# MARKET & LEGAL UPDATE
# MAY 2019 REVIEW

USI Advisors, Inc.





CORPORATE OFFICE:

95 Glastonbury Blvd.
Suite 102
Glastonbury, CT 06033
860.652.3239

USI Consulting Group is an affiliate company of both USI Advisors, Inc. and
USI Securities, Inc.

USI CONSULTING GROUP OFFICES:

350 Fifth Avenue
Suite 3700
New York, NY 10118

900 South Gay Street
Knoxville, TN 37902

312 Elm Street 24th Floor
Cincinnati, OH 45202

50 Cabot Street
Needham, MA 02492

2400 East Commercial Blvd
Suite 600
Fort Lauderdale, FL 33308

5200 N. Palm Ave
Fresno, CA 93704

5990 Greenwood Plaza Blvd, Bldg #2, Suite 250, Greenwood Village, CO 80111

2711 N. Haskell Ave
Suite 2000
Dallas, TX 75204

601 Union Street, Suite 1000, Seattle, WA 98101

222 S. Riverside Plaza, Suite 630, Chicago, IL 60606

8049 Corporate Center Drive, Charlotte, NC 28226

725 RXR Plaza
East Tower
Uniondale, NY 11556

USI Advisors, Inc.
www.usiadvisorsinc.com

## *"May Mayhem as Trade Tensions Mount"*

**After the Dow's best four-month performance to start the year since 1999 (S&P 500 since 1987), the Dow suffered 6 straight losing weeks, its worst 6-week stretch since June 2011. Trade tensions escalated when it appeared at the beginning of May that the U.S. and China were just a few weeks away from reaching an agreement, including plans to celebrate its conclusion. Instead, the trade impasse continues, and global equity markets steadily declined during the month, with the S&P 500 falling 6.4%. Bond prices advanced as U.S. 10-year treasury yields fell sharply to 2.14%, the largest one-month decline since 2015.**

President Xi Jinping publicly stated in late April that China would protect intellectual property, open-up its markets to foreign direct investment, and import more goods and services. But in early May, Chinese negotiators attempted to re-write the agreement and mis-calculated President Trump's sense of urgency to make a deal. One key issue China rebuked was binding into its domestic law the full details of the trade agreement, in which China only wanted to include a summary of the terms. In addition, China was feeling confident in the rebound in their economy (Shanghai Composite was up 16.2% for the year), due to stimulus measures that it took last year when its equity markets declined more than 25% and experienced the slowest GDP growth (6.6%) since 1991. China was also sensing "weakness" in the U.S. economy with the U.S. contemplating whether to reduce short-term interest rates in-light of slowing global growth and the yield curve inverting. Therefore, Xi Jinping thought China had a firmer negotiating position to receive concessions. Instead, the U.S. held firmly on its trade position with bi-partisan support and imposed 25% tariffs on the $200 billion of goods that it had initially threatened to impose on Chinese goods back in December 2018.

Further, it was announced on May 31st, that the U.S. could impose 5% tariffs on nearly all $360 billion of Mexican imports by June 10 and could escalate in 5% increments at the beginning of each month until the tariffs reach 25% by October 1 if the Mexican government does not take action to curb Central American immigrant migration across its borders into the U.S. If the tariffs are implemented, it would represent the largest amount imposed on a trading partner to date.

Lingering trade tensions make firms cautious and raise the prospect that slower business spending could dampen economic growth in 2019 and into 2020. Half of the 10 companies with the largest capital budgets reduced their spending in Q1. Long-term investments by large corporations are a bellwether for future economic growth.

| | May 2019 | YTD 2019 |
|---|---|---|
| Dow Jones Industrial Average | -6.3% | 7.5% |
| S&P 500 | -6.4% | 10.7% |
| NASDAQ (price change) | -7.9% | 12.3% |
| MSCI Europe Asia Far East (EAFE) | -4.8% | 7.6% |
| MSCI Emerging Markets | -7.3% | 4.1% |
| Bloomberg Barclays High Yield | -1.2% | 7.5% |
| Bloomberg Barclays Aggregate | 1.8% | 4.8% |
| | May 31 2019 | Apr 30 2019 |
| U.S. 10-Year Treasury Yield | 2.14% | 2.51% |

European and Japanese markets have been adversely impacted by the disruption of the supply chains. There is $10 trillion of bonds overseas with negative yields. Investors seeking safe-haven assets have piled into German bunds, with the 10-year falling to a record low at the end of May (-0.2%). Negative yields across the globe pose a dangerous risk to global markets, since these economies do not have the "dry powder" to further reduce short-term interest rates to encourage investment. Negative yields overseas are putting downward pressure on U.S. Treasuries, which offer much higher yields.

The U.S economy is still on solid ground with 3.1% GDP growth during the first quarter, unemployment at a 50-year low, inflation below 2% (easing rate increase concerns) and profits by U.S. firms exceeding analyst expectations. According to FactSet, of 98% of the S&P 500 companies that have reported for Q1 2019, 75% have beaten EPS expectations and forward guidance appears more optimistic than late last year. President Trump has repeatedly said the equity market is his report card and with election season kicking into high gear this fall, a trade deal would certainly be a positive to the global markets. Trump and Jinping will meet at the G20 Summit on June 28-29 in Osaka, Japan. President Trump has stated a trade agreement can be made when the time is right. The markets could continue to be volatile in June, with optimism that a good meeting outcome may calm the markets and ease pressure on slowing global growth.

Market Update is a monthly publication circulated by USI Advisors, Inc. and is designed to highlight various market and economic information. It is not intended to interpret laws or regulations.

This report has been prepared solely for informational purposes, based upon information generally available to the public from sources believed to be reliable, but no representation or warranty is given with respect to its completeness. This report is not designed to be a comprehensive analysis of any topic discussed herein, and should not be relied upon as the only source of information. Additionally, this report is not intended to represent advice or a recommendation of any kind, as it does not consider the specific investment objectives, financial situation and/or particular needs of any individual client.

## LEGAL UPDATE | The IRS Expands Determination Letter Program

On May 1, 2019, the Internal Revenue Service (IRS) expanded the Determination Letter Program. Under Revenue Procedure 2019-20, the IRS will now accept Determination Letter requests for certain individually designed plans. In particular, the IRS will accept Determination Letter applications for statutory hybrid plans (e.g. cash balance plans) and for individually designed merged plans. Since 2017 and prior to this expansion, the IRS has only accepted applications for individually designed plans upon initial plan qualification and plan termination. Under Revenue Procedure 2019-20, plan sponsors of individually designed statutory hybrid plans and merged plans will now be able to apply for a Determination Letter outside of initial plan qualification and plan termination within a certain timeframe.

***Applications for Individually Designed Statutory Hybrid Plans***

Individually designed statutory hybrid plans, including cash balance plans, may file for a Determination Letter during a 12-month period beginning September 1, 2019 and ending August 31, 2020, after which the IRS may reconsider, on a yearly basis, whether to continue to accept Determination Letters for these types of plans. The scope of review for individually designed statutory hybrid plans will be based on the 2017 Required Amendments List (Notice 2017-72) and will take into account all Required Amendments Lists and Cumulative Lists issued prior to 2016.

***Applications for Merged Plans***

For certain individually designed merged plans, plan sponsors may submit applications for Determination Letters at any time on an ongoing basis, starting September 1, 2019, as long as such application is submitted within the "merged plan submission period." A plan merger is the merger of two or more plans of unrelated entities into a single individually designed plan in connection with a corporate merger. A plan meets the requirements of the merged plan submission period if:

- First, the plan merger took place by the last day of the first plan year following the year of the corporate merger, acquisition, or other similar transaction between unrelated entities, and
- Second, the application for a Determination Letter is submitted by the last day of the first plan year following the date of the plan merger.

For merged plans, the review will be based on the Required Amendments List that was issued during the second full calendar year preceding the submission of the Determination Letter application and will take into account all previously issued Required Amendments Lists and Cumulative Lists.

***Extension of Remedial Amendment Period***

A Determination Letter application submitted under this expansion will generally extend any remedial amendment period during which a plan may be amended retroactively to comply with the Code's qualification requirements to 91 days after the date the Determination Letter is issued, except for anti-cutback requirements.

***Possible Sanctions and Relief***

The IRS will not impose a sanction on individual designed hybrid plans for any plan document failure with respect to a plan provision required to meet the final hybrid plan regulations. The IRS will also not impose sanctions on merged plans for any provision included to effectuate the plan merger. However, the IRS may still impose sanctions for other plan document failures that are deemed to be not in "good faith". These fines may be equal to 150% or 250% of the normal Voluntary Correction Program (VCP) fee had the plan been submitted under the Employee Plans Compliance Resolution System (EPCRS).

***Conclusion***

The Determination Letter Program, although not legally required, gives plan sponsors verification that their plans are qualified. Plan sponsors of individually designed plans and merged plans should consider if they would like to submit an application for a Determination Letter under this limited expansion. The IRS user fee for requesting a Determination Letter is currently $2,500.

*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.*

5019.S0604.0081