Market & Legal Update

DECEMBER 2023 REVIEW

USI CONSULTING GROUP

Stay on top of the latest market developments and legal and regulatory updates that may affect your business.

MARKET UPDATE | S&P 500 Near New All Time High to Close 2023

The markets resembled the Grinch for much of 2022 but 2023 has been a jolly time with the S&P 500 up 26.3%, and nearly setting a new all-time high last reached at the beginning of January 2022. The market performance defied several headwinds with the Fed raising rates at the fastest pace since the 1980s to bring down inflation, ongoing war in the Ukraine, Israel under attack by Hamas and three of the four largest commercial bank failures in U.S. history. To close out 2023, Santa appears to have delivered another Santa rally, which is the tendency for markets to increase during the holiday season with increased shopping and consumer spending. According to Mastercard Spending Pulse, from Nov 1 to Dec 23, U.S. retail sales were up 3.1% and online sales were up 6.3%. The Santa rally phenomenon also occurs due to year-end rebalancing and light trading volume during the holidays that exacerbates market movements. Better than expected economic news, Artificial Intelligence (AI) excitement and better-than-expected earnings growth treated the markets well.

Market Return Indexes	Dec 2023	4th Quarter	YTD 2023
Dow Jones Industrial Average	4.9%	13.1%	16.2%
S&P 500	4.5%	11.7%	26.3%
NASDAQ (price change)	5.5%	13.6%	43.4%
MSCI Eur. Australasia Far East (EAFE)	5.3%	10.4%	18.2%
MSCI Emerging Markets	3.9%	7.9%	9.8%
Bloomberg High Yield	3.7%	7.2%	13.4%
Bloomberg U.S. Aggregate Bond	3.8%	6.8%	5.5%
Yield Data	**Dec 2023**	**Nov 2023**	**Oct 2023**
U.S. 10-Year Treasury Yield	3.86%	4.37%	4.90%

At the beginning of 2023, there was a much higher probability that the markets could enter a mild recession with interest rates and inflation at elevated levels. While some economists still see the potential for a recession in 2024, the likelihood has been reduced with a soft landing increasing in probability. A soft-landing scenario has aided the markets to advance to near new all-time highs. According to Dow Jones Market data, 2023 marked the eighth straight year stocks could receive a Santa bump, a streak that last happened between 1968 to 1976. The Santa rally measures the last five trading days of the year and the first two in the New Year. According to Carson Group, the S&P 500 increases 71.2% of the time with a 9.1% gain. When a Santa rally occurs, the index is up 72.4% of the time the following year with an average gain of 10.2%, but when there is not a Santa rally, the index is up only 66.7% of the time and averages a 5% gain the next year.

Inflation continues to show positive signs of moving towards the Fed's preferred target of 2%. The Personal Consumption Expenditures index for November was 2.6% year-over-year, when excluding food and energy it was at 3.2%, with the latter figure 1% lower than July. The Consumer Price Index (CPI) increased 0.1% during November and gained 3.1% annually before seasonal adjustment, which was the mean forecast by Economists surveyed by Dow Jones. Although overall CPI has hardly changed since June 2023, it has fallen from 7.1% a year ago and core inflation continues to trend downward. The CPI index includes about one-third in shelter weighting that includes housing and rental, which rose by 0.4% during the month, but was offset by a 2.3% decline in energy. The index for food increased by 0.2%. Meanwhile the Commerce Department reported that unemployment ticked down to 3.7%, with U.S. payrolls increasing by 199,000. The U.S. Federal Reserve's target range for unemployment is 4%. The Fed has a dual mandate to support a healthy economy gauged by inflation and unemployment, two key indicators routinely monitored. A healthy economy would include price stability (measured by inflation) and an array of opportunities to make a decent living (unemployment). With inflation showing signs of cooling from the peak level in June 2022 of 9.1%, the Fed has pivoted to focusing more attention on unemployment. The Fed held the Fed Funds Rate steady during the Federal Open Market Committee Meeting in December at 5.25% to 5.5%, with the meeting minutes and Fed funds futures implying that there might not be any further rate hikes and that the next phase could be to cut rates in 2024. Fed policymakers penciled in three rate cuts for next year which could bring down the Fed funds rate to 4.5% to 4.75%, or about 4.6%. With inflation nearing 2%, the markets are implying more rate cuts would be needed to narrow the gap between nominal and real rates, with the later factoring in the level of inflation. Market sentiment has pointed to rate cuts where the Fed funds rate would fall to about 3.9% by year-end. These rate cuts have spurred long-term interest rates to fall sharply from peaking at over 5% during October to fall to 3.86% by year-end.

2%

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Better than expected economic news has filtered down to the markets, with better-than-expected earnings growth. According to FactSet, for Q4 2023, the estimated earnings growth for S&P 500 companies was 2.4%. The forward 12-month P/E ratio for the S&P 500 was 19.3, with the five-year average at 18.8% and 10-year average of 17.6. Analysts are projecting double-digit earnings growth for S&P 500 companies in 2024, therefore company valuations appear high, but not if earnings are able to deliver expected results in 2024.

Looking ahead to 2024 and beyond, the Fed expects unemployment to remain near the 4% target for the next year and that Core PCE would fall to 2.4% in 2024, 2.2% in 2025 and reach the 2% target in 2026. The Fed expects GDP to grow more slowly in 2024 at about 1.4% compared to estimated annual GDP growth of 2.6% for 2023, which was 0.5% higher than projections made in September. With inflation falling and low unemployment, a recession seems less likely, but according to Deutsche Bank, during the last 11 Fed rate hiking cycles, recessions occurred about 2 years after the cycle began (which was March 2022). The year 2024 represents an election year and according to Morningstar/ Ibbotson data, the markets have been up on average 11.3% in all election years between 1928 and 2016. Indeed, companies will have to deliver on earnings to justify their current lofty valuations.

Further, there are several geopolitical concerns causing headwinds including Russia's ongoing war, China and Iran. More specifically, trade with China could be subject to further tariffs and China's potential threat towards Taiwan sovereignty may continue shifting U.S. interests away from the Middle East. However, with Iran showing increased aggression by providing direct support to the Houthi rebels to attack cargo vessels in the Red Sea and their support of Hamas against Israel, U.S. and allied resources will be pressured to keep the Middle East in focus. Further, Iran has been tripling production of near weapons grade uranium. While Santa has come to town and a soft landing is within reach, the markets face challenges to repeating 2023 results.

2024 Retirement Plan Compliance Update

Launch 2024 by marking your calendars with compliance requirements. Following are links to and summaries of important **2024 deadlines and action items for employer retirement plans.**

Retirement Plan Amendment Requirements

There are no required retirement plan amendments for 2024.

Most retirement plan documents will have to be amended by December 31, 2025 (or 2027, for governmental and collectively bargained plans) for the following legislation:

- The Setting Every Community Up for Retirement Enhancement Act (SECURE)
- The Bipartisan American Miners Act (Miners)
- The Coronavirus Aid, Relief, and Economic Security Act (CARES)
- The SECURE 2.0 Act of 2022 (SECURE 2.0)

While amendments for such legislation are not required in 2024, retirement plan sponsors who have implemented optional provisions under SECURE, Miners, CARES and SECURE 2.0 should maintain written documentation of their processes and procedures regarding their implementation.

In Internal Revenue Service (IRS) Notice 2023-79 (the most recent required amendments list), the IRS did not identify any required amendments for individually designed qualified and 403(b) plans in 2024.

Under IRS Announcement 2023-6, sponsors of defined benefit plans in an IRS preapproved format have until March 31, 2025 to adopt a newly approved document. This document will conform a defined benefit plan to the 2020 required amendments list.

Tools and Resources for Retirement Plan Sponsors

Retirement plan sponsors face compliance deadlines in 2024 that arise in the normal course of plan administration. 2024 also brings adjusted cost-of-living limitations that apply to retirement plans. Below is information about these deadlines and limitations.

2024 Retirement Plan Compliance Calendars

Plan sponsors can access detailed guidance on the regular administrative compliance deadlines in the following calendars for defined benefit pension plans and defined contribution plans:

DB **Defined Benefit**
pension plan requirements
View here

DC **Defined Contribution**
plan requirements
View here

2024 Cost-of-Living Adjustments

The IRS annually publishes cost-of-living adjustments (COLA) applicable to defined benefit pension plans and defined contribution plans. Access the 2024 COLA adjustments here.

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Recommended Action for Retirement Plan Sponsors in 2024

USI Consulting Group (USICG) recommends plan sponsors maintain fiduciary files for their retirement plans. There are many benefits of maintaining a fiduciary file for your retirement plan:

- Plan governance documentation organized in one convenient location
- Preparedness for audits by the plan's accountant, IRS or Department of Labor
- Preparedness for due diligence in the context of mergers and acquisitions
- Identification of potential compliance issues to address outside of enforcement
- Improved fiduciary structures and compliance and mitigated liability
- Avoidance of administrative errors or missed deadlines in the event of turnover

Here is a list of items you might maintain in your fiduciary file for your retirement plan:

- **Governing plan document** (including any basic plan document, adoption agreement, amendment, IRS determination letter, or IRS opinion letter), in chronological order, all executed and dated
- **Summary plan description** (including any summary of material modifications thereto)
- **Retirement committee charter** (or a list of plan provisions regarding governance), including any written delegations from the board of directors or other managing body
- **Investment policy statement**
- **ERISA fidelity bond**
- **Any liability insurance covering ERISA fiduciaries**
- **Service agreements with plan service providers** (*e.g.*, platform provider, investment advisor or manager, third-party administrator, or auditor), including ERISA fee disclosures
- **Form 5500, all attachments and any audit report**, for the past six plan years
- **Regulatory participant notices** (*e.g.*, safe harbor notice, blackout notice, participant fee disclosure, QDIA notice, summary annual report, or notice of reduction of benefit accruals) for the past six plan years
- **Investment advisor plan performance reports** from the plan's investment advisor (including any retirement plan service provider fee benchmarking) for the past six years
- **Retirement committee minutes,** in writing, documenting and explaining important committee decisions (*e.g.*, qualification of domestic relations orders or beneficiary determinations)
- **Governmental filings**, routine or corrective
- **Governmental correspondence** during the past six years

How USI Consulting Group (USICG) Can Assist

Your retirement plan may have additional compliance requirements that are not listed here. USICG can assist with your retirement plan compliance matters, address your concerns and answer any questions you may have.

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Retirement Resources for You

USI Consulting Group's team of experts is happy to assist employers with all retirement plan compliance matters and changes in the market, including those discussed here, to help you mitigate risk and financial impact to your organization.

To learn more, please contact your local USICG representative, visit our **Contact Us** page or reach out to us at **information@usicg.com**.

Find the address and telephone number of your local USI Consulting Group office **here**.

Follow USICG on **LinkedIn** to stay up to date with retirement news!

For previous market and legal 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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