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Archer 2019 August 15th Special Update:

I thought we were in a bull market?

We were bullish on the market and still am today. We are in the early stages of a full bull market. However, this does not mean we can stick our head in the sand and ignore the short-term gyrations this market will offer to us over the next 90 days or longer. This recent market volatility is all policy driven by the China – US trade conflict. It has impacted retail, wholesale, capex delays, etc. Further it has driven a yield inversion for the second time in a few months and more importantly an inversion in the 10yr – 2yr Treasury inversion. The past tariffs Trump put on is expected to trim .2% off of global GDP. This impacts Europe even more as they are more sensitive and do not have the large diverse economy we have here in the United States.

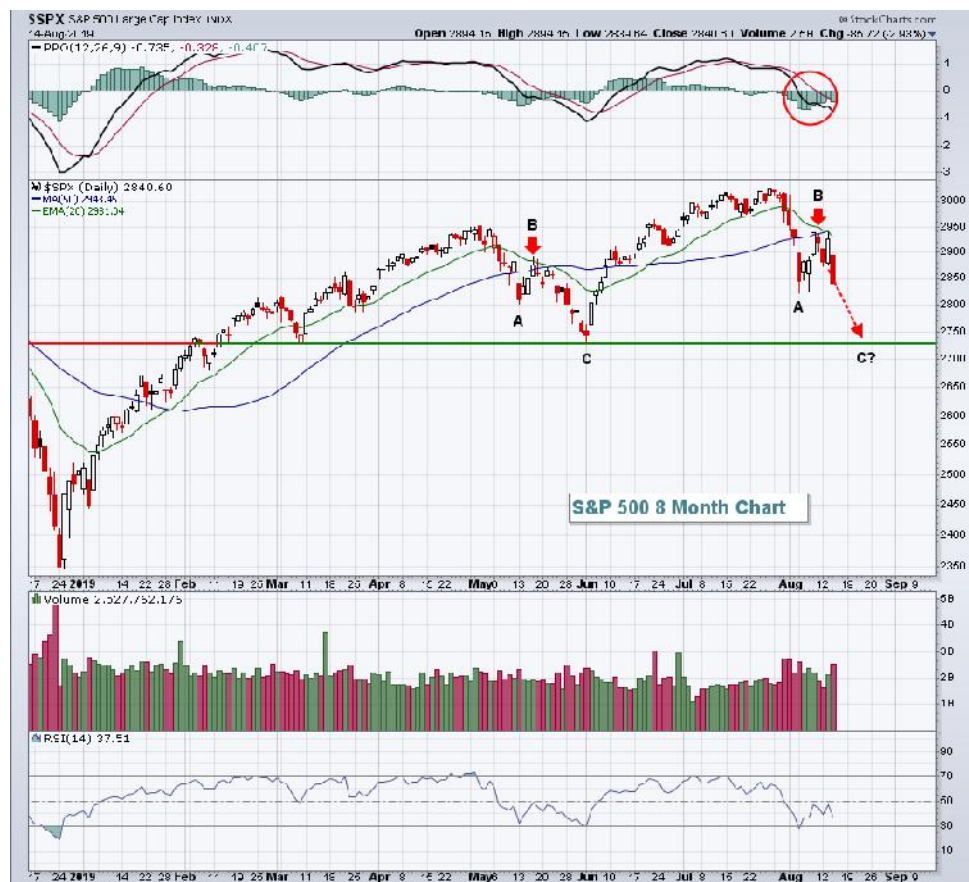
With Trump delaying the additional tariffs just announced last week it is giving the market the uncertainty that makes most investors nervous. The expectation of another ½% cut in the Fed rates is driving down the 10 year Treasury. Why does an inverted yield curve cause a recession? Simply, if inflation was a problem they would reduce rates and try to choke off the banks from lending to slow down the economy. This time is different because inflation is too low, not too high. If you are a bank and you had to borrow at an overnight rate of 3% and lend it at 2%, you are losing money and would not lend. Today, the banks have plenty of reserves because of regulation so they don't have to borrow overnight and can lend with their excess reserves without borrowing. This is why although the yield curve is inverted or close to tight we still have low unemployment and the economy is not flashing all the other signs of a recession.

Start of Inverted Yield Curve	Start of Recession	Lag Time (Months)
Aug. 1978	Jan. 1980	17
Sept. 1980	July 1981	10
Dec. 1988	July 1990	19
Feb. 2000	March 2001	13
Dec. 2005	Dec. 2007	24

Just some additional stats on the inversion. After the past inversions, stocks rose an average of 15%

after the inversion until the next recession which was an average of 14 months later. Germany may see a recession in the next quarter, but we may postpone ours. The average treasury yield during the last 9 inversions was 6.11%, this time is extremely different with rates around 2%. This means there is not much room anyways with global rates already in negative territory and the US the best place to invest for the long-term, thus driving down rates and not induced by high inflation.

The investor sentiment along with the uncertainty caused by the President is likely to cause the market another 5-7% downturn in the market before we see a bounce back up, just like the last 'ABC' pattern (see chart below) the last time rhetoric was high regarding tariffs. Ultimately, we may see a recession, but I think it will be a much softer recession than we have seen before. Rates are low and unemployment is low. This is a recipe for expansion, albeit slow, but still expansion.



Why not move to cash until this volatility is over in 180 days or even through the next election? Simple, the largest moves back up happen within a few days of the bottom so if you sit on the sidelines and it is a shallow drop, your portfolio may lose 3-5%. Also, as we said earlier, the market may move higher by 15% and then correct 20%. The United States is undefeated in comebacks and this time is no different, it just may make us a bit nervous.

Regards,

The Archer Team