Argent Capital Management LLC

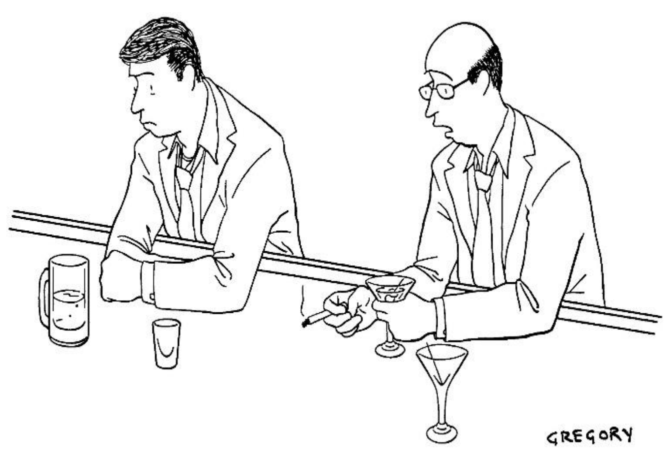
RE: **INVESTMENT COMMENTARY FOR PERIOD ENDING JUNE 30, 2022**

FROM: **ARGENT CAPITAL MANAGEMENT**

DATE: **JULY 11, 2022**

"The key to making money in stocks is not to get scared out of them."
- Peter Lynch

Investors are justified in feeling a little pain given that they have just experienced the worst first half for global stock markets since the 1970s, with the average U.S. stock down 20 percent or more. Stock market weakness greatly accelerated in the second quarter, with readings of 8 percent inflation, sky-high oil and gas prices and the Ukrainian War settling into a heavyweight slugfest. In addition, surging mortgage rates are sure to slow the robust housing market, and the Fed is clearly positioning itself for several more interest rate increases. This concurrence of negative news suggests to many that economic readings due out in late July will show that the U.S. economy is already in a recession. They might be right.



"I want my bubble back."

Regardless of whether we are officially in a recession, a slow-down has clearly occurred. Unfortunately, this is the medicine we probably need as continued inflation would be highly destructive. The Fed seems committed to tolerating lower economic growth for some time to put out the fire. The concern, of course, is that the Fed, embarrassed that they initially coined it "transitory" inflation, will over-react and raise interest rates too fast and too high. Indeed, the mere expectation of the Fed's new monetary restraint (with higher interest rates and shrinking balance sheet) already seems to be working. Oil prices in recent weeks have softened on the possibility of reduced demand, lumber prices have plummeted on the expectation of a housing slowdown, and some businesses are scaling back hiring given evidence of more cautious consumer spending.

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As we are often reminded, stock markets move based on the outlook for business and economic conditions *in the future*. It seems reasonable, therefore, that recent stock market declines have been foretelling the softening conditions we will see in the balance of this year, and potentially into next. Thus, we are watching future corporate earnings estimates closely, as reduced forecasts may be the next shoe to drop. Indeed, we fully expect that to happen in the coming weeks – not drastic cuts to forecasts, but measured reductions reflecting current challenges.

"Remember how I said I was happiest when we had nothing?"

One of the world's great investors, Fayez Sarofim, died several weeks ago. He was a favorite of ours. Among his many comments was, "Nervous energy is a great destroyer of wealth. The temptation to sell has cost investors more money than they would have made by doing nothing." At Argent, we concur. Any student of investing knows that large stock market gains often occur when least expected.

There is a reason for that. Well-managed companies adapt quickly to changing economic environments. Renewed profit growth ensues. This recent downturn has brought valuations of many great companies down to attractive valuations. That is the silver lining which we think makes for exciting potential investment returns over the next few years.