MARKET & LEGAL UPDATE

MARCH 2020 REVIEW

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"COVID-19 Outbreak Shuts Down the Economy and Everyday Life"

The longest running-bull market and the longest economic expansion in U.S. history officially ended in March as the outbreak of COVID-19 intensified globally. It took equity markets 16 trading days to move from their peak on February 19th to bear market territory, one of the fastest declines historically. Stocks saw a sharp increase in volatility during March as investors feared the devastating impact of the virus, social distancing adversely impacting global economies, and the collapse of energy prices. Major U.S. stock indexes posted double-digit losses in March, with the Dow Jones Industrial Average dropping 13.6% for the month and posting a 23% decline for the quarter, its biggest quarterly loss since 2008. The S&P 500 finished down 12.4% for the month, suffering a 20% loss for the quarter, its worst quarterly showing since 1987. It is important to keep in mind that markets have experienced many painful declines historically and have come back. Until there is more clarity around the medical picture around the virus, the markets will likely continue to remain in a state of heightened volatility. However, over time, financial markets have demonstrated an ability to overcome bear markets and unsettling news.

On March 25th, the U.S. became the country with the most coronavirus cases. According to data compiled by Johns Hopkins University, the number of U.S. cases of COVID-19 grew exponentially from 98 confirmed infections at the beginning of March to over 189,000 cases (compared to over 858,000 reported cases worldwide) and 3,900 fatalities at the end of the month, despite strict measures to curtail the spread of the virus. The World Health Organization ("WHO") officially declared the virus a global pandemic on March 11th. To flatten the pandemic curve, many state and local authorities took similar steps that China underwent by ordering nonessential businesses to close and imposed social distancing policies, with 3 out of 4 Americans asked to stay home. Additionally, the initial 15-day period of social distancing urged by the federal government was later extended through April 30th, with government officials continuing to monitor data around the pandemic crisis.

Market Return Indexes	March 2020	YTD 2020
Dow Jones Industrial Average	-13.6%	-22.7%
S&P 500	-12.4%	-19.6%
NASDAQ (price change)	-10.1%	-14.2%
MSCI Eur. Australasia Far East (EAFE)	-13.4%	-22.8%
MSCI Emerging Markets	-15.4%	-23.6%
Bloomberg Barclays High Yield	-11.5%	-12.7%
Bloomberg Barclays Aggregate Bond	-0.6%	3.2%
Yield Data	**March 31 2020**	**Feb 29 2020**
U.S. 10-Year Treasury Yield	0.70%	1.13%

The economy remained relatively strong through early March, whereas the second half of the month saw a significant decline in spending on general retailing, restaurants, autos, travel, leisure, and entertainment. After a decade-long run of solid job growth and 50-year unemployment low, the U.S. labor market boom came to a sudden halt in response to the virus countermeasures. Millions of U.S. companies in hard-hit industries, such as retail and personal services, hotels, and restaurants, have announced layoffs or furloughs, struggling to survive in the current economic downturn. Initial unemployment claims surged to a record 3.28 million in the third week of March, exceeding the previous all-time high of 695,000 claims filed the week ending October 2nd, 1982.

In an attempt to stabilize financial conditions, the Federal Reserve responded aggressively by using its tool kit from the Great Recession as well as employing unprecedented new tools to keep credit flowing through the U.S. financial system. In addition to cutting interest rates to near zero outside the normal cycle of meetings for the first time since 2008, the Fed also launched a range of facilities intended to keep credit and lending markets running and bolster liquidity for struggling businesses. The monetary policy response included an injection of $1.5 trillion liquidity into repo markets as well as a pledge for unlimited asset purchases. Despite the unprecedented amount of monetary policy stimulus, volatility continued to dominate equity markets. As the Fed announced its plans to slash interest rates close to zero and re-launch a quantitative easing program, on March 16th the Dow Jones Industrial Average suffered its worst-ever loss on a point basis, falling nearly 3,000 points, following the release of new data on the coronavirus pandemic that pointed at an increased recessionary risk amid a lengthy shutdown of public life.

Subsequently, investors regained confidence and markets recovered some losses after the passage of a massive $2.2 trillion U.S. fiscal stimulus package, known as the Coronavirus Aid, Relief, and Economic Security Act or CARES Act, on March 27th. The package is aimed at helping small business and individuals to combat the effects of the pandemic. This economic relief is three times the size of the stimulus package enacted during the 2008-09 Financial Crisis. Although economic growth is expected to plummet during the second quarter, the CARES Act may prevent a further deterioration in economic conditions by providing relief to households by making direct payments to impacted Americans by expanding existing unemployment benefits and relaxing some of the rules on retirement plans. Additionally, the newly enacted legislation aims to ease financial concerns for industries impacted by the current economic slowdown caused by the coronavirus crisis, aid small businesses through a paycheck protection program, employee retention tax credits, and payroll deferments and set up a loan program and support for Federal Reserve credit facilities, among several other provisions. Following the fiscal policy response, the Dow posted its biggest weekly gain since 1938, climbing 12.8% for the week ending March 27th, whereas the S&P 500 gained 10.3% for its best week since 2009.

The markets experienced record swings in March as investors digested early signs of the economic turmoil caused by the spread COVID-19 as well as monetary and fiscal policy responses to the devastating impact of the pandemic. The average daily move was 5%, a record not experienced since the Great Depression. Volatility can trigger emotional responses that may cause investors to make irrational decisions leading to missed opportunities. With a high level of uncertainty around the spread and economic impact of the coronavirus pandemic, investors will be dealing with elevated volatility for some time. In periods of heightened volatility, long-term investors should avoid trying to time the market and ensure to take a disciplined approach of diversification and rebalancing, building a portfolio that can weather an economic downturn and thrive in a market rebound.

LEGAL UPDATES

I. SUMMARY OF RETIREMENT RELATED PROVISIONS UNDER THE CARES ACT

The CARES Act (Coronavirus Aid Relief and Economic Security Act) was enacted on Friday, March 27th. The CARES Act is a $2 trillion stimulus package intended to help the economy as it suffers from the coronavirus pandemic. The provisions of the CARES Act impact many sectors of the U.S. economy by providing relief to employers and businesses, providing relief to individuals by expanding unemployment benefits, and making direct payments to most Americans. In addition, the CARES Act includes several retirement plan provisions, which allow plan participants who are experiencing COVID-19 related consequences to access their defined contribution plans' funds through certain distributions and loans that are not ordinarily permitted. The CARES Act also offers two major changes to defined benefit plan funding rules applicable to single employer defined benefit plans. Below is a summary of the key retirement plan provisions under the CARES Act.

CARES Act Retirement Related Provisions for Defined Contribution Plans:

Coronavirus Related Distributions - The CARES Act permits "qualified individuals" to withdraw up to $100,000 from a defined contribution retirement plan or IRA for coronavirus related hardships between January 1, 2020 and December 31, 2020. Qualified individuals are those who experience one or more of the following circumstances:

1. Diagnosed with COVID-19;
2. Spouse or dependent is diagnosed with COVID-19; or
3. Adverse financial consequences as a result of COVID-19, due to quarantine, furlough, lay-off, reduction in work hours, inability to work due to lack of child care, closing or reduction of hours of a business owned or operated by the individual due to the coronavirus, or any other factors as determined by the Treasury Secretary.

For this purpose, employers may rely on an employee's certification that the employee satisfies these conditions in requesting the coronavirus related distribution.

The CARES Act waives the 10% early distribution penalty that normally applies to similar hardship distributions. The CARES Act further waives mandatory income tax withholding from such distributions. Participants have the option to repay these distributions back to the plan within three years of the distribution. Such repayments, if made, will be treated as a direct rollover contribution to an eligible retirement plan. The income tax on the distribution may be paid ratably over a period of three years.

Plan Loans - The CARES Act increases the plan loan limits to the lesser of $100,000 or 100% of the participant's vested account balance (from the existing limit of the lesser of $50,000 or 50% of the participant's vested account balance). Qualified individuals (as defined above) are entitled to receive these increased plan loans for 180 days from the date of the enactment. Loan repayments with respect to any outstanding loan made to a qualified individual that are required to be made between the date of enactment and December 31, 2020 (including with respect to loans taken prior to the date of enactment) may be delayed for a period of one year. After the delay, repayments shall be adjusted to reflect the delay of up to a year and any interest that accrued during the delay.

Temporary Waiver of Required Minimum Distributions - The CARES Act waives the required minimum distribution requirements applicable to defined contribution plans and IRAs for the calendar year 2020. The Act delays the required minimum distributions for a period of one year, with the delay applying to both 2019 distributions that were required to begin no later than April 1, 2020, and 2020 distributions. The CARES Act also provides a special rollover provision for any required minimum distributions received in 2020.

Implementation and Plan Amendments - Employers and plan sponsors may put these provisions in effect immediately and adopt plan document amendments for these provisions at a later date; in most cases the due date will be no later than December 31, 2022.

CARES Act Retirement Related Provisions for Defined Benefit Plans:

In an effort to ease the burden on employers who sponsor defined benefit plans, the CARES Act offers two major changes to defined benefit plan funding rules applicable to single employer plans. Employers sponsoring single employer pension plans will be able to defer until January 1, 2021 required minimum contributions that are due during 2020. This includes the ability to defer required quarterly contributions. It is important to note, however, that the delayed payment will include interest, increasing the total amount that is due and payable on January 1, 2021.

The CARES Act also provides employers with the option to apply the plan's 2019 adjusted funding target attainment percentage (AFTAP) to the 2020 plan year as well, which will determine whether the plan will be subject to certain benefit restrictions.

II. IRS ANNOUNCES DEADLINE EXTENSIONS FOR PLAN DOCUMENT RESTATEMENTS

On Friday, March 27th the IRS announced that due to the pandemic, it is extending the deadlines for employers to adopt restated 403(b) plans and pre-approved defined benefit plans as follows:

- The 403(b) plan deadline is extended to June 30, 2020 (from the original deadline of March 31, 2020)
- The pre-approved defined benefit plan deadline is extended to July 31, 2020 (from the original deadline of April 30, 2020)

Your USI Consulting Group representative is available to assist you with any questions you may have related to the CARES Act, as well as other retirement plan related issues that may have arisen in connection with the pandemic. As always, feel free to contact us with your questions and concerns.

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.