Argent Capital Management LLC

**RE:** **INVESTMENT COMMENTARY FOR PERIOD ENDING JUNE 30, 2020**

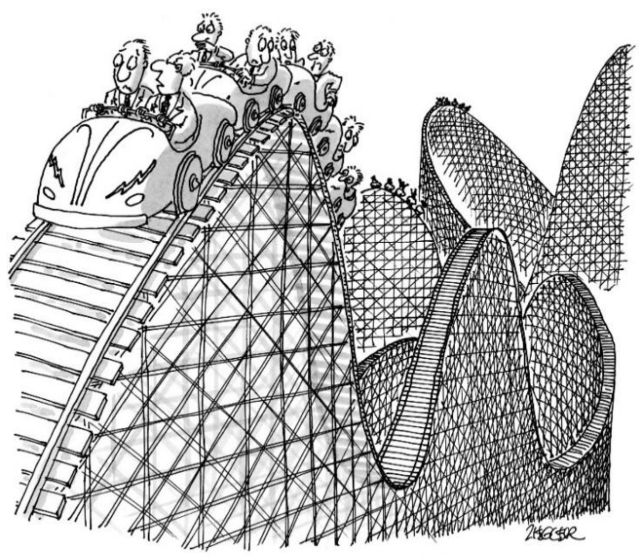
**FROM:** **ARGENT CAPITAL MANAGEMENT**

**DATE:** **JULY 15, 2020**

***"You better start swimming . . . or sink like a stone,***
***because the times they are a-changing."***
***- Bob Dylan***

While our lives have markedly changed in 2020, the stock market remains resilient. Thanks to trillions of dollars of fiscal and monetary stimulus, the stock market erased a good portion of the fall it experienced between February 19th and March 23rd. The S&P 500 Index had one of its ten best quarters in history, and its best since 1998, up over twenty percent. Small Cap stocks also had a big quarter after digging an even bigger first quarter hole. At the 2020 halfway point, we feel fortunate the S&P 500 Index is down only four percent, and small cap stocks down just 13 percent. There were clear winners and losers, as those in the tech and biotech industries fared dramatically better than industrials and financials. In addition, as far as company size went, the bigger the better.

In our last newsletter we asked why all past corrections are viewed as great opportunities, but current corrections seem to be regarded as risks? We are currently in our fifteenth recession over the last one hundred years, and we have had more than twenty bear markets when stocks declined by more than twenty percent. You would think we would have adapted to such events, but apparently not.

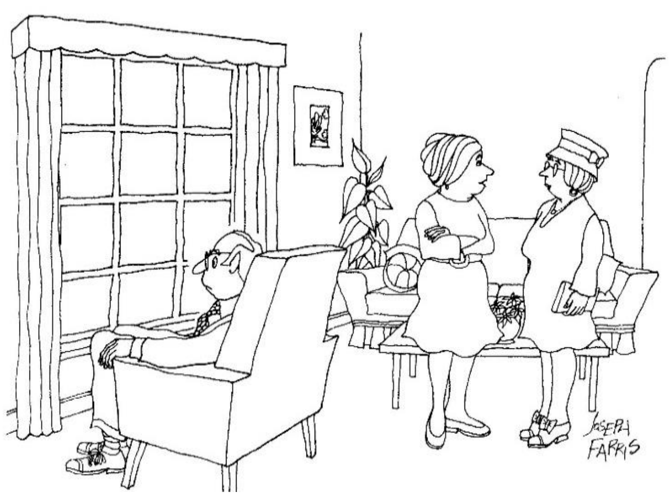


*"Dow Jonesy enough for you?"*

Nonetheless, this recession *does* feel different, and for a number of reasons. First, tens of millions of Americans have lost their jobs; record numbers and in record time. In addition, we have ongoing trade tensions with China, a completely new landscape for retail sales and the first recession caused by health concerns, not economic matters. Add to that the upcoming Presidential and Congressional elections and to many there seems a disconnect between the rapid pace of the stock market recovery and the somewhat slower pace of the economic recovery.

Let's give credit for this where credit is due. In late March the Fed made it clear they would do *whatever it takes* to support a healthy banking system and to keep interest rates low. Congress and the President also deferred income tax payments until July, provided an extra $600 per week to state unemployment benefits and provided low-interest loans, some forgivable, to a wide assortment of businesses. Those multitrillion-dollar relief operations provided an unprecedented lift to the stock market in April and May. As states then relaxed stay-at-home advisories there was a ratcheting up of economic activity in June which further extended the rally, albeit with more volatility. Of course, ratcheting up economic activity carries the risk of increasing infection rates, and that is exactly what we are witnessing. Thus, what was once viewed as the light at the end of the tunnel might actually be an oncoming train. Time will tell, but the issue remains, how do we maintain good health while restarting businesses and getting people back to work?

Any commentator who tells investors with certainty what will happen in the third and fourth quarters of 2020 is either overly confident in their abilities, or a con-artist. We like to think we are neither. Our view is that until there is more certainty relative to the development of a vaccine, volatility will remain – waves of optimism one week followed by waves of pessimism the next. Our best guess, however, is that we will see additional monetary actions from the Fed and more fiscal stimulus from Congress. That stimulus could take the form of additional tax relief, an extension of unemployment wage support and, perhaps, movement on long-awaited infrastructure spending. Thus, we remain *cautiously* optimistic, but more so for the next year or two than for the next few months.



*"Ed used to be an incurable optimist but now he's cured."*

So, life is truly different than it was just a few months ago, but not all bad. We have learned some valuable lessons. We have discovered how much we took for granted our personal contact with friends and family. We have learned of the need to reevaluate global trade, and not allow the U.S. to become overly dependent on supply chains of critical services and products, such as medicines and other healthcare supplies. We now know we must enhance our studies of genomics so that we have better tools to minimize risks relative to the next pandemic. We have learned that *work-from-home* works better than many of us had thought, and that a Zoom meeting can often be as effective as traveling 2,000 miles for a meeting. As a result, when we look back on this era in future years, perhaps we will not be reminded of the themes that currently keep us awake at night, but instead see this as the beginning of a new way of looking at how to best build an efficient and prosperous society in the 21st Century. If so, this is a change for the better.