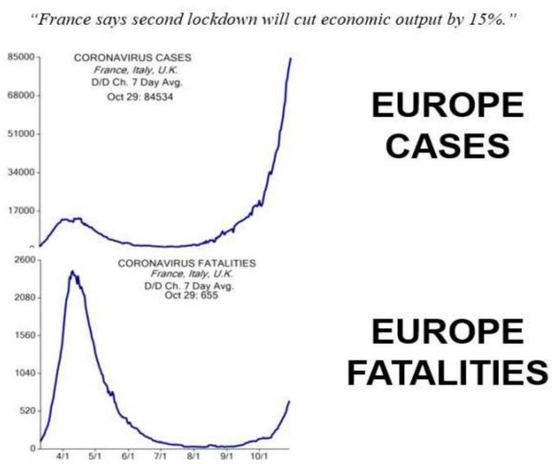
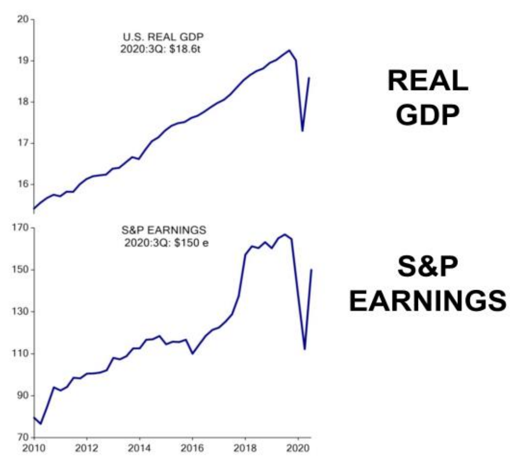
Argent Capital Management LLC

The push and pull of the market continued in October. The market's focus on the 2020 election caused increasing volatility for the month, with consensus expectations of a Blue Wave giving Joe Biden the presidency, flipping the Senate from a Republican to Democratic majority and strengthening the Democratic majority in the House. Polls, which may have become a four-lettered word (plus an 's') indicated that the Blue Wave was the likely election outcome. In October, investors positioned themselves for those results.

A big part of that positioning was the expectation of a considerable government-backed stimulus for the economy, well beyond what the Republican-led Senate was proposing. As a result, for the month of October *cyclical* stocks, those that are more economically sensitive and would most benefit from increased government spending to spur the economy, rose. As a reminder, *cyclicals* are those companies whose fortunes are more closely tied to the economy (think homebuilders, or auto and machine manufacturers). In contrast, some of the long-time leaders in the market, especially technology stocks, lagged. This schism continued the debate that has been brewing in the market for several months – are we to continue to be hunkered down with COVID-19, a pall hanging over us, or is the economy going to manage to grow and our lives move toward normalization?

The following is a graphic depiction of this debate. As you can see, the charts on the left indicate that COVID-19 cases are on the rise, with a second wave washing over Europe. Furthermore, the U.S. continues to set new case records on a daily basis. The graphs on the right, however, illustrate that the U.S. economy is showing signs of improvement, with Gross Domestic Product (GDP) rising and earnings recovering, especially during this third quarter. That is the debate the market is facing.





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With no pun intended during this election season, the big question is whether COVID-19 will trump the economy and we go back into lockdown, or will the economy trump COVID-19, with the aid of government stimulus and a hoped-for vaccine and we grow out of our current situation?

For us as investors another consideration is what we pay for either outcome. As you know, at Argent valuation is a key component of how we invest. In a nutshell, in a perfect world, we like cheap. Of late, where we have been finding 'cheap' is in those more economically sensitive, *cyclical* stocks. To be sure, the fundamentals of those companies are closely tied to the economy and there is considerable skepticism around the sustainability of our recovery, but we believe that within that skepticism there exists opportunity. Meanwhile, looking at the valuation of some of the market leaders, we come to the conclusion that investors are expecting a very long and drawn-out economic malaise, with the potential that the pandemic will permanently alter our lives. That, too, is a possibility, but not how we believe things will play out. As always, we will look at the data and reflect any new information against the valuations of the stocks we are researching to build portfolios with the best characteristics we can find for long-term investors.

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

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