Highlights

- Equity markets slid this week as concerns about the outlook for the U.S. economy moved to the foreground. Markets continued to be pushed and pulled by the conflicting forces of unprecedented monetary and fiscal stimulus versus difficult underlying economic conditions.
- Federal Reserve chairman Jay Powell said the economic outlook remains highly uncertain and reiterated the need for further fiscal stimulus. He also pushed back on the prospect of negative interest rates.
- Inflation remained subdued as consumer prices fell in April. Monthly retail sales figures tumbled at a record rate. The latest initial jobless claims report showed that large numbers of workers are still losing jobs two months into the economic downturn.
- Dr. Anthony Fauci cautioned against reopening economies too soon, as states and businesses continued to take varied approaches to reopening.

Equity Markets Shift from Optimism to Caution

The major equity indices moved lower to start the week before recovering some ground on Thursday and Friday. For the week, the NASDAQ declined about 1% and the Dow Jones Industrial Average and S&P 500 fell more than 2%, reflecting a shift in sentiment toward a more cautious outlook about the pace of economic recovery.

- Despite this week’s market selloff, the Dow and S&P 500 have rebounded 27% from their March lows. The NASDAQ is up more than 31% in that period, and will likely continue to rise and fall on health news until a treatment or a therapeutic is widely distributed.
- Investors should consider revisiting their asset allocation to make sure they are positioned for a potentially volatile period ahead. With a wide range of possible outcomes and a great deal of uncertainty, investors should speak with a financial professional about their goals and options.1

Fed Chairman Powell Highlights Economic Uncertainty

Powell said on Wednesday that the U.S. economic outlook remains “both highly uncertain and subject to significant downside risks.”

- Powell also stated that the Fed is not inclined to pursue a policy of negative interest rates, preferring to use other policy tools to help markets and the broader economy. He reiterated that further fiscal stimulus will be necessary to help contain economic damage.
- Congressional Democrats unveiled a $3 trillion proposal for the next round of federal relief and stimulus. The final shape and timing of the package will be determined through negotiations with the White House and Republicans in Congress.
• The Fed also began buying corporate bonds, both directly and through ETFs, implementing a program announced in March to help stabilize fixed-income markets.

**Inflation, Retail, and Jobs Data Affirm Economic Weakness**

Inflation is unlikely to be a challenge for the Fed in the near future, as U.S. consumer prices declined 0.8% in April. Food prices rose and energy prices dropped.

• Excluding food and energy, prices fell 0.4%, which is the steepest monthly decline since records began in 1957.

• Retail sales also fell a record 16.4% in April, even as online sales rose 8.4%. The shift toward online shopping was no surprise given the stay-at-home orders in place across the country.

• The weekly initial unemployment claims report showed that nearly 3 million people filed for first-time benefits last week, bringing the eight-week total to more than 36 million.

• The initial weekly claims number has been declining since peaking at the end of March—however 3 million initial claims in a week is still exceptionally high, indicating that waves of layoffs continue to ripple through parts of the economy.

**Dr. Fauci Urges Caution in Reopening Economies**

In Congressional testimony on Tuesday, Dr. Anthony Fauci cautioned that reopening economies too soon could lead to increases in infection levels that public health officials cannot contain.

• The remarks reaffirmed that the process of returning to normal economic activity is still highly uncertain and dependent on underlying health conditions.

• States and businesses are moving toward reopening at varying speeds. For instance, Tesla’s Elon Musk made headlines this week for insisting that local officials in California allow Tesla’s manufacturing plant to reopen with safeguards in place. Detroit’s auto manufacturers are in the process of reopening manufacturing facilities now. Meanwhile, Twitter announced that employees who can work from home may do so forever if they choose.

1 Asset allocation does not ensure a profit or protect against market loss.

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