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Acropolis was born from a simple idea:

In an industry where high quality, objective advice is hard to come by, we make a difference by putting the client's interests above our own.

MARKETS GRIND LOWER

Although July was a pleasant respite for stocks and bonds, the third quarter ended worse off than it started on the same news. Inflation hasn't peaked, and the Federal Reserve will continue aggressively raising interest rates to quell inflation, which could lead to a recession.

The near-term outlook is tough, whether we endure a soft landing or enter into a recession, which is often called a hard landing. Alan Blinder, a Princeton economist and Former Federal Reserve Vice Chair, recently wrote an op-ed in the Wall Street Journal that said he would rate "the chances of a softish landing this time as well under 50 percent, but well above zero."

The question, as always, is whether stock prices reflect those scenarios. After all, 'everyone' knows that we are facing real challenges and the lower prices reflect those expectations.

Although it seems paradoxical, the longer-term outlook is improved by lower stock prices and higher bond yields.

Granted, we all have less capital due to the selloff in both stocks and bonds, but a 4.0 percent yield on a five-year Treasury note at the end of last quarter is more appealing than the 0.3 percent yield on a five-year Treasury two years ago.



"Oh yes, the market may fall, but trust me, we always land on our feet."

The same concept largely applies to the stock market but isn't as mechanical as the bond market. And, importantly, both markets could continue to fall.

Ultimately, the lower valuations on stocks and the higher yields on bonds will become attractive enough to bring in marginal buyers, which will cause prices to stabilize and move higher. Unfortunately, we don't know what levels will attract those marginal buyers or when, and we are always subject to new information.

The good news is that the market has always worked this way and delivered good results despite the uncertainty and risk. Without risk, the returns on stocks and bonds would be equal to the risk-free rate, better known as cash.

“All you need is the plan, the road map, and the courage to press on to your destination.”

*- Earl Nightingale,
American Radio Host & Author*

STOCK MARKET SUMMARY

By David Ott

Stocks were lower in the third quarter, taking all the major equity asset classes firmly into bear-market territory.

For context, the chart below now includes the quarterly returns along with the year-to-date returns.

It’s hard to remember that the quarter started on a very positive note, with the S&P 500 up 9.2 percent in June and the other major US indexes up similarly.

At that point, markets seemed to think that the worst inflation readings had passed and that the Federal Reserve was near the end of the current interest rate hiking cycle.

The mood changed dramatically when the August inflation data did not show a slowdown in core inflation, which excludes food and energy.

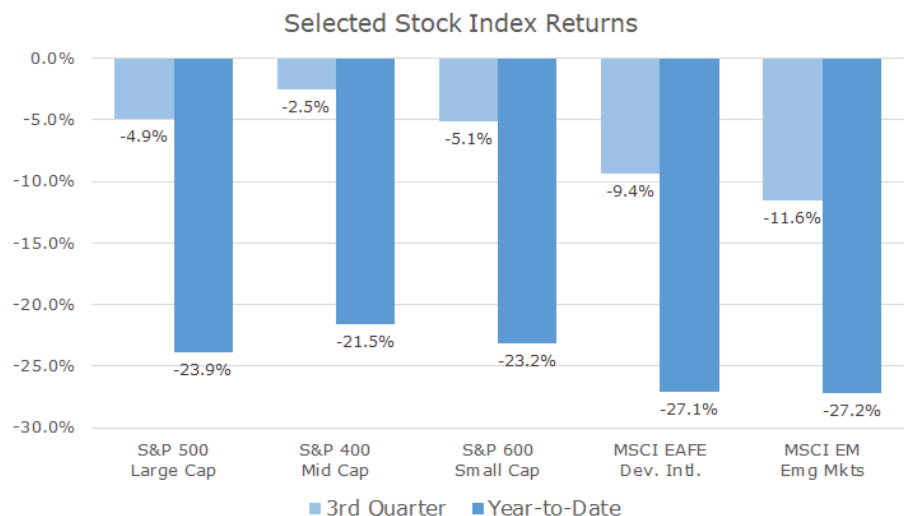
Energy prices did fall, so the headline rate was essentially unchanged from the previous month, but markets appropriately ignored the volatile components and focused on the hotter-than-expected core rate.

The Federal Reserve hiked interest rates by three-quarters of a percent at the July and August meetings and strongly signaled that they would continue to raise rates and hold them higher for longer to combat inflation.

Within the S&P 500, only two sectors gained ground, with consumer discretionary stocks up 4.1 percent and energy stocks 1.2 percent higher. Other than financial stocks, which lost -3.6 percent, all other sectors lost more than five percent, and two lost more than -10 percent (communications and REITs).

Developed markets stocks actually lost far less than US stocks in local currency terms, down -2.8 percent. However, the strong dollar hurt those returns for US investors, so the return was -9.3 percent in dollar terms.

Emerging markets stocks faced the same problem, but to a lesser degree. In local currency terms, the MSCI Emerging Markets index lost -8.2 percent, but the strong dollar’s impact caused the return to fall to -11.6 percent for US investors.



Data Source: Bloomberg



BOND MARKET REVIEW

By Ryan Craft, CFA

Bonds extended their tumultuous year into the third quarter as the Federal Reserve continued to tighten monetary policy to combat high inflation aggressively. At the beginning of the quarter, bonds performed very well as yields fell almost half a percent.

After a very poor June for the equity market, many investors began to price in a Fed pivot, meaning the pace of rate hikes would slow or even cease. In late August, the Fed made it clear to markets that it has no intention of letting up on rate hikes until inflation is firmly on a trend toward its goal of two percent, which sent rates higher by a full percentage point.

It is hard to put into perspective just how aggressive the Federal Reserve has been this year. A year ago, overnight rates were at zero, and the Fed was still buying bonds to stimulate the economy, all while stating that inflation remained “transitory.” Over the past nine months, the Fed has hiked rates to 3.25 percent (expected to be 4.50 percent by December) and is now letting its balance sheet decline by \$100 billion

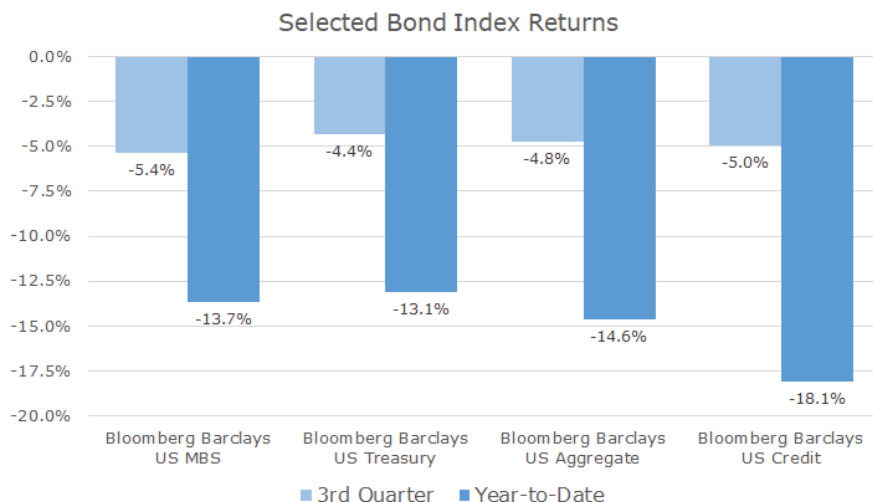
each month. This is a hefty shock to the economy, yet it will take some time to filter through as monetary policy typically lags about 6-12 months.

However, some negative effects are already beginning to show. Mortgage rates are slowing down the housing market, and higher rates on auto loans are starting to see used car prices and volumes decline. Bond yields are at the highest levels investors have seen in a generation, while stock valuations have seen much of the froth from the past few years get blown off. High yields strengthened the dollar, which has caused issues for overseas markets that caused them to sell their US bonds.

The good news is that the US bond market is offering investors the most attractive yields they have seen in nearly a generation. The investment grade universe is trading at a yield of 4.75 percent. When compared to a 1.8 percent dividend yield on stocks, or even the six percent earnings yield on the S&P 500, bonds are looking very attractive on a relative basis moving forward.

“The more I see,
the less I know
for sure.”

- John Lennon,
Beatle



Data Source: Bloomberg



“It is worth remembering that it is often the small steps, not the giant leaps, that bring about the most lasting change.”

*- Queen Elizabeth II
Queen of the United Kingdom*

INFLATION HEDGES UNEASE

By Cliff Reynolds, CFA, CFP®

High inflation has negative effects on so many parts of our lives. Everything from groceries to cars to home mortgages are much more expensive today, and the debate about what exactly is causing it (and what to do about it) is raging.

Energy costs are actually lower compared to 12 months ago, but overall inflation persists as price increases have found their way into nearly every nook and cranny of our economy and making its presence known in investment portfolios as well as the store.

As a result, investors are very interested in hedging their portfolios against the risk of high inflation. While such a novelty sounds great in theory, it is much harder to achieve than most think.

So far, we have experienced roughly 6.2 percent of inflation this year. On an annualized basis, we have been running a little more than eight percent, but we are only nine months through the year, and we technically don't have September's inflation data yet, so I am extending the average one more month to bring the data current.

That's not a common way to state inflation, but doing so helps us compare it to the year-to-date performance of various asset classes to test whether any of them are reliable inflation hedges (see the data in the table below).

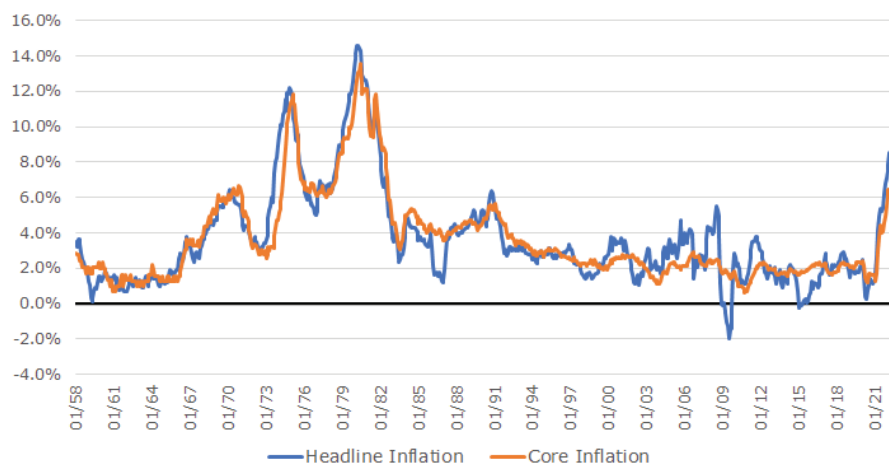
Stocks (S&P 500) and Real Estate (REITs) are grouped because both are publicly traded and tend to be fairly correlated. Publicly traded stocks and real estate companies are down significantly this year, but their performance over the last ten years has still outpaced inflation by a wide margin. I will come back to the long-term comparison of inflation and stock returns at the end.

Bonds, Short-Term Treasury Bonds, and Treasury Inflation-Protected Securities (TIPS) are grouped next because they share many of the same characteristics. Bonds are rarely touted as inflation hedges, but historically some have been better than others.

	Performance	
	2022 Year-to-Date	10-year Annualized Returns
Inflation	6.2%	2.6%
S&P 500	-23.9%	11.7%
REITs	-28.1%	6.3%
Bonds	-14.6%	0.9%
ST Treasury Bonds	-4.5%	0.6%
TIPs	-13.6%	1.0%
Gold	-9.2%	-0.6%
Commodities	21.8%	-3.9%



Headline & Core (ex Food & Energy) Inflation
Rolling 1-Year, Jan 1958 - Aug 2022



None of them have been a very good inflation hedge recently, but there have been many times over the last 100 years where Short-Term Treasuries were a fair hedge to inflation. The debate over why short-term bonds haven't been a good inflation hedge is for another day.

While TIPS have compensation for inflation as part of their structure, they also have a lot of interest rate risk. They have fared better than nominal treasury bonds of similar duration but have recently not done a good job of matching inflation.

The last group on the table are Gold and Commodities. Commodities stand out as the only asset class on the list to have a positive return this year. In June, the same commodities index was up over 50 percent, so a lot of the rally has fizzled out, but over the last nine months, it is the only asset class that beat inflation.

Over the last ten years, the non-tradeable index has lost out to inflation, but the real drawback comes from the implementation of a buy-and-hold commodities strategy – the main ETF that tracks that commodities index trailed the index by six percentage points over the last ten years.

Commodities themselves are actually a pretty good inflation hedge over short periods, but they are so expensive to trade and store that the performance of any real money investment doesn't do a very good job of delivering the returns of the index. In short, commodities are for trading, not investing.

Gold may be the most often touted inflation hedge on the list, but the real-life data does not support the claim.

Gold is down almost as much as bonds this year and is still negative for the last ten years. It has had good ten-year periods in the past, but returns aren't correlated to inflation and only average five percent annualized since 1950 (the S&P 500 averaged over 11 percent over the same period).

That brings us back to stocks. While there isn't a meaningful correlation between publicly traded stocks and inflation over time, the long-term growth and efficient implementation leave it as the only real inflation hedge over long periods. It's far from perfect, but history shows that it works.

**“All truths
are easy to
understand
once they are
discovered;
the point is to
discover them.”**

*- Galileo Galilei
Italian Polymath*

“And the trouble is, if you don’t risk anything, you risk even more.”

*- Erica Jong,
American Novelist & Poet*

STOCK RETURNS AND RECESSIONS

By: David Ott

With all of the news about a possible recession on the near-term horizon, people routinely ask, ‘Why don’t we sell our stocks until the recession is over and sidestep some losses?’

To help answer this question, I looked at the S&P 500 monthly returns starting from 1950 around recessions. I avoided the Great Depression, and I always feel a little awkward leaving it out because it happened and mattered in a big way. That said, this is a look at recessions, not depressions. The average monthly return during the entire period was 0.98 percent.

Then, I divided the returns into four groups. The first group was the returns during recessions defined by the National Bureau of Economic Research (NBER), the official referees for dating them. You can only calculate this with the benefit of hindsight because the NBER doesn’t tell you when a recession starts or ends until well after it’s over.

The average monthly return during recessions was 0.30 percent – still positive, but 70 percent less than the average of all of the months in the analysis.

The next group was the average return for the six months heading into a recession. The average return is negative, at -0.03 percent per month. This makes sense because the market is pricing in the likelihood of a recession, which hurts earnings. It supports the idea that investors are forward-looking.

Most interesting, though, is the third group, which is the six months following a recession. The average monthly return is 1.93 percent, which is almost double the average return for all of the months.

The last group is all of the months that weren’t in any of the first three groups. The average here is 1.1 percent, which is similar to the entire sample.

The trouble with this analysis is, as I’ve noted, we don’t know when recessions occur until they are over. I’m still not convinced we are in a recession now but are we within six months of one? That could be, I don’t know.

The uncertainty is why we have adopted our ‘buy-and-hold’ approach, where we set an allocation based on your circumstances when there is no crisis going on and set it to writing in an Investment Policy Statement (IPS).

We talk about how much you might lose based on statistics or what you would have lost in a previous bad market like 2008, not knowing what we may encounter in the future, but knowing we will encounter the down markets that come along with the up ones.

Like everyone else, I don’t know where we are headed next, but I do know that there will be an end to this, and we will recover, just like we have from every bad period in the past.

My primary hope right now is that people stick with their allocations or adjust them ever so slightly if they can’t sit still and wait for this to pass.

It’s not easy to do, but we think it’s the right approach for the long run, especially after seeing what happened after 2008 when a handful of clients exited the market, but waited far too long to get back in and were worse off than if they had just held through the entire episode.

NEW AT ACROPOLIS

By: David Ott

In the early years of Portfolio Insights, we always had a ‘New at Acropolis’ section. It focused heavily on new hires and included other things, like new features and functionality, from our custodian firm partners like Charles Schwab.

A lot is happening at Acropolis today, so we thought it made sense to resurrect this column and keep sharing what’s new.

Although we can’t go back and include all of the new hires since our last New at Acropolis column years ago, we can start with the new folks in 2022.

Our first hire this year was Miranda Hagar, who joined the firm in February as a Portfolio Administrator. Before joining Acropolis, she was in the health insurance industry and earned a Bachelor of Science in Health Sciences from the University of Missouri, Columbia.

Technically speaking, Kelli Bump is an Administrative Assistant, but she is known as one of the friendly voices you hear when you call our main telephone line. You may also meet her at an event or when you come into our office.

Alex Umble joined the firm in April as an investment analyst and trader. He graduated from Edinboro University of Pennsylvania in December of 2021 with a Bachelor of Science degree in Business Administration and a concentration in financial planning.

Andrea Levinson joined Acropolis in May as a Portfolio Administrator. While raising her four kids, Andrea operated two e-commerce businesses and started an independent elementary

school. She earned her Master’s in Business Administration from Webster University in 2021.

Jennifer Orr joined Acropolis in July as a Portfolio Administrator after spending 11 years as a branch office administrator for Edward Jones. She’s held various other jobs in financial services, including a loan processor, mortgage loan administrator, and bank manager.

September was particularly busy for us with two new Portfolio Administrator Assistants: Nathan Levinson and Heather Burke.

Heather joins us as a Portfolio Administrator after a 10-year departure from the workforce to raise her three young sons. Before that, she was a teacher in Cahokia, Illinois. Additionally, she is an avid runner & cyclist and currently training for a half marathon.

Nathan interned at Acropolis over the summer and recently graduated from the University of Colorado in Boulder.

And, yes, Andrea and Nathan are related, mother and son. Although Acropolis isn’t a family business in the traditional sense, it is more of a family business than most because, soon, 25 percent of the people at Acropolis will be related to one another.

We have siblings, parents and children, and a married couple. And we’re about to have a second married couple when Ched Wagner and Maria Hartz marry later this year. Maria joined Acropolis in 2018, and Ched came on board in 2019.

Congratulations and best wishes from your Acropolis family!

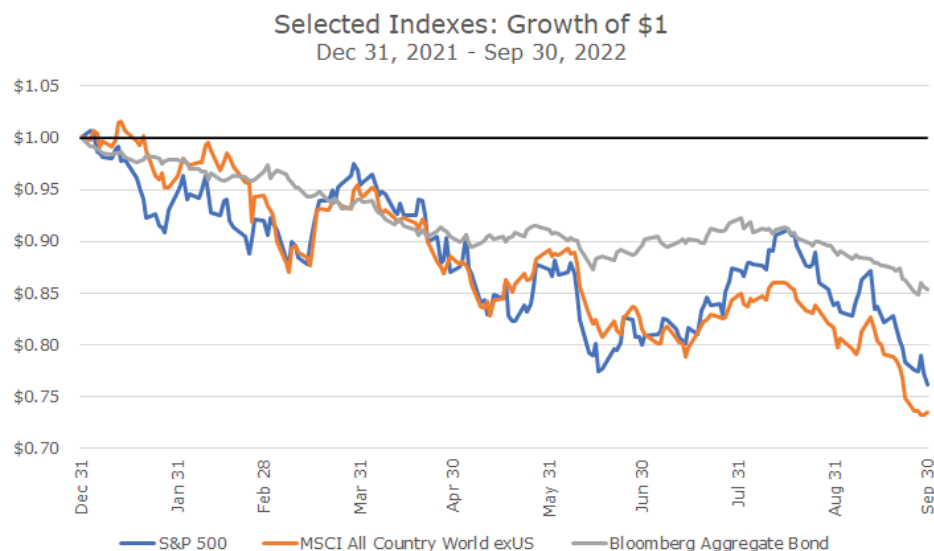
“How many millionaires do you know who have become wealthy by investing in savings accounts? I rest my case.”

*- Robert G. Allen
American Author*

Data Center	2022 YTD
Dow Jones	-19.72%
S&P 500	-23.88%
S&P 400 Mid-Cap	-21.54%
S&P 600 Small-Cap	-23.19%
MSCI EAFE (Intl)	-27.09%
MSCI Emerging Mkt	-27.16%
S&P Sectors	2022 YTD
Basic Materials	-23.75%
Communications	-39.04%
Consumer Discretion.	-29.89%
Consumer Staples	-11.83%
Energy	34.49%
Financials	-21.25%
Healthcare	-13.08%
Industrials	-20.72%
REITs	-28.93%
Technology	-31.44%
Utilities	-6.51%
Interest Rates	2022 Q3
Fed Funds	3.25%
Prime Rate	6.25%
3-mo. Treasuries	3.27%
2-yr. Treasuries	4.28%
5-yr. Treasuries	4.09%
10-yr. Treasuries	3.83%
Currencies	2022 Q3
Euro	0.9802
Japanese Yen	144.74
British Pound	1.1170

All Data as of 09/30/22

THE BIG PICTURE



FAST FACTS: RECESSIONS EDITION

34: The number of recessions in the United States since 1854, when the National Bureau of Economic Research (NBER) dates the first recession. The NBER gauges several factors to determine a recession, including economic output, consumer demand, and employment, among other factors.

13: The average duration of US recessions and depressions, measured in months, dating back to 1926. Recessions before then lasted longer, on average at 21 months, and expansions are also longer today too. Since 1926, the average expansion has

lasted 59 months, compared to 25 months before then.

1873: The year that the longest depression started. It was called the Great Depression but lost its title after 1929. The 1873 panic started with the failure of Jay Cooke & Co., a major bank at the time, and that set off a chain of bank runs and burst the railroad stocks bubble. This depression ended in 1879.

128: The number of months in the largest expansion, which started after the 2008 global financial crisis.

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