MARKET & LEGAL UPDATE

FEBRUARY 2019 REVIEW

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"U.S. equities off to best start in 30 years"

The Dow is off to its best start of the year since 1987 and the S&P 500 since 1991, which followed the worst December for U.S. equities since the Great Depression. All three major U.S. stock indexes continued to post strong gains in February, helped by a number of bullish events, including healthy U.S. economic data, strong earnings reports, optimism on the trade impasse, and the Fed's dovish monetary stance.

U.S. GDP grew at 2.6% in the fourth quarter, beating market expectations of 2.2%, although decelerating from the 3.4% pace in the previous period. Personal consumption expenditures (PCE), nonresidential fixed investment, exports, private inventory investment, and federal government spending supported the economic growth last quarter, whereas a weaker residential fixed investment, and state and local government spending contributed negatively to the GDP growth. Furthermore, a solid January jobs report provided additional support to the stock market rally. The labor market posted a much stronger-than-expected gain of 304,000 nonfarm jobs, well above the Bloomberg consensus of 165,000. Wage growth rose a muted 0.1% month-over-month in January versus a solid 0.4% gain in December, bringing the year-over-year gain to 3.2%. A strong job market should bolster consumer spending and consequently economic growth in 2019.

Meanwhile, the fourth-quarter corporate earnings results have proven mostly supportive for the U.S equities. With the earnings season drawing to a close, the year-over-year S&P 500 earnings growth rate has slowed to 13.1% (from over 20% the prior three quarters) with stronger results for energy, communication services, and consumer discretionary sectors. Despite a stronger dollar, rising input costs, and slowing global growth, 69% of companies have beaten earnings expectations, while 61% have reported actual revenues above estimates so far, according to FactSet. Although corporate earnings have experienced double-digit growth for five consecutive quarters, looking ahead, earnings growth estimates for 2019 have begun to decline with expectations of low single-digit growth in earnings for the upcoming quarter.

Positive economic fundamentals and corporate earnings continue to provide a strong support for the stock market recovery so far this year. For the month of February, the Dow Jones Industrial Average, the broader S&P 500 Index, and the tech-heavy Nasdaq Composite advanced 4%, 3.2%, and 3.4%, respectively. Both developed and emerging equity markets also surged during the month, buoyed by U.S.-China trade optimism, including postponing the March 1st deadline to increase tariffs on $200 billion of Chinese imports to 25% from 10%. The MSCI EAFE Index gained 2.6%, despite weak economic growth data in Europe and Japan. Lastly, after struggling in 2018, the MSCI Emerging Markets Index reported a 0.2% gain in February and has outperformed U.S. equity markets since the beginning of the fourth quarter of last year.

	February 28, 2019	Last 3 Months	YTD 2019
Dow Jones Industrial Average	4.0%	2.0%	11.6%
S&P 500	3.2%	1.4%	11.5%
NASDAQ (price change)	3.4%	2.8%	13.5%
MSCI Europe Asia Far East (EAFE)	2.5%	3.9%	9.3%
MSCI Emerging Markets	0.2%	6.1%	9.0%
Bloomberg Barclays High Yield	1.7%	3.9%	6.3%
Bloomberg Barclays Aggregate	-0.1%	2.9%	1.0%
	2.2.2019	1.31.2018	
U.S. 10-Year Treasury Yield	2.73%	2.68%	

The minutes from the January FOMC meeting revealed that the Federal Reserve would maintain a patient approach with future rate hikes given tightening financial conditions, muted inflation pressures, and slowing global growth. As a result of the dovish stance from the Fed, the yield curve steepened during the month, with the 10-year Treasury yield reaching 2.73% at the end of February. The Bloomberg Barclays US Aggregate Bond Index fell 0.1%, whereas the Barclays U.S. High Yield Index was up 1.7% for the month, benefiting from better-than-expected corporate earnings and positive fund flows.

Positive developments on trade negotiations, favorable economic backdrop, strong fourth quarter earnings, and the Fed's patient monetary stance were major catalysts behind the stock market rally thus far in 2019. However, uncertainty over a U.S.- China trade deal remains a pressing issue for investors. Furthermore, equity markets could face headwinds from concerns over a more challenging earnings environment and global growth slowdown.

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LEGAL UPDATE | EMPLOYEE BENEFITS SECURITY ADMINISTRATION RELEASES 2018 ENFORCEMENT RESULTS

The U.S. Department of Labor, Employee Benefits Security Administration ("EBSA"), is responsible for the enforcement of the Employee Retirement Income Security Act ("ERISA"), and oversees approximately 694,000 retirement plans and 2.2 million health plans. EBSA reports that these plans cover about 143 million workers and dependents, and includes assets totaling over $9.8 trillion.

EBSA recently issued their statistics for the 2018 Fiscal Year (FY), and reports that they have recovered over $1.6 billion in total restored benefits. The majority of the agency's monetary recoveries were recovered through enforcement action which yielded $1.1 billion. Through enforcement action, EBSA closed 1,329 civil investigations of which 860 or 64.7% closed with monetary or corrective action results, and 56 investigations led to civil cases with litigation. Further, EBSA closed 268 criminal investigations, which led to the indictment of 142 individuals for offenses related to employee benefit plans, of which 87 ended with guilty pleas or convictions. The agency also obtained monetary recoveries through plans submitting a total of 1,414 plan correction filings through the voluntary fiduciary correction program that generated $10.8 million; the abandoned plan program received 910 applications and recovered $33.4 million; and informal complaint resolution which fielded over 170,000 inquiries, recovered $443.2 million and led to 524 new civil investigation leads. In FY 2018 EBSA identified that a large portion of the total recoveries were obtained on behalf of terminated vested participants.

EBSA also held 1,829 outreach events for dislocated workers, compliance assistance activities, congressional briefings, and other participant assistance and public awareness activities and distributed about 385,520 publications.

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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