Argent Capital Management LLC

Market Overview – July 2022

July was a strong month for stocks, in fact it was surprisingly strong. The S&P 500® Index rose over 9% in the month. Coming into July there were many investment pundits who said the market was oversold and was due for a bounce. Many of those pundits said the same thing coming into June and coming into May and …. So, what changed in July?

Part of the explanation for the better performance in the month was due to better-than-expected earnings for some stocks, including those that have large weights in the S&P 500 Index. Companies like Apple, Amazon and Mastercard all posted positive results. Along with those better results came a nice lift in their share prices, with Apple rising nearly 19%, Amazon up 27% and Mastercard up over 12% for the month - not too shabby.

Another reason given for the lift in the market in July was the belief by some investors that inflation was ebbing, allowing the Federal Reserve to ease off the brakes, meaning that interest rates could rise at a more gradual pace than had been expected. Supporting this belief was lower-than-expected results posted by many companies, especially those in retail, as well as the recent pull-back in commodity prices. The biggest poster child for the drop in commodity prices was crude oil, which fell by 11.5% in July. To the degree that 70% of our economy is driven by the consumer, worse results in retail implies that consumers are buying less, thus slowing the economy. Additionally, lower gasoline prices, a function of lower oil prices, implies some of the inflationary pressure we have been seeing may be easing.

President Harry Truman famously said, “Give me a one-handed economist. All my economists say, 'on the one hand...', then 'but on the other...” On the other hand the hopes for lower inflation came with a better-than-expected jobs report. The jobs report showed that employment, rather than declining, had in fact improved and that the unemployment rate in the United States had fallen to a very low 3.5%. To the degree the Federal Reserve would like the economy to slow, or at least show signs of slowing, the data pointed in the other direction and was contrary to the hope of investors that the Fed may back off on its push for higher interest rates.

So, investors and pundits are debating whether the market strength in July was a head fake, or whether some of the changes in consumer behavior and the decline in commodity prices may signal that inflation indeed is on the decline. Either way, we at Argent Capital will continue to look for companies realizing positive change, whose better long-term prospects are not fully captured in the stocks’ valuation.

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,

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