USAA CAPITAL GROWTH FUND QUARTERLY COMMENTARY

USAA MUTUAL FUNDS

As of September 30, 2020

Market Commentary

U.S. stocks posted gains during the third quarter of 2020, aided by continued support from the U.S. Federal Reserve ("the Fed"), gradual steps to reopening the global economy, and seeming progress toward the development of effective vaccines for COVID-19. With Congress and the Administration unable to agree on a second fiscal stimulus package, monetary policy proved critical in underpinning positive market sentiment, as the Fed signaled that it was unlikely to raise short-term rates any time soon. While investors were heartened by the generally favorable backdrop, most equity market gains were registered during July and August. Stocks retraced some of the gains in September on uncertainty over the shape and duration of the economic recovery, a resurgence in coronavirus cases across the United States as well as globally, and concerns over the prospect of a litigated outcome to the U.S. presidential election. As was the case in the first half of 2020, mega-cap growth stocks—particularly those of leading technology companies—were the primary drivers of market performance. At a time of sluggish growth, investors gravitated to companies with earnings viewed as largely immune to the economic fallout from COVID-19.

Fund Performance and Positioning

Against this backdrop, the USAA Capital Growth Fund registered positive quarterly performance, but slightly underperformed its benchmark.

During the third quarter, four of 11 equity market sectors had positive relative returns. Stock selection in financials and industrials contributed to relative performance, while selection in consumer discretionary, energy and communication services detracted. In terms of sector allocation, the Fund's underweight to consumer discretionary stocks detracted from returns.

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