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

FROM: **ARGENT CAPITAL MANAGEMENT**

DATE: **OCTOBER 19, 2021**

October. This is one of the particularly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August and February.
- Mark Twain

Few investment comments are more famous than Mark Twain's, and if one looks to the market crash of 1929 and the October corrections of 1987 and 2008, it is a scary month. If we exclude those years, however, the average October gain in the S&P 500 Index over the past 100 years is closer to a 1.1 percent return. It is also the first month of the fourth quarter, a quarter that has historically been the strongest for the stock market. So, we will take it in stride and keep an open mind as we invest.

"We've decided to support you for the rest of your life. It's cheaper than sending you to college."

Things were rolling along quite well in the third quarter until September, when Wall Street's path suddenly became more labored. Concerns about the impact of the Delta variant on reopenings, worries about China's debt-ridden real estate market, uncertainties regarding a possible government shutdown, heightened inflation concerns and very troubled debt ceiling negotiations all provided a rationale for taking some risk off the table. As a result, a string of seven consecutive stock market monthly gains was broken. We can live with that, however, as stock market returns have still been strong on a year-to-date basis. The majority of U.S. stock indices are still up double digits for 2021. Argent has four investment strategies – Large Cap US, Dividend Select, Mid Cap and Small Cap – and *all* are ahead of their benchmarks year-to-date.

As we look into our crystal ball, perhaps our greatest concern is the potential for sustained *inflation*. Indeed, rising prices are all around us. Wages, rents, commodity prices, cost of goods in stores – you name it – all seem higher than just a few quarters back. Federal Reserve Chairman Powell continues to state these inflationary fears will prove transitory, meaning they will fade along with the impact of COVID over time. Let's hope he is correct, but time will tell.

We see an economy that will likely continue to benefit for years from the enormous stimulus by government policies and actions of the Fed. We see higher interest rates as the Fed steps away from its easy-money policies. We see higher income taxes. Finally, we see much higher wages and a very tight labor market. All of these things lead us to wonder whether the inflation genie might prove difficult to return to its bottle.

Contributing to concerns about the inflation wildcard are the current supply-chain constraints. We have all seen pictures of our major ports with dozens of cargo vessels at sea waiting weeks or even months to unload. These are the most severe supply-chain issues experienced since World War II and have certainly been a major factor in increasing prices, as companies seek to maintain their profit margins by raising prices to consumers. Such price increases seem to be happening with relative ease. Whether that will continue is another question.

"I told him money wouldn't make him happy and he said, 'Prove it.' That put an end to that dialogue."

Ten-year Treasury yields, which started the year at under 1.0 percent, have jumped to 1.5 percent. We continue to say what we have said for some time – given low interest rates and the likelihood for higher rates looking forward, this may be one of the most *unattractive* times to own bonds in modern fixed-income history. One could argue that stocks, even if they provide lower than historical returns, still can offer what bonds cannot at current rates – growth potential via both capital appreciation and dividend income.

As we take this all in, it seems to us a flat quarter like that just experienced is not such a bad thing. In fact, we are happy to let the stock market take a breath and consolidate some of its gains. With further earnings gains still predicted for most businesses over the next year, the *relative* value of the market becomes cheaper as stock prices moderate. This is normal and healthy, and a good sign for renewed market gains. The timing of those market gains is always a challenge to predict, but positives still outweigh the negatives from our vantage point.