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Market Commentary, Second Quarter 2023

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Market Commentary:
Generally Upward Momentum Continues

After last year's market retreat across almost all asset classes, we began the first quarter 2023 with favorable results in those same asset classes. As the second quarter 2023 ended, similar positive trends continued. For example, the widely followed S&P 500 index produced a 7.5% total return in the first quarter, added an additional 8.7% in the second quarter bringing the year-to-date total return to almost 17%.

Other domestic (US) equity asset classes generally followed a similar pattern in the second quarter by posting returns on par with those experienced by each in the first quarter. Unlike the first quarter, value-oriented funds underperformed their more growth-oriented peers. Small and mid-cap stocks continued to underperform larger cap stocks.

On the international front, positive equity momentum also continued, albeit a bit lower relative to the first quarter. The international EAFE Index (developed markets) that had exceeded domestic returns in the first quarter was able to produce an almost 3% additional total return in the last quarter. Emerging market returns are still lagging the performance of domestic and international developed markets, although total returns were still positive in the quarter and for the year-to-date. It is always important to remember that over a long-term investment horizon international and emerging market equity exposure provides a strong diversification benefit to a portfolio. While a relative drag on performance for the last 15 years, during the decade from 2000-2009, international returns exceeded those domestically. While we can't predict when or even if such a rotation will occur again, history would suggest we are due, maybe even over-due!

Markets are always reflective of and impacted by general economic trends along with discrete events. During 2023 to date those influences included a period of concern about the health of our banking sector and the federal debt limit. Inflationary levels and recessionary fears remained along with a continuing expectation of the Federal Reserve increasing interest rates. And as always, ever evolving geo-political situations, both domestically and internationally, have added to the uncertainty that can affect market performance. In some respects, market performance through the first half of 2023 has proven very positive despite all those potential concerns.

One more thing to point out is that overall equity market returns are once again being heavily impacted by a few large companies operating largely in the technology sector. As the quarter ended, the largest public company, Apple, crossed the total market cap threshold of $3 Trillion. This one company then represents over 6.5% of the total domestic equity market as represented by a comprehensive index such as the Russell 3000. Along with others we see in the financial press every day like Microsoft, Amazon and NVIDIA, the equity market in 2023 is being dominated by a few mega-cap high performers. This is the same group that led the market down in 2022! Phillips' investment models include funds with a significant allocation to these names, although due to our orientation to value and small/mid cap stocks not quite as high as the overall market would represent. Hence, portfolio returns will deviate somewhat during different market cycles that prefer larger cap growth companies. At Phillips we remain convinced and committed to the investment strategy of pursuing longer-term performance premiums available by overweighting value and small/mid cap stocks.

One apparent and perhaps somewhat perplexing anomaly in asset class performance is Commodities. As measured by the Bloomberg Commodity index, this is the only asset class with significant negative returns for the last quarter, year-to-date and cumulative last 12 months. The index includes a broad basket of commodities including precious metals, crude oil related and agricultural staples like corn. Generally considered to be an asset class that can help protect a portfolio during periods of higher inflation, recent experience has not validated that assumption. While some specific assets like gold have performed well year-to-date, other commodity prices like crude oil, wheat and corn have fallen over the last 6-12 months.

Interest rate levels continue to present challenges to fixed income performance. In the second quarter the benchmark Bloomberg US Aggregate Index posted a negative total return of about 0.8%. Unlike the first quarter of 2023 when the effective yield on the above Index dropped slightly from 4.68% to 4.40%, during the last quarter the effective yield increased again to 4.81%. Increasing yield environments typically occur when bond prices drop and visa-versa. Total return performance is therefore a function of the combination of price level changes and yields. It is never pleasant to see the fixed income portion of our portfolios lose value in any period. But if the current 4.81% yield level environment is maintained then bond prices typically will remain unchanged as well, resulting in an expected future return of around 4.8%. However, our economy and the related credit markets are dynamic and ever changing, so we can never truly predict actual returns.

For a more detailed analysis of market returns, read the **Second Quarter 2023 Market Review from Dimensional Fund Advisors**. We would also call your attention to some additional recent insight from researchers at Washington University in St. Louis, MO, addressing the issue of whether predictions about the direction of stocks and the stock market lead to better returns than randomly choosing stocks, read **Faulty Forecasts** . Another interesting study was conducted by Dimensional Fund Advisors concerning the returns of the Standard and Poor's 500 index in relation to recessions. If you have had thoughts about getting out of the market due to a recession, read **Recession Returns**.

As always, this newsletter provides a general overview of the market, but it may not fully reflect the construction and performance of your portfolio. That's why at a minimum, we initiate an annual review with you. These meetings allow us to discuss your situation to determine if any changes should be made. However, we welcome additional conversations. Please contact your advisor if you would like to discuss your portfolio in more detail.

Index	% Last Quarter Return 4/1/23 - 6/30/23	% Year-to-Date Return 1/1/23 - 6/30/23	% Cumulative 1 Year Avg. 7/1/22 - 6/30/23	% Cumulative 3 Year Avg. 7/1/20 - 6/30/23	% Cumulative 5 Year Avg. 7/1/18 - 6/30/23	% Cumulative 10 Year Avg. 7/1/13 - 6/30/23	% Cumulative 15 Year Avg. 7/1/08 - 6/30/23
Bloomberg US Aggregate Bond Index	-0.84%	2.09%	-0.94%	-3.96%	0.77%	1.52%	2.73%
S&P 500 Index	8.74%	16.89%	19.59%	14.60%	12.31%	12.86%	10.88%
S&P 500 Value Index	6.64%	12.15%	19.99%	16.79%	10.58%	10.51%	9.15%
S&P Mid Cap 400 Index	4.85%	8.84%	17.61%	15.44%	7.79%	10.21%	9.78%
S&P Small Cap 600 Index	3.38%	6.03%	9.75%	15.19%	5.22%	9.81%	9.85%
S&P Small Cap 600 Value Index	1.95%	5.06%	8.88%	18.43%	4.96%	9.19%	9.45%
MSCI EAFE Index	2.95%	11.67%	18.77%	8.93%	4.39%	5.41%	3.36%
MSCI Emerging Markets Index	0.90%	4.89%	1.75%	2.32%	0.93%	2.95%	1.81%
Dow Jones US Select REIT Index	2.92%	5.77%	-0.69%	9.17%	3.28%	5.75%	6.16%
Bloomberg Commodity Index	-2.56%	-7.79%	-9.61%	17.82%	4.73%	-0.99%	-4.67%

Sources For This Commentary & Chart: YCharts, Wall Street Journal, Bloomberg, Dimensional Fund Advisors, Federal Reserve Bank of St. Louis, MSCI, S&P Dow Jones Indexes.

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 US 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.
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.

Focus on Phillips:
Kristine Straub, Retirement Client Service Administrator

Kristine Straub is our "newest" colleague in the Retirement Plan Division, but she comes with many years of professional and personal experience that make her a great team member at Phillips Financial. Kristine obtained an Elementary Teaching degree from the University of St Francis in Fort Wayne. She taught 4th and 6th grade science before starting her family 25 years ago. She continued honing her teaching and child management skills as she raised her three sons as a full time Home Manager. She describes those child-rearing years as "the most memorable and cherished years of my life".

Once the boys were grown, she worked at a major Fort Wayne Hospital as the Accounts Payable Manager, where she managed a team of eight clerks. This gave her the opportunity to develop adult management skills.

Kristine's role at Phillips Financial involves preparing materials for meetings with employers and helping both the employer and employees (plan participants) with specific requests. She likes being a member of a team where she can make a difference in people's lives. Kristine's motto is, "Every day in your work environment, you can strive to do even small things for others with great intentions, and you will make a difference." Kristine applies this motto to her interactions with both clients and coworkers.

While her sons are basically grown now (Evan is 25, Cole is 24, and Jake is 20), Kristine continues to work with youth, serving as a Big Sister. She was a Big Sister in college, and in 2021 she decided to become a “Big” again. Why does she do it? “I find great joy spending time with my Little Sister, serving as a positive influence in her life.”

Kristine has been married to her husband, Jay, for 28 years. In addition to their three sons, they have a 3-year old dog, Ace, who is part St Bernard, that they adopted from an animal shelter this year.

For fun Kristine enjoys plays, her favorite being Mama Mia. Kristine says it is “the ultimate feel-good show.” She also enjoyed the Clue play, especially when her youngest son performed as the Butler! She also enjoys traveling (“girl” trips with her sisters and nieces are especially fun) and spending time at their lake home in Whitley County with her family.

Kristine has two favorite quotes that guide her life:
--Her husband, Jay, reminds Kristine periodically that “worrying about tomorrow is a waste of today.”
--Mother Theresa guides us all with “Spread love everywhere you go.”

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