



## Market Commentary, Fourth Quarter 2020

January 8, 2021

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### 2020 Review – 2021 Preview

As we turn the calendar to 2021, we look back on 2020 as a year of sorrow and suffering, major disruption of routines, and other unprecedented challenges due to COVID-19. In addition, we experienced social upheaval and an elevated level of political theater and polarization during the presidential election year.

The economy and financial markets were certainly not immune to the events of 2020. As COVID exploded in March, the general economy essentially went on lock-down and we saw the end of our record setting 11-year bull market in stocks. Interest yields on most fixed income instruments fell to record low levels as well. Fortunately, as the COVID pandemic stabilized a bit in the second quarter our economy began to recover, helped by a significant infusion of fiscal stimulus and actions taken by the Federal Reserve. The stock market began to regain the ground lost in the first quarter and to the surprise of most actually finished the year by setting new record highs in December. On the fixed income front interest rates have remained relatively stable during the last half of the year, albeit at record low levels creating an environment of low total returns.

Looking at results by asset class in the attached table, we see that for the year of 2020 returns were generally very favorable, led once again by total returns for the broad-based S&P 500 at 18.4%. Only REITs and Commodities experienced negative returns. With concentrations in real estate sectors such as retail, office space and apartments, REIT valuations were particularly hard hit by the pandemic. Continued low levels of inflation kept commodity returns in negative territory as they have been for the last decade or so.

Results for the 4<sup>th</sup> quarter of 2020 were particularly strong and interesting. Even REITs and Commodities recovered nicely in the quarter. While still relatively early in our recovery to characterize as a trend, of note in the quarter is that mid and small cap stocks outperformed the larger caps represented by the S&P 500. And value portfolio returns exceeded core market and growth-oriented portfolios.

As we look forward to 2021 and beyond, will we see continuing strong portfolio returns? Will asset class return rotations (such as to value and small cap) occur and be sustained? Given that COVID-19 vaccines are now available, will our economy continue to re-bounce and will financial markets sustain recent positive trends? And what, if any, longer term structural changes to our economy will occur? How will changes in national political leadership impact markets? Will inflationary trends remain muted?

These questions and others make predictions unwise and often wrong. Unexpected events such as a global pandemic can play havoc with predictions about short and long-term trends. Rather than trying to predict market performance, perhaps it is more appropriate to simply recognize that returns have been and will be negative from time to time, sometimes significantly.

We have all seen and understand the wisdom of the familiar financial disclosure of “past performance is no guarantee of future results”. Our performance table of results serves to remind us of that reality. Investment portfolios have generally experienced very favorable performance, particularly over the last 10 years. It does behoove us to put that record of performance in the context of the longer term. For example, the cumulative 15-year average returns are more muted and consistent with historical longer-term results.

This is the time of year we see and hear various predictions of future long-term economic and financial market performance. As a good general rule, we should not rely on those predictions to impact either our short or long-term



investment decisions. However, it is worth noting that these sources are generally predicting lower, but still positive, long term returns for both stocks and fixed income investments. At Phillips Financial, we believe an important role in our relationship with you is to help manage expectations with respect to future returns. As we move into 2021 and beyond, that principle seems more appropriate and important than ever.

2020 has reminded us of the importance of our health and physical well-being. Your financial health and well-being are also very important to us. As always, your Phillips Financial advisor is available to address any questions or concerns.

Index	% Last Quarter Return	% Year-to-Date Return	% Cumulative 1 Year Avg.	% Cumulative 3 Year Avg.	% Cumulative 5 Year Avg.	% Cumulative 10 Year Avg.	% Cumulative 15 Year Avg.
	10/1/20 - 12/31/20	1/1/20 - 12/31/20	1/1/20 - 12/31/20	1/1/18 - 12/31/20	1/1/16 - 12/31/20	1/1/11 - 12/31/20	1/1/06 - 12/31/20
Bloomberg Barclays US Aggregate Bond Index	0.67%	7.51%	7.51%	5.34%	4.44%	3.84%	4.49%
S&P 500 Index	12.15%	18.40%	18.40%	14.18%	15.22%	13.88%	9.88%
S&P 500 Value Index	14.49%	1.36%	1.36%	6.78%	10.52%	10.74%	7.35%
S&P Mid Cap 400 Index	24.37%	13.66%	13.66%	8.45%	12.35%	11.51%	9.55%
S&P Small Cap 600 Index	31.31%	11.29%	11.29%	7.74%	12.37%	11.92%	9.44%
S&P Small Cap 600 Value Index	32.96%	2.53%	2.53%	3.71%	10.31%	10.34%	8.21%
MSCI EAFE Index	16.05%	7.82%	7.82%	4.28%	7.45%	5.51%	4.48%
MSCI Emerging Markets Index	19.70%	18.31%	18.31%	6.17%	12.81%	3.63%	6.59%
Wilshire REIT Index	10.62%	-7.90%	-7.90%	3.30%	4.25%	8.27%	6.28%
Bloomberg Commodity Index	10.19%	-3.12%	-3.12%	-2.53%	1.03%	-6.50%	-4.01%

Source: Standard & Poor's, Bloomberg, Morgan Stanley Capital International, Wilshire Associates, Fidelity Investments, BlackRock, Inc.

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.

## 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.

## Focus on Phillips: Jennifer MacAleese, CFP®, IACCP®



Jennifer MacAleese has been with Phillips Financial since 2017. Born and raised in Fort Wayne, she attended St. Vincent DePaul Catholic School and Bishop Dwenger High School before getting her bachelor's in marketing from Ball State University. She worked for over 15 years in the banking and financial services industry before joining Phillips as an investment adviser representative and Chief Compliance Officer. That role has been an excellent fit for her because, as she says: "I love a good rule book. I love to follow the rules and check things off the list!"

But her primary goal was to develop as a financial planner, through experience and the attainment of the Certified Financial Planner® (CFP) designation. Jennifer set 2020 as the year to finish the designation. "I knew it was time for me to pass the CFP®: for the good of my clients, for the firm, for myself," says Jennifer. This is no small endeavor. Jennifer had achieved the professional experience required for the designation, but now needed to complete the education component (six online courses which can take 12-18

months to complete); then study for and take the six-hour exam (which only 60-65% of candidates pass on their first try.)

How did Jennifer become acquainted with Phillips Financial? Sometimes it's who you know. Reed Miller, one of the earliest owners of Phillips Financial, had known Jennifer for many years in her professional role at a local bank. At one point Miller had asked if she might be interested in joining the Phillips team. "But I was just pregnant with my third child and it didn't seem like also adding a job change would be a good idea," explains Jennifer. "Fortunately, not too long after Nora was born and I was preparing to return to work, Reed and I ran into each other in the fruit section at Kroger. He asked if I was willing to consider Phillips now. And I was!" Jeanine Herold, CFP®, another Phillips Financial owner and financial planner, was looking for a colleague to work with her, and Jennifer seemed like a good fit. And it has worked out well.

Jennifer's work life has always been important to her. "My parents are extremely hard workers and instilled a strong work ethic in all four of us kids. As soon as I could work, I did. When I was home from college in the summers, I worked three jobs. My dad worked on the factory floor at Dana for almost 50 years and never once complained. He put all of us through private schools and paid for our college. We lived within our means, but we enjoyed a great life, too, with travel and our lake cottage. My parents had high expectations for each of us and always set an example of tackling each day with a 'can-do' attitude.

Jennifer's own family life is equally important. Jennifer and her husband, Bram, have three elementary school-aged children: Finn, Isla, and Nora, who all attend St. Elizabeth's Catholic School. The family loves outdoor activities – especially anything water-related – and enjoy spending time at her parents' lake cottage here, and at her husband's family's place on Cranberry Lake in the Adirondacks of New York.



Also, the family had just bought a new home in southwest Fort Wayne in order to be closer to the kids' school and activities. They moved in in early 2020 and were looking forward to the year ahead being focused on their kids' schooling and extracurricular activities, and to Bram and Jennifer continuing to further their respective careers.

Well... we all know what happened in early 2020. By mid-March the entire family was at home: all of them, all the time, every day. Both parents were trying to support their three children in their remote learning while continuing to work their fulltime jobs without the help of after-school care, extracurricular activities, and camps. Jennifer was also working hard to prepare for the CFP®. "It was a very difficult time – plus we weren't even fully unpacked in the new house!" says Jennifer. "But I think it was actually nice for the kids to see the amount of effort I was putting into getting the CFP®. They knew I was nervous about it and they saw me studying hard – getting up early, staying up late to do so."

"It also meant my husband had to do things out of his 'comfort zone' to support me and to help in taking care of our kids," she explains. "We were both so busy with work already, but the CFP preparation was really impacting my availability to the kids. We had to find a way to give the kids more time, and Bram really stepped up!"

This experience led Jennifer and Bram to reassess their plans for their family. "We read a lot of Dr. Sues in our house, and one of our favorite quotes is '*Sometimes you will never know the value of a moment until it becomes a memory*,'" explains Jennifer. "We had been so busy and structured all the time. Now we wanted our kids to have more of a classic childhood experience with all the benefits of a fulltime parent fully focusing on each of them." The traditional values of faith, family, and hard work were the root of their family, but they chose a very modern approach to build on those: at the end of the summer Bram voluntarily left his work position to be the fulltime parent.

"The kids can come right home from school now. Bram volunteers at the school and is really getting to know the teachers. I feel like we're all where we're supposed to be and we're creating the life that works best for all of us, right now. We have so much more flexibility and the kids are old enough now we can really explore more things together."

Jennifer's joys at work are similar to the rewards she finds in her home life: helping clients navigate through their lives and supporting their hopes and goals.

"I was a cheerleader in my school days, and think I still am in many ways! To my family and to my clients – encouraging them toward their goals, even when they feel overwhelmed. There's so much 'noise' from the outside world about financial planning. It can be overwhelming. I like laying out the pieces and showing how they fit together; showing my clients it's not a mountain, it can be broken down by going by a step-by-step plan."

"Angela Duckworth, who wrote the book **Grit**, says, '*Our potential is one thing, what we do with it is quite another.*' That's how I try to live my life and the example I want to set for my kids," says Jennifer. "I *did* pass the CFP® exam in November. Thanks to that principle and to my family's support.

"And I'm sure this helped, too," she continues. "On the day of the test, my son came home from school and said, 'I asked the teacher today if we could pray for you. And we did – twice!'"

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