Argent Capital Management LLC

Market Overview – August 2024

Late summer and early fall often bring turbulence to the stock market for a variety of reasons. Notably, vacations and back-to-school activities reduce trading volumes. With fewer investors actively trading, unexpected events can lead to exaggerated market responses. True to form, although August 2024 finished slightly positive, it was not without its ups and downs.

Early in the month, investor anxiety grew about a potential U.S. recession, triggered by weak employment data and disappointing earnings from several major companies. The S&P 500 dropped more than 6% in the first week, while the more tech-heavy Nasdaq Composite fell nearly 8%. Meanwhile, in Japan, the NIKKEI 225 plunged 19.6% in just three days after the Bank of Japan raised its policy interest rate to address rising inflation.

This rate hike led to a rapid unwinding of the substantial U.S. Dollar/Japanese Yen “carry-trade” positions and sparked a broader “risk-off” sentiment in global markets. Explaining the carry trade would consume the rest of this letter, but suffice to say, it involves traders borrowing in yen, given Japanese interest rates are low, then reinvesting them in higher-yielding assets, like Treasuries in the U.S. This unwinding involved untold billions of dollars, and the CBOE Volatility Index (VIX), a measure of investor fear, surged from around 16 to 61—one of the most dramatic spikes in recent history, comparable only to those seen during the depths of COVID-19 and the Great Financial Crisis.

Fortunately, this volatility was incredibly short-lived. Reassuring weekly unemployment figures and a softer-than-expected July inflation report helped restore investor confidence in a matter of days. By the end of August, equity markets had largely recovered their early-month losses, closing just below previous all-time highs.

However, the stock market still faces several challenges as it navigates the historically volatile months of September and October. Election uncertainty, the potential escalation of conflicts in the Middle East, and the number and amount of U.S. interest rate cuts will all play significant roles. (At the August Federal Reserve meeting, Chairman Jerome Powell indicated that rate cuts were “on the table” and has since acknowledged that “the time has come” for such adjustments.)

The Fed has made commendable progress, steering away from the extreme pandemic-era policies and toward a balanced approach to lower inflation, low unemployment, and robust economic growth. Some argue that the Fed may have been too slow to act and is now lagging in supporting the weakening jobs market. Others feel it’s premature to declare victory over inflation, given that the 2% target is still not entirely within reach.

As in all environments, our investment strategy focuses on owning what we term enduring businesses, those that can weather volatility and seize opportunities during market fluctuations. With decent second-quarter earnings, easing monetary policy, and reasons for cautious optimism, there are grounds for a positive outlook despite the current, somewhat stormy seas.

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. 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,

Ward Brown

Ward Brown, Director of Portfolio Engagement (wbrown@argentcapital.com)