

# Keeping focused on your long-term goals

Market Commentary | Week ending April 17, 2020



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

## Highlights

- Market volatility continues to be driven by public health concerns. Equity markets finished up for the week and the 10-year Treasury yield fell as markets reacted to negative data on U.S. retail sales, industrial production, and jobless claims. The International Monetary Fund forecasts a historic decline in 2020 global output and oil prices hit an 18-year low.
- Earnings reports showed that banks increased loan-loss reserves as they prepare for the effects of economic turbulence on businesses and consumers. Some companies that provide essential goods and services raised dividends, highlighting performance differences among sectors. Small businesses quickly exhausted a key federal aid program.
- Economic and social lockdowns were extended in many places, while global political and business leaders began discussing how economies can be reopened in the future. The timing and pace of reopening will be highly dependent on health conditions. During this extended period of uncertainty, investors are encouraged to speak with a financial professional.

## Markets Digest Tough Economic Data

Amid ongoing public health concerns, equity markets expressed volatility over the course of the week, with the S&P 500® finishing about 3 percent higher than the prior week's close. Yields on the benchmark 10-year Treasury fell as investors continued to seek safety in bonds. Key economic data released this week revealed the extent of the economic damage at the end of the first quarter.

- Retail sales registered their biggest monthly decline since records began in 1992, down 8.7% in March. Within the overall retail report, some sectors contracted much more sharply while the grocery and online segments reported gains.
- The Federal Reserve's measure of industrial production fell 5.4% in March, its biggest monthly drop since 1946. Housing starts declined 22.3% in March, as real estate markets froze.
- Thursday's initial jobless claims report showed that nearly 5.25 million people filed for unemployment insurance last week, bringing the 4-week total to 22 million, roughly 14% of the U.S. workforce. It remains to be seen whether initial unemployment claims have peaked.
- The International Monetary Fund is forecasting that 2020 will see the steepest decline in global economic activity since the Great Depression, with global output projected to fall by 3%, including a 5.9% contraction in the United States.
- Oil prices hit an 18-year low this week as investors determined that the supply cutbacks announced by OPEC and other major producers will be insufficient to offset plummeting global demand. Markets are signaling that oil is unlikely to fuel inflationary pressures in the global economy even after economic activity resumes.

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## Corporate Earnings and Demand for Small Business Aid Underscore Challenges

Corporate earnings season kicked off in earnest this week, with companies reporting first quarter results, but offering little clarity about future expectations. Because stock prices essentially reflect the present value of companies' expected future earnings, the lack of clarity on future earnings complicates valuations. The ongoing uncertainty will likely cause high volatility in stock prices.

- Large banks increased loan-loss reserves as they anticipate that more consumers and businesses will have trouble staying current on loans in the months ahead.
- Major consumer staples companies Johnson & Johnson and Procter and Gamble, as well as retailer Costco (which did not report earnings this week), raised dividends. Others cut or suspended dividends, highlighting performance differences among sectors.
- Other performance variations include the tech-heavy NASDAQ outperforming the broader market as measured by the S&P 500® index, and large-cap stocks outperforming small-caps.
- The Small Business Administration announced that the \$350 billion Paycheck Protection Program has been exhausted, demonstrating the intensity of demand for small business aid.

## Restarting Economies Under Discussion, but Highly Uncertain

Even as some U.S. governors and foreign governments extended business and social lockdowns this week, global political and business leaders began discussing how economies can reopen, with most expecting a phased process that will take several months to carry out.

- On Thursday, the White House issued recommended guidelines for reopening the economy in phases while maintaining social distancing practices. Governors will determine the appropriate timeline for easing restrictions in their states.
- The speed and strength of the economic reopening are likely to be driven by the development and widespread availability of reliable testing, therapeutics, and a vaccine to prevent infection. There is still great uncertainty about how quickly these items can be rolled out to large numbers of people.
- As we work through a long period of uncertainty in financial markets and the overall economy, individuals should speak with a financial professional about their long-term goals.

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