Argent Capital Management LLC

*Market Overview – January 2022*

## Sometimes, history does not repeat itself.

When I was in graduate school studying finance one of the topics we discussed was the 'January Effect.' For those not familiar with the term, here is a definition, courtesy of Investopedia's website:

*The January Effect is a perceived seasonal increase in stock prices during the month of January. Analysts generally attribute this rally to an increase in buying, which follows the drop in price that typically happens in December when investors, engaging in tax-loss harvesting to offset realized capital gains, prompt a sell-off.*

For us investors, the January Effect was something to look forward to, no more so than this year, after coming off such a strong 2021 for the market. Instead, the S&P 500® Index dropped over 5% for the month. A bit of a rude surprise.

So, what happened? A few things come to mind explaining the difficult start to 2022 for the markets. The first is earnings. As many of you know, in January countless companies report their fourth quarter results. The early read is that earnings are good. For the market and some investors, however, results may not have been good enough. Here is an excerpt from FactSet, a data analytics provider we use at Argent Capital:

*'… with 56% of S&P 500 companies having now reported Q4 results, the blended growth rate stands at 29.2%, up from 21.7% at the start of earnings season. Just over 76% of reporters have surpassed consensus EPS expectations, well below the 84% four-quarter average, and slightly below the five-year average. In aggregate, companies have reported earnings 8.2% above expectations, also well below the four-quarter average surprise rate of 15.7%.'*

Secondly, the Federal Reserve spooked investors, as Fed Chairman Powell held a news conference on January 26, 2022, that was perceived as more hawkish than expected, with a message that short-term interest rates will rise more quickly and more often than anticipated. Higher interest rates put pressure on stock valuations.

Finally, and related to the actions by the Federal Reserve, inflation continues to run hotter than what many regulators would like. The Consumer Price Index for January came in at a worrisomely high 7.5% annual rate of inflation. Higher sustained inflation will pressure the Federal Reserve to act. In addition, higher inflation pinches the pocketbooks of consumers, especially those on the lower end of the economic spectrum. Finally, with a tight job market, inflation is bleeding into higher wage rates, raising costs for many publicly traded companies, and crimping their profit margins.

Is there any good news? The definitive answer is 'yes.' Even if investors are disappointed with fourth quarter results so far, an increase in earnings of 29% bodes well and is well above average for a mature economy like the U.S. In addition, household net worth is at record levels. Said another way, the consumer, who represents 70% of the U.S. economy, is strong.

We will continue to track the direction of fourth quarter results and listen closely to the insights of company management and the nuances of their businesses.

As a reminder, we are 100% employee-owned 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.

Sincerely,

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