USI ADVISORS, INC.

MARKET & LEGAL UPDATE
May 2021 REVIEW

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"Markets Continue to Defy Gravity…and Inflation Fears"

Despite inflation fears, much of the equity market continued to rise in May. The Dow Jones Industrial Average (DJIA) and S&P 500 Index both climbed during the month as corporate profits continued accelerating, vaccination levels continued increasing and the overall economy continued to prosper. The S&P 500 Index gained 0.7% in May and is up over 12.6% for 2021 while the DJIA tacked on another 2.2% and is up 13.8% year to date. The tech-heavy NASDAQ index pulled back a bit in May, losing 1.5% but is still up 6.7% thus far in 2021.

Recent economic data has been largely positive, and it seems as though consumers have taken notice. The Conference Board, which surveys three thousand households every month to compile a snapshot of consumer attitudes on the economy, released the Consumer Confidence Index on May 25th which, while a bit lower than last month's reading of 121.7, was still quite high at 117.2. The reading is based on consumers' perceptions of current business and employment conditions, as well as their expectations for the next six months regarding business conditions, employment, and income. Rising confidence may boost overall spending as social distancing restrictions are lifted. Consumer spending is a significant driver of the country's GDP (Gross Domestic Product), which has also come in strong in recent releases. The second estimate for first quarter GDP reaffirmed the very solid 6.4% that was reported previously, and data also showed more good news, with core personal consumption expenditures rising by an upwardly revised 2.5% over the final three months of 2020. Many economists and the International Monetary Fund project U.S. global output of over 6% for 2021, which would be the highest level since 1983.

Market Return Indexes	May 2021	YTD 2021
Dow Jones Industrial Average	2.2%	13.8%
S&P 500	0.7%	12.6%
NASDAQ (price change)	-1.5%	7.0%
MSCI Eur. Australasia Far East (EAFE)	3.3%	10.7%
MSCI Emerging Markets	2.3%	6.1%
Bloomberg Barclays High Yield	0.3%	2.3%
Bloomberg Barclays Aggregate Bond	0.3%	-2.3%
Yield Data	**May 2021**	**April 2021**
U.S. 10-Year Treasury Yield	1.58%	1.63%

Employment data has also been quite positive. Jobless claims data is released every Thursday and measures the number of individuals who filed for unemployment insurance for the first time. This number has steadily and significantly dropped over the past few months. The most recent reading on May 27th showed initial jobless claims falling for the fourth straight week, coming in at 406,000, a new pandemic-era low.

While elevated consumer confidence, rising consumer spending, and falling jobless claims are positive contributing factors to accelerating economic growth, inflation fears have begun to build. The Commerce Department announced that the Consumer Price Index (CPI) rose 0.9% during the month and 4.2% over the last year. The CPI is a key economic indicator for measuring inflation. As such, investors are keeping a close eye on inflation indicators that may signal whether inflation will ramp up and lead to a sustained increase in consumer prices. If so, interest rates tend to move higher which, in turn, could weigh on stock valuations and cause the equity market rally to falter.

The Fed has reiterated multiple times its intention to keep rates low to help support its primary objective of reducing the unemployment rate back to pre-pandemic levels. Unemployment stood at 3.5% at the end of February 2020, a 50-year low at the time and economists project the rate to fall to that level by the end of 2023. However, since the latest CPI figure was much higher than forecasted, market volatility increased as rising inflation could force the Fed to raise rates sooner than projected. However, some economists and the Fed believe the CPI reading was transitory and that inflation will fall back to normal levels since many citizens received another round of stimulus checks during March, increased the supply of money flowing through the economy. Moreover, many prices fell a year ago and so it was somewhat expected that prices would have risen from those lower levels.

Since the end of the first quarter of 2020, markets have risen astronomically, and the month of May was no different. With the pandemic hopefully on its way out, or at least under control, life has seemingly returned to some semblance of normal, the economy has strengthened, and the equity markets have not slowed down. As the vaccine rollout continues and more and more Americans return to work, the future certainly looks much brighter than it did a year ago today. That said, if prices begin to rise quickly and significantly, and interest rates follow suit, the equity market momentum we have witnessed since last April may begin to slow. Until that point, however, let's enjoy the ride.

LEGAL UPDATE | IRS Clarifies Partial Plan Termination Relief under the Consolidated Appropriations Act

In our June 2020 Plan Sponsor Newsletter and December 2020 Market & Legal Update, we discussed partial plan terminations under qualified retirement plans in the context of the COVID-19 national emergency and the relief that was provided under the Consolidated Appropriations Act of 2021 (CAA).

The CAA included several COVID-related provisions that affect retirement plans, including temporary relief from the requirement that terminated plan participants be fully vested under the partial plan termination rules during plan years that begin or contain the period March 13, 2020 through March 31, 2021. During such period, a partial plan termination would not be deemed to occur if the number of active participants covered under a plan on March 31, 2021 is at least 80% of the number participants covered under the plan on March 13, 2020.

Internal Revenue Code Section 411(d)(3) provides that when a qualified retirement plan is determined to have experienced a partial plan termination, 100% vesting is required for all affected plan participants. Absent the relief granted under the CAA, the determination as to whether a partial plan termination has occurred is based on the facts and circumstances criteria set forth in IRS Revenue Ruling 2007-43. Under this ruling a rebuttable presumption that a partial plan termination has occurred is created where there has been a reduction of 20% or more in the number of active participants in a plan due to an action or series of actions initiated by the employer during one or more plan years.

On April 27, 2021, the IRS issued supplemental guidance in the form of five frequently asked questions (FAQs) to clarify the partial plan termination relief provided under the CAA. The FAQs include the following:

- Q&A1 provides that a plan will not be treated as experiencing a partial plan termination within the meaning of Code Section 411(d)(3) during any plan year which 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;

- Q&A2 provides that an employer must apply a reasonable, good faith interpretation of who is defined as an "active participant covered by the plan" on a consistent basis;

- Q&A3 clarifies that if any part of a plan year falls within the period from March 13, 2020 to March 31, 2021, the CAA relief applies to any partial plan termination determination for that entire plan year. For example, if a plan has a calendar year plan year, the 80% partial termination test relief applies both to the January 1 to December 31, 2020 plan year and the January 1 to December 31, 2021 plan year, because both plan years include a part of the statutory determination of March 13, 2020 to March 31, 2021;

- Q&A4 clarifies that the number of active participants counted on March 31, 2021 need not be the same individuals included in the 80% of active participants counted on March 13, 2020; and

- Q&A5 clarifies that CAA relief is not limited to employee reductions that resulted from the COVID-19 national emergency, even though the first date of the relief period, March 13, 2020, was the initial date that the COVID-19 national emergency was declared.

Should you have any questions regarding partial plan terminations in connection with your plan, 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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