Argent Capital Management LLC

Market Overview – December 2019

Closing out the year 2019 and closing out the decade of the 2010's, one has to be happy with the results. Both the year and the decade were helped by what preceded them. The first decade of this century included what has become known as *The Great Recession*. Similarly, for 2019, 2018 was the only year to finish in negative territory after rising for the first three quarters. So comparisons, something that investors pay close attention to, were relatively easy for both.

While rearview investing is an easy task, the first decade of this century saw the stock markets, and real estate, in particular, rise to a level that truly could be called a bubble. As all investors know, eventually bubbles do pop. Thus, as the markets slid at the end of 2018 the question was whether another bubble had formed.

We did not see a bubble in 2018. Instead, what pulled the markets down in the fourth quarter of 2018 was the fear that the U.S. economy was headed into a recession. That fear was buttressed by actions of the Federal Reserve, as the Fed raised short-term interest rates, an action that propelled the interest rate on the benchmark 10-Year U.S. Treasury bond to rise to 3.2%. To add insult to injury, coming into 2019, expectations were for the Fed to continue to raise rates throughout the year.

Perhaps that lack of bubble in part explains the 30%+ gain for large cap U.S. stocks in the market for 2019. We argued during most of 2019 that where we were finding companies that best fit our Argent investment process was in *growth cyclicals*, companies like the heavy equipment rental company United Rentals, or the retailer Target, that have organic growth characteristics but whose growth is amplified during an economic expansion.

After the Fed changed direction in January, 2019, from increasing rates to pausing, and eventually to cutting interest rates during the year, the talk of recession diminished. That change in investor sentiment contributed to a reevaluation of companies away from those that had led the market for several years to those that had lagged. To put it another way, investor sentiment shifted away from stocks that had become more expensive toward those that were less expensive. This, to us at Argent, represented a move back to a more normal and logical investment regime. I have shown you the chart below before. It illustrates how cyclicals have done relative to defensive stocks. When the line showing relative performance is *below* the bold straight line, cyclicals are underperforming. The chart continues to tell a good story. It shows that more economically sensitive companies, like a United Rentals or a Target still have a long way to go relative to defensive stocks, like food and consumer staples manufacturers such as Procter & Gamble. So, even coming from a year where stocks rose over 30%, we believe there is *upside* to be had especially in particular areas of the market.

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
Senior Portfolio Manager