

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

MARKET UPDATE | Tailwinds and Headwinds Lie Ahead for the Markets in 2026

Following two spectacular years of back-to-back 20% plus gains for the S&P 500 in 2023 and 2024, the S&P fell just a bit shy of the 20% level in 2025, posting a still impressive 17.9%. The year started with positive returns in January, with the S&P 500 Index tacking on 1.5%, the Dow Industrials adding 1.8% and the tech-intensive NASDAQ up 1.0%. International stocks surged, with the MSCI EAFE Index gaining an impressive 5.2% while the MSCI Emerging Markets Index jumped 8.9%. Three straight years of fantastic returns has some investors wondering whether this phenomenal run could continue for a 4th straight year or whether markets will finally take a step back. Looking at 2026, the markets have tailwinds to possibly deliver a fourth year in a row of double digit gains due to strong earnings growth projections and expected continued interest rate easing by the Fed but roadblocks on market performance include historically high stock valuations, weaker manufacturing and declining consumer confidence.

Market Return Indexes	Jan 2026	2025	2024
Dow Jones Industrial Average	1.8%	14.9%	15.0%
S&P 500	1.5%	17.9%	25.0%
NASDAQ (price change)	1.0%	20.4%	28.6%
MSCI Eur. Australasia Far East (EAFE)	5.2%	31.2%	3.8%
MSCI Emerging Markets	8.9%	33.6%	7.5%
Bloomberg High Yield	0.5%	8.6%	8.2%
Bloomberg U.S. Aggregate Bond	0.1%	7.3%	1.3%
Yield Data (Month End)	Jan 2026	Dec 2025	Nov 2025
U.S. 10-Year Treasury Yield	4.26%	4.17%	4.02%

On the bright side, earnings growth, not multiple expansion, is increasingly driving market returns. JPMorgan has stated that the share of S&P 500 returns driven by earnings growth increased from just 27% in 2023 to 84% in 2025, and consensus EPS growth estimates are 15% for 2026, which indicates strong growth, but also lofty expectations for stocks to deliver.

Add in the expectation of further Fed easing (markets expect at least one, if not two, rate cuts in 2026 though the Fed held steady on January 28th), relatively healthy GDP growth in 2026 (for reference, GDP grew at 4.4% for Q3 2025 year-over-year) and an expected productivity boost from artificial intelligence (AI) adoption which could enhance U.S. stock earnings going forward (productivity gains can help businesses do more with less, leading to improved bottom line results), all evidence suggests that the argument supporting a fourth straight year of strong stock market returns certainly has merit.



Markets expect at least one, if not two, rate cuts in 2026.

On the flip side, however, valuations are still quite high, manufacturing activity is weak and consumer confidence is dismal. According to Goldman Sachs, the S&P 500 is trading at a forward price-to-earnings (P/E) ratio of 22x (on consensus forward 12-month EPS) which is on par with the peak multiple in 2021 and is nearing the record 24x multiple seen in 2000. Further, it's hard to ignore the concentration of market capitalization among just a handful of technology companies, with that concentration being the highest ever on record. For instance, the Magnificent 7 (Nvidia, Apple, Alphabet, Microsoft, Amazon, Meta Platforms and Tesla) make up over a third of the market cap of the S&P 500. While this concentration has worked well over the last few years, it undoubtedly adds a layer of risk looking forward.

As for manufacturing, activity fell to its lowest point of 2025 in December, in large part due to continued tariff uncertainty and weak demand, according to the Institute for Supply Management's latest Purchasing Managers' Index. Separately, employment contracted at a slower rate, with many panelists indicating that their companies are managing head counts instead of hiring.

Finally, consumer confidence, as measured by The Conference Board's Consumer Confidence Index, declined 9.7 points in January to a reading of 84.5, the lowest level since 2014 and far lower than the 91.1 reading economists had projected. Geopolitical tensions, tariffs, affordability and labor market weakness were mostly to blame for Americans feeling less than positive about not only current economic conditions but expectations for the U.S. economy's future.

With valuations at historically high levels, manufacturing struggling and consumer confidence plummeting, the argument that markets may take a step back this year also has merit.



Consumer confidence fell to its lowest level since 2014.

Whether the markets continue their run remains to be seen, with strong arguments on both sides of the equation. While the markets and economy continue to perform relatively well, trade war issues persist, as does weakness in the job market. Add in the fact that Federal Reserve Chairman Jerome Powell's term ends in May, with his replacement still unknown (though President Trump nominated Kevin Warsh on the last day of the month), and there are a lot of unknowns that the markets must deal with. As always, timing the markets is a losing proposition, thus staying the course with your long-term investment allocations remains the best course of action.

Preventing and Identifying Common Retirement Plan Mistakes

A new year gives retirement plan administrators a welcome chance to review retirement plan operations both to:

- **develop best practices and procedures** to avoid common mistakes, and
- **identify and to self-correct** any existing errors.

Administrators should strive to avoid the most common pitfalls in this complex and highly regulated area. Finding and fixing plan errors during self-audit often will result in a more favorable (and less expensive) result for the employer. Also, the regulating entities generally prefer employers to self-correct or to self-report plan issues. USI Consulting Group (USICG) consultants are experienced in helping employers to address retirement plan errors.

✓ "Compensation" Issues

Every retirement plan has a definition of "Compensation" used to set amounts of a participant's pay and benefits that may be eligible for determining elective deferrals, employer contributions or pension accruals. These definitions tend to be broadly inclusive, although many contain particular exclusions of types of pay or benefits. Retirement plan errors involving the definition of "Compensation" are among the most common plan mistakes.

Action Steps to Help Prevent "Compensation" Errors

- **Confirm plan definitions:** Work with your recordkeeper, payroll provider and consultants to confirm that deferrals, employer contributions and benefit accruals are being calculated based on the plan's actual definition of "Compensation."
- **Align payroll systems with plan terms:** Establish and maintain payroll practices and system coding to ensure that all forms of plan eligible "Compensation" are included properly and that excluded compensation types are identified correctly.
- **Review payroll practices regularly:** Periodically reassess payroll practices, as compensation structures often change over time with evolving benefit packages, incentive programs or reimbursement arrangements.
- **Evaluate special payments before processing:** When paying bonuses, severance, stipends or other special payments, assess whether and how such amounts should be treated for retirement plan purposes.
- **Identify and correct issues early:** Monitor for "Compensation" errors on an ongoing basis to prevent small issues from compounding over multiple plan years and increasing correction costs.

To the extent plan "Compensation" has been missed for purposes of elective deferrals or contributions, the correction typically requires the administrator to make an employer contribution to make up for some or all of the missed amount, plus an earnings adjustment. Excess deferrals or contributions can often be corrected by distributing or forfeiting the excess amounts, although in some cases the administrator may amend the plan to retroactively treat amounts as "Compensation" that were previously excluded. The best practice is to prevent these errors by remaining mindful of the plan consequences of payroll practices and by periodically reviewing such practices, while identifying any errors that do arise as early as possible.

✓ Elective Deferral Errors

401(k) plans often have issues involving missed elective deferrals, resulting from the improper exclusion of otherwise eligible participants, the failure to implement a participant's affirmative deferral election (either initial or subsequent change) or an error involving automatic enrollment (or escalation).

Action Steps for Payroll and Automatic Enrollment Compliance

- **Verify payroll accuracy:** Periodically confirm that payroll deductions align with participant deferral elections made through the recordkeeper's electronic platform.
- **Reconcile systems regularly:** Compare payroll records against recordkeeper data to identify and correct discrepancies promptly.
- **Coordinate across functions:** Ensure human resources, payroll and any third party providers are aligned on responsibilities and timelines.
- **Implement automatic enrollment carefully:** For plans with automatic enrollment features, confirm that enrollment provisions are implemented promptly and accurately for all eligible employees.
- **Monitor changes and updates:** Review procedures following system updates, vendor changes or staffing transitions to ensure automatic enrollment and deferral elections continue to operate correctly.

In many cases, identifying elective deferral issues early can save an employer considerably on corrective employer contributions. While correction procedures generally require an employer to make an affected employee entirely whole with respect to missed matching contributions, prompt

identification, correction and notification often can result in reduced or even no employer contributions to correct a participant's missed deferral opportunity.

✓ Employee Eligibility Problems

Every plan document should identify which employees are eligible to participate in the retirement program (and, often as importantly, which employees are **not** eligible to participate). It is not uncommon for an employer to have certain employees that "common sense" would suggest be excluded from a retirement plan. Strictly speaking, the formal terms of the governing plan document will determine eligibility.

Action Steps to Help Prevent Employee Eligibility Errors

- **Align documents:** Review the employee handbook and the governing plan document to confirm that eligibility descriptions are consistent and accurately reflect plan terms.
- **Review payroll classifications:** Examine payroll records to ensure that any operational exclusions (e.g., summer interns, part time coaches, PRN nurses, student workers, probationary employees) are expressly stated under the plan document.
- **Use Form W 2 as a checkpoint:** For any individual receiving a Form W 2, review the plan document to evaluate whether the employee is eligible to participate in the retirement plan.
- **Rely on plan terms, not assumptions:** Do not rely on industry practices or "common sense" exclusions; regulators will look to the written plan document to determine eligibility.
- **Assess eligibility when creating new roles:** When establishing new or "edge" positions, evaluate retirement plan eligibility at the outset and confirm that plan provisions properly address the role.
- **Monitor service based exclusions carefully:** Pay close attention to exclusions tied to hours or service, particularly in light of long term, part time employee eligibility requirements.

✓ Required Minimum Distributions

Federal tax law does not permit employees to accumulate retirement savings or benefits in employer plans on a permanent basis. The required minimum distribution rules require non-owner employees to commence distributions after termination of employment upon the attainment of the required beginning age (currently age 73, and, for employees born on or after January 1, 1960, age 75).

Action Steps to Address Required Minimum Distribution (RMD) Obligations

- **Maintain accurate participant records:** Keep current contact information and birthdates for vested terminated employees, including those with vested pension benefits or vested account balances.
- **Track required beginning ages:** Identify and flag terminated vested employees who are approaching the required beginning age for RMDs to ensure timely distributions.
- **Monitor compliance proactively:** Implement procedures to regularly review terminated participant populations for upcoming or missed RMDs.
- **Act promptly on missed distributions:** If an RMD is missed, distribute the required amount as soon as possible and include an appropriate earnings adjustment.
- **Mitigate tax and qualification risks:** Be aware that failures to issue RMDs can result in excise taxes for participants and plan qualification issues for the plan sponsor, and escalate more significant issues for professional review.

If you discover missed required minimum distributions, you often can correct the issue by making the required distribution plus an earnings adjustment. In many instances, the affected participant can obtain excise tax relief by claiming good cause (but should be directed to professional tax counsel for assistance). In more serious cases (e.g., many missed required minimum distributions or missed distributions to company owners or executives), the employer may consider a Voluntary Correction Program application with the Internal Revenue Service to address the matter.

✓ Internal Revenue Service Correction Programs

The Internal Revenue Service maintains the Employee Plans Compliance Resolution System ("EPCRS"), its extensive program under which employers voluntarily may correct retirement plan errors that arise in ongoing administration and documentation. The IRS has continued to take steps to make EPCRS more flexible and employer friendly, and the SECURE 2.0 Act also contained provisions enacted by Congress intended to facilitate the self-correction of many retirement plan errors and to make permanent relief designed to encourage automatic enrollment in 401(k) plans.

It continues to be the case that employers that take action to correct plan errors under EPCRS, either through the Self-Correction Program or under a Voluntary Correction Program application, can avoid the significant sanctions or penalties that would arise upon the IRS identifying a significant plan error during an audit.

USI Consulting Group Can Assist

Our team is happy to assist employers with all retirement plan correction matters, including best practices to avoid or to identify errors, to help your organization benefit employees and mitigate risk and negative financial effects.

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](#).

For previous market and legal commentaries please click [here](#).

This communication is published for general informational purposes and is not intended as advice or a recommendation specific to your plan. Neither USI nor its affiliates and/or employees/agents offer legal or tax advice.

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.

Market Update is a monthly publication circulated by USI Advisors, Inc. and is designed to highlight various market and economic information. It is not intended to interpret laws or regulations.

This report has been prepared solely for informational purposes, based upon information generally available to the public from sources believed to be reliable, but no representation or warranty is given with respect to its completeness. This report is not designed to be a comprehensive analysis of any topic discussed herein, and should not be relied upon as the only source of information. Additionally, this report is not intended to represent advice or a recommendation of any kind, as it does not consider the specific investment objectives, financial situation and/or particular needs of any individual client.

Investment Advice provided by USI Advisors, Inc. Under certain arrangements, securities offered to the Plan through USI Securities, Inc. Member FINRA/SIPC. 95 Glastonbury Blvd., Suite 102, Glastonbury, CT 06033. USI Consulting Group is an affiliate of both USI Advisors, Inc. and USI Securities, Inc.

©2026 USI Consulting Group. All rights reserved.