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"Stocks Extended Gains in July"

U.S. equities climbed for a fourth consecutive month despite a mixed showing for corporate earnings, a moderation in economic momentum, concerns about a recent spike in coronavirus infections, and a resurgence of trade tensions between the United States and China. The S&P 500 rose 5.6% in July, posting its biggest four-month percentage increase since December 1998. The tech-heavy Nasdaq composite advanced 6.8%, on the back of solid earnings registered by technology companies, outpacing the Dow Jones Industrial Average, which added a modest gain of 2.5% for the month. As more people rely on technology to work from home and shop online, big tech giants such as Apple, Facebook, and Amazon displayed a strong business resilience amid the sharpest economic contraction in the U.S. history.

The U.S. economy shrank at a record rate in the second quarter, as widespread lockdowns in March and April to contain the pandemic triggered a sharp decline in economic activity. The first estimate of U.S. gross domestic product, the broadest measure of the economy, contracted at a record-setting 32.9% annual pace last quarter, and although slightly below forecasts of a 34.1% drop, it is the largest quarterly economic downturn since records began in 1945. The second-quarter GDP contraction was more than three times as steep as the previous record of a 10% drop in 1958 and nearly four times the worst quarter during the Global Financial Crisis of 2007-2008. Personal consumption fell at a 34.6% annual rate last quarter and business spending on software, equipment, and research and development also declined at a 27% annual rate, as the coronavirus outbreak forced many businesses to close and people to stay at home. Additionally, exports, imports, inventory investments, and state and local government spending plummeted during the quarter, whereas federal government spending increased thanks to the enhanced unemployment benefits and fiscal stimulus checks. Economists expect economic growth will bounce back in the third quarter, showing a gradual path of recovery, although certain hotspots around country continue to face a summer surge in coronavirus infections. The recovery will depend heavily on the capacity of the U.S. to effectively control the pandemic and avoid more waves of infections.

Market Return Indexes	July 2020	YTD 2020
Dow Jones Industrial Average	2.5%	-6.1%
S&P 500	5.6%	2.4%
NASDAQ (price change)	6.8%	19.8%
MSCI Eur. Australasia Far East (EAFE)	2.3%	-9.3%
MSCI Emerging Markets	8.9%	-1.7%
Bloomberg Barclays High Yield	4.7%	0.7%
Bloomberg Barclays Aggregate Bond	1.5%	7.7%
Yield Data	**July 2020**	**June 2020**
U.S. 10-Year Treasury Yield	0.55%	0.66%

As states started to ease restrictions in May and June, economic activity experienced a short-lived rebound, which appeared to slow down in recent weeks due to a rise in virus infections across several states, making them scale back or pause the reopening of their economies. According to the University of Michigan, consumer sentiment, an economic indicator of the future level of consumer spending, fell to 72.5 in July, registering a decline of 25% from the same period in 2019. Consumer spending, which accounts for two-thirds of economic demand in the U.S., increased 5.6% in June, following a solid 8.5% jump in the previous month. The biggest gain in personal spending came from clothing, health care, food services, and accommodations compared to the prior month. Additionally, sales of previously owned homes also surged 20.7% in June, boosted by record-low interest rates and a low inventory of homes for sale, according to the National Association of Realtors.

Meanwhile, household income dropped by 1.1% in June, albeit 4% ahead of its February's reading, helped partially by the extra unemployment payments.

The slowdown in economic recovery and a high unemployment of 11.1% are putting heavy pressure on the U.S. government to implement an additional fiscal stimulus. The weekly $600 unemployment benefits boost implemented as part of the CARES Act expired at the end of July, as divided lawmakers were not able to agree on a deal to extend the coronavirus relief stimulus last week. A recent study conducted by the University of Chicago showed that 68% of unemployed workers have earned more in jobless aid than in their previous paychecks, discouraging some from returning to their jobs. Therefore, any new relief package ideally would strike a balance between providing sufficient support for unemployed or furloughed Americans relying on the coronavirus aid to pay their bills while still offering an incentive for them to return to work.

After moving quickly to cut interest rates near-zero and establishing an array of emergency-lending programs this spring, the Federal Reserve's Federal Open Market Committee held the federal funds rate unchanged during its two-day policy meeting at the end of the month. U.S. equities advanced on July 29th as the Fed officials recommitted to do whatever is necessary to bolster the economy, extending the emergency-lending programs by three months. These lending programs are designed to support market functioning and to reduce borrowing costs for household, business, and government borrowers. The Fed projected a gloomy economic outlook and more difficult recovery if the virus infection rates continue to accelerate nationwide, stressing the importance of slowing down the spread of the virus by more aggressive enforcement of social-distancing measures, improving testing capacity, and advancing contact-tracing programs.

The financial markets have been resilient with strong gains since late March. Market strength has been supported by global fiscal stimulus and the Fed's forward guidance that interest rates will remain at low levels for years. The second-quarter economic downturn was widely anticipated with more than two-thirds of global economies in lock-down mode for much of the period. Although it will likely take a while for economic activity to return to pre-pandemic levels, investors remain hopeful about a potential vaccine next year. Several domestic and international companies are in advanced stages of vaccine development. The stock market will likely have elevated volatility until the virus is eradicated.

LEGAL UPDATES

DOL Reinstates Pre-2016 Definition of Plan Fiduciary and Issues New Proposed Prohibited Transaction Exemption and Environmental, Social, and Governance ("ESG") Investment Guidelines.

Reinstatement of Pre-2016 Fiduciary Definition and Proposed Prohibited Transaction Exemption
On July 7, 2020 the U.S. Department of Labor ("DOL") reinstated the pre-2016 definition of who is a plan "fiduciary" under the Employee Retirement Income Security Act of 1974 ("ERISA").

In 2016, the DOL amended the definition of a fiduciary to include investment advisors who provide investment advice to a qualified plan or IRA for a fee or other compensation. However, the rule was subsequently vacated by the Fifth Circuit Court of Appeals in 2018. Prior to the issuance of the 2016 fiduciary rule, investment advisors could be considered plan fiduciaries only if they met each prong of a five-part test that was first established in 1975. The July 7th guidance reinstates the original five-part test, which is based on all of the relevant facts and circumstances.

Additionally, the DOL proposed a new class exemption which seeks to further align the DOL's fiduciary rule with the Securities and Exchange Commission (SEC) Regulation Best Interest ("Reg BI") rule by allowing financial institutions to give fiduciary investment advice to participants, plans and IRAs and to receive compensation for such advise subject to certain conditions and exclusions and applicable Reg BI requirements. Under the proposed exemption, a fiduciary investment advisor may give advice regarding the rollover assets from a Plan to an IRA, and may engage in other principal transactions, that would otherwise violate the prohibited transaction provisions. The class exemption would apply to registered investment advisors, broker-dealers, banks, insurance companies, and their employees, agents, and representatives that are investment advice fiduciaries.

The final rule which vacates the 2016 fiduciary rule is effective immediately, as of the date of publication on July 7, 2020. The public period to comment on the proposed class exemption closed on August 6, 2020. Additional information will be provided when and if the proposed rule is finalized.

Proposed ESG Investment Guidelines

On June 30, 2020, the DOL issued proposed rules clarifying the fiduciary standards applicable to Environmental, Social, and Governance ("ESG") considerations when selecting qualified plan investments and investment options.

Prior to the proposed rule ("Financial Factors in Selecting Plan Investments"), the DOL took the position that plan fiduciaries could not accept lower investment returns or higher risks in their investment selections in order to promote "non-pecuniary" or "collateral" considerations (i.e., ESG considerations), but that such considerations could be considered a "tie-breaker" with respect to two investments that are otherwise similar with respect to their risk and return characteristics.

However, the proposed rule goes even further and states that fiduciaries must select investments based *solely* on financial considerations. This means that plan fiduciaries may not invest in ESG vehicles that subordinate investment returns or increase investment risk for the purpose of non-pecuniary objectives that promote goals unrelated to financial interests. However, the proposed rule does allow ESG factors and other considerations to be taken into account if they present economic risks or opportunities that qualified investment professionals would otherwise treat as material economic considerations under generally accepted investment theories provided that plan fiduciaries can demonstrate that such factors are "economically indistinguishable" from other investment considerations and document the basis as to why the selected investment or investment option was chosen.

The DOL provided a short 30-day window for public comment, which closed on July 30, 2020. It is expected the final DOL rule will be published later this year, and additional information will be provided when and if the proposed rule is finalized.

Should you have any questions, please contact your USI Consulting Group representative.

For previous market commentaries please click here.

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.