USI ADVISORS, INC.

MARKET & LEGAL UPDATE
JULY 2021 REVIEW

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CORPORATE OFFICE:

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

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"In the Spirit of the Olympics, the U.S. Economy and Markets are Setting New Records!"

With the Olympics finally arriving a year later, major U.S. equity market indices continued to reach new highs, led by the S&P 500 advancing 2.4% during July and 18.0% year-to-date. Developed economies are experiencing rapid growth, U.S. corporate profits are on pace for a banner quarter, the highest net fund flows into U.S. based funds was recorded, and a new, up to $1 trillion bipartisan infrastructure bill was reached on July 28. In addition, the Federal Reserve affirmed its low interest rate policy, although some signs are pointing to the Fed beginning to reduce its quantitative easing program later this year. Despite the strong economy and global markets, there is rising concern regarding the Delta variant of Covid-19 spreading rapidly throughout the world. The Centers for Disease and Control and Prevention (CDC) issued guidance on July 28 recommending tighter policies to curb the spread of the disease.

Market Return Indexes	July 2021	YTD 2021
Dow Jones Industrial Average	1.3%	15.3%
S&P 500	2.4%	18.0%
NASDAQ (price change)	1.2%	13.9%
MSCI Eur. Australasia Far East (EAFE)	0.8%	9.7%
MSCI Emerging Markets	-6.7%	0.2%
Bloomberg Barclays High Yield	0.4%	4.0%
Bloomberg Barclays Aggregate Bond	1.1%	-0.5%
Yield Data	**July 2021**	**June 2021**
U.S. 10-Year Treasury Yield	1.24%	1.45%

The International Monetary Fund (IMF) provided revised projections for global GDP during July with the global projection remaining unchanged at 6%. However, the IMF revised upwards forecasts for developed countries such as the U.S. and UK, which have fared better with effective vaccinations and downgraded developing and emerging countries that lack access to vaccines. The U.S. and UK are both expected to grow 7%, 0.6% and 1.7%, respectively above prior IMF forecasts. It would be the best year for the U.S. since 1984 and would become the new gold standard for the UK with records dating back to 1980. The IMF cut forecasts for developing countries such as those in Southeast Asia as well as China, the world's second largest economy by 0.3% to 8.1%. The U.S. economy returned to its pre-pandemic size as measured by GDP during the last 3 months through June. The Commerce Department reported on July 29 that U.S. GDP grew by 6.5% during the second quarter, robust growth indeed, but well below consensus forecasts of 8.5% growth. A recent Wall Street Survey of economists forecast third quarter GDP growth of 7% but was expected to moderate to 3.3% growth a year from now. The Organisation for Economic Co-operation and Development (OECD) expects U.S. GDP to be higher in 2022 than was forecast pre-pandemic, attributing the 2020-21 fiscal and monetary stimulus as key drivers.

The S&P 500 set 34 record closes in 2021 with economic data and profit growth figures continuing to be revised upwards. Second quarter earnings growth for S&P 500 companies was expected to rise by over 50% at the beginning of the quarter but have been revised upwards to 76% and climbing. The markets had seen a strong rotation towards value stocks relative to growth stocks since late last year through the first quarter but has since reversed course, with growth stocks advancing more, in part due to falling bond yields. Growth stocks tend to outperform when yields fall as future earnings become more valuable in today's dollars when discounted at lower rates. In addition, with virus concerns re-surfacing, cyclical stocks are more adversely impacted. As reported on July 30 by FactSet, 59% of S&P 500 companies reported Q2 results with 88% reporting earnings per share (EPS) above estimates, which would mark the highest percentage since the metric was tracked in 2008. Earnings growth is currently over 17% above analyst estimates, which is the fourth largest recorded.

Also contributing to market gains is the strong global demand flooding the U.S. markets, with over $900 billion net inflows into U.S. domiciled mutual funds and ETFs during the first half of the year according to Refinitiv Lipper, a new record for the period that goes back more than 30 years. Also contributing to fund flows is the record aggregate wealth that U.S. households accumulated during 2020, $13.5 trillion according to the Federal Reserve. The 2020 increase was the largest recorded, with records dating back 3 decades. Compared to the 2008 recession, U.S. households lost about $8 trillion due, in part to less fiscal stimulus. And additional fiscal stimulus is on the horizon, with the infrastructure bill gaining bipartisan support in the senate. Although it is far short of $2.25 trillion proposed by President Biden in March, the deal includes $550 billion in federal investments in America's infrastructure over the next five years.

Bond yields fell sharply during July, with the 10-year Treasury yield declining over 0.2% as the Delta variant of the COVID-19 disease spreads globally and cases continue to rise in the U.S. The variant could cause new restrictions on businesses or curtail spending, such as travel and dining out, which was adversely impacted last year. Recently, the CDC issued guidelines recommending that vaccinated people as well as the unvaccinated wear masks indoors in certain parts of the nation and that all schools K-12 grade enforce a mask policy for staff and students. Businesses such as Apple and Disney are also adopting their own mask policy requirements for staff and customers.

It has been nice to see more U.S households "return to normal" over the last few months from shopping and dining indoors without a mask to fans returning to ball parks and concerts. It is disappointing for the Olympic athletes, the host nation Japan, and the world to have an Olympics without fans. Vaccine production will need to continue as booster shots will likely be required in the U.S., but also to inoculate other nations to slow the spread of new variants of the disease. Records for the economy and markets could continue, and are meant to be broken, but would be greatly aided by defeating the invisible enemy.

LEGAL UPDATE | A Framework For Record Retention

Retirement plan sponsors often ask how long they are required to retain retirement plan and participant records? It is an excellent query that has no easy answer. Because there is no explicit guidance, the answer depends somewhat on the plan sponsor's tolerance for risk.

Appropriate record retention policy and practices are essential for a plan sponsor to meet their ERISA fiduciary duties, to fulfill their responsibilities in processing claims, to mitigate any problems in IRS or DOL audits, and to avoid protracted disputes with participants, beneficiaries and retirees.

The primary authority for record retention rules can be found in ERISA Sections 107 (plan-level records) and 209 (participant-level records), as well as in the IRS's statute of limitations related to audits.

A moderate approach to record retention would generally look like this:

Plan Documents	Including an Individually Designed Plan Document, Basic Plan Document, Adoption Agreement, Amendments, Summary Plan Descriptions, and Summaries of Material Modifications	For the life of the plan followed by a minimum of six years after the plan has terminated and all plan benefits have been paid out.
Participant Records	Including distribution, enrollment, beneficiary, investment forms and investment statements with a participant's account balance and activity.	For at least six years after the participant's complete withdrawal or distribution from the plan. Some would interpret this as "indefinitely."
Admin-istrative Reports	Including plan testing, annual census data and contribution calculations.	For the life of the plan followed by a minimum of six years after the plan has terminated, and all plan benefits have been distributed.
Federal Forms	Including Form 5500 and related schedules, SSA-8955, 5330, 1099-R, 1096, Summary Annual Reports and PBGC forms.	For a minimum of six years.

The moderate approach, which is considered the bare minimum period for record retention, is to retain records for at least six years following the termination of the plan, a distribution from the plan, or the filing of federal forms. The conservative approach, however, is to permanently keep executed plan documents, amendments, summary plan descriptions, executed trust agreements, applicable resolutions, determination letter packages, IRS determination letters, and any documentation that requires notarization or a seal.

With respect to plan-level record retention, the idea is to retain supporting information and documentation that would permit a plan sponsor to verify and explain plan records to federal agencies which will confirm the accuracy and completeness of the sponsor's representations about the plan. With respect to participant-level record retention, the goal is for the plan sponsor to be able to determine the benefits of plan participants. In addition, failure to maintain such participant-level required records for any plan year could result in a civil penalty for each employee affected by the failure.

For best practices, a conservative approach to participant-level records is highly recommended for a simple reason. Very often, a participant will contact a plan sponsor or its third party administrator and claim that they have no proof that they ever received their plan benefits. This can happen decades after the participant took a distribution from the plan, and the participant genuinely cannot recall or find proof of the distribution. The inquiry is frequently the result of a communication from the Social Security Administration that explains to the participant that "you may have retirement benefits due to you." Having copies of the participant's distribution records can make responding to these kinds of inquiries a simple matter that consumes little time and effort.

Under ERISA, plan sponsors can retain plan and participant records electronically if the retention medium satisfies the following requirements:

1. There are reasonable controls to ensure the integrity, accuracy, authenticity and reliability of the records;
2. The records are maintained in reasonable order and in a safe, accessible place, and they can be relatively easily inspected or examined;
3. The records are relatively easily convertible into a legible and readable paper copy as may be needed to satisfy requirements under Title 1 of ERISA, including reporting and disclosure requirements;

4. The recordkeeping system is not subject, in whole or in part, to any agreement that would compromise or limit, directly or indirectly, a person's ability to comply with requirements under Title 1 of ERISA, including reporting and disclosure requirements; and
5. Sufficient records management practices are established and implemented.

In any case, plan sponsors should adopt a record retention policy, whether moderate or conservative, and ensure that all individuals or entities responsible for the administration of their plans comply with that policy.

If you have any questions regarding record retention policies and recommendations, please contact your USI Consulting Group representative or email us at information@usicg.com.

For previous market commentaries please click here.

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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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