

Get Ready for Rising Rates with the Victory Market Neutral Income Fund

The first quarter of 2022 has not been an easy one for investors. Geopolitical turmoil has roiled markets and ushered in higher volatility. Meanwhile, the Federal Reserve looks to embark on a new rate-hike cycle. So where should income-oriented investors turn in the face of these potential headwinds?

One possibility is an alternative income vehicle such as the Victory Market Neutral Income Fund ([CBHIX](#)). This nuanced fund employs a unique strategy that may be appealing to investors who are not only seeking to diversify their portfolio with a new source of potential income but also those that may be interested in a fund with historically lower levels of volatility compared to stocks and a low correlation to, both, stocks and bonds.

Given the rising inflation risks and declining labor market slack, the Fed has signaled that there could be a handful of rate hikes in 2022 and beyond. The [summary of economic projections](#) from the Federal Open Market Committee's recent meeting indicates that the majority of committee members have a target Fed Funds Rate range of 0.75% to 1% for this year and perhaps even higher in 2023, depending on how the economy performs.

Generally, when interest rates rise, the prices of existing bonds decrease as investors gravitate toward newer issues coming to market that offer higher interest payments. Rising rates can also have a negative effect on the stock market given higher anticipated borrowing costs which, in turn, can act as a brake on economic growth.

Although the Fed has telegraphed its intent to raise rates in order to combat inflation, investors may want to reconsider the conventional 60/40 portfolio, generally viewed as a balanced mix of 60% stocks and 40% bonds. By reducing part of a traditional fixed income allocation and incorporating an equity fund that may provide an alternative source of income into their portfolio, investors might be able to tap into dividend income while mitigating some of the risks associated with higher rates (i.e. removing fixed income duration risk entirely).

The Victory Market Neutral Income Fund is one fund that has outperformed the Bloomberg US Aggregate Index (a well-known domestic bond index that is a common proxy for a diversified bond portfolio) during periods when the 10-Year Treasury increased by 100 basis points or more. Treasury yields have already moved this far off their lows (earlier in the pandemic), and they look poised to possibly head even higher now.

Another important feature of the Victory Market Neutral Income Fund is that it aims to remain neutral to the stock market, and, as such, it has a history of outperforming the S&P 500® Index during declines of 500 basis points or greater. That could be comforting to investors, given the stock market's performance during the first quarter of 2022.

"As volatility spiked early in the year and interest rates looked like they were poised to push even higher, many investors were looking for reliable, attractively priced strategies that could offer consistent levels of income but without the interest rate risk and with potentially less risk than other equity funds," explains Scott Kefer, Senior Portfolio Manager for VictoryShares and Solutions. "The Victory Market Neutral Income Fund seems to be tailor-made for just such an environment."

Kefer goes on to explain that the fund employs a systematic and repeatable methodology to seek attractive income and other potential benefits. This includes a few key steps:

1. Capturing income from a global portfolio of high dividend-paying stocks. Specifically, the Victory Market Neutral Income Fund allocates to the stocks underlying the Nasdaq Victory High Dividend Volatility Weighted Indexes.
2. Leveraging short equity index futures to neutralize equity beta. Or, more simply put, aim to neutralize the volatility associated with the stock market by shorting very liquid index futures to offset equity exposure.
3. Applying a futures overlay strategy to address basis risk.

Given its unique profile, Kefer believes the Victory Market Neutral Income Fund can serve as a legitimate supplement to enhance an investor's overall diversified portfolio, though every investor's situation is, of course, different. It's also noteworthy that this fund has historically received favorable tax treatment because the income (if any) it generates is treated as qualified dividends. All in all, this is an equity fund that aims to maintain a risk profile similar to traditional bonds, but obviously does not have duration risk.

"This fund typically caters to investors seeking yield-generating alternatives," Kefer says. "The fund is generating a lot of interest these days from both institutions and individual investors, and we think it's the right product with a series of benefits regardless of the current rate environment."

VCM Disclosure:

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. Not all share classes are available to all investors.

All investing involves risk, including the potential loss of principal. In addition to the normal risks associated with investing: International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. Investments in smaller companies typically exhibit higher volatility. Dividends are never guaranteed. Derivatives may not work as intended and may result in losses. 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.

Basis risk refers to the financial risk that offsetting investments in a hedging strategy will not experience price changes in entirely opposite directions from each other. **Beta** is a measure of the volatility, or systematic risk, of a security or beta portfolio relative to the market or a benchmark. **The Bloomberg U.S. Aggregate Bond Index** measures the investment grade, USD-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS, ABS and CMBS. **Correlation** measures the degree to which two securities move in relation to each other. Perfect positive correlation (correlation coefficient +1) implies that both securities move in lockstep. Perfect negative correlation (-1) means that two assets move in opposite directions, while a zero correlation implies no relationship at all. **Futures (Contract)** is an agreement traded on an organized exchange to buy or sell assets, especially commodities or shares, at a fixed price but to be delivered and paid for later. **Liquidity** is the ease with which an asset, or security, can be converted into ready cash without affecting its market price. **Long (Position)** is a long position in a financial instrument means the holder of the position owns a positive amount of the instrument. The holder of the position has the expectation that the financial instrument will increase in value. **An Overlay Strategy** uses derivative investment vehicles to obtain, offset or substitute specific portfolio exposures that are beyond those provided by the underlying portfolio assets. **Short (Position)** refers to a trading technique in which an investor sells a security with plans to buy it later. Shorting is a strategy used when an investor anticipates the price of a security will fall in the short term. **The S&P 500® Index** is a market-capitalization-weighted index that measures the performance of the common stocks of 500 leading U.S. companies.

Nasdaq is a registered trademark of Nasdaq, Inc. and its affiliates (together, "Nasdaq") and is licensed for use by Victory Capital.

The products are not issued, endorsed, sold, or promoted by Nasdaq.

Nasdaq makes no warranties as to the legality or suitability of, and bears no liability. The Fund is distributed by Victory Capital Services, Inc. 20220331-2077778

© 2022. Nasdaq, Inc. All Rights Reserved. 0483-Q22