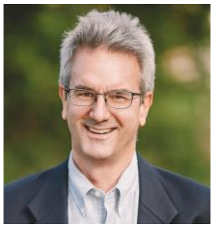
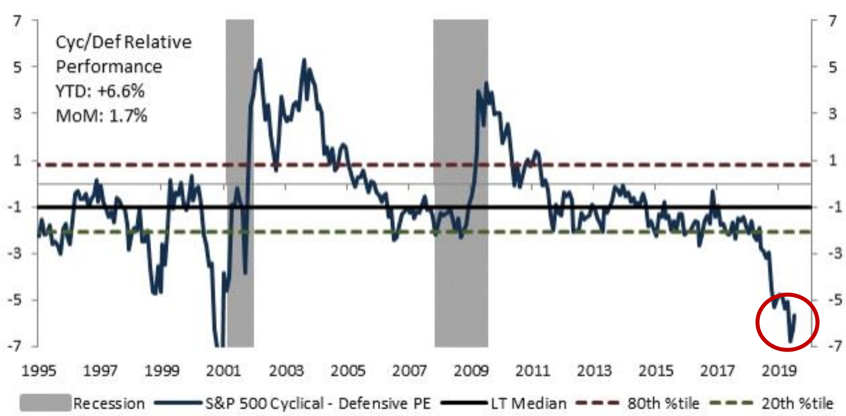


‘Twas the Month Before the Tariff Tweet and All Through the Markets…

The S&P® 500 rose nearly 1.5% in July as earnings season for the second quarter began. Although many banks remarked that the low interest rate environment was hurting profitability, investors for the most part bid up bank stocks as credit quality remained strong and banks continued to focus on reducing expenses. Nonetheless, while earnings season to date has seen some strong results, the bulk of companies reporting have indicated that they are seeing revenue and earnings growth slowing.

That narrative fits with economic data and, in part, prompted the Federal Reserve to lower its Fed Funds interest rate at the end of July. While the drop of 25 basis points (0.25%) to Fed Funds was expected, some investors were disappointed that the *body language* from the Federal Reserve was that this rate cut may *not* lead to more cuts in 2019. This is against the backdrop of further interest rate easing across the globe. Although investors in the United States may not be enthused about the interest rate on the U.S. 10-Year Treasury bond, compared to many developed countries our rates are still high. Just having a bond with a positive interest rate is becoming more and more noteworthy as over $13 trillion dollars of debt has been issued with *negative* yields. Suffice it to say, we are living in a world of very low interest rates.

Given the easing cycles that many countries are pursuing, the adage ‘Don’t Fight the Fed’ comes to mind. Low interest rates and an accommodative monetary authority, like the Federal Reserve, should stimulate the economy. Yet the difference in valuation between cyclical stocks, those more closely tied to the prospects of the economy, compared to defensive stocks, those less tied to the ups and downs of an economic cycle, remains wide, with cyclical companies underperforming. When we talk of cyclical companies think of homebuilders, appliance manufacturers or auto companies, whereas defensive companies would include toothpaste and soap manufacturers or utility companies. The chart below shows the relative valuation of cyclicals as compared to defensive companies.



The valuation skew between cyclical companies and defensives is dramatic, with cyclical companies very cheap on a relative basis. Of note, however, is the upturn in relative valuation of cyclicals recently. Perhaps the market is beginning to give credit to more economically sensitive stocks as the U.S. economy continues to grow and as monetary authorities across the globe attempt to stimulate their economies.

If, on the other hand, the United States sinks into recession, because of slowing across the globe and the inverted yield curve in the U.S., it would appear that the valuation of cyclical companies has already priced much of that outcome. In other words, the risk/reward for cyclicals is favorable.

How this will all turn out is anyone’s guess. In addition, tariff wars only increase the volatility of the market as a whole, and cyclical stocks in particular. But we at Argent will remain diligent, looking for positive change in order to position our portfolios for the next three to five years. 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.

Sincerely,

Ken Crawford

Ken Crawford
Senior Portfolio Manager