First Commonwealth Advisors

Loyd Johnson,
Chief Investment Officer

Monthly Review

April: "Wash, Rinse, Repeat"

Asset Class	Index	April	3 month	YTD	1 Year	3 Year	5 Year
US Large Cap	S&P 500 Index	4.05	9.48	18.25	13.49	14.87	11.63
US Mid Cap	Russell Mid Cap Index	3.78	9.05	20.79	10.12	12.25	9.21
US Small Cap	Russell 2000 Index	3.40	6.50	18.48	4.61	13.60	8.63
Int'l Developed	MSCI EAFE (Europe, Australia, Far East)Index	2.81	6.10	13.07	-3.22	7.24	2.60
Int'l Dev. Small Cap	MSCI Developed Market Small Cap Index	3.02	5.49	13.99	-7.88	7.75	5.27
Emerging Markets	MSCI Emerging Markets Index	2.11	3.19	12.23	-5.04	11.25	4.04
US Inv Grade Taxables	Bloomberg Barclays US Aggregate Bond Index	0.03	1.89	2.97	5.29	1.90	2.57
US Inv Grade PA Munis	Bloomberg Barclays PA Municipal Bond	0.45	2.83	3.65	6.82	2.95	3.84
US Inv Grade Nat'l Munis	Bloomberg Barclays National Municipal Bond	0.38	2.51	3.28	6.16	2.59	3.56
High Yield Bonds	Bloomberg Barclays US Corporate High Yield	1.42	4.08	8.78	6.74	7.69	4.84
Bank Loans	S&P/LSTA Leveraged Loan TR	1.65	3.09	5.71	4.24	5.55	3.94
Emerging Market Bonds	JPMorgan Emerging Market Bond Index	0.12	2.21	6.72	5.19	4.58	4.51
US Real Estate	Wilshire US REIT TR USD	-0.18	3.90	15.81	17.47	6.38	8.20
Int'l Real Estate	Wilshire Ex-US REIT TR USD	-1.16	1.41	11.73	4.66	4.71	4.84
Commodities	S&P GSCI Commodity Index	2.85	8.49	18.24	-5.06	3.78	-12.25
Cash Equivalents	Merrill Lynch 3 Month Treasury Bill	0.19	0.59	0.79	2.18	1.25	0.78

A Look Back

The above title is an idiom quoting the instructions found on many brands of shampoo. It is also a humorous way of pointing out, that if taken literally, those instructions would result in an endless loop of repeating the same steps…at least until there was no more shampoo. In the investment world, we can run into this seemingly repeating "loop" quite often. So it has been in the first four months of 2019, after another month of positive gains in equity indices worldwide. The big-cap domestic stocks led the way in April, with the S&P 500 up over 4%, bringing the YTD return to a staggering 18.25%. Small-cap stocks did well too, gaining 3.4% in the month and almost 18.5% YTD. To put it into proper perspective, this is one of the best starts to a calendar year ever and would represent nearly an 80% annualized return! Not bad for a market that is long in the tooth by most measures. Commodities and High Yield asset classes pulled their weights in the month up 2.85% and 1.42%, respectively, and have been valuable contributors so far this year. Perhaps the biggest driver of returns all year has been a Fed that made a swift policy change, moving from a determined rate increase path to a much more patient, stay-put and wait path. The April Jobs report was released on Friday, and showed much better numbers than expected, as 263,000 workers were added versus consensus of 190,000. The actual unemployment rate ticked down to 3.6%, a level not seen since 1969.

A Look Ahead

As investors look to enjoy another month of the wash, rinse, repeat cycle, some bigger-picture issues are still lingering that could/should play a pivotal role in determining how the rest of 2019 plays out. We had a bit of a taste already in the first week of May, as trade tensions with China are making new headlines. We do believe that some type of positive outcome between the two powers is assumed and somewhat already baked into the positive market returns experienced. Should it become clear that this presumption is wrong, increased volatility and lower equity levels may very well be the end result. As more 1st quarter earnings numbers are reported, it has become clear that the corporate earnings plunge that many feared has not materialized…at least not yet. Earnings are lower, but respectable. Over 75% of companies reporting first quarter numbers so far have beat analyst's expectations. Inflation, the stated bugaboo of the Fed, has remained in check, and below the 2% level that is often mentioned as their pain point. Without any further news to the contrary, such levels should allow the Fed members to continue their "patient" path of doing nothing. As we have discussed before, and many successful managers can confirm…sometimes doing nothing is exactly what is needed. We continue to be slightly defensive in our equity allocation, as we recognize that there is more risk in this late-stage bull market cycle. Further, as we digest much of this good economic news, we believe the impetus for further market advances gets tougher. How much lower than 3.6% can the unemployment rate go, for example? For now, though…we will reach for our favorite shampoo and wash, rinse, repeat.