MARKET & LEGAL UPDATE
MAY 2018 REVIEW

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"Movin' on Up"

Equity markets experienced both ups and downs in the month of May. Domestic markets continued their resilient comeback with a positive month, despite a rough end of the month due to renewed trade war fears that sprung up as a result of new tariffs being placed on some of our largest trade partners by the current administration. However, international markets were not nearly as resilient, losing ground amidst political turmoil in Spain and Italy.

Domestic equity markets enjoyed a rather solid May despite a 200+ point loss on the final trading day of the month. At the end of May, the Trump administration announced new tariffs on steel and aluminum on some of our biggest trading partners including Mexico, Canada, and the European Union. Those entities had previously been exempt from the 25% tariffs on steel imports and 10% tariffs on aluminum imports. The European Union immediately responded that it would impose countermeasures in response to the U.S. actions and markets quickly tumbled. However, markets rebounded quickly in the first few trading days of June following a strong employment report that showed solid job growth and an expansion-low 3.8% unemployment rate.

International markets took a big step back in May amidst political uncertainty and turmoil in Italy and Spain. Spain's Prime Minister, Mariano Rajoy, was ousted following a no confidence vote in the wake of a corruption scandal. This led to the appointment of a new, socialist PM, Pedro Sanchez, who will likely rule for two years as no new elections have been announced. In Italy, Five Star Movement and Northern League formed a coalition government after the Italian President Sergio Mattarella vetoed the populist parties' nomination for Finance Minister given his anti-Eurozone views. Not surprisingly, the MSCI EAFE Index posted a loss of 2.3% in May, while emerging markets, as measured by the MSCI EM Index, fell 3.5%.

	May 2018	YTD
DJIA	1.41%	-0.24%
S&P 500	2.41%	2.02%
NASDAQ	5.32%	7.80%
MSCI EAFE	-2.25%	-1.55%
MSCI Emerging Markets	-3.54%	-2.61%
Barclays Aggregate	0.71%	-1.50%
Barclays Corp High Yield	-0.03%	-0.24%
	5/31/2018	4/30/2018
US 10-Year Treasury	2.83%	2.95%

Fixed income markets rebounded slightly during the month as the vast majority of rates retreated. While the 1-month, 3-month, and 6-month Treasury rates increased minimally, the 1-year up to the 30-year rates all fell for the month, sending bond prices higher. For instance, the yield on 10-year U.S. Treasury fell from 2.95% to 2.83%, while the 30-year fell from 3.11% to 3.00%. As a result of the falling rates, the Bloomberg Barclays US Aggregate Index gained a solid 0.7% in May, though year-to-date the index is still down 1.5%. High yield, as measured by the Bloomberg Barclays US High Yield Index, was essentially flat for the month and is down 0.2% for the year thus far.

Overall, May was a relatively solid month. Domestic markets continued to be resilient in the face of uncertainty and economic releases continued to be relatively positive. While international markets remain unsettled after two significant political issues in Italy and Spain, the jolt from those geopolitical events will likely subside in June and markets may hopefully begin to focus again on company fundamentals as opposed to political unrest.

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LEGAL UPDATE | Defined Contribution Plan Changes

The Bipartisan Budget Act of 2018 changed the rules on safe harbor hardship distributions. These new rules are effective for plan years beginning after December 31, 2018. In particular, the new rules:

- Eliminate the requirement that participants suspend their elective deferral contributions for a six-month period after taking a hardship withdrawal.
- Eliminate the requirement that participants must exhaust any available loans prior to taking a hardship distribution.
- Allow hardship withdrawals from previously restricted contribution sources. Qualified nonelective contributions (QNECs), qualified matching contributions (QMACs) and profit-sharing contributions, including earnings on contributions will be available for hardship distribution. (this provision applies to 401(k) plans, but not 403(b) plans).

Although the IRS has not yet issued any guidance regarding these new rules, we anticipate the IRS will issue information to address whether any transitional rules will be available, whether these changes are optional, and what type of plan amendments will be required. Additionally, it appears a technical corrections bill may be required in order to have all changes apply to 403(b) plans. For calendar year plans, we expect that plan amendments will be required by December 31, 2019, and we will provide updates as more information becomes available. In the meantime, if you would like to discuss these changes, 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.

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.

The S&P Case Shiller Index is a group of indexes that tracks home prices in the U.S.. It seeks to measures the value of residential real estate in 20 major U.S. cities.

Michigan Consumer Sentiment Index is a survey of consumer confidence conducted by the University of Michigan. The Michigan Consumer Sentiment Index (MCSI) uses telephone surveys to gather information on consumer expectations regarding the overall economy.

Conference Board's Consumer Confidence Index an index by the Conference Board that measures how optimistic or pessimistic consumers are with respect to the economy in the near future.