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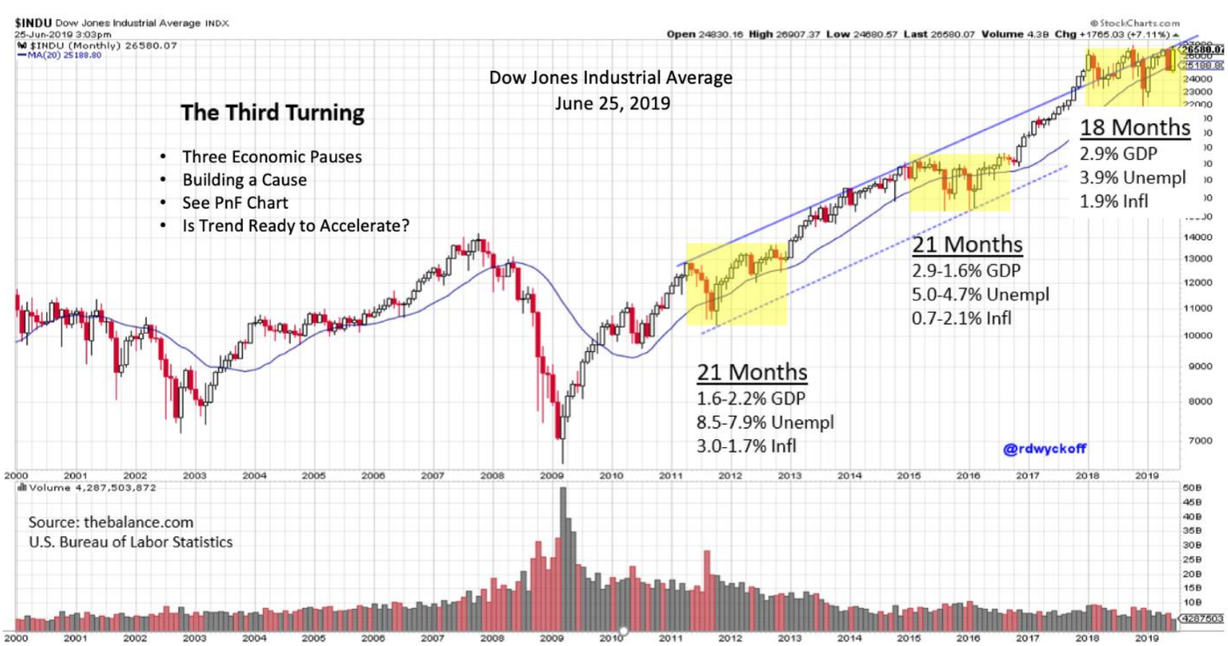
Archer 2019 3rd Quarter Update and Outlook:

Where can we go from here?

If we told you that this market has gone almost nowhere over the last 18 months, would you believe us? Well, you should. From the highs in January 2018, the S&P 500 is up only about 3% as of this writing. Remember, we had a blast up in 2017 with the tax cuts and then in 2018 near the end of the year we sank before rising back up again in 2019. Years ago, the world economy used to hinge on the U.S. economy and that started to give way in the face of globalization. However, as we face threats of tariffs between our neighbors and China, we are back to “as the US goes, the world goes.” Our GDP has moved higher, unemployment lower, and inflation remains in check. As you can see from the chart below, the market may just be catching its breath before continuing higher.



What factors could make our GDP move higher? Interest rates and tariff resolution.

Let's discuss interest rates quickly. Rates have continued to move lower with the 10yr floating around 2.07% as we write this. This recent decline in interest rates from 2.7% in March is one of the bigger reasons for the stock market increase. Why else would the markets move higher in the face of a tariff stand-off with China as well as the President calling on the Fed to lower rates? There has been some slippage in the economy with freight rates declining and rumbling about GDP coming in a bit light. With the prospect that the Fed may actually cut rates and inflation being in check, this has propelled the market upwards. The only issue we see with this, is that the reason the market rose is due to a *prospective* increase in GDP due to a decline in interest rates. We would prefer the market move higher because the economy continues to move forward at the same pace or better rather than being fueled by anticipated monetary stimulus.

Tariffs: We think the stand-off is coming to a head. We have seen both U.S. and China try to save face by putting further tariffs on hold until we can come to some better terms for both countries. Frankly, leaders in both the U.S. and China are more concerned about how they are perceived and much of this is tied to the wealth of the citizens and the stock market. As long as they both use the stock market as a proxy for their administrations, tariffs will likely be in a holding pattern and just more talk.

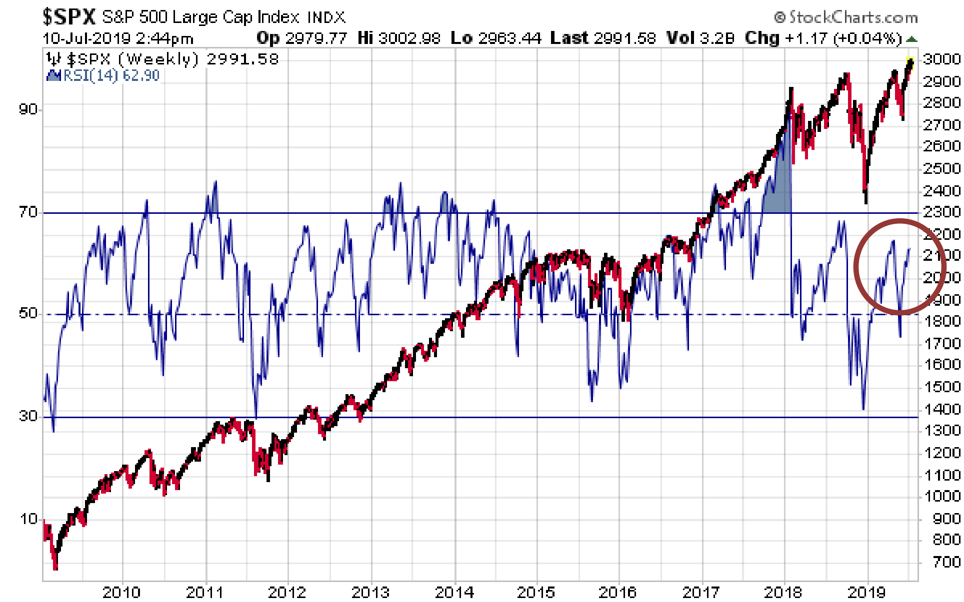
Last quarter we discussed the stock market doubling and how this would happen. The following chart shows the returns of the Presidential Cycles. Using data as of July 9, 2019, it appears the third year in our Presidential Cycle is right on cue. The question begs for the rest of this year and next if we will see similar returns to the historical returns or will this election cycle get ugly and take no prisoners?

	Election Year	**First Year After Election**	**Second Year After Election**	**Pre-Election Year**
Number of Up Years	**14**	**10**	**11**	**16**
Number of Down Years	**3**	**7**	**7**	**2**
Average Return	**6.9%**	**7.4%**	**6.3%**	**16.6%**

Dates are 1/1/1950 through Current 7/9/2019

We guess that it will be ugly. However, we think the market will be resilient and recognize additional growth of GDP and earnings of companies, while a low inflation and interest rate environment will keep us close to average returns that we have seen in years past. The remainder of our returns for the rest of 2019 will keep us paying close attention to future returns if we fall back or get ahead of ourselves.

One chart shows that we are nearing an overbought position in the stock market. For this to come back down close to the 50 mark, we need to see higher GDP and earnings growth from our public companies.



Lastly, one area of the stock market that remains under-loved and ignored is value stocks. Since 2009, this stock market has focused mainly on growth stocks. We see this as the largest undervalued area and poised to outperform growth over the next 10 years, or at least keep up with growth stock returns. We have focused much of our attention to value stocks over the years and will continue to do so. It is not always what you make in the stock market, but also what you keep in the down years.

Looking Ahead:

Forward Price Earnings Ratio on the S&P 500 is 15.8, which is close to the average over the last 20 years. We think the market may be slightly overpriced, but not by much. In fact, based on these low interest rates, the market could move another 25% higher and by some estimates still be fairly priced.

Being a bit more conservative, we would rather see an increase in market earnings and GDP propel the markets higher so that when rates do rise (and it may be a while), the stock markets here in the U.S. do not feel the lumps of a higher rate environment. A final thought on interest rates for those who may still be worried about the inverted yield curve on the horizon. One reason for this is that many countries currently have 10yr Bonds trading at less than 1% or even at a negative rate. This is driving our rates down further as foreign governments look to invest here.

Regards,

The Archer Team