Argent Capital Management LLC

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

FROM: **ARGENT CAPITAL MANAGEMENT**

DATE: **OCTOBER 14, 2020**

The stock market acts like a barometer, not a thermometer.
Its moves are not based on the present, but on the future.

How to explain the disparate paths taken by the economy versus stock market returns over the past nine months? The economy, as we all know, has been hit hard. Gross Domestic Product (GDP) – all the money spent by businesses, the government and individuals – recorded one of its biggest declines in history in the second quarter. Unemployment soared and corporate earnings for many businesses disappeared in a flash. Despite this the stock market took flight from March lows in the second quarter, and the third quarter, despite a weak September, also ended with solid gains. Argent portfolios participated nicely.

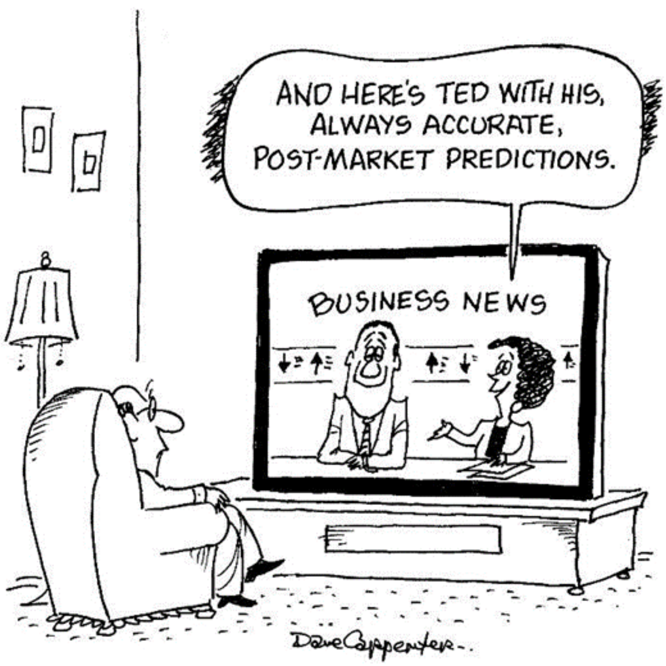
With the advantage of hindsight, there are several reasons for the stock market surge. First, the Fed stepped in quickly and aggressively with a *whatever it takes* attitude. They made it clear they would do all they could to support the bond market, maintain a sound banking system and continue to target ultra-low interest rates. Then, Congress stepped in with trillions more in fiscal support, and states began relaxing stay-at-home restrictions. Stock markets *really do* act like barometers – they tell very little about conditions today. Instead, they are forward-looking – will corporate earnings be good next year, will unemployment be rising or falling, will interest rates be higher or lower, and, queuing to the present, will we have a coronavirus vaccine?

"My desire to be well-informed is currently at odds with my desire to remain sane."

Seismic disruptive events such as that caused by this global pandemic are seldom the same as events in the past, but there is still much to learn from history. Indeed, economic study of the Great Depression is particularly useful, and lessons learned from it have proven very helpful to policymakers in 2020.

On the economic front, the Great Depression taught us that monetary expansion by the Fed probably would have helped, had they done it correctly. Pivot to 2020 and witness the strong activist role taken by the Fed. Another lesson is that fiscal stimulus from Congress helps, and that in troubled times such support needs to be big, bold and sustained. Thus, we witnessed the multi-trillion dollar stimulus package passed by Congress, with more clearly on the way, whether before or after the Presidential election.

Unfortunately, there is no free lunch in this longer term. At some point we will be beyond the immediate crisis, and will have to reckon with the impact of record deficits and of artificially low global interest rates. They were what the doctor ordered to cure the patient, but there is little evidence that any economy can effectively print money long term without creating more inflation, a weakening currency, higher unemployment and slowing GDP growth. Thus, it will be imperative to exercise fiscal and monetary discipline in coming years. Candidly, it is hard to be overly optimistic on that score, but we welcome the chance to be pleasantly surprised. The good news is that given low interest rates we do have some time on our side.



Argent is bullish on the 2021 outlook for stocks as the stock market will have a huge tailwind once a vaccine is approved. Unemployment will be falling, corporate earnings will be growing, interest rates will remain low and business and consumer confidence should be surging. It is a good recipe for an upward move for stocks.

We mentioned the Great Depression earlier. Our parents and grandparents lived through the 1930's, which had an impact on them for the remainder of their lives. While nowhere near as severe, the impact from COVID-19 may have similar influences on us. Fortunately, as we noted, some economic lessons learned from the Depression have helped us today. There are also *non-economic* lessons we learned in the Great Depression that are again being reinforced: Save for a rainy day, and don't live beyond your means. Be willing to accept that things have changed and you may need to retrain yourself to have a successful career. Be thankful for and make friends of your neighbors, and help a neighbor in need. Most importantly, we learned that *tough times do end*. With that thought in mind, and believing better times lie ahead, keep a positive attitude.