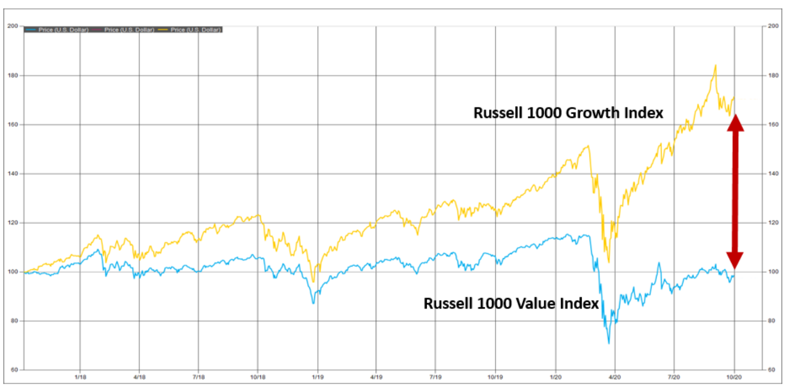
Argent Capital Management LLC

Market Overview – September 2020

For several months I have talked about the skew in market performance between the Russell 1000 Growth® Index – large, growthy companies and the Russell 1000 Value® Index – large, not so growthy companies that frequently are more sensitive to changes in the economy. Before COVID-19, if you can remember that far back, the Russell 1000 Growth Index would lead the market at times, then the Russell 1000 Value Index would lead, then back to the Russell Growth and so on. When a company or index becomes fully valued, its price no longer rises. That dance of the indices made sense because at the core of investing is *valuation*.

At least that is the way it is supposed to work in theory. In reality, the agents driving stock and index prices, a.k.a. investors, can act irrationally in the short term. How long the short term lasts is anyone's guess and only known in retrospect. To be fair to the market as a whole, some of the growth stocks leading the charge upward have realized better fundamentals. That improvement should argue for higher valuations. Whether the extent of that higher valuation, especially relative to the rest of the market, is deserved is open for debate.

We at Argent have been waiting for the rest of the market to catch up. In other words, to see some of the less growthy, more economically sensitive stocks perform better than their growthy peers. That is what happened last month. The Russell 1000 Value Index outperformed the Russell 1000 Growth Index in September. As you can see in the chart below, the wide spread between the two indices narrowed slightly.



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If, as I wrote before, growthy stocks rose because their fundamentals improved, then it would make sense that value stocks rising on a relative basis implies that their fundamentals are improving. Indeed, that is the case. The preponderance of recent economic data in the U.S. and abroad is getting better. To be sure, 'better' is off the very deep lows seen in March and April, but better is better and that economic improvement generally impacts value stocks to a greater degree than growth stocks.

Furthering the belief that the economy may continue to improve are statements by the Federal Reserve in the U.S. and other monetary authorities across the globe that they are willing to keep interest rates low for the foreseeable future. Low interest rates mean borrowing costs are low, lowering the hurdle for business expansion and increasing home affordability. Indeed, one of the bright spots in our economy today is the housing sector. In addition to actions by the Federal Reserve, investors are keenly following negotiations in Washington around the next stimulus bill.

Whether the recent narrowing of the spread between the Russell 1000 Growth Index and Russell 1000 Value Index is sustainable is unknown. We at Argent will continue to track leading economic data and will listen closely as companies report their third quarter results throughout October.

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

Ken Crawford, Senior Portfolio Manager