First Commonwealth Advisors

Loyd Johnson,
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Monthly Review

May: "You're Gonna Need a Bigger Boat"

Asset Class	Index	May	3 Month	YTD	1 Year	3 Year	5 Year
US Large Cap	S&P 500 Index	-6.35	-0.67	10.74	3.78	11.72	9.66
US Mid Cap	Russell Mid Cap Index	-6.18	-1.86	13.32	1.07	9.31	7.36
US Small Cap	Russell 2000 Index	-7.78	-6.64	9.26	-9.04	9.75	6.71
Int'l Developed	MSCI EAFE (Europe, Australia, Far East)Index	-4.80	-1.51	7.64	-5.75	5.82	1.27
Int'l Dev. Small Cap	MSCI Developed Market Small Cap Index	-5.29	-2.28	7.97	-11.91	5.64	3.84
Emerging Markets	MSCI Emerging Markets Index	-7.26	-4.51	4.09	-8.70	9.88	1.79
US Inv Grade Taxables	Bloomberg Barclays US Aggregate Bond Index	1.78	3.76	4.80	6.40	2.50	2.70
US Inv Grade PA Munis	Bloomberg Barclays PA Municipal Bond	1.43	3.68	5.14	7.10	3.32	3.90
US Inv Grade Nat'l Munis	Bloomberg Barclays National Municipal Bond	1.38	3.37	4.71	6.40	2.96	3.58
High Yield Bonds	Bloomberg Barclays US Corporate High Yield	-1.19	1.16	7.49	5.51	7.04	4.40
Bank Loans	S&P/LSTA Leveraged Loan TR	-0.22	1.25	5.49	3.83	5.16	3.75
Emerging Market Bonds	JPMorgan Emerging Market Bond Index	0.57	2.16	7.33	6.95	4.88	3.97
US Real Estate	Wilshire US REIT TR USD	0.39	3.42	16.27	13.84	5.82	7.75
Int'l Real Estate	Wilshire Ex-US REIT TR USD	-1.55	-0.43	10.00	4.09	4.92	3.80
Commodities	S&P GSCI Commodity Index	-8.21	-4.08	8.53	-14.10	0.12	-13.71
Cash Equivalents	Merrill Lynch 3 Month Treasury Bill	0.23	0.64	1.02	2.26	1.32	0.83

A Look Back

That was the line used by actor Roy Schneider in the 1975 blockbuster movie, *Jaws*. He uttered it after seeing the size of the great white shark they were hunting for the first time. It has also taken its place in the modern urban dictionary to mean…"when you are in dire need of more resources for an upcoming situation…" After catching that scene from the movie recently, it triggered a thought on our current economic/market situation. Fed Chairman Jerome Powell participated in a fairly rare public interview that aired on 60 Minutes recently. After going through a variety of questions and concerns, he was asked at the end of the interview if he thought there was sufficient reason to believe that the U.S. economy could continue to expand for the foreseeable future. Although there was a delay, and it wasn't the most convincing display, he did answer that "he saw no reason that it couldn't." And really, what else could he say. We believe that the hesitancy lies in the fact that we are in the midst of record economic expansion…over ten years without a recession and recent all-time highs in most equity benchmarks. However, Powell also acquiesced and said that economies still run in cycles, and the downturns have not been legislated away. Further, although still expanding, there have been several economic indicators of late that point to a slowdown of various levels. Couple that with heightened trade tensions between the U.S. and China/Mexico, and you have the makings of some real angst. We saw some of that manifest itself in May. The broad S&P 500 was down over 6%, while Small Cap stocks were even lower at -7.8%. Commodities had a rough month as oil was significantly lower. The saving grace in May was the fixed income asset class. The Bloomberg Barclays Agg was higher by 1.8%, and up by 4.8% for 2019. That is a significant number, as many may recall that with Large Cap equities down over 4% in 2018, core Fixed Income provided no positive return. Finally, with the Fed now in a holding pattern as far as short term rates go, many wonder what mechanisms the Fed really has to combat a potential market swoon. Indeed, the market has now priced in the probability of a rate *decrease* between now and year-end.

A Look Ahead

By itself, the equity performance in May is not so unusual. Most calendar years have around three similar-sized drawdowns. In fact, December of 2018 had -9% return nosedive in the S&P 500 alone. Almost every year has a drawdown of 5% or more, and most have at least three. The average drawdown over the last 40 years has been 14%, so the S&P 500 could drop another 8% from here and 2019 would just be a typical year. We remind you because perspective is critical when it comes to investing. We know that trying to time market turns consistently is impossible. Equity markets rallied a full two years after Alan Greenspan declared his "irrational exuberance" take on markets in front of the "dot com" blowup in the early 2000's. We continue to be somewhat defensive in our overall portfolio allocation, as we recognize where we are in this cycle. Time will tell if and when a bigger boat is needed to slay the shark…