



## Market Commentary, Third Quarter 2021

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## Market Commentary – A Market Pause or Inflection Point?

After five consecutive quarters of strong stock market performance following the COVID-19 related financial turbulence of the first quarter 2020, we experienced a flat to slightly negative third quarter 2021.

After a particularly challenging month of September for the markets, the widely followed S&P 500 index still was able to post a very modest total return of just under 0.6% for the quarter. Other market cap related indexes were negative for the quarter. Like the experience in the prior quarter, mid and small-cap indexes under-performed relative to its larger cap peers. And value related funds also underperformed growth and blend for the 3<sup>rd</sup> quarter.

Contributing to the weak quarter for the overall stock market were several factors. Inflation trends and concerns have re-appeared after an extended period of very low inflation. Potential increases in corporate and individual federal taxes have elevated market anxiety. We saw COVID impact the quarter as well, with the Delta variant causing what hopefully is just a temporary pause to economic recovery. COVID had a particularly negative impact on emerging market countries where vaccination rates remain low. The MSCI Emerging Markets Index remains a bit of an outlier to others, with returns of over negative 8% for the quarter and 1% year-to-date.

Two areas where inflation trends ran counter to overall market-based trends this quarter were Real Estate and Commodities. Commodities were particularly impacted as energy; industrial metals and some agricultural products have been experiencing higher pricing so far this year. While the Phillips model portfolios do not generally include Commodity focused funds or always include Real Estate funds, we believe that our tilts to mid and small cap along with value funds provide appropriate levels of exposure to both over the long term.

We would continue to emphasize that stock returns should always be viewed over longer time frames. Year-to-date returns as well as 1, 3-, 5-, 10- and 15-year average returns are very strong, especially among domestic stock indexes. While 15-year returns show moderation relative to the shorter time horizons, keep in mind that the longer period included the significant market downturn related to the great recession and financial crisis of 2008.



Fixed income performance was relatively benign in the 3<sup>rd</sup> quarter, resulting in a virtually flat total return of the Bloomberg US Aggregate Bond Index. Since the beginning of the year overall fixed income yields have moved up. For example, on December 31, 2020, the benchmark 10 Year US Treasury yield was 0.93%. On September 30<sup>th</sup>, that rate stood at 1.52%. However, that remains at a relatively historic low level as the Federal Reserve continues to endeavor to keep rates low to help facilitate a continued economic recovery. As yields move up, even marginally, bond and bond fund prices move down. The dynamics of those interactions drive total return performance. For year-to-date 2021, the Bloomberg US Aggregate Bond Index total return was negative 1.5%. Undoubtedly, renewed inflation concerns have also influenced the increase in yields experienced so far this year.

We may have encountered a “market pause” in the 3<sup>rd</sup> quarter. Typically pauses can be expected after strong performance like we have experienced since March 2020. We may or may not look back at this quarter and see it as a long-term inflection point. Regardless of what the future may bring, such a quarter helps reinforce the importance of sustaining a long-term investment plan with your Phillips Financial Advisor.

Index	% Last Quarter Return	% Year-to-Date Return	% Cumulative				
			1 Year Avg	3 Year Avg	5 Year Avg	10 Year Avg	15 Year Avg
	7/1/21 - 9/30/21	1/1/21 - 9/30/21	10/1/20 - 9/30/21	10/1/18 - 9/30/21	10/1/16 - 9/30/21	10/1/11 - 9/30/21	10/1/06 - 9/30/21
Bloomberg Barclays US Aggregate Bond Index	0.05%	-1.55%	-0.90%	5.36%	2.94%	3.01%	4.17%
S&P 500 Index	0.58%	15.92%	30.00%	15.99%	16.90%	16.63%	10.37%
S&P 500 Value Index	-0.85%	15.31%	32.02%	10.69%	11.70%	13.77%	7.55%
S&P Mid Cap 400 Index	-1.76%	15.52%	43.68%	11.08%	12.97%	14.72%	10.38%
S&P Small Cap 600 Index	-2.84%	20.05%	57.64%	9.44%	13.57%	15.69%	10.30%
S&P Small Cap 600 Value Index	-4.02%	25.34%	66.65%	8.34%	11.91%	14.96%	9.13%
MSCI EAFE Index	-0.45%	8.35%	25.73%	7.62%	8.81%	8.10%	4.10%
MSCI Emerging Markets Index	-8.09%	-1.25%	18.20%	8.58%	9.23%	6.09%	5.68%
Wilshire REIT Index	1.64%	24.79%	38.04%	10.39%	6.97%	11.30%	6.28%
Bloomberg Commodity Index	6.59%	29.13%	42.29%	6.86%	4.54%	-2.66%	-2.15%

**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.*

**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: Kyle Sell



Phillips Benefits Advisors has been an important part of Phillips Financial Services since 2014. This dedicated group of experts in employee benefits bring their professional knowledge and expertise to over 100 businesses and organizations in the Fort Wayne area and elsewhere. The group consists of BJ Batt, Kyle Sell, J Dortch, and Dara Adeosun.

Kyle Sell has been with the group for almost three years and brings a unique range of experiences to his role as Health Advisor. Raised in Woodburn, Kyle went on to Wabash College where he played football and graduated with honors and a B.A. in Psychology. From there he went on to Villanova University and earned his master's degree in Psychology.

"I still identify as an athlete, from playing sports in high school and college, to doing natural bodybuilding competitions for years. More recently I've been competing in trail races and obstacle course races," said Kyle. "Through my

psychology studies I came to realize that mental health and physical health have to be on parallel paths, they can't be compartmentalized."

"After graduate school, I returned to Fort Wayne and had my own business consulting and working with children and their families who were dealing with mental health issues. I always really enjoyed working with kids. Naturally, my knowledge of physical fitness and nutrition played a part in the education I was providing about mental health to these kids and their families," explained Kyle. "I decided to begin a side-business of coaching on nutrition, health, and personal training. I pursued both these paths for about eight years before joining Phillips."

"It was my personal training and health coaching, actually, that introduced me to BJ. A mutual friend suggested BJ might like my personal training coaching. We met at the gym, but soon our conversation turned to work and career."



At the time BJ and Chad Burch, who was head of the benefits group at the time, were working on framing the benefits group's mission. BJ felt Kyle's knowledge of health and wellness would help them in this conversation. Together they established the mission for the benefits group: "THRIVE: we exist to help employers and their employees thrive." Soon the group was brainstorming about how Kyle could join the Phillips team and bring his unique expertise to the group's work.

Kyle is Health Strategist for the group, a role in which he helps business owners, executives, and employees make positive changes in financial, physical, social, and emotional health. After engaging with business owners and executives to learn what they hope to provide their employees, Kyle assists organizations in understanding and optimizing their benefits packages, provides education on health initiatives, and strategizes on how to improve company culture.

"The opportunity at Phillips has allowed my work's impact to grow exponentially. As a consultant and coach, I could work with, at most, 15 to 20 people a week. Since joining the Benefits Advisors Group, my work allows me to reach thousands of employees and their family members across the organizations we serve," said Kyle.

Kyle's favorite part of his job is the "knee to knee conversations" in which he personally connects with and helps individual employees. Kyle makes regular onsite visits and spends a couple of hours each time getting to know the employees and answering their questions.

"It can take time to build the relationships," said Kyle. "Sometimes it starts with simple things like deductible questions or how to find a doctor. But it often evolves when I ask, 'Is there anything else I can help with?' That leads to heavier conversations about parenting, marriage, substance abuse, etc. Many people aren't comfortable going to HR or the president of the company to discuss personal issues. Working in the benefits space allows me to address logistical and financial questions and the opportunity to connect more deeply, when appropriate."

"Sometimes an employee clocks out at 4 o'clock, then we'll sit and talk by his pickup truck for an hour after work about his goals, finances, kids, relationships. When someone comes to me, I know that I've either helped one of their friends there, or I've made a good impression on them from earlier meetings. That just makes me feel really good. They can trust me to be a confidential advisor, to be discreet, and to provide good advice."

"Outside of work, I am a 'family man' to the extreme. Unfortunately, my family has a history of unhealthy and challenging relationships. I didn't have a lot of good male role models growing up and I remember being a young teenager and thinking 'this has to stop with me.' Being a good husband and father is my ultimate goal."

He and his wife, Kelsey, met at IPFW when she was a nursing student, and he was taking classes toward an MBA. Now they have a 15-month-old daughter, Jolene – who Kyle described as "a little pistol with tons of personality" – and a baby boy on the way. Kelsey is a registered dietician and a yoga teacher. They enjoy outside adventures and having fun with family and friends.

Kyle said the book *Choosing to Cheat: Who Wins When Family and Work Collide* by Andy Stanley has helped him learn to juggle his commitments to family, work, and his own health and well-being.



“I’m learning you just can’t do all the things all the time,” said Kyle. “It’s always about trying to find balance and having open communication.”

Sounds like the type of good advice he gives to those many people he’s helped through his work with Phillips Benefits Advisors.

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