MARKET & LEGAL UPDATE
SEPTEMBER 2018 REVIEW

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"U.S. Economic Expansion Continues to Roll Along"

Despite healthy economic conditions, the focus at the end of the third quarter was on trade war, Federal Reserve action, the rising U.S. dollar and emerging market turmoil. As a result, markets delivered mixed results in September. Historically, September has been the worst month of the year for stocks. What also adds to the uncertainty this fall is the U.S. mid-term elections.

The U.S. economic landscape remained relatively positive in September. Conference Board's consumer confidence soared to its highest level in 18 years. Manufacturing conditions remained strong and jobless claims fell further, with payrolls having expanded for 95 consecutive months. While the housing market has lost its momentum, it continues to make a positive contribution to the economy. Overall, economic data continued to be strong and the Federal Reserve increased its forecast of GDP growth for 2018 to 3.1%, up from its previous forecast of 2.8% .

In the latest round of the trade war, the U.S. imposed tariffs on $200 billion of Chinese exports in retaliation to $60 billion of Chinese tariffs on U.S. exports. The tariffs have had a limited impact so far, however, additional rounds of retaliation could escalate tensions. In general, the market has set aside trade concerns, but the technology sector took a hit early in September and ended the month in negative territory. As a result, the tech-heavy NASDAQ Index lost ground during the month posting a return of -0.8% but both the Dow and S&P 500 Indexes were positive. All domestic equity indexes remain positive year-to-date.

Even though global growth is strong, international markets have not performed well this year due to trade policy concerns and a strengthening U.S. dollar. Both developed and emerging equity markets have posted losses for the year. While the MSCI EAFE Index rebounded 0.9% in September after a weak showing in August, the index is still down -1.4% through the end of the third quarter. The MSCI Emerging Markets Index lost 0.5% for the month and has experienced the biggest loss so far this year at -7.7%.

	September 2018	YTD
DJIA	1.97%	8.83%
S&P 500	0.57%	10.56%
NASDAQ	-0.78%	16.56%
MSCI EAFE	0.87%	-1.43%
MSCI Emerging Markets	-0.53%	-7.68%
Barclays Aggregate	-0.64%	-1.60%
Barclays Corp High Yield	0.56%	2.57%
	9/28/2018	8/31/2018
US 10-Year Treasury	3.05%	2.86%

The bond market continues to be dominated by monetary policy. The Federal Reserve voted to increase rates again in September for the third time this year, a decision that was widely expected. They also signaled that there would be an additional hike in December, three potential hikes in 2019, and possibly one more in 2020. The Fed removed the word "accommodative" for the first time in their comments since the financial crisis and is forecasting three more years of economic growth. With the current lending rate at 2.5%, these additional hikes may bring the rate to 3.5%, which is roughly half a percentage point higher than their estimated "neutral" rate. As we get closer to this neutral rate, investors will likely become more nervous since the Fed may be taking a risk of overtightening during a time when the economy reaches its peak. Given the recent Fed decision, yields moved higher and the 10-year Treasury yield crossed the 3% threshold. As a result, the Barclays Aggregate bond index lost 0.6% in September while the Barclays U.S. High Yield Index was up 0.6%.

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With a few weeks left until midterm elections, we could see the markets produce muted returns, as changes in the balance of power might have implications on fiscal policy going forward. Several global disputes may also come to a head this fall. The White House may unleash another round of tariffs on its international trading partners, while the Iran oil sanctions, U.K.'s pending exit and the European crisis are other events that markets will be watching closely.

LEGAL UPDATE | IRS Ruling Permits Employer Contributions in a 401(k) Plan Based on Student Loan Repayments

The IRS recently released a Private Letter Ruling (PLR) concluding that a 401(k) plan could make employer nonelective contributions on behalf of employees conditioned on whether they are making student loan repayments. Since a PLR is only applicable to the employer who requested the ruling and cannot be cited as precedent by other employers, this type of arrangement is not immediately available to all plans. However, the PLR may be a sign that student loan repayment provisions may be rolled out to more plans in the near future. This would be a welcome development, as many employers recognize that student loan debt negatively impacts their employees' ability to save for retirement.

We anticipate that the IRS will issue more guidance on these types of arrangements before student loan provisions become available to all defined contribution plans. Guidance is necessary to address how these types of arrangements will affect other retirement provisions, such as eligibility, vesting, annual coverage and nondiscrimination rules. Additionally, plan amendments will be necessary, and operationally, record-keepers will have to make procedural changes to accommodate these types of arrangements. We will continue to monitor this topic and keep you posted as more information becomes available regarding student loan repayment provisions.

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.

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 timeframe, 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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