MARKET & LEGAL UPDATE
MARCH 2019 REVIEW

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"The Perceived Global Slowdown Can't Slow Down the Markets"

U.S. equities continued to advance in March, after the Dow gained 11.6% through the first two months of 2019, which was the best start to the year in over 30 years. Equity markets advanced during the month despite continued fears of a slowdown in the global economy, disappointing manufacturing data, and an inverted yield curve, which added fear of a looming recession to the mix.

Typically, equity markets react favorably when the Federal Reserve holds rates steady and eases up on the rate hike talk. However, despite the Fed making a shift to the dovish side in their March 20th FOMC meeting, keeping its policy rate steady at 2.375% and forecasting no rate hikes in 2019, markets were more focused on slowing global growth. The Fed revised downward its GDP forecasts for the year from 2.3% to 2.1% and essentially lowered their overall assessment of the economy, with business spending and household spending both being described as "slowing". As a result of the outlook for global growth slowdown, the U.S. 10-year Treasury yield fell sharply to 2.4% from 2.7% at the end of March. With Fed policy holding steady on short-term rates, the yield curve inverted for the first time since 2007. An inverted yield curve, with the spread between short-term and long-term Treasury yields dropping below zero, historically precedes a recession, which added to the market volatility during the month. And while a recession may not be in the cards in the short-term, it is becoming more evident that deceleration is occurring. As evidence, the final estimate of fourth quarter GDP growth was revised down from 2.6% to 2.2%.

The economic slowdown talk is also quite prevalent overseas. In the Eurozone, European Central Bank President Mario Draghi indicated on March 27th that they may delay hiking rates while also delivering a somewhat dreary description of the economy, pointing to ongoing "weakness in world trade" as negatively impacting the manufacturing sector. Earlier in the month, the ECB had also downgraded its 2019 GDP forecast for the Eurozone to 1.1% from 1.7%. That same day, China's industrial firms indicated that profits were down 14% year-over-year for the first two months of the year. This was their worst slump in profits since late 2011 and it is more bad news for the world's second largest economy, which grew at its slowest pace in almost three decades last year. Like the United States and the Eurozone, the Chinese government lowered the economic growth target this year to 6.0-6.5%, from the actual rate of 6.6% in 2018.

Somewhat surprisingly, both domestic and international markets continued their climb amid the negative news. The Dow Jones Industrial Average gained only slightly, up 0.2%, but the broader S&P 500 Index tacked on 1.9%, and the tech-heavy Nasdaq Composite advanced 2.6% in March. Similarly, both developed and emerging equity markets also gained during the month, with the MSCI EAFE Index up 0.6% and the MSCI Emerging Markets Index advancing 0.8%, despite the aforementioned weak economic growth data. With Fed policy easing, it has contributed to the U.S. dollar weakening against major currencies, which has provided a supportive backdrop for emerging markets since the third quarter of last year relative to U.S. equities.

	March 2019	YTD 2019
Dow Jones Industrial Average	0.2%	11.8%
S&P 500	1.9%	13.7%
NASDAQ (price change)	2.6%	16.5%
MSCI Europe Asia Far East (EAFE)	0.6%	10.1%
MSCI Emerging Markets	0.8%	10.0%
Bloomberg Barclays High Yield	0.9%	7.3%
Bloomberg Barclays Aggregate	1.9%	2.9%
	3.31.2019	2.28.2018
U.S. 10-Year Treasury Yield	2.41%	2.73%

On the fixed income front, as indicated previously, the yield curve inverted during the month, but ended the month with the 10-year Treasury yield at 2.41% and the 3-month at 2.40%. Rates fell across the board in March, sending prices higher, with the Bloomberg Barclays US Aggregate Bond Index gaining 1.9%, whereas the Barclays U.S. High Yield Index was up 0.9% for the month.

As the world continues to become more economically intertwined year after year, disappointing news in one country or region can not only negatively impact markets in another part of the world, but economies in other parts of the world as well. We've seen this occur time and time again, and as growth projections slow around the globe, fears of a global economic slowdown become more real. Markets didn't tumble in March, but instead continued their seemingly unsustainable upward trajectory they had been on for the first two months of the year, albeit at a slower pace. What transpires in the markets for the rest of the year is anyone's guess, but if global growth continues to slow, so too may the markets.

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LEGAL UPDATE | Offering a Lump-Sum Payment Option to Retirees Currently Receiving Annuity Payments under a Defined Benefit Plan

Prior to 2015, a number of plan sponsors obtained private letter rulings (PLRs) from the IRS confirming that offering retirees who are currently receiving annuity payments under a defined benefit plan a temporary option to elect a lump-sum payment in lieu of future annuity payments would not violate the minimum distribution regulations under Section 401(a)(9) of the Internal Revenue Code. Accordingly, many plan sponsors took this opportunity to de-risk their plan liabilities by including retirees who were currently receiving annuity payments in temporary lump-sum payment window offerings. However, this practice came to a halt in 2015, when the IRS issued Notice 2015-49 to clarify its position and disallow lump-sum offerings to retirees in pay status effective on and after July 9, 2015. It was noted at the time that such retiree lump-sum windows would, in fact, violate the minimum distribution rules and, therefore, amendments to the regulations under Section 401(a)(9) would be forthcoming. The revised regulations were never issued.

On March 6, 2019, the IRS issued Notice 2019-18, reversing its position once again, stating that the IRS will not assert that a lump-sum window offering that includes retirees in pay status will cause a minimum distribution violation under Section 401(a)(9). The IRS also noted that while it will continue to study the issue, the IRS no longer intends to issue revised regulations and will not issue PLRs on lump-sum windows that include retirees in pay status. The IRS will continue to evaluate whether a lump-sum window that includes retirees who are currently receiving annuity payments satisfies other requirements such as nondiscrimination, vesting, maximum benefit limits, qualified joint and survivor payments and distribution restrictions for poorly funded plans.

We assume many plan sponsors will have questions and will want more information regarding these latest developments, so we encourage you to contact your USI actuary to discuss this matter further.

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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.

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