# TARGET RETIREMENT FUNDS QUARTERLY COMMENTARY

USAA MUTUAL FUNDS

As of December 31, 2020

## USAA Target Retirement 2030 Fund // USAA Target Retirement 2040 Fund // USAA Target Retirement 2050 Fund // USAA Target Retirement 2060 Fund // USAA Target Retirement Income Fund

### Market Commentary

The global financial markets produced healthy returns in the fourth quarter, wrapping up a positive year for the major asset classes. Investors' appetite for risk improved considerably in early November, when the approval of vaccines for COVID-19 raised expectations that the world economy could gradually return to normal in 2021. The conclusion of the U.S. elections, which removed a source of uncertainty that had depressed performance in September and October, was an additional tailwind. The markets were also aided by continued indications that the U.S. Federal Reserve and other central banks would maintain their highly accommodative policies indefinitely. Not least, an agreement on a new round of U.S. fiscal stimulus further cheered investors in late December. Together, these developments outweighed negative headlines surrounding renewed lockdowns and the persistence of the coronavirus.

The favorable environment was particularly helpful for equities, which delivered impressive returns across all geographies, styles, and sectors. The quarter was notable for the broadening of market leadership. Mega-cap U.S. technology stocks—which dominated other market segments in the first ten months of the year due to elevated investor demand for relative safe havens—fell somewhat out of favor as the vaccine encouraged market participants to search for opportunities elsewhere. This translated to outperformance for the value style versus growth, and for small companies in relation to large caps. In another notable departure from recent trends, the international markets (both developed and emerging) outpaced the United States. This shift largely reflected the continued decline in the U.S. dollar, boosting the returns of foreign stocks for U.S.-based investors.

Investment-grade bonds generated modest total returns in the fourth quarter. Longer-term U.S. Treasuries, which had delivered robust gains through the first nine months of the year, lost ground due to the hopes for improving growth in 2021. Although investors remained confident that short-term interest rates would remain low indefinitely, there was little room for meaningful upside with yields already at very low levels following the rally in the first half of the year. (Prices and yields move in opposite directions.) Investment-grade and high-yield corporate bonds outperformed government debt, continuing a trend that was in place over the previous two quarters.

### Fund Performance and Positioning

All of the Funds in the Target Retirement Series generated strong absolute returns, with gains in both the equity and fixed-income portfolios. With the exception of the USAA Target Retirement Income Fund, the Funds trailed their respective benchmarks. However, we believe they remain well positioned for longer-term outperformance. The USAA Target Retirement 2020 Fund merged into the USAA Target Retirement Income Fund on November 20, 2020.

As would be expected given the nature of the broader investment environment, the Funds' allocations to equities made the largest contribution to absolute returns. On a relative basis, the Funds were helped by being overweight in the developed and emerging markets versus the United States. This is a longer-term aspect of our positioning which reflects our view that non-U.S. markets offer more attractive valuations. While the U.S. market has now outperformed international equities for several years, it's important to keep in mind that the two categories have in fact alternated leadership over time. It's impossible to say if the trend of the past quarter points to a longer-term shift, but we think the valuation gap between U.S. and foreign stocks provides a firm foundation for the latter group's relative performance to improve.

We construct the Fund's equity portfolios with a tilt toward factor combinations we believe have the potential for longer-term outperformance. For instance, we are currently favoring the value style over growth on the belief that it is poised to play "catch-up" following a long stretch of underperformance. This element of our strategy, while aiding the Funds' results in the quarter, was offset by the weaker relative returns from our preference for higher-momentum stocks and higher-quality companies. Holdings in dividend-oriented and lower-volatility strategies, although producing substantial gains in absolute terms, nonetheless were unable to keep pace with the rally. We maintain this positioning on the view that this combination of factors should outperform the broader market, particularly if investors continue to rotate away from the growth style. However, we did make a modest reduction in the Funds' allocations to lower-volatility strategies.

The Funds' bond portfolios contributed to absolute returns and benchmark-relative performance. In the aggregate, the performance of the underlying funds was helped by the managers' preference for credit-oriented investments (such as corporate bonds) over U.S. Treasuries and other forms of government debt. We believe corporates' higher yields provide a distinct longer-term return advantage at a time in which the latitude for rising prices has diminished. The Funds in the Target Retirement Series also benefited from an overweight position in the strong-performing high-yield category.

It's unlikely that stocks and other higher-risk assets can continue to rise at the pace they did in the final two months of the year, so some caution may be warranted in the near term. With this said, we believe the rally of the past two months reflects some real, positive developments in the global economy. The world remains awash in the sea of liquidity being provided by central banks, and higher government spending appears to be on tap not just in the United States, but overseas as well. We think these factors will be the catalyst for a period of synchronized global growth, with all regions experiencing an economic expansion. This would represent the first time this has happened in more than ten years. In our view, these circumstances are likely to provide a continued tailwind for financial assets in the year ahead. We believe the Funds, by virtue of our emphasis on fundamentals, valuations, and diversification across a wide range of asset classes and geographies, are well positioned both to capture opportunity and mitigate risk as we move through 2021.

**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. Read it carefully before investing.**

**All investing involves risk, including the potential loss of principal.** Asset allocation and diversification do not promise any level of performance or guarantee against loss of principal. The Fund will reflect the risks and incur the expenses of the underlying funds in which it invests. The Fund does not provide guaranteed income, nor is the principal value of the Fund guaranteed at any time. 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.

Diversification neither assures a profit nor eliminates the risk of experiencing investment losses.

The opinions are as of the date noted and are subject to change at any time due to changes in market or economic conditions. The comments should not be construed as a recommendation of individual holdings or market sectors, but as an illustration of broader themes.

Discussion based on the Fund share class.

Holdings, if any, are subject to change without notice and should not be considered purchase recommendations.

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