

Keeping focused on your long-term goals

Market Commentary | Week ending May 22, 2020



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

Highlights

- Fed officials continued to signal caution about the U.S. economic outlook and reiterated calls for Congress and the Administration to pass additional fiscal relief and stimulus measures.
- Equity markets looked past fear and latched onto promising news on the vaccine front to move higher across nearly all sectors.
- Uncertainty around China has picked up, which could have longer-term effects on the U.S. economy and markets. Investors should talk to a financial professional about how to position their portfolios for an uncertain future.

Fed Officials Make Their Views Clear

Federal Reserve Chairman Jay Powell told senators on Tuesday, “The scope and speed of this downturn are without modern precedent and are significantly worse than any recession since World War II.” He suggested again that another round of fiscal stimulus may be necessary. Other Fed officials echoed his view, including Boston Fed President Eric Rosengren, who said in a speech, “Now is the time for both monetary and fiscal policy to act boldly to minimize the economic pain from the pandemic.”

- Speaking at the same Senate hearing as Chairman Powell, Treasury Secretary Steve Mnuchin said that the Treasury Department is prepared to take losses on loan programs to support businesses, workers, and markets. He also warned of “the risk of permanent damage” if businesses remain closed for an extended period of time, adding that reopening should happen “in a balanced and safe way.” Every state in America is now in some phase of reopening.
- The debate over the shape and size of another stimulus package is likely to center on budget relief for state and local governments, as well as legal immunity for businesses as they bring back employees and customers. Time is of the essence; it may get harder to reach an agreement as election day approaches.
- The Treasury this week re-introduced a 20-year bond, which hadn’t been issued since 1986. Given the large increase in federal debt this year, officials are experimenting with ways to cost-efficiently manage the U.S. debt load. Despite the extraordinary increase in supply, U.S. government bond yields have stayed historically low.¹

Equity Markets Enter Summer on a Bright Note

As the Fed flashed a yellow light on the economy, markets continued to see a green light. The major equity indexes gained at least 3% and the small-cap Russell 2000 index gained more than 7% for the week heading into the Memorial Day holiday.

- Markets leapt on Monday—the Dow Jones Industrial Average gained more than 900 points—on news that a

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vaccine being developed by Moderna showed promising results in trials. While a vaccine would dissipate fear in the markets, the success and timing of ongoing efforts is still highly uncertain.

- Stocks climbed broadly over the course of the week. Every sector of the S&P 500[®], with the exception of health care, finished in positive territory. Even traditional value sectors, such as financials, which have lagged in the post-March 23 rally, participated in this week's climb.
- The NASDAQ is now just 5% below its all-time high reached earlier this year. Amazon and Facebook hit all-time highs during the week.
- Energy stocks rose and oil continued to move upward, reaching its highest price level since mid-March. The supply-demand imbalance is easing as demand returns in Asia and global supply cuts begin to show effect.
- Merrill Lynch's monthly survey of institutional fund managers found that 68 percent believe the upswing in markets over the past two months can be classified as a bear market rally—which suggests a coming retreat from recent gains—rather than as the start of a new bull market.

Uncertainty Around China Suggests Caution

Tensions with China continued to flare, with the U.S. Senate unanimously passing a bill requiring companies to certify that they are not owned or controlled by a foreign government as a condition of listing on a U.S. exchange. The bill would also limit foreign companies' access to U.S. financial markets if they fail to meet certain accounting and auditing standards. While the legislation would affect any foreign company, China is seen as a main target.

- The Senate action came just days after the Trump administration issued an order designed to limit Chinese telecom giant Huawei's access to semiconductors.
- Policymakers and business leaders continued to discuss reducing dependence on Chinese supply chains, particularly for sensitive goods, such as medical equipment and pharmaceuticals. Given China's sizable share of global economic output, uncertainty surrounding China's economic future or U.S.-China economic relations could have serious economic and market repercussions.
- Investors should speak with a financial professional and consider how their portfolios are positioned to handle a variety of possible economic and market paths.

¹ Past performance is not indicative of future results.

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