

Assessing the Fed's Sudden Rate Cut

Commentary provided by PineBridge Investments

March 2020

The Federal Reserve made an emergency rate cut of 50 basis points on March 3, 2020, acknowledging material concerns about potential economic and financial market impact of the novel coronavirus. While markets had widely anticipated that cuts would be forthcoming, the timing of the cut just a couple of weeks before the Fed's regularly scheduled meeting sent a strong message that it views the risks as highly elevated—and that it remains prepared to act if conditions deteriorate.

The cut followed a call with the G7 finance chiefs in which participants pledged to do all they can to counteract the impact of the crisis. The question is, will the cut be effective and have the intended result?

Direct Impact of the Rate Cut May Be Limited

It remains to be seen, but the rate cut may do little to combat the near-term economic impact of the virus, given that the transmission mechanism for monetary policy stimulus is to counteract weak demand—whereas in this case, the virus' primary economic threat is its potential to disrupt supply. Furthermore, lowering rates may not create broad incremental demand if citizens are bunkered in their homes.

So while the direct benefit may be limited, the rate cut strongly signals that the Fed will react quickly to danger signs and is ready to inject additional stimulus if it deems necessary. The cut will likely be followed by some level of stimulus from other global central banks, but many no longer have traditional mechanisms available since they are sitting at negative policy rates. With their ammunition already spent, they will need to engage in alternative, non-traditional policy actions. But we are in uncharted waters, and volatility will persist in the near term.

Investment Takeaways

While valuations in the fixed income markets have pulled back across various risk assets, many market participants believe it may be too early to add to risk exposures. Although spreads have retraced from very tight levels to fair value, many believe they are not yet outright cheap in the context of prevailing risks. Once again, things remain to be seen, particularly as they relate to the coronavirus situation. The main thing is for investors to stay calm and remain focused on their long-term financial goals.

Past performance does not guarantee future results.

PineBridge Investments is an independent and unaffiliated investment subadvisor to SunAmerica Asset Management, LLC.

Investors should carefully consider a Fund's investment objectives, risks, charges and expenses before investing. The prospectus, containing this and other important information, can be obtained from your financial advisor, the AIG Funds Sales Desk at 800-858-8850, ext. 6003, or at aig.com/funds. Read the prospectus carefully before investing.

AIG Funds are advised by SunAmerica Asset Management, LLC (SAAMCo) and distributed by AIG Capital Services, Inc. (ACS), Member FINRA. Harborside 5, 185 Hudson Street, Suite 3300, Jersey City, NJ 07311, 800-858-8850. SAAMCo and ACS are members of American International Group, Inc. (AIG).

Not FDIC or NCUA/NCUSIF Insured

May Lose Value • No Bank or Credit Union Guarantee
Not a Deposit • Not Insured by any Federal Government Agency



aig.com/funds