Argent Capital Management LLC

## *Market Overview – August 2020*

I was racking my brain over what to say in the August Market Commentary. The market, as you likely know, did quite well. I decided I would let FactSet, a data provider we use, tell the story:

***S&P 500 saw biggest August rally in 34 years:*** *Multiple reports (Wall Street Journal, Bloomberg) discussed how August was another big month for stocks. The S&P 500® Index, which finished higher for a fifth straight month and hit a new record high late in the month, gained in all but five trading days. The index had its best August since 1984 and has surged nearly 36% since April. Big tech, which makes up nearly a quarter of the index, was a key upside driver with Apple up 21.4%, Facebook 15.6%, Microsoft 10.0%, Alphabet 9.5% and Amazon 9.1%. Retail did well with help from better-than-expected second quarter results. Other groups leveraged to the reopening/recovery theme like restaurants, airlines, hotels, cruise lines and casinos tended to see outsized gains.*

In reviews that I have attended of late, the opinion of our clients has been bifurcated. Some clients point to the level of stimulus that the Federal Reserve and the U.S. Treasury are providing and are not surprised by the strength of the market. Alternatively, other clients point to their masks, comment on social unrest and the election, and shake their heads.

While the two reactions are diametrically opposite from one another, they both make sense. During this COVID-19 triggered pandemic, the Federal Reserve and other monetary authorities around the world have been aggressively lowering interest rates and pushing cash into the economy. This is unlike the onset of the Great Recession, where some countries engaged in very stimulative policies, some in lesser stimulation and some not at all. The current collective action is designed to mitigate the impact that COVID-19 has wrought on the economy and propel investors into asset classes like stocks. So far, these actions have been successful. Economic activity has improved from the bottom witnessed in March and April of this year. The success is demonstrated by the fact that this has been the shortest downturn on record.

But even with this success, the economy is still quite weak. At the end of August the unemployment rate in the United States was in the double digits, a dramatic rise from the beginning of the year when that rate stood at a fifty-year low of 3.5%. In addition, even after the world normalizes, no one knows what the world will look like. How many restaurants and small businesses that are closed now will never reopen? What happens when the funds going to the unemployed dry up? Finally, and perhaps most importantly, when will there be a vaccine, a prerequisite for any kind of normalization to take place? These are the questions our skeptical clients are asking.

As I wrote last month, stock prices are built on expectations. Finance theory teaches us that the correct way to value a stock is to discount the earnings that a company is expected to generate in the future. The collective expectations of all investors drive a market clearing value for a company, or its stock price. When, for whatever reason, the inputs to that earnings stream change, the value of the company is reset and the price of the stock changes, rising or falling, to reflect that new expectation. Our job at Argent is to look for data that drives expectations for the earnings streams of companies to discover a change – a positive dislocation – that will drive stock prices higher.

In March and April of this year the world became very dark. The COVID-19 pandemic was spreading throughout the world and countries were shutting down one by one, like dominos falling across the globe. Stock markets reflected this new reality and we were thrown into the fastest recession on record. Then some of the stimulus actions began to take hold, companies aggressively cut costs and earnings in the second quarter of this year were, by and large, better than expected. To this better world, investors reassessed their expectations of companies' prospects and stock prices rose. So both groups of clients are correct. Government-sponsored stimulus is having a positive effect on economies and companies are benefitting from that. But economies remain weak, with real questions about the sustainability of the improvements.

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**