Argent Wealth Management, LLC

Investment Outlook
Summer 2020

Second Quarter 2020 Review; Third Quarter 2020 Outlook

Uncertainty, Fear, and Opportunity

The first quarter Newsletter was written at the height of market uncertainty, as measured by the CBOE Volatility Index (VIX). The VIX is commonly understood as a measure of fear. A reading of 80 is historically high; that point was last reached during the Global Financial Crises (GFC) of 2008-2009.

CBOE Volatility Index (VIX)

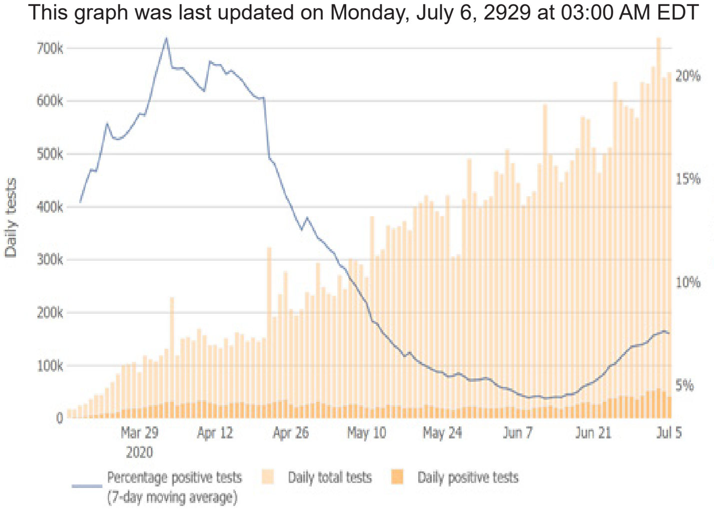
The last paragraph of our previous quarterly Newsletter noted that, to summarize, Argent was using volatility created by uncertainty and fear to add equity exposure to portfolios. It is most anxiety provoking and therefore difficult to add equity exposure when uncertainty and fear is high, especially after a precipitous drop in stock market indices, but history tells us that it is the best time to buy stocks. Since WWII, after a quarter where the S&P 500 was more than 15% down, in 100% of instances six months, one year, and two years later the S&P 500 was up compared to the close at quarter end, with a median return of 23.5% over one year and 43% over two years according to Ned Davis Research.

After falling 19.6% in the first quarter of 2020, the S&P 500 index was up 20.5% in the second quarter and is down 3.1% year-to-date. With such a quick recovery, many investors wonder if market indices have come too far too fast. The answer is not so simple. This year's index returns have varied widely as the last section of this Newsletter details. Expect continued volatility over the summer months as we move towards the election, but opportunities in the stock market remain.

Bulls and Bears

The bear argument is as follows. It looks like re-opening in many states is causing a resurgence of COVID-19. Reopening will need to slow down or even stop, causing more economic damage. The S&P 500 has recovered significantly since the bottom already. Equity valuations for 2020 are not compelling. This is all true. However, Investors who can take a longer-term view will find more merit in the bull argument.

This graph was last updated on Monday, July 6, 2929 at 03:00 AM EDT



Source: https://coronavirus.jhu.edu/testing/individual-states Johns Hopkins

The bull case, detailed below, is supported by the fiscal and monetary response, headway on vaccine development, the VIX level, positive surprises in economic data, valuation of stocks relative to bonds, and earnings expected beyond 2020.

First, the level of monetary and fiscal stimulus enacted is unprecedented. On the monetary side, 90% of major central banks around the world have target interest rates at a record low level, according to Ned Davis Research. Going back to 1990, the previous high was 25%. In the U.S., beyond low interest rates, the Federal Reserve acted more swiftly this year than in the GFC to implement many similar measures to support the economy.

On the fiscal side, Congress has passed close to $3 trillion in stimulus funding, or 13% of GDP. In the GFC, $939 billion in stimulus was enacted, which was 6.5% of GDP. In addition, the stimulus during this COVID-19 crisis included programs that more directly went to businesses and consumers and was enacted more swiftly than in the GFC. Both the monetary and fiscal policy makers have vowed they can do more if needed.

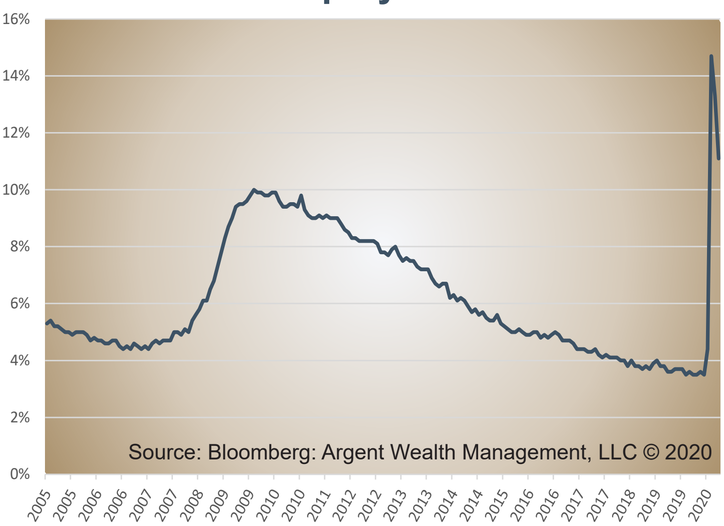
Second, vaccine development continues at a faster pace than most expected. On July 1 Pfizer announced they expect 100 million doses of their vaccine to be available this year if clinical trials continue as they expect, with another 1.2 billion doses available next year. Moderna's CEO is confident they will have efficacy data on their Phase III vaccine trial by Thanksgiving. And already, treatments are improving. A common steroid was found by Oxford scientists to significantly reduce the rate of death in patients who need oxygen and those who are on ventilators. Clinicians are becoming more effective every day at treating the virus.

Third, the VIX, as seen after the first paragraph above, remains elevated and well above historical averages. Therefore, an above average amount of bad news is priced into the market already.

Fourth, economic data continues to point to a faster recovery than expected. The unemployment rate has gone down more precipitously than economists and most market participants expected.

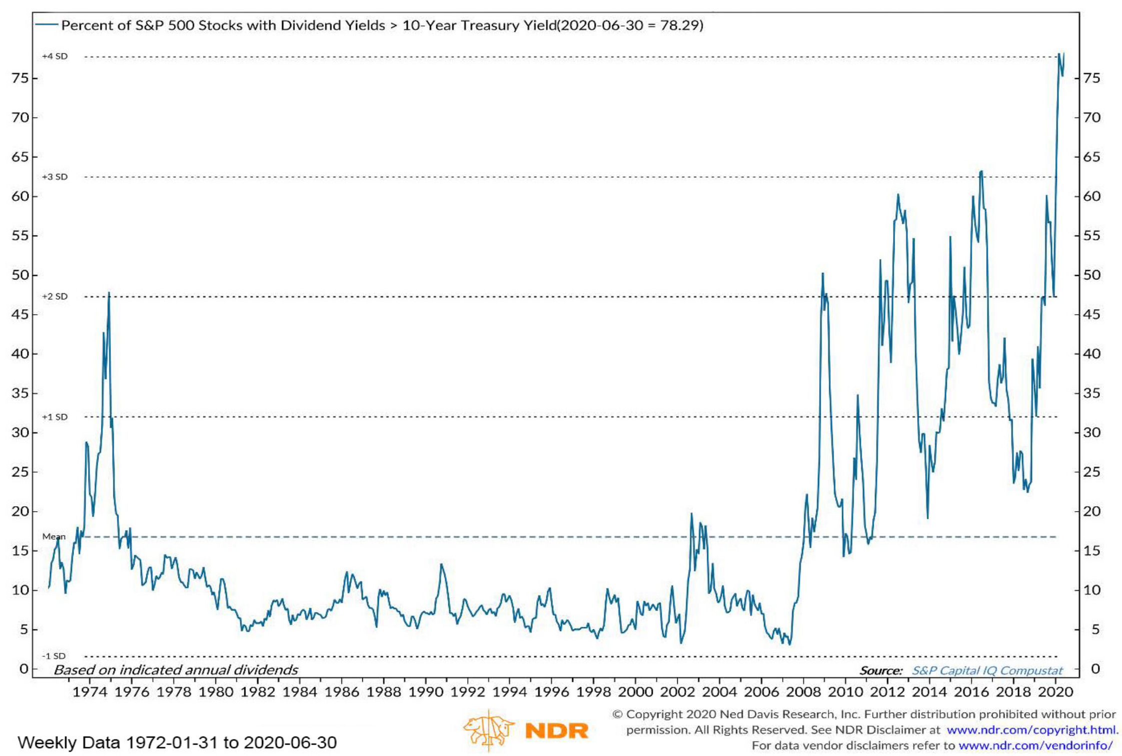
Fifth, the relative valuation of stocks compared to bonds remains favorable. One of the repercussions of monetary stimulus is low global bond yields.

US Unemployment Rate

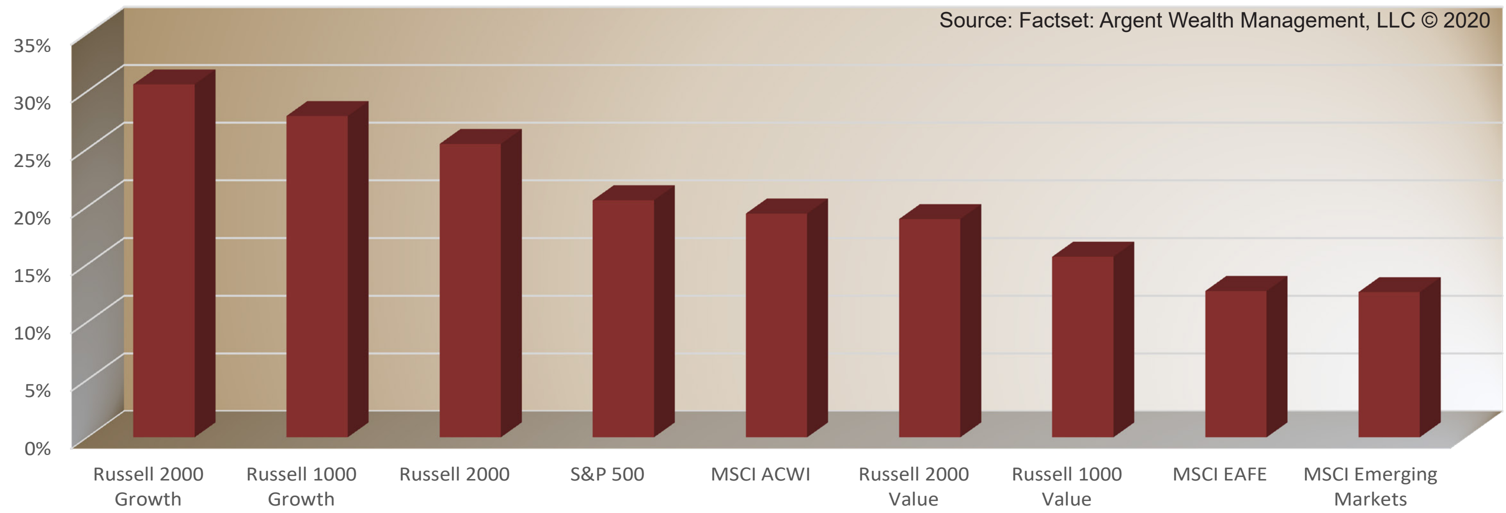


Percent of S&P 500 Stocks with Dividend Yields > 10- Year Treasury Yield

"The relative valuation of stocks compared to bonds remains favorable. One of the repercussions of monetary stimulus is low global bond yields."



Equity Returns QTD



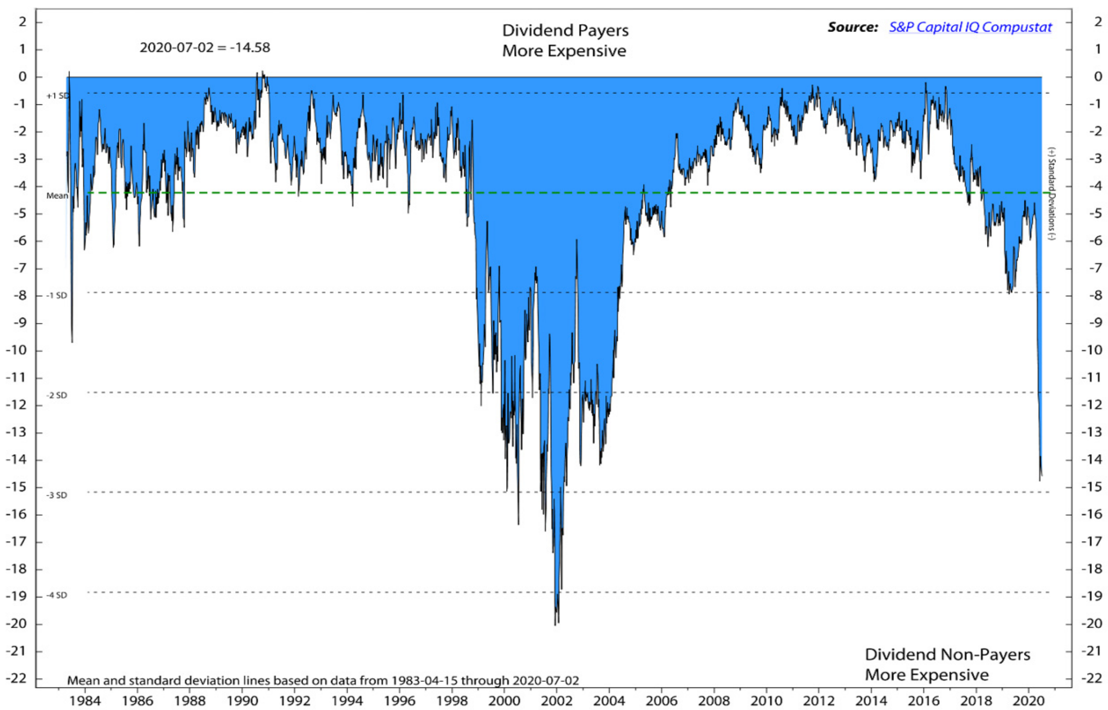
In addition, earnings beyond 2020 are expected to recover. The consensus S&P 500 2020 earnings per share estimate is $93. The consensus S&P 500 2021 earnings per share estimate is $145. Even if they do not recover as much as current estimates suggest, the message is that COVID-19 will eventually be controllable. Valuations for 2021 are reasonable. Although our way of life in many respects may change, economic activity will recover even as certain companies and industries are better off than others post COVID-19.

Be Discerning

Anyone that invests in stocks should expect volatility. The bear case has some merit, and high levels of uncertainty remain, so investors should be discerning, precise, and flexible in how they position their portfolios and always stay within their risk tolerance objective. Other uncertainties beyond COVID-19 exist. There is election uncertainty, tensions with China and other geopolitical uncertainties. The more unexpected a news story is, the more market makers react. Investors should look to volatility as opportunity. Long-term, stocks and economies are resilient.

The investor response to COVID-19 has overextended the strong trend in FANMAG (Facebook, Apple, Netflix, Microsoft, Amazon, and Google) due to their perceived safety in a work from home and physical distancing economy at the behest of other well positioned stocks as we move past COVID-19's epicenter.

S&P 500 Median Forward P/Es of Dividend Payers minus Dividend Non-Payers



Weekly Data 1983-04-15 to 2020-07-02

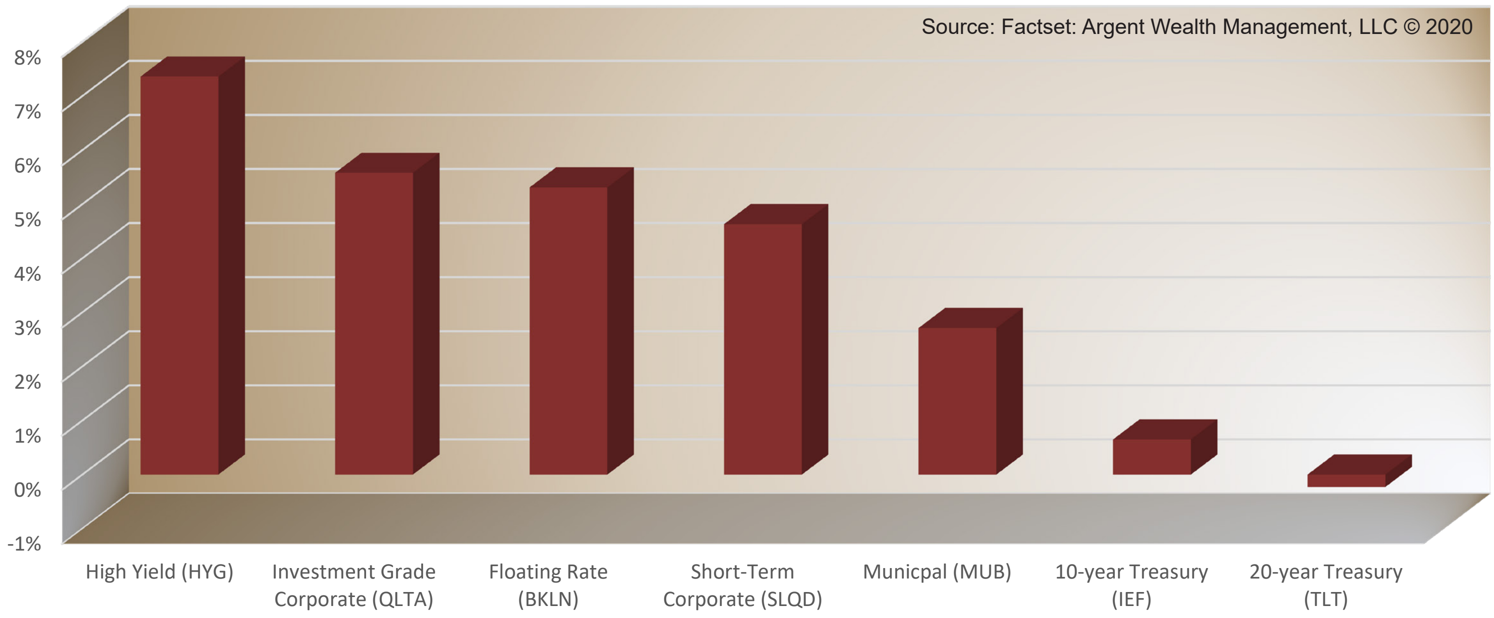
> ***"The bear case has some merit, and high levels of uncertainty remain, so investors should be discerning, precise, and flexible in how they position their portfolios and always stay within their risk tolerance objective."***

FANMAG, if grouped as a market capitalization weighted index, is up 30% annualized from June 2015 through June 2020. According to Ned Davis Research, this five-year return is only 3% less annualized than an average of other major bubbles in the five years preceding their demise including the 1929 Dow Jones Industrial Average, the 1980 Gold Spot Price, the 1989 Nikkei 225 Index, and the 2000 Nasdaq Composite Index.

FANMAG comprise 33% of the Russell 1000 Growth Index, and 21.5% of the S&P 500, according to Morningstar as of 6/11/2020. These stocks do not reside in the Russell 1000 value index or small cap indices. They comprise a smaller percentage or are absent from many dividend growth and high dividend indices. FANMAG comprise 0% of HDV, the iShares High Dividend ETF, which is down 15.2% this year. Dividend payers versus nonpayers are at historically attractive valuations.

Do not expect a bubble-like burst in FANMAG as a group. They operate in mostly oligopolistic markets and, as a group, generate a large amount of free cash flow (operating cash flow minus capital expenditures). However, there are numerous stocks, indices, and managers that investors can invest in with exposure to more attractively valued stocks with long-term tailwinds coming out of the COVID-19 crisis. Stocks that will take market share as other less healthy and less well-run competitors struggle will be a key theme in the next year.

Fixed Income Returns QTD



It is important for investors to be discerning in bond markets as well. In the second quarter, corporate and high yield bonds outperformed government bonds as the fear that the pandemic would lead to an historic number of defaults dissipated. Government bonds remained resilient as central banks around the world have kept interest rates low. For this reason, it is difficult to find compelling opportunities in the bond market. However, investors can find safety in short-term corporate bonds that, depending on the exact maturity and rating, yield twice as much as a ten-year U.S. Government Treasury Bond.

Summary

Predicting short-term market gyrations is difficult to say the least, and often detrimental to long-term goals. Investors should remain focused beyond short-term and think about how to best position their portfolio to achieve their objectives. This crisis will end. Investors should focus on data and avoid emotional decisions. Use volatility and uncertainty to take advantage of other investors' psychological biases and short-term views to buy attractive investments with a view towards the future.

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All of us at Argent thank you for your continued support and confidence. If you know of anyone that might benefit from Argent's services, we would welcome the opportunity to discuss their particular situation with them.