Argent Capital Management LLC

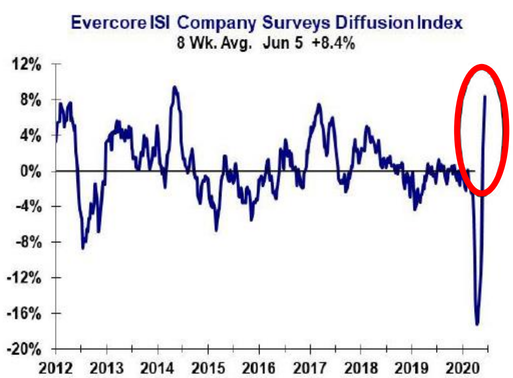
Market Overview – May 2020

In March of this year the headlines in every paper and the lead stories of every newscast concerned the coronavirus. As we all know, one of the immediate results of the pandemic was the shutdown of most social and economic activities. As we also all know, the United States went from the longest recovery on record to recession in a matter of weeks. We, as a country, were in lockdown mode.

As I wrote last month, the beginnings of the 2020 first quarter earnings season (which started in April) were not very auspicious. Banks, having learned a few lessons in 2008, raised their loan loss reserves considerably in front of the expected impact from COVID-19. Stock markets also reacted to the rather bleak outlook at the beginning of April, trading down. Then, however, the markets turned up, returning nearly 13% for April as a whole. That 'recovery trade' continued into May, as the S&P 500® Index rose a further 5%.

Some of the explanation for the move upward in the market was simply because the market had plummeted in February and especially March of this year. When in college I remember my Finance professors touting 'The Efficient Market' hypothesis, which states that stock prices reflect *all* available information. We at Argent generally also believe that a company's fundamentals are priced rationally over the long run, but in the short run we know things can get *a little crazy - the Efficient Market gets a little inefficient.* We may have seen *a little crazy* in February and March, despite justified concerns from the pandemic.

That markets went *a little crazy in its downward spiral* begs the question about the last two months of outstanding market returns. Some bounce from the bottom makes sense, but the market did not bounce, it leapt. So, what is going on? The short answer is simple economics. The following chart shows ISI's Company Survey Diffusion Index. Firstly, what is a diffusion index? Moody's Analytics defines a diffusion index as a statistical measure often used to detect economic turning points. A diffusion index aggregates multiple indicators by examining whether they are trending upward or downward, but ignores the magnitude of the movement.



ISI surveys companies, just as the title suggests, and asks them if their business is better or worse – pretty simple. From the chart you can well imagine the answers given in March, as the diffusion index plunged to its lowest level in over eight years. Coincidentally, the market careened downwards at the same time. More recently, however, ISI's Company Survey Diffusion Index has turned up, nearly as dramatically as it had fallen. And, coincidentally, the market rose smartly.

So businesses are seeing their prospects improve and the market is rising to reflect that improvement – simple economics. Whether this trend will continue or not remains to be seen, but at the very least, stocks are reflecting the improvement the private sector is experiencing.

We are open for business and welcome your interest in Argent Capital Management. We have four successful equity strategies – Large Cap, Dividend Select, Mid Cap and Small Cap. If you have questions on any of these options, please call us.

Sincerely,

Ken Crawford

Ken Crawford
Senior Portfolio Manager