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Market Perspectives for Fiduciaries

Speaker introductions

Strider Elass

Senior Economist, First Trust

Jordan Stuart

Client Portfolio Manager, Federated Hermes

Chuck Rolph

Technical Director, Advanced Consulting Group, Nationwide Insurance

What to expect today

- Marco economic impact
- Commerce and industry viewpoints
- Best practices in stressful markets

Macro Impact

First Trust

KEEP CALM AND CARRY ON

STRIDER ELASS
SENIOR ECONOMIST
TWITTER: @STRIDERELASS

First Trust

Magnifying Glass

Source: https://wonderopolis.org/

“If you don’t read the newspaper you are uninformed, if you do read the newspaper you are misinformed.”

-Anonymous

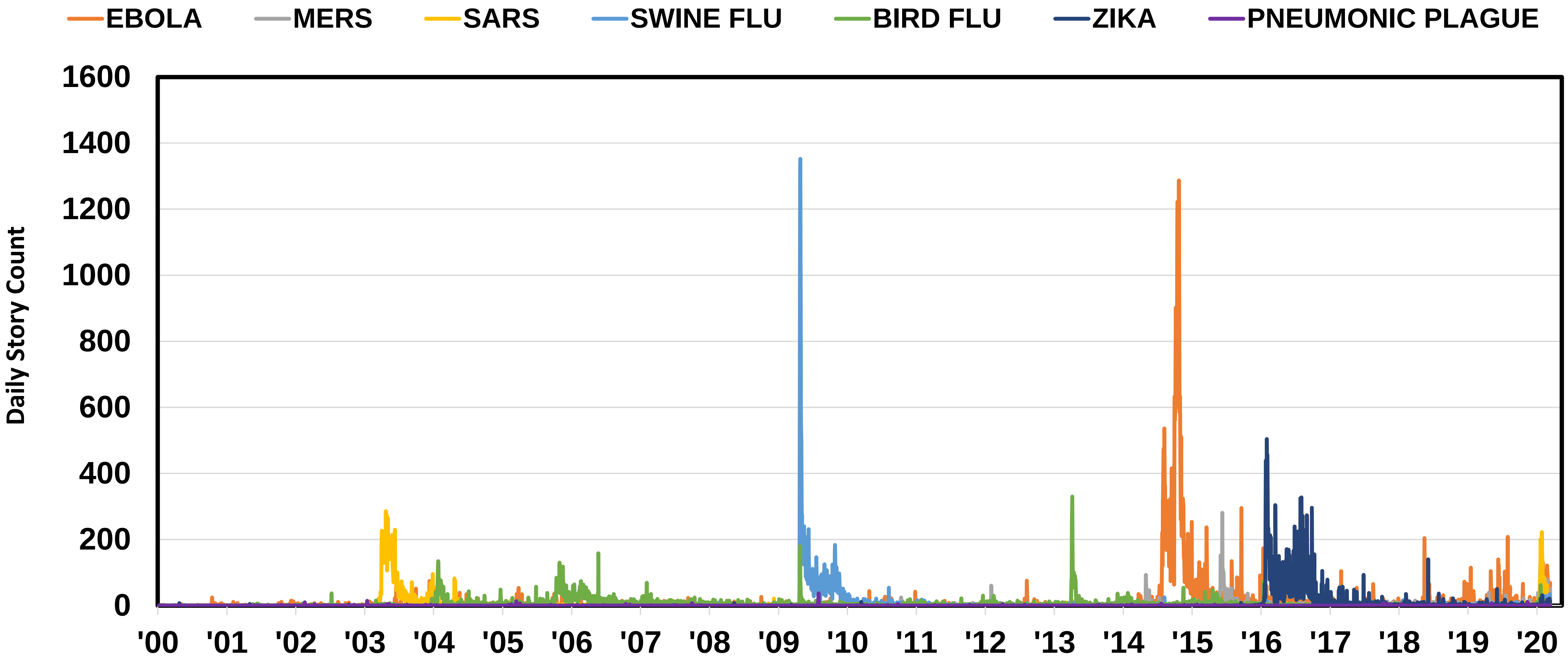
Coronavirus Cases

Americans are avoiding Corona beer because of the coronavirus outbreak, survey finds

The survey found that 38% of beer-drinking Americans said they won't consider buying Corona under any circumstances due to the deadly virus.

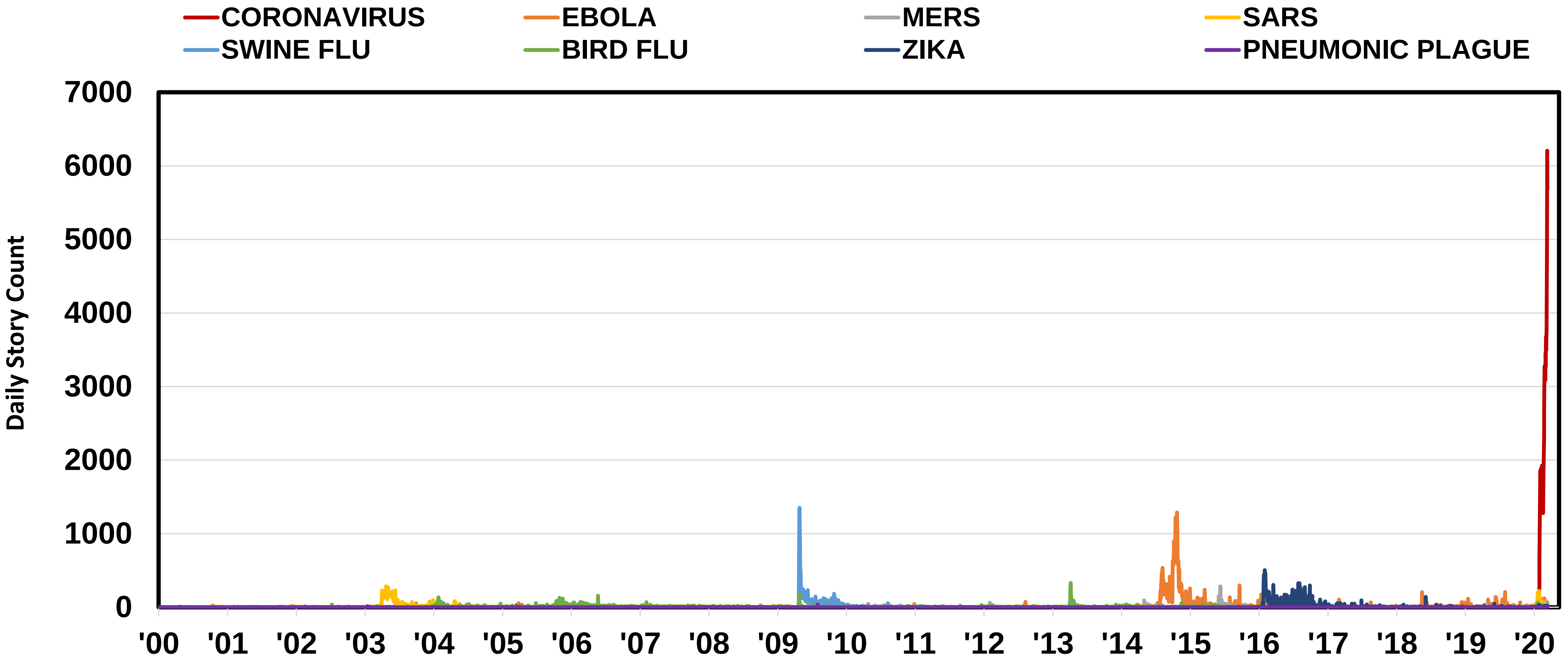
Source: 5W Public Relations Feb 27, 2020

Epidemic/Pandemic daily story counts



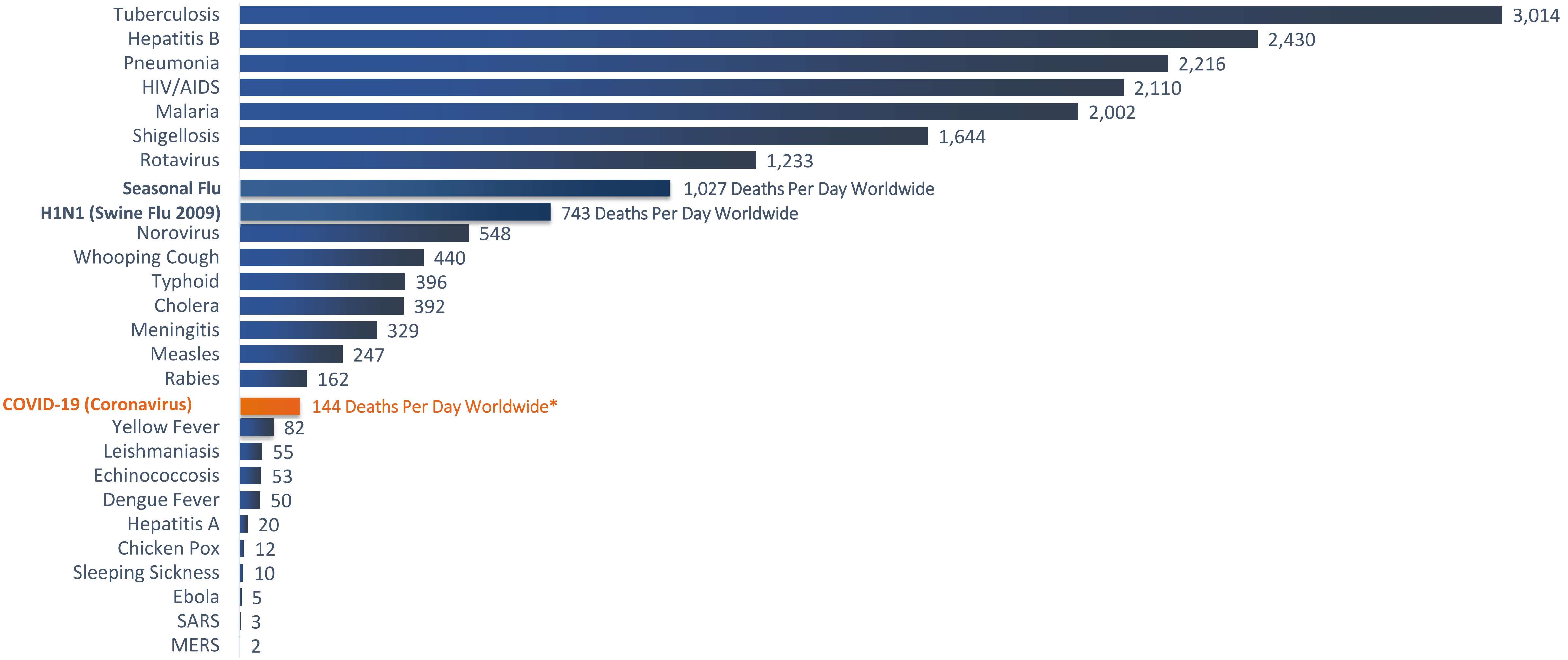
Source: Bloomberg, FT Advisors. Daily data 1/3/2000 – 3/13/2020.

Epidemic/Pandemic daily story counts



Source: Bloomberg, FT Advisors. Daily data 1/3/2000 – 3/13/2020.

Disease deaths per day worldwide



Sources: Centers for Disease Control, WHO, The Lancet, Information is Beautiful. As of 3/19/20. *Note: We are at the start of a pandemic so this number is likely to change daily.
Endemic to a population: average deaths per day over time. Pandemic/epidemic: average deaths per day over the period of that pandemic/epidemic.

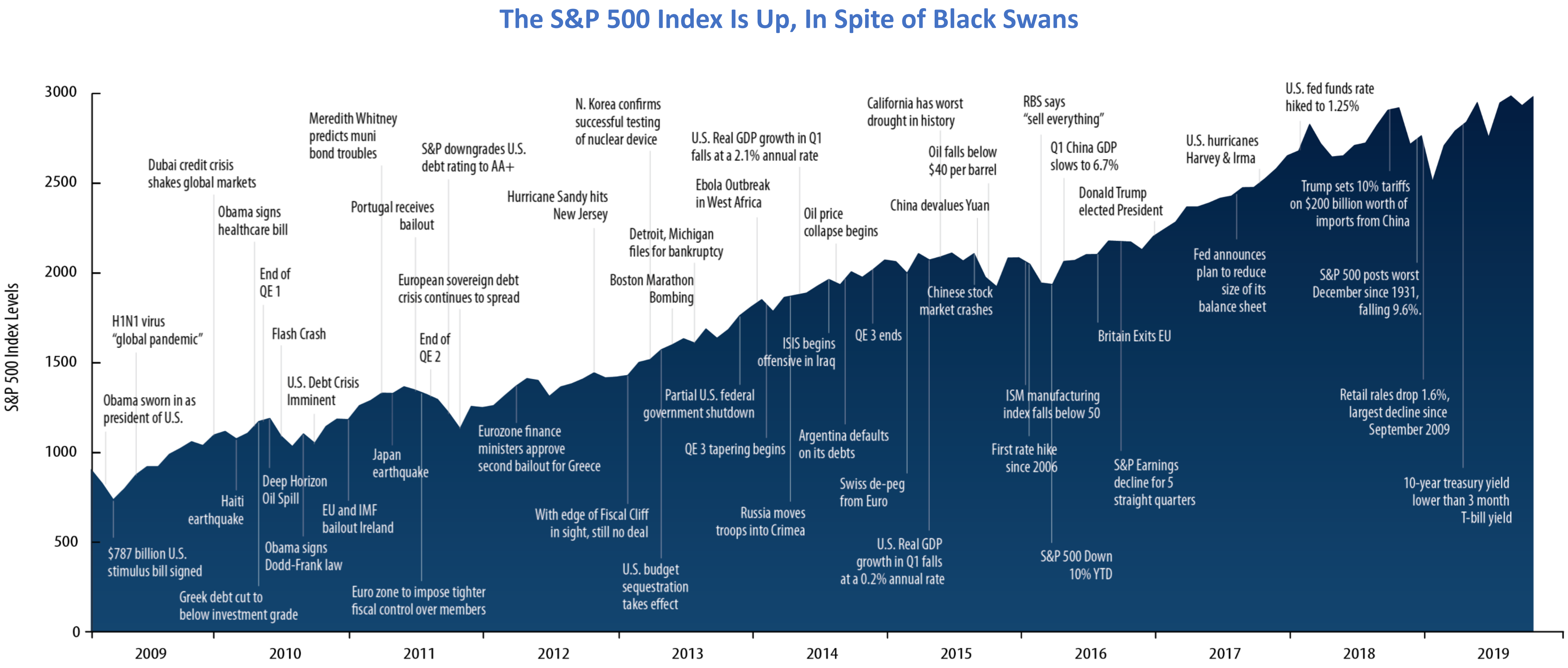
COVID-19 vs. The Influenza in the USA

COVID-19 vs. The Influenza in the USA			
	USA Influenza	USA COVID-19	World COVID-19
Number of Specimens Tested	1,130,489[1]	432,655[3]	2,226,258[4]
Number of Positive Specimens	231,654[1]	65,512[3]	494,180[5]
Positive as a Share of Specimens Tested	20.5%	15.1%	22.2%
Number of Deaths	23,000[2]	936[3]	22,266[5]
Fatality Rate as a % of Positive Specimens	10%	1.4%	4.5%
Number of People Infected	38,000,000[2]	?	?
Fatality Rate as % of Those Infected	0.06%	?	?

[1] Cumulative CDC data since September 29, 2019 through March 14, 2020.
[2] CDC estimates that so far this season there have been at least 38 million flu illnesses, 390,000 hospitalizations and 23,000 deaths from flu.
[3] Data from cvoidtracking.com. Total tested, total positive, total deaths in the US through March 26, 2020 11:42 am ET.
[4] Data from ourworldindata.org. Most recent estimates through March 20, 2020 6:00 pm GMT.
[5] Data from worldometers.info. Most recent estimates through March 26, 2020 3:44 GMT.

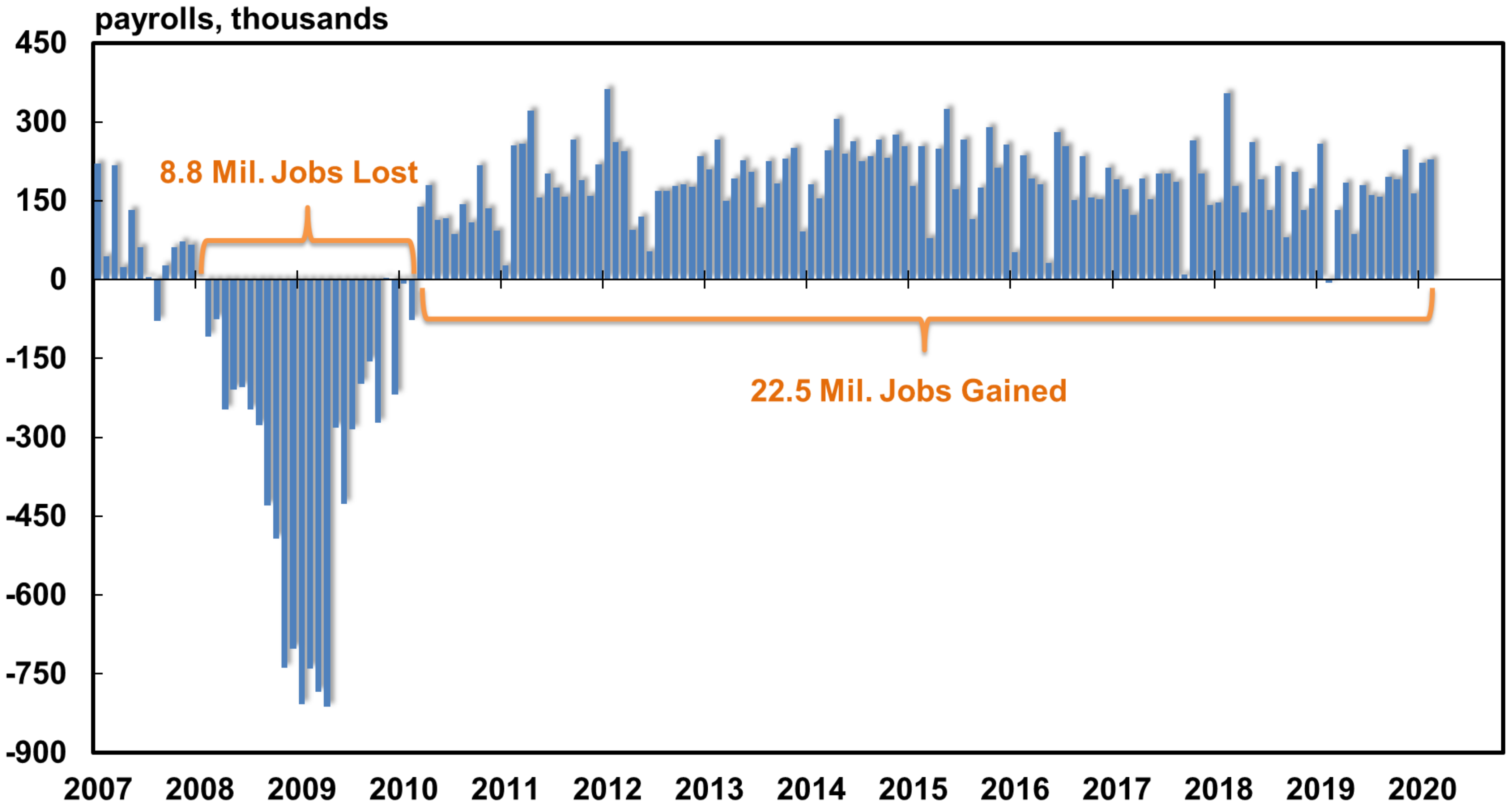
SpyGlass

S&P 500 Index: January 2009 – December 2019



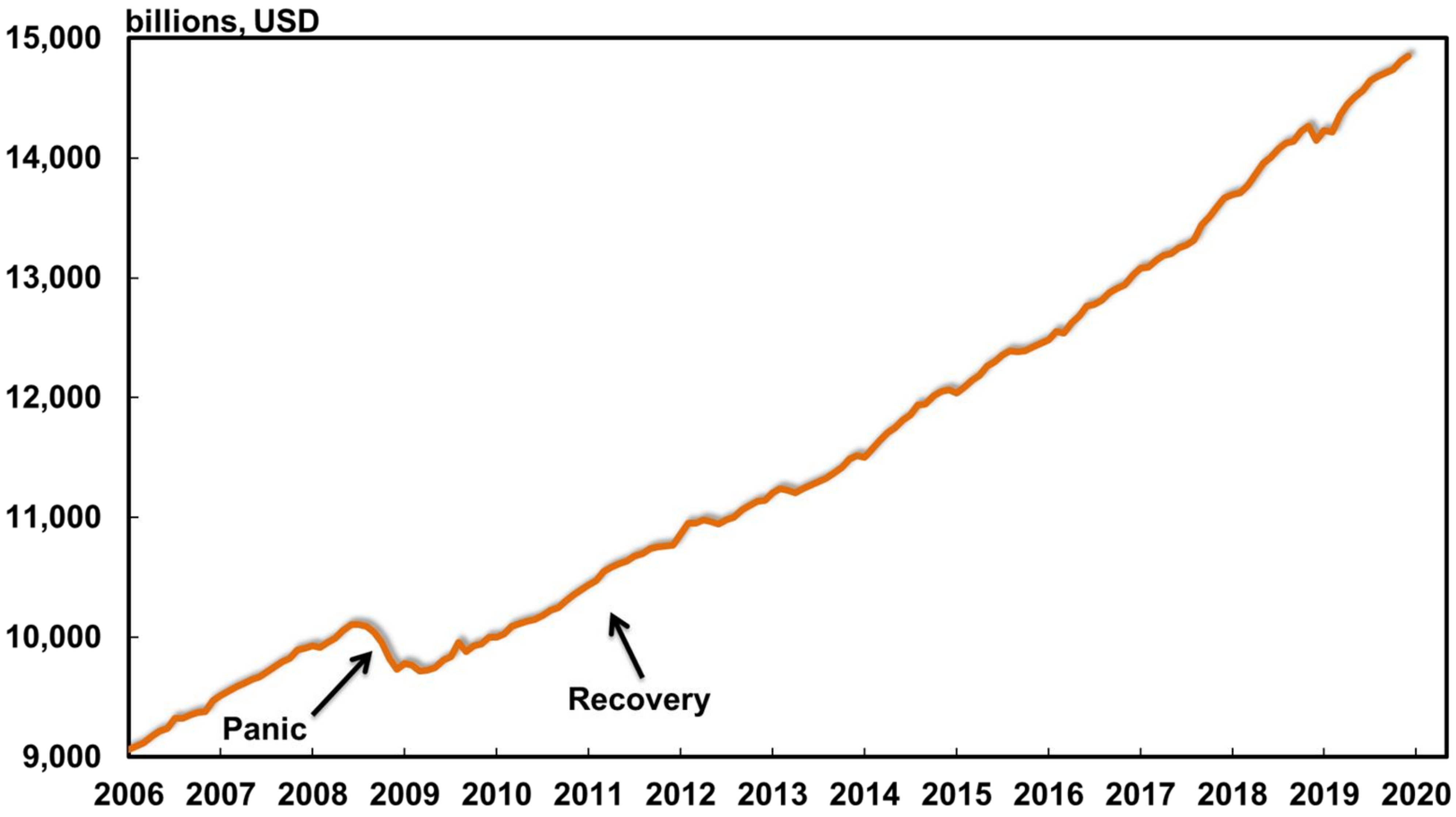
Source: First Trust Advisors L.P. Note: *This chart is for illustrative purposes only and not indicative of any actual investment. The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges. Stocks are not guaranteed and have been more volatile than the other asset classes. These returns were the result of certain market factors and events which may not be repeated in the future. Past performance is no guarantee of future results.*

Private Payrolls, Monthly Change



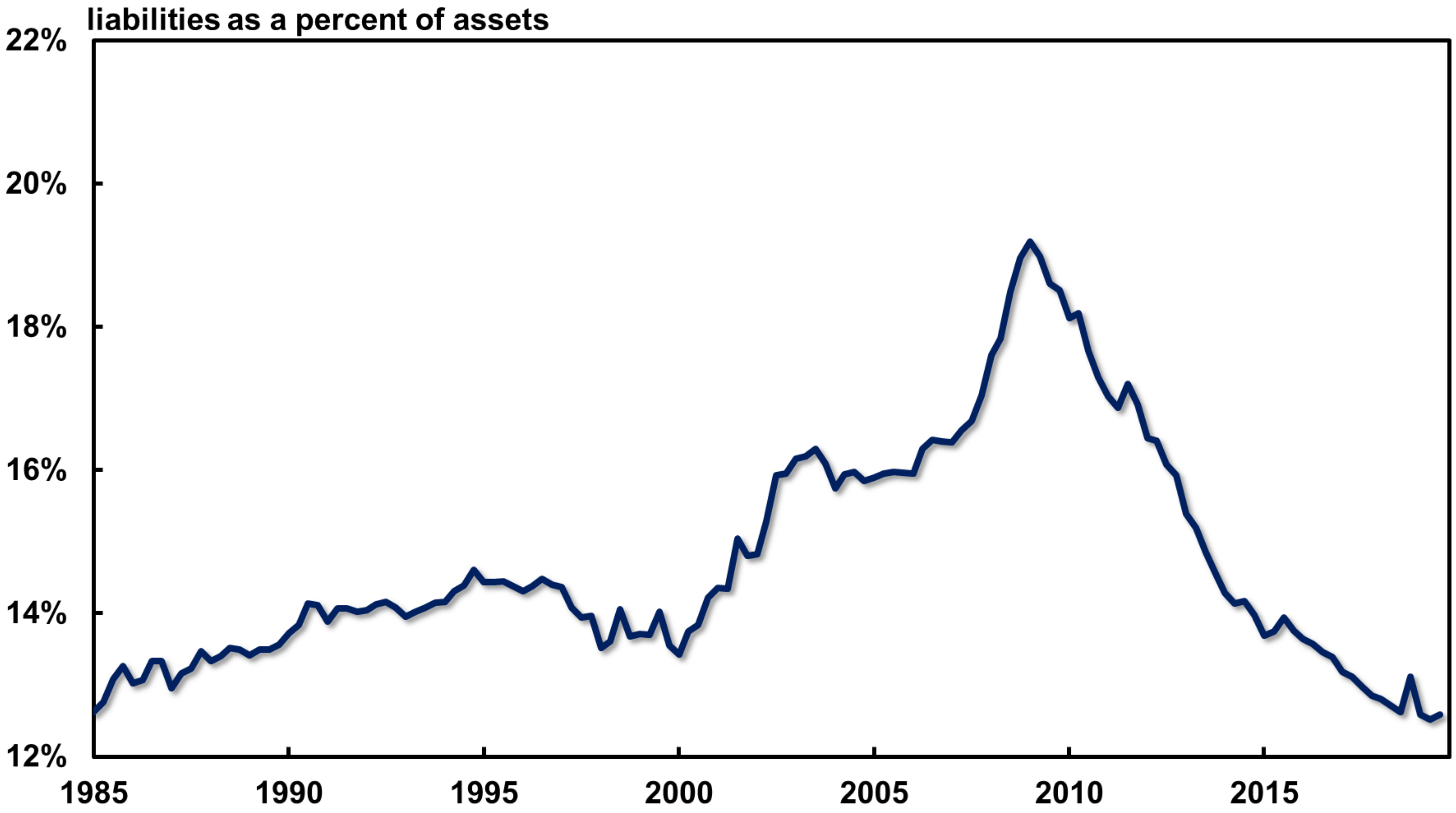
Source: Bureau of Labor Statistics. Data from January 2007 – February 2020

Personal Consumption



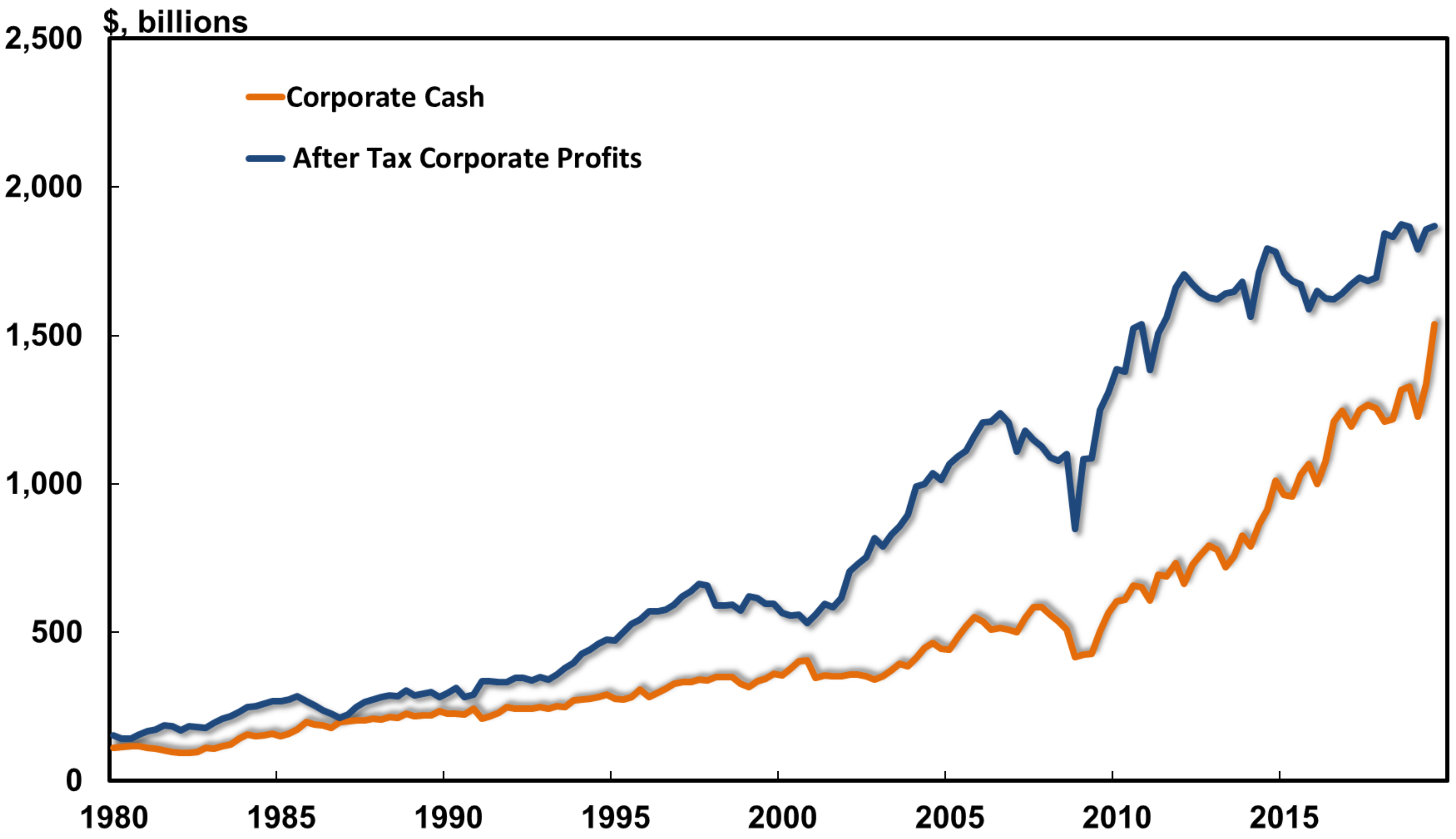
Source: Bureau of Economic Analysis Data Through December 2019

But Household Debt Low Versus Assets



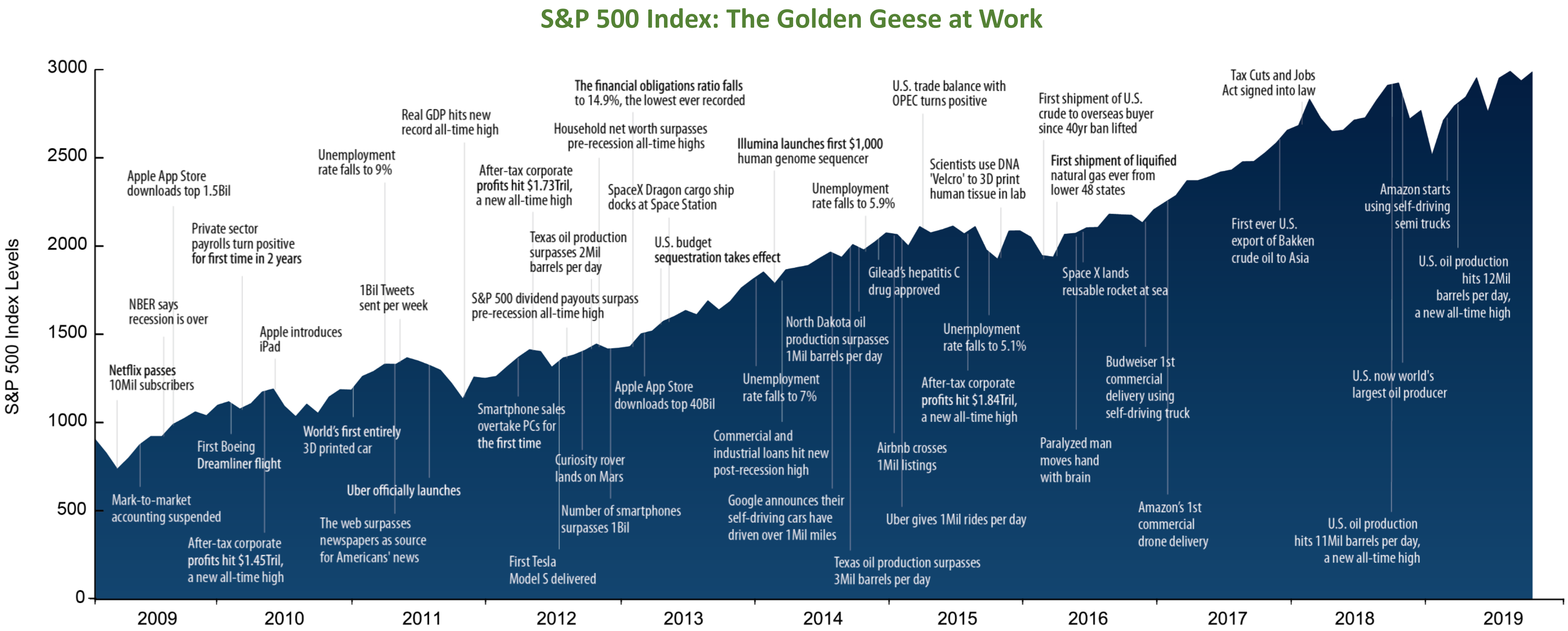
Source: Federal Reserve Board. Liabilities and Assets of Households & Non-Profits, quarterly data are shown for Q1 1985 – Q3 2019.

After Tax Corporate Profits & Cash



Source: Federal Reserve Board. Quarterly data shown from Q1 1980 – Q3 2019

S&P 500 Index: January 2009 – December 2019



Source: First Trust Advisors L.P. Note: *This chart is for illustrative purposes only and not indicative of any actual investment. The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges. Stocks are not guaranteed and have been more volatile than the other asset classes. These returns were the result of certain market factors and events which may not be repeated in the future. Past performance is no guarantee of future results.*

Monday Morning Outlook

First Trust
Monday Morning OUTLOOK

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Senior Economist
Andrew Opdyke, CFA – Economist
Bryce Gill – Economist

630-517-7756 • www.ftportfolios.com March 23, 2020

The Coronavirus Contraction

Due to fears about the Coronavirus – more specifically, the forceful government measures designed to halt its spread, the US is on the front edge of the sharpest decline in economic activity since the Great Depression.

The US economy was on track to grow at around a 3.0% annual rate in the first quarter before fears and response measures escalated. Don't just take our word for it, the GDP model used by the Federal Reserve Bank of Atlanta is still projecting real GDP growth at a 3.1% annual rate in the first quarter. That model generates a forecast based on the reported data available through March 18th, which reflects all the key economic reports for January as well as some of the key reports on activity for February.

But we all know the reports for March are going to be horrible. Initial unemployment claims recently increased 70,000 to 281,000. We're projecting an increase to 1,500,000 for last week. To put this in perspective, the peak for any week during the Great Recession of 2008-09 was 665,000. The record high was 695,000 in October 1982. In other words, it's getting ugly out there.

The hard data for March will show severe declines in business activity across many sectors: hotels, restaurants, airlines, autos, you name it. Small businesses are getting killed - murdered really - as government smothers them with restrictions stiffer than anything seen during the notorious Spanish Flu of 1918, the Asian Flu of 1957-58, or the Hong Kong Flu of 1968-69.

Our best guess – and, at this point, given the unprecedented nature of the situation, anyone who calls it anything other than a "guess" should be taken with a grain of salt – is that the US economy will contract at about a 35-40% annual rate in both March and April, stabilize in May, and then start growing again, gradually, in June. Translating this into quarterly changes, we're projecting a 1.5% annualized decline in Q1, a massive 20% annualized drop in Q2, but with the economy growing at a 3.0% annual rate in Q3 and a 3.5% rate in Q4 and beyond.

To put this in perspective, the fastest drop in real GDP in any quarter in the past 73 years (so, since 1947) was the first quarter of 1958, when the US was hit by the Asian flu and fell at a 10% annualized rate.

It's important to remember that certain parts of GDP will not feel a pinch, like the rental value of homes, health care, government purchases, or groceries. We're guessing business investment in intellectual property will hold up well, too.

We don't have to fully eradicate the Coronavirus to start growing again. The largest downward pressure on the economy is likely to be felt when the number of new cases is peaking. Once new cases have peaked, we're likely to see a combination of either an easing of government restrictions or, informally, fewer businesses and customers complying with those restrictions. Implicitly, we're projecting the growth in new cases will peak by mid-April, which is why we're forecasting that economic activity levels off in May and grows beyond.

In the meantime, economy-wide corporate profits are likely to temporarily plummet, dropping by 60-80% in the second quarter. Policymakers have a number of imperatives that need to be addressed ASAP, including preventing job losses, helping those who lose jobs and customers due to the government's restrictions, and expanding tests and quarantines for the ill so restrictions can be loosened on the rest of us. We are not typically big supporters of expansive unemployment benefits, but the situation is much different when the government is *forcing* businesses to shut down.

Time is of the essence. Free-market capitalism, the American way of economic life, is not consistent with mass government-imposed shutdowns of business activity. Those shutdowns, if they last too long, will erode future living standards and may end up killing more people than the Coronavirus itself. The faster we can end the shutdown, consistent with general health and welfare, the better. Therapeutics and, eventually, a vaccine are needed, and will help stem an economic downturn that could lead to a permanent (and ultimately harmful) expansion of the federal government.

The days ahead are going to be tough, no doubt about it. But in the end, the spirit of America will prevail. It always does.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
3-24 / 9:00 am	New Home Sales – Feb	0.750 Mil	**0.760 Mil**		0.764 Mil
3-25 / 7:30 am	Durable Goods – Feb	-1.0%	**+1.2%**		-0.2%
7:30 am	Durable Goods (Ex-Trans) – Feb	-0.4%	**-0.3%**		+0.8%
3-26 / 7:30 am	Initial Claims – Mar 21	1.500 Mil	**1.500 Mil**		0.280 Mil
7:30 am	Q4 GDP Final Report	2.1%	**2.1%**		2.1%
7:30 am	Q4 GDP Chain Price Index	1.3%	**1.3%**		1.3%
3-27 / 7:30 am	Personal Income – Feb	+0.4%	**+0.4%**		+0.6%
7:30 am	Personal Spending – Jan	+0.2%	**+0.2%**		+0.2%

Any Questions?

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Industry Viewpoints

Federated Hermes

Best Practices and Implications

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White paper

An employer's guide to establishing and operating a qualified retirement plan

Chuck Rolph, JD, MSFS, CFP®, CEBS, CPC, CPFA, TGPC, CLU®, ChFC®, RICP
Director, Advanced Consulting Group

Key highlights

- The decisions to establish a plan
- The roles of the employer
- The fiduciary positions
- The mechanics of establishing a plan
- Decisions relating to plan characteristics and participant demographics
- Decisions related to the trustee position
- Decisions related to plan administration
- Maintaining appropriate plan records

I. Introduction

The decision by an employer to establish and operate a qualified retirement plan (defined below) for its employees carries with it significant legal, administrative, and cost considerations. The purpose of this paper is to provide the employer with some basic information that will assist it in its decision-making process.

II. The decision to establish a plan

Tax incentives. Currently, there is no government mandate that an employer provide a retirement plan benefit for its workforce. Employers are incentivized through the Internal Revenue Code ("Code") to establish and maintain "qualified retirement plans." A "qualified retirement plan" or "plan" is one that meets the requirements of Code section 401(a), which provides certain tax incentives to the employer sponsoring the plan and the employees who participate in the plan. The first tax incentive associated with a qualified retirement plan is that of an up-front, above-the-line deduction (within limits) for the employer's contributions. Secondly, the amounts contributed to the plan's qualified trust, along with earnings, accumulate tax-free. The last major tax incentive associated with qualified retirement plans relates to the ability of participants and beneficiaries to structure distributions in ways that will minimize the tax impact thereof. When Congress added subsection (k) to Code section 401 in 1978, thereby creating a cash or deferred arrangement (commonly referred to as "401(k) plans"), employees were given the option of making pre-tax salary deferral contributions. As part of the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"), generally effective for tax years beginning after December 31, 2001, Congress authorized employees to make so-called Roth deferrals, which are after-tax contributions that accumulate tax-free and that are not taxed upon distribution if certain conditions are met.

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White paper

ERISA Section 404(c)

What you don't know could hurt you

Chuck Rolph, JD, MSFS, CFP®, AIF®, CEBS, CPC, CPFA, TGPC, CLU®, ChFC®, RICP
Director, Advanced Consulting Group

Introduction

There is a lot of talk about "404(c) plans" in today's defined contribution retirement plan world. The purpose of this white paper is to discuss in detail the structure of today's modern retirement plan (i.e., defined contribution with investments directed by the plan participants and their beneficiaries) and explain how, by following detailed rules set forth in Department of Labor ("DOL") regulations, plan fiduciaries may be able to transfer the liability for investment decisions made by participants and beneficiaries from the plan fiduciaries to the parties actually making the decisions.

Throughout the course of this white paper, the following terms have these meanings:

- "404(c) plan" is a retirement plan covered by ERISA (Employee Retirement Income Security Act of 1974) that meets the requirements of ERISA section 404(c), as interpreted by the 404c-1 regulations
- "404c-1 regulations" refer to 29 CFR § 2550.404c-1, et seq.
- "404a-5 regulations" refer to 29 CFR §2550.404a-5, et seq.

What is ERISA Section 404(c)?

ERISA section 404(c) applies to retirement plans and provides that, in the case of individual account plans which allow participants and beneficiaries (hereinafter collectively referred to as "participants") to direct the investment of the assets assigned to their accounts: (i) a participant is not deemed a fiduciary by reason of his or her exercise of control over the account; and (ii) no person who is otherwise a fiduciary will be liable under the ERISA fiduciary responsibility rules for any loss, or by reason of any breach, which results from the participant's exercise of control over his or her account.

The Department of Labor ("DOL") issued the 404c-1 regulations in 1992 implementing the ERISA section 404(c) requirements. As a result, today's typical defined contribution plan allows participants to direct the investment of the assets in their accounts and such plan usually attempts to comply with the 404c-1 regulations. It should be noted that, although ERISA does not require plans to comply with section 404(c), compliance with the regulations will help fiduciaries of individual account plans (such as 401(k) plans, profit sharing plans, and money purchase pension plans) to avoid liability for losses resulting from participants' exercise of control over their plan accounts.

Basic requirements of a 404(c) Plan

In order to be a plan that is afforded the protections of ERISA section 404(c) (i.e., a "404(c) plan"), the 404c-1 regulations provide that the plan must satisfy the following three basic requirements:

(1) it must be an individual account plan described in section 3(34) of ERISA. According to the preamble of the regulations, relief would

Questions

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Thank You
Be Safe
Be Kind