Argent Capital Management LLC

Market Overview – February 2024

The leap month provided another leap for the market. The S&P 500 index returned more than five percent in February, continuing the gains posted in January and the very strong 2023. During this rise in the market, considerable focus has been spent on the “Magnificent 7”, those small handful of stocks that pushed the market upwards last year. To put a number on it, while the S&P 500 had a very respectable increase of 25% last year, the Magnificent 7 gained over 110%.

That concentrated performance continued in February. As mentioned, the market as a whole rose over 5%. The Magnificent 7 gained over 10%. Propelling those stocks upward has been the buzz and enthusiasm for Artificial Intelligence (AI). We are in the very early innings of AI. While there is speculation about what AI eventually will become and how it will change our lives, for now it is just that – speculation. With that speculation, however, has come real investment - billions of dollars of investment. Unlike the dot.com bubble, which gave us noteworthy companies like Pets.com and eToys, companies that eventually went bankrupt, the leaders today are established businesses, generating billions of dollars of cash flow each quarter to invest in their AI projects.

While the Magnificent 7 are closely associated with AI, the bloc is not a monolith. Leading the pack is Nvidia, with its market-leading GPU (graphics processor unit), the semiconductor engine behind Artificial Intelligence. Meta is next in performance, where investors are betting that the company will use AI to enhance the experience of Facebook, WhatsApp and Instagram. Amazon follows, with its cloud computing platform Amazon Web Services (AWS), the information highway for AI.

Other companies, however, are less tied to the fortunes of AI, at least of the moment. At the bottom of the Magnificent 7 list is Tesla, famous for its electric cars, but with little connection to AI. Tesla has fallen nearly 25% since the beginning of this year. Next is Apple, a truly great tech company, but whose fortunes today are more closely tied to the sale of its iPhones than with AI. Finally, there is Alphabet, aka Google, whose generative AI product Gemini has not caught fire like ChatGPT.

At Argent, we are heavily invested in companies which benefit from an AI perspective, although many have lower profiles than the Magnificent Seven. We do not currently own Nvidia, for example, yet our performance, both absolutely and relatively, remains strong.

So, as an investor, what should you do? Do you close your eyes and buy all the companies that make up the Magnificent 7, regardless of their exposure to AI? Do you sell Alphabet because it is perceived as being behind in generative artificial intelligence today? Do you avoid the group entirely, because you worry that the valuations of the constituent companies have more hype in them than heft?

These are the questions we ask ourselves at Argent Capital Management every day. We look at the current trends driving the market, to be sure, but also examine individual companies to gain insight into their unique fundamentals and prospects for the future. We do this all with a long-term investing lens, fully realizing that the world can change, but also that humans, who can move stock prices in the short-term, sometime act with emotions, instead of intelligence. Our process, which has evolved over twenty-five years, has served us well. We will continue to evolve our process of the next 25 years, with the expected rise of artificial intelligence.

Argent Capital is 100% employee-owned and we thank you for your business and your interest. In addition, if you like our market letters and videos by Ward Brown, we hope you will share them with friends. For information on our five successful 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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