AIG Retirement Services

# Keeping focused on your long-term goals

**Market Commentary** | Week ending March 20, 2020

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

### Highlights

- Markets are assuming a pronounced economic downturn, though the extent and duration are uncertain and unknowable. This uncertainty has enhanced volatility as investors evaluate their positions and gain liquidity.
- The Federal Reserve and other central banks are acting aggressively to provide liquidity and ensure that markets continue to function smoothly. Congress and the Administration are pushing through fiscal relief measures.
- In a period of high volatility, it can be difficult for investors to focus on long-term goals. Clients and their financial professional may want to use this period to evaluate and adjust individual strategies to position for the future.

## Markets Brace for the Economic Slowdown

Markets continued their downward slide, with the Dow closing below 20,000 for the first time since 2017. The implications of a pronounced economic slowdown are settling in on investors. With businesses from restaurants to major auto manufacturers temporarily closing, employees being laid off, and governments limiting people's movements and interactions, we're seeing the first tangible economic effects of the health crisis.

All of this is creating reverberations in markets. Uncertainty reigns. Markets are unsure how long the slowdown will last, how deep it will be, how many people will be affected—both from a health and an economic perspective—and what the effects will be on the economy and corporate earnings. An early indicator of the economic impact was seen in the weekly report on new jobless claims, which showed an increase of 70,000. Bigger spikes are likely in coming weeks. While mid-April earnings reports will be shaped by activity that took place before the crisis, they should start to reveal the impact companies are seeing in their business operations.

The high level of uncertainty has enhanced market volatility as investors look to evaluate their positions and gain liquidity. There hasn't been much differentiation among sectors, companies, or assets when it comes to selling. The U.S. dollar has risen in value as investors across the globe seek safety in the world's reserve currency.

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## The Fed and Other Policymakers Are Acting Aggressively

The Federal Reserve and other central banks have taken major steps to ensure that markets function smoothly and liquidity is available. Central banks have signaled that they will continue to do whatever is necessary to support liquidity and market operations.

On the fiscal policy front, the federal government's second COVID-19 relief bill has been signed into law, providing paid sick leave for small business employees, expanded unemployment insurance, and free coronavirus testing. A third relief package focused on relief and stimulus could be in the $1 trillion range. It's likely to include sending checks directly to individuals, establishing borrowing lines for small businesses, and providing aid to sectors—such as the airline industry—that are severely impacted by the current crisis. Additional legislation beyond the third bill is also likely, as policymakers confront the need to provide further immediate economic help and jump-start the economy when the health challenge recedes. Meanwhile, virus testing is ramping up and work continues toward a vaccine and therapeutic treatments for COVID-19.

## Investors Should Think About Positioning for the Future

In a volatile market where daily movements of 5 or 10 percent in either direction have become the norm, staying focused on long-term goals can be difficult. Nonetheless, certain foundational principles remain unchanged: (1) Investors' individual circumstances should guide any decisions, and (2) diversification may help protect against an uncertain future.[1]

Financial professionals and clients should work together to identify clients' current and future needs, sources of income and the status of their financial goals. It's also important to remember that investment decisions need not be all or nothing. Dollar-cost averaging or other measured plans may make sense for investors who want to reset and/or adjust their strategies. To help guide decision-making, ask questions like: When this turbulent period ends, how do you want to be positioned for the future?

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

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