ACADEMY
FINANCIAL, INC.
EVALUATE • ENVISION • EXECUTE

Edward Bird, MBA, CFP®
Chief Investment Officer

2nd Quarter, 2021 Review

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

Eisenberg/Faraone Team
8219 Leesburg Pike
Vienna, VA 22182
Phone: 301.296.6278

Home Office
1447 York Rd. Suite 801
Lutherville, MD 21093
Phone: 410.825.0034

York Office
600 N Hartley Street, Suite 160
York, PA 17404
Phone: 410.372.3232

Columbia Office
10632 Patuxent Parkway Ste 112
Columbia, MD 21044
Phone: 410.730.979

Glen Allen Office
10900 Nuckols Road, Suite 250
Glen Allen, VA 23060
Phone: 804.253.1438

% Return as of 6/30/2021			
Equity Indexes	**2nd Q**	**YTD**	**3 Yr**
S&P 500	8.5	15.3	18.7
Russell 2000	4.3	17.5	13.5
MSCI EAFE	5.2	8.8	8.3
Emerging Market	5.0	7.4	11.3
Wilshire REIT	12.8	22.8	10.1
Bond Indexes			
TIPS	3.2	1.7	6.5
Aggregate	1.8	-1.6	5.3
Government	1.7	-2.5	4.7
Mortgages	0.3	-0.8	3.8
Investment Corporate	3.5	-1.3	7.8
Long Corporate	6.6	-2.4	11.1
Corporate High-Yield	2.7	3.6	7.4
Municipals	1.4	1.1	5.1
Cash Equivalents			
3-Month T-Bill	0.0	0.1	1.4
Inflation	1.2	2.9	2.1

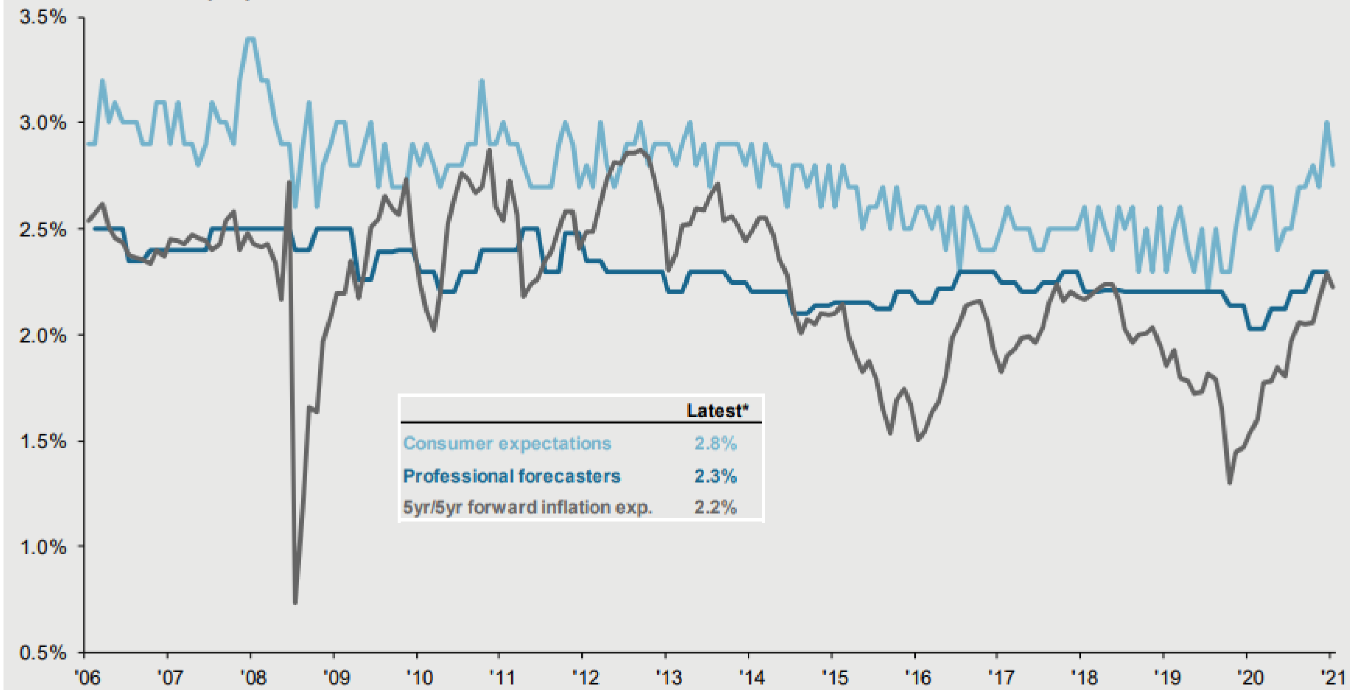
Economic Overview:

With the move to normal life, there are several things to consider with the market. As mandates and restrictions were lifted this quarter, we saw a spending spree where consumers dined out and shopped in stores without restrictions. The itch to spend, combined with historic saving rates and continued low interest rates, has led to a dramatic increase in residential housing markets. A lack of new builds during the pandemic has contributed to a shortage of options for those in the market. Conversely, commercial real estate is still in the process of recovering as companies are deciding how they want to proceed with their work from home models. Along with the residential housing market, equity has continued to perform well. We continue to see record highs at the top of the market and near record highs in the small-mid cap sectors. We do not expect the current fear of inflation to have a lasting impact on the market as bottle necks in the supply of commodities have caused most of the inflation to be sector based and we have yet to see an impact in rising labor prices.

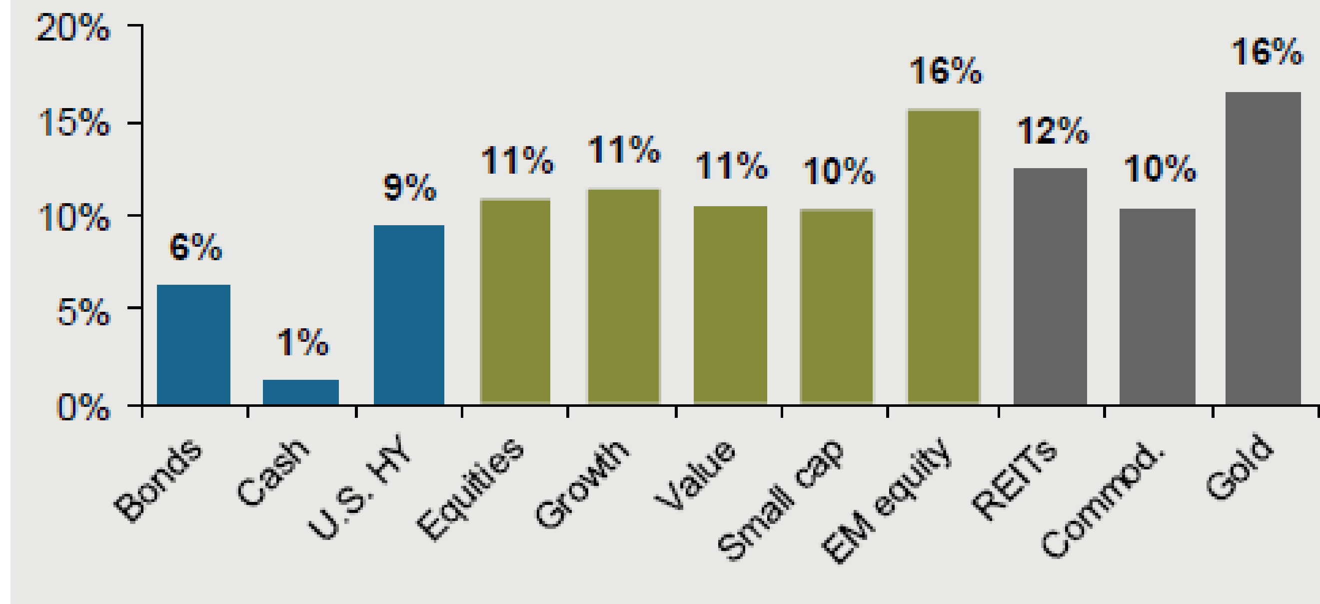
Overall, we are seeing the economy heal. Equity markets and residential housing are fully recovered while other markets such as commercial bonds need more time to return to pre-pandemic levels. It can be healthy to see an imperfect economy as that leaves room for continued growth. Companies still have higher than normal price per earnings ratios but as consumers spend more in the coming months, these numbers are expected to drop as earnings rise. Our GDP is growing rapidly with current projections at over 7% suggesting the second half of 2021 could see normalized price per earnings ratios as production catches up to market price.

The government will soon stop unemployment benefits and we are expecting to see unemployment rates lower once again. U.S. companies across all industries are pushing to move production back to domestic markets due to the drawdown of worldwide supply chains. As an example, Stanley Black and Decker is expected to add thousands of US jobs across two plants in the coming weeks.

The Pandemic certainly changed the way we do business as a country and we see it reflected in the current markets. It is unknown if we will see a reversion to a pre-pandemic business model and the impact it will have on commercial real estate. Equity markets look promising with a diversified portfolio that manages risk while providing the opportunity for growth.



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



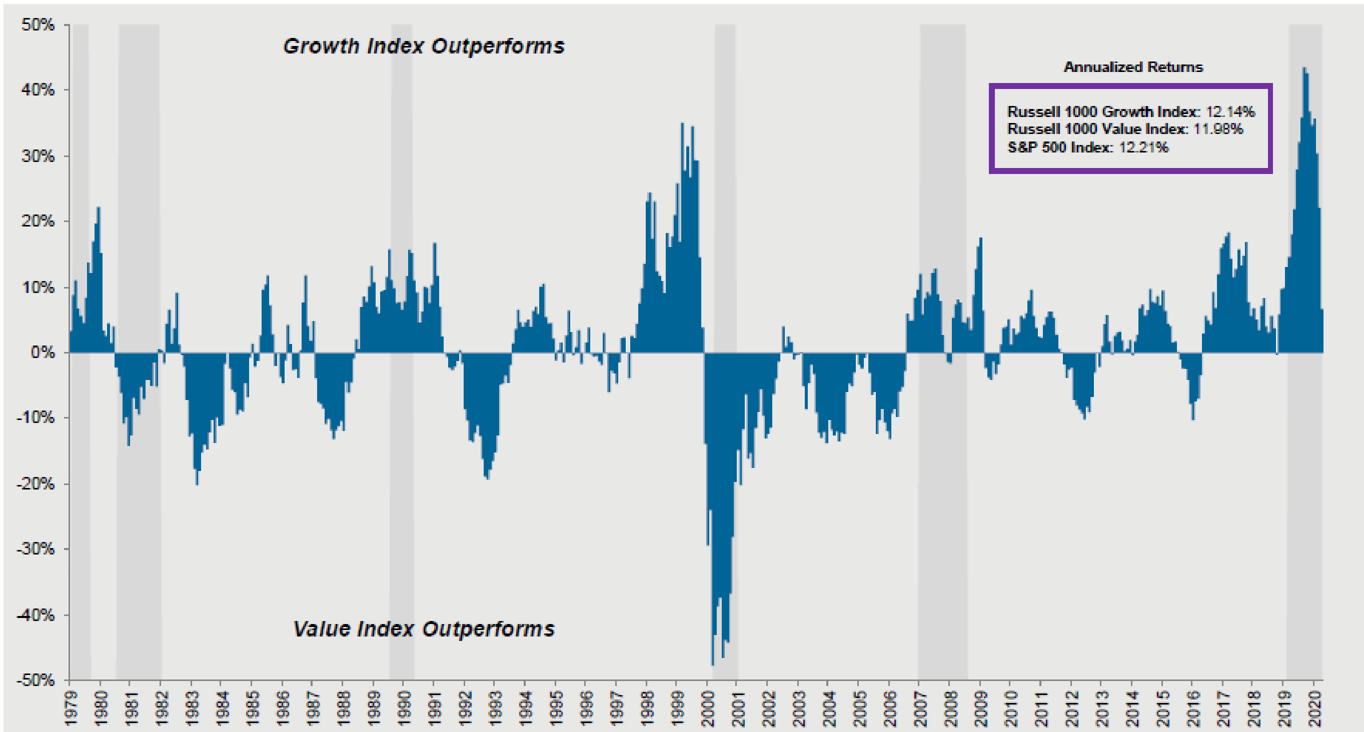
https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/guide-to-the-markets/

Equity Markets:

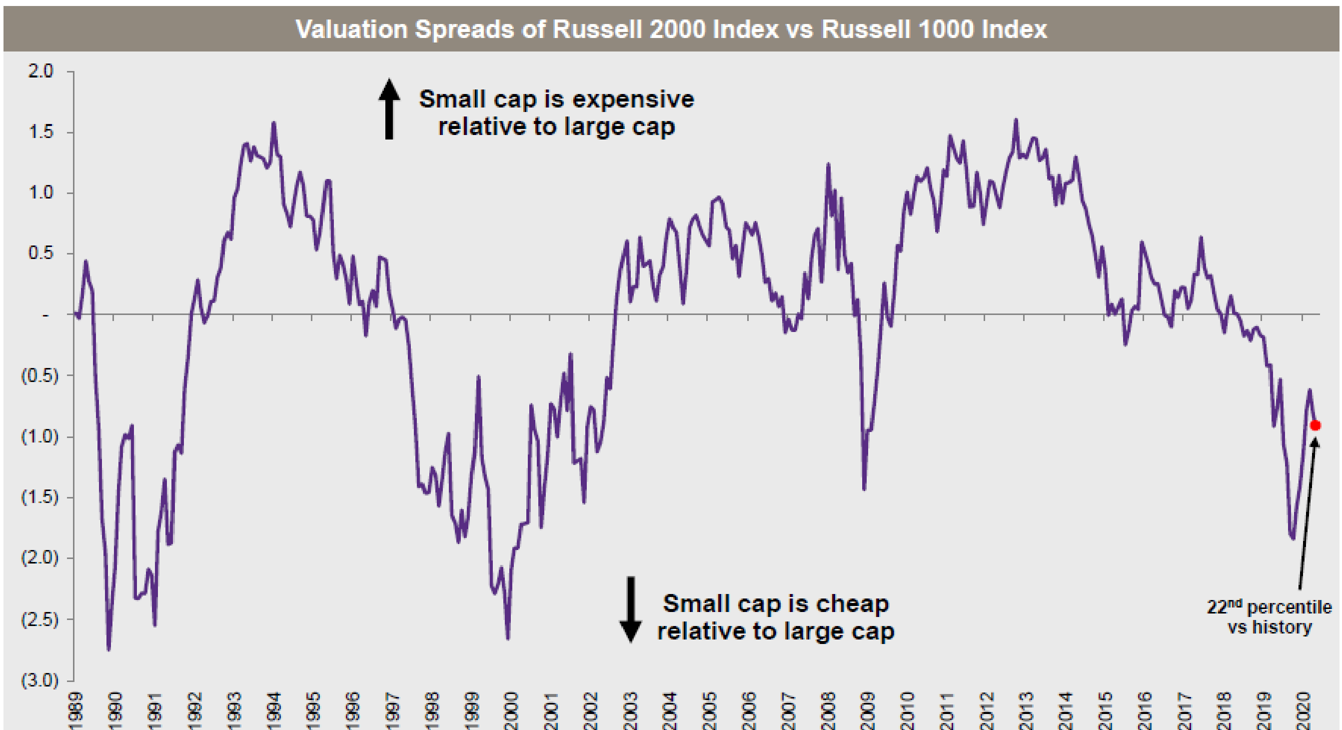
The return to everyday life has seen sectors of the market return to pre-pandemic levels as the S&P 500 reaches record highs once again. The S&P 500's year-to-date performance is 15.3% showing significant growth even after the market recovery. We continue to see the excellent performance in the S&P 500's one-year performance as it sits 40.8% higher than this time last year. However, the past year goes back to before the market rebounded from the crash of the initial pandemic. Compared to the S&P 500's lowest point of the pandemic on March 20th, it has risen over 94.27% since that point. The price to earnings ratio has reached a mark we haven't seen since before the housing bubble burst in 2008-2009. Institutions and individuals have saved money during the pandemic and are looking to spend on either consumer goods or investments. It is safe to say the equity market has fully recovered and is thriving. The health care equity market has seen substantial growth as U.S. drug companies have be innovators regarding covid-19 vaccines. The United States has produced so many vaccines we are currently giving them away to other countries.

When looking at specific sections of the equity market, large-cap performed very well over the past year as the largest companies continued to get larger. We did see better returns, however, on the small and mid-cap levels. While small and mid-cap companies struggled to get through the pandemic since the start of the year the sector has performed well. After seeing significant downside during the height of the pandemic, both sectors have recovered since the 4th quarter and is in line with large cap. As seen in the second chart below small cap is a better value compared to large and this leaves room for growth. Growth, as seen in the following chart, performed very well throughout the pandemic, but as we shift to a new environment, value is very promising. A reversion to the mean could occur as growth has outperformed for several years. Growth has out performed value 80% of the time over the previous 15 years; a period of outperformance which is historically abnormal for this market. We could see value return to prominace as the market cycle shifts. Domestic vs International equity is also important. While International ecnomies certainly have potential Europe and Asia still have lingering Covid issues with several new variants preventing a full recovery. Still, international valuations are compelling, especially compared to the U.S markets.

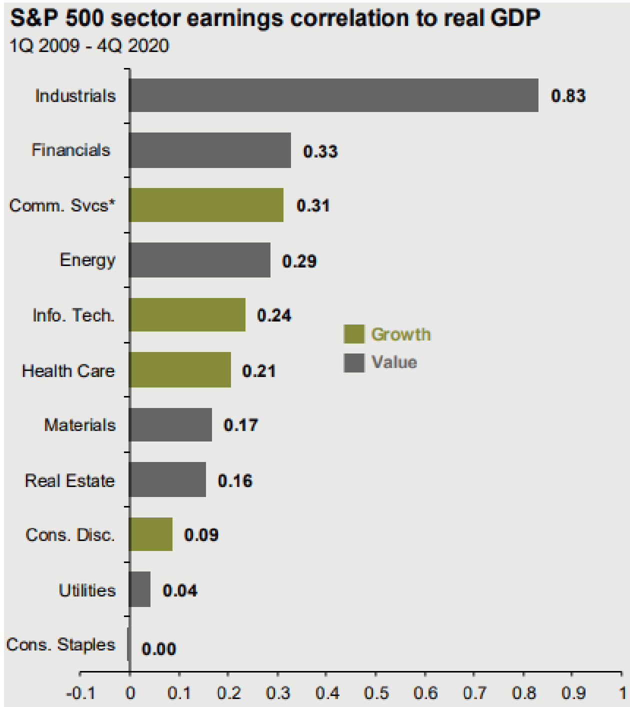
The federal reserve announced that they would increase interest rates at the end of 2022, a year ahead of schedule. Headlines often exaggerate the news, and we see the impact differently. There are several bottlenecks in commodities and specific markets that have reduced supply dramatically. As supply chains become reestablished and the spending slows, we expect inflation to have a short term market impact. Labor markets have yet to be impacted by inflation, while we see certain products increase in price wages have only started to climb. If current labor trends change and we do see wages rise then inflation coud have a longer lasting impact and become a systemic challenge. The risks there would affect growth stocks as well as higher risk or longer term bonds.

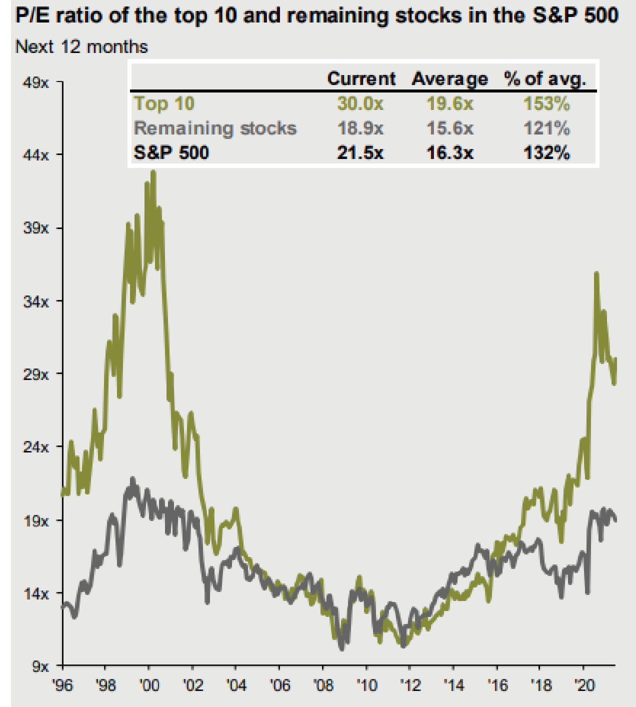


Growth Index Outperforms
Value Index Outperforms
Annualized Returns
Russell 1000 Growth Index: 12.14%
Russell 1000 Value Index: 11.98%
S&P 500 Index: 12.21%



Valuation Spreads of Russell 2000 Index vs Russell 1000 Index
Small cap is expensive relative to large cap
Small cap is cheap relative to large cap
22nd percentile vs history



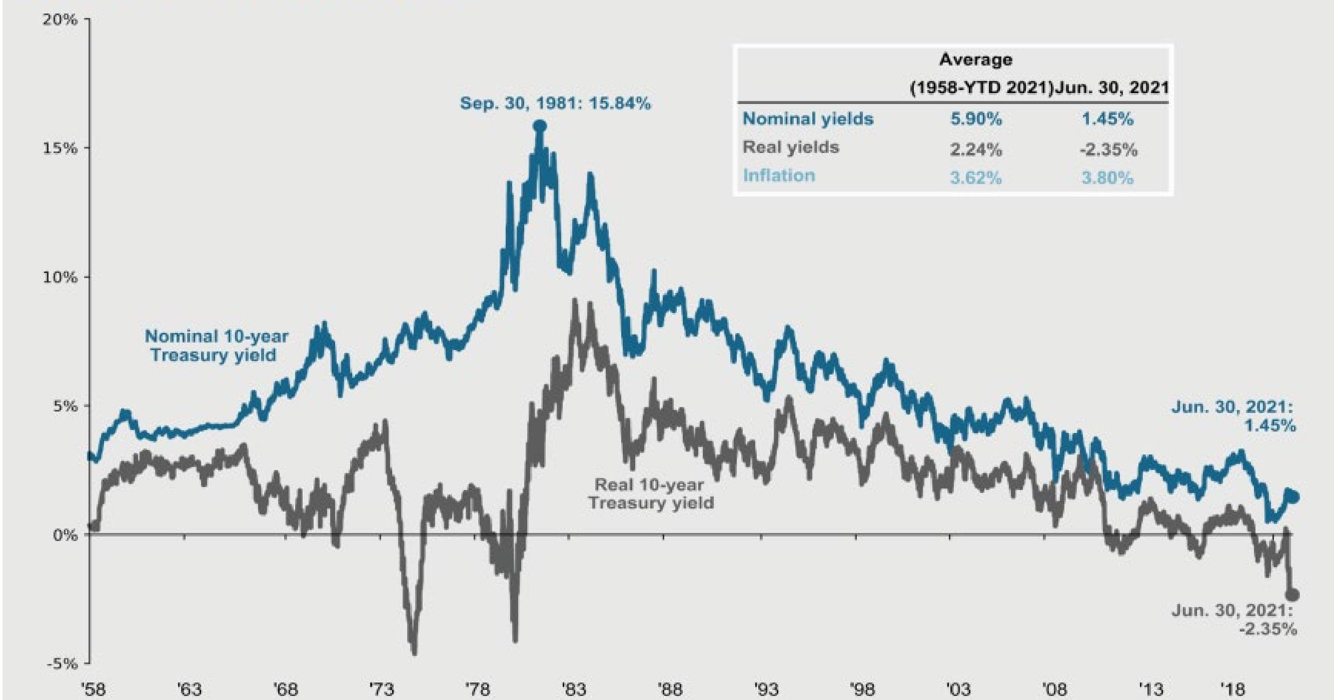


https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/guide-to-the-markets/

Fixed Income Markets:

Inflation needs to be closely monitored in the fixed markets. We have seen 10-year treasury bonds staying near 1.5%. While this is up from the low of .52% in August 2020, we should recall that we were at 3.2% in 2018. Current inflation rates are above 10-year bond returns, and unless we see a decline in inflation or a sudden rise in bond yield, the real rate of return is negative. An illustration of this is the chart below. The top line shows the yield on 10-year bond and the second line shows the yield minus inflation. As you will notice this is only the third stretch of time since the turn of the century, we have had a negative real yield and is the lowest real yield since the late seventies. As stated in the Section on equity markets, we do believe inflation is short term and will slow down in the coming months. Once supply chain issues are resolved and inflation lowers, real rates for 10-year treasury bonds could be positive again.

The federal reserve did announce on June 16th that they would raise rates a year early at the end of 2022. While it had a minimal shift on the bond markets, rates are low, so the many investors look to invest in alternatives to bond markets. Our view is that bonds are a safe haven in times of uncertainty and still provide a measure of protection against equity volatility.



https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/guide-to-the-markets/

Real Estate:
As the pandemic continues to slow down, individuals are looking for ways to spend or invest money. A resurrected economy and people working from home are why real estate is growing at a rapid rate. Continuing first quarter performance, the Fidelity Real Estate Index Fund has grown almost 10% in Q2 and 22% YTD, outperforming the S&P 500 which had returns of 8.5% in Q2 and 15% YTD. The largest rise has been in the residential realm, where sales only rival that of the mid-2000's real estate boom. The factors that are driving this surge correlate to the pandemic as well as systemic reasons, such as, record low mortgage rates. Consumers and financial firms are buying multiple houses for investment purposes. Many millennials are purchasing a first-time home, creating a great deal of demand with limited supply. It will be critical to monitor the residential real estate market as there are current echoes of past real estate booms.

With society going back to a new normal, vaccinations being pumped out and individuals going back to work the future looks bright for commercial real estate. Commercial markets were hit extremely hard during the pandemic which creates opportunity for investors. Many companies are looking to expand in the short-term while prices remain low and space is available. The Real Estate market, especially in the commercial sector, heavily depends on the new societal norms and what everyday life will look like.

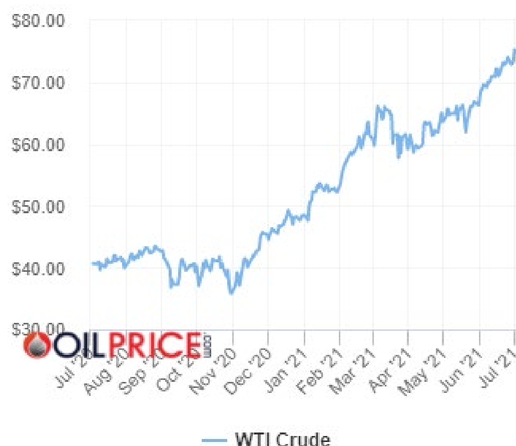
As E-commerce becomes more prevalent the demand for large warehouses increases. During the pandemic, the large companies got bigger and the small companies shrunk. E-commerce consisted of 35% of total retail sales in 2020. Large corporations need warehousing space to hold increased inventories as E-commerce reaches new heights. Many retailers who are solely located in malls are

liquidating, closing various locations, or filing for bankruptcy. Industry giants such as Amazon and Walmart have prospered throughout these recent times bringing in more than $10 Billion above last year's profits together.

Commodities:

Oil has been on an upward trajectory. West Texas Crude ended the quarter at $75.22 a barrel, which is the highest price we have seen since October 2018 at $76.41. This is up from $59.16 at the end of Quarter 1. As the economy gets back up to speed, we are seeing more Americans travel and more goods transported out. Shutting down the Colonial pipeline, which provides 45% of the East Coast with fuel also triggered the rise in oil prices. These price hikes are most likely attributed to both international and political implications. OPEC has agreed to gradually increase the supply of oil; however, it will still not reach the spike in demand. We believe these prices will be sustained in the near future due to the vast demand.

Gold prices were on the rise for most of the quarter, going from $1736.91/oz at the end of Q1 to $1915/oz at the beginning of June. Since then the price has fallen to $1778.90/oz to end Q2. The gold to oil ratio reduced from 45:1 in Q1 to just under 24:1.



Copper:

As with Oil, Copper has also seen a quite substantial rise within the past year. On May 3rd copper prices hit an all-time high at $4.75 per pound. Currently it is priced at just under $4.28, however, this is still up on the end of Q1 value of $4.00. The increase in price can be attributed to the reopening of society. The demand for housing is increasing while the supply is decreasing, essentially raising pricing of every material needed, especially copper. New infrastructure is being built, electric cars are becoming more popular, industrial sectors are growing and copper plays a major role in all of these and more.

Lumber:

The price of lumber followed a very similar trajectory to copper. We saw an all-time high at the beginning of May of over $1670 but has since dropped to $737 at the end of Q2. Lumber was valued at $1,012.6 at the beginning of 2nd Quarter. While the drop was somewhat significant, today's value is still just less than double the historical average. These high prices were a result of the constant battle between supply and demand, most notably in housing, that was heightened during the pandemic.

Summary:

The 2nd Quarter continues a strong start from the beginning of the year. We are still dealing with the effects of the pandemic, but the economy is turning itself around. Domestic, US large value, small cap and real estate sectors outperformed international, growth, large cap and bonds. Inflation remains a major factor in our economy in the near future and we are watching closely. The Federal Reserve announced that it would increase interest rates a year ahead of schedule in 2022. The Fed will continue to monitor these trends and will make changes in the future as needed. All major commodities other than gold saw a huge boost throughout the 2nd quarter; as society and businesses reopen in full, the demand for these commodities should remain high in the short term. While the Biden Administration has already outlined certain policies, there remains political uncertainty about how these policies, if passed, will affect the overall economy.

We are currently seeing rapid economic growth while the pandemic is drawing to a relative end. The U.S. economy is expected to grow at 6.8%, a 30-year high. The global economy is projected to grow at 5.6%. This is very good news, however, there is still plenty of uncertainty and possible roadblocks that halt this growth. Through a diversified portfolio and constant overwatch, we aim to hedge against these risks while continuing to grow with the economy.

Sources:

1. Morningstar Data
2. https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/guide-to-the-markets/
3. https://www.forbes.com/sites/petertaylor/2021/04/18/yes-americas-housing-market-is-officially-over-heating-everywhere-how-long-can-it-last/?sh=6c7f5c424437
4. https://www.joc.com/port-news/us-ports/record-us-warehousing-demand-continue-through-2021_20210310.html
5. https://www.cnbc.com/2021/06/02/it-could-be-a-hot-summer-ahead-for-oil-prices.html
6. https://www.forbes.com/sites/palashghosh/2021/06/23/this-is-why-some-experts-think-the-recent-gold-price-dip-isnt-a-buying-opportunity/?sh=3048472738a7
7. https://www.cnbc.com/2021/05/06/copper-is-the-new-oil-and-could-hit-20000-per-ton-analysts-say.html
8. https://markets.businessinsider.com/commodities/news/lumber-prices-bottom-market-futures-stinson-dean-elevated-supply-demand-2021-6-1030556454
9. https://www.bea.gov/data/personal-consumption-expenditures-price-index-excluding-food-and-energy
10. https://www.worldbank.org/en/news/feature/2021/06/08/the-global-economy-on-track-for-strong-but-uneven-growth-as-covid-19-still-weighs

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.

Diversification may help reduce, but cannot eliminate, risk of investment losses.

Opinions expressed are those of Academy Financial and not necessarily those of Lincoln Financial Advisors. Expressions of opinion are as of this date and are subject to change without notice. This information is not intended as a solicitation or an offer to buy or sell any security referred to herein. Investments mentioned may not be suitable for all investors.

This email may include forward-looking statements that are subject to certain risks and uncertainties. Past performance does not guarantee future results. Actual results, performance, or achievements may differ materially from those expressed or implied. Investing involves risk, and investors may incur a profit or loss.

It is not our position to offer legal or tax advice. We encourage you to consult a legal or tax advisor regarding this information as it relates to your personal circumstances.

Registered associates of Academy Financial, Inc. are registered representatives of Lincoln Financial Advisors Corp. Securities and investment advisory services offered through Lincoln Financial Advisors Corp., a broker/dealer (member SIPC) and registered investment advisor. Insurance offered through Lincoln affiliates and other fine companies. Academy Financial, Inc. is not an affiliate of Lincoln Financial Advisors. CRN-3662792-070821