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"Markets Rollercoaster Ride Ends on a High Note, but Virus Lingers"

While 2020 was not a pleasant experience for most citizens of the world, global equity markets surprisingly set records which significantly aided pension plan asset growth. The S&P 500 returned 18.4%, NASDAQ rocketed up 43.6%, MSCI EAFE was up 7.8%, and the Barclays Aggregate Bond index rose at 7.5%. The markets fell sharply earlier in the year, with the S&P 500 price index falling at a record pace of 34% in just 23 trading days to a market low on March 23. With the aid of fiscal and federal stimulus and better than expected economic news and corporate profits that exceeded analyst expectations, the S&P 500 roared back, setting a five-month performance record that existed since 1938 and surging nearly 68% from the low to close the year. The December rollout of Pfizer/ BioNTech and Moderna's vaccinations in the U.S. as well as AstraZeneca/ Oxford vaccine in the U.K. gives reason for optimism that the pandemic could finally be eradicated in 2021.

The S&P 500 gained almost 4% during the month with President Trump signing another fiscal stimulus package in response to the COVID pandemic. The new $900 billion bill provided the second direct payments of up to $600 per adult and $600 for dependents under 17 years of age to many American families contingent upon their income levels. The additional aid is expected to help cushion the economy due to continued pandemic restrictions that may continue to linger until the majority can get vaccinated. The U.S. was targeting 20 million healthcare workers and elderly to be vaccinated during December, but only slightly more than 2 million received vaccinations with over 11 million doses distributed during the month.

Market Return Indexes	December 2020	YTD 2020
Dow Jones Industrial Average	3.4%	9.7%
S&P 500	3.8%	18.4%
NASDAQ (price change)	5.7%	43.6%
MSCI Eur. Australasia Far East (EAFE)	4.7%	7.8%
MSCI Emerging Markets	7.4%	18.3%
Bloomberg Barclays High Yield	1.9%	7.1%
Bloomberg Barclays Aggregate Bond	0.1%	7.5%
Yield Data	**Dec 2020**	**Nov 2020**
U.S. 10-Year Treasury Yield	0.91%	0.84%

The fiscal and federal stimulus provided a key bridge to keeping most of the economy afloat during the pandemic. These policies were shaped, in large part, as a response to the 2007-09 financial crisis. The recovery following the financial crisis was slow, due to a slower, less partisan response by the government. The pandemic had a much quicker economic shock- from a 50-year record unemployment low to record levels of unemployment in less than 2 months. The bi-partisan government support, stimulus checks, and the Fed's accommodative support to keeping rates low helped the rally through the end of the year.

The International Monetary Fund projects the U.S. economy to shrink by 4.3% in 2020, despite the Atlanta Federal Reserve's projection that GDP will grow at an annualized rate of 11.1% during the fourth quarter. U.S. GDP grew at a record pace of 33.1% annualized during the third quarter, following a record rate contraction of 31.4% annualized during the second quarter. While overall the U.S. GDP growth will be lower than expectations set earlier in the year, the last two quarters were much better than economists had projected. Meanwhile, the Eurozone is expected to contract by 8.3% during 2020, whereas China is the only major economy expected to expand by 1.9%.

U.S. holiday season sales and consumer spending grew albeit far below forecasts. U.S. retail sales grew 2.4% from the period between Halloween and Christmas (3.6% to 5.2% growth was projected) compared with the same period last year, according to Mastercard SpendingPulse. U.S. ISM manufacturing PMI continued to rally, reaching a 5-year high of 59.3 last month and current level of 57.5. A reading above 50 indicates expansion. A year ago, before the pandemic begun, PMI was at 48.1 and had largely been declining since the first quarter of 2018. Corporate profits also have been robust to fuel the rally. Back in June 2020, analysts were projecting a 25% drop in S&P 500 earnings for the third quarter, according to FactSet. Instead, earnings declined by only 6% during the quarter with more than 80% of companies beating earnings projections.

Overseas, the U.K. and Europe officially ended their 48-year history on December 31 after over 4 years of a separation process referred to as Brexit. The U.K. is looking to boost trade with the rest of the world and establish its own laws without the impediment of Brussels and the EU. However, in the short-term, decades of trade without customs and regulations ceased, which would likely impede trade with the EU. The U.K. would phase in border checks during the first 6 months of 2021 while the EU plans full checks from day one. Citigroup expects the disruption to reduce U.K. GDP by 2% in 2021.

Despite the global market performance gains during the month, December was the worst month for coronavirus cases and deaths in the U.S. Cooler weather, family gatherings during the Thanksgiving holiday, and prolonged restrictions since March contributed to 6.3 million new cases compared to 20 million overall cases in 2020. Nearly 78,000 people died during the month according to Johns Hopkins COVID data, bringing the total U.S. number of deaths to over 350,000 during the year. Further, a new strain of the virus with 23 mutations was discovered on Dec 8 from a patient in the U.K. The more contagious strain was later discovered in Colorado, California, Canada, Spain, Sweden, France, and Italy. In addition, scientists discovered a new variant of the virus in South Africa. The Centers for Disease Control and Prevention (CDC) stressed that it is normal for viruses to change through mutations and multiple versions may occur.

For 2021, the concern in the short-term is with holiday gatherings and cases already on the rise that the virus will inflict more pain on our health system and livelihoods. However, vaccinations are coming and a "return to normal" appears imminent. Some economists are projecting GDP growth of 5% annualized for 2021. GDP has not eclipsed 4% for the year since 2000 and has not broken 5% since 1984 following the 1982 recession. Two key concerns for 2021 after the virus are China and U.S. relations and companies meeting and exceeding new loftier earnings projections. U.S. and China relations have soured due to the coronavirus pandemic as well as China's aggression in trade and technology transfers, its treatment of its Muslim minorities in Xinjiang, new Hong Kong security laws, and its military build-up particularly in the South China Sea. Countries that once avoided confronting China will be critical to moving closer to U.S. policy to balance China. After solid gains two years in a row, elevated global market levels are facing several headwinds to continue the upward trend into 2021.

LEGAL UPDATE | CONSOLIDATED APPROPRIATIONS ACT ("CAA") 2021

The Consolidated Appropriations Act (CAA), 2021 which provides annual funding for the federal government and comprehensive COVID-19 relief was approved by Congress on December 21, 2020 and signed by President Trump on December 27, 2020. The CAA provides a few retirement plan rules, including partial plan termination relief, and special disaster relief provisions. Although the CAA does not extend the coronavirus-related distributions or the coronavirus-related loans that were provided under the CARES Act, the CAA amends the CARES Act to provide that in-service distributions from money purchase pension plans can qualify as coronavirus-related distributions.

Partial Plan Termination Relief

A qualified retirement plan, defined contribution or defined benefit, that is determined to have experienced a partial termination must fully vest, that is, apply 100% vesting, to the account balance or accrued benefit of each affected participant. In general, there is a rebuttable presumption that a partial plan termination has occurred when the employer's reduction in the workforce results in a turnover rate of at least 20% of plan participants in the applicable period (i.e., the plan year). The CAA provides temporary rules for preventing partial plan terminations by allowing the extension of partial plan termination determinations until March 31, 2021. A plan will not be treated as having experienced a partial termination during a plan year that includes the period beginning on March 13, 2020 and ending on March 31, 2021, if the number of active participants covered under the plan on March 31, 2021 is at least 80% of the number of active participants covered under the plan on March 13, 2020 (the date the COVID-19 emergency was declared).

Disaster Relief Provisions

The CAA provides disaster relief provisions for certain qualified disaster-related distributions and loans related to Federal Emergency Management Agency (FEMA) declared disasters, excluding COVID-19 related disasters. The disaster-related provisions are similar to the rules in the CARES Act and in other prior natural disasters. Qualified individuals may take disaster-related distributions up to $100,000 during the applicable period which is on or after the first day of the incident period of the qualified disaster and within 180 days of December 27, 2020 (the date of the enactment of the CAA). These disaster-related distributions are exempt from the 10% early distribution penalty and 20% mandatory tax withholding, and Section 402(f) special tax notice requirements. Disaster-related distributions may also be paid back to a qualified plan or IRA within 3 years as a tax-free rollover and may be included in income ratably over a 3-year period. Disaster-related loans are increased to the lesser of 100% or $100,000, and disaster-related loans may be delayed for one year. Additionally, the CAA provides that certain hardship withdrawals taken for home purchases that were unable to be used for such purposes in qualified disaster-related areas may be recontributed.

These disaster relief provisions are discretionary, and plan sponsors may allow for qualified disaster-related distributions and loans immediately, but will have until the last day of the first plan year beginning on or after January 1, 2022 to amend their plans for these provisions.

CARES Act Coronavirus-Related Distributions and Money Purchase Plans

The CAA amends the CARES Act to allow in-service distributions from money purchase pension plans to be treated as coronavirus-related distributions. However, this provision does not provide a new opportunity to take a coronavirus-related distribution, but rather applies retroactively to money purchase plans that made distributions between January 1, 2020 and December 30, 2020.

It is expected that further guidance will be provided on the CAA changes. We will continue to monitor the above CAA provisions, as well as other SECURE Act requirements, and will provide additional updates as new information becomes available. 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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