Keeping focused on your long-term goals

Market Commentary | Week ending July 10, 2020

Commentary provided by John Packs, Senior Vice President, Product & Research, AIG Funds

Weekly Market Performance Snapshot (Week ending July 10, 2020)

- **Dow Jones Industrial Average®:** up 1.0%
- **S&P 500® Index:** up 1.8%
- **Nasdaq Composite® Index:** up 4.06%
- **Russell 2000® Index:** down 0.6%
- **10-year U.S. Treasury bond yield:** 0.658% on June 30, down 4.1 basis points since March 31
- **Best-performing sector this week:**
  - Consumer Discretionary: up 4.8%
- **Weakest-performing sector this week:**
  - Energy: down 4.6%
- **June employment report (released July 2):** Unemployment rate: 11.1% (down from 13.3% in May); 4.8 million jobs added

Tech Continues to Outperform Other Sectors

Technology stocks and the tech-heavy Nasdaq Composite continued their strong performance, as investors sought companies that have strong balance sheets and the ability to withstand various economic scenarios. The index set another new closing high and is now up 18.3% year-to-date.

- Established tech names, including Amazon, Apple, Facebook, and Microsoft (all of which reached new price highs this week), are garnering market confidence. Recent highfliers, such as video conference facilitator Zoom, continue to rise, though it remains to be seen if earnings growth will justify the high valuations.
- Costco reported an 11% increase in same-store sales for June, as customers continued to stock up on essentials. However, some retail names suffered, as Brooks Brothers announced that it will enter bankruptcy and Bed Bath & Beyond announced the closure of around 200 stores over the next two years. The impact of COVID-19 accelerated trends that were already eroding both companies' market positions.
- United Airlines cautioned employees that up to 36,000 furloughs may be coming this fall. As a condition of receiving federal payroll support, airlines are prohibited from reducing staff until October 1. It appears unlikely that air travel demand will have recovered substantially by that time.
- Q2 earnings season kicks into gear next week. Company results are likely to be disappointing, as the entire quarter was spent in the grip of the pandemic. Nonetheless, the impact on stocks may be muted as markets continue to look toward the fourth quarter of 2020 and first quarter of 2021, eager for a COVID-19 vaccine or treatment that could expedite a return to full economic activity.
- Amid tremendous market and economic uncertainty, investors should consult with a financial professional to ensure they're prepared for a variety of outcomes.

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Slow Economic Progress Continues, but Virus Upsurge Makes Future Uncertain

June's monthly jobs report showed the economy recovered 4.8 million jobs and the unemployment rate ticked down to 11.1% from 13.3% in May. This week's report on unemployment insurance claims extended its downward drift, though continuing claims remained at very high levels—about 18 million for the week. The pace of future job growth is uncertain, as new virus cases in the United States reached new daily highs and states continued to slow or reverse their economic re-openings.

- The U.S. government announced a new $2 billion investment in two companies—Novavax and Regeneron—to support the development, manufacture, and distribution of a COVID-19 vaccine and treatment.
- Markets are waiting for Washington lawmakers to determine the size and details of the next economic relief and stimulus package. The enhanced unemployment benefits, which have supported consumer spending, expire at the end of this month.
- States are also facing economic challenges amid reduced economic activity and declining tax collections. School officials anticipate needing more resources as they prepare to re-open safely. The uncertainty around school re-opening adds to the broader question of how quickly the economy can fully rebound.
- To combat the financial and economic effects of the virus, policymakers around the world acted quickly to inject unprecedented levels of monetary and fiscal stimulus into the global economy to temporarily support workers and employers during the worst of the economic downturn.

Chinese Government Actions Roil Markets

On Monday, an editorial in a Chinese state-run financial journal that touted a "healthy bull market" was widely viewed as a government recommendation for investors to buy stock, contributing to a surge in China's markets. Later in the week, the same journal and state regulators cautioned investors to manage risks carefully. Meanwhile, China's implementation of a new national security law in Hong Kong produced ramifications that could affect trade and economic relations.

- Facebook, Google, Microsoft, Twitter, and Zoom announced that they would no longer respond to requests for user data from the government in Hong Kong.
- TikTok, whose parent company is Chinese, sought to distance itself from Beijing by making the app inaccessible in Hong Kong and removing it from local app stores. U.S. Secretary of State Mike Pompeo and several members of Congress discussed limiting U.S. users' access to TikTok over concerns about how data could be shared with the Chinese government.
- The UK and Australia expanded pathways to citizenship for Hong Kong residents, while Australia and Canada suspended extradition treaties with Hong Kong, citing the uncertainty around the application of Chinese law in the territory. China is Australia's single-largest trading partner.
- President Trump on Friday described the U.S.-China economic relationship as "severely damaged" due to the coronavirus pandemic. He also said he is not currently thinking about a phase-two trade deal with China.

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