MARKET & LEGAL UPDATE

APRIL 2019 REVIEW

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"10 Years In and the Bull Charges Ahead"

April marked another strong month for U.S. stocks in a continued recovery from the late 2018 losses. Very few expected markets to roar back this quickly in 2019 and concerns about slowing U.S. and global growth had pundits thinking there was a disconnect between the rally and the economy. Strong economic global growth and better than expected corporate earnings in the first quarter were among the key releases that contributed to U.S. equities reaching new heights.

The S&P 500 and the Nasdaq reached historic all-time highs in April after the government announced that economic growth had accelerated by a much stronger than expected pace of 3.2% in the first quarter, above consensus for a 2.4% rise and up from 2.2% in the fourth quarter. This was the best first quarter growth reading in four years and it was primarily driven by a decline in the trade deficit and a jump in inventories, both factors that may not repeat in the second quarter. Despite these two volatile components, taking into account the government shutdown, the severe winter weather and the negative wealth effect of the stock market decline from last year, these results were unexpected. The first quarter earnings followed a similar script. Companies were expected to report a slowdown in earnings and revenue growth during the first quarter. So far, three quarters of the S&P 500 companies that have reported earnings have exceeded expectations. Technology giant, Microsoft, reported better than expected earnings, hitting a market cap of $1 trillion and boosting the tech heavy Nasdaq Composite return to 4.7% in April and 22% year-to-date. The Dow Jones Industrial Average gained 2.7% in April and is up 14.8% for the year. The S&P 500 Index posted a healthy gain of 4.1% for the month and is up 18.3% thus far in 2019. The S&P 500 Index has now climbed 25% from its low in December of last year and the Dow is off to its best four month start since 1999.

There is much optimism that a trade deal between the U.S. and China is near. Final stage trade negotiations between the U.S. and China are taking place in China this week and will continue through next week in Washington. Additionally, Japan's Prime Minister Shinzo Abe, mentioned that a trade deal might be completed soon. However, the U.S. is turning its focus to Europe as trade talks over disputed aviation subsidies escalated at the beginning of the month. European officials have warned that factoring in slowing global growth, a trade war between the U.S. and the European Union poses political and economic risks. Overall, international equities were not fazed by the trade friction and posted gains in April. The MSCI EAFE Index was up 2.8% for the month and 13% year-to-date. MSCI Emerging Markets Index climbed 2.1% and has returned 12.2% so far this year. European GDP figures were 1.2% higher than a year earlier and were 1.5% in the first quarter, from 0.9% growth during the same period last year. However, GDP growth for Europe was cut from 1.8% to 1.1% for 2019, earlier this year.

	April 2019	YTD 2019
Dow Jones Industrial Average	2.66%	14.79%
S&P 500	4.05%	18.25%
NASDAQ (price change)	4.74%	22.01%
MSCI Europe Asia Far East (EAFE)	2.81%	13.07%
MSCI Emerging Markets	2.11%	12.23%
Bloomberg Barclays High Yield	1.42%	8.78%
Bloomberg Barclays Aggregate	0.03%	2.97%
	April 30 2019	March 31 2019
U.S. 10-Year Treasury Yield	2.51%	2.49%

Fixed income markets, on the other hand, posted mixed results in April, as the Bloomberg Barclays High Yield Index was up 1.4% while the Barclays Aggregate Bond Index was flat for the month. The yield curve began to steepen again in April after an inversion last month, as short-term rates remained steady and long-term rates increased. The 3-month Treasury Bill rate remained at 2.43% but the 10-year rate increased to 2.51% at the end of the month. The inversion last month was widely commented on, as it has historically signaled a recession. The inversion only lasted for about a week and although it may be viewed as a leading indicator, it does not necessarily mean that there is an immediate risk.

In fact, fundamentals have dramatically improved this year compared to just a few months ago. In 2018, the Fed was raising interest rates and planning to increase rates again twice in 2019, today they are on pause. GDP growth was decelerating from a high of 4.2% while today we are seeing an increase in economic growth. Last year the U.S. was imposing substantial tariffs on its trading partners and today we are closer to a final trade agreement. With the first quarter GDP besting expectations, the Federal Reserve on pause, unemployment claims at a 50-year low, inflation below target and a potential U.S.-China deal, stocks have a great environment to continue to thrive.

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LEGAL UPDATE | IRS Expands the Self-Correction Program under the Employee Plans Compliance Resolution System

Under the IRS' Employee Plans Compliance Resolution System (EPCRS), plan sponsors can correct plan errors in order to maintain the plan's qualified status under the Internal Revenue Code (Code). Some errors may be self-corrected through the Self-Correction Program, requiring no submission or fees to the IRS, while other errors require submission and user fees to the IRS through the Voluntary Correction Program (VCP). The IRS recently issued Revenue Procedure 2019-19 which significantly expands the types of plan failures that can be corrected under the Self-Correction Program. Specifically, the new rules permit the self-correction of certain plan document failures and certain plan loan failures, and also provide an additional method of correcting some operational failures by plan amendment. Prior to this IRS update, these types of failures required the plan to file for correction under VCP which could be both time consuming and costly for plans to correct.

Plan Document Failures: Plan document failures where the plan failed to adopt a required "qualification" amendment (e.g. an amendment required due to a change in the law) may be self-corrected by retroactively adopting the amendment, provided the plan has a current favorable determination letter, or for pre-approved plans a current favorable opinion or advisory letter, and the amendment is adopted within two plan years of the last restatement.

Operational Failures: Operational failures occur when a plan is not operated according to the provisions of the plan. Under the new rules, certain operational failures that resulted in participants receiving an increased benefit or right may be self-corrected by retroactively amending the plan to conform the plan terms to the plan operations if the plan agrees to permanently provide for the increased benefit or right to all plan participants, and the increased benefit or right is otherwise permitted under the Code.

Plan Loan Failures: Plan loans that would otherwise be defaulted for non-payment and create a taxable distribution to the participant, can be self-corrected by a "single-sum" corrective payment including interest or re-amortizing the outstanding loan including interest, or a combination thereof. Additionally, a loan failure where spousal consent was required but not obtained, may be corrected by obtaining written consent retroactively. Also, a loan failure where a participant exceeds the number of loans permitted under the plan may be corrected by retroactively amending the plan to increase the number of loans permitted. Lastly, if a defaulted loan cannot be corrected, a deemed distribution will result. Deemed distributions generally have be reported in the year of the default, rather than the current year. Previously, a plan sponsor could apply for relief through VCP, and request that the loan be deemed in the current year. The new rules permit the plan sponsor to report the deemed distribution in the current year without having to apply for relief under VCP.

All other requirements under the IRS Self-Correction Program still apply to the above corrections and remain the same, as well as any separate requirements that may apply under the DOL Voluntary Fiduciary Correction Program.

The expansion of the IRS Self-Correction Program will hopefully help plan sponsors to both timely and cost-effectively correct common plan failures. If you would like more information on this topic or have any questions, 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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