Keeping focused on your long-term goals

Market Commentary  |  Week ending June 12, 2020

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Highlights

• Equity markets pulled back amid high volatility, as the U.S. Federal Reserve signaled that economic recovery will be slow and concern grew about rising numbers of COVID-19 cases. Equities are still more than 35% above their March lows.
• Federal Reserve Chairman Jerome Powell said that interest rates will remain near zero for the foreseeable future, perhaps into 2022. He also indicated that it will take the economy an extended period of time to regain lost jobs.
• Public health risks garnered the market’s attention, as several states and cities around the U.S. reported a rise in COVID-19 cases since reopening their economies.

Equity Markets Take a Breather

U.S. equity markets tempered their recent gains over the course of the week, with the S&P 500® Index finishing the week down nearly 5%. On Thursday, the Dow Jones Industrial Average® fell 1,861 points, its biggest single-day loss since March. The NASDAQ Composite®, which set a new closing high above 10,000 on Wednesday, closed the week at 9,588.

• The markets have risen substantially from March lows and many observers were expecting a pull back at some point. The Fed’s statements, combined with public health news, caused investors to reassess their portfolios and provided a reason for some to realize recent gains.
• Volatility is ever present and the market action this week served as a reminder that caution is required given the uncertainties in the economy and on the public health front. As the Fed chair reminded us, we are in the early stages of what is likely to be a long recovery, with many ups and downs.
• Cyclical sectors, such as energy and financials, which appeared ready to take off in the prior week, had their wings clipped.
• Yields on U.S. Treasury bonds fell steeply. After closing just under 0.9% the prior week, the 10-year Treasury yield closed just above 0.7% on Friday. The decline reflected the market’s move away from risk and the expectation that interest rates will remain low for a long time.
• Oil prices have shown volatility. Remember that oil was well below $0, at -$40 a barrel on April 20th. Since then, it’s recovered about $75 a barrel, ending this week above $35. Demand is slowly coming back, but remains muted worldwide. OPEC and its oil-producing allies agreed to extend production cuts until the end of July.
• Even with the current selloff, markets are up significantly from recent lows. Given the uncertainties ahead of us and the wide range of potential outcomes, including the pace of economic recovery, investors should speak with a financial professional about whether they have the appropriate level of risk in their portfolios.
Federal Reserve Expects Economic Recovery to Be a Slow Process

Speaking after the Federal Reserve Board’s June policy meeting, Chairman Jerome Powell emphasized that the benchmark policy rate will stay near zero for the foreseeable future, saying, “We’re not even thinking about thinking about raising rates.”

• Powell’s remarks served as a splash of cold water for those who thought the economy would quickly catch up to where the market is. The remarks may also have served as a reminder to Congress and the Administration that more stimulus will be necessary to help support the economy through the rest of the year.

• Powell also said it would be “a long road” back to pre-crisis employment levels and it could take years for some people to find new jobs. The Fed projects that the U.S. unemployment rate will still be close to 10% by the end of 2020.

• The weekly report on unemployment claims showed that the number of Americans continuing to collect unemployment benefits declined again to just under 21 million—still a very high level.

Public Health Risks Come Back into Focus

News that COVID-19 cases are climbing in several parts of the U.S. renewed concern about continuing waves of infections. Markets had discounted the news in previous weeks, but took notice this week as the spike in some states reminded us all that the virus is still with us.

• Dr. Anthony Fauci said in remarks to an industry conference that the COVID-19 crisis “isn’t over yet,” adding to the market’s caution about the disease’s continued effects on lives and economies.

• The week also brought optimistic health news:
  • New Zealand announced that it has no active cases of COVID-19 and has lifted restrictions on public and private activity throughout the country. Restrictions on entering the country remain in place.
  • Johnson & Johnson announced that it will start human trials of its potential coronavirus vaccine in July, earlier than anticipated.
  • Moderna also confirmed that it will start a 30,000-person vaccine trial in July.
  • Regeneron announced that it’s moving forward with human testing of a COVID-19 therapeutic treatment, following similar recent news from Eli Lilly.

• Though much more work remains, markets are eager for a breakthrough on vaccines and therapeutics.

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