



9000 Keystone Crossing #630
Indianapolis, IN 46240
www.thearcherfunds.com

Archer 2020 2nd Quarter Outlook:

Baseball's backstop.

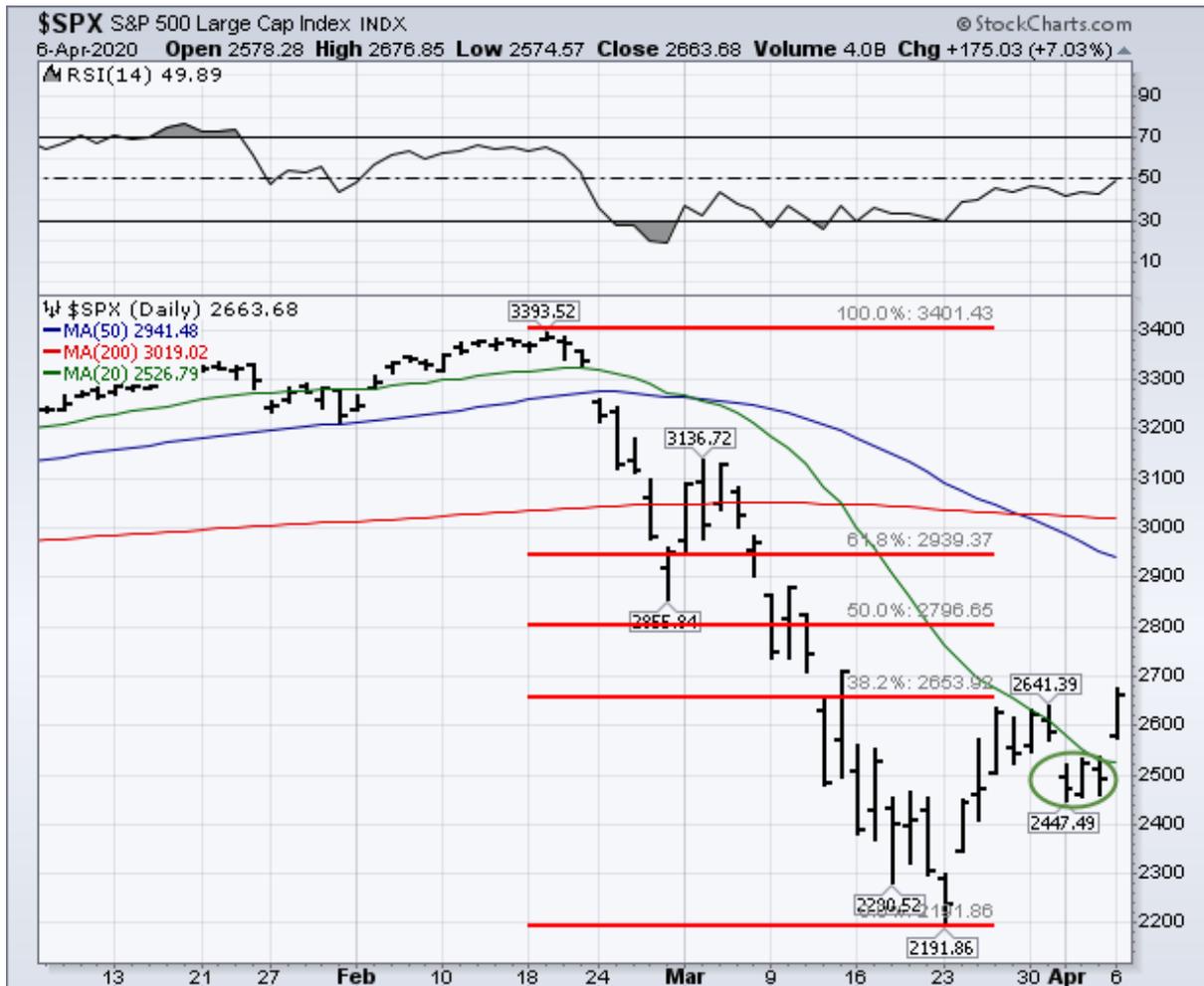
As you all know, baseball, America's past time is on hold. If you have ever seen a baseball game or been to one, there are times when it is boring, and times when it is exciting. Let's think of the market like a baseball game with two very good teams.

1st – 3rd Inning: The players take the field and the pitchers dominate most of the action, and not much is going on. Then in the 4th inning, we start to see more hits, because it is the second time a batter has seen the pitcher and they know what to expect. So the 4th- 6th innings are bit more exciting and both teams tend to score more runs in the middle half of the game. Then we usually see some jockeying around for position, before they bring in the "flame thrower" or closer. This person usually can not last as long as a starter, but is throwing the hardest pitches of the game. They usually either close the game or they fail miserably. At this point, the game is over. OK, so you are asking why does this matter? What if we played the same game without any bleachers or backstop behind home plate. Nearly every game I have seen, balls get away and errors are made. Those errors sometimes cause the other team to win and score runs.

Our government has put in one heck of a backstop! \$2.2 Trillion in backstops. They are trying to make sure if the ball gets by the catcher, the runners on the other team don't advance. Family checks, industry loans and grants, small business loans and grants, etc. We have not seen this extreme of a business backstop in my lifetime. Even in 2008-9, the backstop was in the financial markets, not the individual businesses themselves.

This is one of the first recessions, we know is coming before it is even here. Often times, bad news starts to trickle in and then we find ourselves in a recession, but after the fact. This is what caused the market to sell off over 30% in very short order. Then the backstop made it bounce back in very short order. The question is, where the heck is this stock market going?

Let's take a look and see where we are....



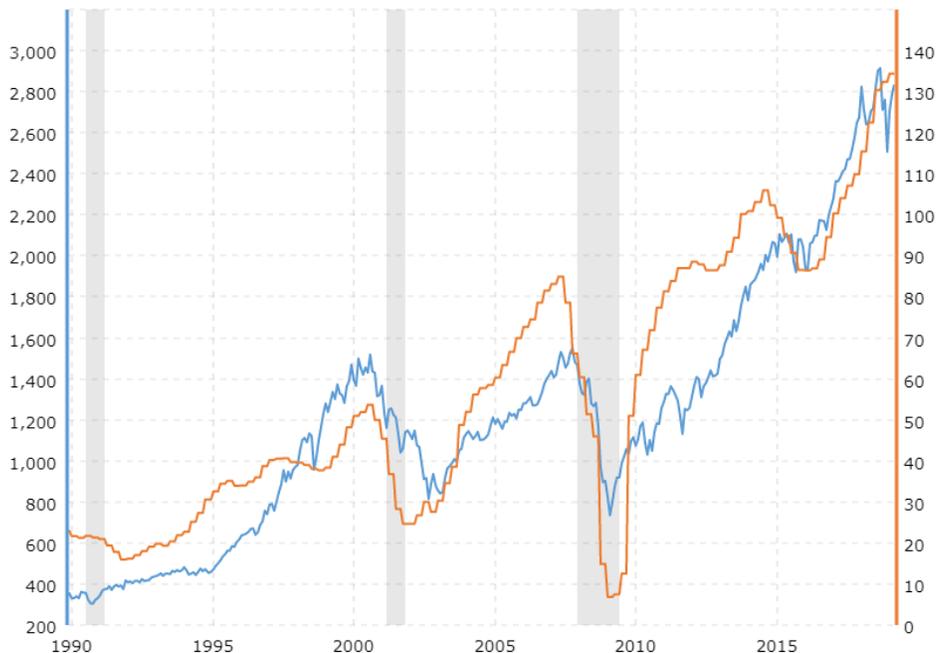
As of Monday's close on April 6, 2020, the market is rebounding and trying to retest the highs we saw last week. This is normal, the backstop is creating this bounce with plenty of money to flow into the market. The problem we foresee is where this money goes. Certain industries, like transportation, homebuilding, autos, and restaurants are being hurt and much of this money will not go back to these sectors. Certain sectors are doing great like, technology, staples, and health care.

The discrepancy between the haves and have-nots is going to create some gyrations in the market. It is common for the market to test the recent high and then retest the low one or two more times. Much of this will play out with how America reacts to the flush of news coming out. Unfortunately, news headlines sell and persuade. If the news starts to report good news (as many Americans are working from home watching) then we expect the market to move higher. We would expect it to move higher with news of an impending vaccine or treatment that all can accept. Currently, we have neither. In fact, one main channel, while discussing New York, actually used footage of an Italian hospital showing it was in complete disarray. This may have been a mistake, but plenty of people watch this and make decisions based on what they hear and what they see.

Once we test the level as seen by the red bar with the 38.2%, it may tell us if the market is going to move higher and try to get back 50% of what it went down by or if we will retest the lows which shows 2191.86.

Either way, we think it is our job to preserve capital first and to get a return on it second. We need to see or anticipate a defined outcome to this pandemic prior to reinvesting back into the models. As we have said before we think we will come out of this with some very positive side effects for the US economy. We think the shift of focus to Health Care (less likely political target), Technology, and Consumer Staples will provide plenty of growth in our economy. Never before have we seen a clearer understanding why medical products, medicines, and other essential products need to be made right here in the U.S.A. Further, the way we do business with computers and remote work will charge technology development and expenditures ahead for the next 3-10 years. Yes, there will be some industries which struggle for a time, but we do think they will come back. However, it may take longer for some to return to growth than it does for the industries I mentioned above.

In our 2020 outlook, we showed the chart below. It is important to understand the relationship between earnings and the stock market. We have no doubt earnings will decline significantly in the second quarter of 2020. However, as shown below, it can come back fairly quickly like it did in 2008-2009. We are concerned more about the trend than the next quarter or two. The trend is up and we think it will rise sharply over the next few years as our economy expands driven by Health Care, Technology, and Consumer Staples (think how manufacturing can explode if we bring back 1/3 of what we have given up in these sectors. The chart below shows the earnings (orange line) and the S&P 500 (blue line through March 31).



Looking Ahead:

We are looking for the three positive signs for our stock market to rebound:

1. A defined outcome to the coronavirus – This means we need to see a vaccination or treatment to reduce the devastating effects of the most serious cases.
2. We need to see employment resume for those who were laid off during this outbreak. This will spur the economy as we have a more reliable source for GDP growth and consumer spending. (Government checks are sporadic and may not come through when needed most.)
3. We need to see companies open back up and consumers who are free to move about the country without limitation. Limitations on spending will continue and companies will be reluctant to spend for capital projects if they think another round of government limitations will be set.

We know the spirit of America is much intact and everyone is focused on a positive outcome for this crisis. There are essentially four to five defining moments in the country during each of our lifetimes and some of us have now seen them all. World War, pandemic, attack on the USA, and financial crisis to name a few. They each made us smarter, more responsive, and better as a society, but not without some pain in the short-term.

Regards,

The Archer Team