

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

MARKET UPDATE | The Markets Are Up, But So Are Prices

The U.S. economy showed continued growth in May but faced increasing pressure from elevated inflation, rising yields and continued weakness in consumer confidence. The S&P 500 and NASDAQ both posted strong gains in May, up 5.3% and 8.4% respectively, fueled in large part by continued enthusiasm around artificial intelligence. Within the international space, the MSCI EAFE index gained 3.1% while the MSCI Emerging Markets Index surged 9.7% for the month. Treasury yields climbed in May, as rising inflation expectations and fading hopes for Middle East de-escalation caused the bond market to reprice risk across the board. As such, 10-year Treasury yields rose to 4.45% at the end of May, up from 4.40% at the end of April.

ongoing conflict with Iran and the resulting closure of the Strait of Hormuz. This intensified the long-standing affordability concerns for Americans who were already dealing with rising prices over the last few years.



Inflation arguably remained the **biggest concern** in May for both consumers and the Federal Reserve.

Aside from the obvious rise in gas prices, electricity prices were up 2.1% in April, marking their fastest rise in 4 years, while food prices continued to climb as well. Compounding the affordability issue, shelter inflation, which is one of the heaviest weighted categories in Headline CPI, rose 0.6% for the month, boosted by a one-time catch-up adjustment related to last year's government shutdown. In October of 2025, the Bureau of Labor Statistics (BLS) was unable to fully collect CPI data, resulting in an assumption that rental inflation was 0% for that month. As such, inflation at the end of last year was understated, and as the BLS caught up with the data collection this April, shelter inflation surged higher to its actual levels.

To make matters worse, unlike in recent years where Americans' pay was rising faster than inflation, annual inflation-adjusted average hourly wage growth went negative for the first time since April 2023, as paychecks grew 3.6% from April 2025, on average; coming in lower than the inflation reading of 3.8%. And with wages lagging and expenses higher, the savings rate dropped to 2.6%, down from 5.5% a year prior and to its lowest level since June 2022.

Not surprisingly, and very understandably, consumers are worried. The Conference Board's Consumer Confidence index slipped for the first time in three months, with 66.5% of consumers cutting back on spending because of rising prices, 49.5% delaying expensive purchases and 46.6% delaying buying items they wanted rather than needed.

Market Return Indexes	May 2026	YTD 2026	2025
Dow Jones Industrial Average	2.9%	6.9%	14.9%
S&P 500	5.3%	11.3%	17.9%
NASDAQ (price change)	8.4%	16.1%	20.4%
MSCI Eur. Australasia Far East (EAFE)	3.1%	9.7%	31.2%
MSCI Emerging Markets	9.7%	25.6%	33.6%
Bloomberg High Yield	0.5%	1.7%	8.6%
Bloomberg U.S. Aggregate Bond	0.3%	0.4%	7.3%
Yield Data (Month End)	May 2026	April 2026	March 2026
U.S. 10-Year Treasury Yield	4.45%	4.40%	4.30%

Inflation arguably remained the biggest concern in May for both consumers and the Federal Reserve alike. The headline Consumer Price Index (CPI) and the Personal Consumption Expenditures (PCE) index both increased at an annual rate of 3.8% for April (Core CPI which strips out more volatile energy and food prices rose 2.8% whereas Core PCE rose 3.3%). The inflation figures were at the highest level in 3 years, as energy prices continued to climb due to the

Further, the University of Michigan's survey of consumer sentiment plunged to 44.8 in May, marking the lowest level on record dating back to 1978, when the university began publishing the index on a monthly basis. Sentiment was worse in May than at any point during the 2020-21 pandemic, worse than at any point during the financial crisis of 2008-09 and even worse than at any point during the 1980-82 timeframe, when the U.S. suffered two recessions, 11% inflation and 18% mortgage rates.

While the equity markets seemed to defy gravity in May, consumers are certainly feeling the pressure of higher prices and an uncertain outlook. And with the consumer being such an integral aspect of our economy, and ultimately one of the key drivers of growth, one has to wonder whether the picture being painted by the stock market is just a bit too rosy considering the far gloomier picture the consumer is seeing. Either way, timing the market has never been a winning proposition, but staying the course has always tended to be the best course of action.



Not surprisingly, and very understandably, **consumers are worried.**

As the softening job market fears were alleviated to some extent after a relatively solid employment data reading in April, with 115,000 jobs created and the unemployment rate remaining steady at 4.3%, the Federal Reserve could now turn their attention solely to the inflation issue that is again at the forefront. New Fed Chair Kevin Warsh, who was just recently sworn in on May 22nd, faces quite the challenge, as the rate cuts that were forecasted at the beginning of the year seem to be off the table and the possibility of rate hikes is now squarely back on the table. While this may be diametrically opposed to President Trump's view of where rates should be headed, this may be the only route an independent Federal Reserve can take if inflation remains high.

What Plan Sponsors and Administrators Need to Know

On May 20, 2026, the Internal Revenue Service (IRS) released [Notice 2026-33](#), providing the first formal implementation guidance for a new optional feature under the SECURE 2.0 Act. Although Section 204 of SECURE 2.0 has permitted retirement plan participants to take penalty-free distributions from eligible plans to pay premiums for certified long-term care (LTC) insurance for distributions made after December 29, 2025, this Notice represents the IRS's initial guidance on how plan sponsors and administrators may operationalize and administer these distributions.

The Notice clarifies key administrative, reporting and operational expectations for plan sponsors and administrators considering whether to adopt this feature.

✔ Optional Design Feature for Plans

Importantly, the ability to offer LTC premium distributions is entirely optional.

- Plan sponsors are not required to implement this provision.
- However, plans that choose to offer it must comply with the requirements outlined in Notice 2026-33.

This flexibility allows sponsors to evaluate whether the feature aligns with their plan design, participant demographics and administrative capabilities.

✔ Eligibility and Distributions

Notice 2026-33 confirms that qualified defined contribution plans—including 401(k), 403(b), governmental 457(b) plans and IRAs—may permit participants to take distributions to pay LTC premiums.

- Distributions are limited to the lesser of: the LTC premium amount; 10% of the present value of the participant's nonforfeitable accrued benefit; or \$2600 (as indexed for 2026).
- Payments must generally be made directly to the certified LTC insurance issuer.
- These distributions are exempt from the 10% early withdrawal penalty, providing a tax-efficient funding mechanism for long-term care coverage.

✔ Certification and Documentation Requirements

A central element of the guidance is the requirement to verify that the insurance contract qualifies as "certified" LTC coverage.

Plan administrators must:

- Obtain documentation from the insurer confirming certification status, including the required IRS issuer disclosure.
- Ensure this documentation is received before treating any distribution as a qualified LTC distribution.
- Absent proper certification, distributions may not qualify for favorable tax treatment, creating potential compliance risk.

✔ Tax Reporting Obligations

The Notice also provides direction on reporting these transactions.

Plan administrators must report LTC distributions on Form 1099-R, including:

- Identification of the distribution as related to certified LTC insurance
- The recipient (*participant or beneficiary*)
- The amount distributed

Accurate reporting will be critical to ensure proper tax treatment for participants and to avoid downstream IRS scrutiny.

✔ Participant Communications

Plan sponsors offering this feature should proactively update participant communications to explain:

- The availability of LTC premium distributions and applicable limits
- The requirement that policies and issuers be IRS-certified
- The need to provide supporting documentation prior to processing a request

Clear communication will help manage expectations and reduce administrative delays or errors.

✔ Recordkeeping and Administrative Controls

Notice 2026-33 emphasizes the importance of maintaining adequate records and internal processes.

Plan administrators should:

- Retain copies of insurer certifications and participant election forms
- Establish procedures for reviewing and approving LTC distribution requests
- Monitor ongoing issuer certification, including annual updates where applicable

Given the documentation-dependent nature of this feature, robust recordkeeping will be essential for audit readiness and fiduciary oversight.

✔ Practical Considerations and Next Steps

Plan sponsors evaluating this feature should take a coordinated, process-driven approach.

Key action steps include:

- Engage recordkeepers and TPAs to assess system capabilities and update distribution procedures.
- Coordinate with insurance providers to confirm certification processes and documentation standards.
- Train HR and benefits teams on eligibility, documentation and participant support.
- Update participant communications and forms to reflect the new option.
- Ensure Form 1099-R reporting is aligned with IRS guidance.
- Maintain comprehensive records to support compliance and audit requirements.

Bottom Line

IRS Notice 2026-33 provides a foundational framework for implementing SECURE 2.0's long-term care distribution provision. While the feature may offer meaningful flexibility for participants planning for future care needs, it introduces new administrative, documentation and reporting responsibilities for plan sponsors.

As with other optional SECURE 2.0 provisions, sponsors should carefully weigh the participant value against operational complexity and fiduciary risk before adopting this feature.

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 cannot 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.