MARKET & LEGAL UPDATE
OCTOBER 2018 REVIEW

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"Fundamentals remain solid amid elevated volatility"

October was one of the worst months for the equity markets since the financial crisis, with global stock markets dipping into correction territory. Investor concerns about rising interest rates, a weak housing market, an overheating U.S economy, elevated equity valuations, a stronger dollar, Chinese economic deceleration, and uncertain trade policy all acted as headwinds. Despite these downside risks, U.S. economic fundamentals and corporate earnings continue to provide a strong support for the equity markets.

The equity markets experienced increased volatility last month, as expectations for slower economic and profit growth have started to crystallize and fears of more aggressive Federal Reserve rate hikes have taken hold. Although investors remained focused on the possibility of additional selloffs, economic fundamentals continue to look strong. The first estimate of U.S. economic growth was above trend at 3.5% in the third quarter, beating market expectations of 3.3%. Consumer spending, federal government spending, and strong inventory supported GDP growth last quarter, whereas a decline in residential fixed investment and net exports contributed negatively to the economic growth. Furthermore, the latest jobs report indicated that the labor market continues to be extremely tight, as the unemployment rate remained at 3.7%, its lowest level since December 1969. Non-farm, private employers added 250,000 new jobs during October, well above market expectations of 190,000.

With the third quarter earnings season underway and over half of the S&P 500 companies reporting results, earnings-per-share (EPS) are on track to grow over 20% year-over-year with stronger results for cyclical companies compared to defensive sectors. Corporate earnings have experienced double-digit growth for five consecutive quarters for the first time in seven years. Despite a stronger dollar, rising input costs, and concerns about trade issues, 80% of companies have beaten earnings expectations so far, benefitting from the tax reform, and above-trend economic growth.

Although economic and corporate fundamentals remain solid, the equity markets experienced choppy trading during the month of October. The three major domestic indices all finished the month with losses, though their year-to-date returns remain positive. The Dow Jones Industrial Average dropped around 5%, while the S&P 500 fell 6.8% for the month. The Nasdaq Composite Index also closed in negative territory, plunging 9.2% last month, which ended up being its worse October since 2008. International markets have also suffered during the month due to ongoing trade negotiations, tariff implementation, and a stronger U.S. dollar. Both developed and emerging equity markets were down for the month. The MSCI EAFE Index experienced a decline of 8% in October, bringing the year-to-date loss to 9.3%, whereas MSCI EAFE Emerging Markets plunged 8.7% during the month and has taken the biggest hit this year at a 15.7% loss.

	October 2018	YTD
DJIA	-4.98%	3.41%
S&P 500	-6.84%	3.01%
NASDAQ	-9.20%	5.83%
MSCI EAFE	-7.96%	-9.28%
MSCI Emerging Markets	-8.71 %	-15.72%
Bloomberg Barclays	-0.79%	-2.38%
Bloomberg Barclays U.S.	-1.60%	0.93%
	10/31/2018	9/28/2018
U.S. 10-Year Treasury	3.15%	3.05%

Stronger U.S. economic data and the Federal Reserve's rate hiking policy stance continued to put upward pressure on yields, as the 10-year Treasury yield reached 3.15% in October, soaring 69 bps from the beginning of the year. As a result, the Bloomberg Barclays US Aggregate Bond Index fell 0.8% in October and the Barclays U.S. High Yield Index was also down 1.6% for the month.

Market conditions have become more complicated in recent months, as investors continued to worry about numerous economic and political issues. With the midterm elections around the corner, we could expect market volatility to remain elevated. History suggests political surprises and changes of the balance of power

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could have short-term market implications but have demonstrated to be minor blips in the long-term advance of the stock market. In fact, equity market performance in midterm election years has been strongest in the fourth quarter. The S&P 500 has generated positive fourth-quarter returns in all but four of the past 27 years. In the twelve months following a midterm election, domestic equities have never experienced a price decline since 1950. The past has generally proved the value of developing and sticking to a long-term investment plan, regardless of who is controlling Congress.

LEGAL UPDATE | Important Year-End Compliance Deadlines and Annual Participant Notices

Year-End Compliance - As we approach the end of 2018, plan sponsors need to consider whether action is necessary to ensure compliance with certain statutory and regulatory requirements. Here are some key compliance deadlines that may have to be addressed by December 31, 2018:

1. **Adopt Discretionary Plan Amendments** – December 31, 2018 is the deadline applicable to calendar year plans for the formal adoption of any discretionary changes that became effective during the 2018 plan year.
2. **Make 2018 Required Minimum Distributions (Age 70 ½)** – December 31, 2018 is the deadline to make the annual minimum required distributions to participants who have begun to receive such distributions.
3. **Make Corrective Distributions for Excess 2017 Contributions** – December 31, 2018 is the deadline applicable to calendar year plans for distributing corrective distributions for failed ADP/ACP tests with a 10% excise tax.
4. **Allocate Forfeiture Accounts** – Review the plan document for forfeiture allocation requirements; allocate forfeitures by the last day of the plan year.
5. **Review 2019 Plan Limits** – Prepare for the changes announced by the IRS for cost-of-living adjustments to limitations on retirement benefits and contributions.

Annual Participant Notices (*for defined contribution plans*) - Below is a list of notices that plan sponsors may have to distribute by **November 30th** (deadline applicable to calendar year plans).

1. **Automatic Enrollment Notice (ACA) (EACA) (QACA)** – Deadline for plans with automatic enrollment features: 30 to 90 days prior to the start of each plan year.
2. **Qualified Default Investment Alternative Notice (QDIA)** – Deadline for plans that have a QDIA: 30 to 90 days prior to the start of each plan year.
3. **Safe Harbor Notice** – Deadline for Safe Harbor Plans: 30 to 90 days prior to the start of each plan year.
4. **Participant Fee Disclosure (ERISA Section 404a-5)** – Department of Labor rules permits this Notice to be distributed with the annual notices listed above.

If you have any questions or need assistance regarding these year-end compliance deadlines and notice requirements, 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.

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