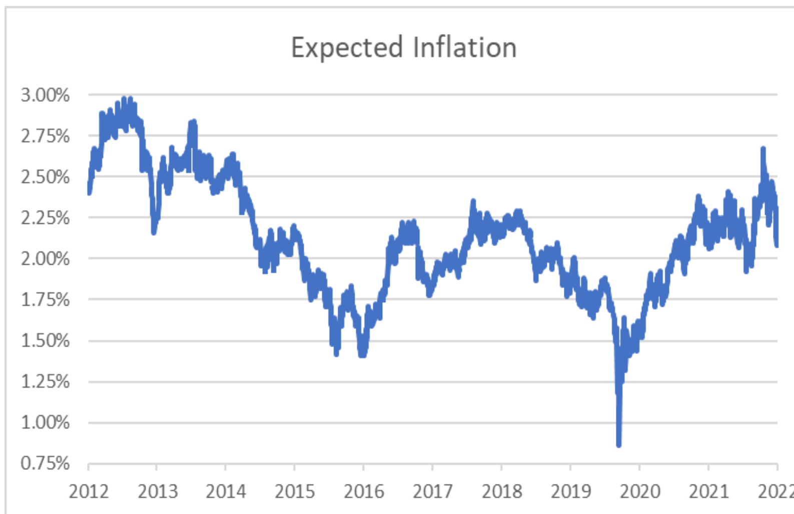
Argent Capital Management LLC

Market Overview – June 2022

The end of June closed out the second quarter of 2022 and marked a difficult beginning for the year. In fact, 2Q22 was the worst quarter for the S&P 500® Index since 2020 and the two consecutive negative quarters of 2022 have not been seen since 2009. A confluence of events continues to weigh on the markets and worry investors. The war in Ukraine grinds on with pundits questioning what the end game is and, as importantly, when is the end game. China's Zero Covid policy remains in place, with rolling lockdowns in major cities affecting production within China and further straining supply chains across the globe. Finally, the Federal Reserve's surprise rate increase of 0.75% has investors worried that a more muscular response from the Fed to curb inflation may coincide with a weakening economy.

With these rather troubling data points and the lack of clarity they portend we enter July and the beginning of second quarter earnings season. As many of you know, banks are some of the earliest companies to report during earnings season. Banks for investors often act as canaries in the coal mine - early indicators either of stability or concern. Investors will pay particular attention to prospects for loan growth to determine whether the economy is slowing or whether there is a healthy demand for money. In addition, banks will provide insight into credit quality, are borrowers still servicing their loans, or are they beginning to fall behind on their payments?

Bank results will also color what investors expect from the Fed going forward. As I mentioned, investors were surprised at the Fed's decision to raise short-term interest rates by 0.75%. The last time the Fed made such a dramatic move was in November of 1994, nearly three decades ago. In addition, prior to its meeting on June 15th, the Fed had signaled it was likely to increase rates by 0.50%, only to change its mind days before its decision. Driving that surprise was higher-than-expected inflation results.



Since the Fed's decision to raise rates, investors and economists have debated whether the economy is showing signs of slowing and, if so, whether some of the Fed's work to curb inflation may have been realized. To the left is a graph of the five-year expected rate of inflation five years out. The graph prices the premium bond investors demand for inflation. As you can see, bond investors' expectations of inflation have been falling, with the most recent reading at 2.1%. Recall, the Fed's target for inflation is 2.0%. This suggests that much of the Fed's heavy lifting may indeed have taken place. Certainly, we will have a better picture of the economy and prospects for the market in the coming weeks as second quarter results are released. Stay tuned.

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 my podcasts, 'Conversations with Ken,' 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)

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