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Archer 3rd Quarter 2021 Outlook:

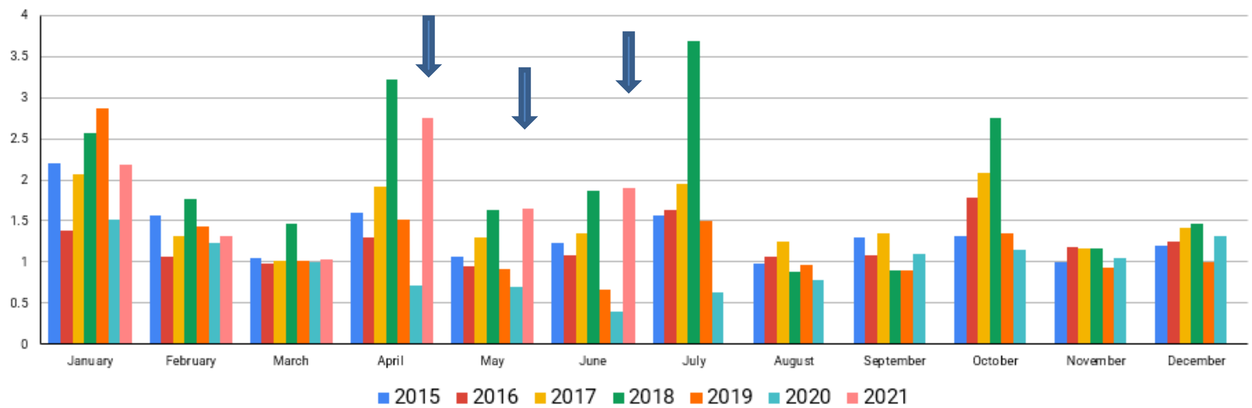
"Nothing gives one person so much advantage over another as to remain always cool and unruffled under all circumstances." – Thomas Jefferson

Sunday, July 4th, marked the 245th commemoration of the adoption of the Declaration of Independence. Since then, the country has grown from 13 colonies and roughly 2.5 million people to 50 states and 14 territories with a population that exceeds 330 million. The economy has swelled to almost $21 trillion and economic output per person has risen by a factor of 30. Advances in public health have cut the child mortality rate from more than 45% to under 1%. More than 200 million people have at least finished high school, compared to 18 million in 1940. We've built almost 3 million miles of paved roads and more than 5,000 public airports. In 1800, 95% of the population lived in rural areas; more than 80% now live in urban cities and towns. The 244th year was a tough one, but so far, the American experiment has held strong.

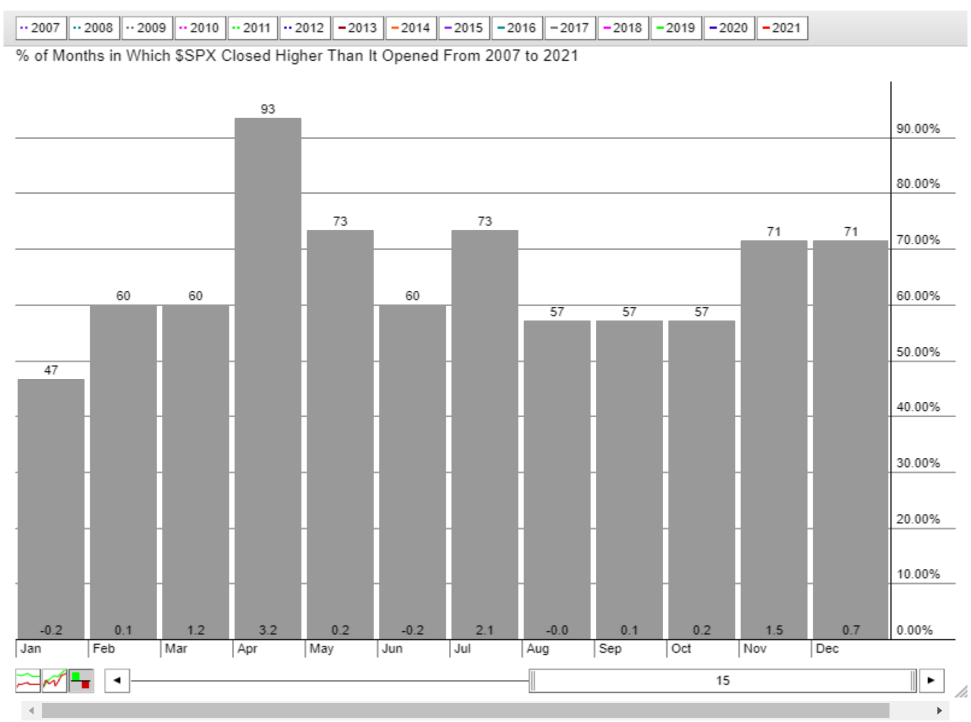
We want to discuss the stock market as we normally do, but first let's discuss a couple of facts:

1. The net worth of US households and nonprofits rose to 136.9 trillion per CNBC in the first quarter – a new high.
2. The number of Costco memberships reached 105.5 million in 2020, exceeding the number of US households that pay for cable TV according to Bloomberg.
3. Debt is at a new high of $28.5 Trillion ($85,500 per citizen), but assets per citizen are also at a new high of $520,500.
4. Cost of servicing the debt has declined from over 3% of GDP in the 80's and 90's to just over 1.6% of GDP.
5. Profits are continuing to rise as well as tax collections.

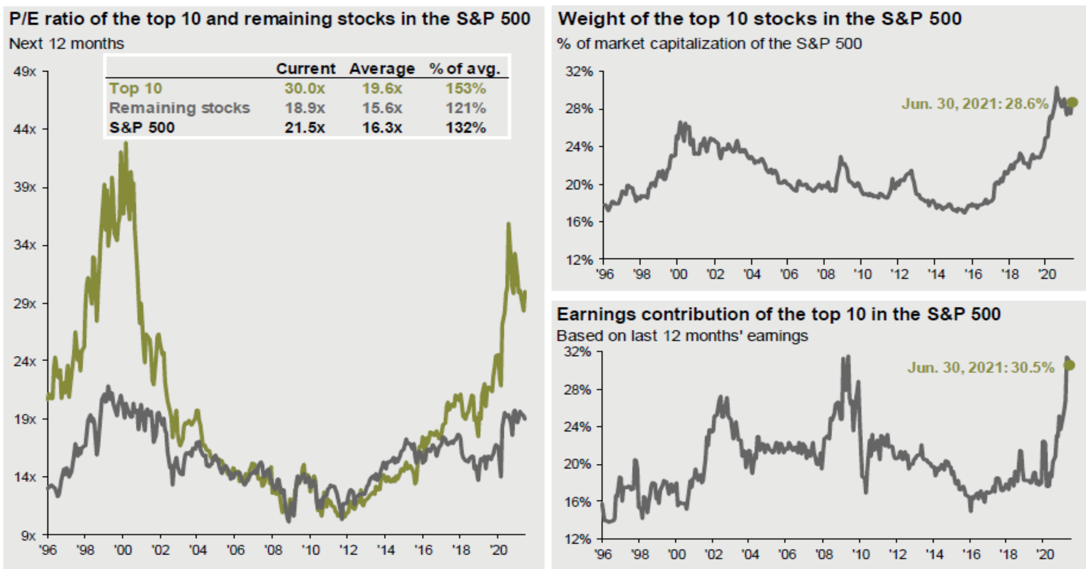
The next chart clearly shows earnings have rebounded. Just like in our last quarterly update, we discussed the estimates and earnings and why the stock market will continue to move higher. This time is no different. We are still on pace for double digit growth in the stock market. As you can see by the pink bar, in June as was the case in prior months, companies are reporting higher earnings than a year ago by nearly a 2 to 1 margin. This is good for the stock market. This trend should continue through 2021.



If you have read prior outlooks, you have seen the following chart several times. But it warrants another look as the market clearly looks overextended. July has typically been a good month for the stock market over the last 15 years and ranks second only to April in terms of performance and the percentage of time the month is higher. However, the following months generally are just above flat as summer comes to a close and trading volume usually slows down. Further, there are usually political worries that start to appear in the minds of investors and the news is usually muted.



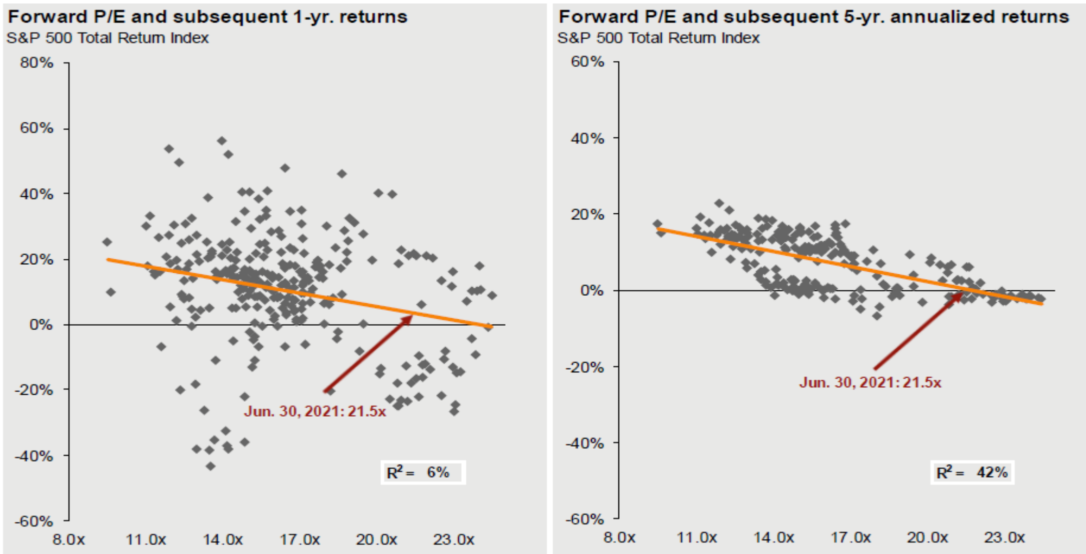
There are many thoughts and opinions that the market is overvalued. In fact, they might be right if interest rates were 4% or higher. But rates are not close to that level and it does not look like we are going to get there anytime soon.



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
The top 10 S&P 500 companies are based on the 10 largest index constituents at the beginning of each month. The weight of each of these companies is revised monthly. As of 6/30/21, the top 10 companies in the index were AAPL (5.9%), MSFT (5.6%), AMZN (4.1%), FB (2.3%), GOOGL (2.0%), GOOG (2.0%), BRK.B (1.5%), TSLA (1.4%), NVDA (1.4%), JPM (1.3%), and JNJ (1.2%). The remaining stocks represent the rest of the 494 companies in the S&P 500.
Guide to the Markets – U.S. Data are as of June 30, 2021.

J.P.Morgan
Asset Management

The chart above, by JP Morgan, shows how the top 10 stocks are impacting the value of the stock market as a whole. While it is true that most stocks are historically overvalued, creating the perception that the entire market is overvalued, it does not mean the stock market will correct in 2021. However, looking out over 5 years, it does mean our economy needs to keep growing at similar levels to 2021 to achieve positive market returns over the next five years.



Source: FactSet, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.
Returns are 12-month and 60-month annualized total returns, measured monthly, beginning 5/31/96. R^2 represents the percent of total variation in total returns that can be explained by forward price-to-earnings ratios. Price-to-earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since June 1996, and J.P. Morgan Asset Management for 6/30/21.
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The question everyone wants an answer to: Is the market going to move higher? Short-term, we believe so because there is so much liquidity in the market and government transfer payments are still running high. Retail sales are still far above where they were before the pandemic. Just imagine when unemployment gets back to normal, travel picks back up, hotels are full again, and general movement of people gets back to levels pre-Covid. The economy will heat up and so will interest rates. However, higher rates do not mean a lower stock market. With the bond market paying interest rates near zero after inflation and taxes, it is still difficult to bet against the stock market in the near-term.

America was tested with the pandemic and we are defeating Covid. We have no doubt more innovation, technology, and ingenuity are in the cards for America over the next 50 years. Think about where the US has come in the last 50 years and the advancements that will take place over the next 50. Where will we go to next? We are already growing food with 5% of the water it normally takes, traveling to other planets, and riding in cars that drive themselves. Our ancestors would have thought this was all science-fiction.

Regards,

THE ARCHER TEAM