USI CONSULTING GROUP

Market & Legal Update

APRIL 2025

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

MARKET UPDATE | Markets Rebounding from Lows Despite Tariffs Turmoil

The Dow Jones Industrial Average was poised for its worst April monthly performance since 1932, during the Great Depression, when it sank over 1,000 points intra-day on April 21. President Trump pushed forward with his trade policy on "Liberation Day" (April 2) to help lower the trade deficit and rebuild U.S. manufacturing. The announced tariffs were unilaterally much higher than economists anticipated, causing equity markets to move into correction and bear market territory. In addition, President Trump's pressure on the Fed to lower interest rates created more market uncertainty and put further pressure on the U.S. dollar and long-term government bond yields. With the equity and bond markets collapsing and the dollar plunging, the Trump administration pivoted on tariff policy during the month, providing market relief. Further, Trump assured the markets he had no intention to fire Fed chairman Powell, which helped the markets regain traction. Employment and inflation figures announced during the month were positive. As a result, the S&P 500 ended the month, down less than 1%. International stocks outperformed U.S. stocks by a wide margin year-to-date having lagged over the last decade plus,

Market Return Indexes	April 2025	YTD 2025	2024
Dow Jones Industrial Average	-3.1%	-3.9%	15.0%
S&P 500	-0.7%	-4.9%	25.0%
NASDAQ (price change)	0.9%	-9.7%	28.6%
MSCI Eur. Australasia Far East (EAFE)	4.6%	11.8%	3.8%
MSCI Emerging Markets	1.3%	4.3%	7.5%
Bloomberg High Yield	-0.0%	1.0%	8.2%
Bloomberg U.S. Aggregate Bond	0.4%	3.2%	1.3%
Yield Data (Month End)	**April 2025**	**March 2025**	**Feb 2025**
U.S. 10-Year Treasury Yield	4.17%	4.23%	4.24%

About $6.6 trillion in market value was wiped out in 2 business days after Liberation Day, or 10.5% fall, the fourth worst two-day drop since the S&P 500 was created in 1957. The U.K. and French market size combined is about $6.5 trillion. Only the 1987 market crash (Black Monday), followed by the Great Recession (Lehman Brothers collapse), and the more recent COVID pandemic of 2020 performed worst in the short-term.

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Duties announced on Liberation Day increased the average U.S. tariff rate from 2.5% in 2024 to 22.5%, which in effect could push up prices 2.3% in the short run. This equates to $3,800 less purchasing power for the average house. According to a Goldman Sachs March 20 survey of investors, the market expected U.S. tariffs to rise 8.6% for 2025. Vietnam, Thailand, and other countries in the region were hit hard with tariffs impacting the cost of toys, video games, computer parts, and smartphones. China tariffs were raised to 145%, followed by China reciprocating 125% tariffs on U.S. exports. In 2024, the U.S. exported about $144 billion of goods to China, while importing about $439 billion from China, resulting in a large trade deficit. China is much more reliant on the U.S. for its economic growth.

The tariffs were expected to slow global growth, raise consumer prices, reduce consumer spending, and hit company profit bottom lines. As a result, the International Monetary Fund slashed its U.S. and global economic forecasts. U.S. economic growth in 2025 is now projected at 1.8%, down from the fund's 2.7% forecast in January. During the month, the probability of recession increased,

contributing to the market volatility. Economic forecasts were volatile and fluid as the Trump administration altered its trade policy. Upon seeing the "reciprocal" tariffs take effect on April 9, economists at Goldman Sachs raised their estimated recession probability to 65% from 45% and slashed their GDP forecast—only to revert to previous projections after Trump announced a 90-day pause. First quarter 2025 GDP figures (released on the last day of April), fell by 0.3% annualized, much lower than economists' forecast of a 0.4% gain.

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Adding to the market volatility, President Trump pressured the Fed to lower rates pointing to inflation easing (CPI of 2.4% for March) and low levels of unemployment (4.2%), both key indicators the Fed monitors to set the Fed funds rate. However, the impact of tariffs could be inflationary which would cause the Fed to pause cutting rates. Tariffs could also slow global growth, potentially leading to higher short-term unemployment. The Fed would then have to balance between stable prices and full employment in the economy to gauge interest rate policy.

Although the extreme market movements were nerve-racking, the markets historically have exhibited resiliency during turbulent times. Reviewing the 10 worst drops since 1928, stock gains the following month are usually positive but ranged from a 7.7% fall during 1932 to a 20% rise after the 1987 market crash. The S&P 500 popped 9.5% the week after Liberation Day, its largest one-day gain since the financial crisis while the Dow recorded its largest point gain ever of 2,900 points and largest percentage gain since the pandemic. NASDAQ surged 12% for its highest one-day gain since the dot-com era.

During the first week of May, the markets will get a fresh look at unemployment figures for April. In addition, U.S. companies are in full swing of reporting first quarter earnings results. About 40% of S&P 500 companies reported results through April, with about three quarters of the companies' beating earnings forecasts. However, analysts are more focused on earnings guidance and clues on how tariffs might impact supply chains and global growth. But many global companies have pulled guidance due to the economic uncertainty of tariffs. On the plus side, stocks have become much cheaper on price/earnings valuation. Stocks were trading slightly below the 5-year average of 19.9 but higher than the 10-year average of 18.3 according to FactSet.

Since 1928, there have been 34 market S&P 500 corrections (drop of 10% to less than 20% from a recent market high) and 22 bear markets (drop of 20% or greater). The average decline was 13.8% and 36.6%, respectively and the average time to recover was 3.8 months and 11.3 months, respectively, according to Franklin Templeton. The COVID drawdown was over 33% and took only 180 days to recover. Missing the best days in the markets can significantly reduce long-term wealth and studies show it is best to stay the course, maintain your long-term strategy, and reap the benefits of dollar-cost averaging.

> Check out our special Market Volatility Update to learn more about the implications of current policies on the economy.

LEGAL UPDATE

Cybersecurity for Retirement Plan Fiduciaries

Employers maintain almost all employer-sponsored retirement plans using online electronic platforms. Because of higher account balances, sensitive personal information and infrequent participant logins, employer-sponsored plans make attractive targets for cyberattack. Retirement plan fiduciaries, accordingly, have a fiduciary duty when selecting and monitoring plan providers to ensure providers maintain strong cybersecurity practices. Cybersecurity is a fundamental aspect of good plan governance.

Department of Labor Guidance

On April 14, 2021, the U.S. Department of Labor issued three pieces of guidance regarding cybersecurity:

1. Tips for Hiring a Service Provider (directed toward employer fiduciaries)
2. Cybersecurity Program Best Practices (directed toward providers)
3. Online Security Tips (directed toward participants)

Selecting Service Providers

The Department of Labor offered the following ***six tips*** with respect to a fiduciary's duty to prudently select service providers with strong cybersecurity practices:

1. Ask about the service provider's information security standards, practices and policies, and audit results, and compare them to the industry standards adopted by other financial/health institutions. Look for service providers that follow a recognized standard for information security and use an outside (third-party) auditor to review and validate cybersecurity.
2. Ask the service provider how it validates its practices, and what levels of security standards it has met and implemented. Look for contract provisions that give you the right to review audit results demonstrating compliance with the standard.
3. Evaluate the service provider's track record in the industry, including public information regarding data security incidents, other litigation, and legal proceedings related to vendor's services.
4. Ask whether the service provider has experienced past security breaches, what happened, and how the service provider responded.
5. Find out if the service provider has any insurance policies that would cover losses caused by cybersecurity and identity theft breaches (including breaches caused by internal threats, such as misconduct by the service provider's own employees or contractors, and breaches caused by external threats, such as a third party hijacking a plan participant's account).
6. When you contract with a service provider, make sure that the contract requires ongoing compliance with cybersecurity and information security standards – and beware of contract provisions that limit the service provider's responsibility for IT security breaches. Also, try to include terms in the contract that would enhance cybersecurity protection for the plan and its participants, such as information security reporting.

Best Cybersecurity Practices for Plan Sponsors in 2025

USI Consulting Group (USICG) encourages plan sponsors to implement the following practices in 2025 with respect to ensuring stronger cybersecurity for retirement plans and participants:

- **Review service provider administrative agreements**, particularly with respect to provisions regarding cybersecurity responsibilities and liability
- **Ask service providers** about cybersecurity audits, encryption methods, multi-factor authentication, and plans for breach response
- **Conduct an internal cybersecurity audit** including data-handling practices and systems
- **Develop a participant education program** with a focus on online security, including strong passwords, frequent login and spam attacks
- **Acquire or review** cybersecurity liability insurance to cover fraud and incident response

Department of Labor Enforcement

USICG is aware that the Department of Labor, when auditing employers, is actively evaluating plan sponsors for compliance with its cybersecurity guidance. Agents are asking employers to produce the following information:

- Breach response plan, disaster recovery plan or documents governing IT systems
- List of systems critical to the security of participant data and assets
- Internal and external cybersecurity audit reports
- Cybersecurity insurance coverage
- Documentation that plan fiduciaries discussed and review provider cybersecurity issues
- Documentation of breaches or attacks

Cybersecurity Trends

Plans sponsors and fiduciaries should also be aware of other cybersecurity trends, including the following:

- Development of artificial intelligence tools to identify cybersecurity threats
- Use of fingerprint or facial recognition programs to verify participant identity
- Validating and confirming transactions on a blockchain network

USI Consulting Group Can Assist

USICG can help your organization implement strategies to build a robust cybersecurity posture and mitigate risks effectively.

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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