MARKET & LEGAL UPDATE
AUGUST 2019 REVIEW

USI Advisors, Inc.

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"Trade War Tensions Rattled the Markets"

Equity markets declined for only the second month of this year amid another bout of U.S.-China trade war tensions and the yield curve inversion, signaling a recession could be on the horizon. Stocks were rattled by new escalations in the U.S.-China trade dispute, despite continued strength in the consumer sector and accommodative Federal Reserve policy. The Dow Jones Industrial Average, S&P 500, and the Nasdaq had their worst August performance since 2015. Bond prices advanced sharply as the U.S. 10-year Treasury Yield slid to a 3-year low of 1.5% due to a flight-to-safety and slowing global growth concerns.

A protracted trade war between the U.S. and China and slowing global economic growth have revived recession fears. Both countries have been engaged in a trade dispute since last year, imposing tariffs on billions of dollars of each country's goods. At the beginning of August, President Trump threatened to implement 10% tariffs on $300 billion of Chinese imports, effective September 1st. China responded by allowing its currency to depreciate to the key psychological threshold of 7 yuan to the dollar for the first time since 2008. The deterioration of the U.S.-China trade war spooked the stock market before stabilizing moderately after China stepped in to steady its currency.

The Trump administration delayed the implementation of some of the new tariffs until December 15th, to avoid higher prices for the holiday shopping season. The trade tensions continued to escalate when China retaliated by unveiling levies of new tariffs ranging from 5% to 10% on $75 billion of U.S. products, including a 25% levy on U.S. autos, effective on September 1st and December 15th. President Donald Trump responded by announcing higher tariffs on a slew of Chinese goods and ordering U.S. companies to move operations out of China. At the end of the month, stocks finally found support after both countries appeared to adopt less stringent tones on trade, indicating that the Chinese and U.S. trade delegations have maintained "effective" communication and Beijing's negotiators are expected to visit Washington in September.

Looking beyond the trade issues and the volatile market backdrop, the U.S. economy has remained resilient amid strong consumer spending and a healthy labor market. Retail sales accelerated by a solid 0.7% in July, the most in four months, bolstered by a surge in online sales, primary due to Amazon Prime Day. Although personal spending expanded by 0.6% at the start of the third quarter, the University of Michigan's consumer-sentiment index suffered its largest monthly decline since December 2012, slipping to 89.8 last month from a 98.4 reading in July. The 8.7% drop suggested concerns over escalations of the U.S.-China trade dispute and slower global growth negatively impacting the U.S. consumer sentiment.

Market Return Indexes	August 2019	YTD 2019
Dow Jones Industrial Average	-1.3%	15.1%
S&P 500	-1.6%	18.3%
NASDAQ (price change)	-2.6%	20.0%
MSCI Europe Asia Far East (EAFE)	-2.6%	9.7%
MSCI Emerging Markets	-4.9%	3.9%
Bloomberg Barclays High Yield	0.4%	11.0%
Bloomberg Barclays Aggregate	2.6%	9.1%
Yield Data	**August 30 2019**	**July 31 2019**
U.S. 10-Year Treasury Yield	1.50%	2.00%

At the Fed's annual symposium in Jackson Hole, Wyoming, Federal Reserve Chairman Jerome Powell noted that the "economy is close to both goals" of stable inflation and low unemployment and promised to "act as appropriate to sustain the expansion." The core PCE deflator rose 0.2% in July, bringing the year-over-year increase to 1.6%, albeit below the Fed's 2% target, whereas the U.S. job market remains solid, with the unemployment rate near 50-year lows. Markets are pricing in a good chance of at least one, possibly two more federal funds rate cuts this year. Despite an accommodative monetary policy environment and a favorable U.S. economic outlook, the trade dispute continues to disrupt the supply chains, contributing to slowing global growth. In addition, trade policy uncertainty will continue to weigh on investors' minds and the market's volatile streak is expected to persist in the coming months.

LEGAL UPDATE | **The IRS Releases Guidance on Uncashed Distribution Checks**

The Internal Revenue Service (IRS) recently released Revenue Ruling 2019-19 "Failure to Cash a Distribution Check from a Qualified Retirement Plan." Uncashed checks most commonly arise when a minimum distribution is required to be made, and the Participant either refuses to cash the required payment or the Participant is missing. This guidance addresses only the former scenario.

Pursuant to the Revenue Ruling 2019-19, a Participant's failure to cash the distribution check in the year the minimum distribution is required to be made does not permit the Participant from excluding that amount from his or her gross income in that year. The Participant's failure to cash the distribution check also does not alter the Employer's obligations regarding federal income tax withholding and reporting the distribution on Form 1099-R, unless such amount does not exceed $10 dollars.

The guidance also acknowledges that there is a problem of uncashed checks involving missing participants. However, the IRS declined to provide further guidance on this matter, but will continue to analyze issues that arise in other situations involving uncashed checks, including situations involving missing individuals with benefits due from eligible retirement plans.

Conclusion

Employers must continue to make minimum distributions and should withhold required taxes and file Form 1099-R, regardless if the Participant fails to cash the required payment. The Employer's fiduciary obligations to attempt to locate any missing participants remains the same.

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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