Market Commentary Monday, February 21, 2022

February 21, 2022

EXECUTIVE SUMMARY

Week in Review – Russian Invasion of Ukraine Said to be Imminent; Stocks End on a Significant Down Note
Volatility – 5% Pullbacks Not Unusual; 10% Corrections Occur Every 11 Months on Average
Fed Tightening – Futures Today Suggest Slightly Less Rate Hikes in 2022 Versus a Week Ago
Econ News – Q1 GDP Growth Outlook Improves Modestly; Strong Retail Sales
Earnings & Dividends – Both Expected to Move Nicely Higher This Year and Next
Valuations – Stocks Still Compare Favorably on an Earnings and Dividend Yield Basis
Rationality Returns – Liking that Investors are Paying Much More Attention to Income Statements
Greedy When Others are Fearful – AAII Bulls Plunge
Stock News – Updates on CSCO, INTC, MRNA, ENS, WHR, WMT, ALB, ALIZY, DLR, NTR & DE

Market Review

With President Biden stating on Friday that he was “convinced” that Russian leader Vladimir Putin had made the decision to to invade Ukraine, the equity markets endured a lousy ending to what had initially appeared to be a promising trading week. No matter the capitalization or the style, all of the market averages ended well into the red,…

MARKET OF STOCKS – INDEXES CAN HAVE WIDE DISPERSION IN RETURNS

While the plunges on 02.17.22 and 02.18.22 turned the week sour, the gap in performance between Value and Growth widened again for the larger-capitalization indexes, with the continued drops in high-flying momentum investor favorites this year bringing back memories of the Value victory when the Tech Bubble burst back in 2000.

Total Returns Matrix

MARKET OF STOCKS

2000	2001	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	-1.77	-5.97	10.24	31.88	90.39	21.42	40.44	84.59	Dow Jones Industrial Average	DJITR Index
1.01	-10.21	-1.57	-4.28	9.60	35.67	95.18	22.40	40.12	61.77	New York Stock Exchange Composite	NYA Index
-22.43	-9.23	-1.83	-15.18	-21.99	12.20	81.56	12.51	28.23	59.28	Russell 2000 Growth	RU20GRTR Index
22.83	14.02	-0.24	-5.62	7.05	55.87	127.50	29.85	34.44	43.19	Russell 2000 Value	RU20VATR Index
-3.02	2.49	-1.00	-10.42	-8.51	32.36	104.74	22.14	32.93	53.02	Russell 2000	RU20INTR Index
-11.75	-20.15	-2.90	-16.00	-11.43	12.56	86.68	20.77	48.55	95.09	Russell Midcap Growth Index Total Return	RUMCGRTR Index
19.18	2.33	-1.20	-5.14	13.88	45.26	122.03	25.71	42.89	54.76	Russell Midcap Value Index Total Return	RUMCVATR Index
8.25	-5.62	-1.76	-9.03	4.31	32.87	110.57	26.16	48.16	74.61	Russell Midcap Index Total Return	RUMCINTR Index
-22.42	-19.63	-1.82	-13.66	3.56	26.12	102.38	38.76	81.08	141.98	Russell 3000 Growth	RU30GRTR Index
8.04	-4.33	-1.43	-3.92	13.66	42.67	99.41	23.07	40.78	56.26	Russell 3000 Value	RU30VATR Index
-7.46	-11.46	-1.62	-9.06	8.39	33.94	102.07	32.08	61.73	97.39	Russell 3000	RU30INTR Index
9.64	-0.39	-1.21	-5.66	15.95	45.75	120.38	35.00	56.94	86.34	S&P 500 Equal Weighted	SPXEWTR Index
-9.10	-11.89	-1.52	-8.57	12.69	35.58	100.26	33.24	65.02	102.63	S&P 500	SPXT Index
-22.08	-12.73	-1.83	-13.45	9.57	30.46	104.16	41.12	80.63	139.06	S&P 500 Growth	SPTRSGX Index
6.08	-11.71	-1.21	-3.14	15.68	41.33	92.19	21.84	45.27	63.55	S&P 500 Value	SPTRSVX Index
-8.29	-17.75	-1.96	-16.14	3.06	27.70	107.29	32.69	60.30	108.77	S&P 500 Pure Growth	SPTRXPG Index
13.16	10.87	-1.46	3.05	25.30	71.72	156.38	30.94	39.60	56.53	S&P 500 Pure Value	SPTRXPV Index

As of 02.18.22. Source Kovitz using data from Bloomberg

…with the S&P 500 suffering its second 5% pullback without an intervening 5% move upward of the year .

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%	BEAR	1/27/2022	2/2/2022	6.08%	BULL
2/2/2022	2/18/2022	-5.24%	BEAR				
Average Drop		-8.88%		**Average Gain**		14.65%	

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 likely has not yet faded from the minds 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 39 setbacks of 5% or more without a comparable move in the other direction (three per year on average), including two already this year. Happily, the selloffs eventually have always been followed by more rewarding rallies, and the popular index today stands at 4348.87.

We respect that many are concerned about additional downside movements in the near term, especially with the story breaking on Sunday afternoon that a U.S. official told *CBSNews*, “The U.S. has intelligence that Russian commanders have received orders to proceed with an invasion of Ukraine, with commanders on the ground making specific plans for how they would maneuver in their sectors of the battlefield.”

We do not fault those worries, and we note that United Kingdom Prime Minister Boris Johnson also proclaimed on Sunday that Russia is planning “the biggest war in Europe since 1945,” but we continue to echo the Vannevar Bush advice, “Fear cannot be banished, but it can be calm and without panic; it can be mitigated by reason and evaluation.”

This time is different, as was every other time, but the equity markets have survived plenty of Russian geopolitical drama over the decades,…

THE PRUDENT SPECULATOR

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

The crisis in the Ukraine has the world on edge and investors are naturally concerned about any potential market fallout. No doubt, nobody knows how the latest tense event will play out, but the equity markets, in the fullness of time, have overcome every other disconcerting entry on the timeline of U.S.-Russia relations.

Major Events in Russia - U.S. History	Date	S&P 500 Value	6 Months Before	6 Months Later	12 Months Later	36 Months Later	60 Months Later	Event thru Present
Korean War Begins	6/25/1950	19.14	15%	5%	11%	26%	114%	22621%
Death of Stalin	3/5/1953	25.79	2%	-9%	3%	79%	61%	16763%
Creation of the Warsaw Pact	5/14/1955	37.44	12%	24%	25%	15%	48%	11516%
Sputnik & The Space Race	10/4/1957	42.79	-4%	-3%	18%	24%	33%	10063%
The U-2 Incident	5/1/1960	54.37	-5%	-1%	20%	29%	64%	7899%
Cuban Missile Crisis	10/16/1962	57.08	-16%	21%	28%	60%	67%	7519%
Soviet Invasion of Czechoslovakia	8/20/1968	98.96	9%	1%	-4%	-1%	3%	4295%
Soviet Invasion of Afghanistan	12/24/1979	107.66	5%	7%	26%	30%	55%	3939%
U.S. Moscow Olympics Boycott	3/21/1980	102.31	-7%	26%	31%	48%	75%	4151%
Downing of Korean Air Flight 007	9/1/1983	164.23	9%	-4%	1%	54%	57%	2548%
Soviet Los Angeles Olympics Boycott	7/28/1984	151.19	-8%	17%	27%	107%	126%	2776%
Chernobyl Disaster	4/26/1986	242.29	29%	-2%	16%	27%	56%	1695%
Fall of Communism in Eastern Europe	8/19/1989	346.03	17%	-4%	-5%	21%	34%	1157%
German Reunification	10/3/1990	311.40	-9%	22%	23%	48%	87%	1297%
Dissolution of the Soviet Union	12/26/1991	404.84	9%	0%	9%	14%	87%	974%
Black Brant: Mistaken Nuclear War Scare	1/25/1995	467.44	3%	20%	32%	105%	202%	830%
Russo-Georgian War	8/7/2008	1,266.07	-5%	-31%	-20%	-5%	34%	243%
Putin Reelected	3/4/2012	1,369.63	17%	3%	11%	53%	74%	218%
Annexation of Crimea	3/21/2014	1,866.52	9%	8%	13%	26%	53%	133%
Skripal Poisoning & Diplomatic Expulsion	3/1/2018	2,473.92	0%	17%	13%	58%		76%
Price Changes Only - Does Not Include Dividends		**Averages:**	**4%**	**6%**	**14%**	**41%**	**70%**	**5036%**

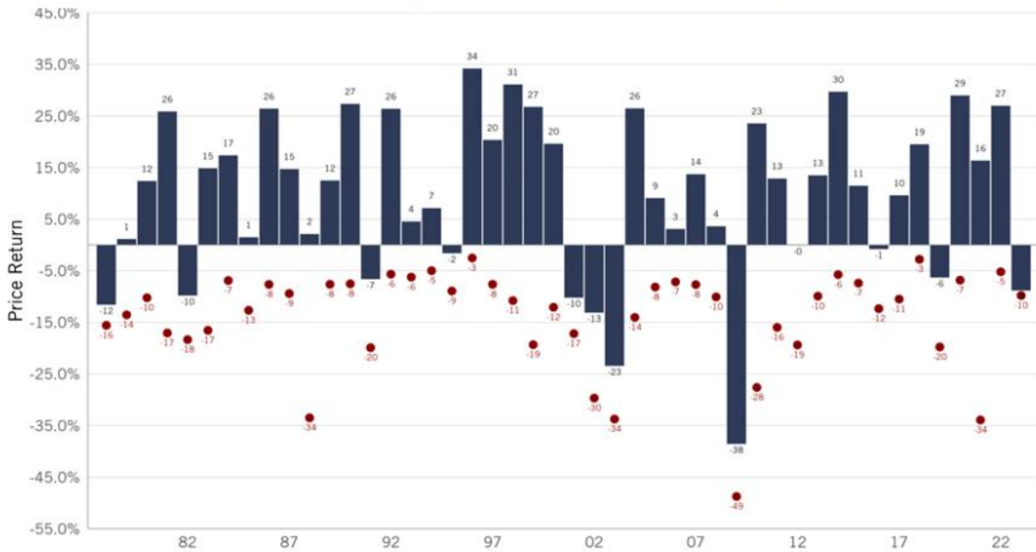
As of 2.18.22. Source: Kovitz using Bloomberg, usrussiarelations.org, state.gov and Wikipedia

…while market setbacks happen every year for a variety of reasons, many of which quickly fade into the background as time marches on.

THE PRUDENT SPECULATOR

A BIG SELLOFF HAPPENS ALMOST EVERY YEAR

While the S&P 500 has enjoyed excellent long-term returns and endured a relatively small number of negative full years since the founding of *The Prudent Speculator* in 1977, there have been corrections of 10% or more in 27 of the 45 years, including this year (on a rounded basis) and a 34% one (on a closing basis) in 2020.



From 12.31.76 through 02.18.22. Price returns do not include dividends. Intra-year drops refer to the largest drops between high and low close prices during a calendar year. 2019 return is year to date. SOURCE: Kovitz using data from Bloomberg Finance L.P.

That is not to downplay the risks of military action in Ukraine, and we realize that the S&P 500 is very close to correction (10% down) territory, but such a setback has taken place every 11 months or so on average. Happily, those trips south have been overcome…and then some…in the fullness of time, so much so that stocks have enjoyed terrific long-term returns over the last 94 years.

THE PRUDENT SPECULATOR

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	308	0.3	1/27/2022	2/2/2022

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	1/27/2022
-5.0%	-10.9%	36	308	0.3	2/2/2022	2/18/2022

From 02.20.28 through 02.18.22. 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	10.8%	18.0%
Non-Dividend Paying Stocks	9.3%	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 12.31.21. 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

Certainly, the Ukranian situation is a big wildcard, but the other major concern for many investors these days, the tightening of monetary policy,…

THE PRUDENT SPECULATOR

FED TIGHTENING – VALUE & DIVIDEND PAYERS THE PLACE TO BE

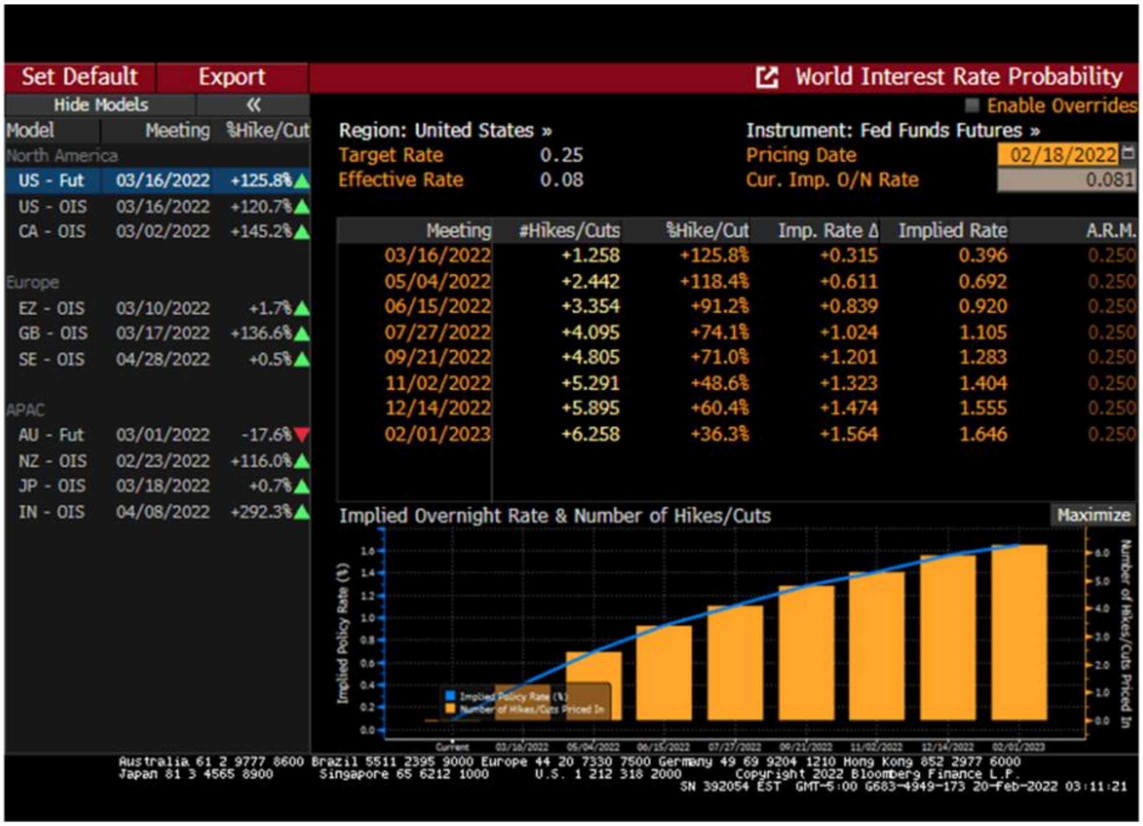
Rates Change and Equities Rise

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%**

…did not seem to get any worse last week, given that the fed funds rate futures are now suggesting that there will be 5.9 interest rate hikes from Jerome H. Powell & Co. this year, down from 6.3 hikes a week ago,…

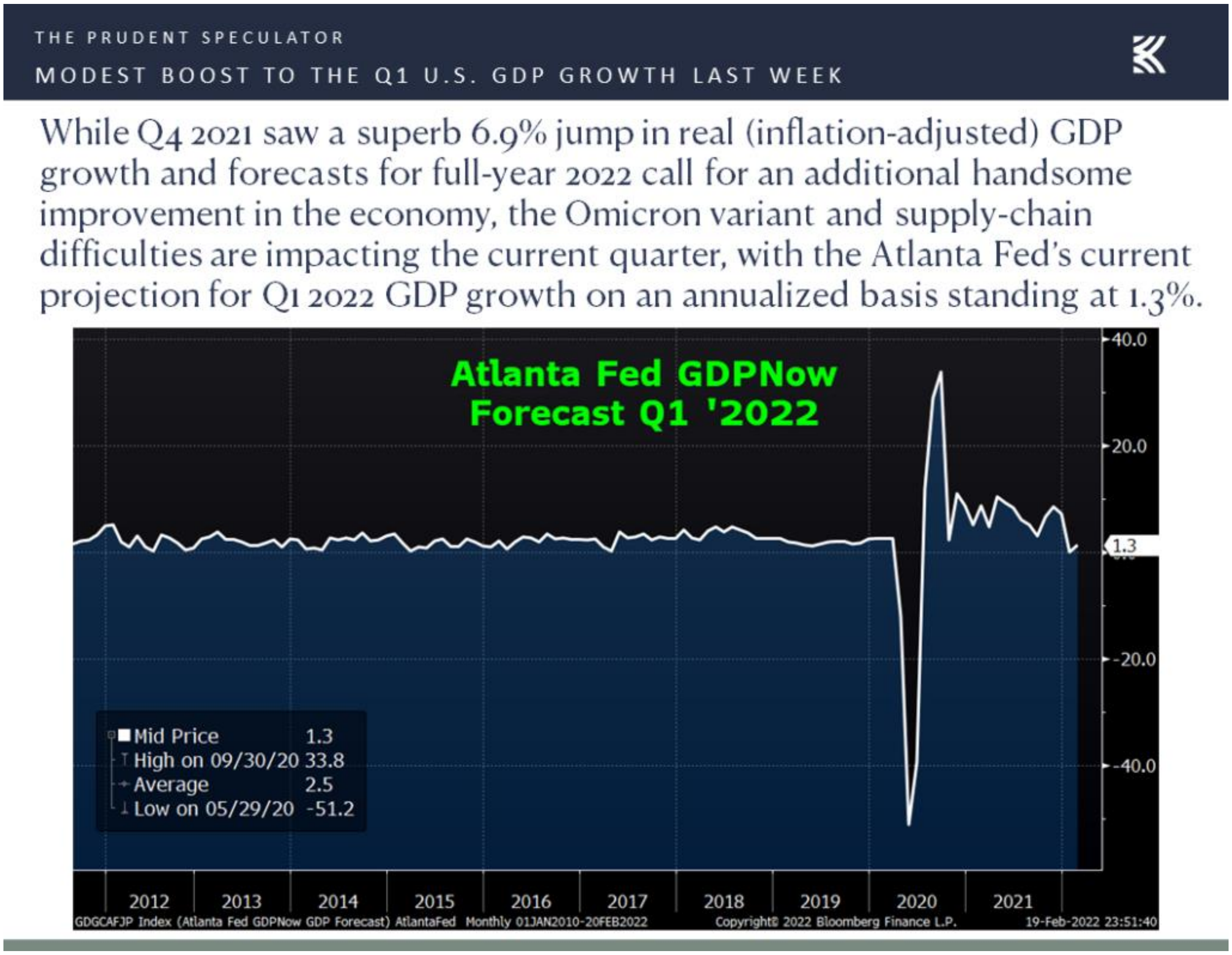
THE PRUDENT SPECULATOR

FED FUNDS RATE ODDS SUGGEST FIVE-PLUS RATE HIKES IN 2022



Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
03/16/2022	+1.258	+125.8%	+0.315	0.396	0.250
05/04/2022	+2.442	+118.4%	+0.611	0.692	0.250
06/15/2022	+3.354	+91.2%	+0.839	0.920	0.250
07/27/2022	+4.095	+74.1%	+1.024	1.105	0.250
09/21/2022	+4.805	+71.0%	+1.201	1.283	0.250
11/02/2022	+5.291	+48.6%	+1.323	1.404	0.250
12/14/2022	+5.895	+60.4%	+1.474	1.555	0.250
02/01/2023	+6.258	+36.3%	+1.564	1.646	0.250

…while the outlook for Q1 U.S. GDP growth improved modestly,…

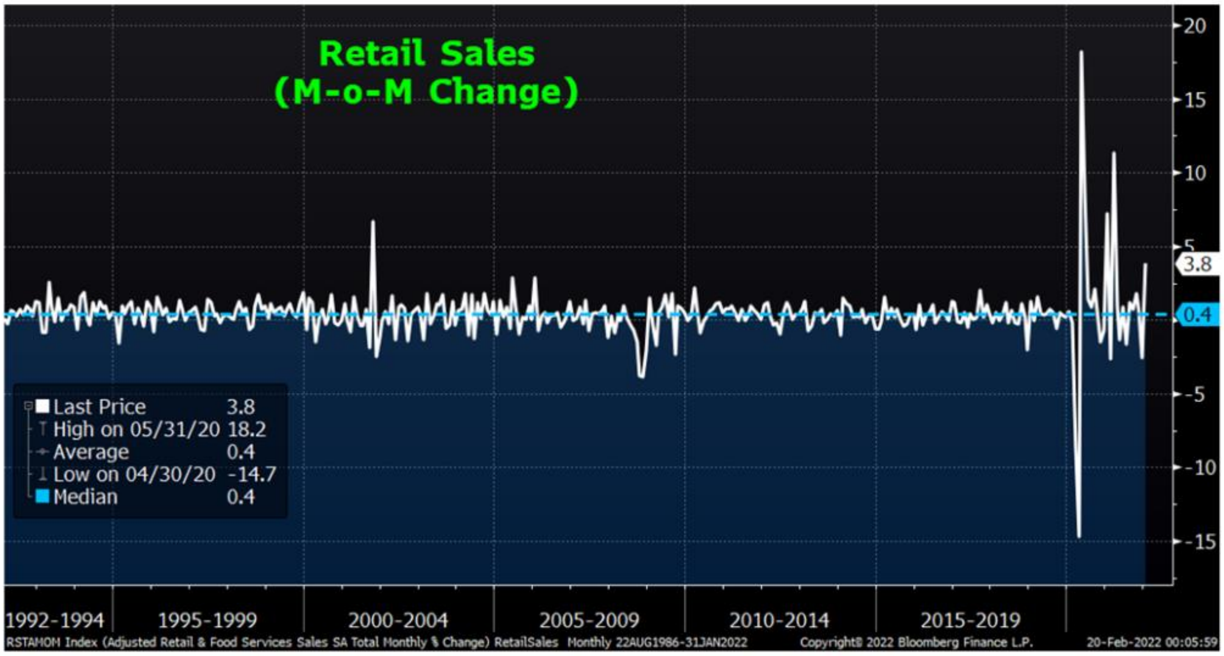


…thanks in large part to a stronger-than-expected report on retail sales.

THE PRUDENT SPECULATOR

RETAIL SALES SOAR, TOPPING EXPECTATIONS IN JANUARY

Despite the Omicron variant, higher prices and product shortages weighing, retail sales jumped 3.8% in January, well above expectations. Excluding autos, sales climbed 3.3%. Despite some year-end softness, retail sales soared 13.0% over the past 12 months.



True, inflation was "credited" for some of the strength in consumer spending, but the labor situation remains very healthy,…

THE PRUDENT SPECULATOR

JOBLESS FILINGS AND CONTINUING CLAIMS NEAR 50+ YEAR LOWS

With the impact on the labor market of Omicron still impacting the numbers, new filings for unemployment benefits for the period ended Feb. 12 came in at a seasonally adjusted 248,000, up 23,000 from the week prior, but still near the lowest tally since 1969 when the work force was much smaller. Continuing claims filed through state programs inched down to 1.59 million, near five-decade lows as businesses continue to hold onto workers.

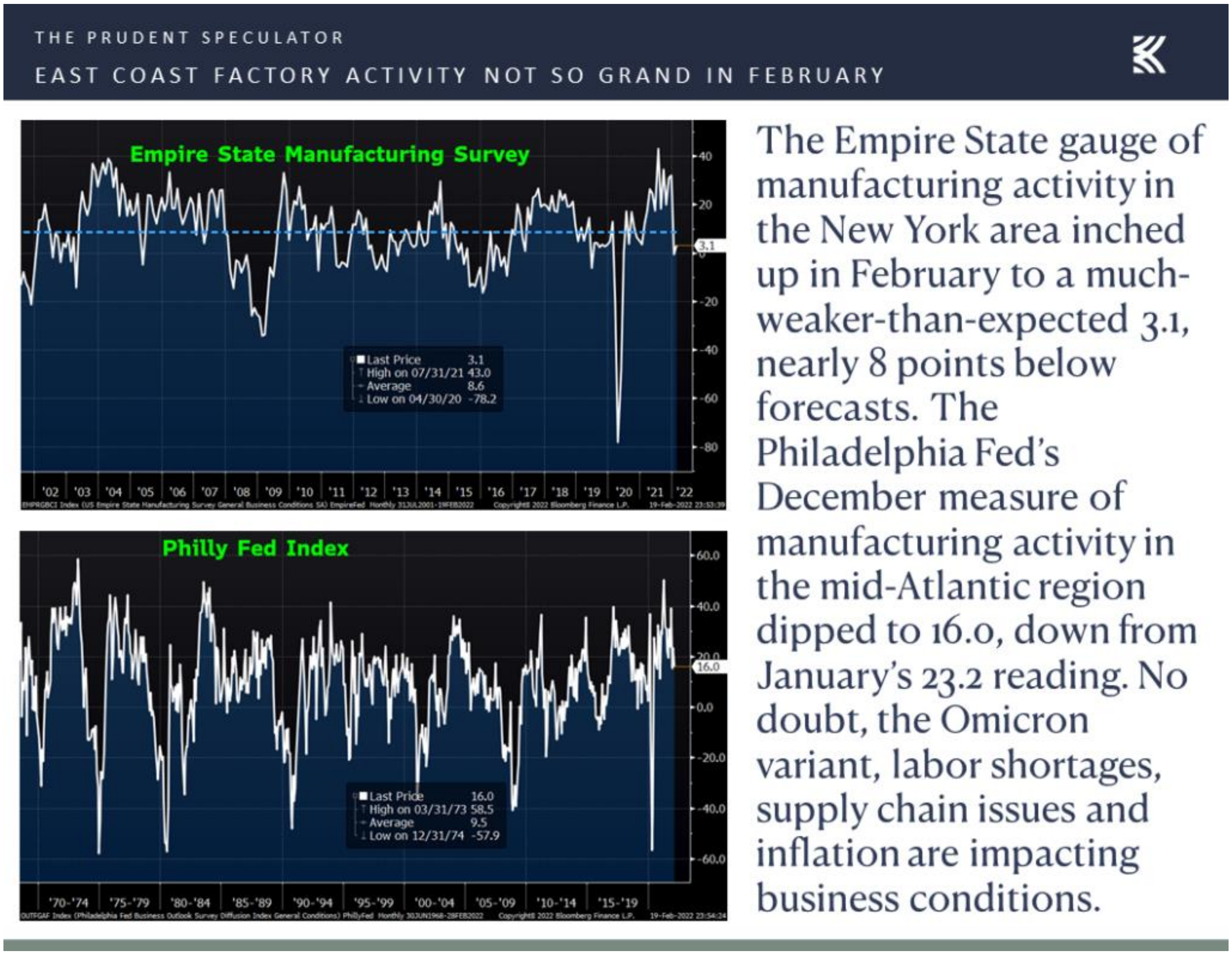
…and the outlook for housing continues to be solid, despite higher mortgage rates.

THE PRUDENT SPECULATOR

HOUSING MARKET REMAINS STRONG

The National Association of Home Builders' monthly confidence index for February met forecasts, inching down to 82, but 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 still hefty seasonally adjusted annual rate of 1.64 million units and building permits rose 1% versus December.

That does not mean that there are no economic concerns, as the latest numbers on manufacturing were disappointing,…



…but the current estimates for full-year real (inflation-adjusted) U.S. GDP growth, per a survey from Bloomberg, stand at 3.7% for 2022, 2.5% for 2023 and 2.1% for 2024, while we note that corporate profit estimates for the S&P 500 this year and next, per projections from Standard & Poor's itself, have been steadily rising over the past five weeks.

THE PRUDENT SPECULATOR

IF A BUSINESS DOES WELL, THE STOCK EVENTUALLY FOLLOWS

Analysts are often overly rosy in their corporate profit outlooks but given the big selloff in the S&P 500 this year, it is interesting that EPS estimates for the index for '22 ($220.31 on 1.13.22, rising to $222.94 on 2.15.22) and '23 ($234.23 on 1.13.22, rising to $243.83 on 2.15.22) have been steadily climbing.

S&P 500 Earnings Per Share

Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2023	$64.69	$243.83
9/30/2023	$62.78	$238.17
6/30/2023	$59.98	$233.15
3/31/2023	$56.38	$228.05
12/31/2022	$59.03	$222.94
9/30/2022	$57.76	$217.93
6/30/2022	$54.88	$212.19
3/31/2022	$51.27	$209.36
12/31/2021	$54.02	$205.50
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 2.15.22

S&P 500 Earnings Per Share

Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2023	$64.08	$242.08
9/30/2023	$62.45	$236.35
6/30/2023	$59.69	$231.41
3/31/2023	$55.86	$226.50
12/31/2022	$58.35	$222.12
9/30/2022	$57.51	$216.36
6/30/2022	$54.78	$210.87
3/31/2022	$51.48	$208.14
12/31/2021	$52.59	$204.07
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 2.4.22

S&P 500 Earnings Per Share

Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2023	$63.35	$240.68
9/30/2023	$62.06	$235.19
6/30/2023	$59.47	$230.39
3/31/2023	$55.80	$225.60
12/31/2022	$57.86	$221.09
9/30/2022	$57.26	$214.60
6/30/2022	$54.68	$209.36
3/31/2022	$51.29	$206.73
12/31/2021	$51.37	$202.85
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 1.27.22

S&P 500 Earnings Per Share

Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
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

Further, Corporate America's coffers are stuffed with cash and management teams seem very willing to share the wealth with stockholders. Indeed, S&P Dow Jones Indices calculated that S&P 500 firms are expected to have bought back at least $265 billion in stock in the fourth quarter, exceeding the third quarter's all-time high of about $235 billion. S&P added, "Buybacks are important since they're adding support for the market. It still looks like it'll be another strong year for buybacks, particularly in the first quarter."

In addition to stock repurchases, we have already seen plenty of dividend increase announcements this year,…

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 inched up in 2020, despite the pandemic and associated economic turmoil, while *TPS* picks Allstate, Walmart, Cisco Systems, Nutrien, Allianz and Whirlpool all just hiked their payouts in the latest week.

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.)	$69.79
2022 (Est.)	$65.09
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 02.18.22

…which we think adds to the appeal of equities versus competing investments,…

THE PRUDENT SPECULATOR

INTEREST RATES STILL VERY SUPPORTIVE OF STOCKS

The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. Though many dismiss the Fed Model, investing is always a choice of this or that, and we like today's rich (and rising) earnings yield (4.44% vs. 1.93% 10-Year) and S&P 500 dividend yield of 1.41%.

…while we sleep much better at night knowing that the earnings yield on TPS Portfolio is 6.9% and the dividend yield is 2.2%.

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	14.4	12.9	1.1	2.5	2.2
ValuePlus	15.1	12.9	1.5	2.5	2.0
Dividend Income	13.4	12.6	1.0	2.3	2.7
Focused Dividend Income	14.7	13.8	1.2	2.5	2.5
Focused ValuePlus	14.3	13.7	1.5	2.6	2.2
Small-Mid Dividend Value	12.0	10.9	0.7	1.6	2.4
Russell 3000	24.9	19.8	2.5	4.1	1.4
Russell 3000 Growth	35.1	26.7	4.2	11.0	0.8
Russell 3000 Value	19.3	15.8	1.8	2.5	2.0
Russell 1000	23.1	19.7	2.7	4.2	1.4
Russell 1000 Growth	32.4	26.2	4.7	12.0	0.8
Russell 1000 Value	17.8	15.8	1.9	2.6	2.0
S&P 500 Index	22.5	19.5	2.8	4.4	1.4
S&P 500 Growth Index	27.1	23.6	5.1	8.6	0.8
S&P 500 Value Index	19.3	16.6	1.9	2.9	2.1
S&P 500 Pure Value Index	12.2	11.0	0.8	1.4	2.4

As of 02.19.22. 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.

*****

Though we never like to see our portfolios in the red, if truth be told we are not unhappy that investors since Halloween have been focusing far more attention on financial fundamentals, with more than a few formerly high-flying stocks seeing losses of incredible magnitude.

THE PRUDENT SPECULATOR

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

November 2, 2021

the Prudent Speculator

Established in March 1977 · 20 Enterprise, Suite 305 · Aliso Viejo, California 92656 · 800.258.7786

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
-30.08	-63.40	Meta Materials Inc	MMAT Equity
-22.07	-22.78	Roundhill Ball Metaverse ETF	METV Equity
-34.19	-49.39	AMC Entertainment Holdings Inc	AMC Equity
-18.10	-33.77	GameStop Corp	GME Equity
-33.50	-66.23	Robinhood Markets Inc	HOOD Equity
-22.18	-30.63	VanEck Social Sentiment ETF	BUZZ Equity
-31.49	-46.12	ARK Innovation ETF	ARKK Equity
		MARKET OF STOCKS	
-5.97	-4.24	Dow Jones Industrial Average TR	DJITR Index
-4.28	-3.05	New York Stock Exchange Composite Index	NYA Index
-15.18	-18.97	Russell 2000 Total Return Growth Index	RU20GRTR Index
-5.62	-5.13	Russell 2000 Total Return Value Index	RU20VATR Index
-10.42	-12.23	Russell 2000 Total Return Index	RU20INTR Index
-16.00	-19.27	Russell Midcap Growth Index Total Return	RUMCGRTR Index
-5.14	-2.25	Russell Midcap Value Index Total Return	RUMCVATR Index
-9.03	-8.62	Russell Midcap Index Total Return	RUMCINTR Index
-13.66	-11.69	Russell 3000 Total Return Growth Index	RU30GRTR Index
-3.92	-1.59	Russell 3000 Total Return Value Index	RU30VATR Index
-9.06	-6.92	Russell 3000 Total Return Index	RU30INTR Index
-5.66	-2.36	S&P 500 Equal Weighted USD Total Return In	SPXEWTR Index
-8.57	-5.13	S&P 500 Total Return Index	SPXT Index
-13.45	-10.05	S&P 500 Growth Total Return Index	SPTRSGX Index
-3.14	0.30	S&P 500 Value Total Return Index	SPTRSVX Index

As of 02.18.22. Source: Kovitz using data from Bloomberg.

That does not mean that all our stocks are immune to the downside volatility, and we note that even when the Tech Bubble burst in the year 2000, the Russell 3000 Value index was hit hard in January and February before rebounding and closing the year with a solid gain. No guarantees that past is prologue, but this year and in 2000, the Russell 3000 Value index made an early high for the year the second week of January…and the Tech Bubble low for Value occurred on February 25.

THE PRUDENT SPECULATOR

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

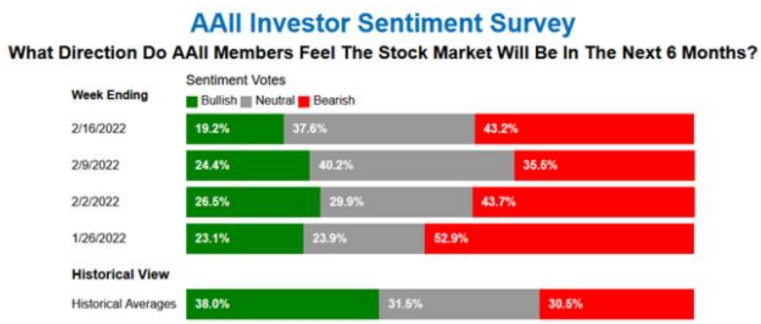
The bursting of the Tech Bubble in the year 2000 led to massive losses for profitless and highly valued Growth stocks. Of course, the upheaval impacted most stocks, with even the Russell 3000 Value index skidding 13% from 01.14.00 to 02.25.00. Happily, that and other setbacks during that volatile year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

It is hard to imagine the recent equity volatility dissipating in the near-term, but we remain optimistic about the long-term prospects for our broadly diversified portfolios of what we believe to be undervalued stocks. And, we never forget the Warren Buffett admonition, "Be fearful when others are greedy, and greedy when others are fearful."

THE PRUDENT SPECULATOR

SUPER AAII CONTRARIAN BUY SIGNAL: BULLS = 19.2%

The gauge is widely viewed with a contrarian eye, so the AAII Sentiment Survey Bull tally plunging to 19.2% this past week is a major equity market buy signal. There have been only 27 less optimistic tallies in the 35-year history of the gauge and the ensuing six-month return during those periods that followed for the Russell 3000 Index averaged a whopping 16.6%, well above the 6.0% average for all periods.



AAII Bulls & Russell 3000 Forward TR

Date	Bulls	1W RET	1M RET	3M RET	6M RET
11/15/1990	12.0	-0.4%	3.6%	18.4%	20.1%
10/6/1988	13.0	0.7%	1.1%	3.2%	9.9%
3/9/1989	13.0	1.7%	1.3%	12.2%	19.9%
9/20/1990	13.0	-3.7%	-0.5%	6.9%	21.5%
10/18/1990	13.0	1.5%	4.5%	10.1%	32.1%
9/3/1992	14.0	0.5%	-1.5%	5.2%	10.7%
2/1/1990	15.0	1.7%	1.9%	1.9%	8.8%
10/4/1990	15.0	-5.5%	-0.5%	4.3%	26.2%
7/21/1988	16.0	-0.3%	-1.9%	6.1%	8.2%
9/13/1990	16.0	-2.3%	-6.4%	4.1%	20.5%
11/22/1990	16.0	0.4%	5.5%	18.1%	23.0%
12/20/1990	16.0	-0.3%	0.6%	13.7%	17.2%
4/14/2005	16.5	0.0%	-0.4%	7.2%	4.2%
9/8/1988	17.0	0.9%	4.3%	3.8%	12.0%
11/24/1988	17.0	1.5%	3.5%	8.4%	21.1%
12/8/1988	17.0	-0.7%	2.1%	7.9%	21.0%
5/26/2016	17.8	1.0%	-2.2%	4.8%	8.2%
1/14/2016	17.9	-2.8%	-3.3%	9.3%	14.4%
9/1/1988	18.0	2.6%	5.2%	5.1%	12.4%
3/30/1989	18.0	1.1%	5.9%	9.7%	20.7%
8/16/1990	18.0	-8.0%	-4.6%	-4.4%	13.3%
7/1/1993	18.0	-0.1%	0.0%	4.3%	5.8%
3/5/2009	18.9	10.3%	24.5%	40.3%	52.7%
5/12/1988	19.0	-0.5%	6.7%	4.4%	7.0%
8/18/1988	19.0	-0.6%	3.6%	2.1%	14.6%
12/1/1988	19.0	1.3%	2.3%	6.9%	20.7%
2/8/1990	19.0	0.6%	2.6%	3.0%	1.9%
2/17/2022	19.2				
27 Period Average		0.0%	2.1%	8.0%	16.6%
All Periods Average		0.2%	0.9%	2.8%	6.0%

Source: American Association of Indivdual Investors and Bloomberg

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 a 11 of our stocks that reported quarterly results last week or had news out worthy of mention.

Cisco Systems (CSCO – $57.21) earned $0.84 per share in fiscal Q2 2022 (vs. $0.81 est.). The communications equipment firm had total revenue of $12.72 billion, versus the $12.66 billion estimate. Shares rose more than 5% over the ensuing two days in an otherwise sharply negative pair of trading sessions for the broad market indexes after the forward-looking comments by management cheered investors and analysts. Cisco had product revenue near $9.35 billion (vs. $9.20 billion est.) and service revenue near $3.37 billion (vs. $3.45 billion est.) and an adjusted gross margin of 65.5% (vs. 64.3% est.).

CEO Chuck Robbins said, “We are focused on staying ahead of our customers’ most pressing needs as they navigate a dynamic world. Our customers are moving faster than ever, driven by the move to hybrid work and hybrid cloud. This requires modernized infrastructure, new security architectures and accelerated digital transition. The breadth of our innovative solutions and services at a global scale, combined with our increasing ability to deliver more flexible consumption offerings, is driving even deeper partnerships with our customers across our entire portfolio.”

Mr. Robbins continued, “From a macro perspective, the component shortage continues to remain challenging. Our incredibly strong demand continues to outpace supply, expanding our backlog of products, software and services. Our supply chain team continues to take aggressive action through strong inventory positions, deepening supplier relationships, qualifying alternative components and increased use of expedited freight. There are still significant constraints with semiconductors, preventing us from completing manufacturing of some of our products, and that remain a headwind to revenue growth despite very strong demand. In addition, the constrained environment continues to drive up supply chain costs, which we have successfully passed through to help offset these increases.”

Mr. Robbins concluded, “In summary, we continue to work through the impact of the pandemic and component shortages, and we’ve never felt better about the company, our position and our outlook for growth. Our Q2 results reflect healthy momentum, a clear vision and outstanding execution by our teams. Our innovation engine and pipeline have never been stronger. And we are rapidly transforming our business by accelerating our transition to more software and subscription offerings. I’m so proud of our teams and what they’ve accomplished during these very dynamic times. We are bringing industry-leading innovation to market and further enhancing our differentiated position across the portfolio by delivering flexible consumption models for our customers. I remain confident and optimistic about our future. Cisco is at the epicenter of massive shifts toward hybrid cloud, hybrid work and digital transformation, which we believe creates momentum for our business and positions us well to capture the significant opportunities ahead.”

Cisco expects revenue growth between 5.5% and 6.5% for fiscal 2022 (vs. 5.9% est.), which should result in adjusted EPS between $3.41 and $3.46 (vs. $3.42 est.). For fiscal Q3, CSCO expects revenue to grow between 3% and 5% with adjusted EPS of $0.85 +/- $0.01 and a gross margin between 63.5% and 64.5%. The company also increased its share buyback authorization by $15 billion to a total of $18 billion and raised the quarterly dividend payment by a penny to $0.38 per share.

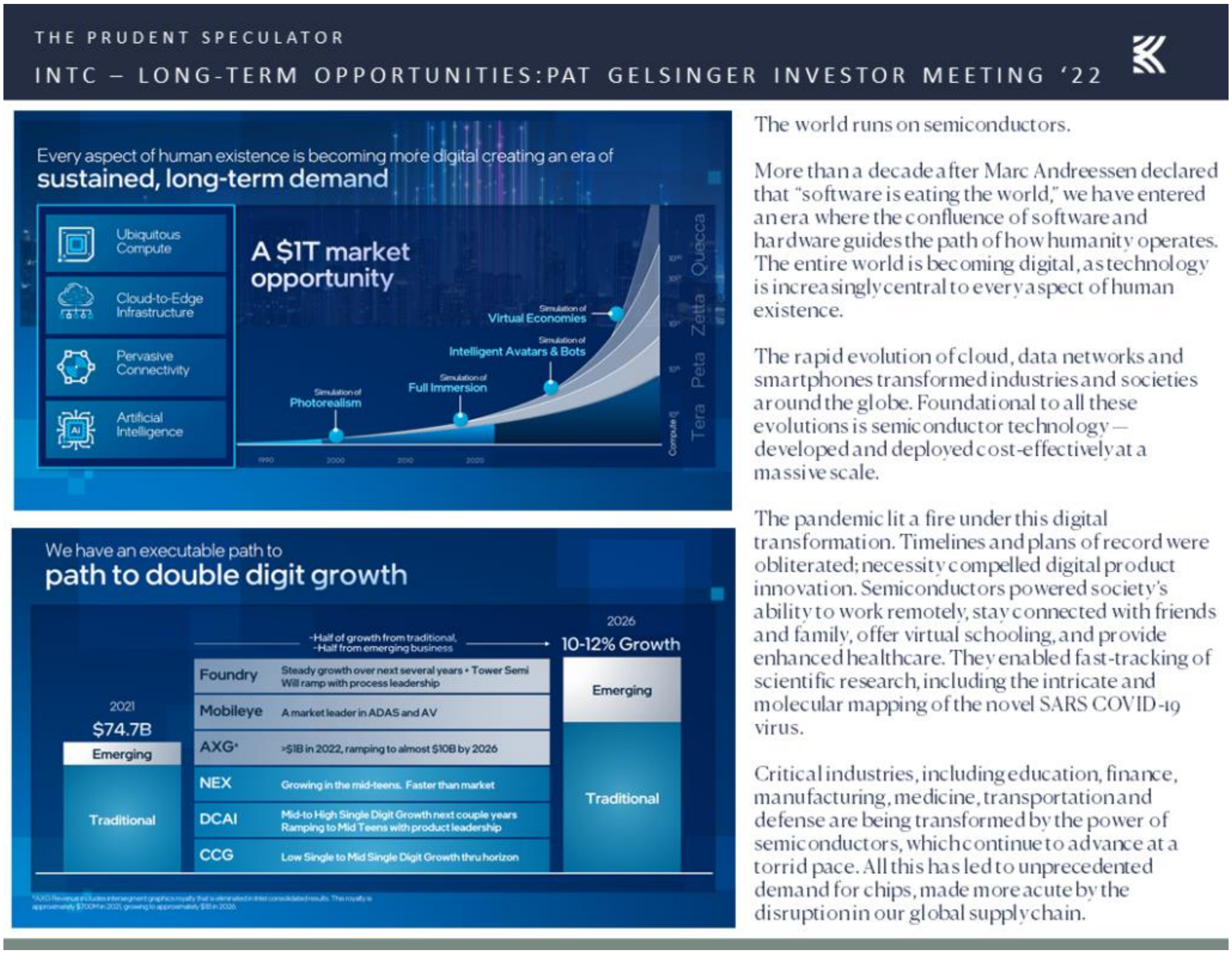
As a result of supply chain challenges, the backlog exceeds $14 billion and includes hardware and software bundled with the hardware. In response to an analyst question about the estimated time to clear out the backlog, Mr. Robbins said that the supply chain issues didn’t get worse or better in fiscal Q2 and that there’s no “great timeline” for clearing it up. Cisco has raised prices, but the lag between announcement and implementation on the customer side means that the impact is a while off. CSCO had a tough Q1 for sure, and we were glad to see this quarter’s print come in much stronger. We continue to think that the company’s wares are best-of-breed, while management has made selective acquisitions to improve its offerings. Speaking of which, Cisco was rumored to be acquiring Splunk, a web-based software developer. Both companies denied the report and the rumored offer price was a vague “more than $20 billion,” which can mean anything. Cisco sports a forward P/E ratio near 16 and a 2.7% yield. We continue to find CSCO to be a value-priced stock with decent long-term growth potential. Our Target Price has been boosted to $72.

Intel (INTC -$45.05) hosted its annual Investor Meeting this past Thursday, which surprisingly led to a 5.3% decline in Friday’s trading session, even as it was a difficult day for IT stocks. Unfortunately, analysts, whose time horizon is generally measured in months and not years, were not impressed with the semiconductor giant’s turnaround plan. Though the company has churned out plenty of net income and rewarded investors with generous dividend payouts in recent years, the analyst community disliked what they heard from CEO Pat Gelsinger and his team. Indeed, they were highly skeptical of the keynote presentation that was full of plans so big the company will almost certainly come up short, even though Intel’s opinion was that “none of the assumptions are heroic.”

For example, Mr. Gelsinger said, “We’re going to attack new segments like infotainment, automotive systems, immersive displays and more. In ’22, we expect this to be a $1 billion business and growing rapidly over the horizon to be almost $10 billion by 2026, an exciting new business area for us.” To us, that sort of growth seems like a stretch for a new unit given Intel’s ongoing struggles to get processor production ramped up.

CFO David Zinsner offered a rundown on markets, “The following markets on a combined basis will grow in the double digits we expect and will be north of $450 billion by 2026. So a huge market opportunity for Intel…Graphics accelerated compute is growing in the mid-teens, $100 billion TAM by 2026. The foundry business that Randhir, augmented by the acquisition of Tower. That’s going to be a market that gets to $140 billion, growing in the high single digits by 2026. As Pat talked about, we can’t talk a ton about the ADAS and AV market because of the impending Mobileye IPO. But rest assured, I think all of you know that follow the industry. This is an industry that’s growing fast from a semiconductor perspective. we would expect a high growth rate. Coming down to network and edge, driven by 5G infrastructure build-out, driven by the digitization on the edge. We see that market growing in the low double digits to $75 billion. And data center is I think everybody knows, large market, growing in the mid-teens. We expect that to get to about $65 billion through cloud build-outs, AI workloads and so forth to $65 billion by 2026. And lastly, the compute business, obviously, already a very large business, one of our major markets. We see that growing in the low to single — low to mid-digit single digits as a percent, getting to $90 billion by 2026. If you look at the emerging markets, those will be the markets that drive a lot of the TAM growth. But even the traditional markets, we see growing to $240 billion by 2026.” Again, lofty numbers that may work out, but what’s unclear is how much market share Intel will be able to capture in a short time.

Intel also announced plans last week to acquire Tower Semiconductor for $5.4 billion. The company’s press release said, “Tower’s specialty technology portfolio, geographic reach, deep customer relationships and services-first operations will help scale Intel’s foundry services and advance our goal of becoming a major provider of foundry capacity globally. This deal will enable Intel to offer a compelling breadth of leading-edge nodes and differentiated specialty technologies on mature nodes – unlocking new opportunities for existing and future customers in an era of unprecedented demand for semiconductors…The acquisition significantly advances Intel's IDM 2.0 strategy as the company further expands its manufacturing capacity, global footprint and technology portfolio to address unprecedented industry demand."



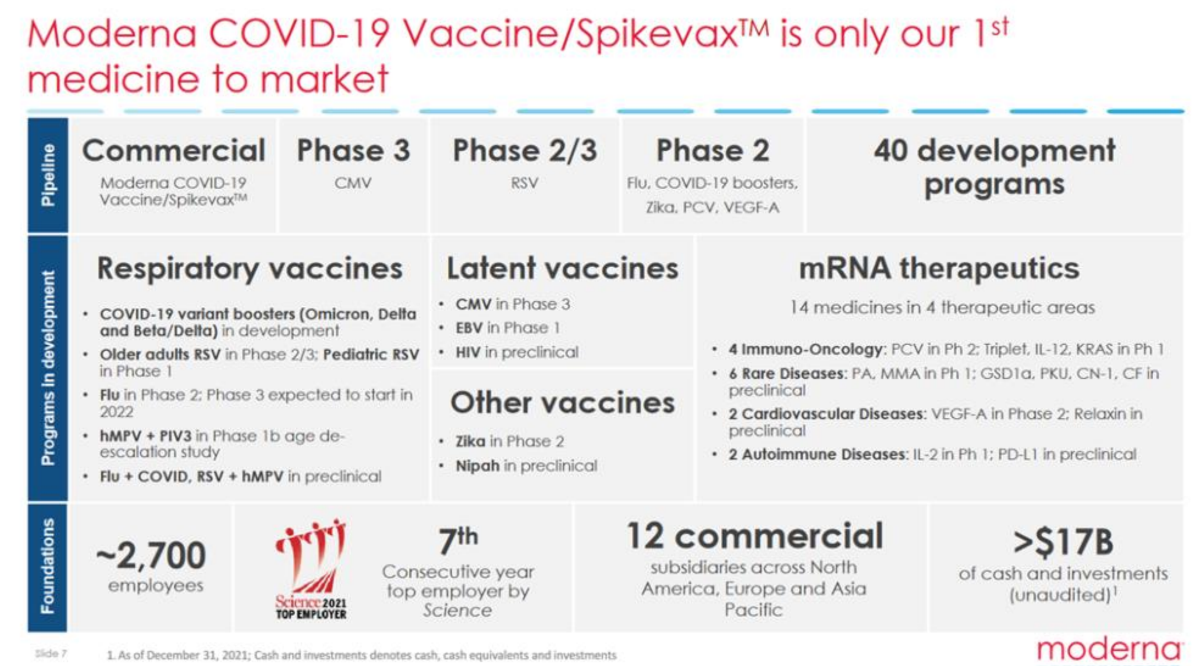
Intel has much to prove to regain investor favor, and while our patience isn't perpetual, we were glad to see some positivity coming out of the Santa Clara-based chipmaker. Intel shares have been beaten up and the path forward looks bumpy, but the business opportunities are substantial. Further, the company generates a ton of cash to enable the substantial investments needed, while we think a forward P/E ratio of 13 (based on profit estimates for 2022 that will arguably be a low water mark) is very reasonable as the market refocuses its valuation lens on businesses that actually make money. Throw in a dividend yield of 3.2% and we think the total return potential over our three-to-five-year time horizon is sizable, even as we concede that Mr. Gelsinger's bravado in suggesting that revenue should be growing 10% to 12% per year starting in 2025 or 2026 is likely a sizable stretch. Our Target Price for INTC is now $66.

No doubt not helped by investors abandoning pandemic stock plays as COVID-19 cases and hospitalizations have fallen around the world, **Moderna** (MRNA – $145.74) shares plunged last week, with the media also citing stock sales by the biotech giant's CEO Stephane Bancel for the decline. Of course, Mr. Bancel's sales were part of a scheduled sale plan that has been ongoing since 2019 and which should have been widely known. Of course, Mr. Bancel also deleted his Twitter account, which led to a few breathless headlines, until folks realized that he did so because he doesn't use it.

More importantly, comments by director of National Institute of Allergy and Infectious Diseases (NIAID) and Chief Medical Advisor to the President Dr. Anthony Fauci spooked investors. In a conversation with the *Financial Times* on February 9, Dr. Fauci said, "As we get out of the full-blown pandemic phase of Covid-19, which we are certainly heading out of, these decisions will increasingly be made on a local level rather than centrally decided or mandated. There will also be more people making their own decisions on how they want to deal with the virus." He also said he believes frequent boosters may not be necessary for otherwise healthy adults, with every four or five years more likely.

Of course, less frequent boosters would impact long-term vaccine revenue for Moderna, but the consensus earnings per share estimate for 2022 presently stands at more than $28.00 per share, with much of that already in the bag, so to speak, due to signed advance purchase orders from governments around the world. And, we remind readers that our investment thesis is not that we expect COVID-19 to fail to move to the endemic stage, even as there are new variants emerging. As Mr. Bancel said last week, "There's an 80% chance that as omicron evolves or SarsCov-2 virus evolves, we are going to see less and less virulent viruses. There's another 20% scenario where we see a next mutation, which is more virulent than Omicron."

Our enthusiasm for MRNA is based on the massive drop in the stock price this year, down more than 40%, and our belief that the company can use its mRNA technology and massive cash war chest to tackle other viruses and illnesses.



Toward that end, on Friday Moderna announced that is was expanding its mRNA pipeline with three new development programs. The company stated, "The development programs announced today are mRNA vaccine candidates against herpes simplex virus (HSV), varicella-zoster virus (VSV) to reduce the rate of shingles and a new checkpoint cancer vaccine. HSV and VZV are latent viruses that remain in the body for life after infection and can lead to life-long medical conditions. Moderna now has five vaccine candidates against latent viruses in development, including against cytomegalovirus (CMV), Epstein-Barr virus (EBV), Human immunodeficiency virus (HIV), HSV and VZV."

We understand that former high-flyers and momentum investor favorites are being jettisoned by investors who didn't pay attention to financial fundamentals on the way up and who are not doing so on the way down, but we think this baby has been thrown out with the bath water as the cash on the books should continue to grow significantly this year. We like paying essentially very little for the pipeline and we note that there is currently talk by health-care professionals around the world, including the FDA, that a fourth COVID-19 vaccine dose (second booster shot) might be needed in the near term. Our Target Price for MRNA now resides at $269.

Power systems provider **EnerSys** (ENS – $71.66) posted adjusted EPS of $1.01 in fiscal Q3, which ended Jan 2. Revenue grew 12.4% year-over-year to $844 million, although stiff supply and cost headwinds typical of many businesses significantly impacted margins. This was particularly so within the largest segment (Energy Systems), where operating margins were reduced by over 60% from the same period a year ago. The financial release highlighted that supply shortages also stymied top-line growth in the specialty segment,bu they are expected to be alleviated somewhat in fiscal Q4. The firm's backlog increased $160 million to an all-time high of $1.2 billion, more than double historical levels. Management expects between $1.11 and $1.21 of adjusted diluted earnings per share in the current quarter.

CEO David Shaffer commented, "EnerSys delivered another quarter of strong year-over-year growth with $844 million of revenue, the highest quarterly revenue in our company's history, increasing 12% over the third quarter '21, driven mostly by volume as well as ongoing aggressive pricing actions. We saw record demand across all of our segments with Q3 '22 orders increasing 30% from the prior year, and 33% compared to the same period of pre-COVID fiscal year '20."

Regarding obstacles in the supply chain and inflation, he added, "I'm proud of our employees for overcoming many of the headwinds we continue to face from mounting inflation, supply chain hurdles and manning issues brought on by the recent surge in COVID variance. We incurred in excess of $30 million or over $0.50 a share of sequential incremental cost in the third quarter, the highest quarterly cost increase yet. Despite these challenges, our teams aggressively offset most of these pressures with additional price increases, component resourcing and engineering redesign work, which enabled us to achieve our guidance and set us up for the margin expansion in the quarters to come. We are seeing the pace of inflation growth decelerate and certain supply chain headwinds ease, and we expect the positive impacts of our mitigating actions, including pricing, engineering redesign and contract manufacturer onshoring to be more broadly realized in Q4 and beyond. This expected cost improvement combined with the many growth opportunities I mentioned, reinforce our positive long-term outlook for Energy Systems."

We think EnerSys sits at a cross section of megatrends, such as 5G, the electrification of mobility and grid modernization, which offer a terrific runway for growth, and we like that the company continues to pursue new applications and technology. No doubt, margin compression for the third consecutive quarter is disappointing, but we are still of mind that the latest obstacles are temporary. We like that management is aggressively working to raise prices and note that gross margin recovery back to around the firm's typical level (25%) would likely add over $0.60 to EPS. Shares trade for just 14 times forward earnings estimates, well below the market average, while the ENS denominator is expected to grow over 20% in each of the next two fiscal years. The dividend yield is modest at 1.0%, but we think that significant capital gains potential exists, given that our Target Price is now $129.

Appliance maker **Whirlpool** (WHR – $204.54) announced last week that the board raised the quarterly dividend by 25% to $1.75 per share and added an additional $2 billion to the existing $1.5 share repurchase authorization as of December 31. The $3.5 billion now available under the program represents more than 25% of the current market capitalization. CEO Marc Bitzer commented in the press release, "I am pleased to announce that we are increasing our dividend for the tenth consecutive year and have approved another significant increase of our share repurchase program. These actions highlight the confidence we have in our business to continue generating strong levels of cash and reflect our continued commitment to delivering long-term shareholder value and returns."

Despite this seemingly terrific news, the stock is off nearly 13% on the year. True, the company managed EPS of "only" $6.15 in Q4 (an 8% reduction year-over-year) as raw materials inflation impacted operating margin by 202 basis points. But Whirlpool is not alone in the fight to weather cost increases and logistical bottlenecks, and we expect these obstacles to eventually alleviate. Meantime, we think the FCF yield greater than 10% and single-digit multiple of management's earnings guidance (between $27 and $29 per share in 2022) are far too inexpensive for a company with WHR's balance sheet and ability to generate cash. The dividend yield is a rich 3.4% and our Target Price is now $329.

Walmart (WMT – $137.99) earned $1.53 per share in fiscal Q4 ended January, modestly above the consensus analyst estimate. Total revenue grew 0.6% on a constant currency basis to $152.9 billion and was negatively affected by $10.2 billion related to divestitures. Sam's Club comparable sales and ecommerce sales grew 10.4% and 1.0%, respectively, while membership income increased 23.0% with member count reaching an all-time high. Management bought back approximately 70 million shares in the fiscal year for $9.8 billion ($140 per share), representing around 50% of the $20 billion authorization announced last year. Shares of the discount superstore rallied nearly 3% over the two days following the release.

CEO Doug McMillon commented, "Sometimes it feels like 2020 and 2021 were just 1 long year. If you look at growth since the beginning of fiscal '21 through the end of fiscal '22 excluding divestitures, our company is about 17% larger in terms of revenue, 31% larger in terms of operating income. And globally, our percentage of digital sales grew from 6% to 13%. As the company grows, we're fueled by the new business model and flywheel we outlined last year. Our strategy is coming to life. Ensuring that we deliver our strategy is where I invest the majority of my time. It starts with the customer and earning primary destination. The big-basket stock-up trip is important. It's foundational to our relationship with families. We earn that shopping occasion by running great stores and clubs and offering seamless pickup and delivery experiences, including for our Walmart+ and in-home members in the U.S. Our membership offering, Walmart+, continues to be an important piece of what we're building. We're adding capacity for pickup and delivery. We increased capacity by nearly 20% last year and we expect to increase capacity by another 35% this year. For Walmart In Home, we recently announced an expansion of this membership service to make it available to about 30 million homes in the U.S., up from 6 million. To enable the expansion, we're creating roles for more than 3,000 associate delivery drivers. The majority of these roles will be filled by existing experienced associates. We'll be building out a fleet of all electric delivery vans to support our delivery services and our goal of a 0-emissions logistics fleet by 2040. Our flywheel is designed to serve families more broadly, deepening our relationship with them and creating a healthy mix of merchandise and services for our business. Recently, we shared some news about our fintech start-up in the U.S. that will operate under the One brand going forward. The combined talent of our JV leadership team and out of the pending acquisitions of One Finance and even is impressive, and our plans are aggressive. We can help our customers and Walmart+ members save money, have an experience with less friction and help strengthen the financial position for millions of families."

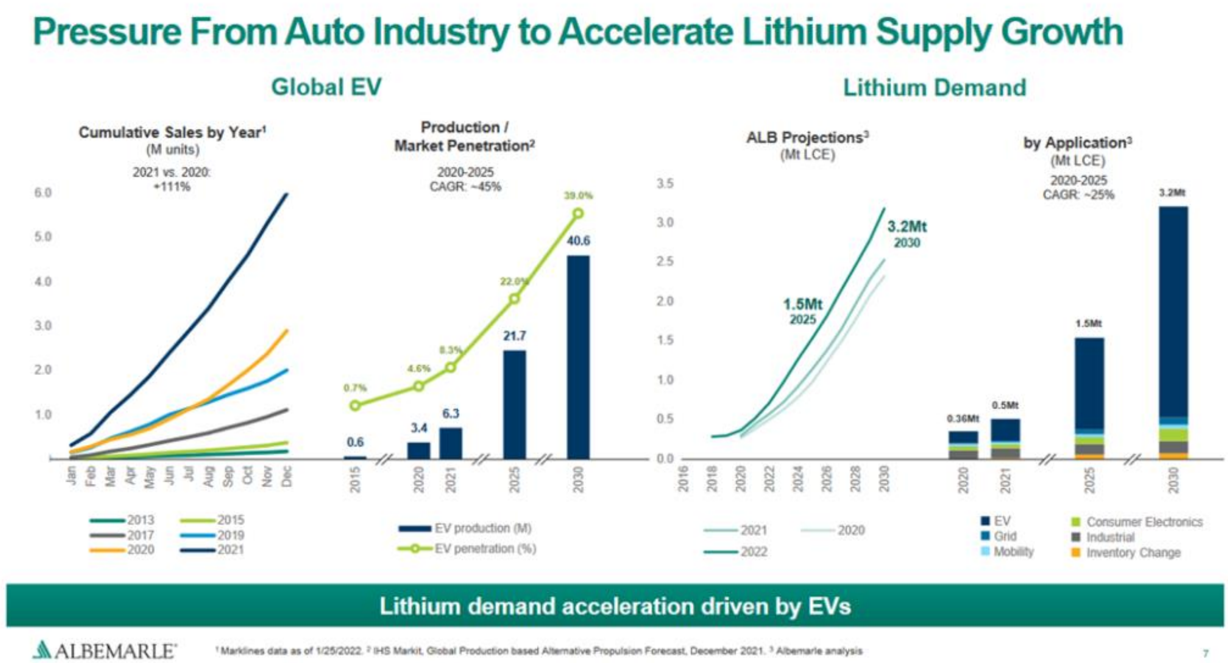
CFO Brett Biggs mentioned, “We continue to see elevated levels of cost inflation and have taken prudent steps to manage pricing while having slightly wider price gaps than pre-pandemic. We have a good balance of growing market share while managing price with both customers and shareholders in mind. Walmart Connect advertising experienced robust sales growth this year with a strong pipeline of new advertisers and large growth opportunities ahead. In fact, the number of active advertisers using Walmart Connect grew more than 130% year-over-year. And about half of the ad sales came from automated channels in Q4, more than double last year. We expect Walmart Connect to continue to scale over the next few years with plans to become a top 10 ad business in the midterm.”

There is no doubt that competition is fierce within retail, but we continue to be impressed by Walmart’s transformation and execution to build a customer-centric seamless omni-channel ecosystem. This includes integration of its ecommerce, grocery and general merchandising businesses, as well as the continued rollout of various ways for guests to shop. And, although the Indian government has threatened to fine Flipkart on suspicion of foreign investment rule violations, we continue to think these investments (along with JD.com), and its foray into service sectors like Health Care, FinTech and others, lengthen the retailer’s runway for growth and diversify revenue. WMT continues to generate strong free cash flow, which underpins its generous capital return programs. With the continued operational momentum, we have lifted our Target Price for WMT to $183.

Shares of **Albemarle** (ALB – $190.76) were pummeled this past week, falling more than 17%, after the lithium and other specialty chemicals producer reported Q4 results that were largely in line with consensus analyst estimates, and included a forward prediction that raised its previous overall 2022 outlook. Investors dumped shares as they were seemingly disappointed that while lithium prices are strong (we don’t see that changing anytime soon), projections were held down by increased expenses and weaker cash-flow projections as ALB continues to work to bring new assets online.

EPS from the most recently completed quarter of $1.01 was a penny better than the average forecast, while revenue of $894.2 million was in line with estimates. Fourth quarter adjusted EBITDA was up 3% year-over-year, driven by favorable pricing in the lithium segment, where EBITDA was up 13%, despite lower volumes. The bromine business was challenged by higher raw material and freight costs as well as from limited inventory due to supplier issues.

CEO Kent Masters said, “Our team delivered a strong year that exceeded expectations by executing our strategy and effectively responding to a number of challenges in 2021. We increased our net sales and adjusted EBITDA by 11% and 13%, respectively, excluding FCS. Our Lithium and Bromine businesses are performing well. With a firm focus on executing our growth strategy, we are well positioned for opportunities to deliver significant value to our shareholders. The strategic investments we’ve made in our Lithium business as well as the progress of several key projects will enable us to potentially double our nameplate capacity by the end of 2022 and accelerate our Wave 3 projects.”



Despite supply chain and input cost headwinds, we continue to think that ALB will see long-term benefits from a major positive catalyst in lithium batteries as electric vehicle adoption increases and the world's leading car companies race to get desirable EVs to market. We struggle to find any major global car producer that said it would offer anything other than EVs past 2030 to 2035. As a result of our bullish long-term lithium outlook, we think the short-term whack to the shares is way overdone, and shorter-term Wall Street analyst views and ratings actions don't align with the long-term potential for ALB shares.

Despite the recent price action, ALB has been a solid winner since our original recommendation three years ago at $81.98, and we have taken some money off the table along the way. The most recent trim taking place at $218.66 last August, we continue to hold tight to our current position for a revised Target Price of $290.

Multinational financial services titan **Allianz SE** (ALIZY – $24.33) posted an adjusted loss of $0.09 in Q4 2021, lower than the $0.65 estimate. Operating profit grew to 3.51 billion euros, ahead of the 3.29 billion euro estimate, and the P&C combined ratio was 93.5%, compared to the estimate of 92.5%.

Allianz's loss was a result of legal issues for the firm's U.S.-based hedge fund, Structured Alpha. CEO Oliver Baete explained, "Revenues up 6% in an environment where very few people were growing, almost EUR 150 billion in revenues. Our operating profit up 25% from the last COVID year. Remember, '21 was still COVID. And we are very proud of that. Shareholders' net income is slightly down because of the EUR 2.8 billion net income hit that we had to take in order to address the vast majority of litigation exposure in Structured Alpha. This is really important. So we are very happy that we can finally book and take care of the investors in the Structured Alpha fund and make them whole. We are increasing our dividend per share by 13%. That's exactly in line with the guidance that we gave in 2018. Last year, you — we all benefited from the [record] despite the fact that the year was very tough. And our solvency ratio is — for 2021 is 209%, even after Structured Alpha, and that is also super important."

Via press release, Allianz added, "With respect to the pending court and governmental proceedings in the U.S. in relation to the Structured Alpha Funds, Allianz anticipates settlements with major investors in those Funds shortly. In anticipation thereof and in light of current discussions with U.S. governmental authorities, Allianz today decided to book a provision of 3.7 billion euros in the financial statements 2021. This provision reduced the 2021 Group net income by 2.8 billion euros. The anticipated settlements are an important step towards a resolution of the various proceedings. Discussions with remaining plaintiffs, the U.S. Department of Justice and the U.S. Securities and Exchange Commission remain ongoing and the timing and nature of any global or coordinated resolution of these matters is not certain. Therefore, as of today, the total financial impact of the Structured Alpha matter cannot be reliably estimated and Allianz SE expects to incur additional expenses before these matters are finally resolved."

CFO Giulio Terzariol concluded, "As you might have recognized by now, we have a tendency also to set the outlook at the level of the preceding period. So we keep faithful to this kind of tradition. The underlying assumption here on P&C, for the eEUR 6 billion of operating profit, we are assuming a 93% combined ratio. And we have a tendency to be fairly conservative on the investment income. On the life side, we have normalized for the extraordinary performance due to the low VIX of Allianz Life, so with this normalization there. And for Asset Management, if you — also this normalization, if you want, for the performance fee level, which was a little bit more elevated in 2021 compared to what is an average over time. But again, with the EUR 13.4 billion outlook for 2022, we feel pretty confident about this level. We are going to have clearly a conversation about where we stand in the course of the year."

We have been pleased to see the company navigate the negative-to-microscopic global yield environment better than some of its peers. While Allianz's growth trajectory hasn't been as steep as some of our other holdings, we think that it's sustainable at this level over the long term (high-single-digits). We expect that the Structured Alpha settlement was a one-time thing, and we find the company's asset managers, including bond manager PIMCO, to be helpful diversifiers for the insurer. We also like that management has been diligent in improving operating ratios, minimizing losses and growing the insurance business. Shares continue to look attractive, trading for less than 10 times '22 estimated earnings, while boasting a net dividend yield of 3.3%. Our Target Price for ALIZY now stands at $34.

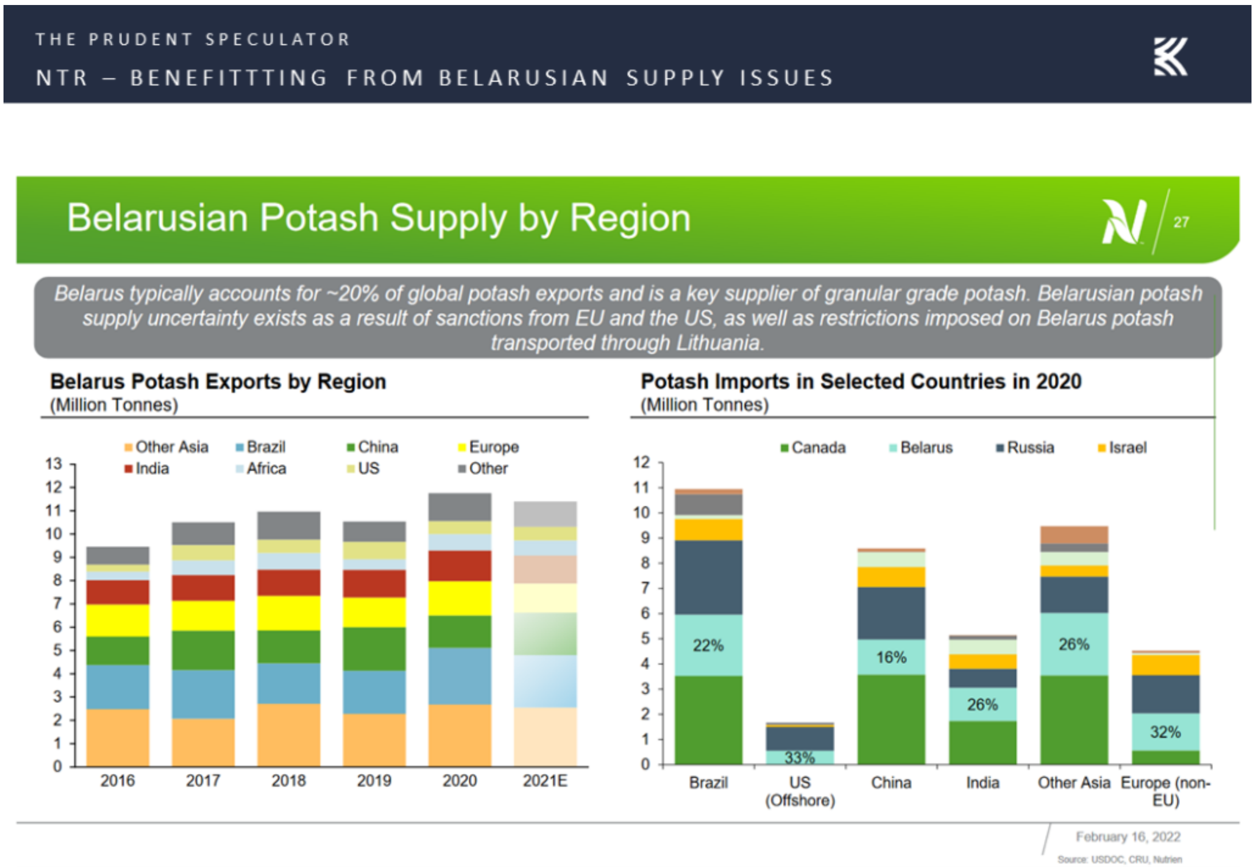
Data infrastructure REIT **Digital Realty** (DLR – $135.20) fell further from the all-time set the last day of 2021 after the company offered cautious guidance in what should be a strong operating environment. DLR posted funds from operations (FFO) of $1.67 for Q4, matching the consensus estimate, and revenue of $1.111 billion, versus the $1.107 billion consensus estimate.

CEO Bill Stein said, "Our formula for long-term value creation is a global, connected, sustainable framework. And we made further progress on each front during the fourth quarter. First, we continue to globalize our business with record global bookings and strength across all regions and all product types, including quarterly highs in both our sub-1 megawatt and greater than 1 megawatt categories. We also announced 2 significant global initiatives. First, in December, we announced the successful listing of Digital Core REIT as a stand-alone publicly traded company on the Singapore Stock Exchange. Digital Realty contributed a 90% interest in a portfolio of 10 core data centers concentrated in top-tier markets across the U.S. and Canada, valued at $1.4 billion at a 4.25% cap rate. We generated net proceeds of over $950 million from the transaction, and we retained a 35% equity interest in the publicly traded REIT. The offering was very well received, and Digital Core REIT has traded up approximately 30% since the IPO, enhancing the gain on our remaining ownership stake." The Internet economy continues to expand in Africa and Mr. Stein said DLR is "uniquely positioned to enable this growth."

CFO Andrew Power added, "Looking ahead to 2022, we expect core FFO per share will be between $6.80 and $6.90, including the 1% dilution from Teraco as well as 100 to 200 basis points of expected FX headwinds due to the strength of the dollar relative to 2021. We expect to deliver revenue between $4.7 billion and $4.8 billion in 2022 and adjusted EBITDA of approximately $2.5 billion. Given the tightened supply environment, we expect flat cash renewal rates in 2022, up from slightly negative in 2021. And we expect overall portfolio occupancy to remain within the current range despite the significant new capacity scheduled to come online during the year in addition to the embedded lease-up potential within the Teraco portfolio. We are off to a great start on our financing plans for the year with a highly successful 750 million bond offering in early January of 10.5-year paper at 1.375% coupon. Finally, we expect to raise $500 million to $1 billion from capital recycling whether through contributions to Digital Core REIT, noncore asset sales to third parties or a combination of both. In terms of the quarterly dividend, the distribution policy is ultimately a Board-level decision. Given the continued growth in our cash flows and taxable income, we would expect to see continued growth in the per share dividend, just as we have had each and every year since our IPO in 2004."

We thought the outlook was disappointing, especially considering that the company has capacity coming online and the broader tech space is booming. Dollar strengthening might result in additional headwinds for DLR, especially as the company aggressively expands abroad. Although shares are down by a more than 20% this year, we think the long-term dynamics for DLR remain positive. Further, we continue to believe DLR's valuation has become more reasonable, with shares trading around 20 times FFO expected in 2022 and funds from operations likely to grow nicely in ensuing years. The company has no major debt due until 2024, while the weighted average maturity is in 2027 with a cost of 2.4%. The dividend yield is 3.4% and our Target Price has been lowered to $178.

Crop input and services provider **Nutrien Ltd.** (NTR – $75.78) posted terrific adjusted EPS of $2.47 in Q4, better than the consensus analyst projection of $2.39, which had been bumped up markedly over the past couple of quarters. The figure brings the full-year EPS total to $6.23, nearly triple the pre-pandemic total from 2019. A confluence of geopolitical factors, elevated energy costs (natural gas is a key input) and strong demand have buoyed fertilizer prices to their highest in over a decade, with uncertainty surrounding sanctions imposed on Belarus by the U.S. and Europe boosting global potash prices even higher. Not surprisingly, shares have rallied of late, bringing NTR to a new 52-week high on Thursday.



Management expects to generate adjusted EBITDA of $10 billion to $11.2 billion in 2022, a 50% increase from 2021 at the midpoint, as higher anticipated selling prices and capacity utilization boost sales volumes in potash and nitrogen. The company also indicated that it would look to use at least $2 billion of the more than $6 billion of free cash flow it aims to generate toward share repurchases.

Interim President and CEO Ken Seitz commented, “The advantages of Nutrien’s integrated business were demonstrated in 2021 as we delivered record financial results and made significant progress on our long-term strategic targets, including our key sustainability priorities. We utilized the scale and reliability of our world-class supply chain and the strong execution of our teams to ensure customers had the products and services they needed, when they needed them…The outlook for global agriculture and crop input markets is very strong and we are well positioned to deliver significant growth in earnings and free cash flow in 2022. We will continue to advance our strategic priorities and maintain a disciplined approach to deploying capital, using our strong financial position to grow the business and return significant cash to shareholders."

Fertilizers are a necessary input to meet demands from a growing global population given limited real estate. We think the issues driving prices higher won't resolve themselves overnight, but we realize that they can decline as fast as they have risen. After all, the IMF World Fertilizer Index slid from over 240 in 2012 to below 87 in 2017 before climbing to 220 or so today. Nevertheless, we are delighted to see Nutrien use the advantageous situation to reduce its debt by $2 billion. We also continue to like the firm's retail network of over 2,000 locations, which offers scale through its network of repeat business. The dividend bumped up last week as well, NTR sports a yield of 2.5% and our Target Price has been hiked to $95.

Shares of **Deere & Co.** (DE – $369.10) ended the week 6% lower, even after the company blew away fiscal Q1 EPS expectations of $2.26 by posting $2.92 of per share earnings. True, the tally was 25% below the same quarter a year ago, with the decrease due to higher production costs (increased material and freight expenses) and an unfavorable sales mix, offset by improved price realization and higher shipment volumes. Management expects industry sales of large agricultural equipment to be up approximately 20% in the current year, with demand expected to exceed the industry's ability to produce for a second consecutive year as supply-based delays continue to constrain shipments.

Company representative Brent Norwood mentioned that Q1 was a "dynamic period." However, he added that "Strong ag fundamentals carried over from fiscal year '21 and have remained solid through the beginning of fiscal year '22, with our order books largely full through the balance of the year. Meanwhile, construction and forestry markets also continue to benefit from strong demand and price realization, contributing to the division's solid performance in the quarter."

CEO John May discussed the ag titan's latest program called LEAP Ambitions, having "reorganized the company around the way our customers do business" and centralizing Deere's technology development under a Chief Technology Officer. He added, "Due to the structural improvements we have made over the last 2 years, we've made clear progress on our 15% margin goal and have set our sight even higher. By 2030, we see a path to 20% margins at the equipment operations level. That goal includes the impact of the increase in growth of investments required to deliver the next generation of advanced technologies to our customers."

With possibly the strongest brand in agriculture, we think Deere will continue to benefit from a sustainable equipment replacement cycle and precision ag as technology advancements support and drive pricing. Additionally, the company should see gains in the aftermarket as retrofitting expands. We continue to appreciate the diversification of its construction products, while a strong appetite for U.S. infrastructure spending should provide a boost in the coming years. Not without some volatility, shares have gained 23% in the past year, yet they trade some 20% below the market's forward P/E multiple. Our Target Price on DE is currently $493.