Argent Capital Management LLC

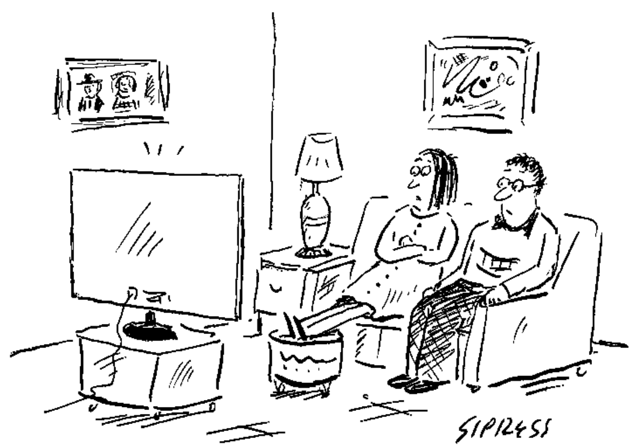
RE: **INVESTMENT COMMENTARY FOR PERIOD ENDING JUNE 30, 2021**

FROM: **ARGENT CAPITAL MANAGEMENT**

DATE: **JULY 15, 2021**

"There are two kinds of forecasters. Those who don't know, and those who don't know they don't know."
- John Kenneth Galbraith

Like everyone in the investment business, we are constantly asked our views on the stock market, interest rates and the economy. And, while agreeing with the quote above, we nonetheless try each quarter to do the impossible – predict the short–term future for the markets. To quote the immortal Babe Ruth, "Never let fear of striking out get in your way."



"The following contains scenes of people not accepting what they cannot change. Viewer discretion is advised."

Last year was one for the record books – the fastest market correction in history followed by the fastest recovery in market history. Amazingly, most Americans have continued to get richer during the first half of 2021. More to the point, U.S. households have added several *trillion* dollars of additional wealth this year. They have refinanced to lower their already low interest rate mortgages, watched their housing values soar, paid off credit card debt and benefited from strong stock market gains both personally and via their retirement plans. Now, with the impact of the pandemic rapidly fading it seems likely that consumer spending will maintain its strength even as government and corporate spending increases. Corporate earnings have also been *blowout* – there is no other way to describe them. Businesses have beaten earnings estimates by wide margins the past few quarters, and unemployment has declined from its highs of 15 percent last April to only 5.9 percent at the end of June. It is a super-charged economy with super-charged results.

There is nothing a stock market likes more than positive earnings growth, and, going forward, earnings growth will hinge largely on the resiliency of corporate profit margins. Revenue growth should remain robust through year-end, but that may not be enough. Companies are being faced with cost increases due to supply chain disruptions, along with higher wages and commodity costs.

"I'm afraid the news isn't good. Word has it that consumers are starting to find out what actually matters."

CartoonStock.com

Looking to interest rates, the recent drop in rates was somewhat unexpected, and reveals some investors' doubts about how strong the economy will be in coming years. This, despite inflation currently pushing to its highest levels in more than a decade. Interest rates are a big deal because Treasury yields play a very important function in the economy, helping to set borrowing costs in everything from mortgages to corporate bonds. They are also a closely watched economic barometer. Thus, recent declines may be suggesting that the economy may not be as buoyant as we believed in March.

One last pandemic–related thought. Warren Buffett has frequently talked about the ABC's of business decay – arrogance, bureaucracy and complacency. One of the consequences of the pandemic for business leaders was the need to quickly refocus on operating efficiencies in order to survive. They found work-from-home worked better than anticipated; that they could do more with less. They also quickly realized the importance of up-to-date, cyber-secure technology. This has led to a sharp rise in worker productivity measurements in recent quarters. Better productivity creates better earnings margins, the importance of which we already reviewed. In total, efficient operations, a highly productive workforce, declining unemployment, low interest rates and consumers with cash to spend should lead to continuing opportunity for stock market investors in the quarters ahead.