USI ADVISORS, INC.

# MARKET & LEGAL UPDATE
## NOVEMBER 2020 REVIEW



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### *"Stocks Surge on Encouraging Vaccine News"*

**U.S. equity markets climbed in November after promising results on multiple Covid-19 vaccine candidates boosted hopes that the virus could be conquered in the months ahead, ultimately leading to economic normalization in 2021. The S&P 500 ticked up 11% for its best finish since April and the technology-heavy Nasdaq Composite was up 12% for the month. The Dow Jones Industrial Average surged 12%, which was its biggest monthly gain since January 1987. The blue-chip index crossed the 30,000 mark for the first time on November 24th, after President Trump announced that his administration would clear the way for President-elect Joe Biden to transition to the White House. Despite its recent milestone, the Dow, which tracks the stocks of 30 large U.S. companies since 1896, is up 6% thus far this year, compared with the Nasdaq Composite and the S&P 500, which are up 36% and 14% respectively.**

The market's comeback from its March low has been uneven among different sectors. Growth stocks, such as technology companies, outperformed value stocks for much of the year and last decade, thriving in an economic environment characterized by low interest rates and low inflation. Additionally, the pandemic led many citizens across the globe to work from home and rely more on technology. By contrast, cyclical stocks, which are more sensitive to the economic outlook, have been negatively impacted by the pandemic, devasted by strict restrictions aiming at curbing the recent spike in Covid-19 cases and hospitalizations. However, positive vaccine developments in November led to a sharp rotation in market leadership, reviving the fortunes of the pandemic laggards such as cyclical and value names of the market, as well as small cap stocks, whereas the pandemic's winners, including momentum and growth stocks, trailed the rest of the market. Continued medical developments and potential economic expansion will further support additional changes in leadership across asset classes, sectors, and investment styles.

| Market Return Indexes | November 2020 | YTD 2020 |
|---|---|---|
| Dow Jones Industrial Average | 12.1% | 6.1% |
| S&P 500 | 10.9% | 14.0% |
| NASDAQ (price change) | 11.8% | 36.0% |
| MSCI Eur. Australasia Far East (EAFE) | 15.5% | 3.0% |
| MSCI Emerging Markets | 9.3% | 10.2% |
| Bloomberg Barclays High Yield | 4.0% | 5.1% |
| Bloomberg Barclays Aggregate Bond | 1.0% | 7.4% |
| **Yield Data** | **Nov 2020** | **Oct 2020** |
| U.S. 10-Year Treasury Yield | 0.84% | 0.88% |

In the hunt for vaccines that can help bring an end to the coronavirus pandemic, Pfizer and Moderna reported preliminary results in early November, showing that their respective messenger RNA, or mRNA, vaccines were around 94% effective against Covid-19 infections in their clinical trials. Both companies are seeking emergency use authorization from the U.S. Food and Drug Administration for their respective coronavirus vaccines. AstraZeneca's Covid-19 shot, developed in collaboration with the University of Oxford, was also added to a growing list of vaccine candidates, showing promising results against the virus. AstraZeneca reported that its coronavirus vaccine has an average efficacy of 70.4% in protecting against the virus, according to an interim analysis of Phase 3 trials conducted in the United Kingdom and Brazil.

While investors have cheered news of a vaccine on the horizon, the coronavirus pandemic continued to surge throughout the United States, with the seven-day average of new daily Covid-19 cases topping 157,000 and with total infections exceeding 13.6 million since the start of the pandemic. According to Johns Hopkins University, the country logged over 4 million newly reported coronavirus cases for the month of November, more than double the record set in October of 1.9 million infections. The Covid Tracking Project data shows that the U.S. set records for hospitalizations at the end of the month, crossing the 90,000 mark for the first time. Further, health experts warned that Thanksgiving travel and indoor gatherings during the holidays might worsen the pandemic. To fight the recent surge in new cases of the virus, some states and cities reinstated new restrictions on businesses and individuals that would pose a new challenge for the economic recovery in the intermediate term.

Job-market growth has shown signs of slowdown amid new curbs on business operations aimed at reducing the spread of the virus. Initial jobless claims spiked for the second consecutive week to 778,000, a sign that that the job market remains under pressure, impacted by the new wave of coronavirus infections. As Americans remain wary with the virus resurging nationwide and threatening the economy, the Commerce Department reported that consumer spending saw a sluggish increase of 0.5% in October, down from a seasonally adjusted 1.2% increase the month before. Moreover, the pandemic has reshaped the holiday shopping season, as retailers offered discounts early in November to encourage people to get their holiday shopping done earlier and make most of their purchases online this year. Online spending on Black Friday surged nearly 22% compared with last year, according to Adobe Analytics, which measures website transactions from 80 of the top 100 U.S. online retailers. Consumers spent $9 billion online the day after Thanksgiving, making it the second-largest online shopping day in U.S. history behind Cyber Monday last year.

While diminishing U.S. political uncertainty and positive coronavirus-vaccine news contributed to a strong market rally in November, rapidly climbing Covid-19 cases and hospitalizations could worsen the financial and human cost of this pandemic and hurt economic activity in the intermediate term. Investors should expect market volatility to remain elevated as we turn the page on 2020. The longer-term outlook remains positive for equity markets as a successful Covid-19 vaccine gives hope that the U.S. and global economies will return to more normal activity in 2021.

## LEGAL UPDATES

### Financial Factors in Selecting Plan Investments - Final Regulation

On November 13, 2020, the U.S. Department of Labor ("DOL") issued a Final Rule entitled "Financial Factors in Selecting Plan Investments" regarding environmental, social and governance ("ESG") investing. However, unlike the proposed rule, the Final Rule does not specifically reference ESG, but instead focuses more broadly on pecuniary versus non-pecuniary factors. The Final Rule makes clear that the selection of retirement plan investments by ERISA plan fiduciaries must be based solely on pecuniary factors (i.e., financial considerations that materially affect the risk and/or return characteristics of a specific investment or investment option), rather than on non-pecuniary factors, such as the social desirability of a specific investment or investment option.

The Final Rule states that the duty of loyalty under ERISA prohibits plan fiduciaries from subordinating the (financial or pecuniary) interests of plan participants to unrelated objectives, and thus bars fiduciaries from sacrificing investment return or taking on additional investment risk in order to promote non-pecuniary goals. While the use of non-pecuniary factors (such as environmental, social and governance factors) is not strictly prohibited in making investment decisions, their use must be strictly limited to situations where such factors act as a "tie-breaker" between financially equivalent investments. In situations where non-pecuniary factors are considered, plan fiduciaries are also required to document the basis of their investment decisions and why the investments are indistinguishable from a pecuniary standpoint. The Final Rule generally becomes effective on January 12, 2021. However, the Final Rule further provides that plan sponsors have until April 30, 2022 to make any necessary changes to their Qualified Default Investment Alternatives ("QDIAs") in order to comply with such rule.

### 403(b) Plan Terminations

On November 5, 2020, the Internal Revenue Service issued Revenue Ruling 2020-23, entitled "Distribution of individual custodial accounts in-kind upon termination of a Section 403(b) plan." The new guidance reflects changes adopted under the Setting Every Community Up for Retirement Enhancement ("SECURE") Act of 2019 with respect to the termination of Internal Revenue Code Section 403(b) plans funded through the use of custodial accounts, pursuant to Internal Code Section 403(b)(7), rather than through individual or group annuity contracts. The new guidance specifically provides that, if certain requirements are met, custodial accounts that are distributed to a participant (or beneficiary) in connection with a 403(b) plan termination will not be includable in the gross income of such participant (or beneficiary) until such amounts are actually paid to the participant (or beneficiary).

## IRS updates Required Minimum Distribution Tables

On November 12, 2020, the Internal Revenue Service (IRS) published a Final Regulation entitled "Updated Life Expectancy and Distribution Period Tables Used for Purposes of Determining Minimum Required Distributions." The Final Regulation updates the required minimum distribution tables, effective for calendar years beginning on or after January 1, 2022. The new life expectancy tables generally reflect longer life expectancies resulting in smaller minimum distributions to participants.

We continue to monitor the IRS, DOL, and PBGC for retirement plan updates. If you have any questions or would like additional information, please contact your USI Consulting Group representative.

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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.*

*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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