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Market Commentary, Fourth Quarter 2023 January 11, 2024

In this Newsletter:

Market Commentary: 2023 Review-2024 Preview

Focus on Phillips:

Mariana Alvarado, Account Coordinator

Market Commentary: 2023 Review-2024 Preview

One year ago, we looked back on 2022 and noted the significant challenges to investment portfolios as stocks logged their worst year since 2008, and bonds experienced a record-breaking negative return.

We began 2023 wondering if the drivers of these adverse results -- inflation, rising interest rates and fears of recession -- would continue. Or would economic trends improve and help the financial markets recover?

As 2023 unfolded, the stock market did recover nicely in both the first and second quarters, with the widely followed S&P 500 index returning 7.5% and 8.5%, respectively. And while interest rates did moderate somewhat in the first quarter, they crept back up to year-end 2022 levels by the end of the second quarter. During the third quarter rates rose higher still and had a chilling effect on the stock market recovery with the S&P 500 index returning a negative 3.3%.

By the end of September, the underlying yield of the Bloomberg US Aggregate Bond index had increased to 5.39% and during October peaked at 5.74%. Since then, yields have dropped significantly, finishing the year at 4.53%, down slightly from the 4.68% yield as of the beginning of 2023.

As yields peaked, optimism returned to the financial markets. News of moderating inflation, a pause in Federal Reserve interest rate increases, corporate earnings trends, and respectable job and GDP growth helped reinforce the hope that the desired "soft landing" might indeed help keep a recession at bay.

The impact during the fourth quarter was dramatic, with major asset classes showing positive returns. Leading the improvement was the Bloomberg US Aggregate Bond Index, returning over 6.8% in the fourth quarter, and driving its overall return into positive territory for the year at 5.5%. Most equity related returns enjoyed double digit returns this quarter, including the S&P 500 index at almost 11.7%.

For the year, the S&P 500 once again led the asset classes in terms of total return at over 26.2%. Following a year for which the return was a negative 18.1%. Of note has been the performance of seven stocks within this index; Alphabet (Google), Amazon, Apple, Meta Platforms (Facebook), Microsoft, NVIDIA, and Tesla. These seven stocks, frequently referred to as the Magnificent 7, represent 28% of this market cap weighted index. Often identified in conjunction with the artificial intelligence (AI) trend, these seven stocks accounted for over 62% of the total return of the index.

At Phillips we believe maintaining a core portfolio position in a fund investing in the S&P 500 is a prudent practice. Over the long term, certain large-cap growth stocks such as these will lead the market, both up and down -- up this year, but down last year.

Stellar prior out-performance is typically the largest driver of a stock ascending to the top, market capitalization-wise. But this is typically not sustainable as the article, [Magnificent](#)

7 Outperformance May Not Continue, from Dimensional Fund Advisors points out. We believe supplementing a core S&P 500 position portfolio with other index and index-oriented funds within an investment portfolio is also prudent as additional more diversified drivers of performance are enhanced with the inclusion of more value oriented and small or mid-cap stocks. For example, in the 4th quarter and for the 3-year period ended December 31, 2023, value fund returns exceeded those of the S&P 500.

International fund returns, as represented by the MSCI EAFE (developed markets) and MSCI Emerging Markets indexes, were positive for both the quarter and year. Emerging markets still lag the other developed economies, due largely to the downturn in China. The Chinese economy also contributed to commodities experiencing a stark reversal from 2022. The Bloomberg Commodity Index was the worst performing asset class, with a negative 4.6% for the quarter and 7.9% for the year. While the price of gold increased significantly during the year, the index reflects a broad basket of other commodities as well, including energy related, agricultural, and industrial metals, all of which drove the overall negative performance.

In contrast, real estate investment trusts (REITs) experienced a positive reversal from 2022, favorably impacted by the stabilization of interest rates, industry hopes for lower longer-term rates, and strong demand for data centers. The latter now represents a larger and growing share of the REIT industry.

While most of our client portfolios do not include specific commodity positions, other funds do include securities that are sensitive to various commodities including energy and industrial metals. Likewise, specific REIT funds may not always be present in our client portfolios. We do, however, pick up significant REIT exposures with many of these same companies through most of our equity funds.

2023 reminds us once again that markets are unpredictable and can turn quickly. Key investment concepts like diversification will often, but not always, provide an enhanced benefit to our investment portfolios over the long term. Equally so, the ups and downs of the market just within a year like 2023 reinforces the investment maxim that it doesn't pay to try to time the market. Stay invested toward your long-term goals.

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

As always, this newsletter provides a general overview of the market, but it may not fully reflect the performance of your portfolio. That's why we initiate an annual meeting 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.

Chart Index	% Last Quarter Return	% Year-to-Date Return	% Cumulative	% Cumulative	% Cumulative	% Cumulative	% Cumulative
			1 Year Avg.	3 Year Avg.	5 Year Avg.	10 Year Avg.	15 Year Avg.
	10/1/23 - 12/31/23	1/1/23 - 12/31/23	1/1/23 - 12/31/23	1/1/21 - 12/31/23	1/1/19 - 12/31/23	1/1/14 - 12/31/23	1/1/09 - 12/31/23
Bloomberg US Aggregate Bond Index	6.82%	5.53%	5.53%	-3.31%	1.10%	1.81%	2.68%
S&P 500 Index	11.69%	26.29%	26.29%	10.00%	15.69%	12.03%	13.97%
S&P 500 Value Index	13.63%	22.23%	22.23%	13.11%	14.11%	10.01%	12.17%
S&P Mid Cap 400 Index	11.67%	16.44%	16.44%	8.09%	12.62%	9.27%	13.33%
S&P Small Cap 600 Index	15.12%	16.05%	16.05%	7.28%	11.03%	8.66%	12.74%
S&P Small Cap 600 Value Index	15.84%	14.89%	14.89%	10.20%	11.31%	8.17%	12.02%
MSCI EAFE Index	10.42%	18.24%	18.24%	4.02%	8.16%	4.28%	6.93%
MSCI Emerging Markets Index	7.86%	9.83%	9.83%	-5.08%	3.68%	2.66%	6.56%
Dow Jones US Select REIT Index	16.35%	13.96%	13.96%	7.18%	6.12%	7.00%	10.04%
Bloomberg Commodity Index	-4.63%	-7.91%	-7.91%	10.76%	7.23%	-1.11%	-0.24%

Sources For This Commentary & Chart: YCharts, Wall Street Journal, Bloomberg, Dimensional Fund Advisors, 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: Mariana Alvarado Account Coordinator, Phillips Benefits Advisers



Meet Mariana Alvarado, Account Coordinator for our group division. Mariana joined our firm in 2021, but her experience working with insurance goes back to her first “real” job at the age of 18, when she worked as a Property Casualty Agent for Allstate. Mariana shares that she is an introvert by nature, and so this first job taught her to be a little more outgoing and persistent. Her career path also included working for two banks as a lead teller. But her favorite prior job was serving as a recruiting manager for Job Squad. She enjoyed developing relationships with companies and helping them fill their employment needs. In her current position she uses the interpersonal and communication skills she learned along the way.

What Mariana finds most rewarding about her role here at Phillips is building great relationships with our clients, providing them reassurance through effective communication to give them peace of mind that their needs are being addressed. She enjoys the challenge of learning new things about the group insurance industry on a daily basis.

Mariana is from Yuma, Arizona, and while she has lived in Fort Wayne 7 years, she says “my home will always be Arizona” where most of her family lives. She has 5 brothers, and

so growing up she played basketball, skateboarded, and learned how to deal with all the boys in her family.

One might describe Mariana as a “bookworm.” She is in a book club and loves all types of books, but poetry is her favorite genre. Two of her favorite books are *The Mountain is You* by Brianna Wiest and *The Alchemist* by Paulo Coelho. According to Mariana, *The Mountain is You* “teaches you that you truly do have power to change yourself.” *The Alchemist* “illustrates that sometimes you must venture out and travel to find what you are looking for, but in doing so you may realize that what you need was right in front of you all along.”

Her favorite poets are Edgar Allen Poe, Mahmoud Darwish, Emily Dickinson, and Rupi Kaur.

In addition to being involved with her book club, Mariana enjoys going to movies and playing cards with the friends she has met in Fort Wayne.

Who has shaped Mariana’s life? Grandma and Grandpa of course, with a few words of wisdom:

“Treat everyone with the same respect you treat me.” -Grandma

“We too are like the moon, just going through phases but still whole.” &

“Even the smallest of ants has a story.” -- Grandpa

Disclosures

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6920 Pointe Inverness Way, Ste. 230 | Fort Wayne, IN 46804

P: (260) 420-7732 | T: (888) 420-7732 | F: (260) 420-5553

[Phillips Financial Website](#)

Phillips Financial | 6920 Pointe Inverness Way, Suite 230, Fort Wayne, IN 46804-7926

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