Argent Capital Management LLC

Market Overview – July 2021

We are frequently asked why the market keeps rising. The best answer is the most obvious one– stock prices follow earnings and second quarter 2021 earnings continued to be robust.

Here is a summary from FactSet, a data provider we use:

Earnings season just about done (just about):
According to FactSet, nearly 90% of S&P 500 companies have now reported Q2 results. Blended earnings growth stands at nearly 89%. Blended revenue growth rate is just under 25%. Just over 86% of reporters have beat consensus earnings estimates with earnings in aggregate exceeding expectations by 17%. More than 87% have beat revenue estimates with revenue in aggregate exceeding expectations by nearly 5%. Revenue beat metrics running at record levels.

There are a few items that are noteworthy in my mind from the above summary. Firstly, the absolute strength in results, with blended earnings growth of 89%. Certainly, the comparison from last year, when the U.S. and the world were at the depths of the COVID-driven recession, needs to be considered, but earnings up nearly 90%.....that is quite something.

The second item that is noteworthy is the difference between sales growth (+25%) and earnings growth (+89%). How can earnings grow so much more than sales? The answer is *operating leverage*. When a company has fixed costs – plant, equipment, etc. – those costs are constant regardless of changes in the company's sales. Thus, when the phone starts to ring with new orders, which almost always occurs during a recovery coming out of a recession, much of the profits from those incremental sales fall to the bottom line. This is especially true for more economically sensitive companies.

Finally, I would point out the difference between posted results and expectations. Both for sales and earnings, results have been better than expected. In investment parlance that is an *earnings surprise*. Earnings surprise is a key metric for the way we at Argent invest. Our focus on positive change, if executed successfully, should drive better than expected results, aka a surprise.

Here's an example – the largest position in our Large Cap strategy:

Alphabet reports Q2 EPS $27.26 vs FactSet Consensus Expectations of $19.24

- **Reports Q2**:
  - Revenue $61.88B vs FactSet Consensus Expectations of $56.19B
- **Management Comments**:
  - CFO Ruth Porat: "Our strong Q2 revenues of $61.9B reflect elevated consumer online activity and broad-based strength in advertiser spend."

Source: Factset-street account

Alphabet Inc., better known as Google, reported earnings nearly 42% greater than expectations, with revenues 10% ahead of consensus. Not only did Google beat expectations, but the company grew its revenues 62% compared to last year. Alphabet's ability to find areas of growth and its established position as the source for online information are the change agents driving the company's growth, driving its better-than-expected results and driving its stock price.

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, Portfolio Manager