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USAA NASDAQ-100 INDEX FUND QUARTERLY COMMENTARY

USAA® MUTUAL FUNDS

As of June 30 , 2022

Market Commentary

The NASDAQ-100 Index declined sharply in the second quarter, adding to its sizable downturn in the first three months of the year. The weak first-half performance caused the index to give back all of the gains it had achieved since late 2020.

Rising inflation, together with the U.S. Federal Reserve's (Fed's) aggressive interest-rate hikes, were the key factors weighing on the market. Inflation hit its highest level in over 40 years, and the Fed was forced to respond with rate increases of 25 basis points (one quarter of a percentage point) in March, 50 basis points in May, and another 75 in June. Rising rates, in turn, reduce the future value of earnings when discounted back to today's dollars. This has been a significant headwind for growth stocks, a market segment that is heavily represented in the NASDAQ-100 Index. While smaller companies without current earnings were hit the hardest, even the profitable mega-cap stocks that led the market higher in 2020-2021 experienced underperformance in the first half of the year.

Fund Performance and Positioning

The USAA NASDAQ-100 Index Fund slightly underperformed its benchmark in the quarter, primarily due to the impact of Fund expenses. The NASDAQ-100 Index includes 100 of the largest domestic and international securities listed on the NASDAQ Stock Market based on market capitalization. All but a handful of the index's individual holdings suffered negative returns, with gains for only a small group of consumer and health care stocks. The American Depositary Receipts (ADRs) of Chinese companies also delivered gains as the nation's government began to pull back on both its regulatory crackdown and its strict COVID-19 lockdown policies. On the other hand, approximately half of the stocks in the index lost more than 20% in the quarter. Semiconductor shares, which were hurt by concerns that slowing economic growth will lead to weaker demand, were among the weakest performing sectors. Stocks that had performed well during the COVID-19 pandemic, but that now stand to see slower growth as the economy reopens, also produced losses in excess of the broader index.

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