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Academy Financial Quarterly Update



“Listening to and understanding our client’s financial goals allows us to provide the highest level of investment planning advice and service.”

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Overview:

As Q2 of 2020 began, we were still facing the economic consequences and challenges of a global pandemic. Countries locked down, businesses shut down, and unemployment rates soared. U.S. stocks went down around 35% in just a few weeks. However, Q2 gives us signs of optimism moving forward. There is still uncertainty about how long the effects of the pandemic will last, but Q2 showed a slight recovery. In the very beginning of Q2 we continued to see the effects of the pandemic and economic shut down. However, over the past few months economic activity has begun to increase, and things have started to somewhat get back to normal. Since the end of Q1 the S&P 500 is up nearly 20%. Although it is still down for the calendar year, this is one of its best quarterly

performances in decades. The 10-year Treasury yield stayed at 0.7% from the end of Q1 until now. WTI Crude oil made a slight recovery as well increasing from \$20.48 a barrel at the end Q1 to \$39.27 a barrel to end Q2. Real estate, which was arguably affected the most by the pandemic, made a good recovery due to the increase in usage of retail stores, restaurants, office buildings, and other commercial real estate. Since last quarter the Real Estate Index is up around 3%. These are a few signs of recovery that we have seen in the market this quarter.

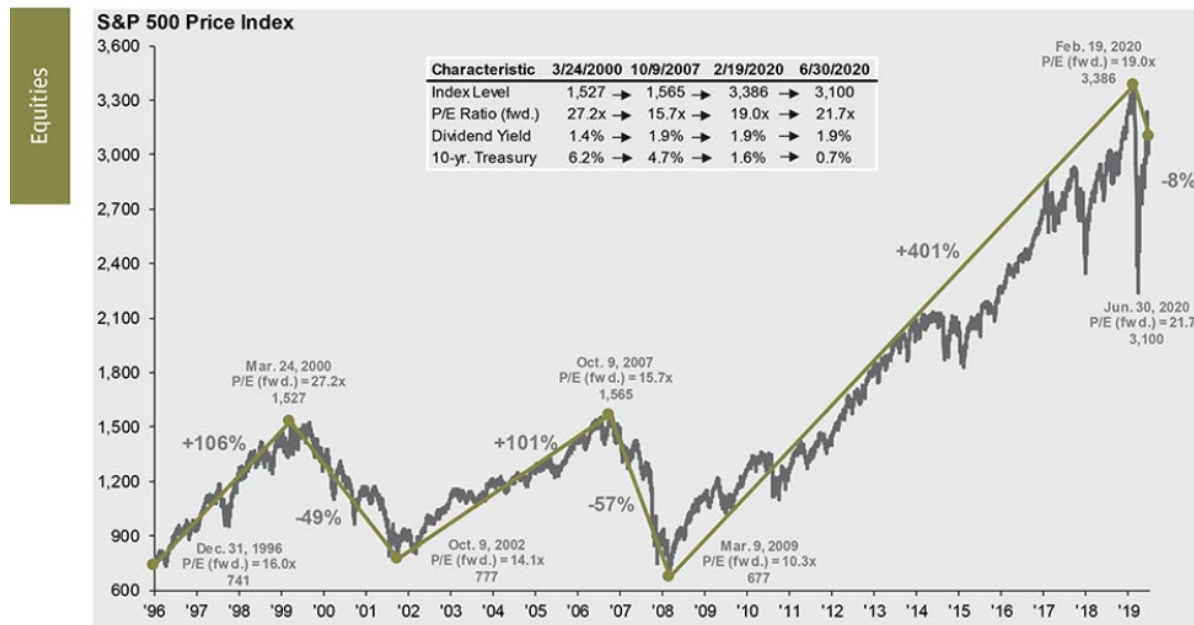
There is still much uncertainty that comes with the effects of the pandemic. We have seen slight recovery, but we don't know how long a larger recovery will take. Although the number of cases has begun to decline, and normal activity is resuming, we don't know if this will continue. It is expected to, but there is still a risk of another spike in cases or another wave that could cause another shut down. Q2 showed some progress for a large recovery, but in the meantime, we will remain cautious.

Equity Markets:

The S&P 500 Price Index chart shows the slight recovery that has been made in this quarter. The Index level has gone up by around 20% from the end of last quarter. The P/E ratio also grew from 15.4 at the end of Q1 to 21.7 at the end of May. As revenues and earnings decline, either the P/E will rise or the price of the shares must fall. Equity markets overall are looking past Q2 earnings with the expectation that growth in the out quarters and years will continue. The dividend yield went down to 1.9% from 2.4% as the market started to recover slightly. The Russell 2500 also made a strong recovery and is up over 26% for the quarter. For the calendar year, the S&P 500 and the Russell 2500 were still down 3.1% and 11.1% respectively, but given where they were after Q1, it is an impressive recovery. Developed foreign markets, represented by the MSCI EAFE Index, increased 14.9% for the quarter. Emerging market equities advanced 18.1%. Even with the strong second quarter returns, international markets are also still down for the calendar year. The market should continue to make a slow and gradual

% Return as of 06/30/2020			
Equity Indexes	2nd Q	YTD	3 Yr
S&P 500	20.5	-3.1	10.7
Russell 2500	26.6	-11.1	4.1
MSCI EAFE	14.9	-11.3	0.8
Emerging Market	18.1	-9.8	1.9
Wilshire REIT	10.6	-17.7	0.2
Bond Indexes			
TIPS	4.2	6.0	5.1
Aggregate	2.9	6.1	5.3
Government	0.5	8.6	5.5
Mortgages	0.7	3.5	4.0
Investment Corporate	9.0	5.0	6.3
Long Corporate	11.4	6.3	8.8
Corporate High-Yield	10.2	-3.8	3.3
Municipals	2.7	2.1	4.2
Cash Equivalents			
3-Month T-Bill	0.0	0.7	1.8
Consumer Price Index	-1.3	-1.0	1.6

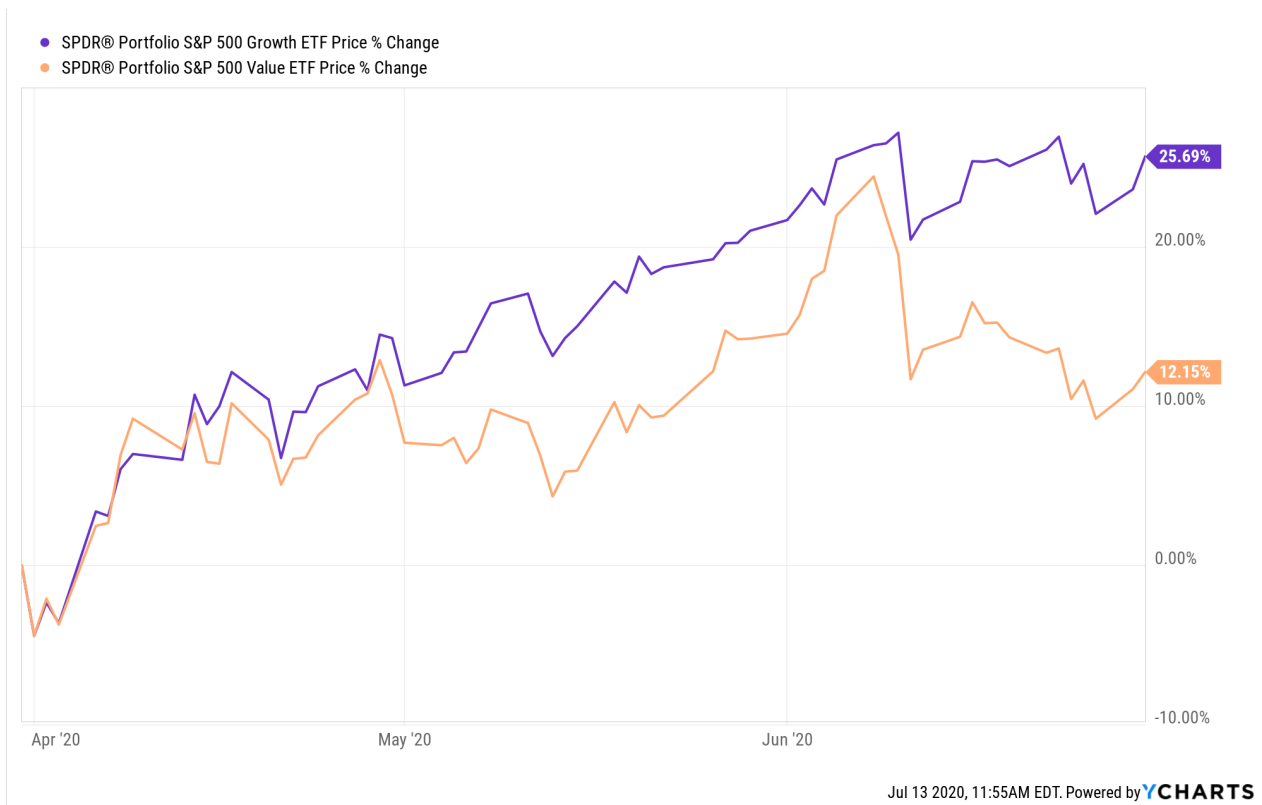
recovery as activity resumes around the world. Businesses that have been closed are starting to open and the economy is beginning to get back to somewhat normal. However, we are still uncertain how long a large recovery will take, and volatility of dividend payouts and returns remain high.



<https://am.jpmorgan.com/us/en/asset-management/gim/adv/insights/guide-to-the-markets/viewer>

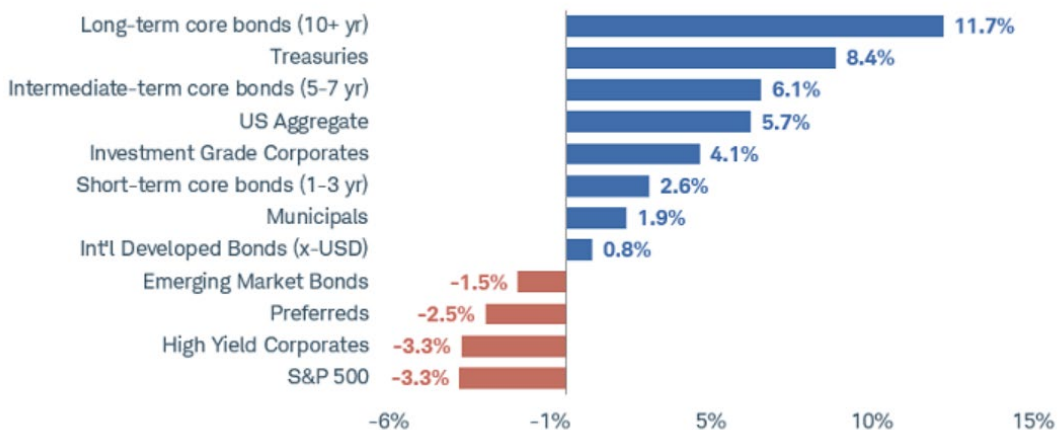
One of the significant shifts in investor sentiment has been the divergency between Growth vs Value or technology vs the rest of the market. A simple comparison of those two sectors within the S&P 500 has the difference in Q2 at over 13.5%. That is a significant difference that can impact any portfolio. The pandemic was a clear accelerating towards an online economy. Companies such as Amazon, Paypal, Facebook, and Netflix added to already strong growth. Competitors will find it that much harder to take on market share even in a growing space.

Meanwhile, the travel industry, oil and gas, restaurants, retail, and even banking have not seen the recovery and reflect the more physical economy where the pandemic continues to have a lingering impact. Earnings are uncertain, and in some cases, dividends are being cut. Forecasts also remain uncertain in a sector that has historically been stable.



Fixed-Income:

Despite the pandemic and economic shut down we saw in the end stages of Q1 and beginning stages of Q2, most fixed income assets are positive so far this year. This is mainly because the Federal Reserve decision to lower interest rates and cut the discount rate to effectively zero. The Fed has signaled that the zero interest rate will remain in place for the next few quarters. The daily treasury yield curve rates, however, fell even more this quarter. The Barclays Aggregate, a measure of the total bond market, rose 2.9% for the Q2 and is up 6.1% for the calendar year. Yield rates are down to 0.16% for the 2 year and 0.66% for the 10 year.



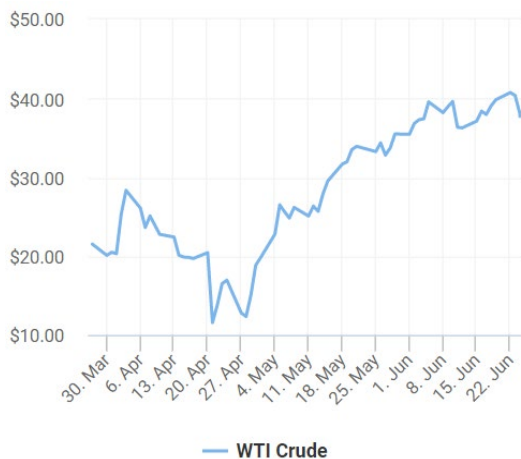
<https://www.schwab.com/resource-center/insights/content/midyear-outlook-fixed-income>

Real Estate, Oil, and Gold:

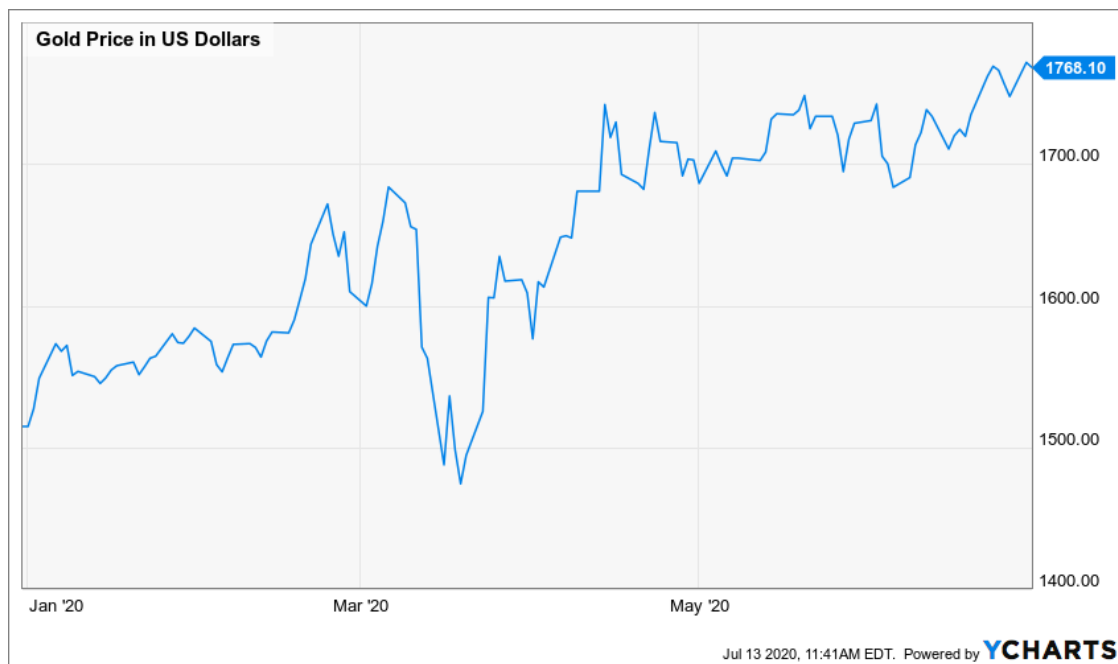
Real Estate arguably was hit the hardest by the results of the pandemic in Q1, especially commercial real estate. However, it has made a slight recovery in Q2 due to business and offices starting to open. It peaked on June 8th where it was up over 50% from last quarter. However, it dropped off towards the end of the quarter. Fidelity Real Estate Index at the end of Q2 was up nearly 3% from Q1.

Much like real estate, oil also took a huge hit last quarter because of the pandemic. The WTI Crude ended the quarter at \$20.48 a barrel. This quarter however it made a slight recovery. An increase in activity of driving and flying over the past few months has helped increase the WTI Crude to around \$39 a barrel to end this quarter. As businesses and tourism recover, oil should continue its rebound. However, any resurfacing of the pandemic and additional shutdowns could cause a retracement to the lows.

Gold prices had a gradual increase throughout this quarter. At the end of last quarter, the price was around \$1600/oz and it is now near \$1780/oz. as of June 30. Simply put, increasing uncertainty has been a positive for gold. Because of the slight increase in gold prices and a larger recovery from oil price, the gold to oil ratio was reduced to around \$45. This is lower than what it was, but the ratio remains higher than normal. We don't see a lot of benefit investing directly in the commodity markets, but we do see value in noting the market reaction to increased uncertainty. Following these indicators is a valuable part of our assessment on overall economic conditions.



<https://oilprice.com/oil-price-charts/45>



Ycharts.com: Gold Price

Summary:

A dramatic rebound from the lows of the first quarter doesn't mean the worst is all over. It may not be. There will almost certainly be setbacks and disappointments along with progress in the fight against the virus and the resulting economic impacts. As we enter the 3rd quarter the pandemic will continue to drive fear and opportunity in the market. Political elections will also drive headline risk and short-term volatility. This is no different than any other cycle and part of our understanding with market risk going forward. As long-term investors, the ups and downs are part of the process.

Your financial planner at Academy Financial is always available to walk you through your specific situation and develop custom solutions. We've been here before; let our experience and knowledge work for you. As always, we are here to help guide you through these turbulent times.

Sources:

1. <https://am.jpmorgan.com/us/en/asset-management/gim/adv/insights/guide-to-the-markets/viewer>
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Sources of data –Wall Street Journal, CNBC, Abbott Laboratories, Thermo Fisher Scientific, Moderna Pharma, S&P Global, MSCI, Russell. 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. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Three-year performance data is annualized. Bonds have fixed principal value and yield if held to maturity and the issuer does not enter into default. Bonds have inflation, credit, and interest rate risk. Treasury Inflation Protected Securities (TIPS) have principal values that grow with inflation if held to maturity. High-yield bonds (lower rated or junk bonds) experience higher volatility and increased credit risk when compared to other fixed-income investments. REITs are subject to real estate risks associated with operating and leasing properties. Additional risks include changes in economic conditions, interest rates, property values, and supply and demand, as well as possible environmental liabilities, zoning issues and natural disasters. Stocks can have fluctuating principal and returns based on changing market conditions. The prices of small company stocks generally are more volatile than those of large company stocks. International investing involves special risks not found in domestic investing, including political and social differences and currency fluctuations due to economic decisions. Investing in emerging markets can be riskier than investing in well-established foreign markets. The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The Russell 2500 Index measures the performance of the 2,500 smallest companies (19% of total capitalization) in the Russell 3000 index. The S&P 500 index measures the performance of 500 stocks generally considered representative of the overall market. The Wilshire REIT Index is designed to offer a market-based index that is more reflective of real estate held by pension funds.

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