Market & Legal Update

APRIL 2022 REVIEW

USI CONSULTING GROUP

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MARKET UPDATE

Stocks Sell Off Amid Credible Risks to the Economy

U.S. equities tumbled in April, as investors reacted to rising inflation, supply-chain constraints, Russia's war on Ukraine, pandemic lockdowns in China, and the Federal Reserve's aggressive plans to rapidly increase interest rates to fight inflation. Major U.S. indexes lost ground in April, with the S&P 500 declining 8.7% and the Dow Jones Industrial Average sliding 4.8% last month. Notably, the tech-heavy Nasdaq Composite fell 4.2% on the final trading day for April, finishing down 13.3% for the month, marking its worst month since October 2008. The tech-heavy benchmark has been on a rollercoaster ride, closing at least 2% in either direction for nearly half of April, according to Bloomberg data. In the bond market, the yield on the 10-year Treasury note edged up to 2.89% from 2.32% last month, slightly down from the recent high of 3%, as investors continue to brace for more aggressive monetary policy in the coming months.

Market Return Indexes	April 2022	YTD 2022
Dow Jones Industrial Average	-4.8%	-8.7%
S&P 500	-8.7%	-12.9%
NASDAQ (price change)	-13.3%	-21.2%
MSCI Eur. Australasia Far East(EAFE)	-6.5%	-12.0%
MSCI Emerging Markets	-5.6%	-12.2%
Bloomberg High Yield	-3.6%	-8.2%
Bloomberg U.S. Aggregate Bond	-3.8%	-9.5%
Yield Data	**April 2022**	**March 2022**
U.S. 10-Year Treasury Yield	2.89%	2.32%

In March, U.S. inflation posted its biggest 12-month increase since 1981. The Consumer Price Index (CPI), which measures what consumers pay for a fixed basket of goods and services, shot up 8.5% that month from a year earlier, driven by surging food and energy costs, supply disruptions, and strong consumer demand. Furthermore, the Russian invasion in Ukraine has added to growing inflation pressures on food and energy prices due to disruptions to global wheat and fertilizer production as well as oil and gasoline prices, with the overall energy prices surging 11% from the prior month. The core Personal-Consumption Expenditures (PCE) price index, which excludes volatile food and energy prices, the Fed's preferred measure, advanced 5.2% in March from a year ago, slightly below the 5.3% reading in February, but still well above the central bank's 2% inflation target. In an effort to tame the highest levels of inflation in 40 years, many Fed officials have signaled they could support back-to-back 0.50% interest rate hikes in May and June, gearing down to quarter-point rises in the second half of this year. The Fed also laid out a long-awaited, tentative plan to reduce its $9 trillion balance sheet by allowing about $95 billion to roll off per month, as an additional way to reduce liquidity and fight inflation.

In economic news, the U.S. economy shrank in the first three months of the year for the first time since the pandemic hit in 2020, as surging Omicron infections, lingering supply-chain constraints, high inflation, and disruptions amid Russia-Ukraine war weighed on growth. According to the first estimate by the Commerce Department, first-quarter U.S. GDP contracted at a 1.4% annual rate, well below market expectations of a 1.1% expansion and a sharp deceleration from a 6.9% annual growth rate in the last quarter. The detractors to growth stemmed from a widening of the trade deficit, as imports to the U.S. soared 17.7%, whereas exports dropped almost 6%. Furthermore, fading government stimulus spending and a decline in inventory investment in the first quarter, compared with a rapid inventory accumulation ahead of last year's holiday shopping season, weighed on this quarter's GDP growth. However, underneath the surface, key economic trends remained solid in the U.S. despite the GDP reading.

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Consumer spending, which accounts for nearly 70% of the U.S. economy, increased at a 2.7% annual rate for the quarter, whereas business spending rose 7.3%, both accelerated from the prior quarter. Heading into the second quarter, the economy should regain momentum, mainly driven by better net trading figures and robust consumer spending. Amid a tight labor market, compensation for American workers grew at a record pace in the first quarter, putting more money in their pockets. A combination of rising wages and accumulated savings are expected to fuel strong consumer spending throughout the rest of the year. Notably, American households increased spending on services like travel and dining, whereas spending on durable goods such as vehicles declined for a second consecutive month, suggesting a shift in consumer behavior as Covid-19 fears subside and the pandemic restrictions are lifted in the U.S.

With the first-quarter U.S. earnings season in full swing, Wall Street continued to digest earnings reports from leading companies. According to FactSet, with 55% of S&P 500 companies having reported results thus far, 80% of the companies have beaten earnings expectations and 72% have beaten revenue expectations. While recession expectations on Wall Street remain low, investors will try to balance the still-healthy economic backdrop, resilient demand, and solid earnings against the headwinds of lingering pandemic disruptions, high inflation, aggressive Fed tightening alongside geopolitical risks. As market volatility is likely to remain elevated for the rest of 2022, long-term investors can use the recent market volatility to diversify and rebalance their portfolios.

LEGAL UPDATE

SECURE 2.0 – More Retirement Reform Could Happen Soon

On March 29, 2022, the House of Representatives (the "House") passed, by an overwhelming margin, the Securing a Strong Retirement Act of 2022, often referred to as "SECURE 2.0." The reference to SECURE 2.0 acknowledges the intention to further reform retirement and expand upon the changes that were made by the Setting Every Community Up for Retirement Enhancement Act or SECURE Act, which was signed into law in December 2019.

Meanwhile, the Senate is working on its own bill, called the Retirement Security and Savings Act, first introduced in May 2021. What is likely to happen is that after the Senate passes its bill, a conference committee made up of members of the House and the Senate will reconcile the two bills. The committee will then present a single bill for final vote in the House, where it would be expected to pass, followed by the legislation's enactment after it's signed into law by President Biden. It is expected that the final legislation may be enacted by the end of 2022.

75 The House version raises the age to 75 in a series of steps, while the Senate's current bill would simply raise the age to 75 in 2033.

While commentators observe that many provisions in SECURE 2.0 will be revised in the final legislation, they agree that many provisions of both the House and the Senate bills are substantially similar and will likely survive the conference process. Here is a list of some of the similar provisions in both bills:

- **Raising the RMD Age:** The age for commencing Required Minimum Distributions or RMDs will likely be raised again. The House version raises the age to 75 in a series of steps, while the Senate's current bill would simply raise the age to 75 in 2033. The age was raised from 70 ½ to 72 under the SECURE Act.
- **Increasing Catch-up Contributions:** The annual catch-up contribution limit will likely be raised to $10,000. Again, the House version raises the limit in a series of steps, while the Senate's current bill simply raises the limit to $10,000 for anyone age 60 or older. Currently, the annual catch-up contribution limit is $6,500.
- **Matching Contributions on Student Loan Repayments:** Both the House and the Senate bills currently permit employers to make matching contributions on behalf of employees making student loan payments instead of contributing to their employer's 401(k) plan.
- **Expanding Eligibility for Part-time Workers:** Both the House and the Senate bills currently provide that part-time employees who work at least 500 hours for two consecutive years will be eligible for their employer's 401(k) plan. Under the SECURE Act the period was three consecutive years.
- **Creating a Retirement Lost & Found Database:** Both the House and the Senate bills currently provide for a national online database for employees to track their retirement savings accounts as they move from employer to employer.

Other provisions of interest in SECURE 2.0, which may or may not survive the reconciliation process, include the following:

- **The House bill would mandate automatic enrollment for new 401(k) and 403(b) plans beginning in 2024.** Employees could opt out of the automatic enrollment for which the initial rate would be at least 3% and no more than 10%. There would also be an automatic escalation feature of 1% annually to a maximum of 10%.
- **The House bill would provide that employers would incur no penalties if they correct any errors in their automatic enrollment** and escalation features within 9-1/2 months after the last day of the plan year in which the errors occurred.

What Happens Next

USI Consulting Group will be closely monitoring the legislative activity related to SECURE 2.0, by following both the Senate bill, and the reconciliation process as a final bill emerges for the full vote later this year. We anticipate that many of the provisions noted above will be modified during the legislative process. We will provide updates and promptly alert you as to the legislation's final provisions and any compliance requirements and deadlines it mandates.

If you have any questions regarding SECURE 2.0 or the Senate's developing bill, please contact your USI Consulting Group representative.

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How USI Consulting Group Can Help

The USI Consulting Group (USICG) team is happy to assist plan sponsors 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.

QUESTIONS?
Contact your USICG representative, visit our **Contact Us** page or reach out to us directly at **information@usicg.com.**

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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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