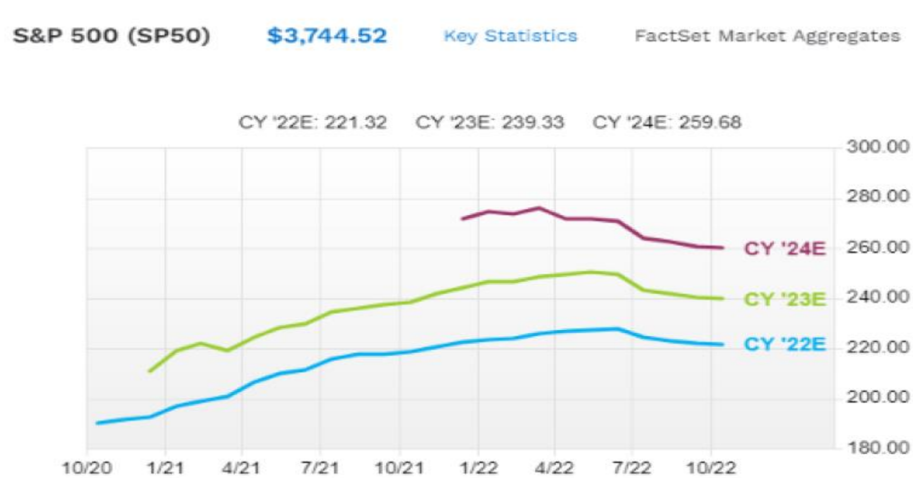
Argent Capital Management LLC

September was another 'risk off' month for the market, with the S&P500® Index falling close to 10%. The negative directional trend of the market was a continuation of the pull-back seen in August, as investors began to rethink their hopes that the Federal Reserve may stop or even slow its upward push on interest rates in order to combat inflation.

The market has become an example of "Opposite Day," where good news drives stocks down and bad news is greeted with investor enthusiasm. While this seems counterintuitive on the surface, investors are looking for an end game for rate increases by the Fed. That may come if and when the economy shows enough slowing that the Fed believes inflation is under control. The impact from rising interest rates is readily apparent when looking at the valuation of the market. The chart to the left shows price earnings ratio (P/E) of the market, or what investors are willing to pay for a dollar of earnings twelve months into the future.

The valuation of the market has fallen considerably this year, well below the highs of 22x or greater seen in 2020-2021. Today, the market trades at a P/E multiple of just under 16x forward earnings. The 15-year average for the market is 15.7x, so we are close to 'normal' on a valuation basis. Valuation, however, is only one part of the story for the market. The other input is earnings. As seen in the chart below, since 4/22 earnings estimates for 2022, 2023 and 2024 made by investment analysts have been drifting modestly lower. Thus, volatility will likely continue until the earnings picture stabilizes.



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 podcast, 'Conversations with Ken,' we hope you will share them with friends. For information on our five 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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