Market Commentary, Second Quarter 2022

July 7th, 2022

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Market Commentary:
A 6-Month Slide- Will There Be a Soft Landing

The widely followed S&P 500 index opened the year by reaching a record high on January 3rd. Since then, the index has slid and given up 20% of those gains, which is commonly referred to as being in a "bear market". Typical attributes of a bear market include wide-spread pessimism, negative investor sentiment and is frequently accompanied by general economic downturns such as a recession.

What is new for us with this bear market versus others in our more recent past has been the resurgence of higher inflation. During both the March 2020 pandemic market downturn and the 2008 Financial Crisis/Great Recession, high inflation was not a factor, and the Federal Reserve had a tool they used to help stabilize equity markets by reducing and/or keeping interest rates low. Keeping interest rates low also likely helped stock markets return relatively quickly to "bull market" status.

With inflation now running at relatively high levels, the Federal Reserve must take the opposite action and increase interest rates. Not surprisingly the Fed has done this, raising rates by .25% in March, plus an additional .50% in May, and most recently an additional .75% on June 16th. Clearly these and probable future Federal Reserve actions to increase the general level of interest rates are impacting markets, both equity and fixed income.

On the equity side, we are seeing a divergence in returns between stocks that are considered "growth" vs "value". Generally, in periods of higher interest rates, the valuation of growth stocks relative to value stocks is reduced. While the total return of the S&P 500 was a negative 20% for the first 6 months of 2022, the S&P 500 Growth Index negative total return was over 27% whereas the S&P 500 Value Index total negative total return was just under 12%. While still negative for both the second quarter and year-to-date, our investment focus or tilt towards "value stocks" has helped soften the impact on total portfolio returns.

On the fixed income side, with the Federal Reserve actions employed in previous bear markets, bond returns were generally positive and helped to provide a form of ballast to the equity markets. In today's market environment, with increasing interest rates, bonds have also produced negative returns in the short term. However, even though returns as represented by the Bloomberg US Aggregate Bond Index were over 10% negative year-to-date, the presence of bonds or bond funds in a diversified portfolio did serve to soften the even larger negative equity market returns.

Our long-standing Phillips investment philosophy of portfolio diversification and an orientation to value is proving to help soften market impacts in the current market environment. However, we can't predict that the worst of this market downturn is behind us. I'm sure you have been hearing and reading in both the general and financial press about an oncoming recession and how that might further exacerbate adverse market returns for some time.

It might be helpful to review the historical analysis of prior recessions published by Dimensional Fund Advisors - **Long Term Investors, Don't Let a Recession Faze You.** This chart shows that in most recessions stock returns were positive two years after the recession began, reinforcing that even during times such as these, the temptation to abandon equities when there is heightened risk of an economic downturn is not usually in the best interest of obtaining one's long-term investment objectives.

We can't guarantee a soft landing for your investment portfolio. We can guarantee that your Phillips Financial Advisor is available to discuss your specific situation with you, especially during these challenging economic and market times.

For a more detailed quarterly analysis of market returns, click on this link to read the **Second Quarter 2022 Market Commentary** from Dimensional Fund Advisors.

With all of this said, it might be helpful to keep the following points in mind:

Your Time Horizon is Long

During times like these, it is important to remember our investment portfolios are for the longer term. Even retirees typically have longer time horizons than three or four years. In order to achieve growth through time so that a portfolio can offset the impact of inflation, the investor must be willing to experience volatility and down markets. What is important during these times is to stick with the disciplined approach we have been following all along -- remain diversified and rebalance when appropriate. We believe that will provide the best chance of achieving your long-term objective while weathering the short-term storms.

What We Are Doing

With respect to the portfolios we manage, Phillips Financial advisors are doing the following:

1. Rebalancing as appropriate, even when it doesn't feel good. That means making sales in asset classes that are doing relatively better and buying into asset classes that are performing relatively worse.
2. Investing excess cash in asset classes that have suffered the most. It's good to buy funds when the price is down!
3. Looking for opportunities to realize losses in non-qualified accounts. This will help reduce your tax liabilities now and in the future.
4. Discussing with you other opportunities specific to your situation.

What You Can Do

Instead of stressing about the market, here are some ideas:

1. Focus on financial matters you can control. Have you reviewed your estate planning documents lately? Are your beneficiaries up to date? If something happened to you, would it be easy for your Power of Attorney or Personal Rep to handle your affairs? Instead of watching the markets, work on these projects.

2. If you are taking systematic withdrawals that are not really necessary, consider reducing the amount. When we work with you to set up monthly withdrawals for your living expense needs, the goal is to be able to keep those monthly withdrawals consistent. But if you have flexibility, when markets are down, reducing your withdrawal amount can help.
3. Spend extra time with family and friends…make a rule…no conversation about politics or the markets!
4. Spend more time on your favorite hobby or pastime (unless of course that involves delving into the stock market).
5. Call us if you would like to discuss your portfolio. We are here to talk to you and discuss your situation

Index	% Last Quarter Return 4/1/22 - 6/30/22	% Year-to-Date Return 1/1/22 - 6/30/22	% Cumulative 1 Year Avg. 7/1/21 - 6/30/22	% Cumulative 3 Year Avg. 7/1/19 - 6/30/22	% Cumulative 5 Year Avg. 7/1/17 - 6/30/22	% Cumulative 10 Year Avg. 7/1/12 - 6/30/22	% Cumulative 15 Year Avg. 7/1/07 - 6/30/22
Bloomberg Barclays US Aggregate Bond Index	**-4.69%**	-10.35%	-10.29%	**-0.93%**	**0.88%**	1.54%	3.26%
S&P 500 Index	-16.10%	-19.96%	-10.62%	10.60%	**11.31%**	**12.96%**	**8.54%**
S&P 500 Value Index	-11.27%	-11.41%	-4.86%	8.23%	8.19%	10.97%	6.22%
S&P Mid Cap 400 Index	-15.42%	-19.54%	-14.64%	6.87%	7.02%	10.90%	8.05%
S&P Small Cap 600 Index	-14.11%	-18.94%	-16.81%	7.30%	7.20%	11.26%	8.03%
S&P Small Cap 600 Value Index	-12.74%	-14.16%	-13.93%	8.02%	6.75%	11.01%	7.31%
MSCI EAFE Index	-14.51%	-19.57%	-17.77%	1.07%	2.20%	5.40%	1.42%
MSCI Emerging Markets Index	-11.45%	-17.63%	**-25.28%**	0.57%	2.18%	3.06%	2.00%
Dow Jones US Select REIT Index	**-18.10%**	**-21.14%**	-6.41%	2.54%	4.28%	6.61%	5.04%
Bloomberg Commodity Index	-5.66%	**18.44%**	**24.27%**	**14.34%**	8.39%	**-0.82%**	**-1.77%**

Source: Standard & Poor's, Bloomberg, Morgan Stanley Capital International, Dow Jones, & 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.

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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.
Dow Jones U.S. Select REIT Index. This index tracks the performance of publicly traded REITs and REIT-like securities and is designed to serve as a proxy for direct real estate investment, in part by excluding companies whose performance may be driven by factors other than the value of real estate.
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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Focus on Phillips: Brad Wadkins, Investment Adviser Representative

"We make a living by what we get, but we make a life, by what we give." Winston Churchill. According to Brad Wadkins, that quote sums up his outlook on life. And what an appropriate quote for the helping profession of financial planning.

Brad was introduced to Phillips Financial by his long-time friend, Shannon Hardiek, an investment advisor, and partner of the firm. After working as a Band Director at Homestead High School for 27 years, Brad decided to start a new career with Phillips Financial two years ago.

Brad was a highly qualified teacher with the prominent Homestead Marching Band. The band was recognized with the John Philip Sousa Foundation's Sudler Shield Award in 2012. This is an international award for marching band excellence. The band was a national finalist under Brad's direction. It also won six state championships and was state runner-up eight times. It may seem there is a big difference between music and investment advisory work, but according to Brad "There is a lot of math in music. Furthermore, the communication and teaching skills I honed as a band director are transferable to any career." It helps that he has a passion for the topics of investments and financial planning.

Brad is from Fort Wayne, having graduated from Northrop High School. He obtained his Music Education degree from Ball State in 1992. He received his Master's in Education from Indiana Wesleyan in 2002. His musical instrument is the double bass, and he plays electric bass as well. While he enjoys all types of music, jazz is his first love. At Homestead he worked tirelessly to elevate the skill and then visibility of the jazz and concert bands, taking each of them to state finals.

Brad has been married to Suzanne for 30 years. They have two children – Bethany, who is a travel nurse, and Brody, who just graduated from Ball State with a degree in Music Education (a band director walking in his father's footsteps!).

Brad carries that Winston Churchill quote into his personal life. He loves to volunteer and help people. He is involved with the Shriners and Masons, volunteering at many Shrine events. On a less formal basis, Brad and his wife enjoy hosting and feeding people, especially when they need help. He enjoys grilling as a hobby and has a wide range of specialties from fajitas to steak to stir fry to full breakfast and more.

For fun and relaxation, you might find Brad with family and friends camping, golfing, or snow skiing. But his favorite pastime is watching open-wheel auto racing, especially on dirt. "My dad was a lifelong race fan…that's why my middle name is AJ (after AJ Foyt)," explains Brad. "Both of my parents were involved with the Indy 500. Mom worked in the museum gift shop and dad was a Safety Patrol at Gasoline Alley."

Brad and Suzanne are members of the Chapel. His favorite Bible verse is Philippians 4:4 "Rejoice in the Lord Always, I will say it again, Rejoice!" Brad says "I look for the positive in everything. The Lord has created an amazing work of art for us to enjoy and appreciate." Maybe that's why Brad lists Aruba as his all-time favorite vacation spot!

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