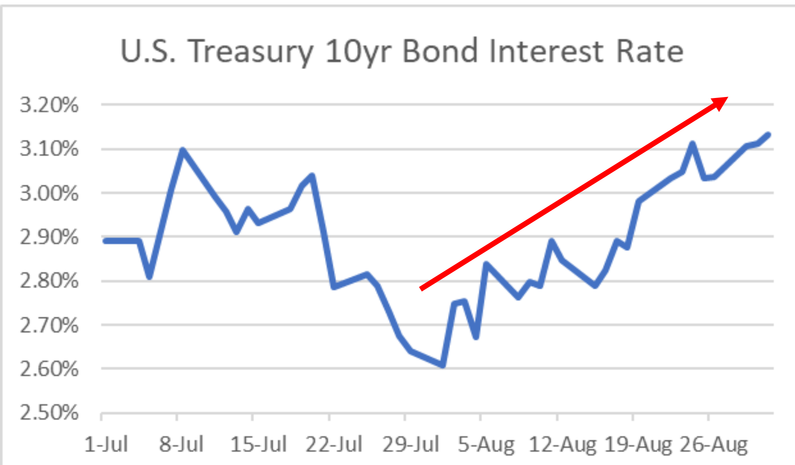
Argent Capital Management LLC

Market Overview – August 2022

The Lord giveth, the Market taketh away.

July saw a nice pop in the stock market after a difficult first half of the year. August came and there went the pop. Driving the market downward was the belief that the potential for a reprieve in higher interest rates would not come about. That fear was buttressed when the Chairman of the Federal Reserve, Jerome Powell, reiterated that the Fed remained focused on driving the inflation rate down. The Fed's largest tool at its disposal is its ability to adjust interest rates. After Chairman Powell's short speech on August 26th, the market reacted, and interest rates continued to rise.

The chart below shows the interest rate on the 10 Year Treasury bond. As you can see, the decline in interest rates in July was reversed, as rates rose throughout the month of August as indicated by the chart below.



Higher interest rates tend to slow the economy by increasing the cost to borrow funds, meaning the cost to take out a loan is higher. For a business, higher interest rates could mean the difference between going ahead with a project or shelving it. For the consumer, higher interest rates, especially for the 10 Year Treasury bond, could mean buying a house, or being unable to afford the mortgage payments, because it is off the 10 Year Treasury bond that mortgage interest rates are set.

The effects of those decisions - not to go ahead with a project, not to buy a new house - spill over into the larger economy. Employment slows, demand for materials slows, and shipping slows. With such a potential decline in demand brought about by higher interest rates, the Federal Reserve is hopeful that inflationary pressures will diminish.

The Fed is in a difficult position, however, in part because the employment picture in the United States is so strong. Today, the unemployment rate sits at 3.7%. While that is slightly above its recent low of 3.5%, it is well below the 70+ years of an average of 5.8%. Tight labor markets, as we are experiencing today, tend to drive wages up. Higher wages tend to drive inflation up, as consumers with fatter wallets demand more goods and services.

To date, the Fed's upward push on interest rates has yet to dent the strong labor market. Perhaps perversely, of late positive economic data generally has been met by a decline in the stock market, as investors fear that good news for the economy means the Fed will have to be that much more draconian in its interest rate policy. How this all shakes out remains to be seen, but as the markets shift from optimism to pessimism, sometimes on a monthly basis, we at Argent Capital will continue to look for differentiated companies experiencing positive change to add to our client's portfolios.

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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