

Keeping focused on your long-term goals

Market Commentary | Week ending May 1, 2020

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Highlights

- Equity markets rose through April to recover a substantial portion of the ground lost in March. Health news is still driving the markets—as are technology stocks, which delivered earnings reports this week and now account for a large portion of the S&P 500's value.
- Central banks reiterated their commitment to support markets and economies, with the Federal Reserve, European Central Bank, and Bank of Japan all issuing statements or taking action.
- Uncertainty about economic reopening and recovery remains high. New economic data during the week further revealed the extent of the damage to the global economy. Faced with this outlook, investors should speak with a financial professional about their long-term goals and risk tolerance.

Equity Markets Blossomed in April

The month closed on Thursday with equities up more than 11%. The Dow Jones Industrial Average and S&P 500 recorded their best months since 1987—results that seem inconsistent with the global economic shock we're experiencing. May kicked off on Friday with a down day for equities, pushing the major large-cap stock indexes slightly negative for the week.

- Promising results from a clinical trial of Gilead's Remdesivir, a potential COVID-19 treatment, pushed stocks up on Wednesday. At week's end, this drug received FDA approval for emergency use. Trials for dozens of other potential vaccines and therapeutics are also underway. Markets will likely continue to rise and fall on health news until a treatment or a therapeutic is widely distributed.
- Technology and Health Care are propelling markets. Alphabet, Amazon, Apple, Facebook, and Microsoft now comprise more than 20% of the S&P 500's value—the same percentage as the lowest-valued 350 stocks combined. As a result of this concentration, the performance of these five tech stocks is having an outsized effect on the market's direction.
- The market eagerly anticipated these tech companies' earnings reports this week. By and large they demonstrated resilience in the face of the global health crisis. Facebook and Alphabet (Google's parent company) reported advertising revenue held up through the first quarter. Microsoft saw a jump in its services related to working from home. Apple announced that it will continue to return cash to shareholders through dividends and stock buybacks. Amazon reported growth in cloud revenue, but said it plans to spend all of next quarter's earnings on coronavirus response. These five stocks ended the week mixed.

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Central Banks Pledge More Support for Economies

The U.S. Federal Reserve, European Central Bank, and Bank of Japan all pledged this week to continue using every means available to support their respective economies.

- The Fed kept its target range for the Fed Funds rate at 0-0.25% and said it expects to maintain that target range for the foreseeable future. It will also continue to implement lending and liquidity programs to support markets and the broader economy. U.S. Treasury yields across the maturity spectrum are likely to stay at very low levels for an extended period of time.
- Fed Chairman Jay Powell said that more fiscal stimulus will be necessary, an unusually direct call for Congressional action on fiscal policy from a Fed chairman.
- The European Central Bank announced that it will make loans to banks at negative interest rates (banks will effectively be paid for taking loans) to support lending in the Eurozone.
- The Bank of Japan announced that it will triple its holdings of corporate bonds and buy as many Japanese government bonds as necessary to keep 10-year yields at or below zero. The Japanese government also passed a \$240 billion stimulus package.

Uncertainty About the Pace of Economic Recovery Is Still High

This week brought additional data on the depth of the economic contraction in the U.S. and Europe. As states and countries begin the process of lifting restrictions and reopening, expectations for the economic recovery are still very uncertain.

- The first reading on U.S. first quarter GDP came in at -4.8%, the steepest decline since the 2008 financial crisis. In addition, another 3.8 million initial unemployment claims were recorded, bringing the six-week total to more than 30 million. Consumer spending also fell 7.5% in March, the sharpest decline in at least 60 years.
- The EU's GDP shrank by 3.5% in the first quarter compared with the previous quarter. This is the sharpest decline on record, dating back to 1995.
- Political leaders around the globe are attempting to balance the need to protect public health with the goal of returning to more normal levels of economic activity. As economies reopen, the major risk is that a subsequent rise in COVID-19 cases could lead to the re-imposition of lockdown orders. Also, the public's willingness to go back to restaurants, stores, and other crowded places remains uncertain.
- In the face of market and economic uncertainty, investors should talk with a financial professional about how best to pursue their objectives and manage their risk.

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