



October 12, 2020

## Market Commentary, Third Quarter 2020

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### A Solid Quarter, A Mixed 2020 To-Date

After riding a financial roller coaster during the first six months of 2020, markets during the third quarter brought us something that we have been hoping for - relative stability and solid results. Importantly, all major asset classes reported positive total returns for the quarter.

Emerging Markets and Commodities led the way with a third quarter return of over 9%. While oil prices remained stable during the quarter, other commodity sectors such as precious metals and agricultural products rose in value. And the relative strength of Emerging Markets over the last year helps underscore the benefit of a diversified portfolio.

Among domestic equity classes, the S&P 500 continued to reflect the strong performance of large cap stocks, returning almost 9% for the quarter. Other equity classes also produced positive returns for the quarter, continuing the recovery begun in late March.

Noticeable though is the longer-term divergence of returns among the equity classes. For example, both year-to-date 2020 and for the twelve months ended September 30, 2020, the market leading large cap stocks (S&P 500 Index) returned a positive 5.6% and 15.1%, respectively. Contrasted with the S&P 600 Small Cap Index returns were a negative 15.2% and 8.3%, respectively.

Driving such strong returns for large cap stocks has been a concentration of just 6 securities within the index consisting of 500 of the largest securities as measured by market capitalization. Sometimes referred to by the acronym FAANGM, these stocks are Facebook, Amazon, Apple, Netflix, Google, and Microsoft. Together these 6 now represent over 23% of the index and contribute an even greater share to the total return of the index. These stocks also share an attribute of largely not being negatively impacted by the pandemic and likely benefited by the global shut down, sheltering in place and work from home trends.

Historically, both large caps and smaller cap stocks will alternate periods of leadership in terms of total return. We are still in an extended period where large caps, and specifically domestic large cap stocks, are outperforming. While impossible to predict when we might see a return to see smaller capitalization stocks out-perform, our investment strategy continues to reflect diversification among these asset classes.



Turning now to fixed income, bonds were the lowest performing asset class for the quarter as the widely followed Bloomberg Barclays US Aggregate Bond Index returned just 0.6%. During the first six months of 2020, bond yields dropped to record low levels, increasing the price of those underlying securities driving up total return. During the 3rd quarter of 2020, bond yields remained in a relatively narrow band and bond prices generally remained stable. As we look at the components of return for the quarter, we see that current income and not price level changes drove returns.

The Federal Reserve continues to indicate that they plan to keep interest rates low for an extended time period. Given there is not much farther that interest rates can fall, the likelihood of price level increases driving future total return is small. On the other hand, should interest rates rise significantly from current levels we could expect to see negative total returns until those rates stabilize or peak. Should that happen, ongoing current income would be positively affected thereafter, but in the interim we can expect total returns for fixed income to remain muted as we experienced in the 3rd quarter. Keep in mind that an investment portfolio containing fixed income funds provides for a modest level of current income and long-term price appreciation along with significant ongoing diversification benefits relative to stocks.

To recap, the year 2020 has been quite a ride so far. Financial markets have certainly reflected these unusual and challenging times. As we enter the final quarter of the year, we can probably expect some renewed volatility and uncertainty as the election approaches and occurs. However, as the Elections Matter article points out, historical market performance during a Presidential election year has not proven to be inconsistent with other years. As always, and given these circumstances, your Phillips Financial advisor is available to address any questions or concerns.

Visit the Phillips Financial Article Library for the article: “Elections Matter, but Not so Much to Your Investments 10/2020” at <https://www.1phillips.com/personal-services/article-library/>



Index	% Last Quarter Return 7/1/20 - 9/30/20	% Year-to-Date Return 1/1/20 - 9/30/20	% Cumulative 1 Year Avg. 10/1/19 - 9/30/20	% Cumulative 3 Year Avg. 10/1/17 - 9/30/20	% Cumulative 5 Year Avg. 10/1/15 - 9/30/20	% Cumulative 10 Year Avg. 10/1/10 - 9/30/20	% Cumulative 15 Year Avg. 10/1/05 - 9/30/20
Bloomberg Barclays US Aggregate Bond Index	0.62%	6.79%	6.98%	5.24%	4.18%	3.64%	4.48%
S&P 500 Index	8.93%	5.57%	15.15%	12.28%	14.15%	13.74%	9.19%
S&P 500 Value Index	4.79%	-11.47%	-2.68%	4.18%	8.84%	10.35%	6.54%
S&P Mid Cap 400 Index	4.77%	-8.62%	-2.16%	2.90%	8.11%	10.49%	8.21%
S&P Small Cap 600 Index	3.17%	-15.25%	-8.29%	-0.33%	7.20%	10.57%	7.50%
S&P Small Cap 600 Value Index	2.09%	-22.88%	-16.86%	-4.43%	4.96%	8.84%	6.19%
MSCI EAFE Index	4.80%	-7.09%	0.49%	0.62%	5.26%	4.62%	3.73%
MSCI Emerging Markets Index	9.56%	-1.16%	10.54%	2.42%	8.97%	2.50%	5.81%
Wilshire REIT Index	1.25%	-16.74%	-17.69%	0.45%	3.65%	8.00%	5.75%
Bloomberg Commodity Index	9.07%	-12.08%	-8.20%	-4.18%	-3.09%	-6.03%	-4.82%

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.

**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.



## Focus on Phillips: David Hamel, CFP™



David Hamel joined Phillips Financial in 2016 as he was completing his Bachelor's of Science degree in Business at the University of Saint Francis. David says, "I'd always liked numbers, but it was after just a few classes in college that I discovered I loved finance." David minored in finance and left his mark on that program by co-founding the Finance and Investment Society Club. This club is still going strong and offers opportunities for finance students to network with finance professionals, participate in simulated stock market competitions, and discuss and apply their analytical skills to real world situations.

As college was drawing to a close, he'd been vacillating between a career in corporate finance or one in personal finance. One of his mentors took him to lunch with Rick Phillips to talk about the personal finance field. "I was really nervous at that lunch and didn't think I made a great impression. But I left it with total clarity on what I should do: pursue a career in personal finance."

Not long after that lunch, David saw an ad for a paraplanner position at Phillips Financial. "I didn't see Rick during my initial interview. It was only after I was hired that I reminded him of our lunch meeting -- which he did not remember," laughs David. "But I'm not sure I would have remembered me, either, considering how nervous I was!"

Since joining Phillips, David has achieved his CERTIFIED FINANCIAL PLANNER™ professional certification. As a paraplanner, David works closely with all the financial advisers to prepare investment reviews and financial plans for clients. In addition to his paraplanner work, David also works to improve the firm's core services by building new digital tools for enhanced internal efficiency and improved products for clients. He's also begun some junior planner work and assisting in presenting financial plans to clients. This has been some of his favorite work so far. "It's very rewarding to help people identify their true goals, to guide them in the steps needed to get there, and to experience their satisfaction when they realize their goals are within reach."

Outside of work, time with his family is David's highest priority. He and his wife, Allie, have a three and a half-year-old son named Dawson. David tries to spend every evening with Dawson "to give Allie a little break" and to spend time playing outside and fostering Dawson's love of music. "He's super big into music, especially classic rock - just like me," says David proudly.

David also enjoys golf, travel, and watching sports (he's a big Cleveland Indians and Ohio State fan -- "thanks to my mom"). He particularly makes time to be involved in their family church, St. Mary's Catholic Church in Decatur, where he teaches Sunday school to seventh graders. "I think seventh graders are actually a lot of fun. We have really great conversations about current issues and events and about balancing our thoughts on those with our Catholic faith." He and Allie also enjoy talking with youth groups about their personal experiences with dating and the social pressures of high school. "We began dating when we were both 14-year-old freshmen at Bishop Luers High School," explains David. "We talk to the youth groups about how to date and to keep Christ at the center of your relationship."



It is clearly apparent that David's favorite Bible verse inspires his actions in all areas of his life:

**"For I know the plans I have for you, declares the Lord, plans to prosper you and not to harm you, plans to give you hope and a future." Jeremiah 29:11**

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