Argent Capital Management LLC

Market Overview – February 2022

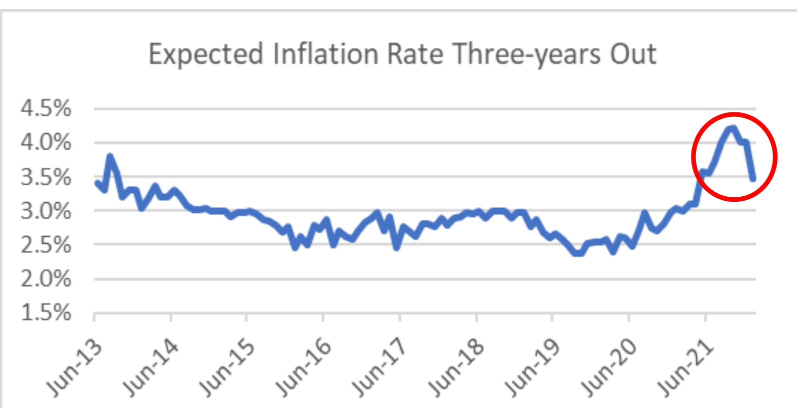
We are witnesses to history. Russia invading Ukraine without provocation, a nuclear superpower attempting to take over its sovereign neighbor. Not surprisingly, the markets have reacted to this change in the political and economic landscapes.

This terrible event coincides with the resurgence of inflation. This month the Federal Reserve is expected to raise interest rates for the first time in nearly seven years. Some have argued that the Fed is behind the curve. Investors will be watching closely for signals from the Fed on what it may or may not do going forward.

For consumers, the clearest example of the merging of these two problems – the invasion of Ukraine and resurgence of inflation – can be seen at the gas pump. Oil has broken through $100 per barrel. Going back in history the last time the price of oil was this high was in late 2014. While the Russian invasion will have a more direct impact on Europe's energy situation, there will be spillover to the rest of the world.

For those who are interested, Kirk McDonald, our Mid Cap Portfolio Manager and Argent's in-house economist, and I talked about inflation in our most recent podcast. As Kirk rightly pointed out, for inflation truly to take root in an economy the public needs to believe that inflation will persist. It is because of this belief that our behavior changes. For laborers, this situation is captured in what economists' call 'The Wage-Price Spiral.' To provide an example, if you believe prices will rise by 5% next year you will demand from your employer a 5% raise in order to keep up with the cost of living. If this situation persists, soon every year you will ask for that same 5% raise and you will <u>expect</u> the price of goods and services to increase at 5% as well. This embedded expectation creates a wage-price spiral.

Preventing that expectation is a key for the Federal Reserve in its battle against inflation. So where are we today? As you can see in the chart below from the New York Federal Reserve, forward expectations of inflation have risen, but have not spiraled out of control.



Continuing to temper and bracket inflationary expectations will be essential for the economy and for markets to continue their growth from here. Externalities, like the tragic events in Ukraine and the related price spikes in commodities make that job more difficult. For the moment inflation expectations are not at worrisome levels, but investors will carefully watch that trend and any actions that may come from the Federal Reserve.

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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