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"Are Coronavirus Fears Overblown?"

The markets started the year on the rise with upbeat earnings and continued progress on the trade impasse, but the coronavirus outbreak originating within China weighed on global markets at the end of the month. Global coordination and increased public health measures have helped limit the spread of the virus outside of China, and although it is too early to predict its economic impact, history indicates that markets tend to be relatively immune to epidemics. The World Health Organization declared a global health emergency on the last trading day of the month and stocks around the world retreated on the news. Bonds rallied and international markets underperformed.

The markets have been reacting to daily updates on the coronavirus and its potential impact on economic growth. With a two-week incubation period, it is difficult to predict the extent that the virus will spread, but history shows that panic about previous epidemics has subsided once the number of cases starts tapering off. The impact on the markets tends to be negative but short-lived as was the case during the SARS episode of 2003, Avian Flu of 2006 and Swine Flu in 2009. The disruption to China's economy will likely be reflected in low retail spending, a decline in travel, closed businesses and supply chain disruptions. During the SARS outbreak, global economic output was reduced by $33 billion. Although this may seem like a high figure, the seasonal flu costs the U.S. economy $10 billion annually. It is important to note that since the SARS outbreak of 2003, the size and importance of China's economy has grown significantly so the coronavirus may have a bigger impact on the markets. The MSCI Emerging Markets Index, which includes China, lost 4.7% during January. Developed markets as measured by the MSCI EAFE Index were down 2.1% while U.S. equity indices posted mixed results. The Nasdaq held on to return 2% while the S&P 500 was flat, and the Dow lost nearly 1%.

Market Return Indexes	January 2020	YTD 2020
Dow Jones Industrial Average	-0.9%	-0.9%
S&P 500	-0.04%	-0.04%
NASDAQ (price change)	2.0%	2.0%
MSCI Europe Asia Far East (EAFE)	-2.1%	-2.1%
MSCI Emerging Markets	-4.7%	-4.7%
Bloomberg Barclays High Yield	0.0%	0.0%
Bloomberg Barclays Aggregate Bond	1.9%	1.9%
Yield Data	**Jan 31 2020**	**Dec 31 2019**
U.S. 10-Year Treasury Yield	1.51%	1.92%

The market response to the outbreak is expected because of the tragic human cost and although it is too early to estimate the full impact on the markets, history tells us that epidemics are unlikely to change long term fundamentals. The U.S. economy grew at an annual rate of 2.1% in the fourth quarter, higher than expectations and matching the third quarter number, but the rate of growth for the entire year 2019 came in at 2.3%, down from 2.9% the previous year. Personal consumption expenditures which represent the largest GDP component, were up 1.8% for the quarter, lower than in the third quarter. Government spending was up 2.7%, higher than last quarter and net trade improved significantly due to a decline in imports. Quarterly earnings reports have been strong so far. Of the 45% of S&P 500 companies that have reported results, 69% have exceeded expectations and 64% have beat revenue expectations. The estimated earnings growth rate for the S&P 500 for the fourth quarter of 2019 is 1.1%.

The Federal Reserve maintained an accommodative monetary policy by leaving interest rates unchanged during the first meeting of the year, a widely expected move as the U.S. economy continues to grow at a slow and steady pace. Additionally, the Fed promised to continue pumping liquidity into the system in the months ahead. Fed Chair Jerome Powell stated ongoing trade tensions with China and the coronavirus outbreak as potential risks that central bank officials will continue to monitor. The U.S. and China signed the first phase of the trade deal on January 15th. China has agreed to purchase $200 billion of American goods and services and to address

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protections of U.S. intellectual property in exchange for fewer tariffs imposed by the U.S. The signing of the phase 1 deal helped calm anxieties about the trade dispute between the U.S. and China.

China's financial markets were closed during the last week of January as authorities extended the Lunar New Year holiday to contain the spread of the virus. Upon being reopened on Monday, the Shanghai Composite Index lost 8%, the biggest daily drop in 4 years. Global markets will likely continue to experience volatility as they continue to digest the impact of the virus, with Asian markets most susceptible to market swings. If the virus proves to be more deadly or if it spreads in larger numbers outside of China, it could have a greater impact on the global economy and stocks. However, if the projections of the virus follow a similar trend as previous epidemics, we could expect risk sentiment to improve after the number of cases peaks, and for strong economic fundamentals to keep the positive market momentum moving forward in 2020.

LEGAL UPDATE | **Secure Act – Changes Affecting IRA Contributions and Required Minimum Distributions**

The Setting Every Community up for Retirement Enhancement Act (SECURE Act) is the first significant retirement act since the enactment of the Pension Protection Act of 2006 (PPA) and is intended to encourage retirement savings. The SECURE Act changes are substantial and technical. Therefore, certain SECURE Act topics will be highlighted in greater detail throughout the year, especially as specific guidance is issued from the IRS and Department of Labor regarding certain provisions.

This month we are highlighting the age-related provisions of the SECURE Act affecting IRA contributions and required minimum distributions.

Repeal of Maximum Age for Traditional IRA Contributions

IRA Contributions

The SECURE Act removes the age 70 ½ restriction for traditional IRA contributions, meaning individuals who are age 70 ½ or older may continue to contribute to an IRA. This provision applies to contributions made for taxable years beginning after December 31, 2019. All other conditions for making IRA contributions still apply.

Charitable Contributions

The SECURE Act also reduces the limit for charitable contributions deduction for individuals over the age of 70 ½. Prior to the SECURE Act, an individual could make a distribution from his or her IRA of up to $100,000 to a charity without including it in their gross income. After the SECURE Act, an individual who is over the age of 70 ½ must reduce the maximum charitable contribution by the individual's total amount of tax deductions allowed for all taxable years on or after age 70 ½ over the total amount of reductions for all taxable years preceding the current taxable year.

Modification of Required Distribution Rules for Designated Beneficiaries

"Stretch IRA"

The stretch IRA for most non-spouse designated beneficiaries has been eliminated. In general, prior to the SECURE Act, a designated beneficiary of an IRA could extend the required minimum distributions over his or her lifetime. However, effective for distributions with respect to participants who die after December 31, 2019, designated beneficiaries will be required to be paid out within 10 years of the participant's death, and only certain *eligible designated beneficiaries* will still be eligible to receive distributions over their own lifetime.

In accordance with the SECURE Act, the following individuals are considered *eligible designated beneficiaries*: surviving spouses; minor children, up to the age of majority; disabled individuals (as determined under IRS rules); chronically ill individuals; and individuals who are not more than 10 years younger than the IRA owner. Also, designated beneficiaries of participants who died prior to January 1, 2020 will be grandfathered and they may continue to receive distributions over their lifetime.

In the event a minor child is the *eligible designated beneficiary*, the 10-year period shall commence once the minor child reaches the age of majority (age 18 in most states). Also, grandchildren do not qualify as eligible designated beneficiaries and will be required to be paid out within 10 years of the participant's death, regardless of the age of the grandchild, unless the grandchild is considered disabled or chronically ill.

Increase in Age for Required Beginning Date for Mandatory Distributions

Required Minimum Distributions
The SECURE Act raises the age for beginning required minimum distributions (RMD) from age 70 ½ to age 72 for individuals who attain age 70 ½ after December 31, 2019. For these individuals, the required beginning date means the April 1 of the calendar year following the later of the calendar year in which the individual attains age 72, or the calendar year in which the individual retires (except for 5% owners). Individuals who attained age 70 ½ before January 1, 2020, even if they are still working, are subject to the old RMD rules (pre-SECURE Act).

5% Owners
The RMD date for individuals who are 5% owners has also increased from age 70 ½ to age 72 for individuals who attain age 70 ½ after December 31, 2019. However, 5% owners must take their RMD no later than the April 1 of the calendar year following the calendar year in which they attain age 72.

Spouse Beneficiaries
For the surviving spouse of a participant who dies prior to commencing benefits and who would have attained age 70 ½ after December 31, 2019, the age at which the spousal beneficiary is required to begin receiving RMD payments has increased from the date on which the participant would have attained age 70 ½ to age 72.

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

For previous market commentaries please click here.

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.

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