USI ADVISORS, INC.

MARKET & LEGAL UPDATE
AUGUST 2020 REVIEW

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"U.S. Equity Markets March Higher Five Months Straight, Reach New Highs"

Global equities recorded strong gains in August, with the S&P 500 having its best August since 1986 and the S&P 500 and NASDAQ hitting all-time highs. There were only 6 trading days during the month when the S&P 500 did not advance, as low rates, a steadily improving economic outlook, corporate profits that largely beat analyst expectations, and progress in vaccine development fueling the rally. After the most rapid descent in market history to a bear market between February and March, when the market fell 34% in just 23 trading days, it took only 126 trading days (also a record) for the market to reach a new high on August 18. The S&P 500's return of 35% over the last five months is the best five-month period since 1938. Although current economic news indicates the U.S. in still in a recession with unemployment of 10.2% (as of end of July) and two sharp declining quarters of economic activity measured by gross domestic product, economic news tends to be backward looking and stock markets are looking towards future economic growth. The markets surged despite other headwinds during the month, such as the virus not going away, the stalemate in Congress to pass a new stimulus bill, social unrest in the U.S., tensions between China and the U.S. and other nations, Hurricane Laura in the Gulf coast and wildfires in California.

Despite the headwinds, the Fed has provided the markets with a long enduring tailwind by keeping interest rates low (the Fed cut the Fed funds rate to near zero back in March and buying treasury and mortgage bonds to keep longer-term yields down). Additionally, recent forward guidance by Fed Chair Jerome Powell implies its stance to keep rates low for a long period of time. Low rates bode well for stocks, because it makes the cost of capital less expensive and future earnings become more valuable, particularly companies and industries with higher growth prospects. The Fed policy on interest rates has shifted from focusing on inflation to unemployment. The Fed had been concerned about inflation for years with unemployment hitting a 50-year low earlier this year and a measure called the Phillips curve that implies inflation rises when employment rises. However, inflation has fallen short of the 2% target since the Great Recession. The Fed replaced the 2% inflation target with an "average" inflation of 2%. This provides the Fed with more flexibility to keep rates lower for a longer time. The Fed did not disclose how high, or how long, or what period the average inflation would be computed. The market will seek clues to the new policy when the Fed holds its next Policy meeting between September 15-16.

Market Return Indexes	August 2020	YTD 2020
Dow Jones Industrial Average	7.9%	1.3%
S&P 500	7.2%	9.7%
NASDAQ (price change)	9.6%	31.2%
MSCI Eur. Australasia Far East (EAFE)	5.1%	-4.6%
MSCI Emerging Markets	2.2%	0.5%
Bloomberg Barclays High Yield	1.0%	1.7%
Bloomberg Barclays Aggregate Bond	-0.8%	6.9%
Yield Data	**Aug 2020**	**July 2020**
U.S. 10-Year Treasury Yield	0.70%	0.66%

World economic news continues to improve from manufacturing, durable goods, consumer spending, and the housing market. The IHS Markit U.S. Manufacturing

Productivity Management Index (PMI) increased to 53.6 in August from 50.9, beating forecasts of 51.9. Readings above 50 indicate an expansion and the figures were below 50 at the end of June. China, the world's second largest economy, reported its sharpest rise in manufacturing since 2011, with its PMI at 53.1 in August from 52.8 the prior month. Economists expected the Caixin/Market PMI to come in at 52.7. European manufacturing came in at 51.7 in August, which was in line with analyst estimates. Durable goods surpassed analyst expectations, increasing by $23.2 billion in July or 11.2%, following a robust 7.7% gain in June. Consumer sentiment, measured by the Surveys of Consumers at the University of Michigan rose by 2.2% in August to 74.1, but remains 17.5% below last year's reading of 89.8.

S&P 500 earnings per share (EPS), while down for the second quarter of 2020, exceeded analyst expectations. With nearly all public companies reporting their financial results for the period ending June 30, more than 80% have beaten the analyst projections, which is the highest percentage of S&P 500 companies reporting a positive EPS surprise since FactSet began tracking this metric in 2008. Companies are reporting earnings that are 22% above the estimates, also a record.

Companies in the U.S. and abroad continue to provide positive news on the coronavirus war that a vaccine could be available this year. The University of Oxford and AstraZeneca, Pfizer and partner BioNTech, and Moderna have shown great promise in their late-stage clinical trials. There are some 170 vaccines in development worldwide according to the World Health Organization (WHO). Russia claimed to have developed a vaccine, although it has not been transparent about the outcome of the clinical trials (three stages) and the vaccine's safety. A vaccine would be a gamechanger for the world as U.S. exceeded 6 million cases and 180,000 deaths as of the end of August. The 6 million mark came 3 weeks after the U.S. hit 5 million cases. The U.S. added 1.4 million cases in August compared to 1.9 million for July. The U.S. testing capabilities have greatly expanded, and the recent data suggests the 7 day and 14 day moving averages have been declining.

As summer comes to an end and we head to the fall, one unknown is whether there is a second wave of the virus, as it could spread more in cooler weather like the flu. Global economies cannot withstand a shut down again. Not all schools have opened their doors to students this fall, with many still requiring remote learning for the rest of 2020. Unemployment remains elevated and the pandemic has not treated industries and businesses equally, as the "non-essential" sectors such as energy, financials, transportation, restaurants, and lodging have taken the brunt of the COVID-19 impact. The U.S. and China souring relations could significantly impact future economic development. However, it is China's assertiveness that has also caused unrest with other nations. Its national security law with Hong Kong is a concern for neighboring Taiwan and its recent conflict with India has not gone unnoticed. The stock market will look to clues at the Fed's meeting in mid-September on its interest rate policy to help determine whether the market is getting too pricey.

LEGAL UPDATES

IRS Notice 2020-23 and Loan Repayments

In response to COVID-19, on April 9, 2020 the IRS issued Notice 2020-23, which extended or postponed certain tax filing and payment deadlines, including (indirectly) the deadline for making retirement plan loan repayments that would otherwise have been due between April 1, 2020 and July 14, 2020. The extended due date for loan repayments during this period thus became July 15, 2020. This loan repayment extension is separate from, and unrelated to, the plan loan relief provided under the CARES Act that allows Qualified Individuals to delay plan loan repayments for a period of up to one year, and is available to all plan participants, not just those who are considered Qualified Individuals. As a result of this extension, a plan loan will not be considered in default for missed loan repayments during the period from April 1, 2020 to July 14, 2020, and interest does not accrue on the missed loan repayments during such period. Accordingly, since loan repayments that were otherwise due between April 1, 2020 and July 14, 2020 are not considered late until the July 15, 2020 extended due date, the cure period is effectively extended to December 31, 2020 (the last day of the quarter following the July 15, 2020 deadline), and all loans that would have otherwise defaulted on September 30, 2020 will instead default on December 31, 2020, unless the participant makes up the missed loan repayments during such extended cure period. However, missed loan repayments that were due prior to April 1, 2020 are not entitled to this relief.

If you have any questions or would like additional information regarding this topic, 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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