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Market Commentary | Week ending September 18, 2020

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

Weekly Market Performance Snapshot (Week ending September 18, 2020 & Year-to-Date)

- Dow Jones Industrial Average®: -0.0% / -2.8%
- S&P 500® Index: -0.6% / +2.7%
- NASDAQ Composite® Index: -0.6% / +20.3%
- Russell 2000® Index: +2.6% / -7.9%
- 10-year U.S. Treasury note yield: 0.693%, up 2.6 basis points from 0.667% on September 11 and down 122 basis points from 1.92% on December 31, 2019
- Best-performing S&P 500 sector this week: Energy, +2.9%
- Weakest-performing S&P 500 sector this week: Consumer Discretionary, -2.3%

Past performance is not a guarantee of future results.

Federal Reserve Cautions on Economic Outlook

The Federal Reserve held interest rates steady and reiterated its intention to keep rates low until inflation rises above 2% for a sustained period, which could take several years. The Fed also expressed caution about the pace of economic recovery and growth, and called again for more fiscal stimulus to support the economy.

- Market reaction to the Fed's pronouncement was muted, as it was largely consistent with past statements and in line with expectations. However, there are questions about whether the Fed can accomplish its inflation objective. The Fed has been aiming for 2% inflation for more than a decade with little success.
- Fed Chairman Jerome Powell reiterated that there is a great deal of uncertainty about the current shape and future direction of the U.S. economy: "For the last 60 days or so, the economy's recovered faster than expected, and that may continue or not. We just don't know."
- Powell also said that "fiscal support has been essential" to the progress of recovery so far and he believes further support is needed, particularly for workers in industries likely to struggle to get back to full speed.
- A bipartisan group of U.S. House members released a compromise fiscal stimulus proposal with a price tag of around $1.5 trillion. It would include another round of stimulus checks and enhanced unemployment benefits. President Trump signaled support for the package, though both the Democratic and Republican leadership in Congress were cool to the proposal.
- U.S. retail sales rose at a slower pace in August than in July, likely the result of enhanced unemployment benefits ending for many Americans. This was the latest data point suggesting a decelerating economic recovery.
- First-time unemployment claims fell slightly to 860,000. The number of continuing claims declined by more than 900,000, yet more than 12 million people are still receiving unemployment benefits.

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Equities Extend Their September Slump

Stocks started the week on the upside, but moved down later in the week, as concerns about the strength of the economic recovery curtailed investor confidence. Questions about how quickly a safe and effective coronavirus vaccine can be rolled out also weighed on market sentiment. The Dow Jones Industrial Average, S&P 500, and NASDAQ Composite all finished in negative territory for the third consecutive week. The small-cap Russell 2000 Index bucked the trend by registering a weekly gain.

- While technology stocks are suffering this month, the sector has benefitted from investors seeking strong performers during economic shutdowns. As a result, the difference in price-to-earnings multiples between growth and value stocks is at the highest level since the late 1990s—meaning that on a relative basis, value stocks are now less expensive than they've been at any time in more than 20 years.
- The pullback in tech stocks could lead to a broadening in the market that would benefit value stocks. However, it's also possible that tech will decline without other sectors gaining, or that tech will regain its strength after the current pullback.
- The virus continues to be the wild card in any economic or market forecast. Pfizer and Moderna said they expect to know if their vaccine candidates are effective in the next few months.
- The U.S. government unveiled plans to quickly distribute vaccines once approved. The speed with which a vaccine is manufactured and distributed will greatly affect the strength of the U.S. and global economies and, by extension, market performance.
- Questions about the virus and the outcome of November's elections will continue to inject volatility into markets. Speak with a financial professional about positioning your portfolio accordingly.

China Recovery Strengthens as Japan Changes Leaders

Markets are closely watching global economic conditions to help determine how quickly the U.S. and its major trading partners can return to pre-pandemic growth trajectories.

- As the world's second-largest economy and a major growth engine, China has an outsized influence on global growth trends. Retail sales in China rose in August for the first time since the pandemic began, suggesting that the Chinese economy is on sounder footing. Other economic measures had already turned positive.
- The Bank of England (BOE) said that it has explored the implications of using negative interest rates to stimulate economic growth, expressing concern about the UK's economic trajectory amid the coronavirus and Brexit. The BOE's official interest rate is currently 0.1%.
- Japan, the world's third-largest economy, has a new prime minister, Yoshihide Suga. Prime Minister Suga is a close ally of former Prime Minister Shinzo Abe, who ushered in the era of "Abenomics," marked by very accommodative fiscal and monetary policy to try to pull Japan out of its two-decade growth slump. Suga expressed his intention to continue Abe's economic policies, but a leadership change always bears watching.

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