

# Claim “Victory” with Two Fixed Income ETFs

Is the time right for investors to increase or consider a new allocation to actively managed, fixed-income exchange traded funds (ETFs)? VictoryShares thinks so, and they offer two intriguing ETFs that may be able to generate attractive interest income while taking advantages of fundamental analysis and relative value driven portfolio construction. Unlike passive funds that blindly track an index, actively managed fixed income ETFs can use fundamental analysis to select (and avoid) securities in an attempt to outperform their benchmarks. Of course, investors today can choose from a variety of active ETFs, so careful due diligence is always key.

## Difficult Days

The past year has not been easy for fixed-income investors. The Federal Reserve has adopted a very hawkish policy stance in an effort to tame inflation, evidenced by the Fed raising short-term interest rates multiple times this year by a whopping total of 4.25 percentage points. That’s significant—even historic. As a result, it’s no surprise that many fixed income funds—including the most popular index funds—turned in their worst performance in decades.

But it’s not all bad news, and investors should remember that if they invest in bonds primarily for their income potential, the new higher-interest rate environment provides an excellent setting for that compared to just a short time ago. Moreover, any moderation in the current aggressive rate-hike cycle should make it a tad easier on bond investors going forward. Growing fears of a recession, for example, could also send investors back into fixed income. So, too, could easing fears about inflation.

So how should fixed income investors position coming off this difficult year? Do they simply continue to allocate to the largest passive funds and take their lumps? Or is there a better way?

One approach worth investigating may be to allocate to a pair of actively managed bond ETFs in hopes of capturing greater income while managing interest rate risk. Investors might look towards the VictoryShares USAA Core Short-Term Bond ETF ([USTB](#)) and the VictoryShares USAA Core Intermediate-Term Bond ETF ([UITB](#)). Together, these funds—which both sport 5-star Overall Morningstar Ratings™ in their respective categories—can form the building blocks of a diversified, income-oriented portfolio. Both these products offer diversified exposure to credit with a keen eye to relative value assessment to manage risks within the portfolios.

As a short-term bond fund, USTB aims to offer greater insulation against rising rates than longer-duration alternatives. Plus, with the yield curve being inverted—a relatively unusual occurrence whereby shorter-term rates are higher than their longer-term counterparts—investors might benefit from an allocation to shorter-term bonds. Moreover, short duration credit assets, in the team’s assessment, have historically had strong risk-adjusted return characteristics.

To further improve diversification, pairing a short-term bond fund with an allocation to an actively managed intermediate bond fund might also help round out core fixed income exposure. Actively managed is worth underscoring here. As of late 2022, UITB remained underweight certain low-yielding sectors compared to its benchmark, the Bloomberg US Aggregate Bond Index (the AGG). Approximately 70% of the AGG, which coincidentally is the most widely used fixed income index and a proxy for a diversified bond portfolio, is comprised of U.S. government securities (Treasuries and Agency MBS). However, by avoiding some of these fixed income assets during challenging rising-rate periods such as this year, illustrates the potential of active management. After all, income drives returns over time, so the ability to tilt one's core bond portfolio holds appeal. In addition, an active approach also allows UITB to own taxable municipal bonds and other minimally represented asset classes in the AGG.

## Choose Active

With interest rates having risen so far and so fast over the past year, it's easy for investors to forget the traditional benefits of fixed income. But today, with rates at or near 10-year highs across the investment-grade spectrum, we not only see attractive income potential ahead, but also fixed income resuming its historical role as an overall portfolio diversifier.

And when it comes to building a fixed-income portfolio, using a pair of actively managed short- and intermediate-term ETFs such as USTB and UITB might prove to be a solid approach going forward. But if you are to choose active, be certain of the team. In this case, USTB and UITB is managed by an experienced team with an expertise in bottom-up security selection. The aim is to take advantage of the continual changing dynamics in the fixed income market and outperforming passive indexes over the long haul. After all, there's no reason to settle for average.

*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](http://www.vcm.com/prospectus). Read it carefully before investing.*

All investing involves risk, including the potential loss of principal. ETF redemptions are limited and commissions are often charged on each trade. ETFs may trade at a premium or discount to their net asset value. 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.

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") 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. Small movements in interest rates may quickly and significantly reduce the value of certain MBS.

Derivatives may not work as intended and may result in losses.

VictoryShares ETFs are distributed by Foreside Fund Services, LLC (Foreside).

Duration is a weighted average of the maturity of all income streams from a bond or portfolio of bonds. Generally, the higher the duration, the more sensitive the bond or bond portfolio to changes in interest rates.

The Bloomberg U.S. Aggregate Bond Index (BBG US Aggregate) measures the investment grade, USD-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS, ABS and CMBS.

The Bloomberg 1-3 Year Credit Index (BBG US Agg Credit (1-3 Y)) measures the performance of investment grade corporate debt and sovereign, supranational, local authority and non-U.S. agency bonds that have a remaining maturity of at least one year and less than three years.

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As of October 31, 2022 VictoryShares USAA Core Short-Term ETF (USTB) received a Morningstar Rating of 5 stars Overall, 5 stars for the 3-year period and 5 stars for the 5-year period against 547, 547 and 483 Short-Term Bond Funds, respectively. Past performance is not a guarantee of future results.

As of October 31, 2022, VictoryShares USAA Core Intermediate Term Bond ETF (UITB) received a Morningstar Rating of 5 stars Overall, 4 stars for the 3-year period and 5 stars for the 5-year period against 403, 403 and 363 Short-Term Bond Funds, respectively. Past performance is not a guarantee of future results.

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