Argent Wealth Management, LLC

Investment Outlook
Fall 2020

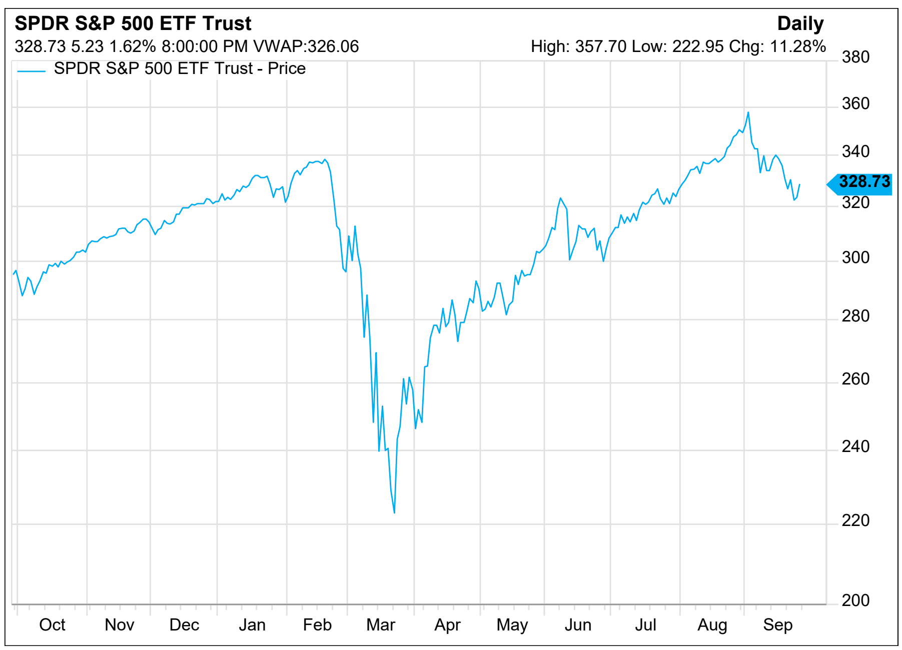
Third Quarter 2020 Review; Fourth Quarter 2020 Outlook

2020: A Year for the History Books! What Else Could Happen?

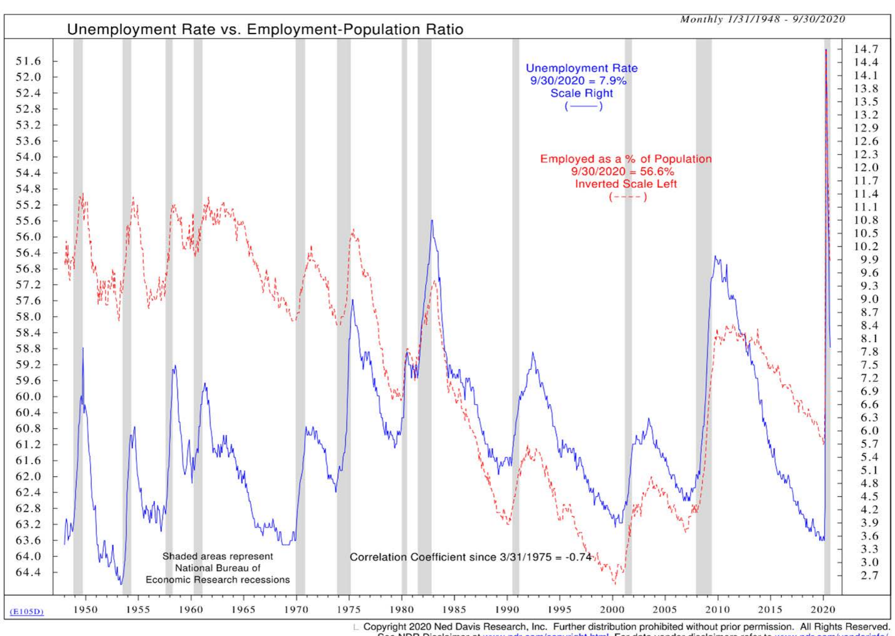
Market Overview

On March 23, 2020, the SPDR S&P 500 ETF closed at 222.95. It was down over 30% from its mid-February high as market indices rightly predicted that physical distancing measures enacted to combat the spread of COVID-19 would cause a recession. It reached a record close of 357.70 on September 2. Remarkably, that is a 60.4% return from trough to peak in just over five months.

Record amounts of fiscal and monetary stimulus started the rally, and economic data continued to support the market climb. For example, the unemployment rate is down to 7.9% from a peak of 14.7%, well below the average of forecasters' predictions.



Source: Factset: Argent Wealth Management, LLC © 2020

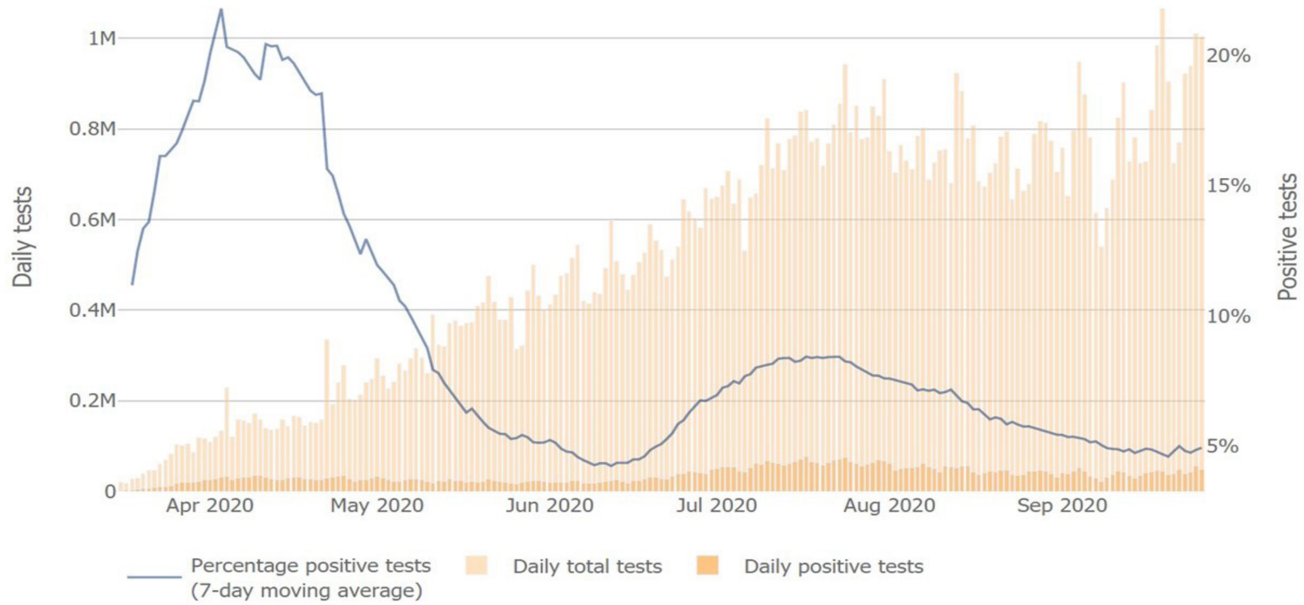


As of September 30, 75% of the world's countries' manufacturing purchasing managers index, a widely respected forward indicator of economic activity, had increased over the previous year. Although COVID-19 spread remains a risk, the positivity rate has declined to healthier levels as of late. The death rate has declined significantly as knowledge of the disease and treatments have improved.

Vaccine trials consistently present more positive than negative news. Earnings revisions continue to be positive, indicating over 40% growth in 2021 from 2020 levels, and high Frequency data indicates we are on our way to more normal economic activity again.

United States

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



High Frequency Data	% Change from Pandemic Trough	% Change from Pre-Pandemic	Four-Week Trend	As Of
Bloomberg Consumer Comfort Index	43.5	-24.0	3.0	9/25/2020
Johnson Redbook Same-Store Sales (Year-to-Year % Change)	11.2	-4.1	4.4	9/18/2020
MBAA Mortgage purchase applications	79.1	16.5	1.0	9/18/2020
Dallas Fed Mobility and Engagement Index (MEI)	61.8	-37.2	-0.8	9/18/2020
Lodging Occupancy Rate	27.6	-9.7	-0.2	9/18/2020
Open-Table Seated Diners (Year-to-Year % Change)	54.0	-47.4	10.7	9/23/2020
Card Transaction Total Spending	33.0	6.0	2.4	9/4/2020

Source: Ned Davis Research. Pre-Pandemic is average of January and February 2020

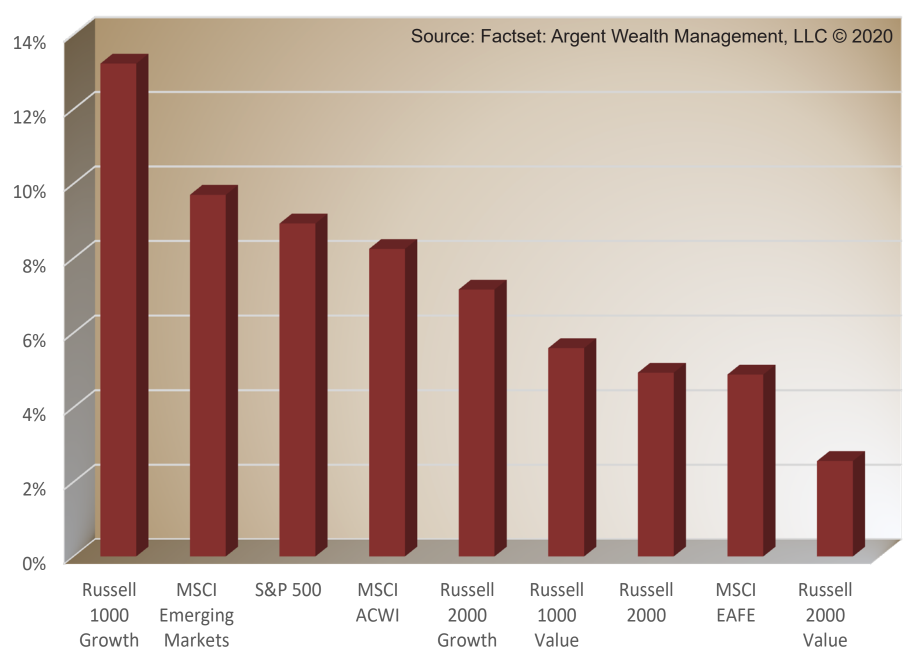
With the 10 year-treasury yielding only ~.7%, many investors are logically choosing to own the S&P 500, which yields ~2%.The Federal Reserve has indicated they expect to keep interest rates at zero until 2023, keeping yields on stocks relatively attractive for the foreseeable future.

Despite the above, market indices have come down off their highs. The S&P 500 index is ~7% (as of September 30) off its peak reached on September 2nd. Uncertainty around the election, fiscal stimulus, virus spread, and a viable vaccine have increased market volatility.

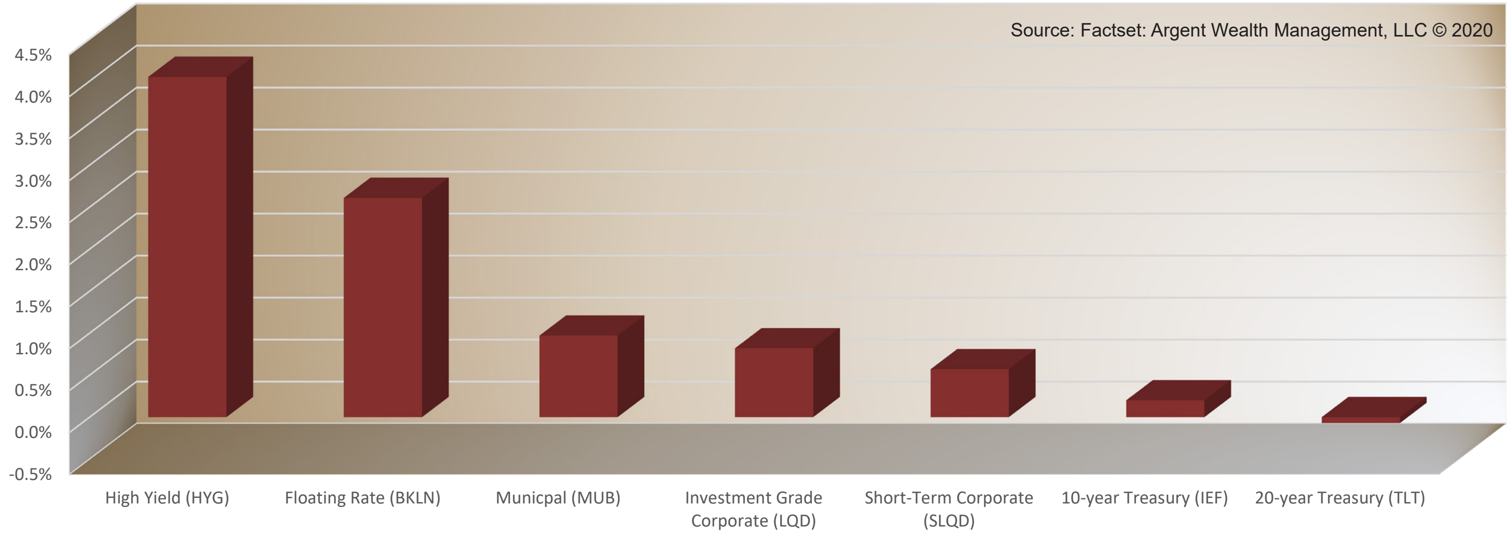
Despite this correction, market indices were positive in the third quarter.

Bond market indices were mostly positive on the quarter, with credit leading the way. Although those markets have also experienced increased volatility as we head towards the presidential election on November 3.

Equity Returns QTD



Fixed Income Returns QTD



The Election and Market Impact

Most polls favor Joe Biden . However, there is skepticism around the polls. Polls in 2016 favored Hillary Clinton. In conducting a state by state and electoral college scenario analysis, it is easy to see how just a few states can tip the election in either direction.

On October 1 President Trump was diagnosed with COVID-19. Other leaders around the world have previously tested positive and recovered including Boris Johnson of the U.K., and Jair Bolsonaro of Brazil. Trump will receive the best treatments available to help his recovery, and so far, it is reported he has a mild case. However, any decline in health status could be a major disruption to markets as it puts a major cloud of uncertainty over the entire election process.

In term of economic policy and stock markets, both democrats and republicans can argue why their candidate would be better, and both parties can make valid, logical points to defend their claims. Historically, the only two years that were negative following a presidential election going back to 1956 were 2000 and 2008, and both marked the start of major recessions. Uncertainty is what market indices react most negatively to. Therefore, a contested election due to the inability of states to properly and efficiently account for the large number of expected mail-in ballots, or, as we have already seen, other disruptions to the normal electoral process, are major risks to markets. While markets may react wildly in and around the election, once the dust settles the trajectory of the economy has more impact on market indices.

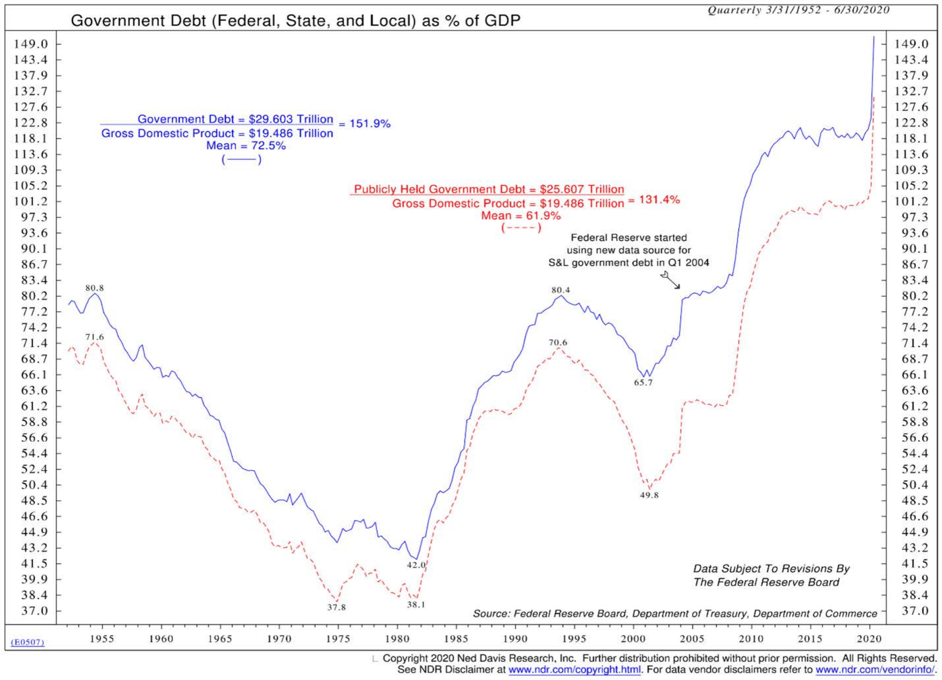
The candidates' platforms can impact the economy and investor sentiment, but with a split senate, with each party well under 60 votes, major partisan legislation is unlikely unless filibuster rules are changed. For example, even if the democrats take the senate, there would likely be some intra-party holdouts to prevent filibuster rule changes, and therefore prevent major tax legislation. Either party could try to include legislative changes in the reconciliation process, as the Republicans did in 2017. It is expected that if Biden wins he would likely include a large fiscal stimulus package as well to accompany any increase in taxes. All of these "what-if" scenarios confirm that uncertainty abounds.

The current and likely makeup of the senate and partisan politics makes it hard for democrats and republicans to agree on additional fiscal stimulus before the election. However, if market indices correct 20% or more from their recent peaks reached over the summer, indicating future economic distress, policy makers will be much more inclined to act. Moreover, Investors and economists have already started to wonder what the long-term impact of fiscal stimulus and record amounts of debt/GDP will be.

Modern Monetary Theory (MMT), Deficits, and Markets

At minimum, MMT makes a strong case that investors have less to fear about the deficit than policy makers and the media would make it seem.

Citizens of the United States, or users of the U.S. dollar, cannot continuously increase the amount of debt they have on their personal balance sheets or they will go bankrupt. MMT posits that this logic does not apply directly to the U.S. government. It is logical that many investors are concerned about the United States' budget deficit, which has increased dramatically due to the government's response to physical distancing measures enacted to fight COVID-19 that caused a major, although short-lived, recession. However, the United States is the issuer of the U.S. dollar, and only issues treasuries denominated in U.S. dollars, giving them full control of this currency. To pay for any spending that policy makers deem necessary, the government simply creates, or issues, more dollars. Users cannot do this. Therefore, it is structurally impossible for the United States to run out of money and go bankrupt.



MMT posits that deficits only become an issue if they lead to unhealthy amounts of inflation. This theory is gaining more traction. Over the last ten years we have seen the Federal Reserve keep interest rates low--close to zero--while the economy grew at an average real rate of only 2.3%, the slowest 10-year expansion in history. Meanwhile, every year, fiscal policy makers debate how much spending is appropriate, and how to balance the budget as if it were a household.

MMT argues that fiscal policy makers need to take more responsibility for full employment and inflation, and, since the U.S. is an issuer of currency it is most important to spend as much as necessary, in conjunction with sound monetary policy, to achieve full employment and healthy inflation. Since the government is focused on trying to balance spending and taxes, constant underspending persists. The Federal Reserve has tried to make up for underspending but has nearly run out of ammunition.

COVID-19 is potentially forcing fiscal policy makers to increase spending closer to the appropriate amount to balance price stability and unemployment and increase GDP growth over the next five years. This is one reason the market is up so much off the bottom and is a major reason why the bull market is likely to continue over the next several years. If unhealthy inflation, say over 3.5% annually, starts to occur, fiscal policy makers can either raise taxes or reduce spending to fight it. Monetary policy makers can also raise interest rates or tighten policy. Interestingly, every long-term bull market started with an increase in the deficit, and many recessions coincided with a decrease in the deficit.

This is a complex topic, so for more information on MMT, and the correlation of debt/GDP and bull markets, please see our blog on this subject at www.argentwm.com/blog-2.

Opportunities and Positioning

Despite strong stock market returns from the bottom in March, many indices are still below levels reached in 2018. This includes the Russell 2000 small cap index, the Russell 1000 value index, the MSCI Emerging Markets Index, and the MSCI EAFE (international developed) index. There are many attractive stocks with significant upside that are still below pre-COVID and/or 2018 levels.

The stocks that have driven the S&P 500 to all-time highs include a concentrated mix of large technology and communication sector stocks, often referred to as FANMAG (Facebook, Apple, Netflix, Amazon, and Google). A market capitalization weighted index of these stocks is up ~85% in the last year, and they now comprise about ~22% of the S&P 500.

Although FANMAG returns are comparable to historical bubbles, investors should not expect a bubble-like correction. As a group, they give investors exposure to super trends including autonomous manufacturing, 5G, driverless car technology, big data, and cloud computing. We recommend investors maintain a balance between growth and value stocks.

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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.