Argent Capital Management LLC

Market Overview – July 2020

The market rose in July to the point that, on a year-to-date basis, stocks in the S&P 500® Index are slightly higher than at the end of 2019. That is remarkable given the level of fear and uncertainty that pervaded the market as little as four months ago. We have been getting a lot of inquiries regarding the rise in the market and many clients express a healthy dose of skepticism. As I wrote last month, the battle for the hearts and minds of the market leans either positive on better economic data or negative, on news of increasing COVID-19 cases and the re-implementation of lockdowns.

As I write the July monthly I will confess that it is early August. One of the adages in my business is that it is always easier to invest in the rearview mirror. I couldn't agree more. With that as a caveat, I think one of the reasons the market has rebounded more and faster than most expected is playing out now with *Earnings*. Please let me explain.

June marked the end of the second quarter and most companies use July to get their books in order. Then, in August publicly traded companies by and large report their earnings and host conference calls to explain their results. For people in the investment world it is a very busy time and we call it *Earnings Season*. It is also a time when the curtain is lifted on individual companies and, by inference, industries as a whole. This year, one that will certainly go down in the history books (as I breathe through my face mask), has been particularly difficult to gauge for a few reasons. The first, and most obvious, is COVID-19. This pandemic is new to everyone, unless you were around in 1917 for the Spanish Flu. The second and related reason is that, because of the pandemic and its consequent economic disruption, many companies removed their guidance for 2020. As a result, coming into Earnings Season, there was even more uncertainty around sales and earnings results than normal.

So, what have we seen so far? Here is something from Reuters:

<u>Record beat</u> rates for Q2 earnings season:

A record high percentage of US companies are beating consensus expectations this earnings season. According to FactSet, 84% of S&P 500 companies that have reported earnings thus far have surpassed consensus EPS estimates, better than the 72% five-year average. In aggregate, companies are reporting earnings 21.8% above expectations, well ahead of the five-year average positive surprise rate of 4.7%......Estimates for Q3 are now moving higher for the first time since Q1 2018.

While earnings surprises are, as the term implies, a surprise, throughout a quarter investment analysts, economists and others track relevant data to gauge how a company or industry may be doing. Over the course of the second quarter the preponderance of data indicated that business trends were *improving*. Were business trends good? Not by a long shot, but they were improving and, therefore, becoming better than expected. It is expectations, what people *think* will happen, that drives stock prices. And surprises, positive or negative, change the direction of those stock prices. That is why we at Argent focus on <u>change</u> as a key component of our investment process.

Will this trend of better than expected results last, or will increasing case counts of COVID-19 overwhelm the economy? No one knows. But somewhere in that range of outcomes is consensus – what is expected. When a company deviates positively from that consensus on a sustained basis we at Argent get excited. Stay tuned.

We are open for business and welcome your interest in Argent Capital. 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
Senior Portfolio Manager