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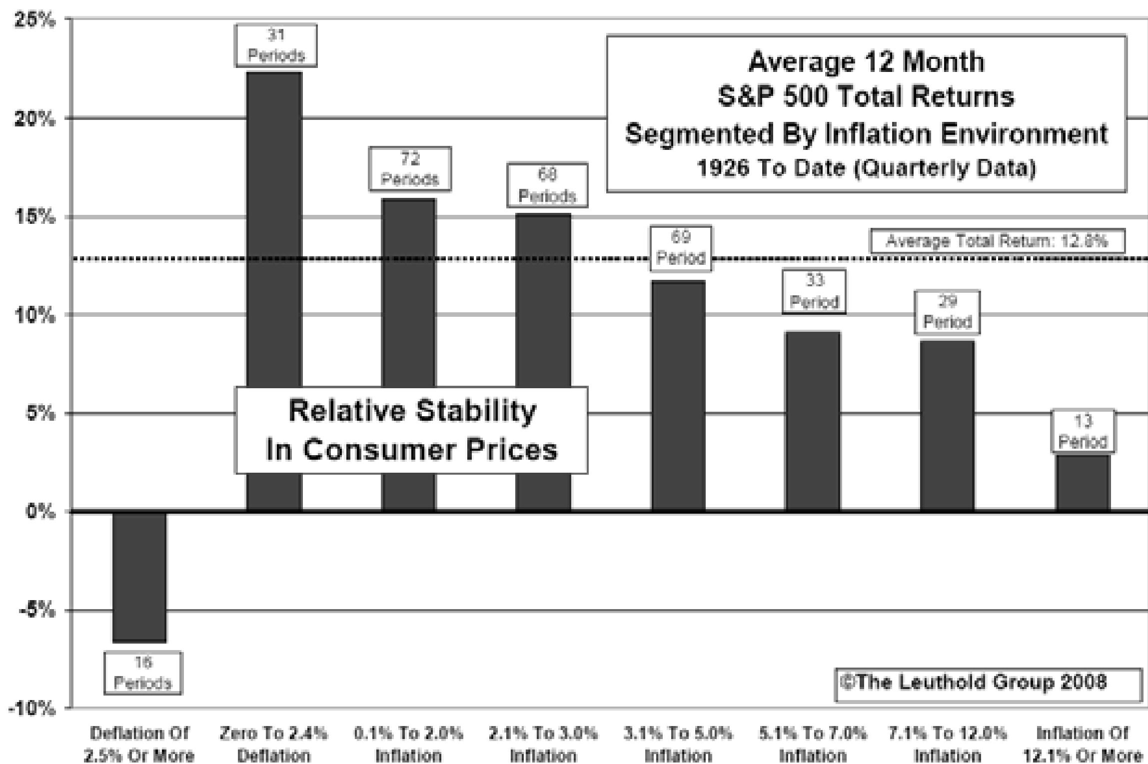
Archer May 6, 2022 Market Update:

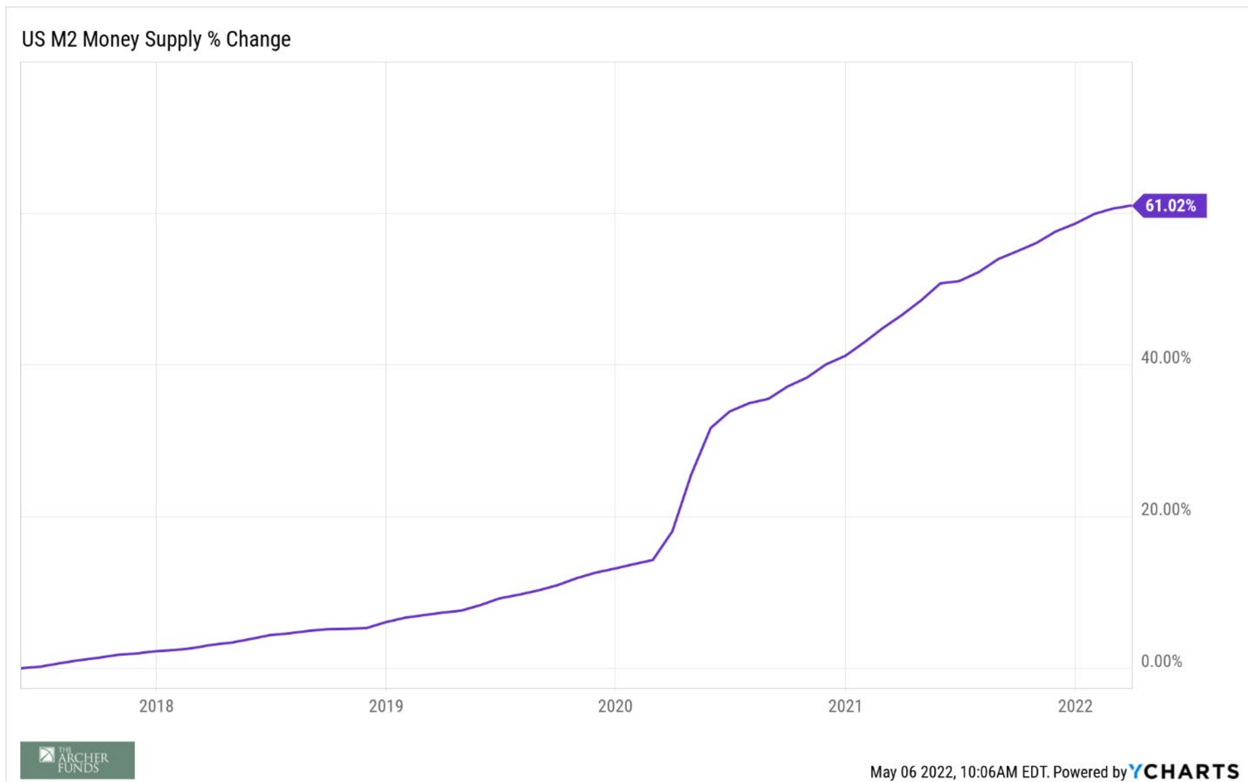
The stock market is volatile and interest rates are rising. The S&P 500 as this is written is down nearly 13% and the Aggregate bond market is down 10%. At first glance this gives us all pause and puts some scare into opening our quarterly and monthly investment statements. However, let's put this into perspective. The S&P 500 which is the largest 500 stocks in the United States were up over 50% the last few years. Most investors have benefited from this surge in prices and are still higher on their investments if they have been investing for the longer term. Let's go back in the time machine to 2009, when we put this chart in the newsletter in January 2009.



The chart above shows data from 1926 to 2009 and what the returns were in the stock market given certain inflationary environments. We still see returns of 7-8% on the S&P 500 Index when inflation is 5.1% to 12%. The adjustment to these returns is happening now to set the stage moving forward. It does not mean the stock and bond markets will not go lower. They may, but the prospect of earning 7%+ annually is realistic.

Let's understand why we are seeing this much inflation and what it means long-term. To discuss this, it is important to know what the money supply is in the United States. We all know many checks were issued during the pandemic while keeping interest rates at or near zero. This was a mistake on both accounts. The FED should have been raising rates instantly and now they are trying to play catch up, they are late to the party as usual and will be late also when they should lower or stop raising rates.

US M2 Money Supply refers to the measure of money supply that includes financial assets held mainly by households such as savings deposits, time deposits (CD's), and balances in retail money market mutual funds, in addition to the M1 measure of money, which is deposits in your checking account, etc. This amount of money over in the last two decades rose at 6% approximately each year with interest rates falling or near zero, which created a burst of cash and spending and took the stock market much higher and pushed rates much lower. Now with COVID, as you can see in the chart, the FED/Government increased the M2 by 18.7% at an annual rate since February 2020 with near zero interest rates. This is the mistake.



The FED is now trying to get this liquidity out of the market because until inflation catches up with this amount of money supply (as long as our government does not cut more checks), we will see an increase in prices of 20% (18% - 6% for the last two years times 2 = 24%) or more, and then inflation and money supply should get back to the more normal increases we had seen in the previous 20-40 years. So, what does that mean for your investments? We believe this 10-20% correction is probably warranted, and the market will then move sideways and potentially higher. It is trying to find a level that is justified given the current interest rate environment as well as the mid-terms looming in the background.

What to do? The average S&P 500 investor according to DALBAR in 2021 underperformed the S&P500 by 10% because when the market dropped, investors pulled money out, and either did not reinvest or did so at the wrong time. This time may be the same. We have recently adjusted the portfolios we believe will deliver long-term performance for the risk level of each investor.

We are asked often, so should I pull out my money and get back in? or wait to invest? If you are a long-term investor, stay the course. The goal of every investor should be – expected return is higher than inflation with the amount of risk you are willing to take. Trying to predict the lows and highs of a market will result in underperformance over time, because not even the best financial minds can predict the ultimate lows or highs all the time. DALBAR has performed study after study on this very subject, and we do not want you to be one of their statistics.

Companies like Microsoft and others are still reporting solid earnings, so as we have said in the past and still to this day, the returns in the market will follow the earnings higher or lower, and they are still higher.

<u>We still expect to see positive returns for 2022</u>, given an increase in corporate profits, inflation getting in check and the labor market remaining positive. We do see the returns being much lower than the previous three years, but positive, nonetheless. We will continue making adjustments to our portfolios as rates gyrate and possibly move higher.

Regards,

The Archer Team