Economic & Market Overview

Rising hopes lift equities
Global stocks defied weak economic conditions and posted their best monthly gains in over eight years. Despite an imminent recession in the U.S. the S&P 500 Index jumped over 12% in April, its best monthly performance since 1987. Helped by overwhelming fiscal and monetary policy actions and a leveling off in coronavirus cases, investors turned their focus to the gradual reopening of the economy. Corporate results were also in focus. A high number of companies withdrew earnings guidance for 2020, yet positive earnings reports from several tech giants revealed resilience in some parts of the economy. Refer to Chart 1 for trailing returns across equity markets.

What worked in April?
The worst performing sectors during the recent downturn roared back to life in April. This was especially evident by a strong rebound in energy, which led all other sectors, even as oil prices swung wildly. Consumer discretionary and materials also saw solid double-digit gains. Utilities and consumer staples lagged but finished the month higher. Investors continued to favor growth companies, but small-cap stocks outperformed large-cap for the first time in five months. Refer to Chart 2 for best and worst performing equity sectors for the month.

The Fed stands ready to help
The Federal Reserve (“Fed”) pledged to keep interest rates near zero for as long as needed at its April meeting and committed to aid the economy “to the absolute limit of those powers.” Interest rate movements were fairly muted during the month, with yields dipping slightly across the board. Investment-grade corporate bonds benefited the most from Fed support, posting their largest monthly gain since 2008. High-yield bonds also performed strongly, rebounding from large losses in March. Refer to Chart 1 for trailing returns across fixed income sectors.

Oil markets cratered
Oil markets have been under pressure for a few years now amid a glut as new drilling technologies fueled a U.S. boom, making it the world’s largest oil producer in 2018. Other factors, such as non-cooperation from OPEC members in March, added to the oil glut, further crushing prices. And now the COVID-19 pandemic has choked global demand. The crisis peaked in the third week of April when crude futures traded below $0 for the first time in history, on fears that storage facilities for U.S. crude could fill up in weeks’ time. The latest OPEC+ agreement to cut supply significantly was a historic deal, but did little to help pacify the oil markets. The near-term future of oil markets now depends primarily on how long social-distancing measures stay in place, and how quickly normalcy resumes with healthy levels of air travel and auto transportation.

Unemployment claims posted new record high
The COVID-19 pandemic has left nearly 30 million Americans—about one-fifth of the labor force—newly unemployed. Initial jobless claims soared at the fastest pace ever to a record high. As millions of workers draw benefits, some state unemployment funds may soon run dry. This is a strain on state governments, many of which are already facing a fiscal crisis.
What letter will it be: V, U, or W?

Many parts of the U.S. and global economy came to a halt in March as “stay at home” orders took effect. Analysts cut 2020 S&P 500 earnings estimates by 18% year-to-date as the outlook dimmed. Investors and analysts must look beyond 2020 earnings to see whether equity markets are cheap or expensive. But what will the recovery look like? V-shaped: recovers as fast as it fell; U-shaped: stays depressed for several quarters; or W-shaped: recovers sharply followed by a slowdown. Testing and contact tracing are major factors in ensuring a rapid recovery. These should allow authorities to identify virus hot spots and reduce the chance of a second wave of contagion. Consumers account for almost 70% of the U.S. economy and their willingness to resume spending is critical for economic recovery. In China, consumers have been cautious in their spending since the lockdown ended which is not helping their economy as much. However, trillions of dollars of new U.S. government payments to consumers and businesses may support a stronger spending recovery here.
The price of equity securities may rise or fall because of changes in the broad market or changes in a company’s financial condition, sometimes rapidly or unpredictably.

Bonds may cause the value of your investment to go up or down in response to changes in interest rates or defaults (or even the potential for future defaults) by bond issuers.

Futures contract is a legal agreement to buy or sell a particular commodity or asset at a predetermined price at a specified time in the future. Futures contracts are standardized for quality and quantity to facilitate trading on a futures exchange. The buyer of a futures contract is taking on the obligation to buy the underlying asset when the futures contract expires. The seller of the futures contract is taking on the obligation to provide the underlying asset at the expiration date.

Housing performance return is the year-over-year gain in the median existing-home price for all housing types, reported by the National Association of Realtors® every month.

Value Investing - The investor’s judgment that a particular security is undervalued in relation to the company’s fundamental economic value may prove incorrect.

Growth Investing - These stocks normally carry higher price/earnings ratio than many other stocks. If earnings expectations are not met, market price of growth stocks will often decline more than others stocks.

International Investing involves a greater degree of risk and increased volatility. In emerging countries, these risks may be more significant.

S&P 500® Index tracks the common stock performance of 500 large-capitalization companies publicly traded in the United States.

Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index and is widely recognized as representative of small-cap stocks.

Russell 1000® Growth Index measures the performance of those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000® Value Index measures the performance of those Russell 1000® Index companies with lower price-to-book ratios and lower forecasted growth values.

MSCI® EAFE® Index is a free float-adjusted market capitalization index designed to measure the equity market performance of developed markets. It includes stocks from 21 developed markets, but excludes U.S. and Canada.

MSCI® Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

Bloomberg Barclays 1-3 Month U.S. Treasury Bill is designed to measure the performance of public obligations of the U.S. Treasury that have a remaining maturity of greater than or equal to 1 month and less than 3 months. The Index includes all publicly issued zero coupon U.S. Treasury Bills that have a remaining maturity of less than 3 months and at least 1 month, are rated investment-grade, and have $300 million or more of outstanding face value.

Bloomberg Barclays U.S. Aggregate Bond Index is an unmanaged index of domestic investment-grade bonds, including corporate, government and mortgage-backed securities.

Bloomberg Barclays U.S. High-Yield 2% Issuer Capped Bond Index is a component of the Bloomberg Barclays U.S. Corporate High-Yield Bond Index, which covers fixed-rate, non-investment grade corporate debt of issuers in non-emerging market countries. It is not market capitalization-weighted—each issuer is capped at 2% of the index.

Bloomberg Barclays U.S. Treasury Inflation Protected Securities (TIPS) Index consists of Treasury inflation-protected securities issued by the U.S. Treasury with a remaining maturity of one year or more.

Indices are not managed and an investor cannot invest directly into an index.

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