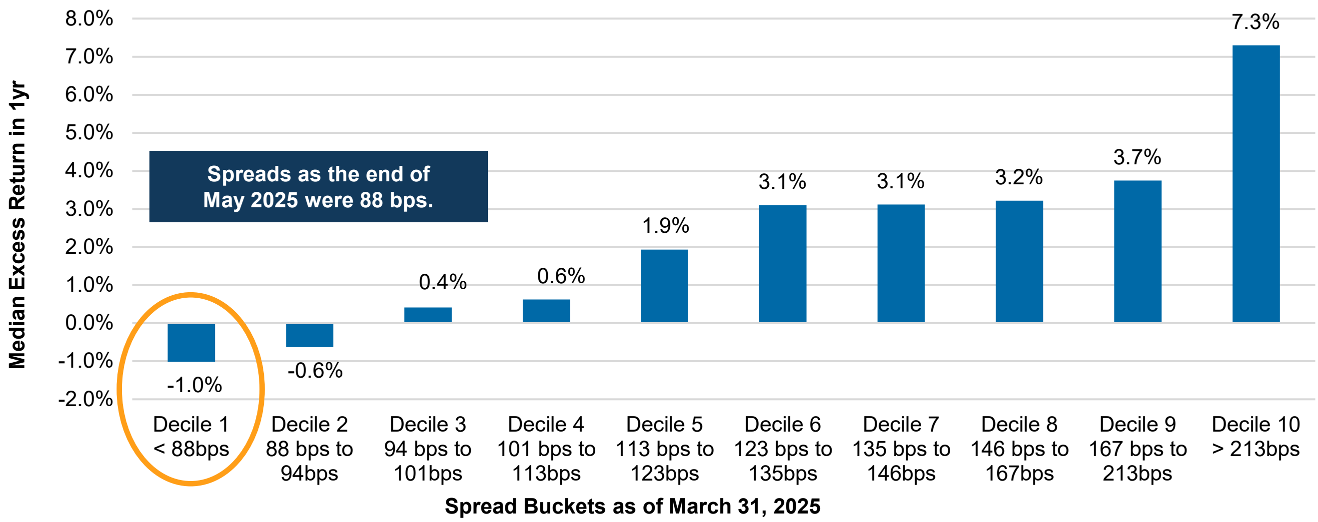
Past performance is no guarantee of future results.
Indexes are unmanaged and do not reflect fees and expenses. One cannot invest directly in an index.

20250630-4604082

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 May 2025, corporate credit spreads were 88 basis points, placing them on the cusp of 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.

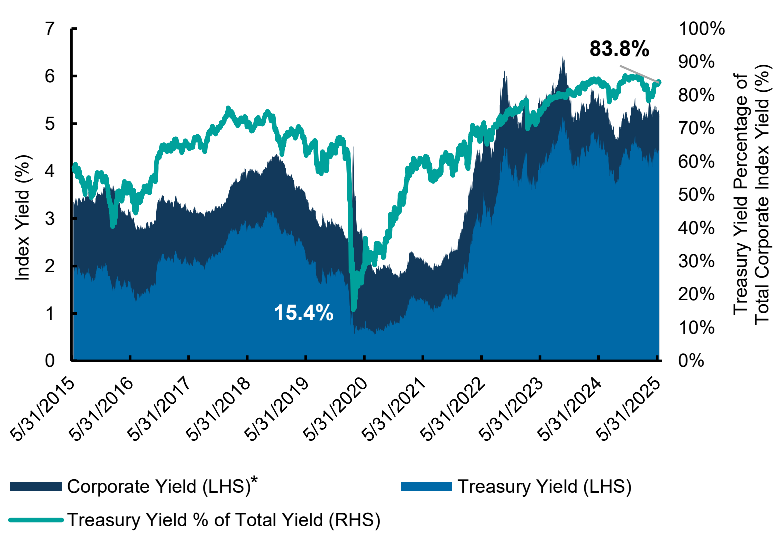
Past performance is no guarantee of future results.

Indexes are unmanaged and do not reflect fees and expenses. One cannot invest directly in an index.

Treasury Yields Historically 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 investors in risk assets 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 84% 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.

Treasury Yield as a Proportion of Corporate Yield



*Bloomberg US Corporate Bond Index

Source: Bloomberg

20250630-4604082

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.

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 above 5%. Treasuries have provided relative safety and liquidity as a "risk-free" asset.
Agency MBS	OUTPERFORM	We continue to find value in the sector, particularly in higher coupons.
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 are defensively positioned in corporate credit. Compensation for taking on corporate credit risk is at 25-year lows.
Asset Backed Securities	OUTPERFORM	We see value as spreads are still attractive relative to short duration corporates, not looking to add to current overweight.
Commercial Mortgage-Backed Securities	UNDERPERFORM	We find CMBS to be fairly valued relative to similar corporate bonds but view the sector as an underperform due to higher expected volatility.
Taxable Municipal Bonds	MARKETPERFORM	We are neutral in our outlook for Taxable Munis, even though spreads have widened somewhat.
Tax Exempt Municipals	OUTPERFORM	We see Tax-Exempt Munis as fairly valued and the historically high yields make for a strong entry point.

BELOW INVESTMENT GRADE

SECTOR	RELATIVE VALUE	VIEW
High Yield Bonds	UNDERPERFORM	We do not see much relative value in high yield bonds. Spreads tightened in May after widening in April, returning to the less attractive levels we saw early this year.
Loans	UNDERPERFORM	We see limited relative value in loans though they have stabilized after a period of pressure earlier this year.

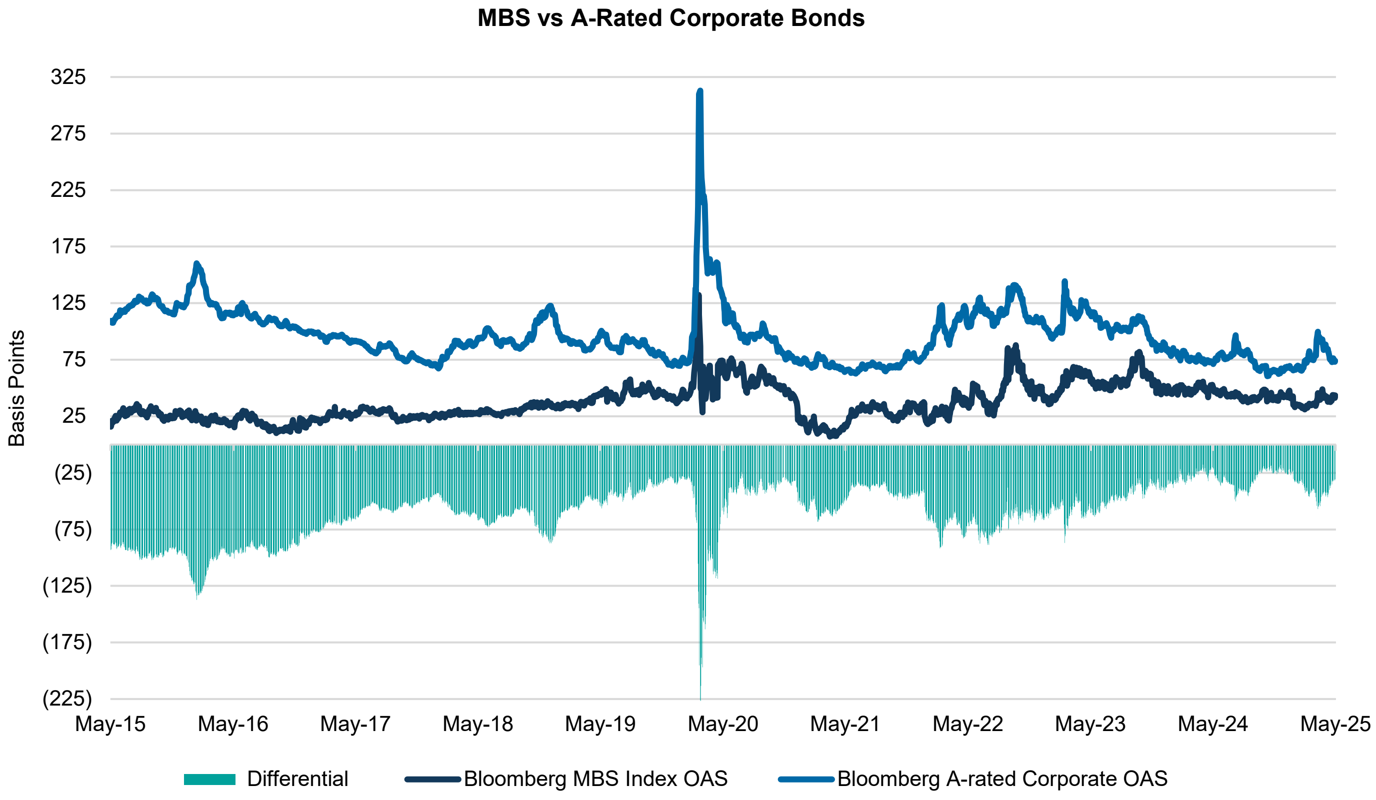
For illustrative purposes only—not to be construed as investment advice or a recommendation to buy, sell or hold any security. The views expressed are those of Victory Income Investors as of the date noted and are subject to change. The views reflect the relative value of sectors shown based on the forward-looking 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 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.

20250630-4604082

Residential Mortgage-Backed Securities (MBS)

As we head into the second half of 2025, we think Agency MBS has the potential to outperform. MBS spreads have been volatile but remain historically wide (both nominal and OAS) vs. corporates. The supply/demand picture for the second half of 2025 points to flat to marginal MBS spread tightening. Spreads could tighten and bank demand would likely pick up if the Fed cuts rates, which would offset marginal selling from money managers who are overweight MBS and most likely would sell into spread tightening.

Fed rate cuts, interest rate volatility and the finalization of bank capital rules will all be factors to watch in the second half of 2025.



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.

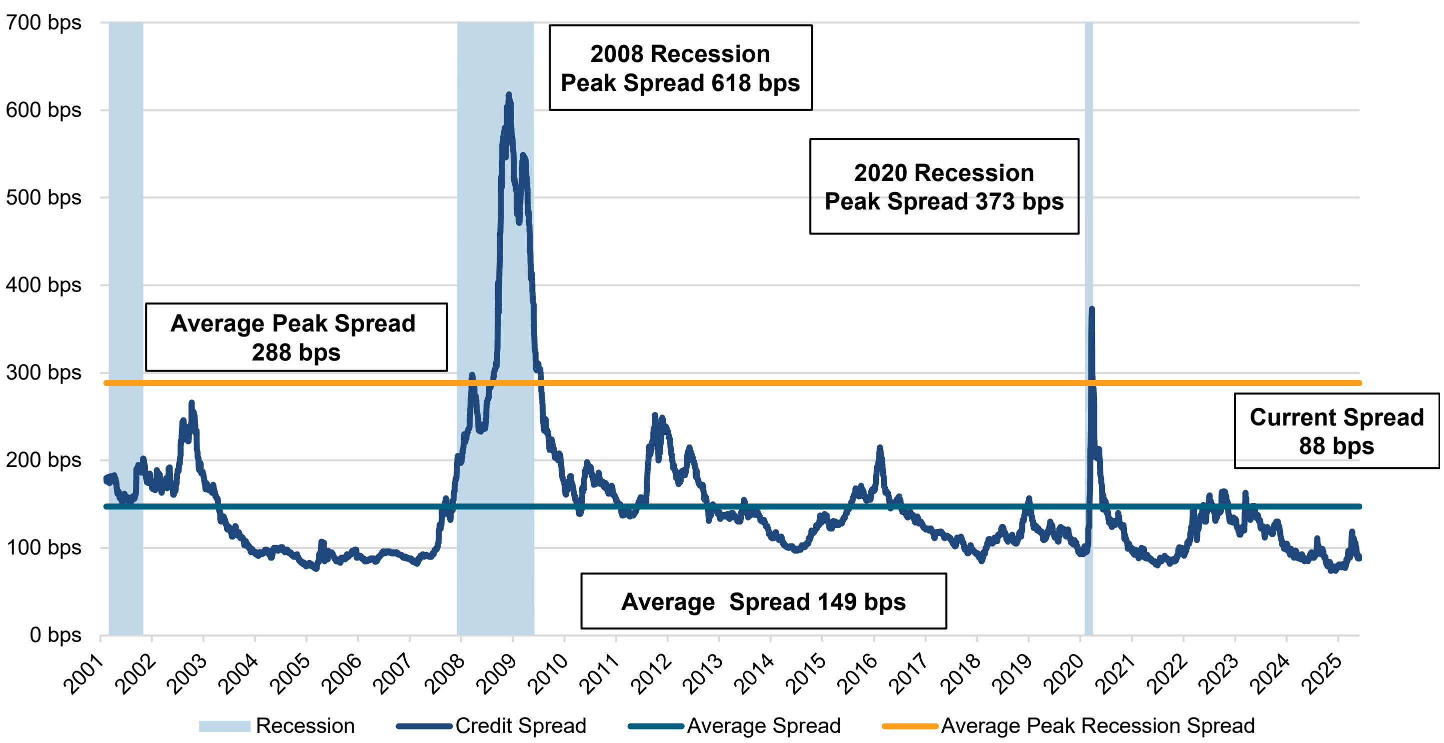
Past performance is no guarantee of future results.
Indexes are unmanaged and do not reflect fees and expenses. One cannot invest directly in an index.

20250630-4604082

Investment Grade Corporate Bonds

Corporate spreads remain tight. While the tariff situation caused Investment Grade Corporate spreads to temporarily increase, the pause in implementation brought spreads back to pre-tariff announcement levels. Spreads remain near historical lows, although some sectors are wider reflecting tariff and economic uncertainty. The spread environment suggests investors should adopt a defensive and patient posture and be selective in taking on credit risk.

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. Basis point “bps” is 1/100th of a percentage point.

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

Past performance is no guarantee of future results.

20250630-4604082

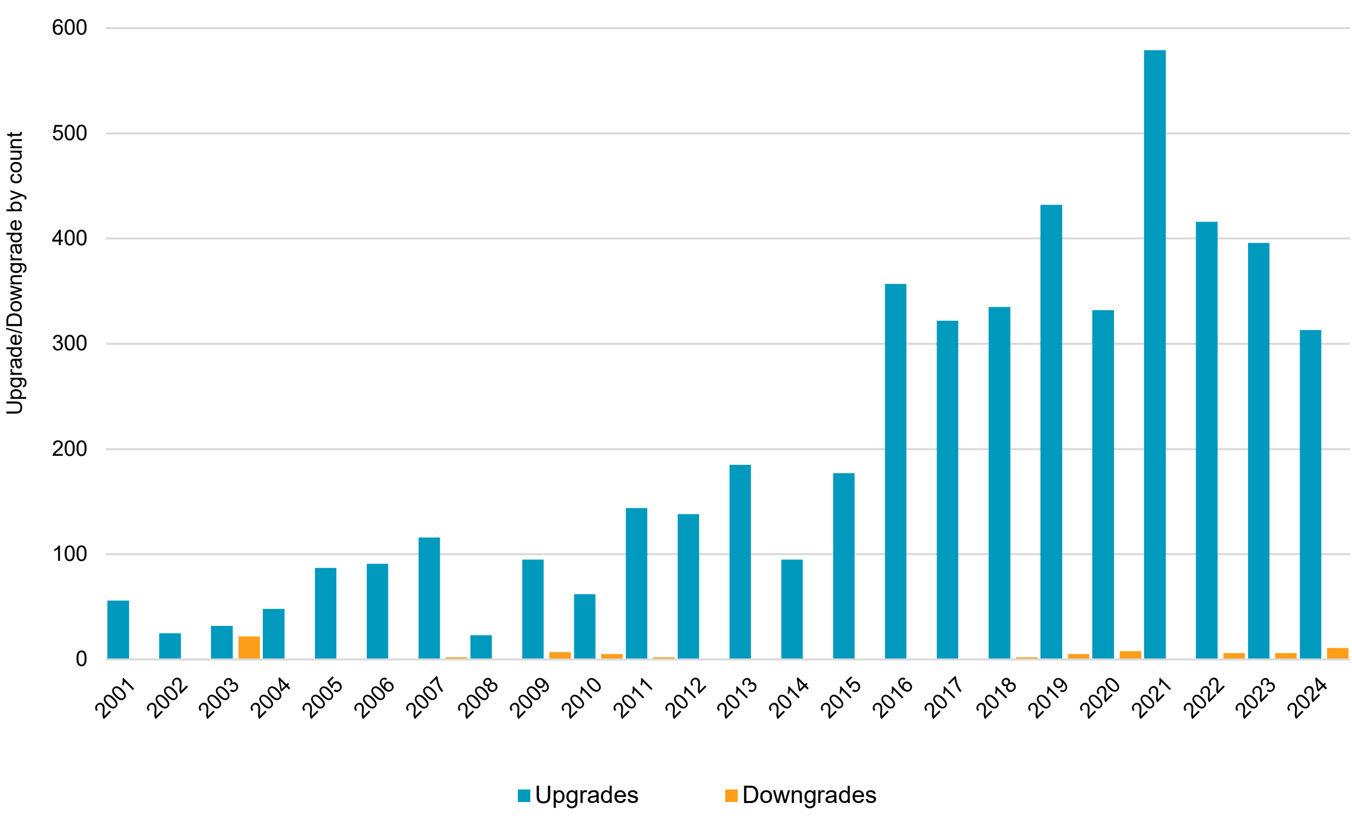
Asset-Backed Securities (ABS)

We expect ABS to Outperform in the second half of 2025. The gap between ABS and short corporate bond spreads has narrowed but remains wide relative to history.

The Auto ABS market has robust structures that have been able to withstand severe recessions like the Global Financial Crisis (GFC) and Covid. We have confidence that these structures can also withstand tariff related pressures on auto demand and/or recovery values.

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

S&P Auto Loan ABS Upgrades vs. Downgrades



As of January 31, 2025

Source: S&P

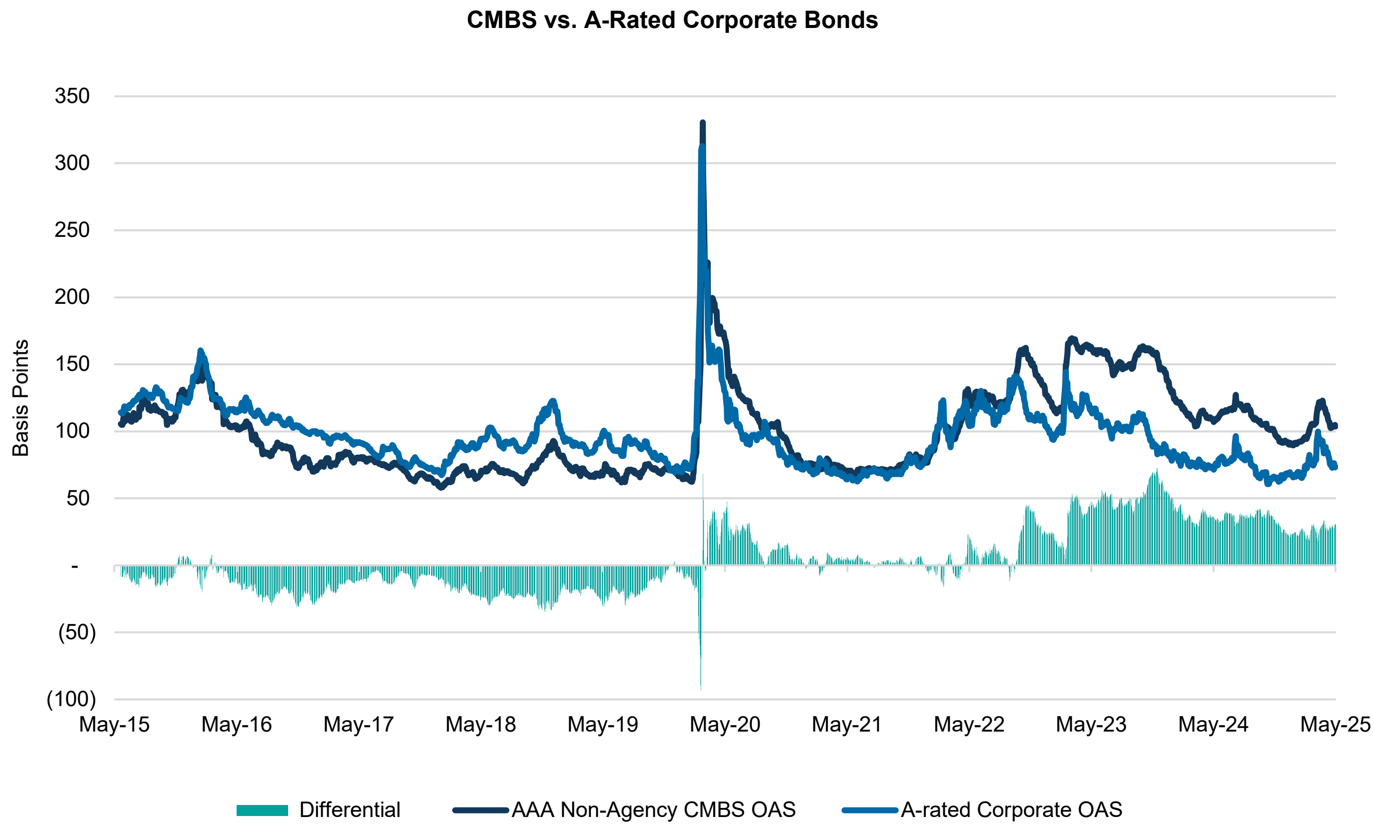
20250630-4604082

Commercial Mortgage-Backed Securities (CMBS)

We expect CMBS to Market Perform in the second half of 2025. Even though the gap between CMBS and corporate bond spreads has narrowed, it remains wide vs. the pre-covid relationship between the two asset classes.

We temper our outlook to Market Perform due to the tendency for CMBS to trade with a high beta to corporate spreads, which are near cyclical tights.

Interest rates, lending market conditions and secular demand issues within the office sector remain the primary indicators to watch.



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

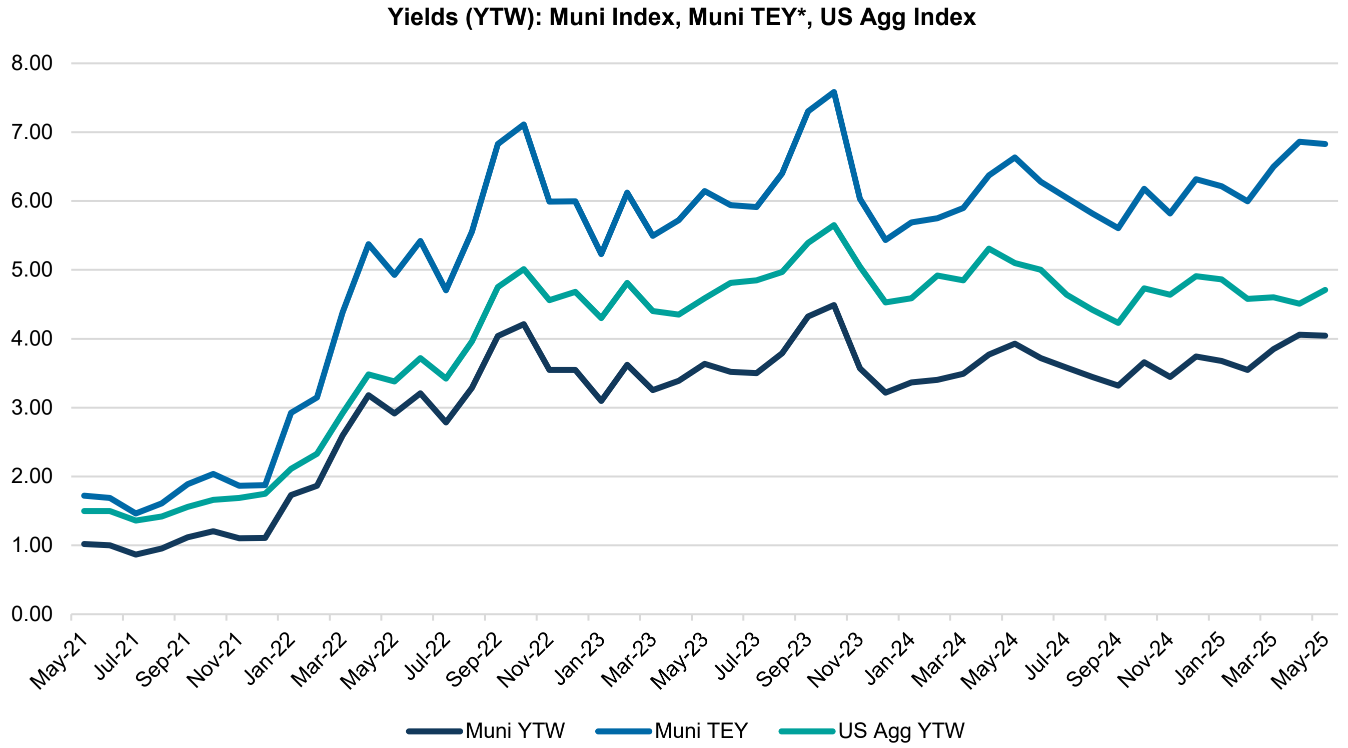
20250630-4604082

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 May 2025, the yield on the Bloomberg Municipal Bond Index was 4.04% which is a taxable-equivalent yield of 6.83% (in the highest tax bracket). This compares quite favorably to the 4.71% 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 into the second half of 2025, 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.



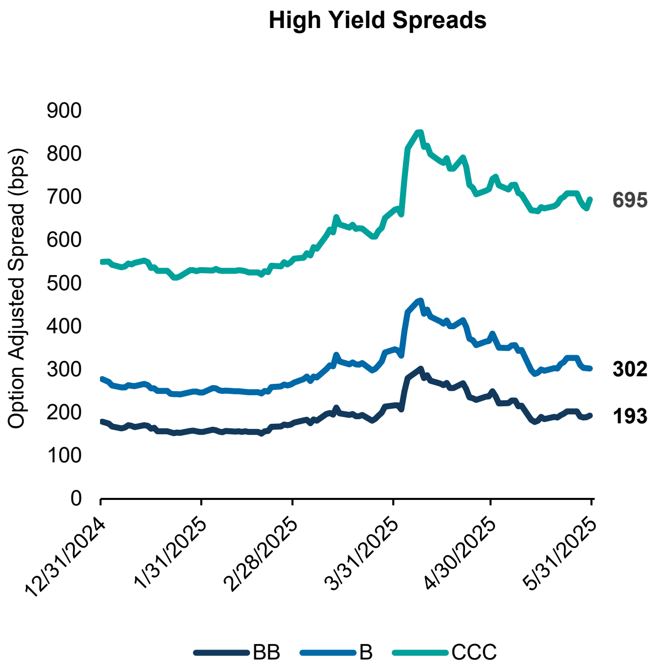
*Tax Exempt Yield

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%).

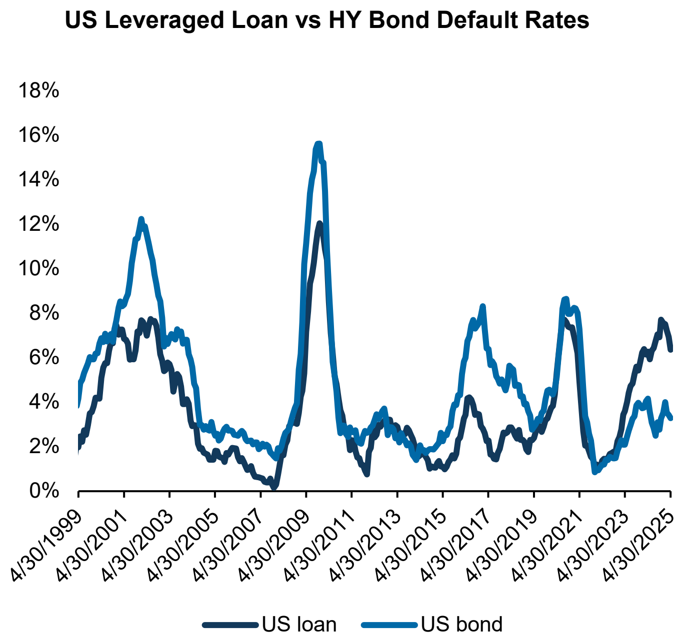
Past performance is no guarantee of future results.
Indexes are unmanaged and do not reflect fees and expenses. One cannot invest directly in an index.

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.



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



Source: Moody's

High Yield bonds, aka 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.

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.

20250630-4604082

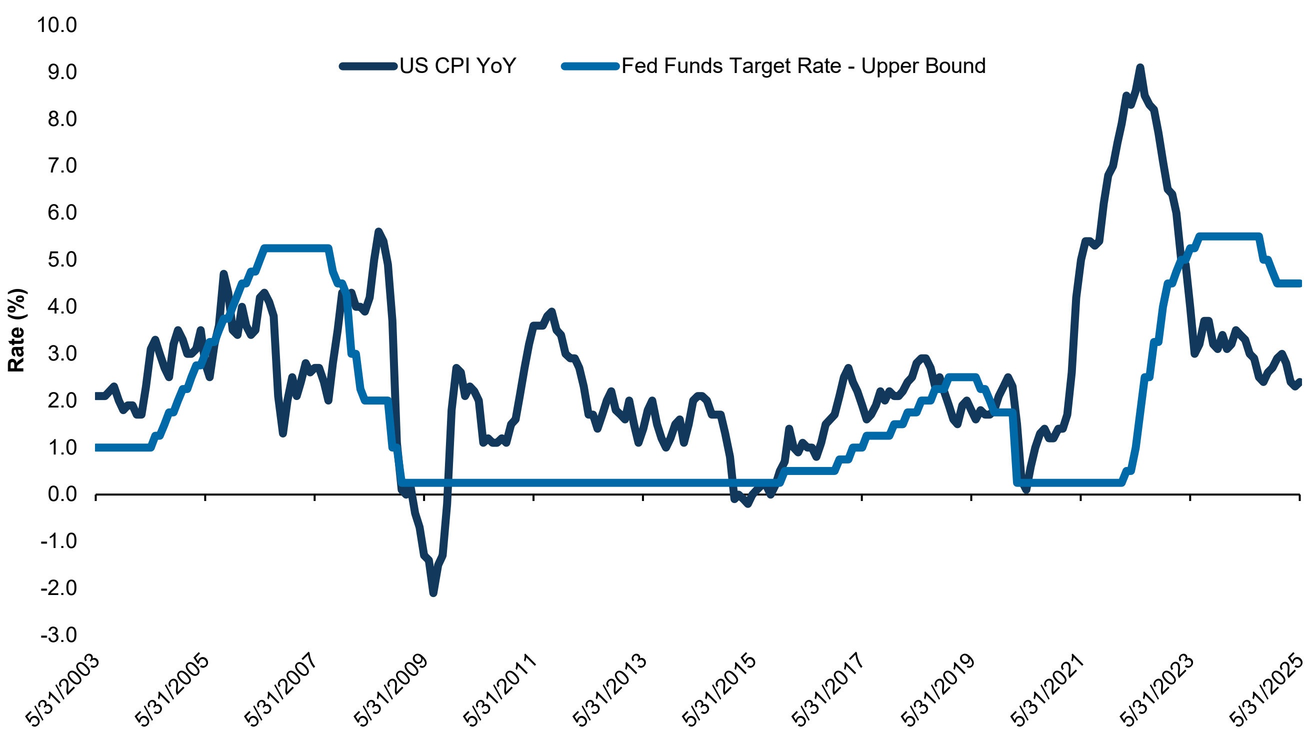
Money Markets

We expect money market rates to decline in the second half of 2025. Though still above its 2% target, the FOMC recognizes that inflation has begun to moderate and thus will eventually cut rates.

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.

Fed Funds vs. CPI



Source: Bloomberg

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.

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

20250630-4604082

Disclosures

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

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.

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.

Yield to Worst (YTW) is the lowest possible yield received on a bond, absent default.

Dividend Yield is total cash dividends paid as a percent of market capitalization at the end of the period. The yield for the index is the total of all dividends paid over twelve months divided by the total market capitalization.

This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding, or a recommendation of, any security or market sector, but as an illustration of broader themes.

Information and opinions presented have been obtained or derived from sources believed to be reliable and current; however, we cannot guarantee the sources' accuracy or completeness.

Advisory services offered by Victory Capital Management Inc.

V21.069 // VINC Mid-Year Outlook PRES