Santander Asset Management LLC - Quarterly Market Commentary September 30, 2020

During the third quarter (3Q) of 2020, on net, U.S. equity prices increased while U.S. Treasury yields remained range bound as investors remained fairly optimistic on the reopening of the economy due to stronger-than-expected economic data releases and expectations that low federal funds rates would stay in place for longer as the Federal Open Market Committee ("FOMC") revised its long-term monetary policy framework. However, the overall optimism was partially offset by concerns over pullbacks due to upturns in COVID cases and an impasse over additional fiscal stimulus as U.S. lawmakers from the Democratic and Republican Party struggled to reconcile their differences to approve an additional Covid-19 aid package. Moreover, on net, the 10-year U.S. Treasury yield remained mostly unchanged increasing by 3 bps from 0.66% to 0.69%. The Standard & Poor's 500 Index ("S&P 500 Index") increased 8.47% Quarter over Quarter ("QoQ") (price return) from 3,100 to 3,363, bringing its year-to-date total return (price return) into positive territory, to 4.09%. Accordingly, credit spreads tightened on the risk-on move, particularly for high yield bonds. The Option Adjusted Spread ("OAS") for Investment Grade ("IG") U.S. corporate bonds, as represented by the USD IG All Sector OAS Index, decreased by 15bps from 150 to 135. The Option Adjusted Spread ("OAS") for USD High Yield ("HY") bonds, as represented by the USD HY All Sectors OAS Index, decreased by 100bps from 646 to 546. Likewise, the 10YR BVAL Muni AAA Index Yield/UST ratio decreased from 1.30 to 1.23 as the 10YR BVAL Muni AAA Index yield decreased by 2 bps from 0.86% to 0.84% while the 10YR UST yield increased 3 bps, as mentioned above.

Furthermore, during the period, the economic data improved as fiscal and monetary policy actions done by the U.S. government to offset the economic damage caused by the pandemic percolated through the system. The U.S. unemployment rate decreased from 11.1% in June 2020 to 7.9% in September 2020, still below its level at the beginning of the year, while the underemployment rate decreased from 18% to 12.8%, respectively. Headline consumer price inflation and core consumer price inflation readings increased but remained below the FOMC's symmetric 2% objective. Moreover, on net, total consumer prices, as measured by Personal Consumption Expenditures ("PCE") price index, increased from 0.5% in May 2020 to 1.4% over the twelve months ending in August 2020 (latest reported), while the Core PCE (which excludes changes in food and energy prices) increased from 1.01% to 1.59%, respectively. In addition, GDP growth for the second quarter of 2020, reported during the third quarter, fell by 31.4%, as expected, while the GDP growth forecast for the third quarter, as projected by the Bloomberg Contributor Composite, estimates an increase of 29.2%.

During the quarter, the FOMC decided to maintain the target range for the federal funds rate at 0%-0.25%. Furthermore, following an extensive review, in August, at the Jackson Hole Symposium, the FOMC released its revised Statement on Longer-Run Goals and Monetary Policy Strategy which articulates its framework to monetary policy and serves as the foundation for its policy actions. In its revised framework for monetary policy, it mentioned that, in order to anchor longer term inflation expectations at the 2% target level on the long run, the Committee would seek to achieve an inflation that averages 2 percent over time, and therefore judges that, following periods when inflation has been running persistently below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time. Moreover, in his speech, the Federal Reserve Chair, Jerome Powell, mentioned that the revised statement reflects the FOMC's appreciation for the benefits of a strong labor market, particularly for many in low- and moderate-income communities, and that a robust job market can be sustained without causing an unwelcome increase in inflation. Furthermore, in its September meeting the FOMC revised its statement, aligning it with newly revised framework, by including in it that it expects it will be appropriate to maintain the current target range of 0%-0.25% until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time. Also, it included that with inflation running persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent. The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved. In addition, it updated the economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy. In the projections, most participants estimated that rates would be appropriate at the current level of 0%-0.25% through 2023. As of September 30, 2020, market expectations were in line with the FOMC Dot Plot as the expected path of federal funds rates implied by overnight index swap quotes remained close to the effective lower bound over the next few years.

Santander Asset Management ("SAM") understands that the pace of the recovery will be a function of the course of the virus and the development of a cure and/or vaccine along with the fiscal policy and monetary policy measures undertaken to ease strained financial conditions. SAM expects that the U.S. Government will continue supporting the recovery, and sees the impasse regarding additional fiscal aid resolving itself after the elections. As SAM expected the FOMC completed and revised its monetary policy framework review, including revising the Statement on Longer-Run Goals and Monetary Policy Strategy, and provided additional context to the Committee's policy actions opening the door for easier monetary policy. SAM will continue to monitor the investment portfolios on a daily basis in order to seize opportunities that may arise due to market inefficiencies in order and make the appropriate adjustments that are consistent with long-term objectives.

Turning to Puerto Rico's capital markets, during the third quarter of 2020, in general, PR municipal bond prices increased modestly by 1.81% as measured by the S&P Municipal Bond Puerto Rico Index. Consistently, prices of Puerto Rico Sales Tax Financing Corporation ("COFINA") bonds increased. Restructured COFINA Exempt Bond prices, as represented by COFINA 5% 07/01/58 (CUSIP 74529JPX7), increased by approximately $1 from $104.54 to $105.66 as obtained from Bloomberg Valuation ("BVAL pricing").

https://fssec.com/first-puerto-rico-family-of-funds/

Santander Asset Management LLC - Quarterly Market Commentary September 30, 2020 (concluded)

The following is a brief summary of the events that shaped Puerto Rico markets during the quarter ended on September 30, 2020:

In July, José B. Carrión, III, Chairman of Puerto Rico's Financial Oversight and Management Board ("FOMB") announced he would not be available for nomination for a second term and that his last day would be on October 5 or when the President and Congress appointed a successor, whichever happened first. In addition, board members Carlos M. García and José Ramón González also announced they would not serve a second term either after serving for more than three years each. That same month, the FOMB certified a $10.05 billion general fund budget plan for fiscal year 2021 after the Puerto Rico lawmakers failed to approve a compliant budget before the deadline. The FOMB said that it was the fourth consecutive year that Puerto Rico's government had submitted a budget inconsistent with the fiscal plan. Furthermore, during the meeting held to discuss the budget, several Board members reprimanded Puerto Rico officials for not presenting audited financial statements since 2017.

Then, in August, Judge William G. Young ruled that it was a discriminatory policy to deny Puerto Ricans Supplemental Security Income "SSI" (program which provides additional income to disabled adults and children who have limited income and resources), Supplemental Nutrition Assistance Program "SNAP" (food stamps), and Medicare Part D Low-Income Subsidy (program which helps cover the prescription drug costs). However, the Judge also granted a two month stay at the request of the Federal Government, which means for now it will only apply to the nine plaintiffs in this case. Furthermore, according to Bloomberg, the Government Accountability Office estimated in 2011 that federal spending on SSI benefits for Puerto Rico residents would have been between $1.5 billion and $1.8 billion, compared to about $24 million it actually spent on an alternative program available in the Territory. Similarly, government spending on SNAP benefits for Puerto Rico residents could have been as high as $2.6 billion for fiscal year 2011, instead of the $1.9 billion spent on an alternative program as 1.1 million households in Puerto Rico would have been eligible for SNAP benefits in 2011 compared to 644,176 households who were covered by the current alternative program. It is expected that the US Government will appeal the ruling and if unsuccessful it will go all the way to the Supreme Court.

Furthermore, in September, the federal government awarded approximately an $11.6 billion aid package to Puerto Rico, that would go towards rebuilding the electrical and education systems, to help the island recover from the devastation brought by Hurricane Maria. The Federal Emergency Management Administration ("FEMA") will provide $9.6 billion in funding for the Puerto Rico Electrical Power Authority to make replacements, repairs and improvements to equipment and buildings while the federal government will also provide an additional $2 billion grant for Puerto Rico's Education Department to restore facilities.

In October, the Commonwealth's released a Proposed Revised Plan of Adjustment that offers the Puerto Rico General Obligation ("GO") and Puerto Rico Public Building Authority ("PBA") bondholders between 57.2% and 58.4% on the dollar, down from 73.6% offered in the February agreement. The revised plan takes into account the negative effects of the pandemic and economic shutdown reflected in the FOMB certified an updated Fiscal Plan as of May 2020. Days later, the Supreme Court rejected an appeal and left intact the ruling that says the governor's spending power was limited by Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA"). The rejection favored the FOMB, which said governor cannot make expenditures unless authorized through the board-certified budget, and rejected a government's appeal, which sought the ability to spend unidentified funds that were left unused from previous budgetary cycles. This effort by the Puerto Rico Government violated the FOMB's Certified Fiscal Plan and the requirements established by PROMESA," the FOMB said. The U.S. Appeals Court in Boston stated that the Puerto Rico governor cannot carry out expenditures unless authorized through a FOMB-certified fiscal plan and budget.

Lastly, the Puerto Rico's federally-appointed financial oversight board picked one of its current members, David Skeel, a bankruptcy and corporate law professor, as chairperson to replace José B. Carrión, III as he exited his post. At his designation, David Skeel stressed it was imperative for the government to reach a settlement with its creditors and emerge from bankruptcy, otherwise, "Puerto Rico will not truly begin to recover and begin to see the glimmer of economic prosperity." He also reminded the government that the oversight board's mission will not end until it achieves four consecutive years of balanced budgets.

Cristina Cañellas, CFA - Senior Portfolio Manager

Santander Asset Management Investment Team

Sources: Bloomberg October 2020, Federal Reserve, Caribbean Business October 2020, El Nuevo Día October 2020

https://fssec.com/first-puerto-rico-family-of-funds/