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Market Commentary, Third Quarter 2023

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Market Commentary: "A Balancing Act"

Something quite unusual occurred during the quarter ended September 30, 2023. The two most widely followed indexes following the U.S. fixed income market and the U.S. stock market posted virtually identical results. On the fixed income side, the Bloomberg US Aggregate Bond Index total return was a negative 3.23% while the S&P 500 index reflected a negative 3.27%.

We believe the drivers of these returns can likely be traced to a common cause – interest rate increases during the quarter. After decreasing somewhat in the first quarter, yields in the second quarter increased back up to about the same levels as at the start of the year. Despite the generally positive news that inflationary increase levels have moderated, and fears of a recession are subsiding somewhat, we experienced a measurable uptick in interest rates in the quarter. The underlying yield of the Bloomberg US Aggregate Bond index rose from 4.81% as of June 30, to 5.39% as of September 30.

We must go back to 2007 to see a time when the general level of yields available on fixed income investments are like those today. Even the shortest of maturity options now provide an attractive yield opportunity. For example, a 2-year US Treasury note was priced to yield just over 5% on September 29th. Even bank CD rates and some money market funds have become attractive and now present a real return alternative to equities. For most investment portfolios this is good news in that we can expect, should interest rates remain at current levels, future returns to be more balanced between fixed and equity fund options.

During the third quarter stock market returns were likely also influenced by the strong market returns experienced during the first six months of the year, particularly with and led by a handful of very large technology-related companies. Those stocks retreated somewhat during the third quarter, leading the overall markets down due to their relative market cap and influence within indexes. At the Federal Reserve, interest rate decisions and forecasts always seem to have market impacts, both for fixed income and stocks. There is a constant balancing act to help control inflation while trying to keep the overall economy free of recession. And while it is not expressly their mission, the Fed also seems to try to guard against actions and narratives that could be materially disruptive to markets. And in times of crisis, it attempts to implement measures to calm markets, particularly the stock market.

Just as in the earlier quarters of the year, other asset classes generally followed the same pattern as the S&P 500, although for most, the negative returns were slightly higher. REITS (real estate investment trusts), as measured by the Dow Jones US Select REIT index, was down the most at 7.4%. This sector shows significant sensitivity to interest rate levels and their impact on property returns, compounded by some key sub-sectors such as offices and malls, which have experienced higher vacancies and lower rents. Commodities were the only asset class with a positive return class for the quarter. The Bloomberg

Commodity Index, a basket of various diversified commodity businesses, benefited by the increase in petroleum related costs during the quarter. Over time, the returns for commodities have been both disappointing and volatile.

How can your Phillips Financial advisor assist in the current market environment? For several years very low yields on cash, CDs, and money market funds meant that it was often more cost effective for cash reserve funds to be held outside Phillips managed investment portfolios. Given the much higher current yield environment, your Phillips financial advisor can now assist you in analyzing and implementing shorter-term investment options within your brokerage accounts.

In addition, your Phillips advisor can help implement additional planning ideas as highlighted in the article, [Opportunities in a Downturn](#), from Bob Veres' Inside Information (Veres 2023). As you read this article, if any of the strategies make sense for your current situation, be sure to contact your advisor. Some strategies are very specific to individual preferences and may not be automatically considered with every investment meeting or quarterly portfolio review.

For a more detailed analysis of market returns, read the [Third Quarter 2023 Market Review](#) from Dimensional Fund Advisors.

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	% Year-to-Date Return	% Cumulative 1 Year Avg.	% Cumulative 3 Year Avg.	% Cumulative 5 Year Avg.	% Cumulative 10 Year Avg.	% Cumulative 15 Year Avg.
	7/1/23 - 9/30/23	1/1/23 - 9/30/23	10/1/22 - 9/30/23	10/1/20 - 9/30/23	10/1/18 - 9/30/23	10/1/13 - 9/30/23	10/1/08 - 9/30/23
Bloomberg US Aggregate Bond Index	-3.23%	-1.21%	0.64%	-5.21%	0.10%	1.13%	2.53%
S&P 500 Index	-3.27%	13.07%	21.62%	10.15%	9.92%	11.91%	11.28%
S&P 500 Value Index	-4.09%	7.56%	22.19%	13.39%	8.41%	9.64%	9.22%
S&P Mid Cap 400 Index	-4.20%	4.27%	15.51%	12.05%	6.06%	8.94%	10.30%
S&P Small Cap 600 Index	-4.93%	0.81%	10.08%	12.10%	3.21%	8.15%	9.55%
S&P Small Cap 600 Value Index	-5.60%	-0.83%	10.26%	15.38%	3.23%	7.58%	8.86%
MSCI EAFE Index	-4.11%	7.08%	25.65%	5.75%	3.24%	3.82%	4.66%
MSCI Emerging Markets Index	-2.93%	1.82%	11.70%	-1.73%	0.55%	2.07%	3.76%
Dow Jones US Select REIT Index	-7.40%	-2.05%	2.61%	6.12%	1.56%	5.28%	5.29%
Bloomberg Commodity Index	4.71%	-3.44%	-1.30%	16.23%	6.13%	-0.75%	-2.28%

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, <https://bobveres.com>, "Opportunities in a Downturn", September 30, 2023.

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: Britt Botts, Client Service Administrator



As Client Service Administrator for Phillips Financial, Britt Botts wears many hats, which is part of what she enjoys about her job at Phillips. Her position allows her to work in broad areas like marketing, IT, and compliance, but also in the very specific tasks of trading, and responding to client service requests.

Britt joined Phillips at the beginning of 2021 as a college intern, but within 4 months became a full-time associate of the firm. She will finish her degree in Accounting (with a minor in Philosophy) at Purdue Fort Wayne next year, and then plans to study for the CPA designation.

Britt discovered early in her studies that accounting and philosophy share some similarities. Accounting requires logic and critical thinking, and those are skills taught in philosophy. Britt sums it up: “With the abundance of information coming from every form of media available, slowing down and thinking about the information and how it is being presented or displayed really helps determine the most reliable sources of information.”

Britt believes her strongest skills are “people skills, IT (information technology) skills and creativity.” Her past jobs involved extensive interaction with customers of all types. She worked at Cold Stone Creamery, Fresh Market, and as a butcher at Hills Meat Market. She enjoys technology, especially finding new features that allow her to create interesting presentations and documents, or using system features to streamline or enhance processes.

The Baby Boomers at Phillips really appreciate Britt's technology expertise, especially when it comes to operating the latest and greatest cell phones. Britt knows all the tips, whether you have an iPhone, an android, or a google phone!

Eventually Britt would like to become a financial advisor. She believes her ability to relate well with all types of people, as well as her financial acumen are a good combination for helping people with their financial matters.

Britt loves dogs, and volunteers for Humane Fort Wayne. She particularly enjoys volunteering at the adoption fairs, where she has the satisfaction of "seeing these adorable little puppies getting held and eventually adopted by loving families."

Britt is the youngest of three children. She has two older brothers (RJ and Justin), her parents (Mark and Iris), her boyfriend Devon, and a 2-year-old Husky/Weimaraner named Basil, that she adopted from Humane Fort Wayne in 2021.

She enjoys playing board games with the family, including Clue, Scattergories, and Codenames. She also enjoys tackling house projects with Devon, painting (especially landscapes), and creative writing.

Britt uses two key ideas to navigate her daily life: Every day she tells herself: "It doesn't matter if today is a good day for me, as long as I make it a good day for someone else."

The other concept comes from her mother. When Britt complains or shares a struggle, her mother says, "You got this, mama."

Disclosures

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