Archer
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BALANCED INVESTMENT MANAGEMENT

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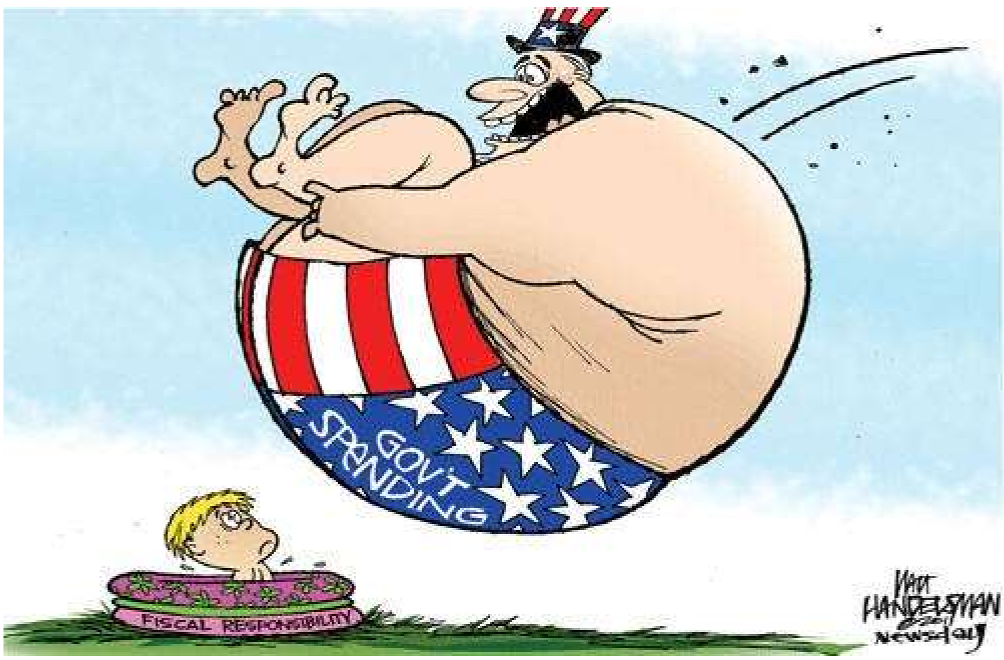
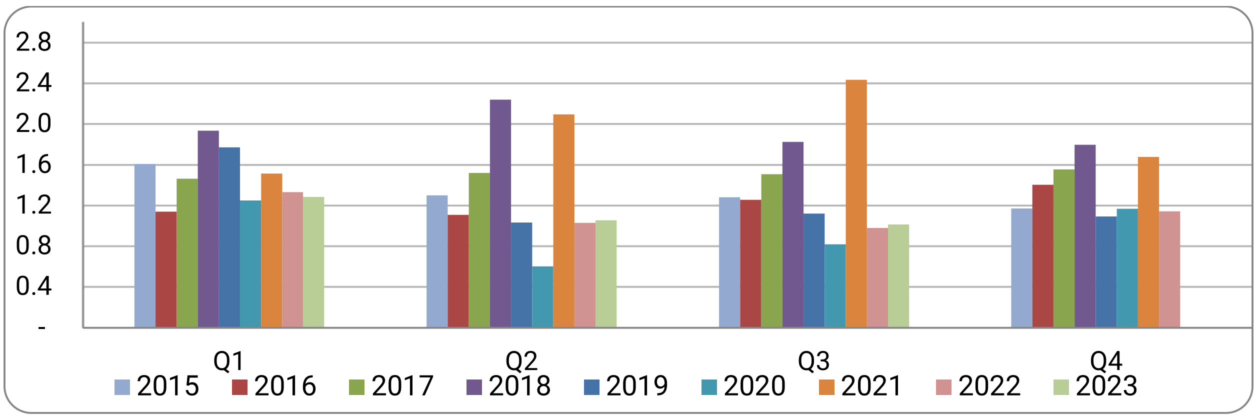
Archer 2023 4th Quarter Outlook:

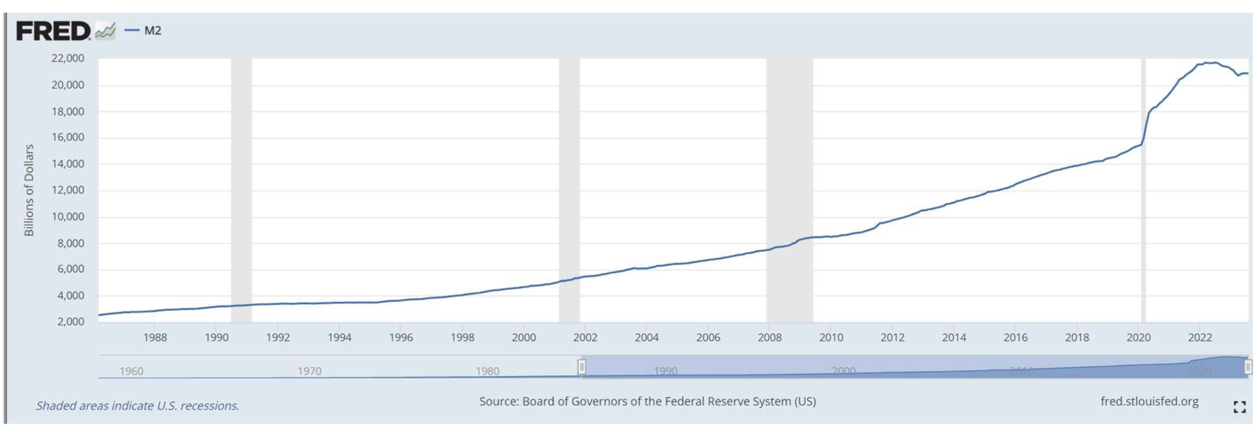


Summer is over, and as we jump into fall, the market seems to be faltering a bit. You may want to know why, and will it continue? We need to discuss the first part, which is why. The Fed has continued to raise rates to offset the prospects of inflation. Inflation, although looks to be in check, is probably moving a bit higher this quarter with a rise in oil prices and at the gas pump. Last quarter, we discussed how inflation may get in check, and it does appear spending will begin to slow at the consumer level in the 4th quarter of 2023. The issue is not the strength of the consumer (we will talk about student loans in a minute) but the continued spending of the federal government. For the first time outside of war time, and with unemployment this low, the government continues to spend wildly. The reckoning will be higher interest rates and potentially higher taxes at some point to pay for this.

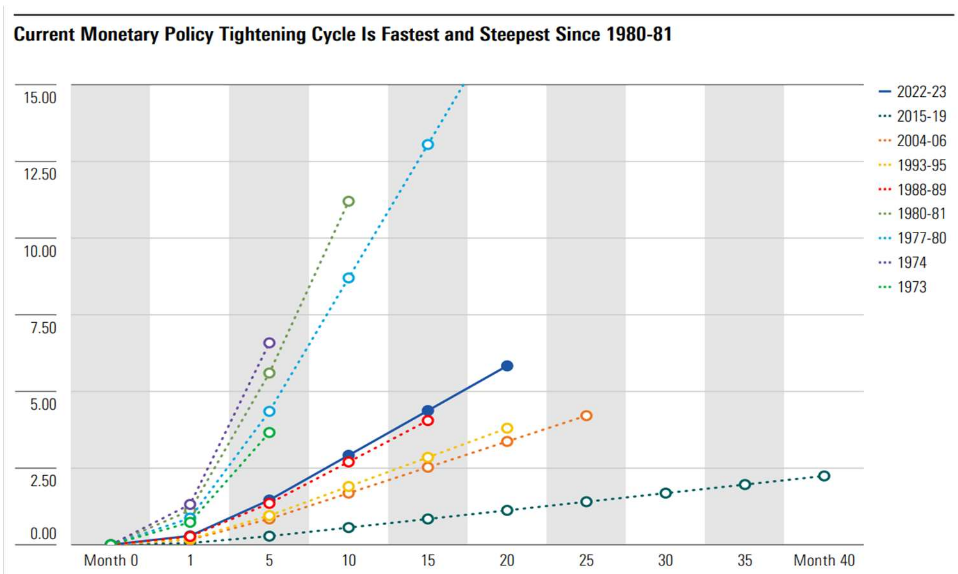
Worse yet, we have about 25 million individuals getting ready to spend $250 each month on student loans, which will suck about $5 billion out of the economy per month. This does not come close to the $7+ trillion deficit the government is running, but the consumers, who will then stop some purchases, may cause company earnings to finally slip to less than 1 to 1. This means for every company reporting higher earnings, there will be one reporting lower earnings. This is not good. We need this number at 1.2 for a strong economy. We were only at 1.014 in the last quarter, which is not a great number. For now, we are hanging on to positive territory.



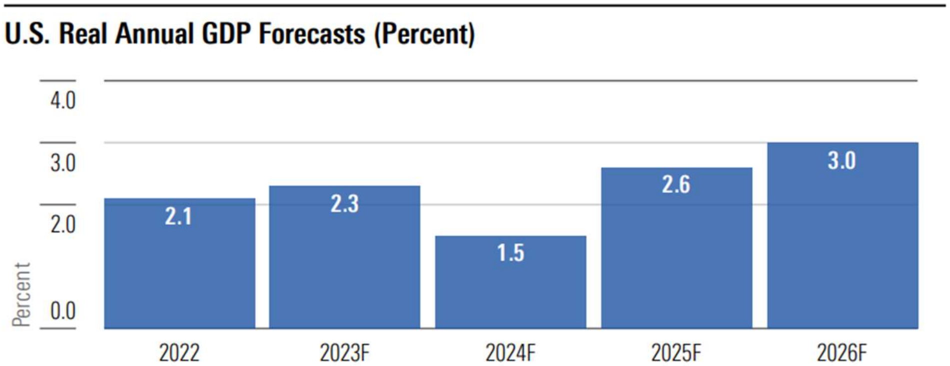
The Federal Reserve gets a bad rap for raising rates. But when our government keeps spending, it does not matter if they keep reducing M2, which if you look at the chart from September 26, 2023, has started to rise again. We are likely to continue to see more inflation. We are now running a deficit that is over 7% of GDP. This is not sustainable and will have to be paid through higher interest rates and higher taxes. This is a recipe for a much slower growth rate in real terms for the US consumer and the economy.

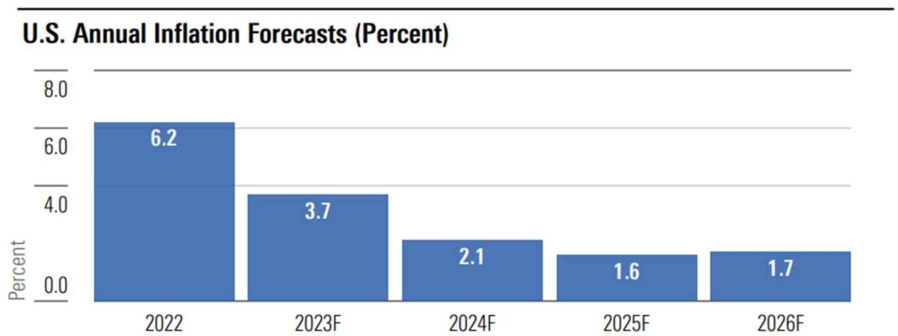


With higher rates for the near term, and potentially longer, it costs companies who need to borrow more to produce the goods and services they offer you. This will continue to cause root inflation. The only way for inflation to come down in a more permanent fashion is for the government to stop increasing money supply, and thus not run a deficit, or run a much smaller deficit. The higher rates reduce what is in the consumer's bank account but do not reduce what is in the government's control because they can continue to print money. Eventually, the economy will stagnate and the government, in their infinite wisdom, will pressure rates down to spur the economy. See the spiral effect? Government needs to stop spending and allow the consumers to dictate the economy. The Fed is increasing rates quickly, as you can see in the chart, to attempt to fend off inflation.



Will we have a recession? The answer is maybe not. The Fed is doing a good job of bringing down inflation, but they need the help of the government. Of course, if they do it too quickly or too long, it will throw us into a recession, which in the short term is likely to be negative for the stock market. Right now, many are saying the government shut down will cause a recession. This is FALSE. In fact, no government shut down ever caused a recession. In fact, it might be good to reduce some spending, although they often make sure all employees are paid. According to the US Bureau of Economic Analysis (see next two charts), they even expect GDP to slow considerably in 2024, which in turn should cause inflation to slow. This will give our elected officials some cover to spend more and thus increase inflation and GDP.





So, will the market move higher? The first question is, is the market fairly valued? Much of this depends on inflation and interest rates. Why interest rates? Interest rates are the tradeoff for investing in stocks. If rates are high, then more money is likely to be invested in bonds. If rates are low, stocks look more attractive. Right now, with rates moving higher, many people are investing in short-term Treasuries and earning 5% or more annually. If this goes back to 2%, then more money will potentially go back to stocks.

As always, the only way the stock market moves higher on a long-term basis is for corporate earnings to move higher. As we showed in the chart earlier, we are not moving much higher. Yes, the stock market can move up and down and sideways based on the "talking heads" of TV and other headline news, but ultimately for stocks to move higher, companies must make more. Lower rates would put more profits to the bottom line. We believe this is the main catalyst for the market, near-term. Long-term, profits will increase from AI, efficiencies, and a stronger consumer or a consumer who feels confident about their own prospects and is not afraid to either borrow money or spend some of their income and savings on goods and services.

We will be diligent in watching earnings, inflation, and employment. We like the prospects of the stock market if those numbers are all favorable together. Although there may be a recession at some point on the clock, we expect it to be shallow and create another short-term opportunity to get a discount on stock prices.

Regards,

The Archer Team

Past performance is not a guarantee of future results.

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