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Market Commentary, Second Quarter 2020

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MARKET RECOVERY CONTINUES BUT WAITING FOR A RELAPSE

As the first quarter ended in March, we experienced what was hoped to be the beginning of a recovery in the stock market. After dropping 34% between February 19th and March 23rd, the widely followed S&P 500 had recovered over 15% by the end of March. However, Covid-19 trends were still trending negative. The economy was contracting, unemployment was escalating and much of the country had shut down as we began to shelter in place for the next few weeks. Efforts by the Federal Reserve and Congress to provide monetary and fiscal stimulus through a myriad of programs provided optimism to the stock market.
During the second quarter the market recovery continued at historical levels. The S&P 500 gained 20%, its biggest percentage gain since the fourth quarter of 1998. With a roller-coaster first six months of 2020, the total return (including reinvested dividends) of the S&P 500 was only slightly negative at 3.1% year-to-date through June. Truly a result that was hard to imagine in mid-March.

The second quarter recovery was widespread and included other major market indexes reflecting mid and small capitalization stocks as well as international and emerging markets. As we look back longer term, the domestic market remains a stronger return environment than international or emerging markets. Likewise, large capitalization stocks have out-performed mid and small while stocks with more of a value orientation have underperformed growth stocks over the last 15 years.

At Phillips Financial we remain strong in our conviction that over time patience and diversification will be rewarded. History shows that over even longer periods of time returns of mid-sized and small stocks will out-perform large and that value and other factors such as quality will outperform growth. Likewise, international and emerging markets have experienced periods where returns have exceeded those domestically.

Unlike the equity markets in the first half of the year, the overall bond market returned stable and positive results as measured by the Bloomberg Barclays US Aggregate Bond Index. Diversification across the major segments of the US taxable bond universe resulted in a total return for this index of 2.9% for the second quarter, bringing its year-to-date return to just over 6.1%.

As we described in our first quarter newsletter, returns did vary widely within the major segments of the bond market and in some respects the second quarter mirrored the first. For example, in the first quarter the Bloomberg Barclays US Treasury Index returned 8.2% as investors both domestically and internationally sought out the safety of these securities driving up prices as yields declined. During the second quarter interest rate levels remained relatively stable and US Treasuries returned only an additional 0.5%.

On the other hand, the Bloomberg Barclays Corporate Bond Index returned a negative 3.6% in the first quarter but recovered strongly in the second quarter, returning over 11.3%. Recovery in stocks along with actions by the Federal Reserve to support the Corporate Bond market through its direct purchase of both corporate bonds and ETFs helped propel a very positive quarter for corporate bonds fund.

For both stocks and bonds, second quarter results continue to show the cumulative benefits of maintaining diversified portfolios and importantly to position for future performance by staying fully invested and to rebalance as opportunities in the market arise. It is not always an easy thing to do when markets are as volatile as they have been so far this year, but from an investment perspective it has been proven to be rewarded in the long term.

So, what will the short term bring, particularly since we have recently experienced a renewed spike in the occurrence of COVID-19 cases in broader swaths of our country and new hot spots around the world. The continued opening back up of businesses, events and leisure activities along with the reopening of schools later in the third quarter could make the last half of the year very unpredictable. And the upcoming Presidential and general election add further uncertainty to the investment environment.

The future is uncertain. Perhaps it does feel a little more uncertain than usual. Importantly though, we strongly suggest you stick with your investment plan unless personal circumstances have changed. As always, and especially during these volatile and uncertain times, your Phillips Financial advisor is available to address any questions or concerns

Index	% Last Quarter Return 1/1/20 - 3/31/20	% Year-to-Date Return 1/1/20 - 3/31/20	% Cumulative 1 Year Avg. 4/1/19 - 3/31/20	% Cumulative 3 Year Avg. 4/1/17 - 3/31/20	% Cumulative 5 Year Avg. 4/1/15 - 3/31/20	% Cumulative 10 Year Avg. 4/1/10 - 3/31/20	% Cumulative 15 Year Avg. 4/1/05 - 3/31/20
Bloomberg Barclays US Aggregate Bond Index	**2.90%**	**6.14%**	**8.74%**	5.32%	4.30%	3.82%	4.39%
S&P 500 Index	20.54%	-3.08%	7.51%	**10.73%**	**10.73%**	**13.99%**	**8.83%**
S&P 500 Value Index	13.15%	-15.52%	-4.50%	3.74%	5.98%	10.88%	6.45%
S&P Mid Cap 400 Index	**24.07%**	-12.78%	-6.70%	2.39%	5.22%	11.34%	8.21%
S&P Small Cap 600 Index	21.94%	-17.85%	-11.29%	0.56%	4.48%	11.24%	7.65%
S&P Small Cap 600 Value Index	20.62%	**-24.46%**	**-17.38%**	-3.15%	2.19%	9.58%	6.33%
MSCI EAFE Index	14.88%	-11.34%	-5.13%	0.81%	2.05%	5.73%	4.09%
MSCI Emerging Markets Index	18.08%	-9.78%	-3.39%	-1.90%	2.86%	3.27%	6.33%
Wilshire REIT Index	10.56%	-17.77%	-12.30%	0.23%	3.98%	9.22%	5.93%
Bloomberg Commodity Index	5.08%	-19.40%	**-17.38%**	**-6.14%**	**-7.69%**	**-5.82%**	**-4.34%**

Source: Standard & Poor's, Bloomberg, Morgan Stanley Capital International, Wilshire Associates, Morningstar
Green= best performing asset class **Red** = worst performing asset class
Index returns are for illustrative purposes only, and do not reflect any management fees, transaction costs or expenses. The performance of an unmanaged index is not indicative of the performance of any particular investment. It is not possible to invest directly in any index. Past performance is no guarantee of future results.

Focus on Phillips: Erin Martin, Retirement Plan Adviser

Erin Martin has worked with employee benefits at Phillips since 2006. Erin cites several important circumstances that led her here:

First, Erin's father, a long-time client of Phillips, impressed on her the importance of understanding personal finances and encouraged her from an early age to save aggressively. "I was probably the only Scotts checkout girl who had a Roth IRA," laughs Erin.

Secondly, after graduating from Homestead and leaving Scotts behind, Erin chose to pursue her interests by attending IU's Kelley School of Business. She, with her father's early support, had laid a solid foundation for a career in the field she loved.

The third circumstance was more serendipitous. "Because I was so interested in the financial field, my dad brought me as his guest to that year's Phillips client open house," says Erin. It was at this reception that a fortuitous conversation occurred.

"I had just graduated from IU and had a job in Fort Wayne, but it wasn't exactly what I wanted to be doing. John Behrendt, a Founding Partner with Phillips whom I'd met several times before, was asking me about my career goals now that I'd graduated. I told him what I was doing, but that I really hoped to someday get into the investment field."

"I didn't give it much thought. But just a few months after the reception, John called to tell me there was an opportunity at Phillips that he thought would be a good career move for me. And that led to this job I love!"

Since 2012, Erin has focused on overseeing all the wide variety of retirement plans offered to clients by the retirement plan team. She's responsible for transitioning new businesses, consulting on plan designs, overseeing fiduciary compliance, and working directly with the employees at the wide variety of business clients. "Educating individuals about the importance of saving early is one of my favorite parts of my job. It's so rewarding to see the 'lightbulb go on" when they grasp that the stock market isn't a scary thing - that there are easy steps they can take to prepare for a secure future," says Erin. "I'm really just passing along the guidance my dad gave me at an early age."

Outside of work, Erin puts being a mom and spending time with her family as her number one priority. She and her husband, Jesse, are busy with their two young girls Avery, age 10, and Lyla, age 8. "The girls are really into dance, but also piano and softball, too. There's a lot of time devoted to running them around to activities and supporting them at their events. But we also love slowing down with family walks and spending time at my husband's parents' lake house - the girls are just like little fish there!" says Erin. "Of course, family dinner time every night is particularly important to me, especially at their age.

"One of the things I most appreciate about working at Phillips is how supportive it is of the importance of family. This unprecedented time in the world recently really showed how the Phillips team pulls together to work for the good of the group. The very first conversations led by our leadership were about how can we keep our employees safe and allow them to meet the needs of their families. That really means a lot to me. I think that genuine caring infuses everything we do and is evident to our clients, too."

"One of my favorite quotes is: **'Work for the Lord. The pay isn't much, but the retirement plan is out of this world,'"** says Erin. "To me that means working for the good of other people, helping people to have the best lives they can for them and their families. And that's why I find my work so rewarding”

Definitions and Disclosures:

Bloomberg Barclays Aggregate Bond Index. An index managed by Bloomberg to track the general performance of the domestic taxable investment grade bond market.

S&P 500 Index. An index that measures the large-capitalization sector including roughly 500 leading companies representing over 80% of the largest market capitalization in the U.S. equity markets. It is a capitalization-weighted index from a range of securities chosen by Standard & Poor's for liquidity and industry group representation.

S&P 500 Value Index. Contains those securities from the S&P 500 Index with lower-than-average sales and growth rates and that generally reflect lower price-to-earnings and price-to-book ratios.

S&P MidCap 400 Index. An index that measures the mid-capitalization sector including roughly 400 leading companies representing about 7% of the U.S. equity market. It is a capitalization-weighted index from a range of securities chosen by Standard & Poor's for liquidity and industry group representation.

S&P SmallCap 600 Index. An index that measures the small-capitalization sector including roughly 600 leading companies representing about 3% of the U.S. equity market. It is a capitalization-weighted index from a range of securities chosen by Standard & Poor's for liquidity and industry group representation.

S&P SmallCap 600 Value Index. Contains those securities from the S&P SmallCap 600 Index with lower-than-average sales and earnings growth rates and that generally reflect lower price-to-earnings and price-to-book ratios.

MSCI EAFE Index. An index developed by Morgan Stanley Capital International Inc. as an equity benchmark for performance of publicly traded securities in developed international markets.

MSCI Emerging Markets Index. An index developed by Morgan Stanley Capital International Inc. as an equity benchmark for performance of publicly traded securities in emerging markets.

Wilshire REIT Index. An index developed by Wilshire Associates to track the general performance of Real Estate Investment Trusts (REITs) traded on domestic equity markets.

Bloomberg Commodity Index. An index managed by Bloomberg to provide a diversified, economically rational and liquid benchmark for commodities as an asset class. The index is currently composed of the prices of 22 exchange traded futures contracts on physical commodities.

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