MARKET & LEGAL UPDATE
NOVEMBER 2021 REVIEW

CORPORATE OFFICE:

95 Glastonbury Blvd., Suite 102
Glastonbury, CT 06033
860.652.3239*

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"Omicron, Fed Policy Pivot Contributes To Markets Declining"

Markets declined sharply during the last few trading days of the month with the Dow posting its largest drop of 2021 on Black Friday, losing 1.9%, and the S&P 500 falling 2.3% on the same day. As a result, the S&P 500 declined by 0.7%, the Dow fell by 3.5%, and the MSCI EAFE index lost 4.7% during the month. Equity markets advanced for most of the month on continued strong earnings and economic growth. However, news about the new Omicron variant, which the World Health Organization labeled it as a "variant of concern", coupled with the Federal Reserve announcing it could expedite its bond buying program to conclude sooner than economists projected to combat inflation caused significant market volatility to close out the month.

Last month, the S&P 500 had its best month in a year since coronavirus cases were on the decline and a deal was reached by Congress to extend the debt limit until December, easing concern that the U.S. might default on its debt. However, the new Omicron variant which was originally detected in the Gauteng province of South Africa has also been found in Australia, Canada, Europe, Israel, and Hong Kong. In addition, now that December arrived, Treasury Secretary Janet Yellen warned on November 30 that the U.S. could run out of funds by December 15 as it approaches the $28.9 trillion dollar borrowing limit set by Congress. Congress will need to prevent a shutdown by jointly passing a spending bill and preventing a national debt crisis by raising the debt ceiling. Market volatility and uncertainty contributed to bond yields falling sharply at the end of the month, with the 10-year Treasury closing at 1.44%, compared to 1.53% the prior day and 1.55% at the end of October.

Market Return Indexes	November 2021	YTD 2021
Dow Jones Industrial Average	-3.5%	14.6%
S&P 500	-0.7%	23.2%
NASDAQ (price change)	0.3%	20.6%
MSCI Eur. Australasia Far East (EAFE)	-4.7%	5.8%
MSCI Emerging Markets	-4.1%	-4.3%
Bloomberg Barclays High Yield	-1.0%	3.3%
Bloomberg Barclays Aggregate Bond	0.3%	-1.3%
Yield Data	**Nov. 2021**	**Oct. 2021**
U.S. 10-Year Treasury Yield	1.44%	1.55%

The Omicron variant presents new challenges since only about 25% of South Africa's population is vaccinated, whereas cases in Europe will provide a different test as over two-thirds of the population is fully vaccinated. The Centers for Disease Control (CDC) recommended on November 18 that adults aged 18 and older receive a booster shot, revising guidance earlier in the month that those 50 and older get a booster. As of December 1, only one case of the Omicron variant has been reported in the U.S., but the U.S. as well as the U.K. and European Union have restricted travel from South Africa and Japan and Israel have restricted all travel outside of the country.

The S&P 500 dropped 1.9% on the last day of the month when Fed Chairman Jerome Powell, who was reappointed by President Biden on November 22 to another four-year term, indicated the Fed could expedite reducing the bond buying program timeline to conclude earlier than anticipated due to concerns over rising inflation and as unemployment continued to fall. For reference, Lael Brainard was considered for the post, but instead was elected to become Fed Vice Chairperson.

The Consumer Price Index, a key measure of inflation, rose 0.9% in October and all items rose 6.2% over the last year before seasonal adjustment. Eurozone inflation set a record in November with consumer prices 4.9% higher than a year ago. The prior month tied a record dating back to 1997 with a 4.1% increase. Washers and dryers are costing 30% more, furniture is up 12%, prices for new cars and trucks are up 11%, rental car rates are up 49%, and the average price of gasoline is up 50% from a year ago, with the average price per gallon of $3.40 vs $2.27. The U.S. announced it would release oil supplies from its strategic reserve to help lower the cost of energy. However, OPEC and its allies could delay projected supply increases due to new travel restrictions caused by the new Omicron variant. Supply-chain disruptions from the semiconductor chip shortage contributed to rising inflation across many industries and could be longer lasting despite increased investment in U.S. chip production. Currently about 75% of production resides overseas in four Asian locations: Taiwan, South Korea, Japan, and China. According to the U.S. Chamber of Commerce, only 6% of new semiconductor capacity added in the next 10 years is in the U.S.

During November, Congress passed a $1 trillion infrastructure bill and before the Thanksgiving holiday, the House passed an additional $2 trillion Build Back Better stimulus package to include education, healthcare, and climate control initiatives. The $2 trillion packages would still need to be approved by the Senate, which could face hurdles on the size of the package. Normally, it would require two thirds approval, however, a process called reconciliation would enable a 50% vote to pass the bill, but then would require every vote from one party to approve the bill. Any changes by the Senate would then need to go back to the House to be approved before going to the President's desk for approval. Due to the debt ceiling limit and several stimulus packages over the last year due to the coronavirus as well as the infrastructure bill, certain elements of the package could be scaled back as concerns mount over rising inflation.

The labor market has been a boon with more jobs available than those seeking employment. Jobless claims for the week fell under 200,000 during the month, which was the lowest level in 52 years. Further, workers in the U.S. resigned from their jobs by a record 4.4 million during September, which indicates a robust job market. With rising inflation, a more favorable job market, and the fiscal stimulus over the last year, consumer spending increased 1.3% during October while personal income increased by a half percent according to the Commerce Department. More recently, U.S. retail sales rose 14% during the Thanksgiving weekend compared to last year and was up 6% from 2 years ago. However, fewer consumers shopped during the holiday with about 180 million shopping in stores or online compared to 186.4 million in 2020 and 189.6 million in 2019 according to the National Retail Federation. According to IHL Group, retailers are expected to open more physical stores in 2021 than they close for the first time since 2017. The trend had reversed for years to more online retail.

The S&P 500 was up 23.2% for the year, after solid gains of 18.4% in 2020, and 31.5% in 2019. Price earnings for S&P 500 companies are well above their 20-year average although strong earnings have contributed to markets advancing to new records during the month. Nearly all S&P 500 companies reported earnings for the third quarter and over 80% beat earnings projections. Further, earnings growth of 40% was the third highest since the second quarter of 2010 and grew at 90% during the second quarter of 2021. Despite headwinds in the market of rising inflation, Omicron, supply-chain disruptions, and the likelihood of rate increases in 2022, markets have continued to advance with companies continuing to report better than expected earnings. Hopefully, companies continue to surprise on the upside for a Happy Holidays to all!

LEGAL UPDATE

I. IRS Issues FAQs on Re-Employed Retirees and In-Service Distributions

Last month the IRS issued two frequently asked questions (FAQs) to address the concerns public and private employers are having with staffing problems due to the impact of the COVID-19 pandemic (COVID). The intent of the guidance is to make it easier for these employers to encourage their retirees to stay in the workforce or to re-enter employment.

Through its FAQs, the IRS clarifies that employers will not risk their pension plan's qualified tax status if they rehire retirees or permit in-service distributions to current employees who have attained age 59 ½ or the plan's normal retirement age.

The FAQs include the following:

- **Q1: If an employer who sponsors a defined benefit pension plan rehires an individual due to unforeseen hiring needs related to the COVID-19 pandemic, will the rehire cause that individual's retirement to no longer be considered a bona fide retirement?**
- A1: No. A qualified pension plan that does not permit in-service distributions may commence benefits only when the individual has a bona fide retirement. Although the determination of whether an individual's retirement under a plan is bona fide is based on a facts and circumstances analysis, rehiring the retiree due to labor shortages created by the COVID crisis – that were not foreseen at the time of the retirement - does not change the bona fide status of the retirement. The IRS recommends that a plan sponsor who intends to rehire retirees review plan terms that may bar rehiring retirees within a specific period after retirement, suspend benefits upon rehire or impact a rehired retiree's pension benefits.
- **Q2: May a qualified retirement plan permit individuals who are working to commence in-service distributions?**
- A2: Yes. It is permissible for a qualified retirement plan to provide in-service distributions to participants who attain age 59 ½ or the plan's normal retirement age. Employers facing unforeseen hiring deficits caused by COVID may be able to dissuade older workers from retiring by providing for these in-service distributions. This Q&A reminds plan sponsors that distributions prior to age 59 ½ generally result in a 10% additional tax.

II. Dec 31st Deadline Looms for IRS-Required Amendment for the Hardship Distributions

In September 2019, the IRS issued final regulations on hardship distributions (September 2019 Market & Legal Update). The final regulations eliminate the six-month suspension period of elective employee contributions as a condition for taking a hardship distribution and add the requirement for plan sponsors to obtain a participant's representation regarding insufficient cash or liquid assets to meet the financial need. In addition, certain optional provisions are permitted in accordance with the final regulations, such as eliminating the need to take a plan loan before receipt of a hardship distribution and permitting hardship withdrawals from contribution sources that were previously unavailable. Although implementation of these changes was required effective January 1, 2020, and voluntary implementation was permitted as early as January 1, 2019, the deadline to amend plans for the final regulations on hardship distributions is December 31, 2021.

If you have any questions or would like additional information, please contact your USI Consulting Group representative, email us at information@usicg.com or visit our website at www.usicg.com.

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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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