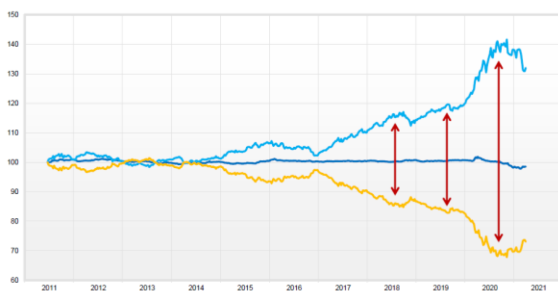
Argent Capital Management LLC

Market Overview – March 2021

Asking about one's political leanings is a good way to start a very bad conversation. With that in mind, one of the recurring topics I hear on the news today is how our politics is 'not normal.' A second assertion that frequently follows is that there is no meeting in the middle. While some may embrace this current state of affairs as others decry it, there does seem to be a good deal of division today. To this situation some say it is the new normal, so get used to it. Others say the gulf is unsustainable and sometime up the road the right and the left naturally will move closer together.

This discussion mirrors nicely what investors have been saying about the market. The dichotomy in the market is not along political lines. Instead, it revolves around growth versus value. The classic argument about investing in growth or value stocks is that the disparity between the two cannot grow too wide because market forces will drive a recoupling. In other words, if value stocks gain relative to growth stocks at some point those stocks are no longer a value and investors will sell them accordingly. In the same vein, if growth stocks rise too far at the expense of value stocks, investors will sell growth because value stocks have become too cheap to ignore. In all of this the 'when recoupling will happen' question is the biggest unknown.

What had been occurring in the markets since the end of 2016 begged the question of 'when recoupling.' As the chart shows, up until recently, the Russell 1000 Growth® Index (bright blue line) – a comprehensive collection of large, well-established growth stocks – outperformed the Russell 1000 Value® Index (yellow line) – a similar collection of large, well-established value stocks – more or less in a straight line manner.



As mentioned before, this is not supposed to happen. At some point growth stocks will become fully valued and value stocks will become extremely cheap, driving investors to sell growth to buy value. For several years, however, that did not occur, which begs the question 'Why?' and 'What will make the situation change?'

For the why, there are a couple of reasons. The first was that interest rates during the period were falling. As interest rates fell, the discount rate for stocks declined. A lower discount rate inflates growth stocks more than value stocks because earnings for growth stocks are realized further into the future. A second reason growth stocks rose relative to value stocks was that finding growth anywhere in an economy suffering from an anemic recovery was difficult. In other words, growth was a scarce commodity. When a commodity is scarce the laws of supply and demand say that the commodity will be bid up by the market. That's exactly what happened to growth stocks – they were bid up by investors.

The 'What will make the situation change' question is essentially the mirror image of what drove growth to outperform value to such a wide degree. Firstly, rising interest rates increased the discount rate for the market, making growth stocks less appealing to investors. Secondly, the considerable government stimulus is driving improvements in the economy, making growth a less scarce commodity.

If these trends continue we would expect the recoupling of growth stocks and value stocks that we have seen for the past half year to continue. While politics may have found a 'new normal' in its lack of convergence, we trust investors to apply the tried and true rules of investing over the long term, expecting the market to return to its 'normal. We are open for business and welcome your interest in Argent Capital. In addition, if you like our market letters, we hope you will pass them on to friends. We have four successful equity strategies–Large Cap, Dividend Select, Mid Cap and Small Cap.

Sincerely,

Ken Crawford, Senior Portfolio Manager