Argent Capital Management LLC

Market Overview – April 2020

In April, the S&P500® Index rose nearly 13%. That is a commendable return for a market in the midst of one of the biggest and fastest recessions in history. As we have written recently, the volatility of the market, or the daily rise and fall of prices, has increased, so that probably explains some of the positive return in April, but likely only part.

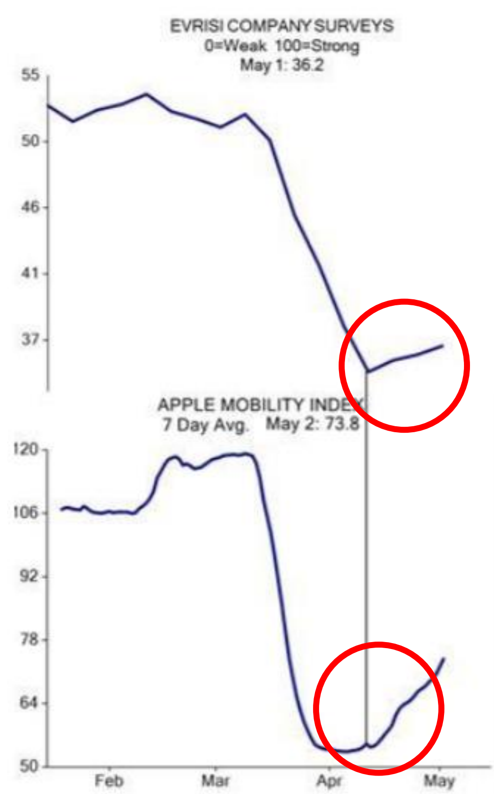
April is an *Earnings Season* month. Every quarter – more specifically, the month *after* a month divisible by three – is an Earnings Season month for the stock market. April, following March – the third month of the year, qualifies as such. Earnings Season months in general are busy times for investors, with companies reporting their quarterly results. While there are always expectations around a company's sales and earnings, frequently there are 'surprises' that increase stock price volatility as investors react to a company's new information. Adding to the likelihood of a surprise is the forward guidance companies usually offer for the next quarter or the next year, as part of their earnings announcement. In investor's jargon, 'What did they print? What did they say?'

Coming into this April's Earnings Season investors expected even more surprises and more volatility than usual because of the dramatic change that the market and the economy experienced throughout the first quarter of the year. Banks, which often are early to report results, increased their provisions for loan losses well-above expectations. For the most part, as more and more banks reported earnings, bank stocks fell, as investors feared that loans would sour and losses would increase. Another aspect of earnings releases for banks that has held true for the majority of companies that have reported since, is that guidance for the rest of 2020 was withdrawn. Simply put, companies had very little visibility about their earnings for the next several quarters because of COVID-19.

Fear of higher losses and increased uncertainty represented by withdrawn guidance did not bode well for the remainder of the Earnings Season. But then the tone on earnings calls began to change, or maybe investors just grew accustomed to outlooks that were unclear at best. A question heard over and over during earnings calls was 'How was the end of March and how is the beginning of April?' The answer given by many companies to that question was one of depressed business *but* some sign of stabilization. As that 'sign of stabilization' became somewhat of a refrain during earnings calls the market lifted. To be sure, the stabilization that companies were seeing was fragile and it was from a very low point, but investors were encouraged.

As earnings season was playing out, there was also more talk about easing stay at home restrictions from governments across the globe. To the degree the world economy had fallen because we were locked down, investors assumed easing that lockdown would spur the global economy – another positive.

The following charts support the indication that we are beginning to move out of hibernation. The top chart, the EVRISI Company Surveys Chart, shows company business activity and, as you can see, there is an uptick starting in the middle of April. The chart directly below it is the Apple Mobility Index. This is a set of data based on requests for directions. The mobility data shows the change in the volume of people driving, walking or taking public transit in various cities or regions around the world. Again, you can see the beginning of an upturn in mid-April.



Source: Evercore ISI

Are we out of the woods? Not by a long shot. For starters, even if the world is seeing some signs of stability it is off a very depressed base. Further, that stability has only been seen recently, so no one knows how firm or fragile it may be. But, with the U.S. government injecting over $4.5 trillion into our economy and other governments across the globe on full stimulus there is reason for hope.

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