Quarterly Market Outlook

After the remarkable rebound in Q3, growth will inevitably slow in the following quarters, but that slowdown could be intensified by several downside risks. Second wave of coronavirus infections during the northern hemisphere winter could lead to tougher social distancing restrictions, which would impair further recovery.

Although supportive fiscal and monetary policies will not be able to prevent a slowdown in response to the second wave of infections, they will be able to continue to mitigate the damage to the private sector and labor markets.

Table of Contents

3 Quarterly Capital Market Review and Outlook – *In the absence of strong Covid-19 lockdown measures, U.S. activity should continue to grow, although at a slower pace, in the last quarter of 2020. BBVA USA Research anticipates U.S. GDP will end the year with a 4.6% decline. Uncertainty around the outlook for 2021 remains elevated and conditional on how effective the next administration and Congress are at tackling the economic costs of the pandemic, and how quickly the economy can adapt to the post-Covid reality without extended monetary and fiscal support.*

4 Economic Outlook – *Cool Down*

While economic activity has shown signs of recovery following the rollback of social distancing measures in May and June, risks to the downside remain elevated as the number of coronavirus cases in the U.S. continues to rise.

7 Equity Outlook – *The Past, Present, and Future*

Despite exceptionally high valuations, the historic low yields on bonds means that spread is still tilting toward stocks. Unfortunately, barring a new pro-growth environment, investors are looking at historically-low expected returns across the board.

10 Fixed Income Outlook – *Range Bound?*

Credit markets, backed by the liquidity and open market purchases of the Federal Reserve, continued to stabilize in the third quarter. It would be prudent to assume that 10-year interest rates continue to close under 1.00% for the remainder of the year, and with the Fed backstopping the market, that credit risk spreads should continue to be tame.

Quarterly Capital Markets Review and Outlook

U.S. Economic Outlook

- Economic output has surged as lockdown restrictions have eased and some economic activities have been restored. Economic policy continued to be a key catalyst to growth, particularly fiscal policies that sustained household incomes despite a collapse in hours worked.
- Coinciding with the strong recovery in economic growth, the labor market continued its improvement with strong gains in leisure & hospitality, retail, and professional & business services. While the pace of the improvement in employment will likely be more gradual.
- The change in the Federal Reserve's forward guidance signals they intend to keep interest rates at the zero lower bound indefinitely. The Fed communicated it intends to remain very supportive through 2023, and communicated no meaningful changes to their current strategy on asset purchases.

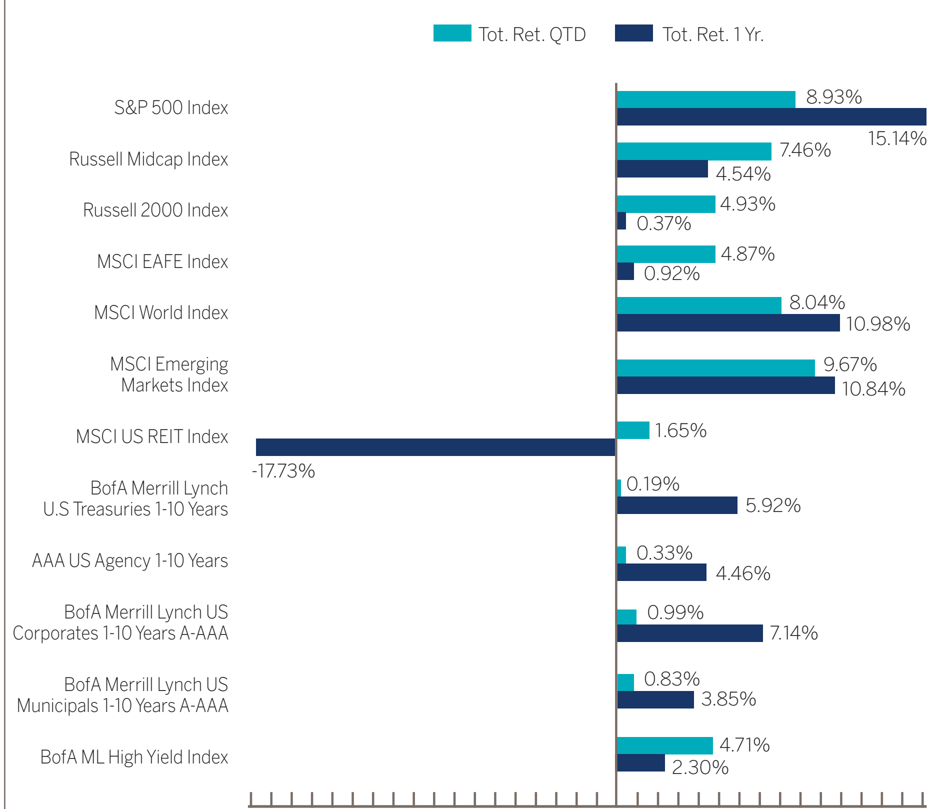
Equity Outlook

- With concerns and anticipation building around COVID this winter, the upcoming earnings season is likely to be especially meaningful to market outcomes. We are already seeing a record low number of companies releasing guidance making it especially difficult to assess the direction of earnings.
- Despite exceptionally high valuations, the historic low yields on bonds means that spread is still tilting toward stocks. Unfortunately, barring a new pro-growth environment, investors are looking at historically-low expected returns across the board.
- While COVID is likely to have the greatest impact to the economy and markets over the next six months, the election results could also produce short-term volatility. A change in regime would also likely impact economic and market trends.

Fixed Income Outlook

- The fixed income markets were relatively stable in the third quarter of 2020. After the initial shock and volatile reaction of the market in the first quarter, the Fed programs and fiscal stimulus enacted in the spring calmed the credit markets.
- Credit spreads in the secondary market generally tightened in the first part of July before settling into a pretty narrow range for the remainder of the third quarter. The high yield sector followed a similar path in credit spreads throughout the third quarter. Municipal bond yields were range bound for much of the third quarter - the positive returns were driven by steady investor demand as investors continue to be attracted to municipal bonds not only for tax-free income, but for the attractive relative value.
- For the remainder of 2020 the markets will focus on the continuing effects of the coronavirus pandemic, the attempts by Congress to pass additional fiscal stimulus after the elections, and the pace of the recovery in the employment markets. It would be prudent to assume that 10-year interest rates continue to close under 1.00% for the remainder of the year, and with the Fed backstopping the market, that credit risk spreads continue to be tame.

Total Returns - 3Q20 and 1 Year



Source Bloomberg

Economic Outlook

Cool Down

Economic output has surged as lockdown restrictions have eased and some economic activities have been restored. Economic policy continued to be a key catalyst to growth, particularly fiscal policies that sustained household incomes despite a collapse in hours worked. After the remarkable rebound in Q3, growth will inevitably slow in the following quarters, but that slowdown could be intensified by several downside risks. A second wave of coronavirus infections could lead to tougher social distancing restrictions, which would impair further recovery; this second wave may already be underway in Europe as the region has seen second wave outbreaks. Fiscal stimulus from the CARES act has faded, and a near-term deal on further measures appears unlikely which could increase financial stress for unemployed workers, state & local governments, and small businesses. Economic activity has picked up strongly after nationwide shutdowns in March and April. It's expected the third quarter will be the strongest quarter of growth in post-war history, as businesses continued to reopen as well as the continuation of aggressive monetary and fiscal stimulus.

Manufacturing purchasing manager indices (PMIs), which measures activity at factories, mines, and utilities, staged a V-shaped recovery, with most major economies signaling an expansion (survey of above 50). In the US, the ISM manufacturing survey surged past pre-pandemic levels, but readings on industrial production seem to be weakening. The ISM manufacturing survey's headline composite declined from 56.0 to 55.4 in September, disappointing expectations. This decline followed strong increases over the prior few months and could mean the manufacturing data will turn more mixed over time as the sector transitions out of a period with robust growth that followed virus-related disruptions. Along with the disappointment in the latest ISM report, the separate Markit manufacturing PMI also came out below expectations, with the headline composite revised down

The U.S. Economy at a Glance

Factor	2020 Low	2020 High	Sept. 2020
Monthly Nonfarm Payroll Gains	-20,537,000	4,800,000	661,000
Unemployment Rate	3.5%	14.7%	7.9%
ISM Manufacturing Production Index (above 50 indicates expansion)	41.5	59.3	59.3
ISM Non-Manufacturing Production Index (above 50 indicates expansion)	41.8	58.1	56.6
Annualized Housing Starts	891,000	1,599,000	1,415,000
U.S. Euro-to-Dollar Exchange Rate	1.07	1.19	1.17
Conference Board Consumer Confidence Index	84.8	131.6	100.9
Inflation (PCE, year-over-year)	1.0%	1.8%	1.5%
Price of Oil/Barrel – West Texas Intermediate (WTI)	$-37.63	$63.27	$40.22

Source: Bloomberg Professional Terminal®
Figures as of release date, not accounting for revisions.

from 53.5 to 53.2 between the flash and final September reports.

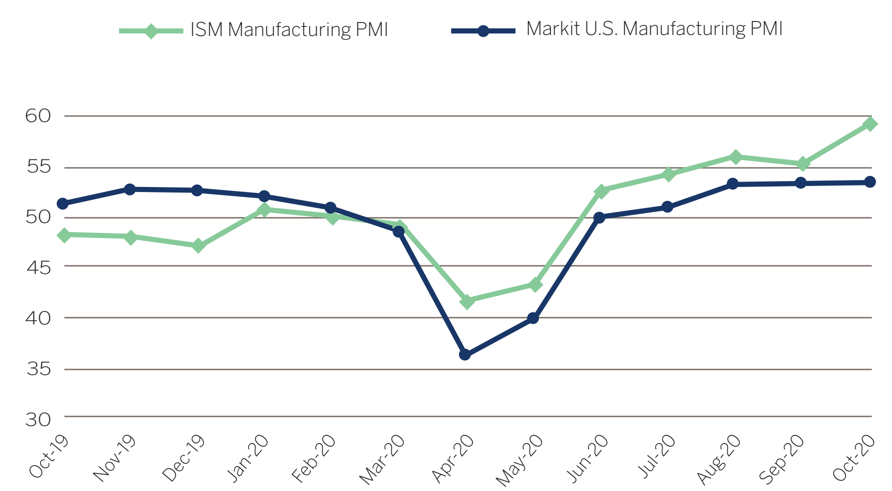
Trade-related frictions from the pandemic weighed heavily on net exports in 3Q20, pushing the deficit to the highest level ever at $1.0Tn in real terms. As a share of GDP, the trade deficit (-3.5%) was the highest in 8 years but significantly lower than the record of -5.9% back in 2005. Similarly, federal, state, and local expenditures also declined due to the drop in fees paid to administer the Paycheck Protection Program loans at the Federal level and dire fiscal positions of most state and local governments have led to nontrivial cutbacks.

For consumption, the unprecedented fiscal stimulus and pent up demand pushed durable goods spending up to $300bn on an annualized basis to 2.0Tn, nearly $215bn above the pre-pandemic levels. Consumer spending may have rebounded quickly in the third quarter, but is expected to slow into the end of the year. Fiscal stimulus from the CARES Act boosted household income through the summer, but that support is fading. $1,200 economic impact payments were a one-off measure in April and May, and the enhanced $600 per week unemployment benefits expired at the end of July.

For services, precautionary and compulsory distancing contributed to a muted recovery which remains well below the pre-pandemic peak. In fact, food service and accommodation, recreation, transportation and medical care services stand between 7 and 32% below pre-pandemic levels in spite of respective increases on an annualized basis in 3Q20, signaling the service sector remains on mend. Service spending is unlikely to fully recover as long as COVID-19 contagion remains widespread. Regional outbreaks could lead to new shutdowns and restrictions, and moving activities outdoors is less practical as the weather cools in the autumn and winter. Meanwhile, some of the strength in goods consumption could prove to be temporary – driven by stimulus payments or one-off purchases to adapt to lifestyle changes due to the pandemic. There is still room for consumer spending to grow above trend. Household finances were surprisingly healthy, given the weakness in growth and the labor market. This was due to several factors. Stimulus programs caused disposable income to rise during the peak of labor market stress in April and May. The pullback in consumer spending led to a sharp increase in the savings rate. Lastly, a wave of mortgage refinancing also boosted cash flows for many households.

Prices, gauged by the Consumer Price Index, have normalized in some of the hardest-hit categories of spending – including travel, restaurants, and apparel. CPI started the quarter at a little under 1%

U.S. Manufacturing - PMI (October 2019 - 2020)



* Markit Manufacturing numbers in chart are the final monthly readings, not preliminary readings.

* Index readings greater than 50 indicate expansion of the manufacturing segment, below 50 indicates contraction.

Source: Bloomberg Professional Terminal®

Economic Outlook continued

and rose over 0.4% in August. With little change in September, headline CPI ended the quarter at 1.4%. Much of this healthy rebound in the third quarter has been primarily driven by a rise in the prices of core commodities, while core services continue to remain relatively suppressed. This trend is partially attributable to the tug of war in transportation commodities (i.e. automobiles and parts) vs. transportation services (i.e. airfares), another indication of the potential to unlock inflationary pressure resulting from a significant advancement in Covid-19 treatments. Furthermore, the recent rise in the demand for housing and subsequent increases in prices is likely to contribute to further inflationary pressure. Inflation expectations over the next 5-years remain anchored around 1.8%. Potential supply-side pressures remain, albeit less so than the risk of a major negative demand-side shock or spillovers from a sharp fiscal contraction. BBVA USA Research's base scenario assumes CPI growth will grow moderately this year and next.

Coinciding with the strong recovery in economic growth, the labor market continued its improvement with strong gains in leisure & hospitality, retail, and professional & business services. Nonfarm payrolls have increased by 10.6M after declining 22M in March and April, resulting in a net drop of 11.5M since the start of the pandemic in February. While the pace of the improvement in employment will likely be more gradual, there are several factors that may indicate a higher possibility of a more rapid recovery than expected. Job openings from the Bureau of Labor Statistics vs. unemployment, indicates the current level of job openings has historically coincided with much lower levels of unemployment. The most recent NFIB Small Business Jobs Report indicated a significant rise in the Small Business Job Openings Hard to Fill Index. Furthermore, eventual progress in advanced therapeutics and/or a vaccine may unlock a wave of job openings across the services sector, and while this may not occur in the near short-term, it's very possible in the next one-to-two years.

The change in the Federal Reserve's forward guidance signals they intend to keep interest rates at the zero lower bound indefinitely. The Fed communicated it intends to remain very supportive through 2023, and communicated no meaningful changes to their current strategy on asset purchases. While the Fed's economic outlook depends significantly on the course of the virus, the committee's projections improved noticeably from June. Based on the latest statement and changes to the committee's Longer-Run Goals and monetary policy strategy, BBVA USA Research believes the Fed will raise policy rates no earlier than 2025.

In the absence of strong Covid-19 lockdown measures, US activity should continue to grow, although at a slower pace, in the last quarter of 2020. BBVA USA Research anticipates U.S. GDP will end the year with a 4.6% decline. Uncertainty around the outlook for 2021 remains elevated and conditional on how effective the next administration and Congress are at tackling the economic costs of the pandemic, and how quickly the economy can adapt to the post-Covid reality without extended monetary and fiscal support. BBVA USA Research implies that under a more optimistic scenario, GDP could return to pre-pandemic levels as early as 1Q22. However, under more pessimistic conditions, the full recovery could take much longer.

Equity Outlook

The Past, Present, and Future

"I am afraid I cannot convey the peculiar sensations of time traveling. They are excessively unpleasant."
– H.G. Wells

In H.G. Wells' classic "The Time Traveler," readers are taken along a fantastical journey by the Time Traveler. As he spins his tale of a perplexing journey into the future, the Time Traveler struggles to reconcile the future and the changes man will face. Likewise, investors in 2020 have felt somewhat fast forwarded into a new reality. In a year where social restrictions have dislocated our seasonal normality, most of us can sympathize with the disorientation expressed by the Time Traveler. In our strange world, we encounter unexpected sources of volatility such as COVID curves and economic lockdowns. We are even evaluating companies on their social distancing characteristics. How well we assess and react to very real social and economic changes will ultimately determine our outcome. Even so, it is the long-term trends that will most impact the patient investor. As the Time Traveler adapted to his new world, the patient investor must keep an eye on the time tested methods of managing volatility while acknowledging current risks and opportunities. Like the Time Traveler, our way forward requires a clear understanding of the past, present and likely future.

The Past

As we entered into 2020, expectations for a robust year economically, a fairly certain electoral outcome and a strong market were almost givens. If you were to travel in a time machine back to December 31, 2019 and tell investors all that had happened in 2020 and ask them to guess where the stock market would be today, our guess is that their speculation would be fairly pessimistic.

As we enter into the fourth quarter 2020, the market is hovering near all-time highs with extended valuations. On September 2, the S&P 500 closed up 61.4% since the market bottom on March 23rd. Since then, the rally stalled as COVID uncertainty and the pending election came into focus. The quarter ended with a Forward P/E of 21.5x, well above the 25-year average of 16.5x. Market valuations are always tricky. While the market price is known, the path of future earnings is always uncertain. As time travelers, before we can develop an assessment of the future, we must

P/E Ratios and Earnings/Share across U. S. Large, Mid, and Small Caps, and Developed and Emerging Countries

	P/E RATIOS			EARNINGS	
Market Cap	Trailing P/E	10yr Med P/E	Forward P/E	Trailing (Historic) EPS ($)	LTG EPS 3-5 Yr (%)
Domestic Indices					
S&P 500 INDEX	26.01	18.34	25.56	129.30	8.46
Russell Midcap Index	29.39	21.62	31.04	78.13	6.98
Russell 2000 Index	N/A	40.68	93.76	-6.55	11.98
International Indices					
MSCI EAFE	36.01	17.57	21.22	51.52	7.39
MSCI EM	20.03	13.26	17.60	54.03	24.37

Source: Bloomberg

Equity Outlook continued

first ground ourselves in an understanding of the present.

The Present

With concerns and anticipation building around COVID this winter, the upcoming earnings season is likely to be especially meaningful to market outcomes. We are already seeing a record low number of companies releasing guidance making it especially difficult to assess the direction of earnings. It is very understandable for companies to stop issuing forward earnings guidance in a time of COVID but it also leaves investors with less visibility thus making earnings season particularly unsettling. One positive outcome of this dynamic is that earnings expectations tend to be quite conservative and easier to beat than usual. As a result, the second quarter, and likely the third, saw corporate results come in significantly better than expected. With valuations on the high end, stronger-than-expected earnings growth has helped keep markets at current levels.

Should we see a significant uptick in COVID cases, and more importantly, a corresponding increase in governmental mandated lockdowns, the underlying "V" shaped recovery hopes would fade quickly. For investors, this is even more important. While pessimism for corporate earnings has understated results, a bad winter would likely cause markets to slump in response.

What is often lost in the P/E discussion is the impact of accommodative Fed policy. Companies, at the most basic level, are valued based on the net-present value of future cashflows. Low inflation expectations and low interest rates mean a low discount rate. A low discount rate means that those future cash flows are worth more today than an otherwise "normal" (ie. higher) interest rate environment. Correspondingly, this also means investors should naturally be willing to pay a higher valuation multiple for equities. With interest rates at these historic lows, the question becomes how high valuations should go. We are still below tech-bubble extremes, but not far off of them.

Market Returns

	QTD	1 Year	3 Year	5 Year	10 Year
S&P 500	8.93%	15.14%	12.25%	14.12%	13.72%
Dow Jones	8.22%	5.70%	9.96%	13.99%	12.67%
Nasdaq	11.23%	41.06%	21.06%	20.68%	18.20%
MSCI EAFE	4.90%	1.02%	1.19%	5.85%	5.20%
MSCI EM	9.68%	10.87%	2.76%	9.37%	2.87%

Source: Bloomberg

The other major trend is that a handful of companies continue to dominate returns. Most investors measure the market according to the S&P 500. This index is market-cap weighted, therefore, the biggest companies have a disproportionately large impact on returns. These names include Facebook, Apple, Netflix, Microsoft, Amazon, and Google (often referred to by the acronym FANMAG). Much of this group is associated with the technology space – which brings back concerns that we are in a bubble like we were in 2000.

While Fed policy might have put us in an asset bubble across the board, the similarities between today's market and the late 1990s is fairly different. In our current low-growth environment, these technology companies are the ones who are not only producing earnings, but tend to grow faster than the broader market. In contrast, the 2000 Tech Bubble was characterized by scarce earnings and speculation on unprofitable start-ups.

The Future

"The distinction between the past, present and future is only a stubbornly persistent illusion." – Albert Einstein

Einstein changed the way the world looked at physics and opened the door to the possibility of time travel. He accomplished his work by simply trying to view the world from a different perspective. He was famous for what he called "thought experiments," where he would imagine the world and seek to understand why things happened. When people talk of a new paradigm, often it is the same old situation packaged in

Equity Outlook continued

a new wrapper. In the market of 2020, investors are tempted to focus too heavily on COVID curves and election uncertainty for guidance. But the patient investor will be most interested in long-run market fundamentals, including the link between current valuations and expected returns.

Regardless of current fears and risks, what we know is that there is a strong inverse correlation between current P/E ratios and expected real returns over the long-run. Often investors look at company or market earnings yield as a proxy for expected real returns. Essentially, this measure is the inverse of the P/E ratio. As of the end of the third quarter of 2020, that number hit 4.6%. The earnings yield tells us that investors buying into the market today should expect returns on stocks as low as they've been in the past 20 years. This situation begs the question, "is there someplace better to turn?" The natural alternative is bonds. Investors often use the spread between the earnings yield and Baa bonds as way to answer this question. Despite exceptionally high valuations, the historic low yields on bonds means that spread is still tilting toward stocks. Unfortunately, barring a new pro-growth environment, investors are looking at historically-low expected returns across the board.

"(when) you've pushed Einstein's theory to the very limits... you really need a theory of everything... And the only candidate is string theory." – Micho Kaku

Navigating our current investment environment is difficult. Like physicists looking toward string theory to find answers when the rules of physics break down, investors need to look deeper for solutions. Diversification is the deeper solution of investing. Under this umbrella, investors need to specifically consider a variety of asset classes for potential returns and to offset valuation risks. International stocks offer better valuations and could garner tailwinds from more stimulus post-election. Small and mid-cap stocks offer more domestic based exposure should global lockdowns re-emerge. Other assets such as MLPs, high-yield bonds, convertible bonds, and preferred shares have their own set of drivers (and risks) which tend to have lower correlations to bond and stock markets, but have seen higher correlations to equity sectors and markets during downturns. Alternative trading strategies, such as managed futures may also reduce risk and help as shock absorbers should the road get bumpy over the next few months.

While COVID is likely to have the greatest impact to the economy and markets over the next six months, the upcoming election could also result in short-term volatility. A change in regime would also likely impact economic and market trends. From a policy standpoint, 2018's tax-cuts were extremely meaningful to earnings. Any increase to corporate taxes would go directly to the bottom-line. In a market already dealing with historically high valuations, this might be a catalyst for a correction. At the same time a required fiscal stimulus and or government spending plan on infrastructure and/or health care could also serve as a tailwind for the markets. A high-quality diversified portfolio should be well positioned to manage these near-term risks.

"If the Universe came to an end every time there was some uncertainty about what had happened in it, it would never have got beyond the first picosecond." – Douglas Adams

Sometimes we get caught up in the latest crisis. Uncertainty in markets is always pitched as unique and the way forward as a new paradigm. However, we find that the path to success is almost always rooted in the same fundamental approaches - diversification, quality investments, rebalancing and sticking with the investment process. In our world, where we are constantly inundated by stimuli designed to cause a reaction, those concepts can easily get lost. The uncertainty we face today feels different and unique, but so has every other crisis that we have faced. Now is the time for sticking to the process and making sound decisions while everyone else panics and takes missteps.

Fixed Income Outlook

Range Bound?

Overview

The fixed income markets were relatively stable in the third quarter of 2020. After the initial shock and volatile reaction of the market in the first quarter, the Fed programs and fiscal stimulus enacted in the spring calmed the credit markets. Interest rates were stable in the third quarter with the benchmark ten-year Treasury note closing as low as 0.51% in August and as high as 0.76%. The average closing yield for the quarter was 0.65%, with the market closing between 0.60% and 0.70% most of the months of August and September.

The credit markets, backed by the liquidity and open market purchases of the Federal Reserve continued to stabilize and outperform US Treasuries. 1-10-year high grade corporate bonds rated A3/A- and higher had a total return in the third quarter of 0.99% vs. the 1-10 US Treasury total return of 0.19%. 1-10-year investment grade corporate bonds rated Baa3/BBB- and higher had a total return of 1.49%. 1-10-year high yield bonds, those rated below investment grade, had a total return of 4.55%. It was encouraging to see the credit markets snap back quickly after the volatility of the first quarter.

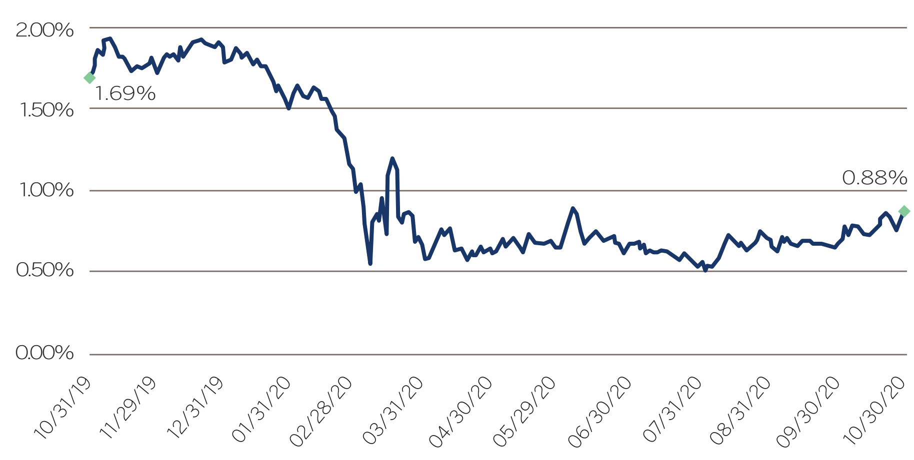
Fed Chairman Powell indicated over the summer that the Fed will continue to support the markets as much as possible and that in his opinion more fiscal stimulus is needed to bolster the recovery. The Fed also outlined a new philosophy that they intend to allow inflation to trend above the Fed's target for a period of time, to bring the average inflation rate up to the target. The Fed also indicated short term interest rates would probably remain at zero until possibly 2023.

For the remainder of 2020 the markets will focus on the continuing effects of the coronavirus pandemic, the attempts by Congress to pass additional fiscal stimulus after the elections, and the pace of the recovery in the employment markets. It would be prudent to assume that 10-year interest rates continue to close under 1.00% for the remainder of the year, and with the Fed backstopping the market, that credit risk spreads continue to be tame.

Credit Markets

While the third quarter of 2020 continued to see strong supply, only September could crack the top ten heaviest supply months of all-time. This is after seeing four of the first six months of 2020 do the same, including the top three heaviest supply months ever. We did see 2020 surpass 2017 as the heaviest supply year ever over the summer and we still have a handful of months remaining in the year. At the end of September, new supply volume reached $1.54 trillion, which is about 67 percent ahead of last year's pace. Even with all the record supply hitting the market, demand has kept up and is actually higher than in 2019. New deals have been 4 times oversubscribed

10-Year Treasury Note Yields (Oct. 31, 2019 - Oct. 30, 2020)

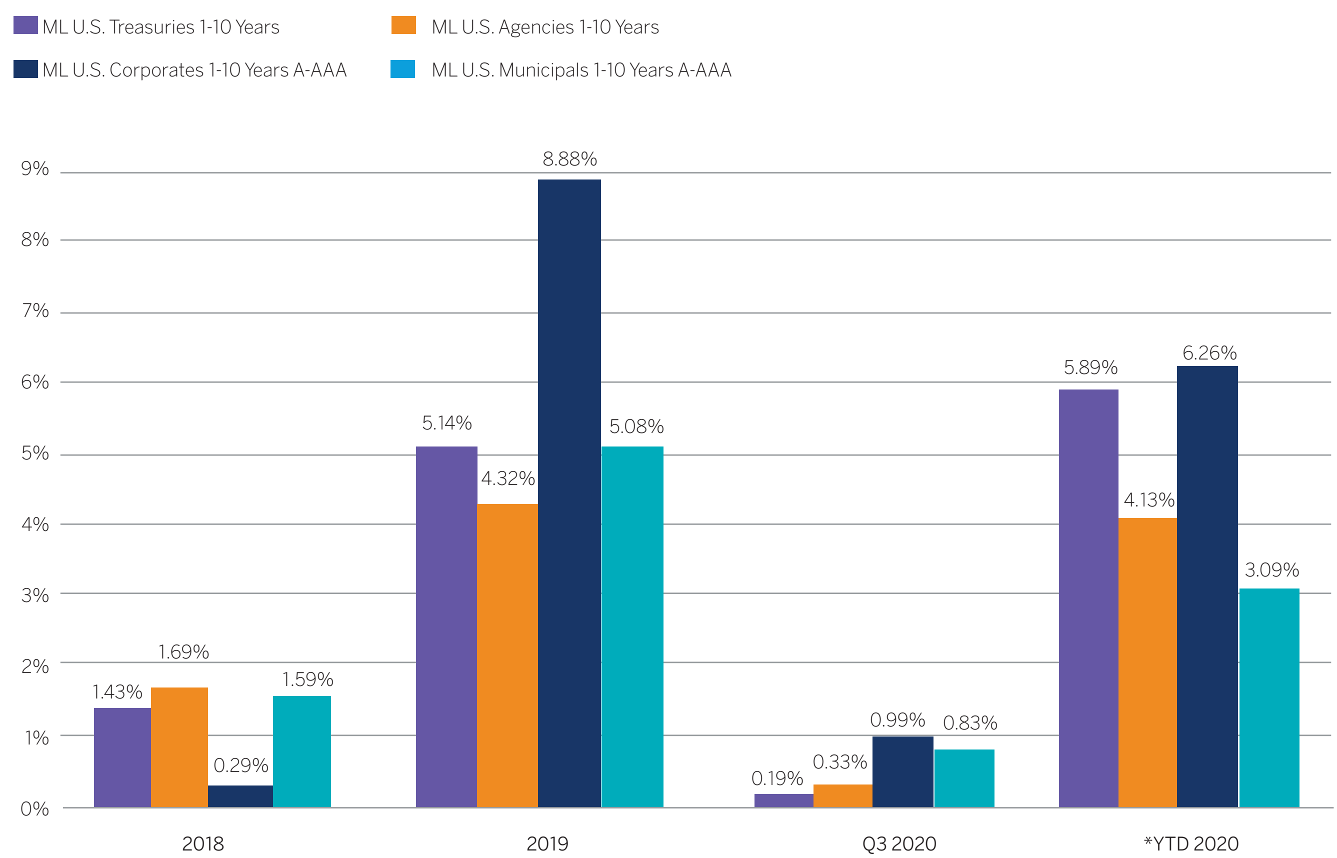


HIgh: 1.94 on 11/08/19 Low: 0.51% on 08/04/20 Average: 1.04%

Source: Bloomberg Professional Terminal®

Fixed Income Outlook continued

Asset Class Returns



* YTD returns are measured within the period of 01/01/2020 - 09/30/2020 Source: Bloomberg

versus 3.2 times in 2019 causing spreads on the new deals to tighten by over 25 basis points between the initial price talk and where the deals actually released. In 2019, the spread compression was just below 20 basis points.

Credit spreads in the secondary market generally tightened in the first part of July before settling into a pretty narrow range for the remainder of the third quarter. After rallying during the first couple of weeks of July from +147bps to +129bps, the Barclays Investment Grade US Corporate Index hovered between +125bps and +135bps before slipping slightly wider in late September in sympathy with the weakness in equities. The index hit +140bps before finishing the quarter at +136bps. With expectations for new supply to slow dramatically in the fourth quarter, credit spreads should gradually tighten with the lighter supply as we head towards year-end. Watch for a possible second outbreak of Covid or uncertainty in the outcome of the elections to potentially create some volatility in the credit market.

The high yield sector followed a similar path in credit spreads throughout the third quarter. It appears the third quarter will end with a negative return of over 1%, the weakest return since March, though spreads do appear to be trending tighter. Record supply has also been felt in the

Fixed Income Outlook continued

high yield market with companies taking advantage of overall absolute yields being the lowest ever for the sector. High yield tends to follow a little more closely to the equity market, as well as commodities, so events that negatively impact those sectors could show up in high yield spreads as well.

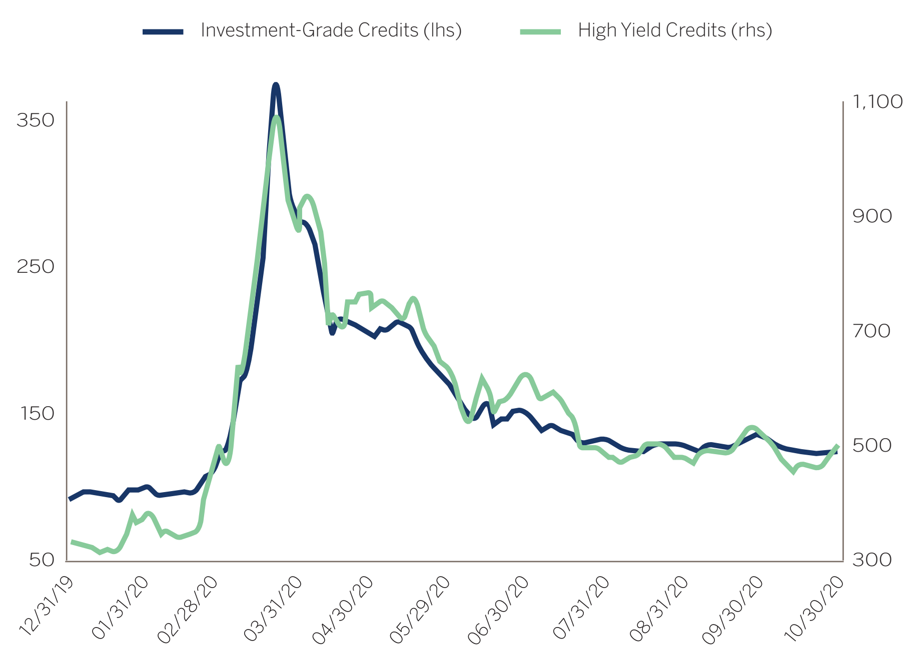
Municipal Market

The municipal bond market posted positive returns in the third quarter of 2020 as investors continue to be attracted to the asset class. Steady investor demand for tax-free income, attractive relative value, and an accommodative Federal Reserve kept yield volatility low during the quarter.

Municipal bond yields were range bound for much of the third quarter. The yield on the 10-year AAA General Obligation bonds hit its low for the quarter on August 10th but finished the quarter 31bps higher at 0.84%. At the same time, the yield on 5-year AAA General Obligation bonds rose just 11 basis points to end the quarter at 0.29%. While rates did move slightly higher during the third quarter the municipal market was able to post a positive quarterly return of 0.83% for the ICE BofA 1-10 Year AAA-A Municipal Securities Index. The positive returns were driven by steady investor demand as investors continue to be attracted to municipal bonds not only for tax-free income but for the attractive relative value. With Municipal/Treasury ratios above 100% crossover buyers were attracted to the municipal market for the absolute yield value. Also helping to keep rates in check was the Federal Reserve announcing that rates would probably remain low through 2023 setting up the lower for longer scenario. The Municipal Lending Facility (MLF), that was put into place under the CARES Act, will remain available through December 31, 2020. The MLF was establish to help provide State and Local Governments with additional liquidity by buying short-term debt to cover any revenue shortfalls caused by the pandemic. As of the 3rd quarter, only two municipalities, the State of Illinois and New York Metropolitan Transportation Authority, have accessed the program. At the same time, municipalities have not had any trouble issuing debt as new issue supply was 4% higher than the same time last year. Issuers brought new money tax-free deals along with taxable refunding deals to market taking advantage of the low rate environment.

As a form of normalcy starts to return to the market, municipal credits continue

YTD Credit Spread Trends



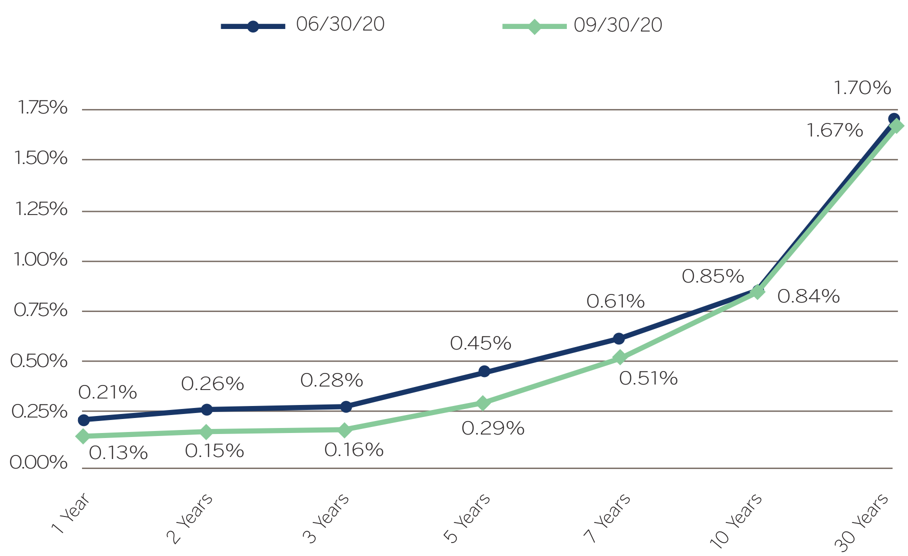
*The lines represent the trend of the average option-adjusted spread levels of the Barclays US Corporate Agg Index (Investment Grade) and the Barclays US Corporate High Yield Bond from December 31, 2019 - October 30, 2020.

Source: Bloomberg

Fixed Income Outlook continued

assess the impact of slowing tax revenues. High-Grade credits have been in strong demand and spreads have compressed. The market is experiencing a bottom-up credit rally as investors are starting to take on more risk to achieve their yield targets. New issue supply is expected to remain steady as issuers finish up financings for 2020. We look to position portfolios with a slightly short to neutral duration while focusing on the 1 to 10-year part of the yield curve as the economic numbers start to improve. We prefer High-Grade municipal revenue credits rated AA-AAA with dedicated revenue streams. High-Grade State and Local General Obligation credits provide a strong foundation to portfolios while callable bonds could offer value for their higher yield and shorter duration. Increased talk of potential higher taxes due to the November election results could increase investor demand for tax-free bonds. Any backup in rates should be viewed as an entry point for adding municipal bonds to a portfolio or a buying opportunity for existing holdings.

BVAL AAA Muni Yield Curves



Source: Bloomberg Professional Terminal®

BBVA USA Investment Management Team

Chief Investment Officer	Jorge Unda, CFA	
Directors of Portfolio Management	Mary Lynn Bronner, CFA	James Engelbrecht
Director of Asset Allocation	Yu Wei, CFA, FRM	
Fixed Income Specialists	Eric Green Thomas Joy	Richard Underwood, CFA
Portfolio Managers	Guillermo Araoz, CFA Peter Connellan Melissa Diaz Marc Dobson	Brett Falkenhagen Antonio Lau Ronald Ross
Equity Trader	Valerie Ross	
Analysts	Wilson Boren Tyler Chapman Jake Christenberry	Pascal Leduc Natalie Manning Allan Ngo
Investment Policy Committee	Mary Lynn Bronner, CFA Marc Dobson James Engelbrecht Antonio Lau	Jorge Unda, CFA Richard Underwood, CFA Anne-Joëlle Viguier-Galley, CFA Marc Wenhammar

Important Disclosures:

BBVA and BBVA USA are trade names for BBVA USA, Member FDIC, and a member of the BBVA Group. Securities products are NOT deposits, are NOT FDIC insured, are NOT bank guaranteed, may LOSE value and are NOT insured by any federal government agency.

This material contains forward looking statements and projections. There are no guarantees that these results will be achieved.

Investing involves risk including the potential loss of principal. There is no guarantee that a diversified portfolio will outperform a non-diversified portfolio in any given market environment. No investment strategy, such as asset allocation, can guarantee a profit or protect against loss in periods of declining values. Past performance is no guarantee of future results. Please note that individual situations can vary. Therefore, the information presented here should only be relied upon when coordinated with individual professional advice.

Indexes are unmanaged and investors are not able to invest directly into any index.

International investing involves special risks not present with U.S. investments due to factors such as increased volatility, currency fluctuation, and differences in auditing and other financial standards. These risks can be accentuated in emerging markets.

Investments in stocks of small companies involve additional risks. Smaller companies typically have a higher risk of failure, and are not as well established as larger blue-chip companies. Historically, smaller-company stocks have experienced a greater degree of market volatility than the overall market average.

Equity investments tend to be volatile and do not involve the guarantees associated with holding a bond to maturity.

In general, the bond market is volatile as prices rise when interest rates fall and vice versa. This effect is usually pronounced for longer-term securities. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss.

Fixed income investments are subject to various risks including changes in interest rates, credit quality, inflation risk, market valuations, prepayments, corporate events, tax ramifications and other factors.

The investor should note that vehicles that invest in lower-rated debt securities (commonly referred to as junk bonds) involve additional risks because of the lower credit quality of the securities in the portfolio. The investor should be aware of the possible higher level of volatility, and increased risk of default.

Municipal bond offerings are subject to availability and change in price. If sold prior to maturity, municipal bonds may be subject to market and interest risk. An issuer may default on payment of the principal or interest of a bond. Bond values will decline as interest rates rise. Depending upon the municipal bond offered, alternative minimum tax and state/local taxes could apply.

The price of commodities is subject to substantial price fluctuations of short periods of time and may be affected by unpredictable international monetary and political policies. The market for commodities is widely unregulated and concentrated investing may lead to higher price volatility.

Investments in real estate have various risks including possible lack of liquidity and devaluation based on adverse economic and regulatory changes.

Other Sources: Bloomberg; California.gov; Russell.com; First page index returns are calculated on a total return basis using the following indexes: S&P 500 (SPX), MSCI World (MXWO), MSCI Emerging Markets (MXEF), BofA Merrill Lynch U.S. Treasuries 1-10 years, BofA Merrill Lynch U.S. Agencies 1-10 years, BofA Merrill Lynch U.S. Corporates 1-10 years A-AAA, BofA Merrill Lynch U.S. Municipals 1-10 years A-AAA, Russell Top 200 Index, Russell 1000 Index, Russell Midcap Index, Russell 2500 Index, Russell 2000 Index, Credit Suisse High Yield Index (CSHY), MSCI U.S. REIT Index (RMZ Index).