

Keeping focused on your long-term goals

Market Commentary | Week ending May 8, 2020

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Highlights

- In the short term, equity markets continue to brush off negative economic data, moving up or down on health news and gaining power from technology stocks. Optimism about economic reopening has also buoyed markets. Major equity indexes finished positive for the week and the Nasdaq is now positive year-to-date.
- Looking to the longer term, we're likely to see greater variation in the equity market performance of different stocks and sectors as the economy moves through the various stages of recovery. Investors should speak with a financial professional about their long-term objectives and risk tolerance.

In the Short Term, Markets Show Optimism

Equity markets looked past historically bad employment data and ended the week in positive territory. The S&P 500 rose 3.5%, and the Russell 2000 and Nasdaq were both up over 5% for the week.

- On Friday, the U.S. Department of Labor reported April's unemployment rate at 14.7%, the highest level since records began in 1948 and well above the previous high of 10.8% in 1982. Separately, the government reported another 3.1 million initial unemployment claims, taking the total over 33 million in the past seven weeks.
- Remarkably, the S&P 500® index is now at the same level it occupied last summer, when the U.S. unemployment rate was 3.7%, indicating that equity markets have discounted negative near-term data.

Health news is pushing markets.

- Equities rose on Thursday following an announcement that pharmaceutical company Moderna's potential COVID-19 vaccine is moving quickly to a phase 2 and, potentially, a phase 3 trial. The positive reaction was similar to last week's encouraging news about a potential therapeutic from Gilead.
- Market optimism could be tested, however, if negative results emerge from the dozens of vaccine and therapeutic trials currently underway.

Technology stocks have been clear near-term winners.

- The Nasdaq is now positive for the year, as investors have flocked to stocks that appear well-positioned to serve the needs of consumers and workers spending more time at home, and to other market-leading tech companies.
- Tesla, Netflix, and PayPal have been among the Nasdaq's top performers this year, but many others have also done well. Home-fitness company Peloton surged this week after it revealed a 66% jump in sales.

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Markets are also optimistic about economies reopening across the U.S. and globally.

- The focus on economic re-normalization has benefited oil and energy companies. The U.S. benchmark oil price has doubled in less than two weeks, though oil is still down 60% since the start of the year.
- The economic reopening process is likely to produce fits and starts, as positive COVID-19 cases continue to rise. It remains to be seen how confident consumers will be about returning to normal activity, or how markets will react if broad lockdown measures need to be re-imposed. We hope for the best but are cognizant that there is a broad range of potential economic outcomes.

Looking Longer Term, Stock Performance May Become More Highly Differentiated

Equity markets may be entering a period during which they don't move in lockstep, contrary to the past decade.

- Indexes have posted broad gains since 2009 as equity markets moved steadily upwards, but we're likely to see greater variation in the equity market performance of different stocks and sectors as the economy moves through the various stages of recovery.
- While there appear to be some secular trends, today's winners may not continue their persistent outperformance. For instance, tech stocks that have dominated the market recently may have less room for further price appreciation than stocks that have lagged, such as industrials.
- Investors should be prepared for markets, sectors, and assets to move up and down as levels of economic and health uncertainty remain high. Individuals should speak with a financial professional about long-term objectives, risk tolerance, and portfolio diversification.¹

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or speak with your financial professional.**

¹ There is no guarantee that diversification will provide gains or protect against loss.

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