Argent

RE: **INVESTMENT COMMENTARY FOR PERIOD ENDING SEPTEMBER 30, 2023**

FROM: **ARGENT CAPITAL MANAGEMENT**

"The Fed is navigating by the stars under cloudy skies."
- Fed Chairman Jerome Powell

Every year the Kansas City Fed invites all Fed Governors and senior personnel to Jackson Hole, Wyoming, for an economic confab. The highlight of the meeting is when the Fed Chairman lays out current thoughts about a wide variety of factors impacting Fed policy. This year's event was closely followed given that the U.S. economy is showing surprising strength despite the Fed having raised interest rates a dozen times since March, 2022. Historically, large scale interest rate increases initiated by the Fed would be expected to tame inflation by sharply reducing corporate profits, driving unemployment higher and creating at least a few quarters of negative GDP (Gross Domestic Product) growth. That scenario has not really played out.

Let's take a look at a scorecard of some of what the Fed is watching:

- Recession
  Might still be coming in the first or second quarter of 2024 as Fed monetary policy changes take a long time to have full impact. However, so far the economy has proven more resilient than the consensus expected.
- Fed Tightening
  Seems close to being done, with perhaps a maximum of one or two more quarter point interest rate increases on the horizon. Whether or not the Fed increases interest rates again, the Fed seems likely to keep the Fed Funds rate higher-for-longer than consensus expected.

Everything is horrible –worse than we ever imagined – and there's not a damn thing we can do about any of it. But whatever happens, we can't give in to despair."

- Inflation
  There is a ways to go, but inflation is moderating, and currently hovers around three percent. Higher energy costs are the latest inflationary headwind, helping keep inflation elevated.
- Corporate Earnings
  Down a bit from last year, but better than expected a year ago. A 2024 earnings recovery is being predicted by many.
- U.S. Dollar
  Surprisingly strong, particularly in recent weeks. The dollar's strength against other major currencies is a challenge for corporations with significant overseas business.
- Banking
  After the drama of the Silicon Valley Bank failure in the first quarter, the banking sector seems to have stabilized.

- Consumer Spending

  Here there are some negatives, as many will need to restart student loan debt repayments in the fourth quarter. In addition, credit card balances are growing according to recent reports, at the same time consumer savings are shrinking. Nonetheless, wage increases have been impressive and there are still a lot of jobs available.

"You lose your phone again, Rusty?"

Given all this, what has worked best year-to-date? Charles Darwin once said, "It is not the strongest of the species that survive, nor the most intelligent, but the ones most responsive to change." In 2023, investors seem to believe that the ones most responsive to change have one thing in common – AI, aka "artificial intelligence". The embrace and buzz around AI has swept across the globe and across the stock market. Even companies whose exposure is, at best, tangential happily trumpet their AI initiatives, frequently to the benefit of their stock price. The reality is that without the benefit of the stock price performance of companies involved with AI the overall stock market would be generally flat for the year.

Those who follow our Commentaries know that we did not predict a strong second half for stock performance in 2023 (although we would be pleased to be wrong). In fact, we stated in our July Commentary that we would be happy simply holding first half gains for the balance of the year. Our opinion on that has not changed. The Fed is trying to correct a problem (albeit largely of their own making) of too much inflation by slowing the economy, and the process of raising interest rates to tame things is extremely difficult. Basically, the Fed is in the challenging position of attempting not to do "too much", but also not do "too little".

There is a great documentary on Amazon about St. Louis native and baseball Hall of Famer, Yogi Berra. Yogi famously said, "If you don't know where you are going, you will end up someplace else". Like many of Yogi's malapropisms, this actually makes some sense. With equities, we are always long-term investors, not speculators - we know where we are going. Since we are sure of where we will end up, we see nothing in the current situation that would cause us to deviate from our stock market strategy of remaining fully invested in stable, profitable, financially sound companies; what we call ***enduring businesses***. That focus on enduring businesses has worked very well in recent years, and all our portfolio strategies – Large Cap, Mid-Cap, and Small Cap – have posted performance results of which we are very proud. We may continue to have more of somewhat cloudy skies for the U.S. economy, but we have no doubt we can navigate over the winter well-positioned for further long-term gains.