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"Fed Cuts Rates for the First Time in Over a Decade"

The Federal Open Market Committee (FOMC) voted to cut interest rates for the first time since 2008. The committee indicated a positive economic outlook but noted concerns about slowing global growth, trade tensions, and low inflation as reasons for the reduction. Following the move, stocks sold off and the yield curve flattened but markets finished July in positive territory.

Federal Reserve Chairman Jerome Powell announced a 0.25% reduction in the federal funds rate on July 31st. The FOMC committee voted 8-2 in favor of the rate cut pointing to weakening global growth, low inflation expectations, and trade tensions as the main reasons. Although this move was widely expected and the Fed indicated its intentions of a possible rate cut at the last meeting, the stock market reacted negatively to Powell's comments that he did not ratify future expectations of additional stimulus in the months ahead. Futures markets had expectations for at least one more cut likely at the September meeting. The Dow Jones Industrial Average fell 330 points on the last trading day in July and the S&P 500 and Nasdaq were down more than 1% since at least another cut had been priced into the markets. In addition, President Trump expressed his disappointment about the magnitude of the rate decrease, demanding a larger cut. A 0.5% reduction may have been viewed as too drastic and could have given the impression that the Fed acted under political pressure. Powell cited that the Fed will continue to operate independently and be guided by economic signals and will not take into account political considerations.

The Fed's accommodative policy should help boost economic growth. Second quarter GDP came in at 2.1%, lower than the 3.1% gain last quarter but stronger than expected. Growth was driven by higher retail sales and government spending. The unemployment rate remains at 3.7% which is near a 50-year low and the Institute of Supply Management (ISM) indicators and confidence numbers also continue to trend positive. After the sharp increase in earnings from 2018, Fact Set expects about a 2.6% decline in earnings heading into the Q2 reporting period, but of half the companies in the S&P 500 that reported earnings, about 75% have beaten expectations.

Despite all the positive economic indicators, the IMF shared similar concerns to the Fed in their most recent global growth assessment. Trade uncertainty and Brexit rank as the chief threats to the world economy. There are mounting concerns about the path ahead in the U.K. Newly appointed Prime Minister, Boris Johnson, promised to deliver Brexit this fall, on Halloween to be precise, with or without a free trade deal. The UK Parliament has rejected the deal that Theresa May made with the EU and the EU is unlikely to revise the deal, which increases the probability of a no-deal Brexit scenario.

	July 2019	YTD 2019
Dow Jones Industrial Average	1.1%	16.7%
S&P 500	1.4%	20.2%
NASDAQ (price change)	2.1%	23.2%
MSCI Europe Asia Far East (EAFE)	-1.3%	12.6%
MSCI Emerging Markets	-1.2%	9.2%
Bloomberg Barclays High Yield	0.6%	10.6%
Bloomberg Barclays Aggregate	0.2%	6.4%
	July 31 2019	June 28 2019
U.S. 10-Year Treasury Yield	2.00%	2.02%

On the trade front, the war between the U.S. and China is back on after President Trump announced that he would impose a 10% tariff on $300 billion of Chinese imports starting in September, something he had put on hold after the last rounds of talks that collapsed in May. The U.S. and China had marked a new phase in the negotiations at the end of June with the U.S. allowing companies to sell certain products not deemed vital to national security to Huawei, the Chinese tech giant and the Chinese agreeing to purchase more U.S. agricultural products. However, the negotiations failed to spark progress in July and the latest round of tariffs that now covers all Chinese imports will likely have a direct impact on U.S. consumer prices. This move will place even greater pressure on the Fed to continue to cut interest rates going forward to withstand any damage to the U.S. economy. The trade dispute will continue to remain a threat to overall global growth as global trade volumes plummet and companies put a brake on investments.

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LEGAL UPDATE | **DOL Issues Final Regulations on Association Retirement Plans/ Multiple-Employer Plans**

On July 29, 2019 the Department of Labor (DOL) released final regulations expanding the availability of multiple-employer plans (MEPs). In general, these new rules provide the conditions under which group defined contribution retirement plans (MEPs) can be operated by two or more unrelated employers and treated as single employer plans. Under the regulations, if the employers are not related, in order to be considered a single plan, the employers must be a bona fide group or association of employers meeting the following requirements:

- The group or association has a substantial business purpose unrelated to offering and providing employee benefits to its employer members and their employees.
- Each employer member of the group or association participating in the retirement plan is a person acting directly as an employer of at least one employee who is a participant covered under the plan.
- The group or association has a formal organizational structure with a governing body and has by-laws or other similar indications of formality.
- The functions and activities of the group or association are controlled by its employer members, and the group's association's employer members that participate in the plan control the plan. Control must be present both in form and substance.
- The employer members have commonality of interest.
- The group or association does not make plan participation through the association available other than to employees of employer members.
- The group or association is not a bank or trust company, insurance issuer, broker-dealer, or other financial services firm (including a pension recordkeeper or third-party administrator).

The DOL describes the benefits of MEPS as follows:

"MEPs have the potential to broaden the availability of workplace retirement plans, especially among small employers, because they enable different businesses to band together and adopt a single retirement plan…For small business, in particular, a MEP may present an attractive alternative to taking on the responsibilities of sponsoring or administering its own plan. The MEP structure can reduce the employer's cost of sponsoring a benefit plan and effectively transfer substantial legal risk to professional fiduciaries responsible for the management of the plan." Additionally, *"because MEPs facilitate the pooling of plan participants and assets in one large plan, rather than many small plans, they enable small businesses to give their employees access to the same low-cost funds as large employers offer."*

The DOL also stated that they are giving further consideration to the concept of "open MEPs," which generally are defined contribution retirement arrangements that cover employees of employers with no relationship other than their joint participation in the MEP, and they have issued a Request for Information in order to solicit public comment on this concept.

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.

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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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