First Commonwealth Advisors

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# Monthly Review

## July: "Toto, I've a feeling we're not in Kansas anymore."

| Asset Class | Index | July | 3 Month | YTD | 1 Year | 3 Year | 5 Year |
|---|---|---|---|---|---|---|---|
| US Large Cap | S&P 500 Index | 1.44 | 1.69 | 20.24 | 7.99 | 13.36 | 11.34 |
| US Mid Cap | Russell Mid Cap Index | 1.41 | 1.61 | 22.74 | 6.15 | 10.46 | 9.05 |
| US Small Cap | Russell 2000 Index | 0.58 | -0.69 | 17.66 | -4.42 | 10.36 | 8.53 |
| Int'l Developed | MSCI EAFE (Europe, Australia, Far East)Index | -1.27 | -0.44 | 12.58 | -2.60 | 6.87 | 2.39 |
| Int'l Dev. Small Cap | MSCI Developed Market Small Cap Index | -0.71 | -1.97 | 11.75 | -7.61 | 6.67 | 4.75 |
| Emerging Markets | MSCI Emerging Markets Index | -1.22 | -2.67 | 9.23 | -2.18 | 8.42 | 1.84 |
| US Inv Grade Taxables | Bloomberg Barclays US Aggregate Bond Index | 0.22 | 3.28 | 6.35 | 8.08 | 2.17 | 3.05 |
| US Inv Grade PA Munis | Bloomberg Barclays PA Municipal Bond | 0.82 | 2.68 | 6.44 | 8.05 | 3.17 | 4.08 |
| US Inv Grade Nat'l Munis | Bloomberg Barclays National Municipal Bond | 0.81 | 2.57 | 5.94 | 7.31 | 2.80 | 3.77 |
| High Yield Bonds | Bloomberg Barclays US Corporate High Yield Index | 0.56 | 1.63 | 10.56 | 6.92 | 6.77 | 5.10 |
| Bank Loans | S&P/LSTA Leveraged Loan TR | 0.80 | 0.83 | 6.59 | 4.03 | 5.02 | 3.85 |
| Emerging Market Bonds | JPMorgan Emerging Market Bond Index (USD) | 1.15 | 4.83 | 11.87 | 10.33 | 4.51 | 4.69 |
| US Real Estate | Wilshire US REIT TR USD | 1.58 | 3.42 | 19.78 | 11.61 | 3.18 | 8.15 |
| Int'l Real Estate | Wilshire Ex-US REIT TR USD | -1.99 | 0.54 | 12.33 | 5.07 | 4.33 | 3.92 |
| Commodities | S&P GSCI Commodity Index | -0.21 | -4.35 | 13.10 | -8.45 | 4.94 | -12.41 |
| Cash Equivalents | Merrill Lynch 3 Month Treasury Bill | 0.18 | 0.63 | 1.43 | 2.34 | 1.44 | 0.91 |

### A Look Back

This line was uttered by Dorothy after she was carried away by a frightening tornado from the safety of her Kansas farmhouse to a world that was different than she had ever known. Over the last 80 years, this line has been used countless times to describe a situation that may be outside of one's comfort zone. As we look at the market's activity over the last seven months, the S&P 500 is up year to date over 20% at the end of July with the best seven month start to a year since 1997. The S&P 500, Nasdaq, and the DJIA all hit record highs last month and every index we follow is posting positive returns for the year. We continue to wonder how long this record expansion, now in the 11$^{th}$ year, can last. July produced a solid U.S. jobs report and unemployment remains low at 3.7%. At the end of the month, Fed Chairman J. Powell announced that the Fed would cut rates by .25% for the first time in over 10 years. And while typically this would be a tailwind for stocks, the market took exception to the Fed language calling this rate cut a "mid-cycle adjustment" rather than the start of an easing cycle. In the first week of August, we have seen the rate cut followed by the announcement of the U.S. imposing additional tariffs on Chinese imports. This, in turn, prompted China to initiate their own retaliatory actions, setting the stage for increased volatility and market declines going into August.

### A Look Ahead

Like Dorothy, investors find themselves feeling a little uncomfortable and outside of their comfort zone when the markets change course. During the first few days of August, we saw market volatility increase and experienced a sell off of over 4% due to heightened trade conflict. For the last year, we have positioned our portfolios to be a bit more defensive in light of several indicators flashing their caution lights as well as extended market valuations. We know that investing should be viewed as a long term journey and on average, markets experience a 10% correction at least once a year. Could this be one of those times? Possibly, but we also know that timing the market can be a fools game. It is the reason we stress the importance of a consistent, diversified approach to investing. This approach provides the comfort and cushion in more trying times. While it now looks as if the prospects for a swift trade deal are dwindling, we hope that cooler heads prevail and we soon find ourselves back on the yellow brick road.