Argent Capital Management LLC

*Market Overview – February 2021*

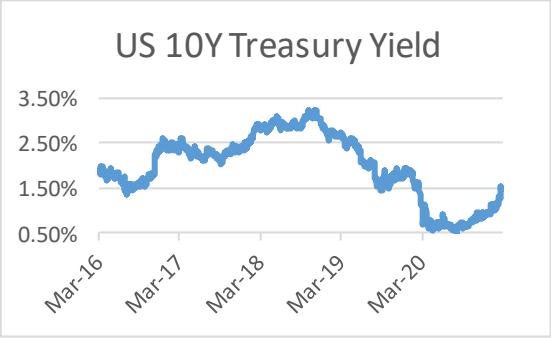
## Piquing your Interest?

The recovery in stocks since the depths of the pandemic has surprised many investors. To put numbers on that, from the bottom of the market on March 23, 2020, until the end of February of this year, the value of the S&P 500® Index has risen over 70%. Certainly, a good part of the gain was retracing the hole created by the pandemic.

Coincident with the path of stocks were interest rates. As one would expect, the drop in stocks was tied to the decline in the economy. Lack of demand for goods and services implies a lack of loan demand, which depresses interest rates. Thus, at the same time that the world economy was falling into recession, monetary authorities engaged in stimulative policies in a coordinated fashion. The U.S. Federal Reserve pumped $2.3 trillion into the economy, representing over 10% of total gross domestic product.

As a reminder, one of the two missions of the Federal Reserve is price stability. The Fed defines price stability as an inflation rate of 2%. The last time the Fed hit its inflation target was 2018. Before that you have to go back six years to 2012 to see inflation above 2%. The Fed's inability to hit its goal has prompted some to wonder if 2% really is the target. That inability has also prompted the Fed to change its policy, from a hard target of 2% inflation to letting the inflation rate drift above 2% in order to catch up from years of low price increases.

So we have a few forces at work – massive stimulus, a stock market recovery, a change in the Fed's tone – all working to push interest rates up. Not surprisingly, that is what we are seeing. As the chart shows, the interest rate, or yield, on the benchmark 10-Year Treasury bond has risen from 0.50% in August of last year to close the month of February at nearly 1.5%. Certainly, 1.5% is a low rate in the absolute sense, but what has caught the attention of bond investors and stock investors is the trajectory of the interest rate, in a word – Up.




Compounding the lift in yields is more discussion about inflation, as stimulus monies flow and talk of further stimulus grows. The Fed says it has plenty of tools in its toolbox to address inflation. Some in the market are greeting that pronouncement with skepticism. Whether this is the beginning of price normalization and the Fed finally hitting its inflation target, or the beginning of an inflationary spiral – something the markets have not seen in forty years – remains to be seen.

Rest assured we at Argent are paying close attention to interest rates, inflation expectations and any changes coming out of Washington, D.C. that may affect the markets. 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**