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Archer 2025 3rd Quarter Outlook:

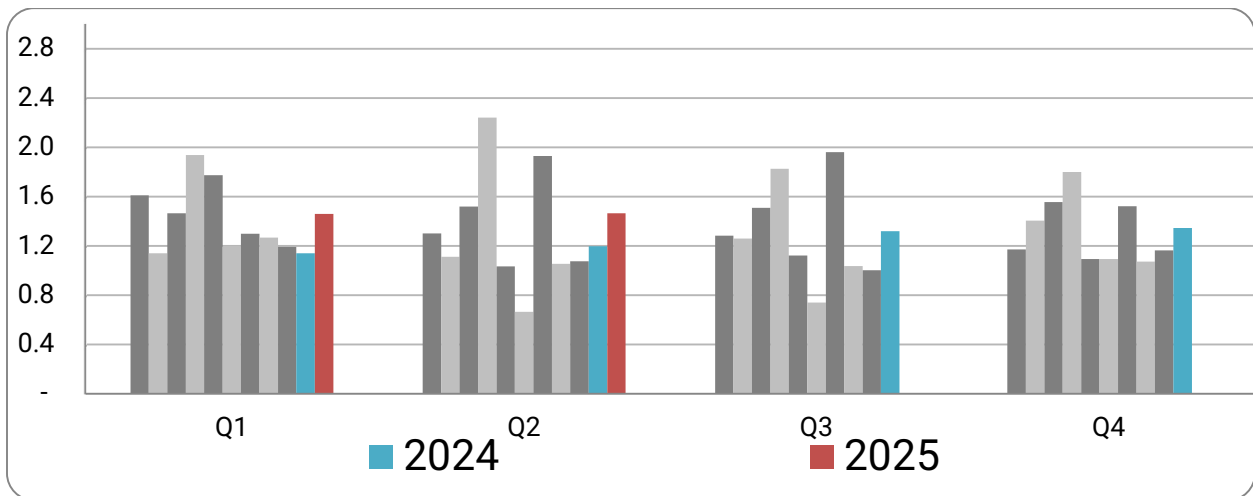


The fourth of July is in the books, and it was a bit more exciting than the norm. We had a new tax and spending bill that passed and was signed into law on Independence Day with B-2 Bombers.

The tax cuts in the bill benefitted nearly every American, while senior citizens received some needed relief. Inflation has hit many seniors with the increase of property taxes, groceries, and utility costs. There was the much anticipated, State and Local Tax Deduction increase to \$40,000 which will benefit only those who live in states which have difficulty with math and do not budget their finances. It appears the federal government will continue to subsidize their irresponsible spending. And yes, the federal government is once again spending and adding massive amounts to the national deficit. There were some spending reductions and slower increases on parts of the bill that should be applauded by all. Tax cuts are great at face value, but without reduced spending, Americans will ultimately pay the price in the years to come from slower growth or higher inflation. Maybe Washington wants higher inflation so they can attempt to inflate their way out of the spending deficits they created and continue to pass. This is not a one side of the aisle issue. Until the politicians of the last several decades and those who are interested in passing the buck to future generations are booted out of Washington, we will continue to get more of the same from both sides of the aisle.

What happens next? Kicking the can down the road initially impressed Wall Street and it appeared to have diminished any chance of recession in the third quarter to nearly zero. We would have agreed with this assessment as earnings have been very strong, and unemployment is still near record lows. However, with a new week, comes new chatter out of Washington to the tune of a new movie: *Return of the Tariffs*, the sequel. The President announced tariffs will resume August 1, just in time to create uncertainty in the markets right as we gain some certainty on taxes and spending. Again, most are for a fair playing field and tariffs or lack thereof should be equal for all countries. The last round of tariff announcements was made without a clear communication strategy. That resulted in the Trump Administration backing down as they could not tell the American people how it was going to benefit them as investors saw their retirement accounts decline, and interest rates rise.

Here we are again, and this time is no different. The one saving grace as the next chart shows is the earnings are heating up and continue to move higher. It is a great indicator of recessions along with unemployment (which remains low, and job openings are back to near highs). The chart shows whether earnings were higher or lower from the current quarter to the same quarter last year. Regardless of what the estimates are, just the empirical evidence of higher or lower earnings. Anything above 1.2 is considered strong in our opinion.

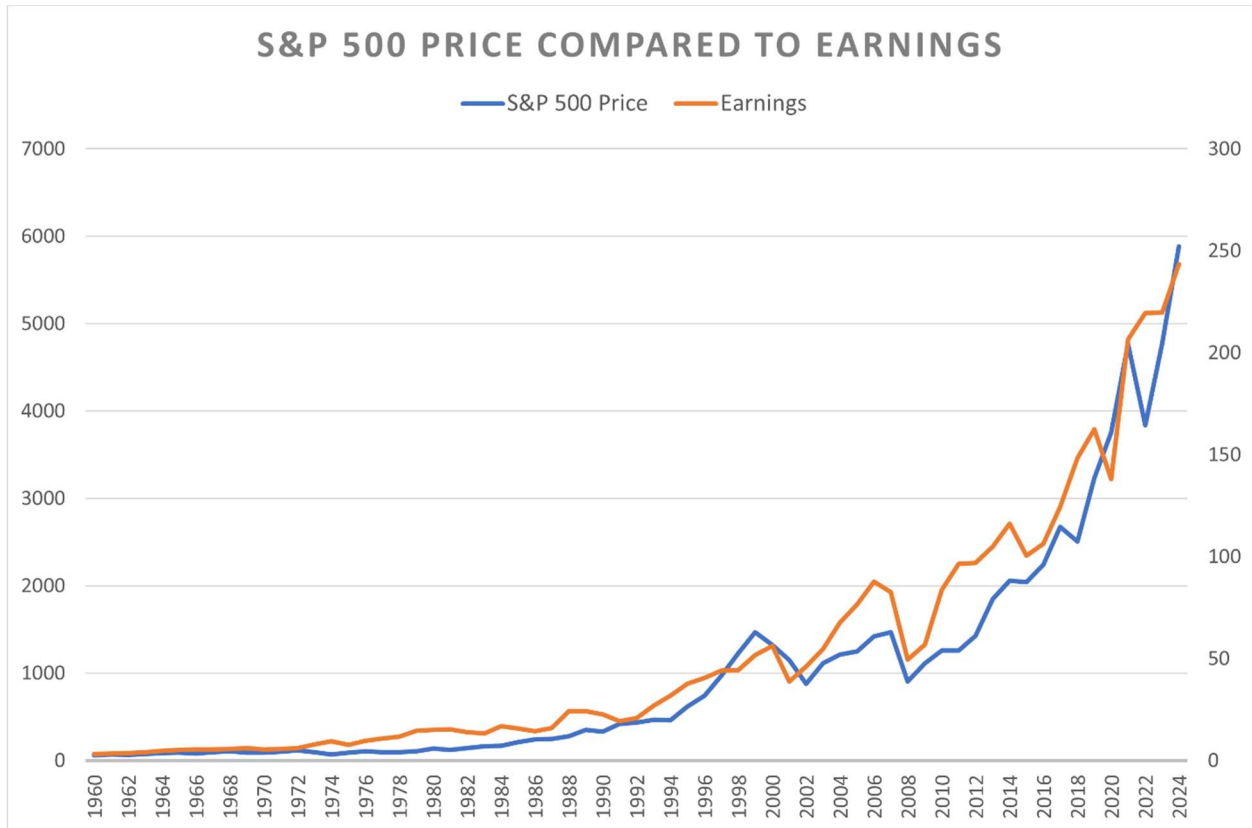


Tariffs could once again have a near-term adverse effect on the earnings of companies and may show which companies are vulnerable. The next paragraph was in the last quarterly newsletter, but warrants repeating.

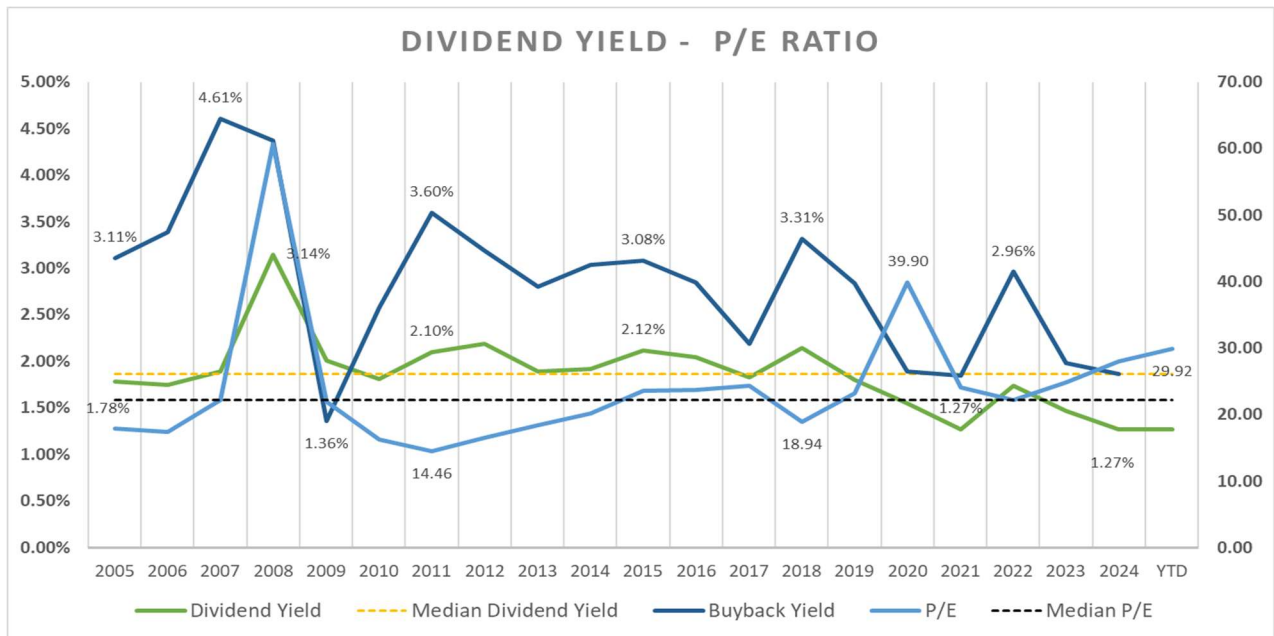
“We know tariffs will boost prices in the near-term, but they may also reduce the demand of other goods and services, as the consumer rethinks their spending patterns. This will help keep inflation in check. The other side to inflation is what the government prints in US Dollars. The M2 measure of money, which means the money we as consumers have to spend was up 4% in February alone. As the

government spends money we don't have, inflation will continue to rise while the tariffs will make earnings rise less rapidly than they did the previous year."

Earnings truly are the most important part of the market. Without earnings (or the ability to pay the shareholders for their investment in a company), the markets would not exist. Since 1960, one can easily see the S&P 500 (largest 500 companies that you can publicly buy stock in) will move long-term with the earnings they create.



Earnings are important to note, but we can not overlook valuation. The valuation of the stock market shows what investors are paying for current and future earnings. We can compare current valuation with long-term average valuation multiples of the market. Reversion to the mean says that markets will normally find their equilibrium around the long-term average. By this measure, the market may be overvalued by nearly 20%. The most positive way for the market to resolve this disparity is for earnings to continue to climb. The chart below shows the Price/Earnings ratio historically as well as the dividend yield and buyback yield. The dividend yield, although historically low, is less significant as companies have put more money into buying back their own stock (this is why we are showing the buyback yield as well) and less in returning it to shareholders through dividends. As such, we think the main focus here is on the P/E currently and its relationship to the median P/E since 2005.

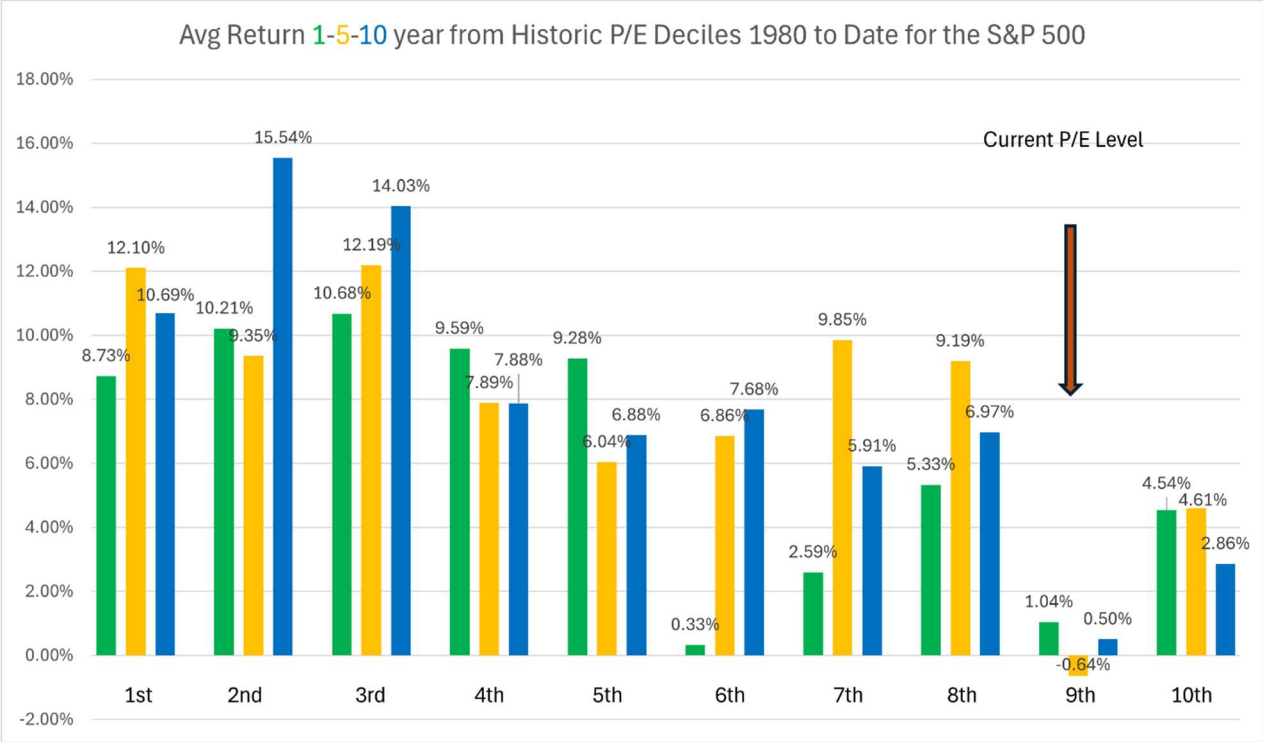


The elevated P/E gives us pause as the historical returns from these levels has been muted at best. Even if we look at the 8th and 10th deciles, it gives us some pause as to the future returns. The one item this chart does not show is the valuation levels of the largest 10 stocks which make up the S&P 500. Investors have clearly shoved too much money into the largest names like Nvidia, Microsoft, Google, Apple, Meta, etc. These companies, albeit large, have had the luxury of great earnings power over the last 5 to 10 years and that may last for some time.

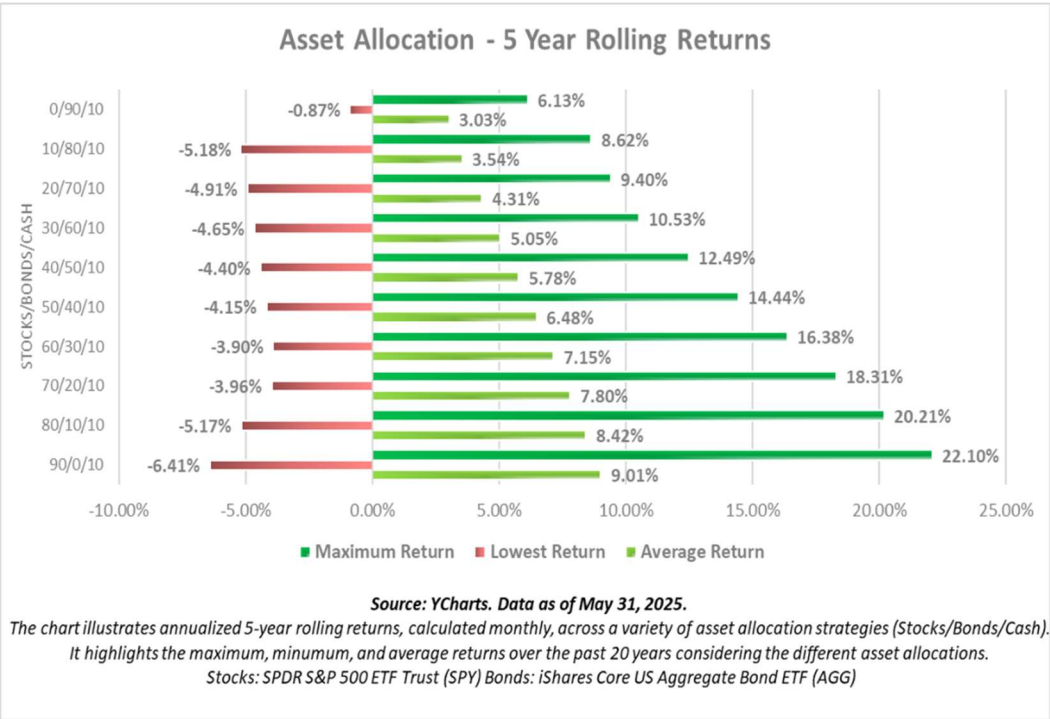
The S&P 500 gives more weight to the larger companies. The largest 10 stocks make up over 36% of the value of the S&P 500. Only 3 companies in September of 2011 were in this same list; Apple, Microsoft, and Berkshire.

The same valuation decile in an equal weighted S&P 500 (meaning every stock has the same weight in the index) has returns of 1, 5, and 10 years forward of 10.95%, 11.99%, and 12.35% as of June 30, 2025. We think this scenario is likely to play out again in the near future. Having a broader base of stocks may benefit the long-term investor at these elevated levels of the S&P 500 (market capitalization weighted).

It is possible the earnings power of the largest 10 stocks continue, but if history repeats itself, there may be newcomers to the group and technology is changing quickly. The star of today may be overshadowed by another company's innovation tomorrow.



At any given moment, the market gives an opinion on a stock, the economy, the S&P 500, and a myriad of markets, locally and internationally. Getting caught up in the moment of the latest news often will hinder your investing behavior. The next chart reflects long-term investing and shows us what 5 year rolling returns look like on average, along the high and low of various asset allocations. The market has clearly rewarded the risk side of the math equation since 2010.



We will be diligent in watching tariffs, earnings, inflation, employment, and the-powers-that-be in Washington. We continue to like the prospects of the stock market over the long-term although the short-term may prove to be volatile. Tariffs in August could pose a short-term threat to the market and subsequently the economy. It is possible we will see volatility increase in the markets as the administration implements policy. Overall, the health of consumers and corporations continues to be strong, and this is good for our economy. We also see the prospect of AI continuing to be a boost towards efficiency and increased profits. Good companies are resilient and innovative and will use these new technologies and tools to create profits.

Regards,

The Archer Team

Past performance is not a guarantee of future results.

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