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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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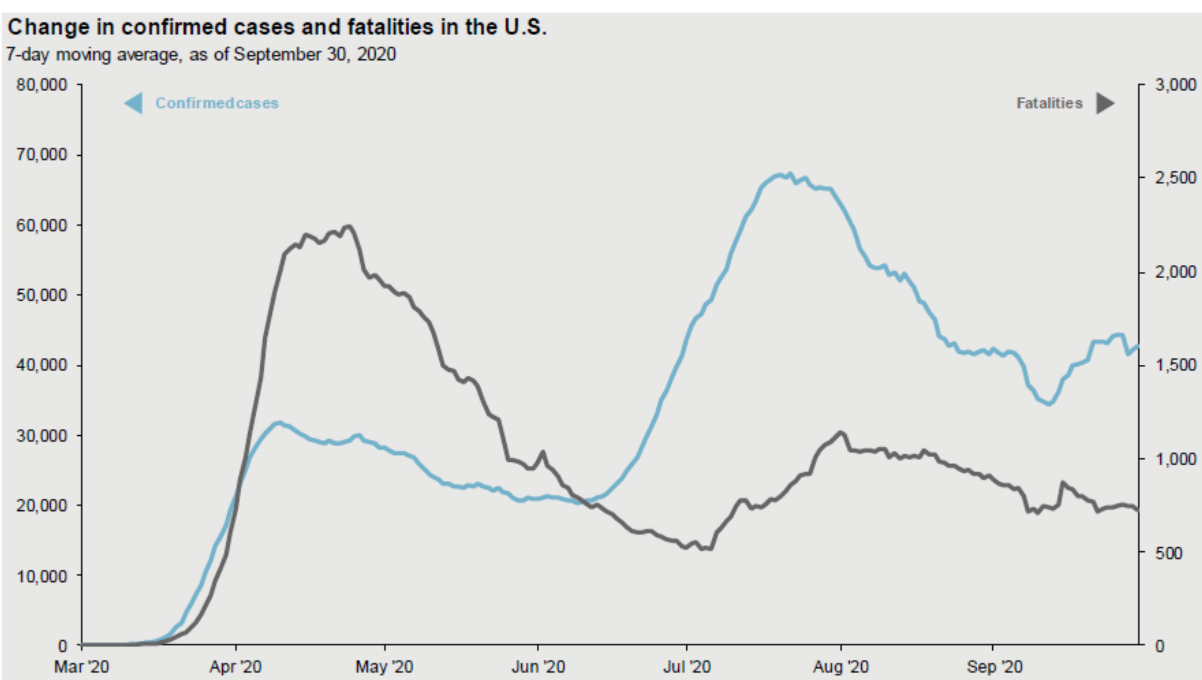
Overview:

% Return as of 09/30/2021[1]			
Equity Indexes	**3rd Q**	**YTD**	**3 Yr**
S&P 500	8.9	5.6	12.3
Russell 2500	4.9	-8.7	1.8
MSCI EAFE	4.8	-7.1	0.6
Emerging Market	9.6	-1.2	2.4
Wilshire REIT	1.3	-16.7	0.4
Bond Indexes			
TIPS	3.0	9.2	5.8
Aggregate	0.6	6.8	5.2
Government	0.2	8.8	5.5
Mortgages	0.1	3.6	3.7
Investment Corporate	1.5	6.6	6.4
Long Corporate	1.9	8.4	8.8
Corporate High-Yield	4.6	0.6	4.2
Municipals	1.2	3.3	4.3
Cash Equivalents			
3-Month T-Bill	0.1	0.7	1.7
Consumer Price Index	1.5	0.5	1.9

The 3rd Quarter continued the recovery from the lows of March 23rd. The 2nd quarter had the S&P 500 up 20.5%, while the 3rd quarter had an increase of 8.9%. As June ended, the coronavirus case rate and the death rate drifted lower but suddenly spiked in July. The markets absorbed the coronavirus resurgence and continued a two month climb during July and August before cooling off in September. The economy lagged as many businesses remained closed. However, the markets, if not the economy, maintain a business-as-usual reaction. All said, the 3rd quarter ended strong even as uncertainty surrounding the pandemic and stimulus hopes weighed on investors.

Better jobs data and coronavirus progress by Regeneron and Moderna vaccine trials created positive sentiment for stocks and bonds. Once again, concern over the political back and forth of an additional stimulus deal is apparently holding markets back. Benchmarks of one million worldwide coronavirus deaths and 200,000 U.S. deaths highlight the continuing seriousness of the virus and support the continued closures in various parts of the economy. Even as stay-at-home orders lifted and the federal government distributed aid to struggling businesses and households, the economy is only slowly recovering.



Source: Johns Hopkins CSSE, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of September 30, 2020.

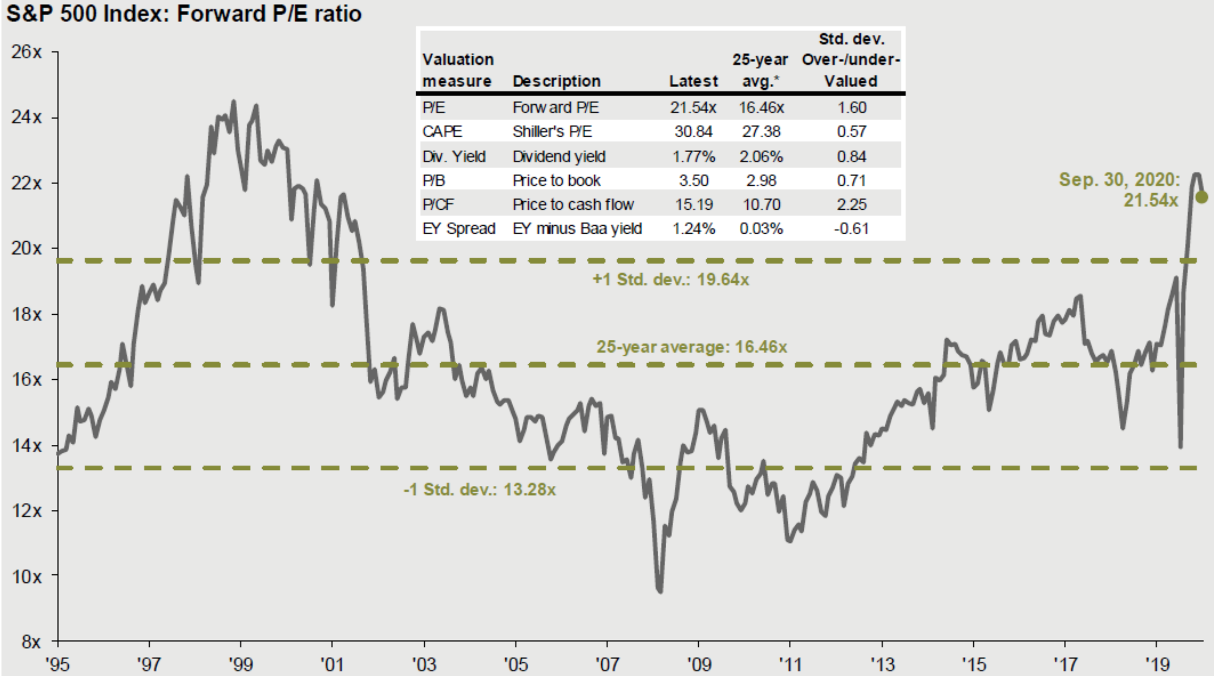
Equity Markets:

Divergences within equities continue as Growth has outperformed Value, Large Cap stays above Small Cap, and International lags U.S. Domestic. There are multiple reasons for this separation that starts with the initial stimulus package combined with an expected second stimulus that will may occur in the 4th Quarter. The sectors of the economy that have been hardest hit have not seen a rebound. These include Travel & Leisure, Energy, Retail, and Banking. Meanwhile, growth sectors of Health Care and Technology are somewhat immune to the pandemic fallout, as many are the beneficiaries of the stay-at-home economy.

The economic slowdown has further fallout as demand for energy remains low in conjunction with reduced manufacturing world-wide. The stimulus package also influences these results as the dollar shifted lower against foreign currencies which generally benefited exports and reduced imports. At some point this trend will reverse but the momentum continues; momentum that is grounded in government, monetary, and coronavirus reaction.

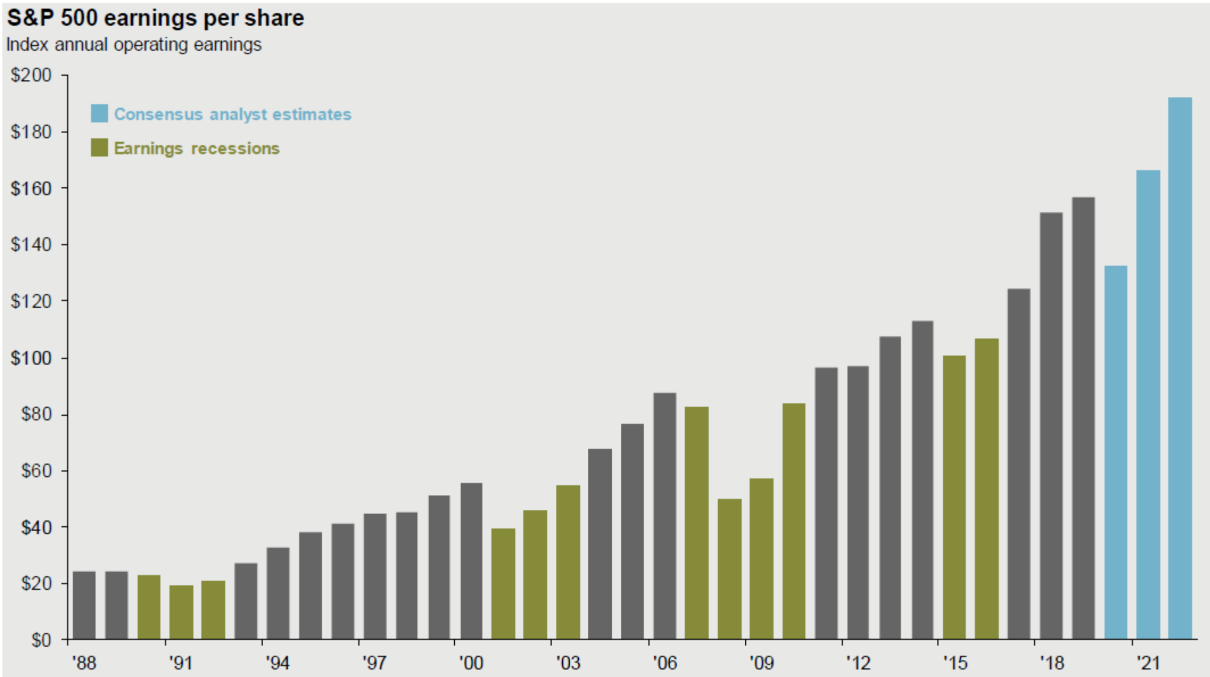
We do note that the forward S&P 500 Price to Earnings ratio is 30% higher and nearly two standard deviations above the recent historical average. That trend is driven by the largest growth companies in the index such as Apple, Microsoft, Amazon, and Google where earnings are low but earnings growth is high. The consensus earnings forecast reflects that optimism in earnings growth. Should those forecasts hold true or even accelerate, then the P/E may return to average without a drop in the market.

S&P 500 Index: Forward P/E ratio



Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-Valued
P/E	Forward P/E	21.54x	16.46x	1.60
CAPE	Shiller's P/E	30.84	27.38	0.57
Div. Yield	Dividend yield	1.77%	2.06%	0.84
P/B	Price to book	3.50	2.98	0.71
P/CF	Price to cash flow	15.19	10.70	2.25
EY Spread	EY minus Baa yield	1.24%	0.03%	-0.61

Source: FactSet, FRB, Robert Shiller, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.



Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Historical EPS levels are based on annual operating earnings per share. Earnings estimates are based on estimates from FactSet Market Aggregates. Past performance is not indicative of future returns.

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

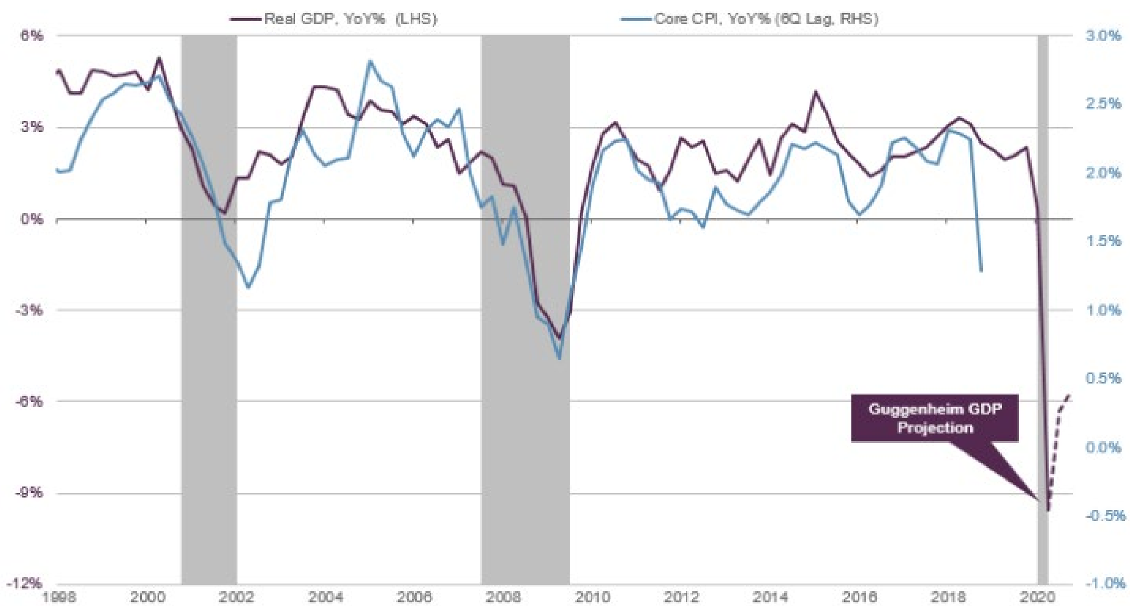
Fixed Income Markets:

Interest rates are low and are expected to stay low in the short term. The 10 year fell as low as 0.5% and has been hovering between 0.5-0.8% throughout the pandemic. The Fed has been accommodative and has signaled that they will continue to keep the 0.0-0.25% short term rate into 2021 and possibly beyond. The U.S. Treasury has provided a verbal backstop for corporate bonds, indicating a willingness to prevent systematic defaults. At the worst of the economic impact these actions calmed markets albeit with some continued concerns in the high yield and floating rate space.

Deflationary pressure is real with yields below inflation producing a negative real return. If this continues, we can expect the Fed to remain accommodative. Combined with the fiscal stimulus, there is money in the system. The issue is, that the circulation of that money is low, another reason why banking is hit hard. The push and pull continues where monetary and fiscal policy affect the market even as the economic recovery is slow and in the early stages.

Deflationary Pressure Will Keep Fed Stimulus in High Gear

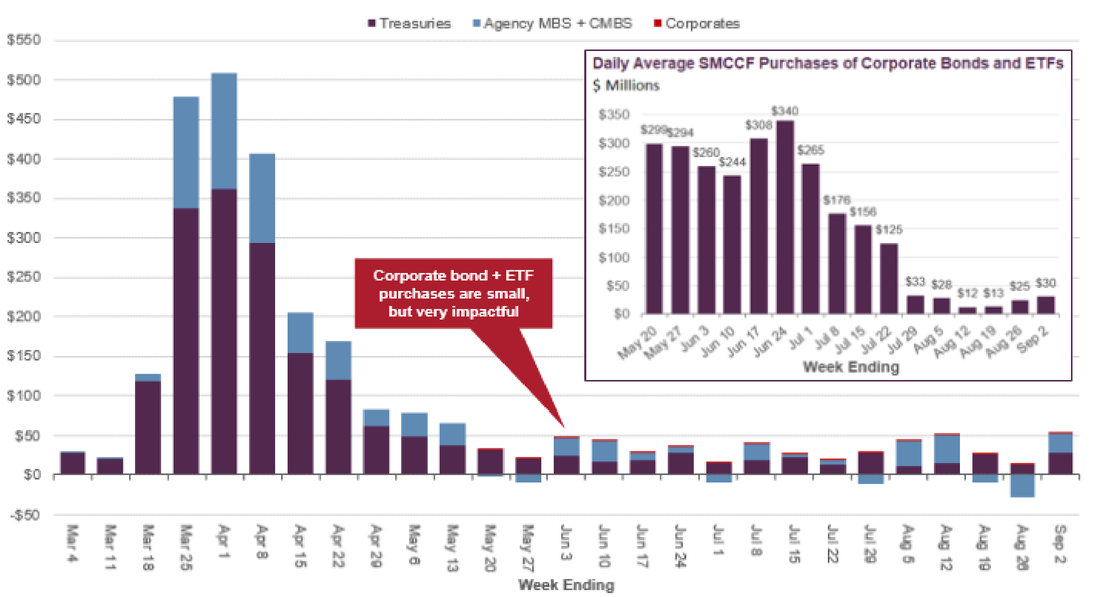
U.S. Real GDP and Core CPI, YoY% Change



Source: Guggenheim Investments, Haver Analytics. Actual data as of 06/30/2020. Shaded areas represent periods of recession.

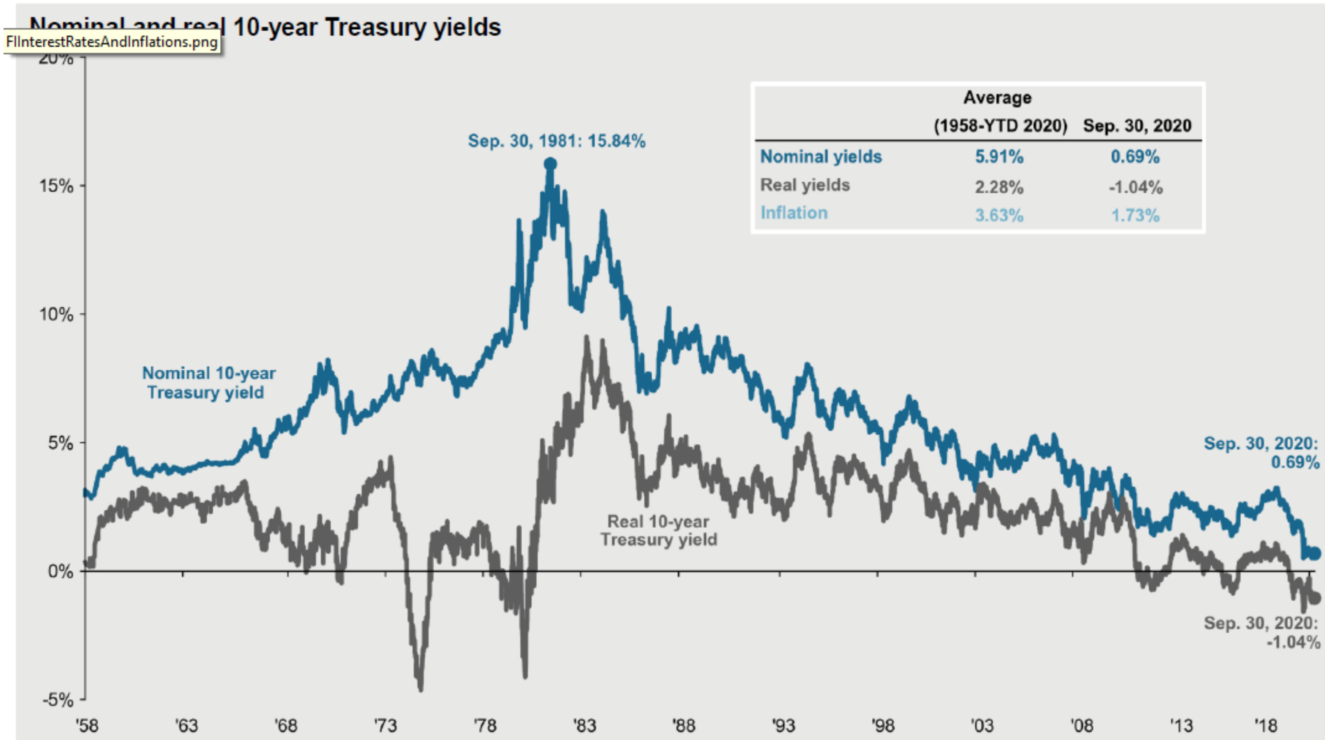
The Fed Is Committed to Maintaining Orderly Bond Market Conditions…

Weekly Change in Federal Reserve Holdings of Securities (USD Billions)



Source: Guggenheim Investments, Haver Analytics, Federal Reserve. Data as of 08/19/2020. Note: includes settled MBS purchases as well as TBA mortgage purchases yet to be settled.

Guggenheim 3rd Quarter Fixed Income Summary Report



Source: BLS, FactSet, Federal Reserve, J.P. Morgan Asset Management.

Summary:

The pause in September was only a partial correction to the continued bullish rebound during July and August. A quarterly return of 8.9% is nearly a years' worth of historical average performance, so except for negative momentum, a very good quarter. Interest rates stabilized at 0.5-0.8% on the 10-year Treasury and inflation remained near 1-2% with a slight tick upward towards the end of September. Real estate has some sectors doing extremely well, while others are doing poorly – like the stock market itself. Commodities such as gold are higher as the dollar has moved lower, but oil is more effected by oversupply and under demand as opposed to monetary policy. The Fed and Treasury actions promote easy money with future stimulus likely, though not yet passed. The divergence in the various sectors continues which reinforces our sense of caution and promotion of a diversified portfolio.

Post Script: As of this writing, in the first week of October, President Trump just became positive of the coronavirus and attended, then released, from Walter Reed hospital. Stock markets fell 1-2% on the coronavirus news and then rebounded on the release from the hospital. Our general view continues to be that the political landscape remains uncertain. Not only is the outcome of the elections still an unknown, but the effect on policy and the secondary effect on markets could be either positive and negative in both the short and long term. We don't see a way to balance a market forecast based on so many variables brought about by the election. Rather we focus on the fundamentals and the overall economic environment both domestic and abroad.

Sources:

1. Morningstar Data
2. https://am.jpmorgan.com/us/en/asset-management/gim/adv/insights/guide-to-the-markets/viewer
3. https://am.jpmorgan.com/us/en/asset-management/gim/adv/insights/portfolio-insights/global-fixed-income-views

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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