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Market & Legal Update

NOVEMBER 2024 REVIEW

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MARKET UPDATE | Election Month Leaves Markets at Record Highs

November was an eventful month for the economy and markets as investors digested the results of the US Presidential Election, another rate cut from the Federal Reserve, and an elevated inflation reading. Despite significant volatility throughout November, domestic equity markets had their best month of the year as the Dow Jones Industrial Average surged 7.7% and the S&P 500 rose 5.9%, both ending the month at new highs. Meanwhile, foreign stocks sank during the month as the MSCI EAFE Index lost 0.6% and the MSCI Emerging Market Index dropped 3.6%. Although bond yields initially rose following the election as markets began to forecast the potential impacts of the incoming administration, yields ended the month lower and as result the Bloomberg U.S. Aggregate gained 1.1%.

Market Return Indexes	Nov 2024	YTD 2024	2023
Dow Jones Industrial Average	7.7%	21.2%	16.2%
S&P 500	5.9%	28.1%	26.3%
NASDAQ (price change)	6.2%	28.0%	43.4%
MSCI Eur. Australasia Far East (EAFE)	-0.6%	6.2%	18.2%
MSCI Emerging Markets	-3.6%	7.7%	9.8%
Bloomberg High Yield	1.2%	8.7%	13.4%
Bloomberg U.S. Aggregate Bond	1.1%	2.9%	5.5%
Yield Data	**Nov 2024**	**Oct 2024**	**Sept 2024**
U.S. 10-Year Treasury Yield	4.18%	4.29%	3.81%

US stocks rose to record highs the day following the US Presidential Election, with the Dow Jones Industrial Average surging 3.6%, or 1,508.05 points, to a record close of 43,729.93. The last time the blue-chip index gained more than 1,000 points in a single day was in November 2022. The S&P 500 and Nasdaq also reached all-time highs following the election, gaining 2.5% and 3.0%, respectively. One of the main drivers behind the rally was the market's positive reaction to the swift election results. In the months leading up to the election, anxiety of potential delays and legal challenges surrounding the election weighed on the minds of investors. The quick and decisive declaration of a winner brought much welcome relief to any of these concerns. In addition to the clarity in results, markets also responded positively to President-elect Trump's proposed economic policies, which are generally viewed as favorable towards domestic business and taxes.

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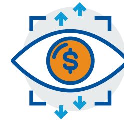
Two days after Election Day, Fed Chair Jerome Powell discussed the results of the Federal Open Market Committee's (FOMC) November meeting. Powell spoke to the "significant progress" that the US economy has made over the past two years towards the Fed's dual-mandate goals of achieving maximum employment and stable prices, which allowed them to enact an expected 25 basis point rate cut, reducing the target federal funds rate to 4.50-4.75%. While the Fed's rate-cutting roadmap seemed clearer prior the election, Trump's victory has brought uncertainty to markets on where long-term rates may settle, as some of his proposed policies are viewed to potentially put upward pressure on prices as well as increase federal debt. When asked about how the Fed is taking potential policies of the new administration into account, Fed Chair Powell noted that "the election will

have no effects on our policy decisions", as "we don't know what the timing and substance of any policy changes will be." Equity markets reacted favorably to the relatively dovish tone of the meeting, which allowed the election momentum to carry through the end of the week, resulting in the best week of 2024 for US equities.

Investors then received October's inflation report the week after the election. The Consumer Price Index (CPI) increased 0.2% for the month of October, the same increase as in each of the previous three months. The index for shelter rose 0.4 % in October, accounting for over half of the monthly all items increase. Meanwhile, the energy index was unchanged over the month, after declining 1.9% in September. On an annual basis, CPI rose 2.6% in October, accelerating from the 2.4% increase in September. Core CPI, which strips out volatile food and energy indexes, remained unchanged from September, rising 3.3% on an annual basis. The October data for the Fed's preferred measure of inflation, the Personal Consumption Expenditures (PCE) price index, then came at the end of the month, which revealed a 12-month increase of 2.3% compared to 2.1% in September, with Core PCE (excluding food and energy) accelerating 2.8% compared to 2.7% in September. Despite the elevated levels, both inflation measures were generally in line with consensus expectations. However, as inflation moves further from the Federal Reserve's 2% goal, this could continue to complicate the FOMC's monetary policy strategy going forward.



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As 2024 comes to a close, investors will face one more policy meeting from the Federal Reserve. Estimates currently expect another 25-basis point cut, but conviction of the Fed's move has declined as markets begin to question how the central bank will adjust to the stubborn inflation readings, as well as the impact of the incoming Trump administration. The Fed will have more employment data as well as both October and November's inflation prints to consider during their December meeting. The last few weeks of the year will also bring more clarity, as well as potential surprises, about what policies may take shape as the new administration takes over the White House in January.

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The concept of catch-up contributions seems like it should be simple. You get older, in this case older means you are at least age 50, and you get to put more money away in your 401(k) plan. The same concept applies to 403(b) and to governmental 457(b) plans. Generally, a participant has a savings limit provided for under Section 402(g) of the Code. For 2024 this limit is $23,000, but a participant who turns age 50 by the end of 2024 can put away an additional $7,500 in the form of a catch-up contribution. In some cases, highly compensated employees (HCEs) may have their savings further limited by plan design features or as the result of discrimination test results, but even if that happens the catch-up eligible HCE can still put in this additional $7,500 catch-up contribution on top of what the participant can otherwise save.

This is the way catch-up contributions have worked since 2002, but now for 2025 and 2026 changes to the Code brought about by the SECURE Act 2.0 of 2022 (SECURE 2.0) have added new wrinkles to catch-up contributions.

2025 Super Catch-Up Contributions

Beginning in 2025 SECURE 2.0 changes allow certain participants in 401(k), 403(b) and governmental 457(b) plans that provide this option to put in an additional catch-up contribution that is being referred to as the "super catch-up contribution". To be eligible the participant must be at least 60 and no older than 63 by the end of 2025. For 2025, a participant eligible for a super catch-up contribution will have a birth year of 1962, 1963, 1964 or 1965.

While the regular catch-up contribution limit for 2025 will be set at $7,500, participants eligible to make a super catch-up contribution can make an additional $3,750, pegging the super catch-up contribution limit for 2025 at $11,250.

2025 Catch-Up Contribution Limits	
Additional catch-up contribution for savers ages 50+	**$7,500**
Additional super catch-up contribution for savers ages 60-63	**$11,250**

Adding super catch-up contributions is an optional provision, so each plan sponsor will decide whether to implement it.

2026 Roth Catch-Up Contributions for High Wage Earners

Beginning in 2026, a plan participant who earns $145,000 in FICA wages from a plan sponsor in the prior year and who chooses to make a catch-up contribution will be required to make it in the form of a Roth contribution.

This provision of SECURE 2.0 was originally slated to become effective in 2024, but thankfully the IRS recognized the complexities and unanswered questions that the provision raised and granted a 2-year administrative delay to work some of these issues out. Some things about mandatory Roth catch-up for high wage earners that we need the IRS to provide definitive guidance around include the following:

- How do we handle a situation where a high earner has more than one employer (multiple W-2 forms) for a calendar year?
- How will payroll taxes be handled for contributions that initially go in as pre-tax contributions but are later reclassified as Roth contributions?
- How will self-employed and governmental employees who do not have FICA wages be impacted by this rule? (Note: the statute specifically refers to FICA wages)
- Does an employer have the authority to simply reclassify a high wage earner's pre-tax catch-up election as a Roth contribution if the employee exceeds some threshold? Or does the employer need to simply treat the pre-tax election that would create a catch-up contribution for this employee as void?
- Can a plan have a design that requires all catch-up contributions to be treated as Roth regardless of whether an employee has earned more than the FICA wage threshold? (Note: the IRS has informally indicated that participants who earn below the threshold amount must be given the opportunity to make catch-up contribution on a pre-tax basis)

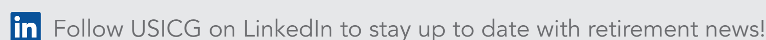
Employers, payroll service providers and plan recordkeepers who are hoping the IRS will grant further extensions of the requirement to comply with this provision should not get their hopes up. The IRS has informally stated that they don't have the authority to keep putting off compliance with this revenue raising provision of the Code. Barring action by Congress to delay or repeal this provision we should expect IRS to issue guidance in 2025 ahead of the requirement to comply with the law change in 2026.

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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