Archer Investment Corporation
BALANCED INVESTMENT MANAGEMENT

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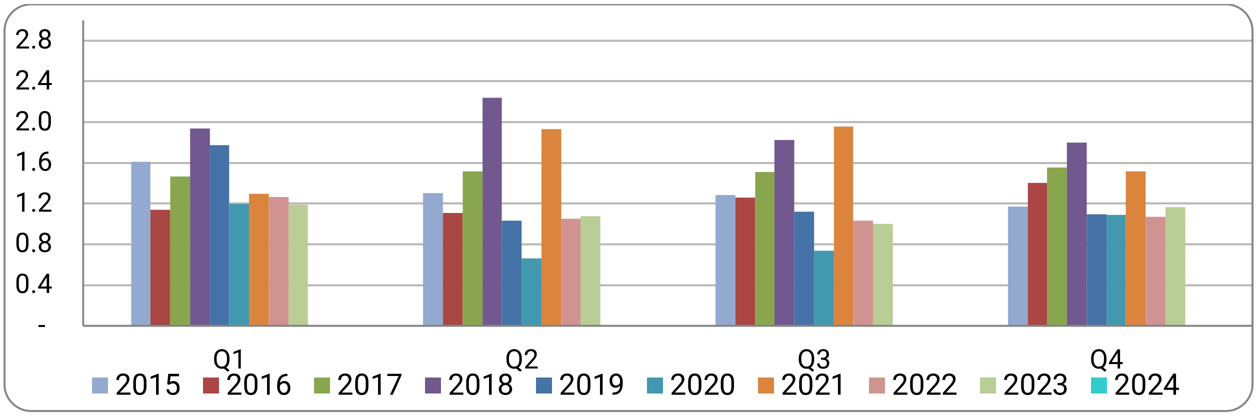
Archer 2024 Annual Outlook:

In the last newsletter, we said for the market to move higher, corporate profits would have to move higher. We have stated this many times over the years, regardless of the headline news. We also said, lower rates should make corporations more profitable as they can borrow for less and save money. In the 4th Quarter of 2023, we saw interest rates finally subside as the Federal Reserve has been able to navigate the storm of inflation and rates are starting to come down. With rates relinquishing their upside bias, the market rallied in the fourth quarter.

Many are wondering if we are out of the woods for a recession. The answer is not that simple. We have seen contraction in certain sectors such as homebuilding in 2023, but because unemployment is low and the average household is still flush with assets and cash, other industries have not followed suit. With rates starting to decline, homebuilding is likely to rebound a bit. When one industry faltered, others did well. For an official recession to occur, it means the Gross Output or GDP of the country is negative for two quarters, we did not see this. Earnings certainly slowed as evidenced by our earnings chart we consistently include in the newsletter, but they actually moved higher in the fourth quarter and were much higher than most predicted.



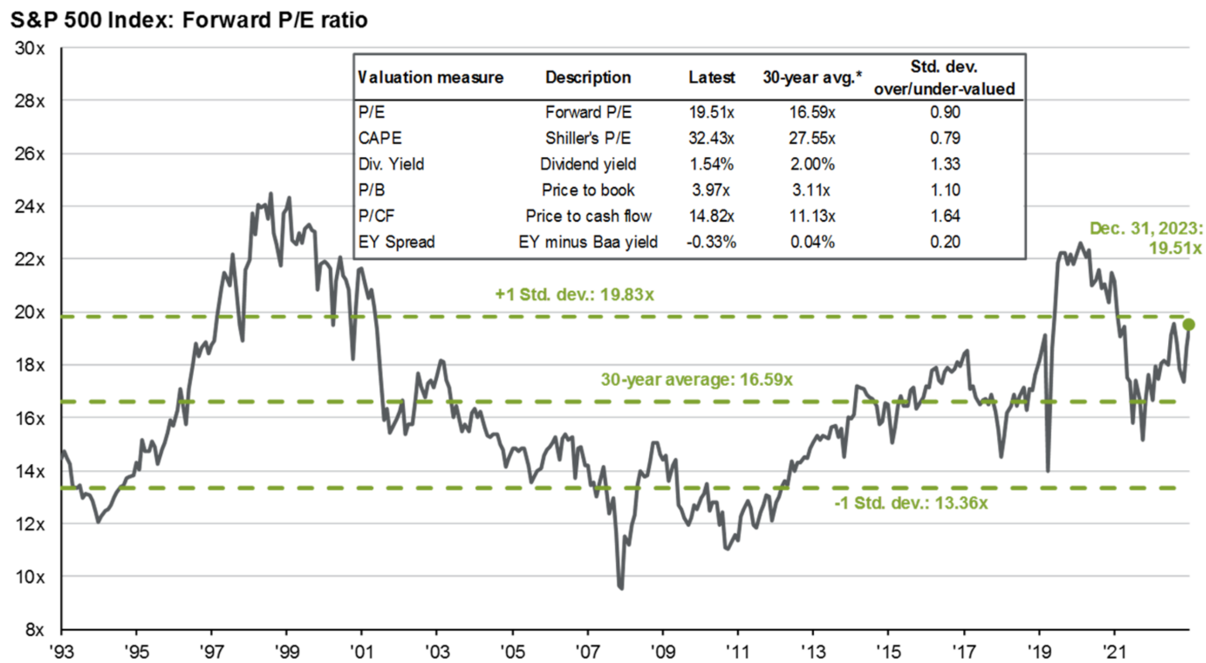
For the market to continue higher, we need to see higher profits year-over-year. Lower interest rates, low unemployment, and solid assets and household wealth will help the economy through any trough. I am not confident or even concerned about a recession at this point for 2024. If we do have one, the Federal Reserve can lower rates quickly to advert a deep recession. There are always global geopolitical concerns to contend with, but that is every year. In fact, geopolitical concerns have been the norm for decades and decades.

Let's look at the Election: Every four years we turn our attention to Washington. Usually, a bit more in Presidential election years and discuss the uncertainty that comes with an election. The market is not a fan of uncertainty and this year, there is plenty of that to go around. However, as we have stated in years past, the politicians who are also invested want a good outcome for the markets. The better the people feel, the better chance they have of being reelected. Historically, we believe that only one time when an incumbent is running for the Presidency, the S&P 500 was negative. It does not mean the market is not a bit more volatile on average. Let's look at the chart below:

SOURCES: Capital Group, RIMES, Standard & Poor's. Includes all daily price returns from January 1, 1932 through December 31, 2022. Non-election years exclude all years with either a presidential or midterm elections. Past results are not predictive of results in future periods.

The above chart is just averages. If you are nervous about the election year, it is important to remember that as the election day gets closer and passes, the markets may return to more normal patterns. We can see from the chart above that through the primaries, the market often has little return if any because of the uncertainty. Washington has plenty of resources available to push short-term stimulus into the economy in an election year. We will need to see the earnings continue to propel higher, which would push the markets higher.

Is the Stock Market Fairly Valued? Often the market acts like a spring and is sometimes undervalued and sometimes overvalued. Even when earnings are good or bad, the market can move in opposite directions depending on whether it has been valued fairly or if the spring has been stretched one way or the other. Let's look at where we are today based on several factors:



This chart from J.P. Morgan Asset Management shows the market is currently overvalued by 6 different methodologies. It is possible we see a relatively stagnant market for several months, as shown in the election cycle chart, will make for more palatable valuations. What the chart does not consider is the current combination of strong employment, improving productivity, and the potential for lower interest rates as disinflation continues. These factors may very well set the stage for strengthening of earnings. We believe the case for a continued decline in interest rates will be supportive of the market at current valuation levels, barring a reacceleration of inflation.

Inflation has been the main topic of the stock market over the past several years as all the printing of money has led to price increases in just about every category, including housing. We are starting to see positive news in housing as increased home prices and rents retreat from extreme levels. The retreat in these indicators is good news as they tend to give us a clue that inflation is subsiding in important categories.

We will be diligent in watching earnings, inflation, and employment. We continue to like the prospects of the stock market over the long term. As we have stated in the past, a recession is likely on the horizon at some point, but the timing and depth of a contraction is much less certain. While we have had an inverted yield curve for quite some time, much of this has been forced by the Federal Reserve and not necessarily by market forces as distortions from government spending during covid work through the system. Alternatively, we may continue to see "rolling recessions" in certain sectors or markets as others strengthen. Overall the health of consumers and corporations continues to be very strong.

Regards,

The Archer Team

Past performance is not a guarantee of future results.

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The indices cannot be invested in directly. The returns of the index do not include any transaction costs, management fees or other costs.

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