

Keeping focused on your long-term goals

Market Commentary | Week ending February 12, 2021



Commentary provided by John Packs, Senior Investment Officer, AIG Retirement Services

Market Performance Snapshot (Week ending February 12, 2021 and Year-to-Date)

- Dow Jones Industrial Average®: +1.0% | +2.8%
- S&P 500® Index: +1.2% | +4.8%
- NASDAQ Composite® Index: +1.7% | +9.4%
- Russell 2000® Index: +2.5% | +16.0%
- 10-year U.S. Treasury note yield: 1.20%
 - Up 3 basis points from 1.17% on February 5, 2021
 - Up 28 basis points from 0.92% on December 31, 2020
- Best-performing S&P 500 sector this week: Energy, +4.4%
- Weakest-performing S&P 500 sector this week: Utilities, -1.8%

Past performance is not a guarantee of future results.

Stocks continue to reach new highs

Equity markets continued their upward march, with the Dow Jones Industrial Average, S&P 500, NASDAQ Composite, and Russell 2000 all reaching new record territory during the week. Markets are looking favorably on solid corporate earnings, moderating U.S. Covid-19 hospitalization rates, fiscal and monetary stimulus, and positive longer-term economic expectations.

- Equity markets have risen very far, very fast, with certain sectors experiencing outsized gains. The small-cap Russell 2000 Index has risen 57% since the end of September. Over the same period, the tech-heavy NASDAQ Composite is up 33%, and the broad-based S&P 500 is up 22%. Such dramatic changes in valuations are a reminder that diversification is important, and analyzing the potential benefits of rebalancing is worthwhile to stay on track toward long-term goals.
- Earnings reports from Uber and Lyft showed some recovery in ride-hailing services toward the end of 2020, though activity remains severely constrained by the pandemic. Uber was helped by its home delivery services, while both companies cut expenses and managed to produce a smaller annual loss in 2020 than in 2019. Uber's share price rose 3.5% for the week, while Lyft gained 8.5%.
- General Motors reported record pretax profits in the fourth quarter, and full-year pretax profits of \$9.7 billion – a 16% gain over 2019, despite challenges early in the pandemic.

Keeping focused on your long-term goals

- GM also said the ongoing global shortage of semiconductor chips could make a \$1.5-\$2 billion dent in profits in 2021. The company has idled three North American plants through mid-March in response to the shortage. Ford, Honda, and Volkswagen have also reduced production around the world. The ability to overcome supply chain challenges could be a factor in the strength of the global economy this year.

Reports on jobs and inflation underline ongoing economic challenges

The weekly report on new unemployment claims drew contrasting interpretations. At 793,000 new claims, the latest figure was lower than the previous week's 812,000 – though that figure had been revised upward after originally being reported as 779,000. All of the recent numbers are below the early-January peak of 927,000, suggesting that the job market is beginning to recover. However, 793,000 is still above autumn levels and much higher than pre-pandemic records.

- Federal Reserve Chairman Jerome Powell is taking a sober view of recent employment data. In a speech Wednesday, he said, “Published unemployment rates during Covid have dramatically understated the deterioration in the labor market.” Specifically, he noted the dramatic fall in the labor force participation rate as a result of the virus.
- Given the labor market's struggles, Powell said at this point there is no reason to even think about withdrawing monetary stimulus from the economy. He also made another pitch for fiscal stimulus, calling it the “essential tool for this situation,” while reiterating that the details are up to Congress and the president.
- Inflation remains muted. The Consumer Price Index showed no change in core prices (prices excluding food and energy, which are highly volatile) in January or December. From January 2020 to January 2021, core prices rose just 1.4%, well below the Federal Reserve's target of 2%.
- Economists are expecting some upward movement in inflation as fiscal stimulus makes its way through the economy and pandemic restrictions ease. Also, the plunge in prices last spring, as Covid took hold, will likely cause an uptick in this spring's reported price inflation. While most experts expect any upward blip to be temporary, investors will be watching for any sign that inflation is accelerating more quickly than anticipated.
- The nonpartisan Congressional Budget Office (CBO) released its latest projection of the federal budget deficit for 2021: \$2.3 trillion. CBO also projects annual budget deficits averaging \$1.2 trillion over the next decade. These figures don't include any additional stimulus Congress may pass this year. The new projections – which would take U.S. debt to 107% of GDP by the end of the decade – could create some friction in the debate over the size of the next stimulus package.

Watching the evolving U.S. – China relationship

President Biden held his first call with Chinese President Xi Jinping, during which they discussed trade policy, human rights, international security, climate change, and Covid. Observers don't expect Biden to significantly soften the U.S. approach to China, though the Administration says it wants to lead democratic allies in acting multilaterally, rather than pursue the unilateral action favored by the Trump Administration.

- TikTok's planned sale of its U.S. operations to Oracle and Walmart was shelved, as the Biden Administration reassesses the U.S. government's approach to potential data-security threats posed by Chinese tech firms. The Trump Administration's order requiring the sale had been paused by multiple courts as they considered its legality.
- The U.S. and China are the world's two largest economies, and their evolving economic, political, and security relationship bears watching, as strains in the relationship often impact the investing world.

Keeping focused on your long-term goals

Final thoughts for investors

Classes of equities that had lagged the 2020 rally, such as small-cap and value stocks, have witnessed strong recoveries. Markets have been optimistic about future economic growth, while assuming that fiscal and monetary stimulus will bridge any near-term economic distress. Yet expectations are fragile and unexpected events could change the outlook quickly. Speak with a financial professional to ensure your portfolio is still aligned with your long-term goals, and prepare for any volatility that could lie ahead.

We see the future in you.SM

CLICK aig.com/RetirementServices CALL 1-888-569-7055 VISIT your financial professional

This commentary is being provided for general informational purposes only. The information does not represent investment advice or a recommendation and/or solicitation of any financial transaction.

This material is general in nature, was developed for educational use only, and is not intended to provide financial, legal, fiduciary, accounting or tax advice, nor is it intended to make any recommendations. Applicable laws and regulations are complex and subject to change. Please consult with your financial professional regarding your situation. For legal, accounting or tax advice consult the appropriate professional.

Securities and investment advisory services offered through VALIC Financial Advisors, Inc. (VFA), member FINRA, SIPC and an SEC-registered investment adviser.

Annuities are issued by The Variable Annuity Life Insurance Company (VALIC), Houston, TX. Variable annuities are distributed by its affiliate, AIG Capital Services, Inc. (ACS), member FINRA.

AIG Retirement Services represents AIG member companies — The Variable Annuity Life Insurance Company (VALIC) and its subsidiaries, VALIC Financial Advisors, Inc. (VFA) and VALIC Retirement Services Company (VRSCO). All are members of American International Group, Inc. (AIG).

