Market & Legal Update

DECEMBER 2024 REVIEW

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

MARKET UPDATE | Three Peat for 2025?

Despite lingering inflation and higher interest rates for much of 2024, the S&P 500 posted back-to-back years of 20% plus gains for the first time since the late 1990s. Could a third straight year be in the cards? An overall stronger than expected economy and corporate profit growth largely beating analyst expectations helped propel the markets higher. However, the markets cooled during December with the S&P 500 falling 2.4%, the Dow Industrials down over 5% and the Russell 2000 small cap index down over 8% as market fatigue, profit-taking, and rising long-term interest rates during the month contributed to the declines. To close out 2024, the markets are likely to be deprived of a "Santa" rally for the first time in 8 years.

Market Return Indexes	Dec 2024	YTD 2024	2023
Dow Jones Industrial Average	-5.1%	15.0%	16.2%
S&P 500	-2.4%	25.0%	26.3%
NASDAQ (price change)	0.5%	28.6%	43.4%
MSCI Eur. Australasia Far East (EAFE)	-2.3%	3.8%	18.2%
MSCI Emerging Markets	-0.1%	7.5%	9.8%
Bloomberg High Yield	-0.4%	8.2%	13.4%
Bloomberg U.S. Aggregate Bond	-1.6%	1.3%	5.5%
Yield Data	**Dec 2024**	**Nov 2024**	**Oct 2024**
U.S. 10-Year Treasury Yield	4.55%	4.18%	4.29%

A Santa rally is the tendency for the markets to increase during the holiday season with increased shopping and consumer spending. The Santa rally measures stock performance over the last five trading days of the year and the first two of the New Year. According to Mastercard Spending Pulse, from Nov 1 to Dec 24, U.S. retail sales increased by 3.8% compared to last year and online sales increased by 6.7%. Despite robust consumer spending, the markets fell during the last trading days of 2024. According to Carson Group, with data since 1950, the S&P 500 has a positive return 78.4% of the time and average return of 1.3% during the 7-day Santa period (which ranks first and third out of 254 possible trading days of the year). More interestingly, when a Santa rally occurs, the index is up 72.9% of the time the following year with an average gain of 10.4%, but when there is not, the index is up about 66.7% of the time and averages a 5% gain the next year. While the economy remains strong with lower levels of inflation and relatively low unemployment, can the markets continue to remain hot in 2025?

Aside from the late 1990s, the only other time in the last 70 years the S&P 500 had consecutive 20% plus returns was between 1954 (+31.5%) and 1955 (52.6%). During the late 1990s (from 1995 through 1999) the S&P 500 returned over 20% five years in a row: 37.6%, 23%, 33.4%, 28.6%, and 21%, respectively. There are some similarities between the late 1990 markets and today. First, the Fed aggressively raised rates in 1994 and more recently, between 2022 and 2023 (bonds and stocks fell in 1994 and 2022). In 1994, the Fed raised rates as a preemptive measure against the potential for rising inflation as unemployment was low. In 2022, the Fed raised rates to cool down hot inflation. The Fed cut rates between 1995 and 1999 (as inflation never surfaced) and the internet boom was just beginning (think Netscape 1994). The markets then experienced an unprecedented bull-run for five straight years until the tech bubble burst in March 2020. In 2024, the Fed cut rates three times by 1% and is expected to make two cuts in 2025. The artificial intelligence (AI) boom began November 30, 2022, with the launch of Chat GPT. The markets have been on a hot streak for the last 2 years. The internet substantially raised productivity, and AI is expected to do the same. The one difference between the late 1990s and today's market is stock valuations.

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While stocks today are trading at historically high price-earnings ratios (21.9x PE vs 18.5x 10-year average according to FactSet), they were substantially more overpriced ahead of the tech bubble. According to FactSet, for Q4 2024, S&P 500 earnings growth was 5.8% and 75% of the companies beat analyst projections. Wall Street analysts expect S&P 500 earnings growth of 15% in 2025 from a projected 9.5% in 2024 according to FactSet. Higher earnings growth and further productivity gains from AI could support the markets in 2025.

Additionally, the economy continues to expand with third quarter 2024 gross domestic product (GDP) at 3.1% (revised upwards from 2.8% reported previously). With the Fed targeting a 2% long-term inflation rate and Core PCE holding steady at 2.8% (October and November), the economy is growing in real terms. Unemployment is holding the line near the Fed's preferred 4% target (4.2% in November). If the Fed can continue cutting interest rates, it could lower borrowing costs and improve profitability.

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Looking ahead to 2025 and beyond, the Fed expects unemployment to remain near the 4% target for the next year and for Core CPI to remain sticky at about 2.6%. The Fed expects real GDP to grow more slowly in 2025 at about 2.1%. The markets now expect the Fed to make only 2 rate cuts in 2025 (back in September the markets had expected four), which contributed to the market declines later during December. Part of the pullback from more rate cuts could be that under the Trump 2.0 administration, expectations for tariffs and mass deportations of illegal immigrants could increase consumer prices and thus inflation. The markets are also anticipating Trump's administration to reduce regulation and cut taxes which could further boost corporate profits and economic growth. While the odds don't favor a three peat for the S&P 500, there can always be optimism for the markets to party like it's 1996 (second year of the 20% plus gains) as the market boom continued for 3 more years. The reference is to the Prince song "to party like it is 1999", but the tech bubble occurred in 2020, and a recession followed the following year. Market cycles are difficult to predict, and diversification matters over the long term. Happy New Year to our clients and audience!

Marking your calendar with important compliance deadlines is an excellent way to start 2025. Below is a summary of important 2025 (and upcoming) deadlines and action items for employer-sponsored retirement plans.

Retirement Plan Restatement and Amendment Requirements

Pre-approved Defined Benefit (DB) Plan Document Restatement Deadlines: Under Internal Revenue Service (IRS) Notice 2023-6, as part of the six-year remedial amendment cycle, sponsors of DB plans in an IRS-pre-approved format have until March 31, 2025 to adopt a newly approved plan document restatement.

Pre-approved 403(b) Plan Document Restatement Deadlines: Under IRS Notice 2024-38, as part of the second remedial amendment cycle, retirement plan sponsors of pre-approved 403(b) plan documents must adopt the new pre-approved restated plan on or before December 31, 2026.

Amendment Deadlines: Most retirement plan documents, under IRS Notice 2024-2, will have to be amended by December 31, 2026 (2028 for collectively bargained plans or 2029 for governmental plans) for the following legislation:

- The Setting Every Community Up for Retirement Enhancement Act (SECURE Act)
- The Bipartisan American Miners Act (Miners Act)
- The Coronavirus Aid, Relief, and Economic Security Act (CARES Act)
- The SECURE 2.0 Act of 2022 (SECURE 2.0 Act)

While amendments for such legislation are not required in 2025, employers that have implemented optional changes under the SECURE Act, Miners Act, CARES Act or SECURE 2.0 Act should continue to maintain written documentation of their processes and procedures regarding their implementation.

Required Amendments List for Individually Designed Plan Documents: In IRS Notice 2024-82 (the most recent required amendments list), the IRS did not identify any changes in requirements that would require an amendment to most individually designed qualified or 403(b) plans in 2025.

Tools and Resources for Employers

Employers face compliance deadlines in 2025 that arise in the normal course of plan administration. 2025 also brings new cost-of-living limitations that apply to retirement plans. Below is information about these deadlines and limitations.

2025 Retirement Plan Compliance Calendars: Access detailed guidance on the regular administrative compliance deadlines in our calendars for DB pension plans and defined contribution plans:

DB **Defined Benefit** pension plan requirements View here

DC **Defined Contribution** plan requirements View here

2025 Cost-of-Living Adjustments: The IRS annually publishes cost-of-living adjustments (COLA) applicable to retirement plans and other employer-related plans. Access the 2025 COLA:

COLA **Cost-of-Living Adjustments** (COLA) View here

Retirement Plan Impact and Recommended Action

In keeping with the Department of Labor's (DOL's) Missing Participants Best Practices for Pension Plans, USI Consulting Group (USICG) recommends that retirement plan sponsors maintain updated information regarding participants, beneficiaries and alternate payees and procedures concerning benefit distribution.

There are many benefits of maintaining updated participant information and distribution procedures, including the following:

- Improved plan administration
- Decreasing the risk of pension overpayments
- Avoiding beneficiary disputes over death benefits
- Maintaining contact with former employees to prevent abandoned benefits
- Addressing the DOL's concerns with missing participants
- Reducing the risk of expensive ERISA benefit claim litigation
- Facilitating domestic relations order determinations

Here is a list of steps an employer might take to obtain updated information and to have adequate procedures:

- Reach out periodically to both current and former employees to confirm or update their contact information
- Review beneficiary designations on file to identify any potential issues (e.g., minor beneficiaries, trusts, improper completion or consent failures)
- Furnish participants with regular opportunities to update beneficiary designations (e.g., provide prompts for participants and beneficiaries to confirm information upon login to online platforms)
- Understand and communicate any plan provisions regarding the effect of divorce on the designation of a spousal beneficiary
- Conduct periodic missing participant/beneficiary searches (e.g., use commercial locator services, public databases and proprietary internet search tools to locate individuals)
- Conduct periodic death audits to limit ongoing pension overpayments or improper survivor benefits
- Maintain qualified domestic relations order (QDRO) procedures
- Develop a Model QDRO for the retirement plan
- Learn new rules under the SECURE 2.0 Act regarding limitations on correcting pension plan overpayments
- Review benefit distribution election forms and special tax notices

USI Consulting Group Can Assist

Your retirement plan may have additional compliance requirements not listed here. USI Consulting Group can assist with your retirement plan compliance matters, address your concerns and answer any questions you may have.

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.

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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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