MARKET & LEGAL UPDATE
OCTOBER 2020 REVIEW

USI ADVISORS, INC.

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"Uncertain Times Bring Uncertain Markets"

Following a dismal first quarter, markets rose sharply from April through August, wiping out most, if not all of the losses that accumulated during the latter part of February into March. However, global markets have retreated since early September due to rising COVID-19 cases across the globe, little progress towards another U.S. fiscal stimulus deal, as well as the uncertainty of the upcoming election, and whether the election would be contested. With so many market headwinds, the S&P 500 fell 2.7%, the Dow Jones Industrial Average lost 4.5%, and even the seemingly invincible NASDAQ dropped 2.3% last month.

As restrictions relaxed over the late spring and summer months, the concern that lingered was whether looser restrictions and cooler fall weather would result in a spike in coronavirus cases. Unfortunately, that concern was warranted, as cases have risen significantly, particularly within the U.S., South America, Europe, and India. Rising coronavirus infections and deaths in Europe have already triggered tougher restrictions. France imposed a new month-long nationwide lockdown, ordering people to stay at home except for essential work or medical reasons and ordered people to fill out a form to justify leaving their homes, similar to the initial lockdown in March. Social gatherings were also banned. In Germany, Chancellor Angela Merkel and the 16 state premiers agreed to a partial lockdown that will last until November 30th, where restrictions include the closure of restaurants, bars, gyms and theaters. Social contacts will be limited to two households with a maximum of 10 people and tourism will be halted. As Europe begins to deal with the higher coronavirus infections, the U.S., in the midst of an election and political tug of war, now must face its own reality of rising cases and a plan to address the issue. As such, fears of a second national lockdown have resurfaced, and markets have reacted quite negatively. On the other end of the spectrum, citizens of Melbourne, Australia, endured a 111-day lockdown that ended in late October. Life is starting to return to normal, but 111 days is a long time of hibernation and a toll on the economy.

Market Return Indexes	October 2020	YTD 2020
Dow Jones Industrial Average	-4.5%	-5.4%
S&P 500	-2.7%	2.8%
NASDAQ (price change)	-2.3%	21.6%
MSCI Eur. Australasia Far East (EAFE)	-4.0%	-10.4%
MSCI Emerging Markets	2.1%	1.2%
Bloomberg Barclays High Yield	0.5%	1.1%
Bloomberg Barclays Aggregate Bond	-0.5%	6.3%
Yield Data	**Oct 2020**	**Sep 2020**
U.S. 10-Year Treasury Yield	0.88%	0.69%

As of the end of October, more than 71,000 people a day are testing positive on average in the U.S., up from 51,000 two weeks ago and cases are rising in all states with the exception of Hawaii and Delaware. Even worse, deaths are increasing in 39 states, with an average of 805 people dying in the U.S. per day, up from 714 in mid-October. If the current trend continues, the fears of a lockdown increase in probability, and the economy and markets alike will react negatively. Third quarter GDP showed a rebound of 33.1% following a plunge of -31.4% in the second quarter, when the economy was mostly closed. The -31.4% is what markets and investors remember, and this is why that fear is driving markets lower.

The other issue driving markets lower is the lack of progress on a second round of coronavirus relief stimulus. Progress toward a deal hit a snag in recent weeks as Republicans and Democrats could not agree on how much money would be needed to inject into both the effort to slow new infections in the

U.S. and to boost the sluggish economy. While the economy has shown improvement, with the unemployment rate dropping from nearly 15% to 7.9% most recently, the 7.9% is still a very high number considering unemployment was only 3.5% earlier this year and added stimulus would certainly help those in need at this time. Moreover, the economy will have a hard time staying on course unless a stimulus deal is reached sooner rather than later.

As this Market Update is being written, Election Day is still a few days away. The uncertainty as to which candidates will be voted in and where our economy is likely headed as a result, is still unknown. However, by the time you are reading this, Election Day will have come and gone. The outcome may be known, or it may not. The results may be accepted, or they may be contested. It is this uncertainty that is driving volatility in the markets. Let us hope that by the time the next Market Update is written, the uncertainty will have gone by the wayside.

LEGAL UPDATE

SECURE Act: Qualified Birth or Adoption Distribution

The Internal Revenue Service (IRS) recently released Notice 2020-68, which provides some additional clarification to several of the provisions within the Setting Every Community up for Retirement Enhancement Act (SECURE Act), including information regarding qualified birth or adoption distributions.

What is the Qualified Birth or Adoption Distribution?

Effective January 1, 2020, the SECURE Act allows employer sponsors of defined contribution plans (e.g., 401(k), 403(a), 403(b), governmental 457(b) plans, and IRAs) to add a qualified birth or adoption distribution option to their plan. This provision permits participants to take an early withdrawal of up to $5,000 from their eligible retirement account within 1 year of their child's birth or adoption without being subject to the 10% additional early withdrawal tax penalty. However, such amounts are still included in the participant's gross taxable income. Additionally, each parent may receive a qualified birth or adoption distribution from their respective plans, and in the event of multiple births and/or adoptions such participants may be eligible for multiple withdrawals. For example, in the event of twins, each parent may be eligible to withdraw up to $10,000, provided the plans have adopted the qualified birth or adoption distribution provision. Lastly, a participant who qualifies and receives a birth or adoption distribution may recontribute any portion of the withdrawal to an applicable eligible retirement plan in which the individual is a beneficiary and can make a rollover into the plan.

How does a participant qualify for the Birth or Adoption Distribution?

Notice 2020-68 also clarifies that the qualified birth or adoption distribution is not a new "hardship withdrawal," meaning the right to qualify for a birth or adoption distribution is not predicated upon the participant experiencing a medical expense or other hardship qualifying event. If a participant has a child, or adopts a child, then the participant can withdraw up to $5,000 within 1 year of the qualifying event and use the distribution for any purpose. However, the notice clarifies that an eligible adoptee excludes an individual who is the child of the participant's spouse. Additionally, plans may rely on reasonable representations from the participant that they qualify for the birth or adoption distribution, unless the plan sponsor or plan administrator has actual knowledge to the contrary. The participant who receives such a withdrawal will then be responsible for providing the eligible child's name, age, and Taxpayer Identification Number (TIN) on the participant's tax return.

What information should Plan Sponsors be aware of if they have or are considering adding the Qualified Birth or Adoption Distribution provision?

Applicable plans that have or are considering adding the birth or adoption distribution provision should also be aware that the SECURE Act requires participants who are eligible and receive an early withdrawal for birth or adoption will be allowed to recontribute the amount of the distribution back to the plan if the following conditions are met:

1. The plan permits qualified birth or adoption distributions.
2. The participant received a qualified birth or adoption distribution from that plan.
3. The participant is eligible to make a rollover contribution to that plan at the time the individual wishes to recontribute the qualified birth or adoption distribution to the plan.

Notice 2020-68 further states the Treasury Department and the IRS intend to issue additional guidance that will address the recontribution rule, including rules related to the timing of recontributions. Additionally, plans may add the qualifying Birth or Adoption Distribution provision at any time on or after January 1, 2020, and they have until the last day of the first plan year beginning on or after January 1, 2022 to retroactively amend their plans to include this provision. Certain collectively bargained plans and governmental plans have until the last day of the first plan year beginning on or after January 1, 2024 to amend their plans.

We will continue to monitor and provide additional updates regarding this, and other SECURE Act requirements. If you have any questions or would like additional information, 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.

The 10 Year Treasury Yield is the interest rate the U.S. government pays to borrow money for a 10-year period. In addition to influencing how much the government pays to borrow over this time-frame, the 10-year Treasury Yields also determines how much investors earn by investing in this debt and it is a good indicator of investor sentiment. The higher the yield, the better the economic outlook.

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