Market Commentary Monday, January 24, 2022

January 24, 2022

EXECUTIVE SUMMARY

Awful Week – Stocks of All Stripes Head South
Leaders and Laggards – 2022 TPS Winners & Losers
Momentum Stock Crash – Meta Mistaken Identity Follow Up
Tech Bubble Review – Value Gained Ground in 2000, But Not Without Plenty of Downside Volatility
Setbacks – 38 Drops of 5%+ Since the End of the Financial Crisis
Valuations – Reasonably Priced Managed Account Portfolios
Earnings and Dividends – Both Expected to Rise in 2022
Econ Update – Mixed Numbers but LEI Still Suggesting Robust GDP Growth
Rate Hikes – Value Has Performed Well When the Fed is Tightening
Contrarian Buy Signal – AAII Bull-Bear Spread Plunges to Minus 25.7
Stock News – Updates on BAC, GS, TFC, PNC, CMA, ONB, BK, OZK, KEY, FITB, CFG & MS

Market Review

About the only thing good to say about the equity markets last week is that trading was shortened by a day due to the MLK holiday. After all, stocks of all shapes and sizes endured their worst week since March 2020,…

THE PRUDENT SPECULATOR

UGLY HOLIDAY-SHORTENED MARKET WEEK

Rare are significant weekly setbacks of more than 5% in the S&P 500, but the popular market gauge skidded 5.68% on a price basis for the week ended Jan. 21, 2022, the 94th worst showing since 1928.

Down > 5.68%

	1920's	1930's	1950's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	2020's	Totals
Years Ending in 0		5	2	1	0	1	1	0	1	1	3	12
Years Ending in 1		6	2	0	0	0	0	0	2	2	0	12
Years Ending in 2		11	0	0	2	0	0	0	2	0	1	15
Years Ending in 3		7	0	0	0	0	0	0	0	0		7
Years Ending in 4		2	0	0	0	4	0	0	0	0		6
Years Ending in 5		0	0	0	0	0	0	0	0	1		1
Years Ending in 6		1	0	0	0	0	1	0	0	1		3
Years Ending in 7		6	0	0	0	0	3	0	0	0		9
Years Ending in 8	1	6	1	0	0	1	0	0	5	2		16
Years Ending in 9	5	3	0	0	0	1	1	1	2	0		13
Totals	6	47	5	1	2	7	6	1	12	7	4	94

From 1.31.28 through 1.21.22. Weeks of index price decreases of greater than or equal to 5.68%. SOURCE: Kovitz using data from Bloomberg

Up > 5.68%

	1920's	1930's	1940's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	2020's	Totals
Years Ending in 0		1	1	0	0	1	1	0	3	0	3	7
Years Ending in 1		4	0	0	0	0	1	0	1	2	0	8
Years Ending in 2		9	0	0	1	0	3	0	1	0	0	14
Years Ending in 3		11	0	0	0	0	0	0	1	0		12
Years Ending in 4		2	0	0	0	3	1	0	0	0		6
Years Ending in 5		0	0	0	0	0	0	0	0	0		0
Years Ending in 6		0	0	0	0	0	0	0	0	0		0
Years Ending in 7		1	0	0	0	0	1	1	0	0		3
Years Ending in 8	1	7	1	0	0	0	0	1	2	0		12
Years Ending in 9	4	1	0	0	0	0	0	1	5	0		11
Totals	5	36	2	0	1	4	7	3	13	2	3	73

From 1.31.28 through 1.21.22. Weeks of index price increases of greater than or equal to 5.68%. SOURCE: Kovitz using data from Bloomberg

…supposedly due in large part to worries about rising interest rates, which didn't rise when all was said and done over the four trading sessions!

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TREASURY YIELD ENDS AN AWFUL EQUITY WEEK LOWER

With Jerome H. Powell & Co. now tapering, the Fed more hawkish on interest rates next year and the latest Minutes suggesting a potentially quicker balance sheet runoff than in the past, traders had bailed on 10-Year U.S. Treasuries, sending the yield soaring from 1.51% to as high as 1.90%, yet the latest week actually saw a small decline in yield by Friday night.

Certainly, we are never surprised when stocks suffer trips south, as setbacks are always part of the long-term investment process, with drops of 7.5% or greater (the S&P 500 is now off more than 8% from its January 3 closing high) happening every 7 months on average,…

VOLATILITY IS NORMAL BUT VALUE WINS THE RACE

Selloffs, downturns, pullbacks, corrections and even Bear Markets are events that equity investors always have had to endure on their way to the best long-term performance of any of the financial asset classes.

Advancing Markets

Minimum Rise %	Average Gain	Average # Days	Count	Frequency (in Years)	Last Start	Last End
20.0%	113.4%	995	27	3.4	3/23/2020	1/3/2022
17.5%	68.2%	583	39	2.3	3/23/2020	1/3/2022
15.0%	66.8%	566	45	2.0	3/23/2020	1/3/2022
12.5%	45.0%	340	72	1.3	3/23/2020	1/3/2022
10.0%	35.4%	249	98	0.9	3/23/2020	1/3/2022
7.5%	23.8%	150	157	0.6	9/23/2020	1/3/2022
5.0%	14.8%	73	307	0.3	10/4/2021	1/3/2022

Declining Markets

Minimum Decline %	Average Loss	Average # Days	Count	Frequency (in Years)	Last Start	Last End
-20.0%	-35.4%	286	26	3.5	2/19/2020	3/23/2020
-17.5%	-30.4%	217	38	2.4	2/19/2020	3/23/2020
-15.0%	-28.4%	189	44	2.1	2/19/2020	3/23/2020
-12.5%	-22.8%	138	71	1.3	2/19/2020	3/23/2020
-10.0%	-19.6%	102	97	0.9	2/19/2020	3/23/2020
-7.5%	-15.4%	64	157	0.6	1/3/2022	1/21/2022
-5.0%	-10.9%	36	307	0.3	1/3/2022	1/21/2022

From 02.20.28 through 01.21.22. Price return series. We defined a Declining Market as an instance when stocks dropped the specified percentage or more without a recovery of equal magnitude, and an Advancing Market as in instance when stocks appreciated the specified percentage or more without a decline of equal magnitude. SOURCE: Kovitz using data from Bloomberg, Morningstar and Ibbotson Associates

LONG-TERM RETURNS

	Annualized Return	Standard Deviation
Value Stocks	13.2%	26.0%
Growth Stocks	9.9%	21.3%
Dividend Paying Stocks	10.7%	18.0%
Non-Dividend Paying Stocks	9.4%	29.3%
Long-Term Corporate Bonds	6.1%	7.6%
Long-Term Gov't Bonds	5.5%	8.6%
Intermediate Gov't Bonds	5.0%	4.3%
Treasury Bills	3.3%	0.9%
Inflation	3.0%	1.8%

From 06.30.27 through 11.30.21. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Dividend payers = 30% top of Fama-French dividend payers, 40% of middle Fama-French dividend payers, and 30% bottom of Fama-French dividend payers rebalanced monthly. Non-dividend payers = Fama-French stocks that do not pay a dividend. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

…and if truth be told, we are not displeased to see investors focusing much more intently on the valuations of the stocks they own. Yes, many of our holdings were hit hard last week and thus far in 2022,…

THE PRUDENT SPECULATOR

MARKET OF STOCKS: BEST & WORST TPS RECOMMENDATIONS SO FAR IN '22

There has been significant dispersion in returns over the first three weeks of the year, with the most recent four trading days pushing many stocks deep into the red and moving the two dozen biggest losers to the top of the interest list for those looking to do a little shopping.

Market of Stocks: 2022 First Three Weeks

TPS Winners

Sector	Symbol	Company	01.21.22 Price	Target Price	YTD 2022 TR	2021 TR	52-Week High	52-Week Low
Energy	XOM	Exxon Mobil	$72.17	$96.92	17.9%	57.6%	$74.37	$44.29
Energy	EOG	EOG Resources	$100.63	$122.80	14.1%	88.7%	$107.99	$48.32
Energy	TTE	TotalEnergies SE	$55.63	$89.99	12.5%	26.0%	$58.83	$40.33
Telecom Services	T	AT&T	$26.61	$36.91	10.3%	-8.1%	$33.88	$22.02
Pharma, Biotech	TAK	Takeda Pharma	$14.66	$21.72	7.6%	-21.6%	$19.97	$13.17
Pharma, Biotech	VTRS	Viatris Inc	$14.53	$33.94	7.4%	-26.1%	$18.68	$11.96
Banks	KEY	KeyCorp	$24.79	$29.77	7.2%	45.9%	$27.17	$16.69
Banks	CFG	Citizens Fin'l	$50.62	$71.02	7.1%	36.9%	$57.00	$35.09
Materials	BASFY	BASF SE	$18.64	$28.39	6.3%	-6.6%	$21.77	$16.27
Capital Goods	DE	Deere & Co	$364.28	$490.15	6.2%	28.9%	$400.34	$278.95
Insurance	ALIZY	Allianz SE	$24.91	$34.73	5.5%	0.1%	$26.85	$21.36
Food, Beverage	SJM	J M Smucker	$143.22	$152.10	5.4%	21.0%	$145.82	$111.59
Insurance	MET	MetLife	$65.61	$97.86	5.0%	37.3%	$69.16	$47.69
Banks	TFC	Truist Financial	$61.47	$75.91	5.0%	26.1%	$68.95	$47.69
Commercial/Pro Serv	MAN	ManpowerGroup	$102.02	$145.18	4.8%	10.6%	$125.07	$85.97
Banks	C	Citigroup	$63.27	$105.62	4.8%	1.0%	$80.29	$57.40
Automobiles	HMC	Honda Motor	$29.78	$39.06	4.7%	3.9%	$33.42	$26.33
Capital Goods	LMT	Lockheed Martin	$371.20	$492.13	4.4%	3.2%	$396.99	$319.81
Pharma, Biotech	MRK	Merck & Co	$79.98	$106.55	4.4%	1.8%	$91.40	$68.38
Banks	OZK	Bank OZK	$48.15	$66.06	4.1%	53.0%	$51.39	$34.59
Capital Goods	CAT	Caterpillar	$214.09	$271.97	4.1%	16.0%	$246.69	$179.34
Insurance	AXAHY	AXA SA	$30.96	$38.90	4.0%	32.3%	$32.59	$22.00
Energy	HFC	HollyFrontier	$34.01	$55.40	3.8%	28.0%	$42.39	$27.17
Food & Staples Retail	KR	Kroger Co	$46.92	$52.91	3.7%	45.4%	$50.15	$32.00

TPS Losers

Sector	Symbol	Company	01.21.22 Price	Target Price	YTD 2022 TR	2021 TR	52-Week High	52-Week Low
Semiconductors	AVGO	Broadcom	$533.23	$700.85	-19.9%	56.4%	$677.76	$419.14
Capital Goods	GBX	Greenbrier Cos	$37.73	$54.98	-17.8%	29.5%	$50.21	$35.22
Semiconductors	COHU	Cohu Inc	$31.65	$58.46	-16.9%	-0.2%	$51.86	$29.00
Semiconductors	LRCX	Lam Research	$605.79	$775.10	-15.8%	53.7%	$731.85	$481.05
Technology Hardware	STX	Seagate Technology	$95.52	$124.23	-15.5%	87.6%	$117.67	$59.14
Consumer Durables	WHR	Whirlpool	$201.52	$310.63	-14.1%	33.3%	$257.68	$180.44
Semiconductors	KLIC	Kulicke & Soffa	$52.48	$85.20	-13.3%	92.4%	$75.29	$34.79
Retailing	LOW	Lowe's Cos	$225.02	$273.79	-12.7%	63.3%	$263.31	$150.84
Consumer Durables	MDC	MDC Holdings	$48.79	$78.37	-12.6%	27.9%	$63.86	$45.58
Diversified Financials	BLK	BlackRock	$800.92	$1,038.88	-12.5%	29.4%	$973.16	$670.28
Real Estate	DLR	Digital Realty Trust	$154.95	$184.32	-12.4%	30.7%	$178.22	$124.65
Semiconductors	MU	Micron Technology	$81.93	$125.72	-12.0%	24.2%	$98.45	$65.67
Software & Services	MSFT	Microsoft	$296.03	$377.21	-12.0%	52.5%	$349.67	$224.22
Real Estate	ARE	Alexandria Real Estate	$196.58	$238.03	-11.8%	28.1%	$224.95	$154.37
Retailing	BIG	Big Lots	$39.80	$78.83	-11.7%	7.3%	$73.23	$39.29
Retailing	JWN	Nordstrom	$20.00	$38.31	-11.6%	-27.5%	$46.45	$18.95
Media/Entertainment	DIS	Walt Disney	$137.38	$193.65	-11.3%	-14.5%	$203.02	$136.63
Pharma, Biotech	PFE	Pfizer	$52.79	$70.62	-10.6%	66.7%	$61.71	$33.36
Health Care Eq/Srvc	ABT	Abbott Laboratories	$125.83	$148.85	-10.3%	30.5%	$142.60	$105.36
Diversified Financials	GS	Goldman Sachs	$343.91	$477.15	-10.1%	47.6%	$426.16	$270.62
Media/Entertainment	GOOG	Alphabet Inc	$2,601.84	$3,432.85	-10.1%	65.2%	$3,037.00	$1,809.00
Technology Hardware	CSCO	Cisco Systems	$56.68	$70.00	-10.0%	45.8%	$64.29	$44.15
Consumer Durables	TPR	Tapestry	$36.55	$60.00	-10.0%	32.2%	$49.67	$30.24
Semiconductors	QCOM	Qualcomm	$164.93	$215.32	-9.8%	22.3%	$193.58	$122.17

As of 1.21.22. Source: Kovitz using data from Bloomberg

…but Value has been outperforming of late by a wide margin, with the bubbles bursting for many profitless or super-expensive momentum-investor favorites. The table below illustrates in gory detail the carnage of what we speak, led by a follow-up on our November 2021 *Editor's Note*. Alas, those who got caught up in the case of mistaken identity that took a Nova Scotia-based specialty chemicals company called Meta Materials sharply higher when Facebook announced plans to change its name to Meta Platforms are sitting on a 63% loss since Halloween!

THE PRUDENT SPECULATOR

"WE HAVE TO BE MORE DISCIPLINED THAN THE REST"- WARREN BUFFETT


November 2, 2021

the Prudent Speculator

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Social media powerhouse Facebook on Oct. 28 announced plans to change its corporate name to Meta Platforms...which ignited a 26% after-hours gain that day in Meta Materials, a small Nova Scotian specialty chemicals company. Never mind that Meta Materials has nothing to do with Facebook, with the financial press quick to point out that folks were buying the wrong stock. Of course, that seemingly important fact did not slow interest in the Canadian company as the stock price jumped 6% in trading on Nov. 1 with more than 19 million shares changing hands.

"In a free society, one does not have to deal with those who are irrational. One is free to avoid them."

— Ayn Rand

Lest readers think this is a once in a lifetime occurrence, the Facebook disclosure led to a 30% three-day increase in assets in the Roundhill Ball Metaverse ETF, which had the good fortune of owning the META ticker symbol. Now to be fair, the Roundhill ETF boasts a 6% stake in Meta Platforms amongst its 43 holdings and Mark Zuckerberg and Co. have brought the word Metaverse into the public eye, but cases of mistaken identity happen more often that one might imagine. In fact, a research paper published in 2019 by Vadim Balashov and Andrei Nikiforov found 254 instances of companies that saw fluctuations in their stock price related to events at another company with a similar name or stock ticker.

Long-time followers of our publication will remember modem maker Zoom Telephonics, which thanks to its name and ZOOM ticker symbol skyrocketed not once (on Xoom.com confusion in 1999), not twice (on Zoom Video confusion in 2019), but three times (on ZoomInfo confusion in 2020). The company has since changed its name and ticker symbol, so there won't be a fourth resurrection of the essentially worthless shares...or so we think!

No doubt, some see the rise of the Meta doppelgangers as a red flag that the equity markets are too euphoric and due for a major correction. Of course, as the father of Value investing Benjamin Graham proclaimed years ago, "Most of the time common stocks are subject to irrational and excessive price fluctuations in both directions as the consequence of the ingrained tendency of most people to speculate or gamble... to give way to hope, fear and greed."

We would not be surprised to see the major market averages suffer a sizable setback, especially as 10% corrections occur every 11 months on average, but we believe that we are prudently investing in businesses that trade for reasonable, if not inexpensive, valuation metrics. To be sure, we are playing in an entirely different sandbox, with many market players more excited by "meme" stocks, SPACs and more than a few profitless companies.

Of course, given that one of our core tenets is to seek to avoid permanent impairment of investment capital, we sleep much better at night knowing that TPS Portfolio sports respective trailing and forward P/E ratios of 15.5 and 13.7, compared to 25.9 and 21.9 for the S&P 500. And we like that it also owns a price to sales ratio of 1.2 (vs. 3.1 for the S&P). Further, given low yields on fixed income and no yields on cash, we can't help but be excited by TPS Portfolio's dividend yield of 2.2% (vs. 1.3% for the S&P).

Anything can happen as we go forward, but vaccines and therapeutics are working in the COVID-19 battle, and supply-chain challenges are likely to sort themselves out. The outlook for U.S. and global GDP growth is robust as we head into 2022, with continued healthy corporate profit growth likely to boost the kind of stocks that we have long championed. And, contrary to popular belief, whether it is periods of rising interest rates, higher inflation rates, Fed Tapering, or increased capital gains, corporate or personal income taxes, equities have performed well, on average, with Value historically leading the way.

True, we have been a bit frustrated by disappointing market reactions to seemingly terrific Q3 earnings reports from a few of our companies, but we are patient, given our three-to-five-year time horizon. As Warren Buffett says, "If a business does well, the stock eventually follows!"

Editor, Principal, Portfolio Manager
Kovitz

Celebrating more than 40 Years of Patience, Selection and Diversification

Total Returns Matrix

YTD	Since 10.31.21	Name	Symbol
-29.67	-63.19	Meta Materials Inc	MMAT Equity
-15.88	-16.64	Roundhill Ball Metaverse ETF	META Equity
-33.93	-49.19	AMC Entertainment Holdings Inc	AMC Equity
-28.32	-42.04	GameStop Corp	GME Equity
-26.91	-62.88	Robinhood Markets Inc	HOOD Equity
-18.06	-26.96	VanEck Social Sentiment ETF	BUZZ Equity
-24.39	-40.54	ARK Innovation ETF	ARKK Equity
MARKET OF STOCKS			
-5.63	-3.90	Dow Jones Industrial Average TR	DJITR Index
-4.39	-3.17	New York Stock Exchange Composite Index	NYA Index
-15.88	-19.64	Russell 2000 Total Return Growth Index	RU20GRTR Index
-6.97	**-6.48**	**Russell 2000 Total Return Value Index**	**RU20VATR Index**
-11.44	-13.24	Russell 2000 Total Return Index	RU20INTR Index
-15.70	-18.97	Russell Midcap Growth Index Total Return	RUMCGRTR Index
-5.88	**-3.01**	**Russell Midcap Value Index Total Return**	**RUMCVATR Index**
-9.40	-8.99	Russell Midcap Index Total Return	RUMCINTR Index
-12.46	-10.45	Russell 3000 Total Return Growth Index	RU30GRTR Index
-3.86	**-1.52**	**Russell 3000 Total Return Value Index**	**RU30VATR Index**
-8.39	-6.24	Russell 3000 Total Return Index	RU30INTR Index
-5.89	-2.60	S&P 500 Equal Weighted USD Total Return In	SPXEWTR Index
-7.66	-4.19	S&P 500 Total Return Index	SPXT Index
-11.81	-8.34	S&P 500 Growth Total Return Index	SPTRSGX Index
-3.06	**0.39**	**S&P 500 Value Total Return Index**	**SPTRSVX Index**

As of 01.21.22. Source: Kovitz using data from Bloomberg.

To be sure, we are not crowing about the red ink endured so far in 2022,…

THE PRUDENT SPECULATOR

MARKET OF STOCKS – INDEXES CAN HAVE WIDE DISPERSION IN RETURNS

While the latest week was awful all around, the performance gap between Value and Growth widened again with the plunge in high-flying momentum investor favorites reminding many of the bursting of the Tech Bubble. We wouldn't be unhappy if now is like 2000 & 2001.

Total Returns Matrix

2000	2001	MARKET OF STOCKS	Last Week	YTD	Last 12 Months	Since 10.31.20	Since 3.23.20	Last 2 Years	Last 3 Years	Last 5 Years	Name	Symbol
-4.85	-5.44		-4.55	-5.63	11.96	32.36	91.08	22.32	48.06	93.27	Dow Jones Industrial Average	DJITR Index
1.01	-10.21		-4.76	-4.39	11.60	35.52	94.96	21.86	45.44	66.50	New York Stock Exchange Composite	NYA Index
-22.43	-9.23		-8.89	-15.88	-20.63	11.26	80.06	13.28	35.67	64.83	Russell 2000 Growth	RU20GRTR Index
22.83	**14.02**		**-7.31**	**-6.97**	**10.61**	**53.64**	**124.25**	**25.76**	**39.38**	**45.33**	**Russell 2000 Value**	**RU20VATR Index**
-3.02	2.49		-8.07	-11.44	-6.24	30.84	102.40	20.68	39.23	56.76	Russell 2000	RU20INTR Index
-11.75	-20.15		-6.81	-15.70	-8.73	12.97	87.36	23.95	60.17	103.03	Russell Midcap Growth Index Total Return	RUMCGRTR Index
19.18	**2.33**		**-5.71**	**-5.88**	**15.97**	**44.12**	**120.30**	**25.05**	**48.84**	**58.45**	**Russell Midcap Value Index Total Return**	**RUMCVATR Index**
8.25	-5.62		-6.08	-9.40	6.63	32.33	109.71	26.99	56.41	79.85	Russell Midcap Index Total Return	RUMCINTR Index
-22.42	-19.63		-7.10	-12.46	6.82	27.88	105.20	45.52	92.83	155.98	Russell 3000 Growth	RU30GRTR Index
8.04	**-4.33**		**-4.74**	**-3.86**	**16.51**	**42.77**	**99.55**	**22.93**	**46.47**	**61.30**	**Russell 3000 Value**	**RU30VATR Index**
-7.46	-11.46		-5.94	-8.39	11.45	34.93	103.55	35.33	70.24	106.26	Russell 3000	RU30INTR Index
9.64	-0.39		-5.24	-5.89	17.96	45.39	119.85	35.12	64.51	92.20	S&P 500 Equal Weighted	SPXEWTR Index
-9.10	-11.89		-5.67	-7.66	15.76	36.92	102.24	36.78	73.50	112.24	S&P 500	SPXT Index
-22.08	-12.73		-7.07	-11.81	13.21	32.93	108.04	48.48	91.73	153.25	S&P 500 Growth	SPTRSGX Index
6.08	**-11.71**		**-4.21**	**-3.06**	**18.16**	**41.46**	**92.35**	**21.68**	**51.28**	**69.33**	**S&P 500 Value**	**SPTRSVX Index**
-8.29	-17.75		-9.19	-15.61	4.81	28.50	108.59	36.64	69.76	117.45	S&P 500 Pure Growth	SPTRXPG Index
13.16	**10.87**		**-6.26**	**0.29**	**26.51**	**67.11**	**149.50**	**24.37**	**40.51**	**58.85**	**S&P 500 Pure Value**	**SPTRXPV Index**

As of 01.21.22. Source Kovitz using data from Bloomberg

…but the popping of the Tech Bubble in the year 2000 saw a sizable short-term Q1 plunge in the Russell 3000 Value index more than overcome by the end of that tumultuous year.

THE PRUDENT SPECULATOR

TECH BUBBLE 2000 – WE'VE SEEN THIS ROLLER-COASTER BEFORE

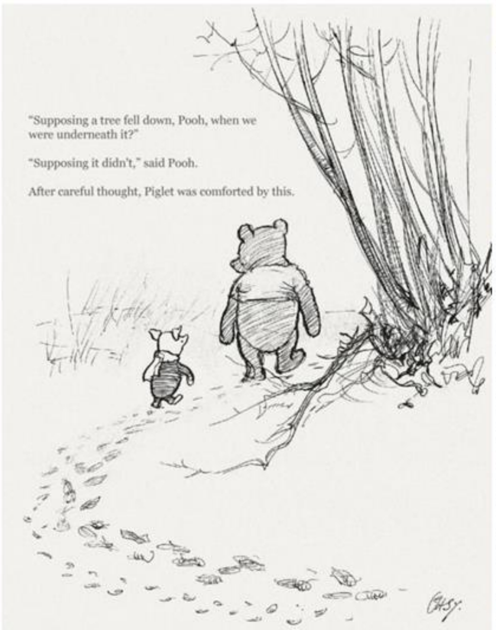
The bursting of the Tech Bubble in the year 2000 led to massive losses for profitless and highly valued Growth stocks. Of course, the upheaval impacted most stocks, with even the Russell 3000 Value index skidding 13% from 01.14.00 to 02.25.00. Happily, that and other setbacks during that volatile year were overcome by year-end, with the benchmark closing 2000 8% higher.

Certainly, developments over the weekend might lead to continued selling when trading reopens this week (the equity futures were up, however, as this missive went to press), but we remain confident in the long-term prospects for stocks,…

THE PRUDENT SPECULATOR

THE SECRET TO SUCCESS IN STOCKS IS NOT TO GET SCARED OUT OF THEM

Ukraine and the cryptocurrency crash have joined COVID-19, inflation, supply chain issues and the Fed as bogeymen spooking investors, but history is filled with plenty of frightening events, yet equities have provided handsome rewards…for those who stick with them.



Event	Reaction Dates		S&P Start Value	S&P End Value	Event Gain/Loss	12 Months Later	36 Months Later	60 Months Later	Event End thru Present
Pearl Harbor	12/6/1941	12/10/1941	9.32	8.68	-7%	8%	51%	76%	50568%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	29220%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	26251%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	10221%
Suez Canal Crisis	10/30/1956	10/31/1956	46.37	45.58	-2%	-10%	26%	51%	9549%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	11183%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	8122%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	6218%
MLK Assassination	4/3/1968	4/5/1968	93.47	93.29	0%	8%	8%	16%	4614%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	5730%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	4672%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	6184%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	4080%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	4378%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	3581%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	2616%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	1697%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	1856%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	1291%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	1068%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	968%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	892%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	862%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	770%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	401%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	358%
Clinton Impeachment	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	258%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	228%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	355%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	380%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	303%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	267%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	550%
Price Changes Only - Does Not Include Dividends				**Averages:**	**-7%**	**18%**	**39%**	**66%**	**6051%**

As of 1.21.22. Source: Kovitz using Bloomberg and Ned Davis Research Events & Reaction Dates

…and we note that we are now in the 38th selloff of 5% or greater without an intervening rebound of 5% just since the end of the Financial Crisis 13 years ago.

THE PRUDENT SPECULATOR

5% UPS AND DOWNS (ON A CLOSING PRICE BASIS) SINCE FINANCIAL CRISIS

S&P 500 Moves (on a Closing Basis) of 5% Without a Comparable Move in the Other Direction Since 03.09.09

3/26/2009	3/30/2009	-5.44%	BEAR		3/9/2009	3/26/2009	23.11%	BULL
6/12/2009	7/10/2009	-7.09%	BEAR		3/30/2009	6/12/2009	20.15%	BULL
10/19/2009	10/30/2009	-5.62%	BEAR		7/10/2009	10/19/2009	24.89%	BULL
1/19/2010	2/8/2010	-8.13%	BEAR		10/30/2009	1/19/2010	11.01%	BULL
4/23/2010	5/7/2010	-8.74%	BEAR		2/8/2010	4/23/2010	15.19%	BULL
5/12/2010	6/7/2010	-10.34%	BEAR		5/7/2010	5/12/2010	5.47%	BULL
6/18/2010	7/2/2010	-8.49%	BEAR		6/7/2010	6/18/2010	6.38%	BULL
8/9/2010	8/26/2010	-7.14%	BEAR		7/2/2010	8/9/2010	10.29%	BULL
2/18/2011	3/16/2011	-6.41%	BEAR		8/26/2010	2/18/2011	28.25%	BULL
4/29/2011	6/15/2011	-7.20%	BEAR		3/16/2011	4/29/2011	8.49%	BULL
7/7/2011	8/8/2011	-17.27%	BEAR		6/15/2011	7/7/2011	6.94%	BULL
8/15/2011	8/19/2011	-6.72%	BEAR		8/8/2011	8/15/2011	7.60%	BULL
8/31/2011	9/9/2011	-5.30%	BEAR		8/19/2011	8/31/2011	8.49%	BULL
9/16/2011	10/3/2011	-9.60%	BEAR		9/9/2011	9/16/2011	5.35%	BULL
10/28/2011	11/25/2011	-9.84%	BEAR		10/3/2011	10/28/2011	16.91%	BULL
4/2/2012	6/1/2012	-9.94%	BEAR		11/25/2011	4/2/2012	22.47%	BULL
9/14/2012	11/15/2012	-7.67%	BEAR		6/1/2012	9/14/2012	14.69%	BULL
5/21/2013	6/24/2013	-5.76%	BEAR		11/15/2012	5/21/2013	23.34%	BULL
1/15/2014	2/3/2014	-5.76%	BEAR		6/24/2013	1/15/2014	17.50%	BULL
9/18/2014	10/15/2014	-7.40%	BEAR		2/3/2014	9/18/2014	15.47%	BULL
5/21/2015	8/25/2015	-12.35%	BEAR		10/15/2014	3/2/2015	13.69%	BULL
9/16/2015	9/28/2015	-5.69%	BEAR		8/25/2015	9/16/2015	6.84%	BULL
11/3/2015	2/11/2016	-13.31%	BEAR		9/28/2015	11/3/2015	12.12%	BULL
6/23/2016	6/27/2016	-5.34%	BEAR		2/11/2016	6/23/2016	5.64%	BULL
1/26/2018	2/8/2018	-10.16%	BEAR		6/27/2016	1/26/2018	43.60%	BULL
3/9/2018	4/2/2018	-7.35%	BEAR		2/8/2018	3/9/2018	7.96%	BULL
9/20/2018	11/23/2018	-10.17%	BEAR		4/2/2018	9/20/2018	13.55%	BULL
12/3/2018	12/24/2018	-15.74%	BEAR		11/23/2018	12/3/2018	5.99%	BULL
4/30/2019	6/3/2019	-6.84%	BEAR		12/24/2018	4/30/2019	25.30%	BULL
7/26/2019	8/14/2019	-6.12%	BEAR		6/3/2019	7/26/2019	10.25%	BULL
2/19/2020	3/12/2020	-26.74%	BEAR		8/14/2019	2/19/2020	16.11%	BULL
3/13/2020	3/23/2020	-17.47%	BEAR		3/12/2020	3/13/2020	9.29%	BULL
3/26/2020	4/1/2020	-6.07%	BEAR		3/23/2020	3/26/2020	17.55%	BULL
6/8/2020	6/11/2020	-7.12%	BEAR		4/1/2020	6/8/2020	30.84%	BULL
9/2/2020	9/23/2020	-9.60%	BEAR		6/11/2020	9/2/2020	19.28%	BULL
10/12/2020	10/30/2020	-7.48%	BEAR		9/23/2020	10/12/2020	9.18%	BULL
9/2/2021	10/4/2021	-5.21%	BEAR		10/4/2021	1/3/2022	11.54%	BULL
1/3/2022	1/21/2022	-8.31%						
Average Drop		-8.97%			**Average Gain**		14.88%	

SOURCE: Kovitz using data from Bloomberg

While the traumatic five-week February/March 2020 Bear Market brought on by the COVID-19 Pandemic and Great Lockdown is likely still fresh in the mind of most investors, we suspect that many have forgotten the numerous other downturns endured by the equity markets. Believe it or not, just since the S&P 500 bottomed at 676.53 on March 9, 2009, there have been 38 setbacks of 5% or more without a comparable move in the other direction (three per year on average), yet the popular index today stands at 4397.94.

More importantly, we are very comfortable with the reasonable valuation metrics for the stocks in our broadly diversified portfolios,…

CURRENT PORTFOLIO AND INDEX VALUATIONS

Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	14.9	13.2	1.2	2.5	2.2
ValuePlus	15.5	13.2	1.5	2.4	2.0
Dividend Income	13.9	12.8	1.0	2.3	2.7
Focused Dividend Income	14.8	13.6	1.2	2.5	2.5
Focused ValuePlus	14.7	14.0	1.5	2.7	2.2
Small-Mid Dividend Value	11.9	10.9	0.6	1.7	2.4
Russell 3000	26.7	20.2	2.6	4.1	1.4
Russell 3000 Growth	37.5	27.6	4.4	11.5	0.7
Russell 3000 Value	20.6	15.9	1.9	2.5	2.0
Russell 1000	24.6	20.1	2.8	4.3	1.4
Russell 1000 Growth	34.6	27.1	4.9	12.6	0.8
Russell 1000 Value	18.9	15.9	2.0	2.6	2.0
S&P 500 Index	24.0	20.0	2.9	4.5	1.4
S&P 500 Growth Index	28.9	24.7	5.4	8.9	0.7
S&P 500 Value Index	20.5	16.7	2.0	3.0	2.0
S&P 500 Pure Value Index	12.5	10.7	0.8	1.4	2.4

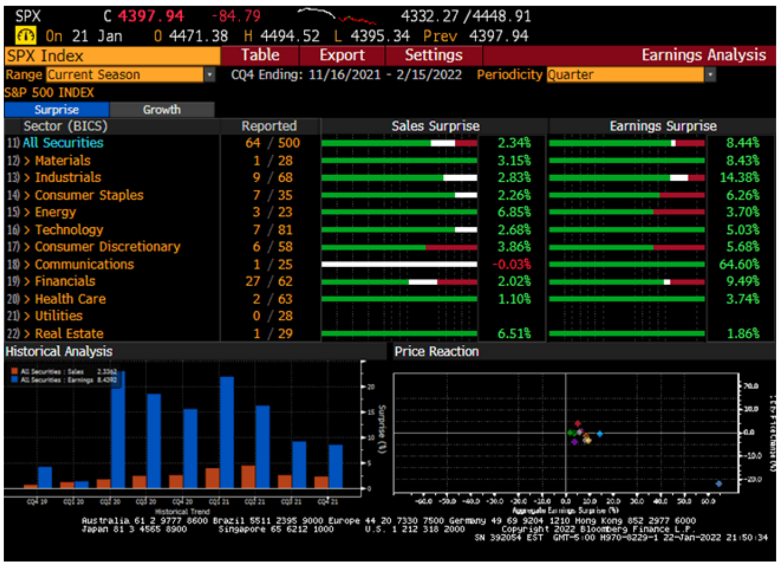
As of 01.22.22. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Kovitz using data from Bloomberg Finance L.P.

…especially as we think corporate profits are likely to continue to show handsome growth for the foreseeable future,…

THE PRUDENT SPECULATOR

FANTASTIC EPS GROWTH IN '21 AND '22/'23 ESTIMATES ARE STRONG

Q4 earnings reporting season has started off on a strong note, even as stocks sold off sharply in the week ended 1.21.22. An impressive 78.1% of the S&P 500 companies to have announced thus far have topped EPS expectations and 70.3% have exceeded revenue forecasts.



Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
S&P 500 Earnings Per Share		
ESTIMATES		
12/31/2023	$61.53	$234.23
9/30/2023	$60.41	$230.36
6/30/2023	$57.62	$226.78
3/31/2023	$54.67	$223.51
12/31/2022	$57.66	$220.31
9/30/2022	$56.83	$213.31
6/30/2022	$54.35	$208.50
3/31/2022	$51.47	$206.20
12/31/2021	$50.66	$202.14
ACTUAL		
9/30/2021	$52.02	$189.66
6/30/2021	$52.05	$175.54
3/31/2021	$47.41	$150.28
12/31/2020	$38.18	$122.37
9/30/2020	$37.90	$123.37
6/30/2020	$26.79	$125.28
3/31/2020	$19.50	$138.63
12/31/2019	$39.18	$157.12
9/30/2019	$39.81	$152.97
6/30/2019	$40.14	$154.54
3/31/2019	$37.99	$153.05
12/31/2018	$35.03	$151.60

Source: Standard & Poor's. As of 1.13.22

…with dividend payouts likely to continue to rise.

THE PRUDENT SPECULATOR

DIVIDENDS HAVE GROWN OVER TIME

Dividends are never guaranteed, but Corporate America has a history of raising payouts. Believe it or not, per share dividends for the S&P 500 actually inched up in 2020, despite the pandemic and associated economic turmoil, while so far this month, *TPS* recommendations BlackRock and Bank OZK have hiked their payouts.

COUNT OF S&P 500 DIVIDEND ACTIONS	INCREASES	INITIATIONS	DECREASES	SUSPENSIONS
2021	353	19	4	1
2020	287	11	27	42
2019	355	6	7	0
2018	374	6	3	0
2017	351	5	9	2
2016	344	7	19	2
2015	344	7	16	3
2014	375	8	8	0
2013	366	15	12	0
2012	333	15	11	1
2011	320	22	5	0
2010	243	13	4	1
2009	151	6	68	10
2008	236	5	40	22
Source: Standard & Poor's.				

S&P 500 DIVIDENDS PER SHARE	
2023 (Est.)	$69.38
2022 (Est.)	$66.45
2021	$60.54
2020	$58.95
2019	$58.69
2018	$53.86
2017	$50.47
2016	$46.73
2015	$43.49
2014	$39.44
2013	$34.99
2012	$31.25
2011	$26.43
2010	$22.73
2009	$22.41
Source: Bloomberg. As of 01.21.22	

Yes, we realize that there are questions about the health of the U.S. economy, with mixed numbers out last week on manufacturing,…

THE PRUDENT SPECULATOR

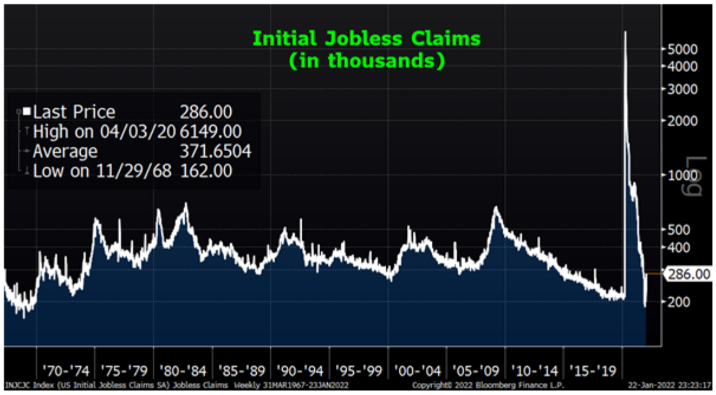
EAST COAST FACTORY ACTIVITY MIXED IN JANUARY

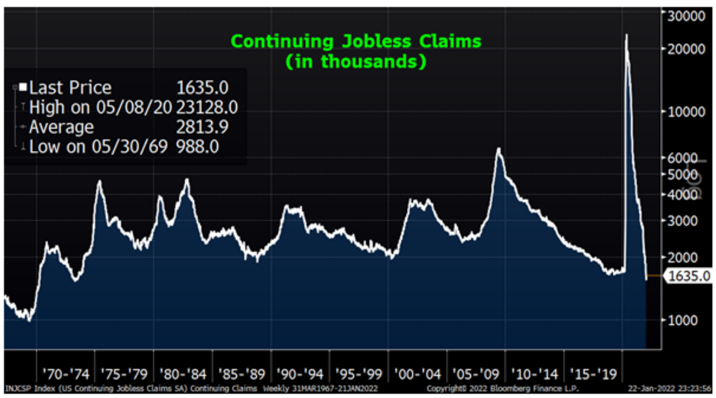
The Empire State gauge of manufacturing activity in the New York area plunged in January to a much-weaker-than-expected -0.7, more than 26 points below forecasts. On the other hand, the Philadelphia Fed's January measure of manufacturing activity in the mid-Atlantic region jumped to 23.2, up nicely from December's 15.2 reading. No doubt, the Omicron variant, labor shortages and supply chain issues are impacting business conditions.

…and a jump in initial filings for unemployment benefits,…

THE PRUDENT SPECULATOR

FIRST-TIME JOBLESS FILINGS AND CONTINUING JOBLESS CLAIMS RISE



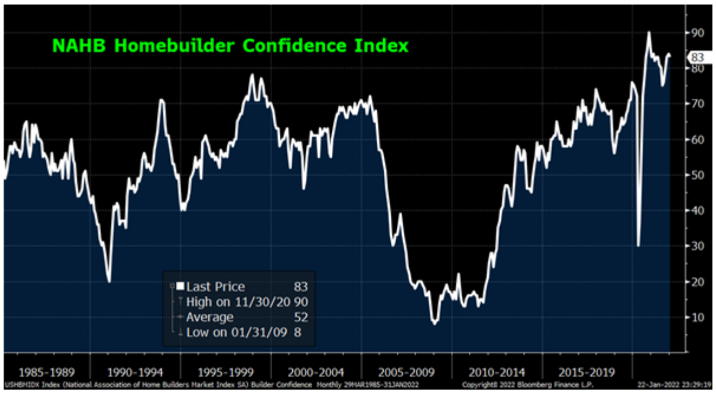


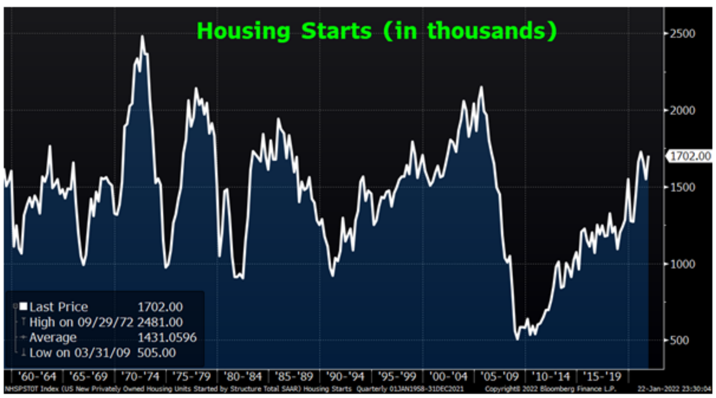
While there is still some noise in the numbers due to seasonal issues, new filings for unemployment benefits for the period ended January 15 came in at a seasonally adjusted 286,000, the highest level in three months, though still not far off a five-decade-plus low. Certainly, the Omicron variant is a headwind as continuing claims filed through state programs rose to 1.64 million, climbing after hitting the lowest level since 1973 the week prior.

…but data on housing was solid,…

THE PRUDENT SPECULATOR

HOUSING MARKET REMAINS STRONG





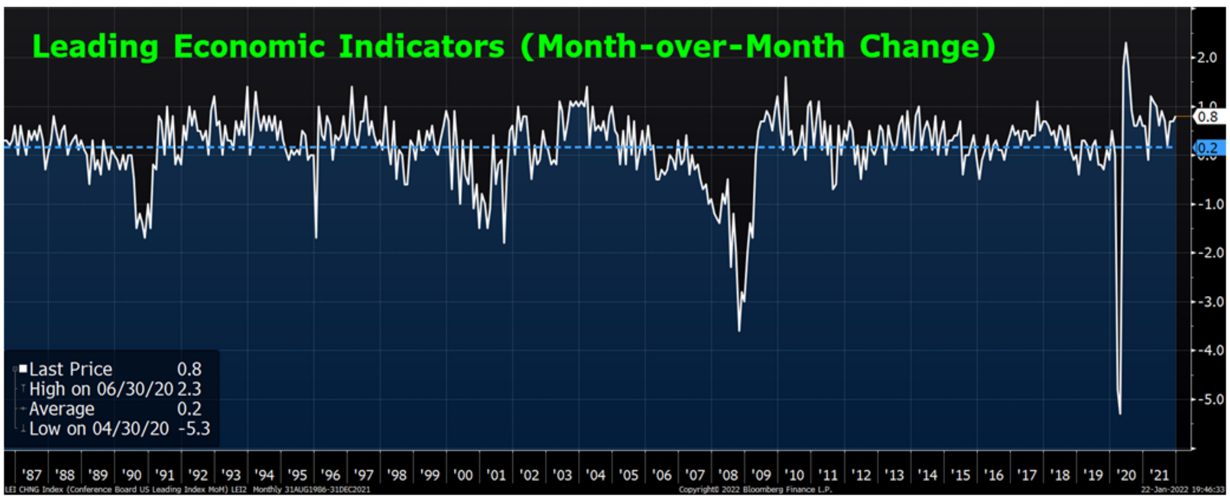
The National Association of Home Builders' monthly confidence index for December trailed forecasts, inching down to 83, still near its highest reading since May and well above the long-term average on the 35-year-old gauge. High inflation and supply shortages are pressuring optimism, even as ground was broken on new homes last month at a hefty seasonally adjusted annual rate of 1.70 million units and building permits jumped 9% versus November.

…and the forward-looking Index of Leading Economic Index suggested "robust" GDP growth is expected for 2022.

THE PRUDENT SPECULATOR

LEI INCREASES A SOLID 0.8% IN DECEMBER

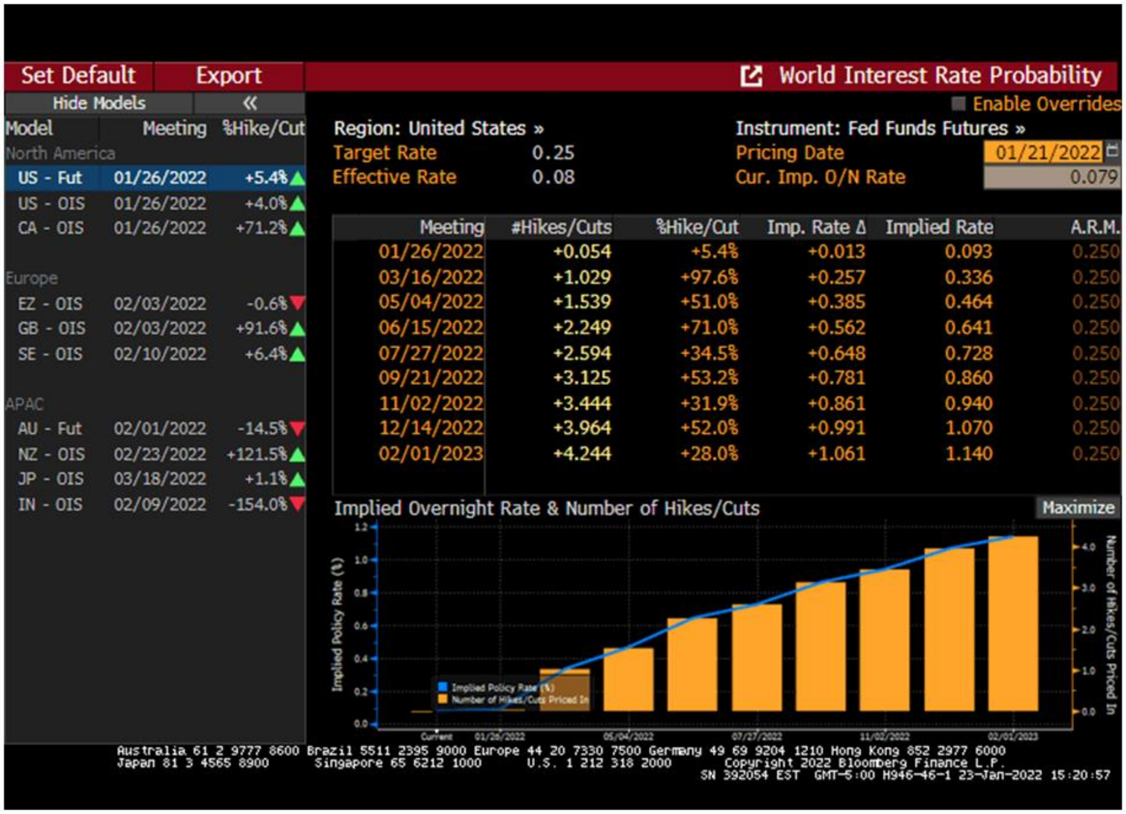
"The U.S. LEI ended 2021 on a rising trajectory, suggesting the economy will continue to expand well into the spring," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "For the first quarter, headwinds from the Omicron variant, labor shortages, and inflationary pressures—as well as the Federal Reserve's expected interest rate hikes—may moderate economic growth. The Conference Board forecasts GDP growth for Q1 2022 to slow to a relatively healthy 2.2% (annualized). Still, for all of 2022, we forecast the US economy will expand by a robust 3.5%—well above the pre-pandemic trend growth."



Obviously, the Federal Reserve is a major wildcard, with the interest rate futures market now suggesting that there will be four 25-basis-point hikes in the Fed Funds rate this year,…

THE PRUDENT SPECULATOR

FED FUNDS RATE ODDS SUGGEST FOUR RATE HIKES IN 2022



..but five decades of analytics argue that though equities have not done as well when the Fed is raising rates, stocks (led by Value) have still enjoyed solid gains, on average.

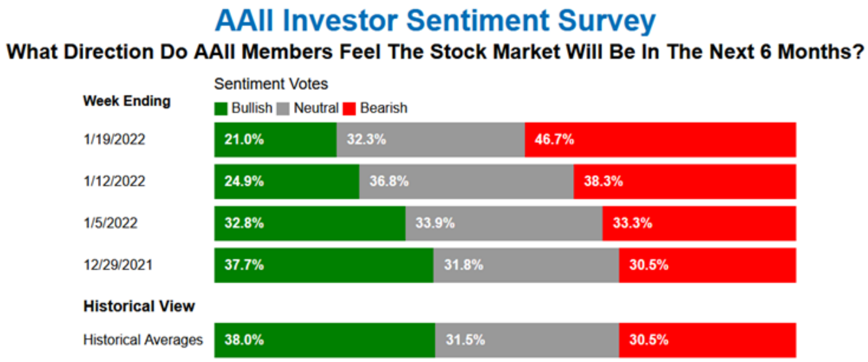
Rates Change and Equities Rise

Beginning Rate	Rate Environment	Start Date	End Date	Large Stocks	Small Stocks	Value Stocks	Growth Stocks	Div. Payers	Non-Payers
9.0%	FALLING	01.31.1970	02.29.1972	15.5%	8.0%	18.5%	13.5%	2.3%	15.5%
3.3%	RISING	03.31.1972	07.31.1974	-9.3%	-19.5%	-8.9%	-23.4%	-30.8%	-9.8%
12.9%	FALLING	08.31.1974	01.31.1977	20.2%	40.9%	38.6%	24.7%	31.2%	25.2%
4.6%	RISING	02.28.1977	06.30.1981	12.1%	35.8%	21.0%	21.6%	36.7%	14.7%
19.1%	FALLING	07.31.1981	02.28.1983	14.5%	21.4%	28.6%	13.5%	7.9%	15.5%
8.5%	RISING	03.31.1983	08.31.1984	11.2%	9.1%	18.1%	0.4%	-6.1%	10.1%
11.6%	FALLING	09.30.1984	10.31.1986	25.1%	14.1%	26.4%	18.5%	11.0%	26.1%
5.9%	RISING	11.30.1986	03.31.1989	11.2%	7.3%	12.4%	6.3%	5.6%	10.8%
9.9%	FALLING	04.30.1989	12.31.1992	13.5%	9.2%	12.3%	13.9%	12.0%	13.8%
2.9%	RISING	01.31.1993	04.30.1995	10.4%	12.7%	10.6%	5.2%	10.6%	9.6%
6.1%	FALLING	05.31.1995	01.31.1999	29.4%	14.1%	24.0%	21.3%	28.6%	27.2%
4.6%	RISING	02.28.1999	07.31.2000	12.1%	30.1%	15.2%	26.7%	36.5%	4.4%
6.5%	FALLING	08.31.2000	12.31.2003	-7.5%	10.8%	10.6%	-9.0%	-17.9%	2.9%
1.0%	RISING	01.31.2004	03.31.2007	9.5%	11.1%	15.2%	7.7%	8.6%	10.5%
5.3%	FALLING	04.30.2007	02.28.2014	5.7%	7.3%	4.1%	8.2%	9.9%	5.6%
0.1%	RISING	03.31.2014	04.30.2019	11.6%	5.7%	7.1%	11.9%	13.5%	10.6%
2.4%	FALLING	05.31.2019	09.30.2021	23.3%	19.8%	20.4%	31.5%	33.1%	20.9%
			AVERAGE	**12.3%**	**14.0%**	**16.1%**	**11.3%**	**11.3%**	**12.6%**
			FALLING	**15.5%**	**16.2%**	**20.4%**	**15.1%**	**13.1%**	**17.0%**
			RISING	**8.6%**	**11.5%**	**11.3%**	**7.0%**	**9.3%**	**7.6%**

Past performance is no guarantee of future performance, but students of market history will also like the latest American Association of Individual Investors Sentiment Survey.

THE PRUDENT SPECULATOR

AAII CONTRARIAN BUY SIGNAL: BULL-BEAR SPREAD = -25.7



AAII Bull-Bear Spread

Decile	Low Reading of the Range	High Reading of the Range	Count	R3K Next 1-Week Arithmetic Average TR	R3K Next 1-Week Geometric Average TR	R3K Next 1-Month Arithmetic Average TR	R3K Next 1-Month Geometric Average TR	R3K Next 3-Month Arithmetic Average TR	R3K Next 3-Month Geometric Average TR	R3K Next 6-Month Arithmetic Average TR	R3K Next 6-Month Geometric Average TR
	Below & Above Median Bull Bear Spread = 8.00										
BELOW	-54.0	8.0	920	0.26%	0.22%	1.28%	1.15%	3.67%	3.29%	7.09%	6.35%
ABOVE	8.1	62.9	877	0.17%	0.15%	0.50%	0.41%	1.97%	1.71%	4.68%	4.21%
	Ten Groupings of 1797 Data Points										
1	-54.0	-15.0	184	0.56%	0.49%	2.15%	1.91%	5.82%	5.27%	10.51%	9.29%
2	-14.9	-7.3	176	0.32%	0.29%	1.00%	0.87%	3.87%	3.52%	6.99%	6.22%
3	-7.3	-1.4	179	0.30%	0.27%	1.55%	1.45%	3.40%	3.01%	7.20%	6.56%
4	-1.4	3.0	185	0.09%	0.06%	1.04%	0.95%	2.86%	2.51%	6.29%	5.77%
5	3.0	8.0	196	0.05%	0.02%	0.68%	0.59%	2.48%	2.24%	4.62%	4.11%
6	8.1	12.0	159	0.10%	0.08%	0.38%	0.26%	1.68%	1.44%	5.07%	4.68%
7	12.0	16.4	179	0.20%	0.18%	0.61%	0.51%	2.38%	2.13%	4.90%	4.37%
8	16.5	22.0	188	0.17%	0.15%	0.77%	0.70%	2.18%	1.91%	6.17%	5.75%
9	22.0	29.1	171	0.09%	0.07%	0.40%	0.32%	2.04%	1.76%	4.48%	3.90%
10	29.1	62.9	180	0.27%	0.25%	0.31%	0.24%	1.51%	1.29%	2.76%	2.33%

From 07.31.87 through 01.20.22. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

The gauge is widely viewed with a contrarian eye, so the tally of Bulls in the latest AAII Sentiment Survey dropping 3.9 points from the week prior and the number of Bears rising 8.4 points is a positive. The minus 25.7 Bull-Bear spread is in the very favorable 1st decile of the weekly figures going back to 1987.

Stock Updates

Keeping in mind that all stocks are rated as a “Buy” until such time as they are a “Sell,” a listing of all current recommendations is available for download via the following link: https://theprudentspeculator.com/dashboard/. We also offer the reminder that any sales we make for our newsletter strategies are announced via our *Sales Alerts*.

Jason Clark, Chris Quigley and Zack Tart offer updates on 12 of our stocks that reported quarterly results last week or had news out worthy of mention.

Bank of America (BAC – $44.92) earned $0.82 per share in Q4, bringing the full-year total to $3.57, or some 30% higher than the pre-pandemic peak. America’s largest retail bank returned to loan growth on a year-over-year basis as deposits also grew by $48 billion from Q3 to nearly $1.4 trillion by quarter-end. Consumer activity remains robust with roughly 1 million new credit card accounts issued in Q4 alone, returning to the same level of new card production as before the pandemic. An all-time high of $3.8 trillion in total payments (well-diversified by method) were made by customers throughout 2021, an increase of 24% over pre-pandemic levels, with Q4 payments up 28% over 2019. The quality of deposits strengthened with non-interest-bearing funds now 40% of the total across the franchise, versus 37% in Q4 ‘2020.

CEO Brian Moynihan recapped, “We generated more than $7 billion of earnings in every quarter in 2021. When you look at the balance sheet, we grew deposits $270 billion in 2021. That was on top of the $360 billion of growth we had in 2020. Our loan growth accelerated throughout the year. Fourth quarter represented the strongest quarter of organic loan growth we have experienced at Bank of America. Now of course, that’s absent the first quarter of 2020 at the start of COVID, which had $70 billion of panic drawdowns in a few weeks.”

And the banks customer base remains in great shape. He added, “For people with less than $2,000 average balances before the pandemic, they’re now sitting with 5x the balances they had pre- pandemic. For those customers at $10,000 in accounts before the pandemic, they’re now sitting with 2x in their accounts.”

Net interest yields weakened by 4 basis points from Q3 to 1.64% in Q4, but B of A estimates that a parallel shift higher by 100 basis points in the interest rate yield curve would add $6.5 billion to net interest income over the next 12 months. As one of the two money center banks expected to keep expenses relatively stable over the next year, much of that would-be profit boost would likely fall to the bottom line and improving operating leverage.

THE PRUDENT SPECULATOR

BAC – FIRING ON NEARLY ALL CYLINDERS

Return to Pre-pandemic Organic Growth

	2021	vs. 2019
Net New Consumer Checking Accounts	901K	+64%
Average Consumer Checking Account Balance	$10.4K	+37%
New Consumer Investment Accounts	525K	+24%
Total Preferred Rewards Enrolled Clients[1]	9.3MM	+31%
Consumer and Small Business Digital Sales (units)	5.6MM	+45%
Total Erica Interactions	427MM	+476%
AUM Net Flows[2]	$73B	+173%
GWIM Net Loan Flows	$22B	+87%
GTS[3] FX[4]	Volume: 19MM Value: $277B	+86% +30%
CashPro® App Payment Approvals[4]	Volume: 8MM Value: $384B	+239% +140%
Commercial Committed Exposure	$1,131B	+6%
Investment Banking Fee Market Share[5]	6.4%	+35 bps
Global Markets Average Assets	$786B	+16%
Equities Sales & Trading Revenues (incl. DVA)	$6.4B	+43%

[1] As of November, 2021. Includes clients in Consumer, Small Business and Global Wealth and Investment Management (GWIM).
[2] AUM stands for Assets Under Management. Represents Consumer and GWIM AUM flows.
[3] GTS stands for Global Transaction Services.
[4] Volume represents number of transactions; value represents notional dollars.
[5] As per Dealogic data for the respective periods; includes self-led and asset-backed securities and mortgage-backed securities.

3

BAC remains a favored holding in many of our diversified portfolios as we continue to appreciate the bank's propensity to stretch its technological capability, with increasing digitization of transactions driving continued efficiencies over time. Shares trade at a very reasonable forward P/E multiple of 14. The dividend yield is 1.9% and our Target Price has been bumped up to $55.

Perhaps it was the analysts that missed this go around. Per share profits for **Goldman Sachs** (GS – $343.91) were some 7% below the Street consensus figure, which was attributed to higher wages. But given the flurry of investment banking activity last year from a significant increase in completed mergers and acquisitions volumes, one might have expected an above-average bonus season was around the corner. Indeed, the Wall Street powerhouse produced $14.9 billion of banking fees in 2021, 58% higher than the 2020 figure (which was 22% higher than 2019). The market rebound from the pandemic lows also supported strong asset management revenue as Goldman produced a 24% return on tangible equity. Book value per share now stands at $284.39 as of quarter end, a cumulative 30% improvement over the past two years.

Goldman CEO Dave Solomon stated, "Our record annual revenues demonstrate that our client-oriented strategy is working. Investment banking had an extraordinary year as clients remained incredibly active and turned to Goldman Sachs time and time again for our industry-leading M&A and capital markets advice and execution. In this business, where we have been the dominant M&A adviser over the last 25 years, we produced segment revenues that exceeded the previous record by over $5 billion. Our Asset Management and Wealth Management business both had record years. We're advancing our strategy to expand our third-party alternatives platform where we are a top 5 alternative asset manager globally. In the last 2 years, we have raised over $100 billion in commitments against our 5-year goal of $150 billion. We are keenly focused on growing this business, and we'll be updating our long-term goals. We are also proud to run the fifth largest active asset manager globally with assets under supervision of a record $2.5 trillion. During the year, we generated a record $130 billion in long-term net inflows across the platform. Despite our strong market position and inflows, we are on a path to grow our Asset Management and Wealth Management businesses further and drive higher fee-related revenues. Finally, I continue to be excited by our creation of the consumer banking platform of the future, where we are enabling over 10 million customers to take control of their financial lives. Last week, we introduced My GM Rewards card, and we look forward to the addition of GreenSky later this quarter and the launch of checking later this year."

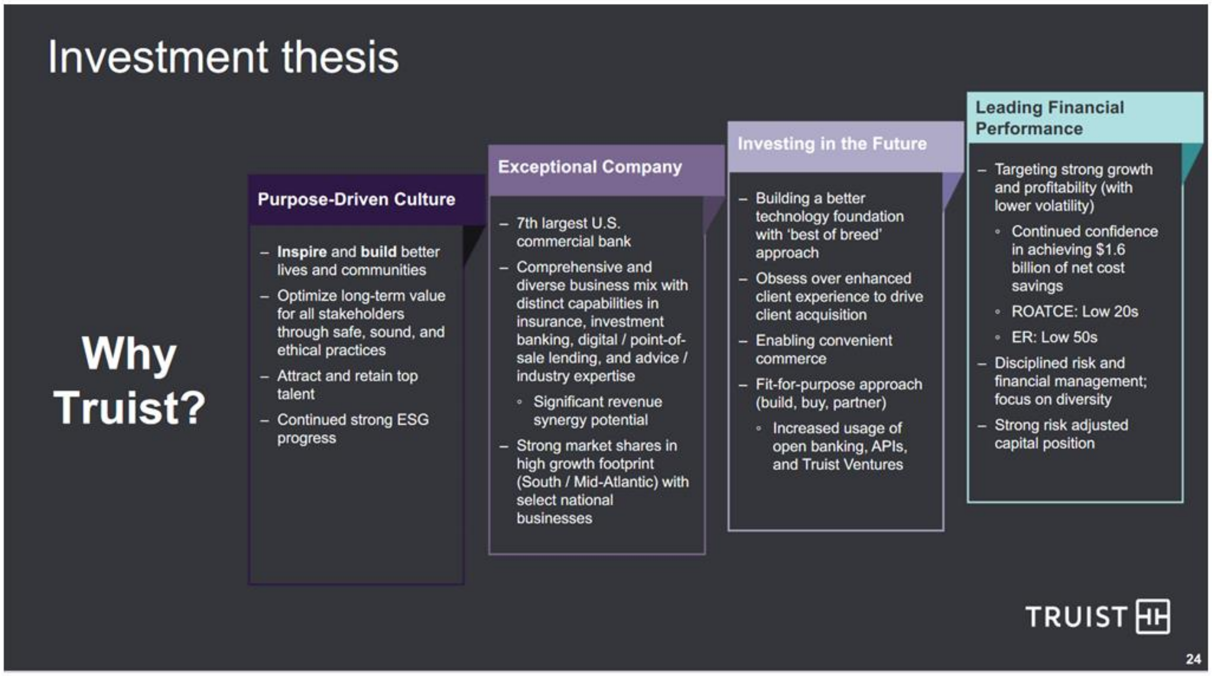
Shares were under pressure over the past week, falling nearly 10% amid the earnings-induced market dip. All said, we continue to find the stock attractively valued, trading at less than 9 times a very achievable Street EPS projection of more than $40.00 for 2022. We continue to like the healthy balance sheet and ongoing sound strategic repositioning. The build-out of its traditional banking and investment management businesses should serve shareholders well in the long run, as almost two-thirds of Goldman's revenue still comes from its investment banking and global markets trading business segments. We continue to like that the ultimate goal of Goldman's evolution is to change the trading and deal making titan into a more well-rounded financial firm with more stable consumer and commercial businesses. The dividend yield is 2.3% and our Target Price remains $477.

A strong quarter for **Truist Financial** (TFC – $61.47) wasn't enough to avoid the selloff last week, with shares down 9% over the four trading days. The southeastern U.S. regional banking powerhouse earned an adjusted $1.38 per share (vs. $1.21 est.), a 17% improvement over Q4 2021. A 4.9% increase in securities balances lifted average earning assets by 2% versus Q3 2021. Net interest margin was down 5 basis points to 2.76%, mostly from the impact of purchase accounting amortization, lower PPP loan fees and elevated liquidity levels. Truist generated a 22.6% adjusted return on tangible common equity for the second quarter in a row, which was still a strong 19.6% excluding reserve releases. For 2022, management expects total revenue to grow 2% to 4% as a result of higher net interest income, and for inflation, increased investments and expenses to add 1% to 2% of adjusted non-interest expense relative to 2021.

CEO William Rogers commented on the state of the BB&T/SunTrust merger that created Truist and gave a brief recap of the prior year, "We completed the first part of the core bank conversion in mid-October by migrating our heritage BB&T clients to the Truist ecosystem. As part of the conversion, we launched the newest — the new truist.com as well as our digital commerce account opening platform. Since then, our integration teams have completed 2 successful dress rehearsals for our final conversion, 1 in mid-December and 1 just this past weekend. I want to personally thank our teammates for their hard work and dedication to this effort. Because of them, we're on track for the final core conversion in February, during which our heritage SunTrust clients will be migrated to the Truist ecosystem."

He added, "Looking at full year 2021, Truist had a productive year across multiple dimensions. From a financial perspective, we generated significant adjusted net income of $7.5 billion or $5.53 per share and had an adjusted ROTCE of 22%. While our earnings undoubtedly benefited from a $3 billion lower loan loss provision due to the improving economy, we also demonstrated the strength of our diverse business mix. Fee income, excluding security gains, increased a very strong 10% as we are firing on multiple cylinders. This performance helped offset a 45% decline in mortgage fee income and a 6% decrease in net interest income. We also continue to deliver on our cost save programs, evidenced by an adjusted expenses increasing only 1% during the year, which saw much larger increases in fee income. We also experienced a reduction in our risk profile due to the improving economy and merger integration progress, which enabled us to reduce the CET1 target by 25 basis points to 9.75% and deploy significantly more capital. Overall, we were able to make great progress on multiple fronts despite continued headwinds from the pandemic while delivering improved financial performance for our shareholders."

CFO Daryl Bible offered color on the positioning of Truist's portfolio to account for pending rate hikes, "Overall, Truist intentionally maintained a balanced approach to managing interest rate risk, enhancing current earnings while being in a position to take advantage of higher rates, both at the short and long ends of the curve. We estimate a 100 basis point ramp increase in rates would increase NII by 5%. A 100 basis point shock would increase NII by 10%. Approximately 75% of this reported asset sensitivity is from the short end of the curve. As a rule of thumb, 125 basis point Fed hike with a 25% beta would increase net interest income by $25 million per month and increase net interest margin 6 basis points, all else being equal."



We continue to find the marriage of BB&T and SunTrust favorable, given the conservative lending culture and competitive brands that both banks had independently, and the potential for cost savings. Mr. Rogers suggested that "total merger costs will be cut approximately in half in 2022 compared to last year and then fall out of our expense base entirely after this year." We'll be watching for operating leverage to improve as benefits from the merger flow through. In particular, management has guided for expenses and headcount to trend downward going forward, with the opposite expected of loan growth and net interest income. We think TFC trades at an attractive forward P/E ratio of 13, and, although share repurchases are on pause for now, we find the yield of 3.1% very appealing. Our Target Price has been raised to $76.

Fresh off the completion of its integration of U.S. BBVA assets, **PNC Financial** (PNC – $200.96) reported last week that it earned $3.68 per share in Q4. The quarter was the weakest of the year but represented a 13% and 8% respective improvement to the comparable periods in 2020 and 2019. Total revenue of $5.1 billion decreased $70 million compared to Q3, reflecting lower non-interest income. Net interest income of $2.9 billion was up slightly, primarily a result of higher securities balances, while net interest margin (2.27%) was stable versus versus Q3. Average loans trended lower by 1% (to $288.9 billion) versus Q3 as growth in commercial and consumer loans was more than offset by a decline in PPP loans. Deposits were $457.3 billion at quarter end.

CEO Bill Demchak commented, “Critical to our long-term success has been the quality and stability of our talent, and we pride ourselves as being an employer of choice, given the recent dynamics of the substantially increased competition for talent. In part due to the great resignation, we experienced greater wage pressure during the fourth quarter, and I expect that to persist into the coming year. Naturally, we’ll look to offset these increases with our continuous improvement efforts, which include driving further automation and rethinking core processes. We continue to invest in technology to enhance our capabilities in an increasingly digital world. Customers are looking to their financial providers to offer innovative tools that help them manage their money in ways that are faster, smarter and more convenient, whether that be expanded use cases for Zelle where transaction volumes are up 50% or low cash flow. For example, by providing account transparency and control, low cash mode has substantially reduced customer overdraft fees and related complaints.”

CFO Robert Q. Reilly offered guidance for the bank and rate expectations in the year to come, “We expect strong growth over the course of 2022, resulting in 3.5% GDP growth. We also expect four 25 basis point increases in the Fed funds rate in 2022, beginning in May, followed by additional increases in June, September and December. Looking ahead, our full year guidance for 2022 includes the impact of 12-months of BBVA USA results compared to only 7-months in 2021. Taking that into account, our outlook for full year 2022 compared to 2021 results is as follows: We expect average loan growth of approximately 10% and 5% on a spot basis. We expect total revenue growth to be 8% to 10%. We expect expenses, excluding integration expense to be up 4% to 6%. And to be clear here, this includes 5 additional months of BBVA USA operating expenses, which equates to a full year increase of approximately $500 million, and we expect our effective tax rate to be approximately 18%.”

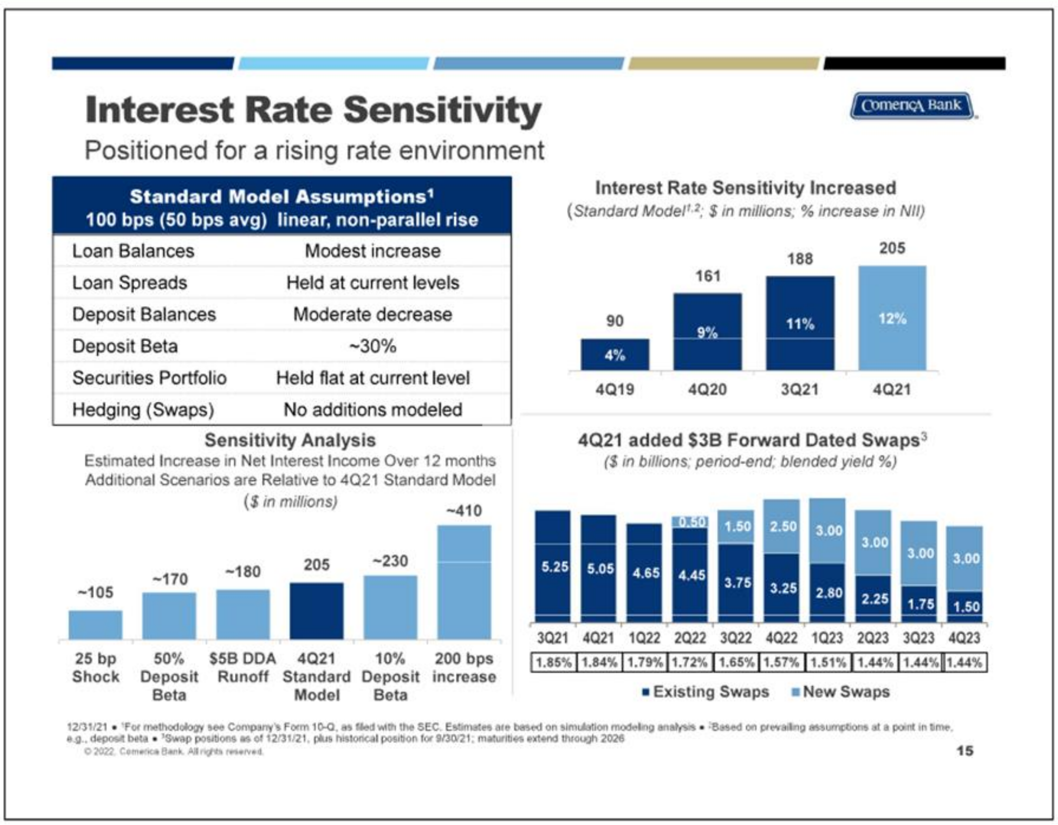
As we mentioned a quarter ago, we like the BBVA USA acquisition, which gives PNC access to 29 of the top 30 Metropolitan Statistical Areas across the country and provides a runway for prolonged growth in these new markets, and we are impressed with the speed at which the bank was integrated. A convergence of factors early this year (steepening yield curve, very low-cost funding, strong capital bases, etc.) have led us to raise Target Prices for our bank holdings in general. With nearly 60% of income from rate spreads and strong credit performance, we expect these factors to immensely benefit PNC, which has grown its tangible book value per share by nearly 11% per annum over the past decade. Shares trade below 13 times an EPS figure that is expected to grow in a low-double digit rage over the next two years. The dividend yield for PNC is a healthy 2.5% and our Target Price has been boosted to $240.

Shares of **Comerica Inc.** (CMA – $89.70) ended the week down more than 11% even as the regional bank earned an adjusted $1.66 per share in Q4, versus the average forecast of $1.58. The figure was a strong 11% improvement year-over-year but was below the pre-pandemic comparable quarter for the second period in a row. With well-known exposures and sensitivities to interest rate movements, non-interest income fared better on a relative basis in Q4 (improving 11%), even as net-interest income generated over 60% of total revenue. Net interest margin contracted 19 basis points though funding costs remain in check at 6 basis points, with lots of room for additional lending as the loan-to-deposit ratio is just 60% (down from about 80% before the pandemic).

CEO Curt Farmer commented, "With respect to the fourth quarter, excluding a nearly $1 billion decrease in PPP loans, average loans grew more than $600 million and we continued to drive very strong deposit growth. Robust fee income, exceptional credit quality and continued active capital management were also positive contributors to our performance. Expenses reflect investments in our people and technology to support our revenue-generating activities. As we look forward to the year ahead, we remain keenly focused on driving growth while maintaining our proven expense discipline as we invest in our businesses. Our customers and colleagues have successfully navigated the challenges of the past two years and today stand stronger and more confident about the future. We expect economic metrics to remain relatively strong this year. Our chief economist forecast real GDP to increase over 4% in 2022. We believe each of our primary markets California, Texas and Michigan should perform at or above that level. Our customers and colleagues have successfully navigated the challenges of the past 2 years and today stand stronger and more confident about the future."

THE PRUDENT SPECULATOR

CMA – POSITIONED FOR A RISING RATE ENVIRONMENT



Comerica CFO James Herzog fielded a question regarding the latest adjustments to the bank's rate sensitivity, "I hear some saying you should hold off, and I see some saying, why aren't you taking advantage of this and moving faster. And to me, those opinions are equally divided. Our answer is that we want to be measured and methodical in terms of how we do this. To the extent you hold off for higher rates and look to hit that home run someday, there's obviously opportunity costs or carrying costs that you're imposing upon shareholders over that short to medium term. So that's something we're very cognitive of. We also know from the last decade plus, there's no guarantee that rates will go perpetually up, and they can turn at any time with the black swan events that we've seen and so on over the last several years. And so, we are going to move very methodically. But we're not going to move all at once either because we are cognitive of the fact that rates could go higher and higher. So, we think steady and consistent progress makes sense. We've been moving on this. But again, we're moving at a pretty measured pace to your point. We are leaving some there in the kind of out quarters to make sure we take advantage of what could be a persistent rise in rates. But we're not going to sit on the sidelines and wait for that home run someday either. So, we feel really good about being in the middle of the road and just making consistent measured progress."

Credit quality is robust as loan loss allowances are 2.3 times non-performing loans and CMA experienced net recoveries for the quarter and year. Oft-criticized CRE loans are down roughly 71% to $28 billion from the end of Q3, with roughly half of the company's CRE portfolio tied to multifamily housing, which continues to experience solid demand amid a tight housing backdrop. CFO James Herzog stated, "Commercial real estate was impacted by significant paydowns. However, loan production remained strong, and our pipeline and line commitments increased in the fourth quarter."

We like that the bank has one of the most attractive deposit franchises and its growth in Texas and California has helped diversify risk in Michigan, where it remains a dominant player. We are fond of Comerica's longer-term prospects as the company realizes value from its deep, advisor-style relationships with small and midsize business clients. Fee income and wealth management also help support the bottom line as we await improvement of interest rate spreads. Shares offer a dividend yield of 3.0%. Our Target Price for CMA is now $108.

Midwestern regional **Old National Bank** (ONB – $18.63) earned $0.37 per share in Q4, when adjusted for merger-related costs, which amounted to $6.7 million. Overall, total earning assets grew 7.6% throughout the year to $21.8 billion at quarter end. A significant portion of the increase is from a more than $1 billion pad to the securities portfolio, although the commercial loan book (excluding PPP loans) did grow 7.2% year-over-year to $9.6 billion. As with most of the banks we own, credit costs were nary a concern for the quarter as well as deposit costs, which declined 1 basis point to 0.05%.

Even as the two parties await Federal Reserve approval, ONB's is moving closer to its merger with First Midwest, boasting of the finalization of core systems and communication of new organizational charts internally. CEO Jim Ryan mentioned that the banks are recruiting talent to round out their presence in major metropolitan areas. He explained, "A quick update on hiring. We opportunistically added significant count during the quarter, especially on our commercial and wealth management teams. Building upon our recent success in St. Louis, we have hired 2 industry veterans to start an LPO in Kansas City, which should be operating at full strength later in the quarter. We've also begun recruiting talent in Chicago, anticipating that Chicago and Minneapolis will be a significant focus in 2022. In summary, our talent pipeline remains strong. I am personally active in recruiting key team members, and we will continue to make these vital investments throughout the year."

No doubt, our continued ownership of ONB is predicated on the view that the merger of equals would offer scale and operating leverage to a Midwestern-focused regional bank. And Mr. Ryan claims that he expects to achieve 100% of the $109 million savings target from the merger by 2023, even as delayed systems conversion had pushed the original target back by a year. Still, we have some skepticism, given calls for headcount growth when most major banks are seemingly headed in the other direction, clamoring for digitization instead.

We do still favor the conservative culture, particularly since the Great Financial Crisis, and an above-average dividend that puts the yield at 3.0% (although share repurchases are likely to stay on pause during the merger integration). And the stock still appears inexpensive at 1.6 times tangible book value per share, but we'll be watching for net interest spreads and yields to turn in the right direction (NIM contracted 49 basis points throughout 2021) as we move into 2022. With each stock fighting for a place in our broadly diversified portfolios and a relatively lighter weight stake in Old National, our patience with ONB is not without its limits. For now, our Target Price remains $24.

Bank of New York Mellon (BK – $57.18) turned in Q4 results that were in-line with expectations, with only a relatively modest $17 million benefit from a release of credit loss reserves. For the quarter, the financial services giant posted EPS of $1.01, compared to $0.79 in the year-ago period, while net interest margin at 0.71% came in a basis point better than expected. The income statement continued to be hit by money market fee waivers, given the very-low short-term interest rate climate, with a net impact of $243 million in the quarter. Fee revenue rose by 4%, due to higher volumes and market values, but net interest revenue decreased slightly due to lower rates on interest-earning assets and the impact of hedging activities.

Assets under custody and/or administration rose 14% on a year-over-year basis to $46.7 trillion, while assets under management climbed 10% to $2.4 trillion, reflecting higher market values and client inflows. The company repurchased 22 million common shares for $1.2 billion (roughly $54 per share) during the quarter bringing the total for all of 2021 to 89.7 million shares (at $51 per share).

Looking back at all of 2021, CEO Todd Gibbons explained, "Full-year EPS of $4.14 was up 8% year-over-year as the benefits of a supportive market backdrop and a benign credit environment together with our meaningfully improved organic growth more than offset the stiff headwind of lower interest rates. Having started 2021 with a significant amount of excess capital combined with our strong capital generation throughout the year allowed us to return $5.7 billion – or 160% of earnings – to our shareholders through common dividends and share repurchases…We made significant progress towards advancing our strategic priorities and growth agenda, and we delivered solid and improved financial results. Three broad themes really stood out: Our outstanding sales performance and improved broad-based organic growth, the number of innovative products and solutions that we're bringing to the market across our businesses, and our enhanced effectiveness in delivering the full breadth of Securities Services, Market and Wealth Services, and Investment and Wealth Management with better, more holistic solutions for our clients."

Looking ahead, Mr. Gibbons stated, “The pace of innovation across the firm, including in areas such as digital assets, real-time payments, the Future of Collateral and Pershing X – to name just a few – gives me great confidence in our growth prospects. As we look to 2022 and beyond, we expect double-digit EPS growth as we are determined to continue delivering consistent organic growth which, together with the current expectation for higher rates, should allow us to generate positive operating leverage, while at the same time continue investing in the growth and efficiency of our businesses.”

BNY’s strong market position (particularly in its Pershing business and certain other asset services offerings) and investments in technology contribute to a sticky client base able to support substantial fee business. Certainly, the stock has enjoyed strong performance (up 40%) over the last 12 months, so we have been pleased with the substantial rebound off the pandemic lows. That does limit the upside potential from here, even as our Target Price has been boosted to $71 and we like the relatively unique exposure. Still, we are keeping a close eye on the shares, especially as our current holding is relatively small, though the bottom-line EPS expectations from the analyst community now stand at $4.69 for 2022, $5.72 for 2023 and $6.29 for 2024. Those numbers look like something one would see for a growth stock, yet BK sports a Value trailing-P/E ratio below of 14 and a 9 multiple based on the 2024 estimate.

Bank OZK (OZK – $48.15) posted record earnings of $1.17 per share in Q4, some 20% better than the analyst estimate as negative loan loss provisions added $0.06 to the bottom line. But, pre-tax, pre-provision net revenue was $186 million for the quarter and $675 million for all of 2021, 14.2% and 16.4% respective increases year-over-year, as minimum interest and other interest income from repayments and short-term extensions totaled approximately $22 million, compared to a typical average of approximately $6 million per quarter. Non-purchased loans now represent almost 97% of the total loan book and 72.5% of average earning assets, and the yield on this part of the book was 5.83%, an increase of 56 bps from the fourth quarter of 2020, and an increase of 44 bps from the third quarter of 2021. Solid expense control and strong asset quality combined to generate another 15% return on tangible equity. Also notable, funding costs remain well intact, as non-interest-bearing deposits now represent 25% of the total compared to 19% a year ago.

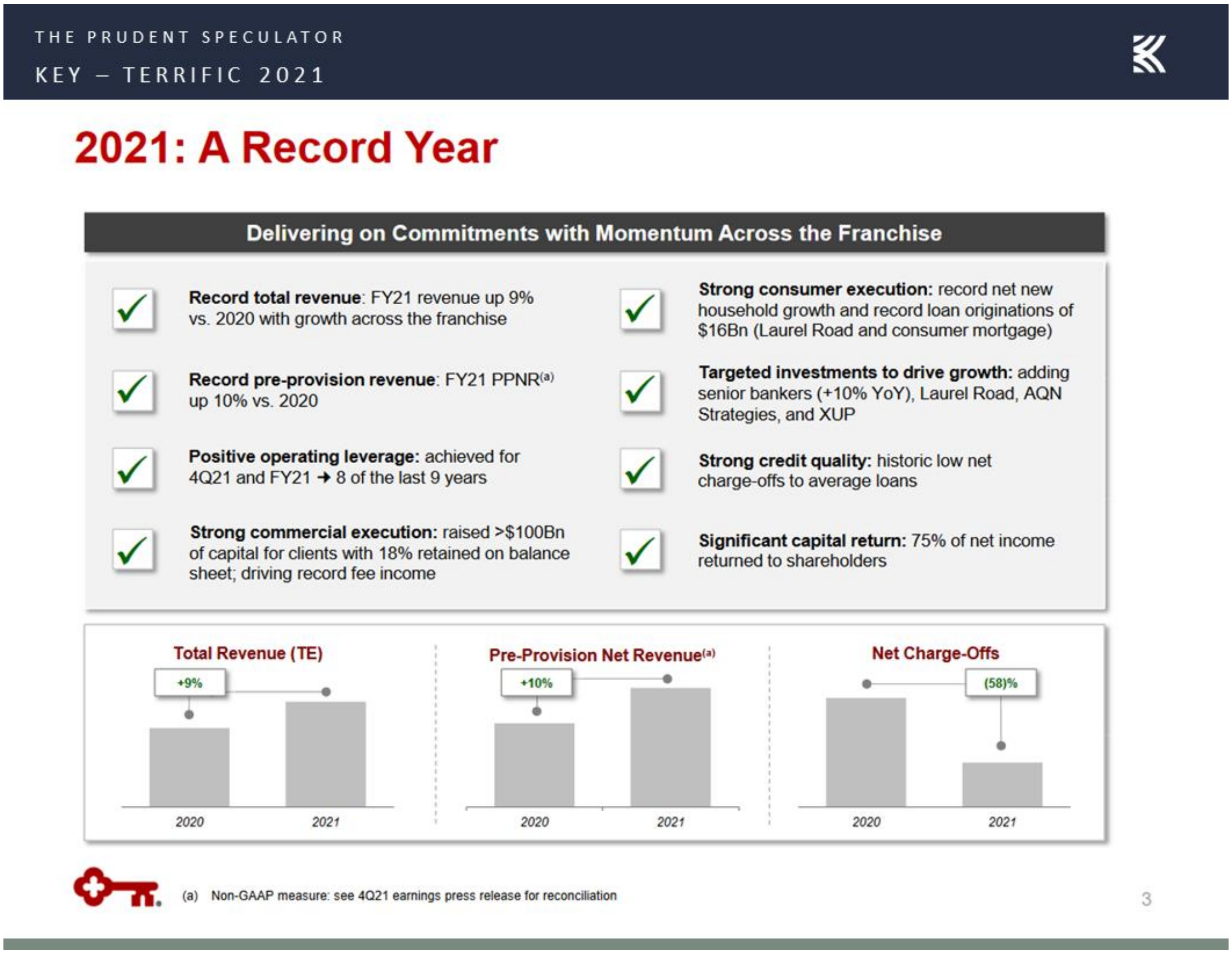
CEO George Gleason stated, "We are pleased to report our excellent results for the fourth quarter and full year of 2021 – results that were record setting in many respects. We were particularly pleased to report our highest ever level of quarterly RESG loan originations, as organic growth is an important component of our long-term strategy to increase shareholder value. Our strong capital and liquidity, disciplined credit culture and outstanding team have us well positioned for the future."

The board increased the size of the bank's stock repurchase program from $300 million up to $650 million. During Q4, management bought back 3,387,421 shares at a weighted average cost of $46.16, with 4,275,988 shares purchased for the full year at a weighted average cost of $45.21.

We continue to favor Bank OZK's strategy of growth through the slow building and acquisition of individual branches rather than the consolidation of entire banks. Mr. Gleason has stated this strategy makes culture assimilation easier, which contributes to an impressive efficiency ratio that has averaged roughly 41% over the past decade. We also like the unique exposure OZK offers to commercial and industrial lending, a typically more volatile segment of banking, as it has been able to produce above average net interest margins while experiencing mild loan losses (relative to peers) throughout its history. With a dividend yield of 2.5%, our Target Price has been boosted to $66.

KeyCorp (KEY – $24.79) released bottom-line Q4 results that beat the consensus analyst estimate by 14%. The regional bank earned $0.64 per share last quarter, an 11% improvement year-over-year. Key continues to operate with a lot of balance, with fee and net interest income split roughly down the middle. Much like peers, the issue of excess liquidity remains as deposits keep rolling in, although this is a problem we welcome as funding costs remain well under control. Net loan charge-offs for the fourth quarter totaled 0.08% of average total loans, down from 0.53% in Q4 2020. Key's allowance for credit losses stands at 1.20% of total period-end loans.

CEO Chris Gorman commented, "Our fourth quarter results marked a strong finish to a record year for Key. Leveraging our distinctive business model, we continue to add and deepen relationships with clients across both our consumer and commercial businesses. We are also seeing significant momentum from recent investments we have made in teammates, niche businesses and digital capabilities. Our team generated record revenue for both the quarter and the year. We delivered broad-based growth across each of our businesses. Our consumer business produced both record household growth and record consumer loan originations. In our commercial businesses, we raised over $100 billion for the benefit of our clients. Our collective focus on sound, profitable growth is evidenced by our strong credit quality. I am very proud of all that we accomplished this year."



CFO Don Kimble offered guidance for 2022, "Average loans will be up low single digits on a reported basis. Excluding PPP and the impact of the sale of our indirect auto business, average loans will be up low double digits. We expect continued growth in average deposits, which should be up low single digits. Net interest income is expected to be relatively stable, reflecting lower fees from PPP forgiveness, offset by growth in average earning assets, primarily loan balances. Our guidance assumes 3 rate increases in 2022, with the last one in December, which would not have a meaningful impact on our results for the year. On a reported basis, noninterest income would be down low single digits, reflecting lower prepaid card revenue related to the support of government programs. Excluding prepaid card, our noninterest income would be relatively stable. We expect noninterest expense to be down low single digits, once again, adjusting for the expected reduction in expenses related to prepaid cards, expenses would be relatively stable…Given our strong credit trends, we would expect lower loss rates to remain below our range early in the year and to move modestly higher later in the year."

Despite the obvious challenges from tepid loan demand plaguing most U.S. banks, KEY appears to be firing on all cylinders as we note a return on tangible common equity of almost 19% in Q4. We expect any rate spread increases to be the cherry on top as utilization rates for commercial customers are expected to ramp this year. Meantime, we appreciate the bank's capital return programs, noting that 75% of 2021 net income was returned to shareholders in the form of dividends and share repurchases. Although the stock has outperformed the KBW index over the past 12 months, KEY sports a reasonable forward P/E ratio below 12 and a handsome dividend yield of 3.2%. Our Target Price has been bumped to $30.

Fifth Third Bancorp (FITB – $45.04) reported Q4 adjusted earnings per share of $0.93, beating the consensus analyst estimates ($0.90). Net interest margin held up better than peers, only contracting 5 basis points throughout the year to 2.55%. Deposits balances at year end were $167.5 billion, a 33% increase from 2019. Fifth Third also announced the strategic acquisition of Dividend Finance, a point-of-sale consumer lender focused on sustainable energy solutions (the transaction is expected to close in 2Q22).

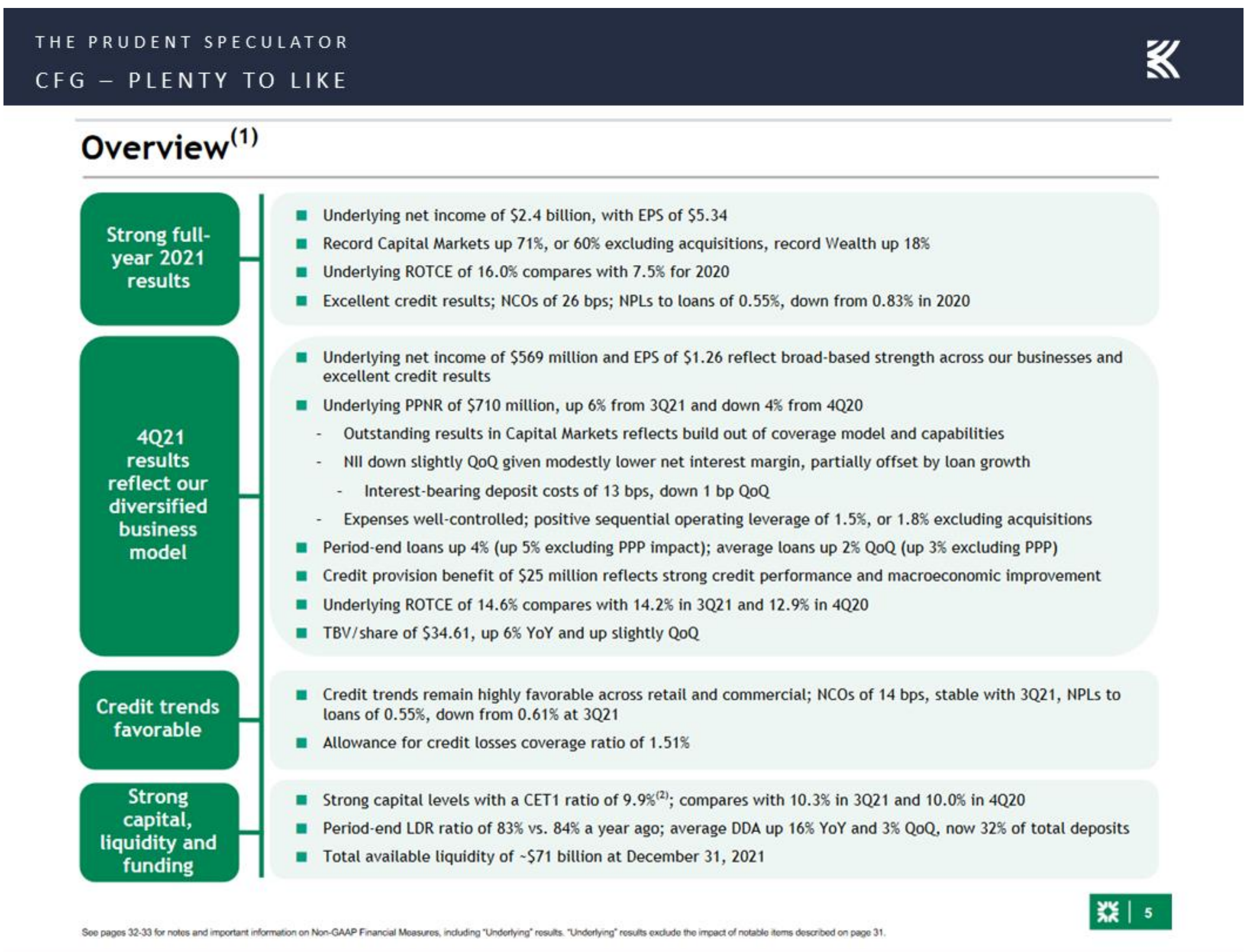
CEO Greg Carmichael recapped, "Fifth Third has continued to deliver strong financial results while fully supporting our customers, communities, and employees. Results for the quarter reflected strong business momentum in most of our businesses, resulting in improved and diversified revenues. Net interest income excluding the impact of PPP increased 2% sequentially, benefiting from robust C&I loan growth while continuing to be disciplined in managing our excess cash position. We generated record commercial banking and wealth and asset management revenue, while mortgage revenue was impacted by environmental factors and our decision to retain a portion of our salable production. We expect the positive momentum in our businesses to carry forward into 2022 and beyond."

He continued, "We had yet another quarter of benign credit results, resulting in a full year net charge-off ratio of just 16 basis points. Additionally, non-performing loans and commercial criticized assets continued to improve. We took action in recognition of the extraordinary efforts made by our front-line employees throughout the pandemic by making a special COVID staffing bonus totaling $10 million in the fourth quarter. We continue to focus on growing strong relationships and managing the balance sheet with a through-the-cycle perspective to generate sustainable long-term value and continue our position as a top performing regional bank."

We continue to think Fifth Third is a quality regional bank with solid pricing power, attractive market share and a loyal client base. Given the significant run (up 50%) over the past year, shares trade above a multiple of tangible book value last seen in 2018 although the multiple of earnings is in line with peers at 13.2 times forward estimates. We'll be watching for commercial loan growth in the coming year. The dividend yield is 2.7% and our Target Price has been raised to $53.

Citizens Financial Group (CFG – $50.62) earned $1.26 per share in Q4, a 21% improvement year-over-year, to bring the full year number to $5.37. A benefit of $3.6 billion less in loan loss provisions throughout the year supported the increase, even as average interest-earning assets were 5% higher in 2021 as average deposits swelled 8% to $153 billion. Tangible book value per share grew 6% year-over-year with a return on tangible common equity of 14%.

CEO Bruce Van Saun offered his outlook for 2022, “Our capital position remained strong with CET1 ratio of 9.9%, giving us a great deal of capital management flexibility in 2022. We have the capital and liquidity to fund the attractive loan growth we expect to see in 2022 while looking for selective acquisitions and ensuring strong returns of capital to shareholders. With respect to our guidance for 2022, we assume solid economic growth of around 4%, several Fed rate hikes and improvement in loan demand. Our top 6 and top 7 programs should allow us to keep expense growth ex acquisitions below 3%, and we’re targeting 2% positive operating leverage, including the bank deals scheduled to close soon and almost 5% ex PPP impact. Credit is expected to continue to be highly favorable, and I’d expect our return on tangible common equity to move over 14% in the second half of the year, potentially reaching 15% in Q4. So all in all, a very strong year of execution and delivery for all stakeholders by citizens in 2021, and we feel we are well positioned to do well in 2022 and continue our journey towards becoming a top-performing bank.”



Management has embarked on a major shopping spree over the past year as CFG scooped up $9 billion of deposits from HSBC in May, announced the acquisition of Investors Bancorp in July for $3.6 billion and added a small capital markets firm, JMP Group, in September. We think the moves complement and round out its existing territory, while adding stability through additional fee generation. Shares rallied big entering the new year but have pulled back of late. We still find them attractive at 1.5 times tangible book value and 12 times earnings expected over the next year, while the dividend yield is a robust 3.1%. Our Target Price now stands at $71.

Shares of **Morgan Stanley** (MS – $98.86) managed to tread water in an otherwise awful weak for financial stocks thanks to the posting of better-than expected EPS of $2.08 for Q4, bringing the full-year figure to $8.22 (a 25% improvement year-over-year). With variability between segments from quarter to quarter, 2021 was a record year for the 86-year-old Wall Street titan and would have been even without contributions from recently acquired Eaton Vance & E-Trade. Strong market performance and asset flows pushed Wealth Management assets to $1 trillion in the past year, bringing total client assets to $6.5 trillion including investment management. Investment banking revenue increased 43% from a year ago, led by higher completed M&A transactions, strong IPO volumes and non-investment grade loan issuance. After posting a 27% pre-tax margin and 19.8% return on tangible equity in 2021, management upped its goals (from the previous range of 26% to 30%, to more than 30% for the former and from a range of 14% to 16%, to 20% for the latter).

CEO James Gorman commented, "We have scale, significant growth opportunities in wealth and investment management, coupled with a leading institutional business, and a strong commitment to capital return. The Morgan Stanley brand has never been stronger. We've been fortunate enough to acquire additional brands in the last few years that have tremendous value in expanding our footprint. The sum of these elements supports multiple expansion for the combined company."

We thought it notable that MS has chosen to buy versus build upon its technology suite. Mr. Gorman elaborated, "We didn't just buy E*TRADE and Solium and Eaton Vance. We bought technology businesses within them, which we would have been developing ourselves. The online banking business within E*TRADE; the Solium workplace platform, which is basically — it's basically software programming business; the Parametric platform with Eaton Vance, all of these are things which if we built would have been very expensive."

Regarding the firm's interest rate outlook, Mr. Gorman added, "We expect approximately $500 million of incremental NII in Wealth Management this year based on the year-end forward curve. Additionally, we expect another $200 million this year from the reversal of fee waivers in our Investment Management business. To further measure our rate sensitivity, we look at what happens if there is an incremental 100 basis point parallel shift in rates beyond the curve. That would deliver another $1.3 billion, which largely goes to the bottom line. While we certainly don't expect this additional shift to happen this year, the firm will clearly benefit substantially as rates rise over the next several years."

MS bought back $2.8 billion of its outstanding common stock during the quarter. Despite strong price gains in the past year, the dividend yield is still an attractive 2.8%. And, while another increase the size of the monster (50%) jump in the payout last April is not in the cards, we would expect a dividend increase around the corner. We continue to like the long-term prospects of MS as the near-decade-long transformation toward advisor-led relationships has improved the stability of its business model. We continue to see MS benefiting from strong capital market activities and room for expanding operating leverage in wealth management. Our Target Price has been lifted to $120.