Argent Capital Management LLC

*Market Overview – December 2022*

In 2022, the S&P500® Index posted its worst performance since 2008. That's a pretty long time ago. We have talked about the issues that pressured the market, but it is important to keep them in mind to see if they remain headwinds coming into 2023.

The first headwind was the supply chain, or moving goods across the globe to manufacture products. The supply chain became strained during the height of the pandemic, as workplaces were shuttered, yet government stimulus encouraged consumption. In China we saw whole cities with millions of people shut down as the Chinese government tried to cope with COVID. We saw ports on the west coast of the U.S. nearly nonfunctional, as shipping containers were stacked higher and higher at the dock while cargo ships moored offshore, waiting their turn to unload goods.

A second headwind was the war in Ukraine. Not only did Russia's unprovoked aggression shock the world, it also put the energy complex across the globe in peril. Over the years, European economies have become reliant on Russian energy exports, especially natural gas. Vladimir Putin weaponized that supply as he pressured European governments not to support Ukraine.

Finally, a headwind that swept across the globe was inflation. With very stimulative fiscal and monetary policies designed to pull the world economies out of the COVID-driven recession, that flood of money sparked a level of inflation not seen in over forty years. Arguably late in reacting, the U.S. Federal Reserve ratcheted up interest rates, from essentially 0% at the beginning of the year up to 4.5% by year-end, one of the steepest increases in short-term interest rates in U.S. history.

What does it all mean as we lean into 2023? The good news is that a few of the pressures may be diminishing. China is embracing a new COVID strategy that some believe will open the country. That should improve the worldwide supply chain headwinds. Warmer than normal weather is reducing the need in Europe for Russian natural gas imports, putting less pressure on global energy costs.

The sticky wicket may be inflation and what the Fed's policies portend for the market in 2023. Today the Fed Funds rate, the interest rate that the Federal Reserve controls for short-term borrowing, is running in a band between 4.25% and 4.5%. Contrast that with today's 3.7% interest rate on the 10-yr Treasury bond. In investor parlance, that is an inverted yield curve, where short-term interest rates are higher than long-term interest rates. That is unusual because bond investors generally demand a higher return, in other words, a higher interest rate when they accept a longer maturity for their investment. Historically, an inverted yield curve that is sustained for a period of time has led to recessions, as borrowing costs for banks rise and lending dries up. So that's the $64,000 question the market is wrestling with as we enter 2023 – will the U.S. economy fall into recession, as the yield curve suggests, or will the Fed be able to engineer a soft landing? Stay tuned as the year unfolds.

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 U.S. equity strategies – Large Cap, Dividend Select, Mid Cap, Focused Small Cap and SMID Cap, please contact clientservices@argentcapital.com.

Sincerely,

**Ken Crawford, Portfolio Manager (kcrawford@argentcapital.com)**

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