Argent Capital Management LLC

Market Overview – June 2019

The books are closed on the first half of 2019 for the stock market. The S&P 500® Index returned just over 18.5%. This is in stark contrast to the final quarter of 2018 when the index dropped over 13.5%. In fact, the fourth quarter of 2018 was the first time in history that the S&P 500 posted a decline after rising in the previous three quarters. So what happened in the fourth quarter of 2018 and what happened in the first half of 2019? The short answer is we do not know. We can, however, point to recent data that has provided both comfort and concern for investors, as this market continues to teeter from one side to the other.

On the down side, the Federal Reserve raised rates in November of last year, pushing Fed Funds, or short-term interest rates, to 2.5%. Not only did short-term interest rates rise, but the expectation at the time was that the Fed was going to continue pushing up interest rates throughout 2019. Higher interest rates mean higher borrowing costs for consumers and businesses which slows growth. Thus the negative reaction on the part of investors and the precipitous drop in the market experienced at the end of last year.

That outcome was followed by an opposite reaction in the first quarter of 2019, as the market rose. Driving the market's increase in part was investors' belief that the Fed was done raising rates. This belief was buttressed by language from sundry members of the Fed. From expectations that Fed Funds rates would be raised as many as three times in 2019, expectations fell to zero rate increases, then to the possibility that the Fed actually may *cut* rates in 2019. As a result, the reverse of what happened at the end of last year played out, to wit expectations of cheaper interest rates, making borrowing costs lower for consumers and businesses, making borrowing more attractive, making the likelihood of extending the recovery greater.

There is another debate going on in the markets that has investors hopeful and fearful – slowing economies. Outside of the United States economies are slowing. The last time one major economy was strong while the rest of the world slowed concerned China coming into the Great Recession. The outcome of that was the weaker economies of Europe, Japan and the U.S. pulled China down and we had a global recession. Today, the U.S. is the bastion of strength, while many economies abroad are fading. For investors the question is whether the outcome of today's economic situation will play out in the same way it did over 10 years ago.

These two issues, the path of interest rates and the trend of global economies, have affected stock prices and valuations. For many, the uncertainty we are experiencing today has pushed them to relatively 'safe' stocks, those that are less tied to the fortunes of the economy, such as utilities or healthcare companies. Such stocks certainly have merit. *Valuation,* however, suggests that the risks of holding these stocks has increased as investors have bid up them up.

That is why we at Argent are finding increased opportunities in stocks that are *more* closely tied to economy– think restaurants and automotive companies. The uncertainties mentioned above have depressed those more economically sensitive stocks and we believe, in many cases, investors are pricing in certainty that the U.S. will fall into recession. This provides us with a much better risk/reward as we try to balance the ups and downs that has characterized the market of late.

We have four successful equity strategies – Large Cap, Small Cap, Dividend Select and Mid Cap. If you have questions on any of these options, please call us.

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