First Commonwealth Advisors

Loyd Johnson,
Chief Investment Officer

Monthly Review

March: "Against the Wind"

Asset Class	Index	March	3 month	YTD	1 Year	3 Year	5 Year
US Large Cap	S&P 500 Index	1.94	13.65	13.65	9.50	13.51	10.91
US Mid Cap	Russell Mid Cap Index	0.79	16.39	16.39	5.92	11.25	8.27
US Small Cap	Russell 2000 Index	-2.09	14.58	14.58	2.05	12.92	7.05
Total International	MSCI ACWI Ex USA Index	0.60	10.31	10.31	-4.22	8.09	2.57
Int'l Developed	MSCI EAFE (Europe, Australia, Far	0.63	9.98	9.98	-3.71	7.27	2.33
Int'l Dev. Small Cap	MSCI Developed Market Small Cap	0.16	10.65	10.65	-9.36	7.50	4.47
Emerging Markets	MSCI Emerging Markets Index	0.84	9.91	9.91	-7.41	10.68	3.68
US Inv Grade Taxables	Barclay's Intermediate Aggregate	1.39	2.28	2.28	4.33	1.71	2.31
US Inv Grade Munis	Barclay's Municipal 1 - 3 Year Index	0.33	0.98	0.98	2.43	1.20	1.07
High Yield Bonds	Barclay's National Municipal High	2.58	3.83	3.83	8.14	6.15	6.10
Bank Loans	S&P/LSTA Leveraged Loan TR	-0.17	4.00	4.00	2.97	5.67	3.62
Emerging Market Bonds	JPMorgan Emerging Market Bond	1.45	6.59	6.59	3.52	5.20	4.80
US Real Estate	Wilshire US REIT TR USD	3.20	16.02	16.02	19.34	5.45	9.00
Int'l Real Estate	Wilshire Ex-US REIT TR USD	2.32	13.04	13.04	7.86	6.39	5.98
Commodities	S&P GSCI Commodity Index	1.61	14.97	14.97	-3.04	6.18	-12.61

A Look Back

Who doesn't love a good Bob Seger reference? The song, from the self-titled album, was released in 1980 and reached #5 on Billboard's Hot 100 chart. It was also the song played in the movie *Forrest Gump*, where Forrest was running across the country. A long drive in the car recently led me to this classic from the rock n roll legend, and in many ways properly frames where we are from an investment perspective. The first quarter of 2019 was a dramatic reversal from the fourth quarter of 2018. After a nearly 2% return in March, the large-cap S&P 500 index was up 13.65% in the first three months of the year. Other asset classes like Real Estate, Commodities, and Fixed Income fared well in March too. Small-cap domestic equities slowed down a bit (-2.09%) after a ferocious start to the year. After one of the worst fourth quarters in some time in the equity markets, and the worst December since the Great Depression era, stocks have once again shaken off the weight of extended valuations and surprised most with a first quarter surge. By the end of the quarter, we were only 2.5% away from the all-time high made in the S&P 500 in September of last year. All of this is happening against some pretty formidable headwinds. We have extended valuations, as already mentioned, born out of a 10 year bull market run from the lows of March of 2009. From an historical perspective, most market indicators suggest we are pretty extended…some would argue that we are very extended. The problem is, although these indicators may tell us a lot about the next 7-10 years, they tell us little about the next 5-7 weeks. Or really, 5-7 months, for that matter. Additionally, most economic indicators suggest at least a slowdown. The Employment report released in March was a dud, as only 20,000 new jobs were added, versus a consensus expectation of 180,000. Fourth quarter GDP was revised down to show growth of 2.2% versus the previous estimate of 2.6%. We will cover more in our quarterly report, but additional headwinds remain for markets to run against.

A Look Ahead

The most important development over the last several months has been the sudden change in sentiment from the FED. It was only last October when Chairman Powell suggested we were nowhere near "rate neutrality." Equity markets did not like that revelation and a month later he suggested that we were much closer. Fast forward to today, where there have been no additional rate hikes, and in fact there is a better chance of a rate decrease later this year than anything else. Whenever we see that kind of sudden shift in sentiment and policy, it does make you wonder what the caretakers see in the future pipeline that warranted such a change. The month of March and the first few days of April have been saturated with headlines of an anticipated U.S./China trade deal. Indeed, one could argue that much of the potential positive benefit is already baked in the numbers. Could that news be another in a long line of "buy the rumor, sell the news"? We do not discount that possibility. In any event, the first quarter was an important reminder of why it is important to remain invested and attached to your asset allocation plan…even against the wind.