



2021 was a very good year for the market, with the S&P 500® Index up nearly 29%. That was a surprising result for many given that in mid-2021 the Delta variant spread across the globe, only to be followed by the Omicron variant as we closed out the year. In addition, supply chain headwinds continued and concerns over inflation inflated as the year played out. As we come into 2022, expectations are for the Federal Reserve to taper its bond buying purchasing completely and to raise short-term interest rates between three and four times during the year. Both expectations are much faster than pundit prognostications only a few

short months ago.

We have talked before about one of the likely impacts to the market from higher rates. Growth stocks, those whose value will be realized fully over many years in the future, frequently see their valuations fall during periods of rising rates. That is because the out-year earnings for those companies are discounted at a higher rate, making the present value of those earnings lower. If this situation recurs in 2022 and beyond it may have significant implications for the S&P 500 Index.

The reason why rising rates may have a particularly noteworthy impact on the S&P 500 today is because the index has become more concentrated in recent years and that concentration has been led by growth stocks. Indeed, in 2021, per Goldman Sachs, only a handful of stocks accounted for nearly one-third of that 29% return for the S&P 500. Concentration of that magnitude is reminiscent of the dot com era in the late 1990s.

For active investors, like Argent Capital, that level of concentration makes beating the index difficult. In order to do so, active investors have to own those few stocks leading the market and own them in size. The flip side, however, is also true. As the market broadens and the leaders give up some of their lead, active investors, who build their portfolios based on the fundamentals of individual companies, frequently see outperformance.

That outcome is plausible, given that the Federal Reserve is tapering its bond purchases and may raise rates *because the economy is strong*. A strong economy certainly is good for the leaders but is also good for the rest of the market. So, expecting a broadening of the market for 2022 and beyond makes sense. How this all plays out of course remains to be seen. At the very least, we come into 2022 with a strong economy and a very positive market backdrop.

Argent had a terrific year with all five of its strategies, including our newest strategy, SMID Cap U.S., outperforming their stated benchmarks in 2021. We are 100% employee-owned, have peak assets under management and we thank you for your business and your interest. In addition, if you like our market letters, we hope you will pass them on to friends. For information on our five successful equity strategies—Large Cap U.S., Dividend Select, Mid Cap U.S., Small Cap U.S. and SMID Cap U.S., please contact [clientservice@argentcapital.com](mailto:clientservice@argentcapital.com).

Sincerely,

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