Keeping focused on your long-term goals

Market Commentary | Week ending June 5, 2020

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Highlights

- Equity markets looked past the pandemic and nationwide protests, moving higher on surprisingly optimistic employment news. After months of widely varying performance among different sectors, we’re beginning to see broader participation in the market rally.
- Economic data continued to show a mixed picture overall, with some hopeful green shoots and some causes for concern about the economic recovery.
- European leaders extended their commitments to help markets and economies through the downturn.

Equity Markets Look Past Challenges and Climb Higher

Equities moved higher for the week, with the S&P 500® Index gaining nearly 5% as Friday’s jobs report propelled stocks into the weekend.

- Despite the months-long global pandemic, economic recession, and recent civil unrest in the United States, U.S. equities have shown resilience. The NASDAQ Composite® set a new intra-day high on Friday and is now up 9.3% year-to-date. The S&P 500 is down just 1.1% for the year, and the Dow Jones Industrial Average® is down just 5% year-to-date.
- Although the S&P 500 has performed well in the face of extraordinary headwinds, we’ve seen a broad dispersion of performance in the market. For instance, large-cap growth stocks are up 8% for the year, however small-cap value stocks are still about 17.5% below where they started the year.
- The Russell 2000® Index, which represents small-cap stocks, is down about 10% year-to-date, however it rose 21% in April and May, and ended the week up 8%. This rise, coupled with the increased participation of financials and industrials in the large-cap upswing, are signs that the market rally may be broadening.
- U.S. Treasury yields also jumped this week. After closing last week at 0.65%, the 10-year Treasury yield ended the week above 0.8% for the first time since late March, as investors moved away from “safe havens” to take on more risk.
- Given the large swings up and down in equities this year, trying to time the market has been especially risky. Investors should consider speaking with a financial professional about having a portfolio allocated appropriately for their long-term goals.

Economic Data Presents a Mixed Picture

Friday’s monthly employment report from the U.S. Department of Labor was a positive surprise. The U.S. economy gained 2.5 million jobs in May and the unemployment rate fell to 13.3% from April’s 14.7%. Most observers had expected the unemployment rate to climb to nearly 20%. However, there are still reasons for caution.
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- May’s 13.3% unemployment rate is still historically high—well above the 10% reached at the height of the Great Recession. Furthermore, claims for continuing unemployment benefits increased to 21.5 million last week, a sign that the pace of hiring is still well below normal.

- The Institute for Supply Management’s U.S. manufacturing index for May came in at 43.1, above the April figure but still below the 50 mark that signifies an expanding economy. ISM’s non-manufacturing (services sector) index registered 45.4, a bump up from 41.8 in April.

- As states reopen, it’s still unclear how consumers will respond. Consumer spending fell by 13.6% in April, even as expanded government benefits temporarily boosted personal income by 10.5%. These expanded benefits are set to expire next month, and federal policymakers have not yet reached an agreement on whether they should be extended. The unexpectedly good jobs report could reduce momentum for further stimulus.

- Health risks remain high, making it difficult to accurately project the timing and pace of the future economic recovery. Some states, including Arizona, Ohio, and Texas, have seen rising Covid-19 hospitalization rates. Internationally, Brazil and Mexico recently reported record daily death tolls. Economic challenges in Latin America could have spillover effects in the United States.

**European Leaders Extend Stimulus Measures**

On Thursday, the European Central Bank (ECB) announced that it will expand its government and corporate bond-buying program by around $700 billion, totaling more than $1.5 trillion in purchases through June 2021.

- Markets reacted positively to the ECB’s extended commitment, as both the ECB and U.S. Federal Reserve have now confirmed their willingness to do whatever is necessary to support markets and economies through the crisis.

- The German government also expanded its fiscal stimulus measures to a total of around $1.5 trillion. German policymakers are typically highly averse to debt, so this latest commitment underscores the severity of the economic threat Europe faces and the willingness of governments to go beyond traditional comfort zones to bolster their economies.

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