Quarterly Market Performance Snapshot (April 1, 2020 – June 30, 2020)

- Dow Jones Industrial Average®: up 18.5%
- S&P 500® Index: up 20.5%
- NASDAQ Composite® Index: up 30.6%
- Russell 2000® Index: up 25.4%
- Bloomberg Barclays U.S. Aggregate Bond Index: up 2.9%
- 10-year U.S. Treasury bond yield: 0.658% on June 30, down 4.1 basis points since March 31

- Three best-performing sectors:
  - Consumer Discretionary: up 32.9%
  - Technology: up 30.5%
  - Energy: up 30.5%
- Three weakest-performing sectors:
  - Utilities: up 2.7%
  - Consumer Staples: up 8.1%
  - Financials: up 12.2%

Markets Staged a Remarkable Recovery in the Second Quarter

Equity markets surged in the second quarter, registering their steepest gains in decades. The indexes were building off a low base after stocks plummeted in February and March, as world governments imposed lockdowns in response to the COVID-19 pandemic. Year-to-date, the NASDAQ Composite, which is composed of nearly 50% technology stocks, has been the strongest performer, up 12.7%. The S&P 500 and Dow Jones Industrial Average are down 3.1% and 8.4%, respectively. This is remarkable given the depth of the global economic downturn in the first half of the year and the uncertainty about future economic performance.

- Several factors accounted for the second-quarter upswing, including investors buying off the March lows and optimism about the pace of recovery, spurred by the encouraging economic data in May. However, health concerns weighed heavily on markets in June, as spikes in the number of cases in parts of the U.S. caused governors to rethink the pace of their state economic re-openings.

- Most companies reporting results during the quarter did not offer guidance about future earnings. Since stock prices reflect expected future earnings, the lack of clarity on future earnings raises questions about the accuracy of equity valuations today.

- Mega-cap tech stocks, such as Apple (up 43.8%), Amazon (up 41.5%), and Microsoft (up 29.4%), surged throughout the quarter as investors sought financially strong companies that could weather the downturn and potentially benefit from a period in which more economic activity moved online. Video conferencing company Zoom (up 73.5%) benefited from work-at-home demand. Netflix (up 21.2%) and Peloton (up 117.6%) were among other stocks benefiting from the stay-at-home trade.
Keeping focused on your long-term goals

• Major increases in online spending and home goods sales made Consumer Discretionary the top-performing sector for the quarter.
• After dropping sharply in the first quarter, U.S. Treasury bond yields remained at historically low levels throughout the second quarter, as investors continued to seek the relative safety and stability of government bonds. Investors see little risk of inflation in the near term.
• The U.S. Federal Reserve also brought additional stability to corporate bond markets with its unprecedented purchases of corporate bond ETFs and individual corporate bonds.
• Oil prices had a dramatic ride over the course of the second quarter. As global demand came to a near-halt, a feared oil glut and lack of storage capacity pushed prices well below zero, reaching a low of -$40 a barrel on April 20. As major oil producers trimmed their output and economic re-opening raised demand somewhat, prices rose and closed the quarter over $39 a barrel—a nearly $80 per barrel swing.

Coronavirus Confounded and Drove Markets, and Economic Data Hit New Lows and Highs

The global impact of COVID-19 drove markets up and down throughout the second quarter. Markets rose on news of potential vaccines and therapeutic treatments, which helped push equities higher through May and June. However, growing concerns about rising U.S. infection counts brought more caution to markets as the quarter closed. Markets are using health news to discern economic effects, including how quickly and permanently economies can reopen, and how much monetary and fiscal stimulus will be forthcoming from policymakers.

• As the virus surged around the world and economies were partially closed in April, economic data registered historic lows. U.S. weekly job losses, which hit a peak in late March, stabilized at a historically high level during the second quarter.
• Many states started the economic re-opening process in May, and data for the month came in surprisingly strong. The U.S. added 2.5 million jobs and registered a lower-than-expected unemployment level of 13.3%. The data boosted markets, as investors looked at the possibility of a quicker return to normalized economic activity.
• In June, a surge in cases in states such as Florida, Texas, Arizona, and California prompted concerns about continuing waves of infection. Several states announced that they would slow or reverse their re-opening plans, resurrecting concerns about how quickly the economy can recover. The European Union also announced at the end of June that while it would allow travelers to enter Europe from 15 nations, it would continue to prevent any arrivals from the United States.
• To combat the financial and economic effects of the virus, policymakers around the world acted quickly to inject unprecedented levels of monetary and fiscal stimulus into the global economy to temporarily support workers and employers during the worst of the economic downturn.
• Throughout May and June, Federal Reserve Chairman Jerome Powell and other Fed officials intimated that lawmakers should be ready to enact additional fiscal stimulus given the tremendous uncertainty around the economic and employment outlook. On June 30, Chairman Powell told members of Congress, “The path forward for the economy is extraordinarily uncertain and will depend in large part on our success in containing the virus.”

Uncertainty Will Continue to Be the Watchword in the Months Ahead

The temptation for investors during any market rally is to assume that equities will continue to rise in price. That is always a dangerous assumption, even more so today. In addition to the ongoing health uncertainty, no one can predict how quickly the economy will get back to full strength. More bankruptcies, more layoffs, and additional negative economic effects could also be in store. Tremendous uncertainty lies ahead.
• The June employment report—to be released on Thursday, July 2—will provide some perspective on how quickly people are getting back to work. However, the announcements by several states of a pause or reverse in their re-opening plans at the end of June suggest that even a positive June unemployment number is fragile, and could be reversed in July or August if states have to restrict economic activity again for an extended period.

• The economic stimulus payments sent to American households in the second quarter, as well as the extra $600 a week distributed to workers receiving unemployment benefits, had a positive effect on economic activity in the quarter. However, the stimulus payments were a one-time shot in the arm and the extra $600 payment is set to expire at the end of July. If Congress doesn’t authorize additional measures, we could see a contraction in consumer spending.

• As the second quarter closes, it’s unclear if Congress and the Administration will agree to further stimulus. The size and construction of any future stimulus package will affect economic activity and influence the market’s outlook.

• The economy and the markets are highly dependent on developments on the health front. If hospitalizations or deaths from COVID-19 spike, we could see further economic shutdowns and contraction. If a vaccine or treatment is developed earlier than expected, we could see a surge in market optimism.

• Investors should not assume the extraordinary market gains of the second quarter will continue into the future. The high degree of uncertainty on the health, economic, and financial fronts calls for a portfolio that contemplates a wide variety of outcomes. Speak with a financial professional about your objectives and risk tolerance.

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