Argent Capital Management LLC

RE: INVESTMENT COMMENTARY FOR PERIOD ENDING JUNE 30, 2022

FROM: ARGENT CAPITAL MANAGEMENT

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"Confidence is contagious. So is lack of confidence."
- Vince Lombardi

The third quarter of 2022, which started promisingly, ended in *ugly* fashion with almost all global stock indices at their lows for the year. Downward momentum was ignited in mid-August when Chairman Powell of the Fed made it abundantly clear that the FOMC would be *very* aggressive when increasing interest rates. Powell stated that the current goal of the Fed is to slow economic growth quickly to bring inflation in-check and acknowledged there would be "pain" along the way. Pain in terms of lower corporate earnings, in higher unemployment in the U.S., and in lower Gross Domestic Product (GDP) growth.

It is hard to believe it was just one year ago that the Fed was optimistically projecting that inflation would be *transitory* and a soft landing for the economy would ensue. That projection proved to be well-off the mark. As a result, investors seem to have lost confidence in the Fed's ability to engineer an economic slowdown that doesn't include a recession. That loss of confidence, as Vince Lombardi so aptly noted, has proven contagious.

"Would you please elaborate on 'then something bad happened'?"

It is, indeed, an unstable investment landscape, and making an accurate short-term forecast as to what will transpire over the winter is a losing proposition. No one knows. We are reminded of a comment from legendary economist, John Kenneth Galbraith, "There are two kinds of forecasters – those that don't know, and those that don't know they don't know."

As we enter the fourth quarter, the list of concerns for stock market investors is a long one. They know the Fed currently plans *at least* two more interest rate increases this year, and perhaps more as we enter 2023. They know that once inflation escapes, as it has, it is difficult to corral. They know that most corporate earnings estimates have not been reduced significantly to-date, but that earnings estimates will come down. They know Russia's invasion of Ukraine has created a quagmire which may last a very long time, impacting trade routes, supply chains and creating a human tragedy of immense scale. Finally, they know mortgage rates have doubled, seemingly overnight, and that oil and gas supplies and pricing will likely fluctuate considerably over the winter.

"My summer vacation: How I made money in a bear market."

On the other hand, the list of positives for stocks is also surprisingly long. When stocks decline in price, for instance, they get *more* attractive for investment, not less. Who doesn't like buying things on sale? Earnings growth rates are coming down, but the consumer is still quite strong in the U.S., and most businesses are doing well. Banks are exceptionally healthy and loan demand is reasonable with problem loans virtually non-existent. Supply chain issues seem to be moderating and according to the Department of Labor, there are two job openings for every worker seeking a job. Rents are moderating, used car prices are declining and almost all commodity prices have come down, some significantly. Hardly typical of a recessionary environment.

It is precisely at times like these that many investors begin to question their risk tolerance and re-appraise how much they wish to have invested in stocks. They begin to doubt if a recovery can ever occur, and sometimes decide *this time is different*. Well, the odds are overwhelming that this time is no different. Instead, years such as 2022 are part of the normal cycle for investments. Good times, followed by even better times, followed by bad times; then good times, followed by even better times, followed by bad times . . . Two steps forward, one step back.

Given all this, the question at the end of the day is at what levels will the stock market settle to be appropriately priced for a recessionary environment? In other words, when will investors have confidence that prices have declined to such a level that it is attractive to invest for the inevitable recovery? No one can answer that with any certainty, but it seems we are close. In closing, we mention a truism followed by most successful investors. Risk is not buying into the next 25 percent decline. Risk is being out of the market for the next 100 percent advance, which, although it cannot be timed, will happen.