



October for Argent Capital was another round of earnings season, where a considerable number of publicly traded companies announce their earnings – in this case primarily for their third quarter of 2021. For us in the investment world it is a busy period, where a day can be filled with a handful of conference calls, often overlapping – *drinking from the firehose* is an apt analogy.

This quarter's earnings season came with a heightened level of interest. While the economy has continued to grow, supply chain concerns became more and more top of mind. (For a more in-depth discussion on the topic, please keep your eyes out for our forthcoming podcast on the supply chain, its impact on the economy today and what it portends for the future.) With regard to the third quarter, investors worried that businesses would see their sales crimped or their costs rise because of the lack of access to raw materials, all tied to the supply chain. In addition, the continued shortage of workers had investors questioning the sustainability of the economic recovery. Some of that worry was on display in September, as the stock market dropped in front of the release of third quarter results.

So, what are the results so far? Rather than regurgitate what has been written, I will cut and paste what FactSet, a data provider for institutional investors such as Argent Capital, published:

Earnings season post-mortems have focused on resilient margins:

Q3 earnings season largely done (nearly 90% of S&P 500 has now reported) and all of the big themes have been hashed out for a while. Wall Street takeaways have particularly focused on an unexpected expansion of profit margins despite the widely discussed supply chain, commodity input and wage growth headwinds. Margins responsible for much of the ~10%+ earnings beat recorded thus far. Resilient margins chalked up to pricing power, which was helped by a robust demand backdrop still underpinned by the unprecedented pandemic policy response....

Thus, in the face of rising costs, many of the companies in the S&P 500 were still able either to absorb those costs or pass them along to their customers, thus protecting their profits. Indeed, necessity can be the mother of invention. The better-than-expected results for the vast majority of large, publicly traded companies have led to a nice bounce in the market and fueled speculation that guidance for the fourth quarter of this year and the first quarter of next year may be conservative.

The better-than-expected results have coincided with positive news on COVID-19, where Merck and Pfizer have announced pills to combat the pandemic. One of the limiting factors to our economic growth cited by Federal Reserve Chairman Powell is the lingering effects of the Delta variant, especially as it has affected workforce participation. Investors like the Pfizer and Merck news. Hopefully a pill, rather than a painful jab in the arm, will increase the level of vaccination in the country and spur those sitting on the fence to rejoin the labor force.

This certainly has been a year of ups and downs, where the future, murky at any time, has been particularly difficult to predict. Many concerns have arisen over the course of 2021, including those around supply chain, inflation, and labor shortages. While those concerns remain, one takeaway from third quarter earnings is that businesses can and do respond to those challenges. Although not every roadblock can be overcome, creative solutions driven by the desire to increase profits, can and do surprise investors.

We look forward to how the rest of 2021 plays out and what it suggests for 2022 and the years to come. 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,

A handwritten signature in blue ink that reads "Ken Crawford".

Ken Crawford, Portfolio Manager

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