MARKET & LEGAL UPDATE

DECEMBER 2019 REVIEW

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"A Banner Year and Decade for the U.S. Equity Market"

Major U.S. equity indices hit all-time highs in 2019 and the S&P 500 had one of its strongest decades going back the last century. The year 2019 was quite a contrast from 2018, when money market returns were the best performing major asset class, which occurred only twice dating back to 1930. The Dow Jones Industrial Average, S&P 500, and NASDAQ all rose during December to close the year with solid gains ranging from 25% to 35%. This was despite gloomier prospects 12 months ago, including a weakening global economy, stocks, bonds and commodities all falling sharply in 2018, and Fed policy on interest rates further compounding a downturn. However, slow and steady progress on the trade impasse, stronger-than-expected corporate earnings despite slowing growth headwinds, and a reversal of Fed policy on interest rates have fueled global markets. From a market perspective, the 2019 holiday season was much more jolly than last year, with U.S. markets falling almost 20% at one point in December 2018.

The S&P 500 had its best yearly performance since 2013 and was the 10th best year for large cap stocks dating back to 1928. The index posted an annualized 13.6% return for the decade, a stark contrast to the prior decade when the S&P 500 was down 0.1%. The prior decade had two recessions, in which the markets declined more than 50% in each case. The U.S. economy did not experience a recession in the decade ending in 2019, its longest streak without a recession in history. The Dow rose more than 170% cumulatively during the recent decade, its fourth best in the last 100 years. Overseas, Europe posted its strongest gains since 2009 and China's Shanghai climbed 22%. U.S. bonds had one of their strongest years with the Barclays Aggregate Bond up 8.7% and gold was up 18.9%, its best year since 2010.

Market Return Indexes	December, 2019	YTD 2019
Dow Jones Industrial Average	1.9%	25.3%
S&P 500	3.0%	31.5%
NASDAQ (price change)	3.5%	35.2%
MSCI Europe Asia Far East (EAFE)	3.3%	22.0%
MSCI Emerging Markets	7.5%	18.4%
Bloomberg Barclays High Yield	2.0%	14.3%
Bloomberg Barclays Aggregate BonBond	-0.1%	8.7%
Yield Data	**Dec. 31, 2019**	**Nov. 29, 2019**
U.S. 10-Year Treasury Yield	1.92%	1.78%

The turnaround in 2019 was driven by the Fed policy reversal on interest rates, progress on the trade impasse between the U.S. and China, and better than expected company earnings. The Fed cut rates for the first time in a decade in July and cut two more times during 2019, reversing three of four rate increases from 2018. During the spring of 2019, the yield curve was flashing signals of a possible recession, with it inverting for the first time since 2006. A yield curve inversion, when short-term rates become higher than long-term rates, does not cause a recession but has preceded recessions over the last 50 years. The Fed decided to pause on further reductions at its December meeting, which was a positive sign that slowing global growth may have bottomed out. The Fed had cut rates to curb slowing global growth and help weaken the dollar to make U.S. exports more attractive, since comparable overseas rates in Europe and Asia were negative, totaling $17 trillion at one point in 2019.

The U.S. and China are scheduled to meet in Washington on January 15th to sign a Phase 1 trade agreement in which China would significantly increase its purchase of U.S. agricultural products, add provisions on intellectual property protection, provide financial sector and currency policy reform, and include enforcement mechanisms for the above. In return, the U.S. would cancel plans to implement new tariffs on $156 billion of imports and slashed the 15% tariffs in half on $120 billion of imports that were imposed on Sep 1st. President Trump has plans to visit Beijing in the new year to cement a Phase 2 agreement.

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The U.S. economy remains strong, with unemployment at a 50-year low and early signs of a strong consumer holiday season, with Amazon reporting a "record breaker." With the yield curve no longer inverted, the Fed pausing on rates, global growth possibly bottoming out, robust consumer spending, more certainty on Brexit, progress on the trade front, the possibility of a recession looming seems less remote than a year ago. The probability of a recession within the next year is 29% according to Bloomberg Economics compared to a year ago this time, when the probability was much higher at nearly 50%. Progress on the trade front will be critical to removing uncertainty in the markets to propel business expenditures and manufacturing activity. With an election later this year, the markets are anticipating further progress. Since 1960, when the S&P 500 was up as much as it was in 2019, the following year returns have ranged between 11% and 27%!

LEGAL UPDATE | Congress Passes the SECURE Act

On December 20, 2019, the Further Consolidated Appropriations Act, 2020 that includes the "Setting Every Community Up for Retirement Enhancement Act of 2019," now known as the **SECURE Act,** was signed into law. The SECURE Act (the "Act") contains many changes affecting retirement savings and changes to retirement plans. It is the most expansive and significant retirement legislation since the enactment of the Pension Protection Act of 2006 (PPA). The Act was established to improve retirement savings outcomes by, among other things, allowing individuals to save longer, providing incentives to small employers to sponsor retirement plans, and by removing some of the hurdles and liability issues to providing lifetime income options that will benefit plan sponsors and plan participants.

Provisions of the SECURE Act include the following changes:

For Retirement Plan Participants, Certain Distributions and IRAs

- The age to begin required minimum distributions (RMDs) has been increased from 70 ½ to 72, which is applicable to individuals who attain age 70 ½ after December 31, 2019 and effective for RMDs required to be made after December 31, 2019.
- A new plan distribution rule will permit plan participants to take penalty-free withdrawals of up to $5,000 in the case of the birth of a child or adoption, effective for withdrawals requested after December 31, 2019. The distribution option is applicable to 401(k) plans, 403(b) plans, governmental 457(b) plans and IRAs, but is **not** available under defined benefit plans.
- 401(k) plans are required to permit long service part-time employees who are at least age 21 to make elective deferrals if they have worked at least 500 hours per year but less than 1,000 hours per year during three (3) consecutive 12-month periods. This provision is generally effective for plan years beginning after December 31, 2020.
- The maximum age for contributing to a traditional IRA has been repealed by the Act, allowing individuals who have reached age 70 ½ to continue to make non-rollover contributions to traditional IRAs. This provision is effective for tax years after December 31, 2019.
- For deaths of plan participants and IRA owners that occur in 2020 or thereafter, the Act eliminates the so-called "stretch IRA" by requiring most non-spousal beneficiaries to take benefits over a 10-year period. Distributions to certain beneficiaries are not subject to the 10-year distribution period: a child beneficiary who is a minor; and chronically ill beneficiaries are not subject to the new rule, for example.

For Employer Plan Sponsors

- Employers that sponsor defined contribution plans (401(k) and 401(a) plans) will be permitted to participate in a pooled arrangement (to be known as "pooled employer plans") that allows unrelated employers to sponsor a multiple employer plan (MEP) to cover all of their eligible employees and provide administrative advantages for plan sponsors. The provisions are effective for plan years beginning after December 31, 2020.
- The Act requires employer/plan sponsors of defined contribution plans to provide participant lifetime income disclosures in their annual benefit statements at least once every 12 months. The provision is effective for benefit statements issued more than 12 months after the DOL issues specific guidance.

- There are provisions in the Act to ease some of the administrative burdens to Employers that sponsor safe harbor plans that use nonelective safe harbor contributions: no participant notices will be required if the only safe harbor contributions are nonelective; and such plans may be adopted up to 30 days before the end of the plan year. These changes are effective for plan years beginning after December 31, 2019.
- An additional Act provision increases the automatic enrollment safe harbor cap from 10% to 15% for Qualified Automatic Enrollment Arrangement (QACA) safe harbor plans, effective for plan years beginning after December 31, 2019.
- The Act provides employer/plan sponsors of defined contribution plans with a fiduciary safe harbor based on certain fiduciary standards and protection from liability if the rules are followed for losses that could result from the selection and purchase of lifetime annuity income providers, effective upon the enactment date of the Act which is December 20, 2019.
- The startup credit for new small employer retirement plans (with up to 100 employees) will increase to a maximum of $5,000 for the first three years. Also included is an automatic enrollment credit of $500 to small employers who include an automatic enrollment feature for the first three years, effective for taxable years after December 31, 2019.
- Certain Form 5500 reporting failures will result in increased penalties. The penalty for failure to file Form 5500 will increase from $25 per day to $250 per day, up to a maximum of $150,000, effective for filings, notices and returns that are due after December 31, 2019.
- The age for in-service withdrawals from governmental 457(b) plans will decrease to 59 ½ and defined benefit and money purchase pension plans can also provide for distributions at age 59 ½. This change is effective for plan years beginning after December 21, 2019.

Conclusion

The changes enacted by the SECURE Act are substantial and technical. Some of the effective dates are as early as January 1, 2020. However, the legislation contains some delayed deadlines that will allow employers to implement changes with later effective dates. Plan amendments to implement the various provisions will generally be required to be adopted by the end of each affected plan's 2022 plan year. However, the IRS and the DOL have been charged with issuing specific guidance about the Act's provisions and some stated deadlines could change as a result of the official guidance. We will continue to deliver updates to you in order to keep you informed of the changes and their impact on plan compliance and administration as new guidance is released.

If you would like more information on this topic or have any questions, please contact your USI Consulting Group representative.

For previous market commentaries please click here.

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An index is a measure of value changes in a representative grouping of stocks, bonds, or other securities. Indexes are used primarily for comparative performance measurement and as a gauge of movements in financial markets. You can not invest directly in an index and, for comparative purposes; they do not reflect the effect of the various fees inherent in actual investment vehicles.

The S&P 500 Index is a market value weighted index showing the change in the aggregate market value of 500 U.S. stocks. It is a commonly used measure of stock market total return performance.

The Dow Jones Industrial Average is a price weighted index comprised of 30 actively traded blue chip stocks; primarily industrial companies, but including some service oriented firms.

The NASDAQ Composite Index is a market-value weighted index that measures all domestic and non-U.S. based securities listed on the NASDAQ Stock Market.

Gross Domestic Product (GDP) is the market value of the goods and services produced by labor and property in the U.S. It is comprised of consumer and government purchases, net exports of goods and services, and private domestic investments. The Commerce Department releases figures for GDP on a quarterly basis. Inflation adjusted GDP (or real GDP) is used to measure growth of the U.S. economy.

The MSCI Europe and Australasia, Far East Equity Index (EAFE) is a market capitalization weighted unmanaged index developed by Morgan Stanley Capital International to measure approximately 1,100 securities in 21 major overseas stock markets. It is a commonly used measure for foreign stock market performance.

The Barclays Capital U.S. Aggregate Index covers the U.S. Dollar denominated investment grade, fixed-rate, taxable bond market of SEC-registered securities.

The Barclays Capital U.S. Corporate High Yield Index covers the U.S. Dollar denominated, non-investment grade, fixed income, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's Fitch, and S&P is Ba1/BB+/BB+ or below.

The MSCI Emerging Markets Index (EM) is a free-float-adjusted market-capitalization index developed by Morgan Stanley Capital International. It is designed to measure the equity market performance of 26 emerging market countries.