

RE: INVESTMENT COMMENTARY FOR PERIOD ENDING MARCH 31, 2024

FROM: ARGENT CAPITAL MANAGEMENT

***“People who think they know everything are
a great annoyance to those of us who do.”
Isaac Asimov***

The bull kept running in the first quarter despite any number of reasons to take a rest. It has been a fun ride, as large U.S. company stocks, represented by the S&P 500 Index, posted 10 percent back-to-back quarterly gains for just the eighth time since 1950, and it was the best first quarter for stocks in five years. Argent Strategies also had a very good first quarter, and it is nice to begin the year with impressive gains.

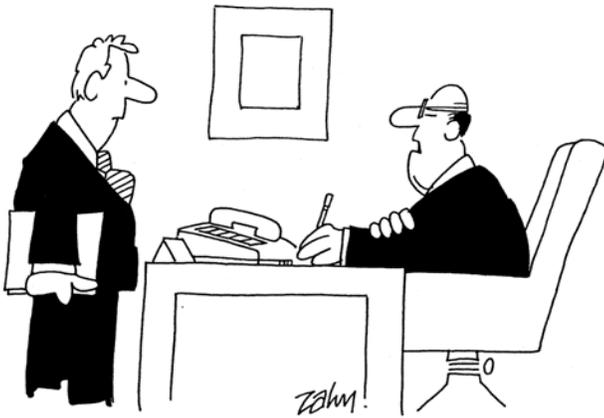
Despite these results, much has been written by people very sure in their belief that stocks should go down:

- The economy is doing better than expected, so interest rate cuts by the Fed are unlikely, and stocks will, therefore, fall.
- Stock market valuations are high and should, therefore, decline.
- Commercial real estate is a ticking time-bomb for U.S. banks, and banks provide the ballast to support favorable economic growth.
- The yield curve remains inverted, so a recession is overdue.
- The political situation is at an inflection point, and no option looks favorable.



“To think this all began with letting autocomplete finish our sentences.”

Of course, the big problem with these arguments is that they have been true for well over a year, and stocks have nonetheless made consistent gains. Leonardo da Vinci wrote, "Simplicity is the ultimate sophistication." To us, that is what the nay-sayers have overlooked. The simple rationale for the market going up is that innovation and entrepreneurship in this country have surged and are leading the world, most recently reflected in advancements in Artificial Intelligence (AI). It has led to exceptionally low unemployment, dramatic wage gains at all levels, strong corporate earnings, a relatively robust housing market despite higher interest rates, and significant worker productivity gains.



"When I asked for your honest opinion, Perkins, I didn't think you'd be dumb enough to give it to me!"

While trees do not grow to the sky, the long-term outlook for stock market investors is still quite favorable. Supporting that view, Chairman Powell of the Federal Reserve says recent data has not materially changed the big economic picture, and we agree. This suggests that the Fed's *base case* remains for three interest rate cuts this year, possibly starting in June. If so, that would likely be welcome news for investors, as lower rates imply healthier banks, easier access to credit and potentially higher corporate earnings.

There were some interesting side stories in the first quarter. For example, one might assume that NVIDIA or another technology stock was the big winner in the first quarter. Not so. According

to Dow Jones Market Data, the commodity Cocoa was up over 140 percent, and is up 250 percent over the past year. We assume that is *bittersweet* news for Nestle! (Sorry for the pun, and we hope it didn't cause any *Snickers*.) As noted by J.P. Morgan in one of their reports, the *Three Musketeers* for the rally have been aging trees, bad weather and crop failures in West Africa, where seventy-five of the world's supply is grown.

On a more serious note, when markets have strong runs, it is reasonable to expect some downside in coming quarters, as markets have a way of balancing out. Indeed, Argent analysts believe stock market valuations are in a position where one can make a good case for either positive *or* negative results for the rest of 2024. Candidly, we would be pleased with flat markets for a few quarters, allowing corporate earnings the opportunity to grow and bringing the overall market valuation nearer historical norms. Unfortunately, five percent stock market declines tend to occur about three times a year, and ten percent declines occur at least once a year on average. We reluctantly admit that we cannot predict when stocks will correct, but our guess is this year will be the same as others and that a few such dips are on the horizon. Nonetheless, investing in quality stocks which we, at Argent, believe have enduring value, remains potentially the best long-term investment strategy no matter the short-term headwinds. Of that, we are certain.