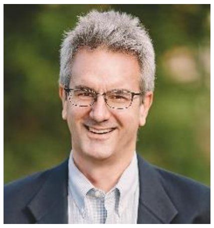


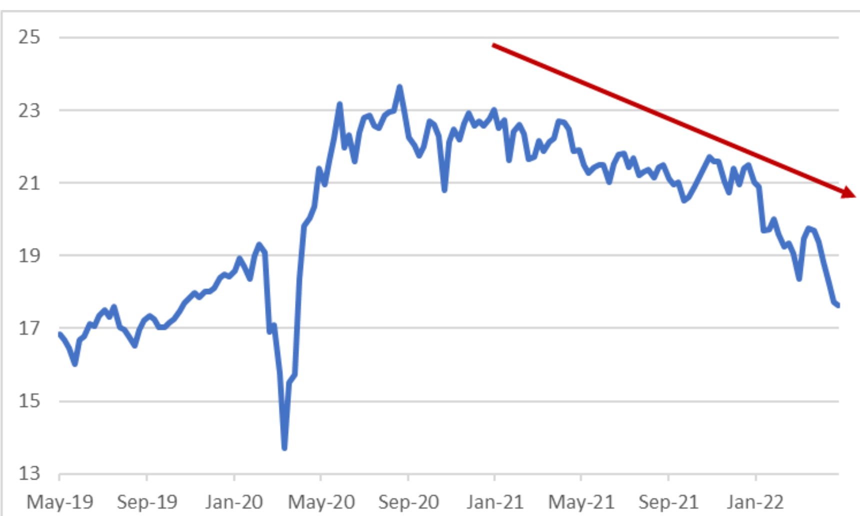
The market declined in April by nearly 9.0%, a significant drop for a year, much less a month. Last month I wrote it was somewhat surprising that the market had risen given some of the headwinds pressuring the economy and stocks. Perhaps this month investors gave into those headwinds.

April is an 'Earnings Season' month, where many publicly traded companies report their first quarter results. Although results so far have been better-than-expected, the margin of 'better' has been less than recent quarters, making some investors concerned that growth is slowing. In addition to these somewhat less positive results, expectations that the Federal Reserve would increase Fed Funds by fifty basis points, or half of one percent, worried investors. The last time the Fed raised interest rates by that much was twenty years ago, which speaks to the level of concern that inflation represents.

Up until recently there has been an acronym in the markets – TINA. TINA stands for 'there is no alternative.' During the COVID-driven recession the Federal Reserve pushed down interest rates to stimulate the economy. Lower interest rates make purchasing bonds less appealing, which incentivizes investors to put their money into riskier investments, like stocks. Positive money flows into stocks last year and the early part of this year corroborate the TINA concept. Today, with the interest rate on the U.S. 10 Year Treasury bonding rising to 3.0% or higher there may be an alternative. At the very least, investing in bonds with higher interest rates has become more appealing. So, perhaps TINA is no longer a valid acronym for the market. Indeed, recent flows out of equities would tend to suggest that investors are looking at alternatives to stocks.

Higher interest rates also affect the value of stocks. The price/earnings (P/E) ratio of stocks, what you pay for $1 of earnings in twelve months, has declined as interest rates have risen. That, too, makes sense, because higher interest rates increase the discount investors place on a company's earnings stream. The higher the discount the lower the value of a company's earnings, especially in the out years.

The chart below shows the P/E multiple of the market over the last three years. As you can see, the market's P/E has fallen as interest rates have risen. The impact on higher rates and consequent P/E compression is most acutely felt in growth stocks, where the bulk of their earnings are in the distant future. This jives with the year-to-date return of the Russell 1000 Growth® Index that has fallen more than 20% through the end of April. While this correction in growth stocks is painful, it opens the possibility of buying great growth companies at a discount to their previous valuation. We will keep our



Source: FactSet

pencil sharpened as companies report their first quarter results to take advantage of pullback the market is giving us.

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, videos by Ward Brown and podcasts by Ken Crawford, we hope you will share them with 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 clientservices@argentcapital.com.

Sincerely,

Ken Crawford, Portfolio Manager (kcrawford@argentcapital.com)