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"Is the September Slump a Correction?"

After five consecutive months of positive returns, global markets retreated in September, with the S&P 500 dipping 3.8%, however the index is holding on to strong gains for the quarter. The markets were boosted by accommodative measures by the central bank earlier in the year but this proved less effective in September as investors shifted their focus to a lack of progress towards additional fiscal stimulus, rising coronavirus infection rates globally, the potential for a second wave this fall, and uncertainty about the upcoming presidential election.

One of the biggest risks that was weighing on investors' minds throughout the summer was another national lockdown due to a resurgence in the number of COVID-19 cases this fall. The situation in the U.S. appears to be worsening after a brief respite, with the total number of cases having reached 7.3 million and the number of deaths approaching 208,000. However, the return of another widespread national shutdown seems highly unlikely this time around. First, the healthcare systems are not overwhelmed as the number of hospitalizations remains relatively low compared to the beginning of the pandemic. Secondly, having already gone through a second wave mid-summer, states have learned how to better control the spread by implementing targeted restrictions in areas that are most affected. Finally, companies have either extended work from home arrangements or reopened while adhering to strict guidelines about wearing face masks, social distancing, temperature scans and increased testing.

Improved treatment options and measured restrictions have limited the impact on the overall economic recovery, but the virus has capped the pace at which the economy can grow as entire industries remain closed or below full operating capacity. Other sectors such as housing and technology have been bright spots in the economy. Existing home sales have increased sharply, boosted by historically low borrowing costs. August existing home sales were up 10.5% from a year ago, representing the highest level since December of 2006. There has been a general trend of people choosing to leave expensive cities to buy houses in suburbs seeking more space or moving closer to family members. The National Association of Realtors predicts that overall demand for homes will continue to increase as working from home may become the norm for more people and organizations. The Purchasing Managers Index also showed improvement in September as it increased from 52.7 in August to 53.3 in September, indicating moderate growth. A reading above 50 indicates an increase in activity while a reading below 50 suggests a contraction. The unemployment rate has declined to 7.9% in September from a peak of 14.7% in April, however the decline has partially been driven by a decrease in the labor force. The number of furloughed employees and discouraged workers not actively looking for a job makes it difficult to get an accurate assessment of the labor markets.

Market Return Indexes	September 2020	YTD 2020
Dow Jones Industrial Average	-2.2%	-0.9%
S&P 500	-3.8%	5.6%
NASDAQ (price change)	-5.2%	24.5%
MSCI Eur. Australasia Far East (EAFE)	-2.6%	-7.1%
MSCI Emerging Markets	-1.6%	-1.2%
Bloomberg Barclays High Yield	-1.0%	0.6%
Bloomberg Barclays Aggregate Bond	-0.1%	6.8%
Yield Data	**Sep 2020**	**Aug 2020**
U.S. 10-Year Treasury Yield	0.69%	0.72%

Despite the relatively positive economic data, it is highly unlikely that the economy will get back to pre-pandemic levels until the virus is no longer a threat and broad-based vaccinations become available, so the importance of coming up with another fiscal package may be crucial in keeping the recovery on track. So far, Congress has not been able to strike a deal and millions of Americans have not received unemployment benefits since the end of July. Federal Reserve officials also called for more fiscal help at the most recent FOMC meeting on September 16th. Despite its upgraded outlook of the U.S. economy and continued drop in the unemployment rate, the Federal Reserve remains committed to maintaining accommodative measures until inflation runs moderately above 2% for some time.

As the election gets closer and current polls show a relatively tight race, investor worries have increased. Historically, stock market volatility is elevated in the months leading up to an election. In addition, tensions between China and the U.S. came to the forefront at the UN General Assembly in New York in September as the two feuded over COVID-19 and climate issues. Since posting a new record high on September 2nd, the S&P 500 Index has fallen nearly 10%. However, this is likely a correction as valuations might have been stretched. Assuming that the coronavirus pandemic is controlled and doesn't drastically worsen in the next few months, the Fed's easy monetary policies and a gradual economic recovery could potentially continue to sustain the markets but any negative news about the virus and further delays in a stimulus package along with uncertainty about the 2020 election could all increase the levels of volatility.

LEGAL UPDATE

Interim Final Rule – Pension Benefit Statements - Lifetime Income Illustrations

Pursuant to the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019, certain ERISA covered contribution plans (including profit sharing plans, 401(k) plans, and 403(b) plans) will now be required to provide Lifetime Income Disclosure illustrations to participants at least once every 12 months. The requirement to provide a Lifetime Income Disclosure statement is in addition to the already existing benefit statement requirements for defined contribution plans. The intended purpose of illustrating a participant's account balance as a stream of estimated lifetime payments, is to help workers in defined contribution plans better understand how their account balance translates into monthly income in retirement and therefore better prepare for retirement. However, the SECURE Act requirement does not require defined contribution plans to provide lifetime annuity options.

On September 18, 2020, the Department of Labor (DOL) published guidance in the form of an interim final rule (IFR), Pension Benefit Statements – Lifetime Income Illustrations, which outlines the requirements for these illustrations and disclosures.

Under the IFR, the annual Lifetime Income Disclosure statement will be required to provide the following information:

1) Two lifetime income illustrations: a single life annuity (SLA) estimate and a qualified joint and 100% survivor annuity (QJSA) estimate.
   - The SLA and QJSA ***must assume*** that the annuity will pay a fixed amount over the participant's lifetime (and spouse's lifetime, for the QJSA), the participant begins receiving payments on the last day of the most recent pension benefit statement period, the participant is age 67 or the participant's current age if older, the participant's account balance is 100% vested and any outstanding loans are included in the account balance.
   - The SLA and QJSA ***must use*** the interest rate (10-year constant maturity Treasury (CMT) securities yield rate as of the first business day of the last month of the statement period) and mortality table (gender-neutral mortality table reflected in Internal Revenue Code Section 417(e)(3)(B)) as prescribed in the IFR.
   - The QJSA ***must assume*** the participant and spouse are the same age (age 67). The QJSA must be provided to all participants, and not just to married participants.

2) Required disclosures that must be included in the Lifetime Income Disclosure Statement.
   - There are 11 separate written disclosures mandated by the DOL, which must be included in the Lifetime Income Disclosure Statement. These disclosures explain the purpose of the notice and that the notice is an estimate based on certain assumptions and is not a guarantee.
   - The Lifetime Income Disclosure Statement may be incorporated into any quarterly or annual benefit statement

provided to the participant. Alternatively, the plan may use the DOL provided Model Benefit Statement Supplement as an attachment to the participant's benefit statement.

- The 11 separate disclosures may be altered for clarity, but such changes must only be minor variations to the Lifetime Income Disclosure Statement and must be written in a manner understandable to the average participant.

If the above requirements are met, plan administrators will not have liability for providing Lifetime Income Illustrations that are different from the amount actually received by the participant.

Important Note: For defined contribution plans that include in-plan annuities and/or deferred compensation annuity options, the Lifetime Income Disclosure Statement requirements differ from the above requirements.

The IFR is effective on September 18, 2021 and shall apply to pension benefit statements furnished after such date. The DOL further expects to replace the IFR with a final rule prior to the effective date of the IFR.

As always, we will continue to monitor and provide additional updates regarding this new SECURE Act requirement. 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.