Argent Capital Management LLC

Market Overview – May 2023

What is A.I. and how does it work? Those are questions that have quickly entered the cultural arena. Artificial Intelligence or "A.I." is defined by Investopedia as, "the simulation of human intelligence in machines that are programmed to think and act like humans." The first real mathematical work recognized as artificial intelligence goes as far back as the mid-1940's. More recently, A.I. has come roaring to the forefront of the investment world. It started with the introduction of "Chat GPT," a machine learning tool that allows a computer program to understand and interpret human language.

Investment in artificial intelligence has ramped up at breakneck speed and those companies that provide the products and services needed for the development of AI were rewarded handsomely in May, leading to a concentrated group of winning stocks. Those winners included many of the largest technology stocks, pushing the tech-heavy Nasdaq to a year-to-date high.

As for the rest of the market, investors seemed to be more concerned with the ill effects of stubborn inflation, fears of recession and the turbulence surrounding the debt ceiling. Consumer discretionary stocks were pressured as consumers pulled back on spending and travel. Banks were acting in a similarly conservative vein, reluctant to lend. Higher lending costs slowed business owners' appetite to borrow. Finally, energy companies were hit by lower oil and natural gas prices. For the month, the divergence between the have and the have-nots, between technology stocks and the rest of the market, was pronounced.

In periods like these, where the market faces increased uncertainty, investors often seek the relative safety of stocks whose current and forward prospects appear more stable. At present, big tech is acting as such a haven. Secular trends for increased data processing and storage are ongoing. Artificial intelligence represents an additional catalyst. The outcome of this bolstered confidence was clear in May's stock results.

But there are reasons to hope for the rest of the market. Debt ceiling negotiations were making progress by the end of the month and a deal was eventually struck. The rate of inflation, although above the Federal Reserve's 2% goal, continues to decline. Because of that, the Fed likely is done with its heavy lifting with regard to higher interest rates. Meanwhile, those laggard stocks are sporting more compelling valuations. Looking out to the second half of 2023, there are clear areas for optimism, but also potential sources to drive a broader market upward. As always, we will be on the lookout for companies with better-than-average prospects and a sustainable business model.

As a reminder, we are 100% employee-owned, and we thank you for your business and your interest. If you like our market letters, our frequent podcast, 'Conversations with Ken,' and my videos, we hope you will share them with friends. In addition, whether you're ready to invest hundreds of dollars or millions of dollars, our time-tested Mid Cap strategy has a variety of vehicles that provide convenient ways to invest. For more information on Mid Cap and our other four U.S equity strategies – Large Cap, Dividend Select, Focused Small Cap and SMID Cap, please contact clientservices@argentcapital.com.

Sincerely,

Ward Brown

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