First Commonwealth Advisors

Loyd Johnson,
Chief Investment Officer

Monthly Review

June: "Stop! Hammer Time"

Asset Class	Index	June	3 Month	YTD	1 Year	3 Year	5 Year
US Large Cap	S&P 500 Index	7.05	4.30	18.54	10.42	14.19	10.71
US Mid Cap	Russell Mid Cap Index	6.81	4.00	21.04	7.27	11.59	8.10
US Small Cap	Russell 2000 Index	7.07	2.10	16.98	-3.31	12.30	7.06
Int'l Developed	MSCI EAFE (Europe, Australia, Far East)Index	5.93	3.68	14.03	1.08	9.11	2.25
Int'l Dev. Small Cap	MSCI Developed Market Small Cap Index	4.24	1.71	12.55	-6.35	9.06	4.40
Emerging Markets	MSCI Emerging Markets Index	6.24	0.61	10.58	1.21	10.66	2.49
US Inv Grade Taxables	Bloomberg Barclays US Aggregate Bond Index	1.26	3.08	6.11	7.87	2.31	2.95
US Inv Grade PA Munis	Bloomberg Barclays PA Municipal Bond	0.41	2.31	5.57	7.41	2.91	3.97
US Inv Grade Nat'l Munis	Bloomberg Barclays National Municipal Bond	0.37	2.14	5.09	6.71	2.55	3.64
High Yield Bonds	Bloomberg Barclays US Corporate High Yield	2.28	2.50	9.94	7.48	7.52	4.70
Bank Loans	S&P/LSTA Leveraged Loan TR	0.24	1.68	5.74	3.97	5.24	3.68
Emerging Market Bonds	JPMorgan Emerging Market Bond Index	3.04	3.76	10.60	11.32	4.65	4.47
US Real Estate	Wilshire US REIT TR USD	1.42	1.63	17.92	10.53	4.11	7.84
Int'l Real Estate	Wilshire Ex-US REIT TR USD	4.20	1.40	14.62	8.63	6.61	4.27
Commodities	S&P GSCI Commodity Index	4.43	-1.42	13.34	-11.49	1.55	-13.33
Cash Equivalents	Merrill Lynch 3 Month Treasury Bill	0.22	0.64	1.24	2.31	1.38	0.87

A Look Back

The title above is the line that most remember from the 1990 dance classic, *U Can't Touch This*, by MC Hammer. It is considered the signature song from the *Please Hammer, Don't Hurt 'Em* album. Because the song was not initially released as a single, fans had to purchase the album, which as a result, went on to sell more than 18 million copies. Unheard of in today's streaming world. As we digest a 7% S&P 500 return in June, and 18.5% YTD, we find that midyear is probably not a bad time to **stop**…take a breath and gain some perspective on current market conditions. The U.S. is officially in its longest economic expansion, breaking the record of 120 months from March 1991 to March 2001. Borne out of the Great Recession of 2007-2009, this is pretty heady stuff until you see that the cumulative GDP growth since June of 2009 is only 25%, far slower than previous expansions. The Fed met in June, and although they left the Fed Funds rate unchanged, they left open the clear possibility of lowering rates in the near future. In fact, futures markets show that there is currently almost a 100% chance of at least a .25% cut in July. That would have seemed impossible just a few short months ago, when in December the Fed raised rates and hinted of 2-3 more rate hikes in 2019. Further, we have had an on again, off again affair with some type of trade agreement with China. The month ended with at least an understanding of postponing additional tariffs. You won't find an asset class with a negative return above. Domestic and International Equities recovered almost the entire prior month's decline, while Commodities and Real Estate had stellar returns in June. Importantly, core Fixed Income was higher by 1.26% for the month, and is now up over 6% YTD. That would typically be a higher than average expectation in that asset class for a full year! If the month of June could sing, it might very well sing, "U Can't Touch This."

A Look Ahead

The reason to do like Hammer, and stop is…we know where we have come from, but where do we go from here? You would still be looking if you were trying to find a market prognosticator in December calling for an 18% return in the first half of 2019. It truly shows the importance of having a thoughtful asset allocation that works for you, and staying with it. You manage, adjust, and tweak based on what the market gives, but you continue to move the ball forward. We continue to do that. It is certainly much easier, and in the long run more profitable to take advantage of market moves that have already happened versus predicting the next month or two. With that in mind, we will continue to trim equity positions that have risen over the first half of this year and de-risk client portfolios elsewhere where appropriate. We do not believe that the fundamental nature of market and economic cycles has completely changed or disappeared. We know that it has been a long ride from the lows of March 2009…and over 10 years without a recession. That we do know. We will get into current valuations and other market metrics in our quarterly piece, but for now we join the Hammer…and enjoy the dance…