FIRST Commonwealth ADVISORS

Loyd Johnson,
Chief Investment Officer

Monthly Review

January: "Don't Worry, Be Happy"

Asset Class	Index	January	3 month	YTD	1 Year	3 Year	5 Year
US Large Cap	S&P 500 Index	8.01	0.26	8.01	-2.31	14.02	10.96
US Mid Cap	Russell Mid Cap Index	10.76	2.10	10.76	-3.40	12.72	8.36
US Small Cap	Russell 2000 Index	11.25	-0.41	11.25	-3.52	14.71	7.26
Total International	MSCI ACWI Ex USA Index	7.56	3.66	7.56	-12.58	9.59	3.11
Int'l Developed	MSCI EAFE (Europe, Australia, Far	6.57	1.27	6.57	-12.51	7.74	2.66
Int'l Dev. Small Cap	MSCI Developed Market Small Cap	8.06	0.38	8.06	-15.59	9.39	4.99
Emerging Markets	MSCI Emerging Markets Index	8.77	10.24	8.77	-14.24	14.89	4.77
US Inv Grade Taxables	Barclay's Intermediate Aggregate	0.84	2.97	0.84	2.78	1.58	2.03
US Inv Grade Munis	Barclay's Municipal 1 - 3 Year Index	0.39	1.25	0.39	1.91	1.03	0.97
High Yield Bonds	Barclay's National Municipal High	0.67	2.25	0.67	6.46	5.81	5.98
Bank Loans	S&P/LSTA Leveraged Loan TR	2.55	-0.96	2.55	2.02	5.94	3.44
Emerging Market Bonds	JPMorgan Emerging Market Bond	1.46	-1.19	-4.61	-4.61	4.74	4.18
US Real Estate	Wilshire US REIT TR USD	11.46	6.92	11.46	10.29	7.26	9.40
Int'l Real Estate	Wilshire Ex-US REIT TR USD	10.17	9.24	10.17	1.44	9.09	6.55
Commodities	S&P GSCI Commodity Index	8.99	-10.80	8.99	-9.17	5.27	-12.75
Cash Equivalents	Merrill Lynch 3 Month Treasury Bill	0.20	0.59	0.20	1.95	1.08	0.67

A Look Back

The title above represents a song released by the relatively unknown, Bobby McFerrin in 1988. A worldwide hit, it became the first a cappella song to reach #1 on the Billboard's Hot 100 chart. The Indian mystic and sage, Meher Baba often used the simple phrase when speaking with his western followers. It seems more than appropriate after the volatile December and 4th quarter we just experienced in the markets at the end of the 2018, that we start off 2019 on a more positive note. January saw a swift rebound in most global equity indices. The S&P 500 increased 8% in the month, the largest monthly increase since October 2015, and the biggest January since 1987, the year of the October "Black Monday" market crash…Been awhile. Small Cap Domestic stocks did even better, posting a +11.25% return. International stocks were solid as well, and there was a significant rebound in non-traditional asset classes like Real Estate and Commodities. In fact, the January numbers above show no "red", the color we typically use when displaying negative returns. Short-term Cash continues to be a reasonable asset class, nearing a 2.5% annualized return. Why the reason for the all of the good vibes? For starters, the Federal Reserve has adopted a decidedly more dovish stance in recent weeks, culminating in its policy update, where the central bank said it was going to be more patient in "normalizing" rate policy. Also, fourth quarter earnings reports have not been nearly as bad as many feared. With over half of the companies reporting, nearly 70% have beaten estimates. However, profit growth is projected to be up around 15%, as compared to over 23% for 2018. GE and Facebook were two stocks that surged recently with better than expected earnings. Additionally, the Government shutdown here in the U.S. is at least temporarily over, as prospects for some type of permanent agreement are discussed. Finally, the U.S. Labor market notched its 100th straight month of increased employment, with a much better-than-expected number of 304,000 jobs added. Consensus estimates had called for 165,000 new jobs. The actual unemployment rate did tick up to 4.0% from 3.9%, due in part to the 35 day partial shutdown.

A Look Ahead

What a difference a month can make! As we discussed in our quarterly piece, sharp sell-offs are often followed by similarly sharp run-ups. Such was the case in January. We certainly want to enjoy the recent rally, but are also cognizant that many of the fears and issues that worried investors in the latter half of 2018 remain. Although earnings have surprised, they are expected to be lower in 2019. Although in a seeming holding pattern now, some worry the Fed may take any short-term positive economic news as an invitation to renew their rate-increasing mode. The positive effects of lower corporate tax rates that boosted equities in the first nine months of 2018 are dwindling. However, a possible U.S./China trade deal could certainly be a boost to global markets. For now, we maintain our slightly conservative posture initiated last year. We will enjoy the January rebound, maybe worry a little…and be happy!