USI ADVISORS, INC.

MARKET & LEGAL UPDATE
AUGUST 2021 REVIEW

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"Stock Market Jumps to Record Highs Amid Virus Worries"

The U.S. equity markets continued to log solid gains last month in thin summer trading, supported by the full FDA approval of the Pfizer-BioNTech COVID-19 vaccine, favorable economic data, the Fed's continued stance on the pace of tapering, and a strong earnings season. Corporate profits jumped to fresh record highs in the second quarter of this year, propelled in part by strong economic activity and record fiscal stimulus. The S&P 500 added 3% last month, nearly doubling from its low in March 2020. With seven-straight months of gains, the benchmark index has posted an impressive gain of 22% year to date and 53 record closes, its highest number of records in a calendar year though August. The Dow Jones Industrial Average lagged its equity benchmark peers during the month, albeit still advancing 1.5% in August. The tech-heavy Nasdaq Composite index also finished the month up 4%, its third consecutive month of gains, lifted by a strong rally in information technology stocks. In the bond market, the yield on the benchmark 10-year U.S. Treasury note jumped to 1.30% from 1.24% in the prior month, snapping a four-month losing streak.

Market Return Indexes	August 2021	YTD 2021
Dow Jones Industrial Average	1.5%	17.0%
S&P 500	3.0%	21.6%
NASDAQ (price change)	4.0%	18.4%
MSCI Eur. Australasia Far East (EAFE)	1.8%	11.6%
MSCI Emerging Markets	2.6%	2.8%
Bloomberg Barclays High Yield	0.5%	4.6%
Bloomberg Barclays Aggregate Bond	-0.2%	-0.7%
Yield Data	**August 2021**	**July 2021**
U.S. 10-Year Treasury Yield	1.30%	1.24%

Many investors have become increasingly concerned that a resurgence in Covid-19 cases could cloud the economic outlook domestically and around the world. Some local governments and businesses have reinstated restrictions on activities due to the latest surge of the highly contagious Delta variant. Nationally, new coronavirus infections are on the rise even though over 53% of those 12 years and older are fully vaccinated. According to the Centers for Disease Control and Prevention, the U.S. seven-day moving average of daily new cases, which helps smooth out fluctuations in states' daily case reporting, reached over 160,041 as of August 31st, up from about 17,214, measured on May 31st of this year. Furthermore, Covid-19 hospitalizations nearly doubled since the start of August, topping 100,000 for the first time since January. As the Delta variant pushed coronavirus infections and hospitalizations higher during the month, the Pfizer vaccine gained full approval from the U.S. Food and Drug Administration (FDA) on August 23rd. Following the full FDA approval, many employers are stepping up their vaccine requirements, mandating that their employees get vaccinated against the coronavirus for office returns, a development that could lead to higher vaccination rates among hesitant individuals.

In economic news, the U.S. labor market continued to rebound with a healthy pace of hiring in July. The unemployment rate decreased slightly to 5.4% in July from 5.9% in June, the lowest since March 2020. The Labor Department reported that total nonfarm payrolls increased by 943,000, above consensus expectations. Notably, the leisure and hospitality industries added 380,000 jobs in July, fueled by a renewed interest for dining out and traveling over the summer months. However, these sectors may face strong headwinds if the Delta variant triggers new business restrictions that limit their operations. Meanwhile, the Labor Department's Job Openings and Labor Turnover Survey (JOLTS) showed that job openings rose to a record high of 10.1 million, highlighting employers' struggles to hire enough workers to keep up with a surge of pent-up consumer demand. Ongoing childcare responsibilities, lingering health concerns, and supplemental federal jobless benefits have kept some Americans from returning to the workforce. However, labor supply should continue to increase this fall as enhanced unemployment benefits are set to expire by early September and schools reopen, eliminating some of the current distortions in the labor market.

Meanwhile, as families started receiving payments of $1,600 per child this year under the Child Tax Credit program, U.S. personal income shot up 1.1% in July, after a 0.2% increase in June. The saving rate jumped to 9.6% from 8.8% in June, suggesting that many Americans stashed the extra cash as households' savings surpassed $1.7 trillion, up from $1.3 trillion in January 2020. Although a healing labor market and government stimulus payments have boosted personal income and consumption this year, U.S. household spending seemed to be cooling last month amid the uncertainty generated by the spread of the Delta variant. Consumer spending decelerated to a modest 0.3% increase in July from a 1.1% gain in June, according to the Commerce Department. Spending on goods declined 1.1%, partially due to a drop in motor vehicle purchases amid global shortages of semiconductors impacting auto production, whereas spending on services such as food services and accommodations rose sharply during the month. The slowdown in spending growth could persist if more events and trips are canceled in the coming months, restraining the demand for services due to soaring Covid-19 cases.

Ongoing concerns over the surging Delta variant and higher inflation also led to a negative assessment of the domestic economic outlook. The University of Michigan's Consumer Sentiment Index, which measures consumers' views on the health of the economy, plunged to a low of 70.2 from 81.2 in the prior month, which was the lowest reading since December 2011. The sharp drop in sentiment reflects consumers' doubts about whether the economy's rebound would remain robust, given the global spread of the highly infectious Delta variant. However, the August collapse in consumer confidence might be temporary since positive developments in the housing market, equity markets, and the labor force could boost sentiment in the months ahead.

Most recently, investors' attention appeared to be fixated on the Federal Reserve's annual Jackson Hole's economic symposium held virtually at month's end. Federal Reserve Chairman Jerome Powell signaled that the central bank could start curbing its easy-money policies later in the year by scaling back its bond purchases. He also stressed that the central bank should not overact to a recent spike in inflation. To stimulate the economy during the coronavirus pandemic, the Fed has been buying $120 billion monthly in Treasury securities and mortgage-backed bonds. Notably, Mr. Powell reiterated that the timetable for tapering asset purchases should not impact a later decision to increase interest rates from near-zero. Fed officials continue to assess economic conditions such as maximum employment and price stability as they roll out a plan to remove policy accommodation. Investors are expecting that the Fed will announce its taper timeline at the September meeting. Inflation has exceeded the central bank's 2% target in recent months, as the core PCE price index, the Fed's preferred inflation gauge, jumped 0.3% in July and 3.6% from a year earlier. Despite consumer prices registering the largest annual jump since 2008, inflation rose at the slowest pace since February, suggesting that the price pressures could be temporary amid pent-up demand and supply-chain disruptions.

Investors have enjoyed a powerful stock rally, as all three major U.S. indexes notched multiple records in 2021. Market sentiment seemed to fluctuate over last month between enthusiasm over strong economic rebound and robust corporate earnings and worries about the Delta variant threatening to undermine the economic recovery. An increase in Delta variant cases and higher market valuations could restrain equity market gains in the coming months, raising the possibility of higher market volatility ahead. Companies will need to continue exceeding higher market analyst expectations for earnings growth and provide positive guidance for markets to continue rallying.

LEGAL UPDATE | IRS Correction Program Updated

On July 16, 2021, the IRS issued a new Revenue Procedure updating the Employee Plans Compliance Resolution System ("EPCRS"), which includes the Self-Correction Program ("SCP"), the Voluntary Correction Program ("VCP") and the Audit Closing Agreement Program ("Audit CAP"). Revenue Procedure 2021-30 ("Rev. Proc.") modifies and supersedes the 2019 procedure outlining the EPCRS program. EPCRS provides plan sponsors the opportunity, under specified circumstances, to correct both qualified plan document and operational failures.

The most significant changes to the EPCRS programs include:

New Correction Methods for Benefit Overpayments

Plan sponsors may now provide recipients who receive overpayments with the option of repaying such overpayments either (1) in a single sum, (2) via an installment agreement, or (3) through a reduction of future payments. In addition, no repayment may be required for *de minimis* overpayments of $250 or less (see below).

Overpayment Funding Issues

Subject to the de minimis overpayment exception below, for overpayments made by defined benefit plans that are not repaid by participants, the following correction methods are available to plan sponsors:

- **Contribution credit** – This correction method permits the overpayments to be reduced by the cumulative increase in the plan's minimum funding requirements attributable to the overpayment. If there are still overpayments after application of the credit, either the plan sponsor or a third party must reimburse the plan for the excess overpayment. This method cannot be used for correction if the plan is under a funding deficiency or there is an unpaid minimum contribution amount at the end of the plan year preceding the year in which the correction is to be made.
- **Funding exception** – This correction method permits a single employer defined benefit plan, subject to the Code Section 436 funding limits to forego any corrective payments during the period that the plan's adjusted funding target attainment percentage (AFTAP) is equal to at least 100 percent. A recipient of overpayments must have their future benefit payments reduced to the correct benefit payment amount.

In addition, plan sponsors of defined benefit plans are no longer required to reimburse the plan for overpayment amounts where, for example, the attempted recovery of the overpayment was unsuccessful and/or certain other requirements are fulfilled.

Extension of Relief for Elective Deferral Failures

Under prior guidance, the IRS provided more generous safe harbor correction methods for elective deferral failures related to automatic contribution arrangements, but those provisions were temporary and expired on December 31, 2020. Effective on January 1, 2021, the new Rev. Proc. retroactively extends the more generous safe harbor correction methods through December 31, 2023.

Extension of Self-Correction Period

The last day for self-correction period for significant operational failures and certain plan document failures under SCP has been extended by one year. The new deadline is now the last day of the third plan year following the plan year in which such failure occurred.

Anonymous Submissions Eliminated

As of January 1, 2022, the current anonymous submission procedure will be eliminated. However, as of that date the IRS will allow plan sponsors to request anonymous ***pre-submission*** VCP conferences in order to discuss proposed corrections that are not covered under the EPCRS safe harbor correction methods that are listed in the Rev. Proc. A VCP applicant will be required to submit a pre-submission conference request on a revised Form 8950 and provide enough details about the failure so that the IRS can adequately evaluate the request. The conference is considered advisory and cannot be relied upon for obtaining compliance relief under EPCRS, although the information provided by the Service should be useful in preparing the Voluntary Correction Program submission.

Increase in *De Minimis* Correction Threshold

Certain *de minimis* overpayment failures are not required to be corrected under EPCRS. Previously, the *de minimis* threshold was any amount equal to or less than $100. Under the new procedures, the *de minimis* threshold for overpayments and excess amounts credited to a participant account is $250. The new guidance makes it clear that if the amount is within this *de minimis* threshold, then the plan sponsor does not need to make a corrective contribution to the plan with respect to an overpayment.

Expanded Self-Correction by Retroactive Plan Amendments

Previously, a retroactive amendment could be adopted through SCP if it increases a benefit, right, or feature in the plan for all eligible plan participants. However, under the updated Rev. Proc., the IRS expanded this self-correction method by eliminating the requirement that the retroactive amendment benefit all eligible participants in the plan. Now such retroactive SCP amendments may be adopted even if it does not benefit all participants.

The Treasury Department invites written comments on the new EPCRS. The period for comments ends October 14, 2021. Commenters are encouraged to submit their comments electronically.

If you have any questions regarding the updated EPCRS program, please contact your USI Consulting Group representative or email us at information@usicg.com.

F*or 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.

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