Argent Capital Management LLC

Market Overview – June 2023

As we close the first half of 2023, the S&P 500 is not looking too shabby, up 17%. That is quite a turnaround from last year, when the index fell nearly 20%. Part of the rise this year has been chalked up to last year's bleak performance, so a basic market recovery or bounce off the bottom. What has been more of a surprise is the leadership and concentration of performance year-to-date. Recall last year, the pullback in the market was led by tech stocks, where investors thought higher interest rates would crimp the valuations of some of the more growthy and expensive stocks in the market. Growthy and expensive typify many tech stocks, as investors are willing to pay for earnings in the future, sometimes in the distant future, with the expectation that those earnings will show robust growth.

As we have mentioned before, the market is a discounting mechanism. When interest rates rise, as they did at a very fast pace over the course of 2022, the valuation of a given stock falls, because that stock's future earnings are being discounted at a higher rate. That discounting feature hits growthy stocks especially hard, as the earnings for those companies are expected to be realized further into the future compared to the average stock.

Coming into 2023, consensus expectations were for a rather ho-hum first half, as the Federal Reserve continued its battle against inflation, using higher interest rates as its preferred tool to try to slow the economy. The second half of 2023, per consensus, was supposed to be brighter, with the Fed expected to slow or even reverse its interest rate hiking, as inflation became more contained. Fast forward to today, the expectation that the Fed would reverse its upward push on interest rates in the second half of the year has largely been dismissed. On the contrary, the Fed is signaling that it may raise rates by another half of one percent before year-end. As far as ho-hum returns for the market, as I mentioned, a return of 17% is hardly ho-hum.

So why the strength in the market in the face of continued higher interest rates, and from whence is that strength coming? For the most part, the answer is AI - artificial intelligence. The embrace and buzz around AI has swept across the globe and swept across the stock market. Companies whose exposure is at best tangential trumpet their AI initiatives. The true benefit, however, has gone to tech companies, as you would expect. With that benefit has come a very concentrated list of winners this year, so much so that a new moniker for their leadership in the market has been coined - The Seven Sisters. These companies: Amazon, Alphabet (aka Google), Apple, Meta, Microsoft, NVIDIA and Tesla are driving the S&P 500, with year-to-date returns ranging from a low of 36% for Alphabet to a high of 190% for NVIDIA. The Seven Sisters collectively represent over 70% of the return for the entire S&P 500.

Whether this concentrated performance will continue, or more hopefully, the breadth of the market will expand to include the remaining 493 companies in the S&P 500 remains to be seen over the course of the last six months of the year. While it is still in its very early stages, the interest in AI is strong and we at Argent are looking at companies that may benefit from the spend in AI and the potential long-term changes AI could bring to the investing landscape as a whole.

As a reminder, we are 100% employee-owned, and we thank you for your business and your interest. If you like our market letters, videos by Ward Brown and my podcast, 'Conversations with Ken,' 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,

Ken Crawford

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