AIG Retirement Services

Keeping focused on your long-term goals

Market Commentary | Week ending March 27, 2020

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

Highlights

- Markets started and ended the week with down days, but posted historic gains over the three-day stretch in the middle. Congress and the president enacted a $2 trillion economic relief package and the Fed continued its all-out effort to maintain liquidity and keep markets functioning smoothly.
- The economic slowdown could be very broad and deep, as indicated by the initial jobless claims of nearly 3.3 million reported this week. Much will depend on the course of the current health threat and the additional negative economic data that is expected in the weeks ahead.
- Some investors are now afraid that they may be missing out on rising markets, but it's important to recognize that volatility is likely to remain high throughout this period of uncertainty.

Markets Post Historic Gains, Bookended by Losses

Markets continued to show volatility this week. Monday and Friday brought declines in equities, but between Tuesday and Thursday the Dow registered its biggest three-day percentage gain since 1931. Several factors contributed to the upswing:

- The federal government's $2 trillion crisis response bill became law. The Treasury will soon begin sending payments directly to people below certain income thresholds. The law also expanded unemployment insurance. Large and small businesses will have access to major lending lines to keep workers on the job. And hospitals and state and local governments will get federal aid.
- The Federal Reserve and other central banks continued making liquidity available to credit markets, particularly the commercial paper and investment-grade corporate bond markets that businesses rely on to fund operations. The Fed reaffirmed its commitment to providing necessary liquidity to keep markets functioning smoothly.
- The approaching end of the quarter may be spurring a rebalancing of portfolios. After the recent market downturn, many portfolios may be below their target thresholds for equities. This likely prompted some movement from cash and bonds into equities this week. Some individual investors may also have taken advantage of this month's market dip to purchase equities at a value.

Economic Uncertainty Abounds

While the market rally brought much-needed relief to investors, there is still a lot of uncertainty about the course of the health crisis and how deep and prolonged this economic slowdown will be. It's also

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unclear how much damage is being done to supply chains and other parts of the economy that will play an important role in the recovery.

- Fed Chairman Jerome Powell acknowledged Thursday morning that the U.S. economy "may well be in a recession" and said the Fed is "not going to run out of ammunition" to help the economy through it.
- Nearly 3.3 million Americans filed an initial claim for unemployment benefits last week. This is more than four times the previous record set in 1982. High levels of initial jobless claims will likely continue for at least several weeks.
- While the federal economic relief package is welcome news, it remains to be seen how quickly money can start flowing to the workers and businesses that need it. In addition, discussions are already underway about the scope and cost of further stimulus.
- The yields on 1-month and 3-month Treasuries dipped into negative territory this week, signaling that investors around the world are still seeking safety and liquidity.

Investors Should Stay Focused on the Long Term as Volatility Remains High

This week's market uptick may induce some FOMO, or fear of missing out, in retail investors who worry that markets may take off without them. They should talk to their financial professional and stay focused on their long-term plans. Major markets are still negative for the year, and high volatility will likely lead to continued upward and downward movement in coming weeks.

- In the past two weeks, markets have experienced upward and downward swings of 10%. Investors should be prepared for continued choppiness in the market as economic data begins to reveal the extent and duration of the economic slowdown.
- Volatility between sectors is also high. Sectors, such as energy, that saw the steepest decline since the market peak, saw the largest surge during the three-day positive run this week.
- Small- and mid-cap stocks had experienced the largest declines before posting the sharpest recoveries during this week's three-day upswing.
- Investors and financial professionals should keep an eye on short-term market activity but stay focused on long-term financial goals.

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