Market Commentary Monday, February 28, 2022

February 28, 2022

EXECUTIVE SUMMARY

March Newsletter – *TPS 665* Coming Wednesday Evening
Week in Review – Plenty of Wild Swings, but Dow Ends Almost Unchanged
Ukraine – Russian Invasion
Volatility – 35th 10% Correction in the S&P 500 Since 1977
Inflation and Fed Tightening – Historical Returns Very Much Favor Value
Economy – Solid Data & 3.5% U.S. GDP Growth Projected for 2022
Sentiment – Excessive Bearishness
Valuations – Stocks Still Attractively Priced, Especially Value
Stock News – Updates on FL, MDT, LOW, NTAP, HFC, CE, AXAHY, MRNA, EOG, MOS, BASFY & PNW

Market Review

Work is underway on the March edition of *The Prudent Speculator*. If all goes according to plan, *TPS 665* will be sent out via email on Wednesday evening, March 2. This month, we will have at least one first-time recommendation in addition to our quarterly *Earnings Scorecard* feature.

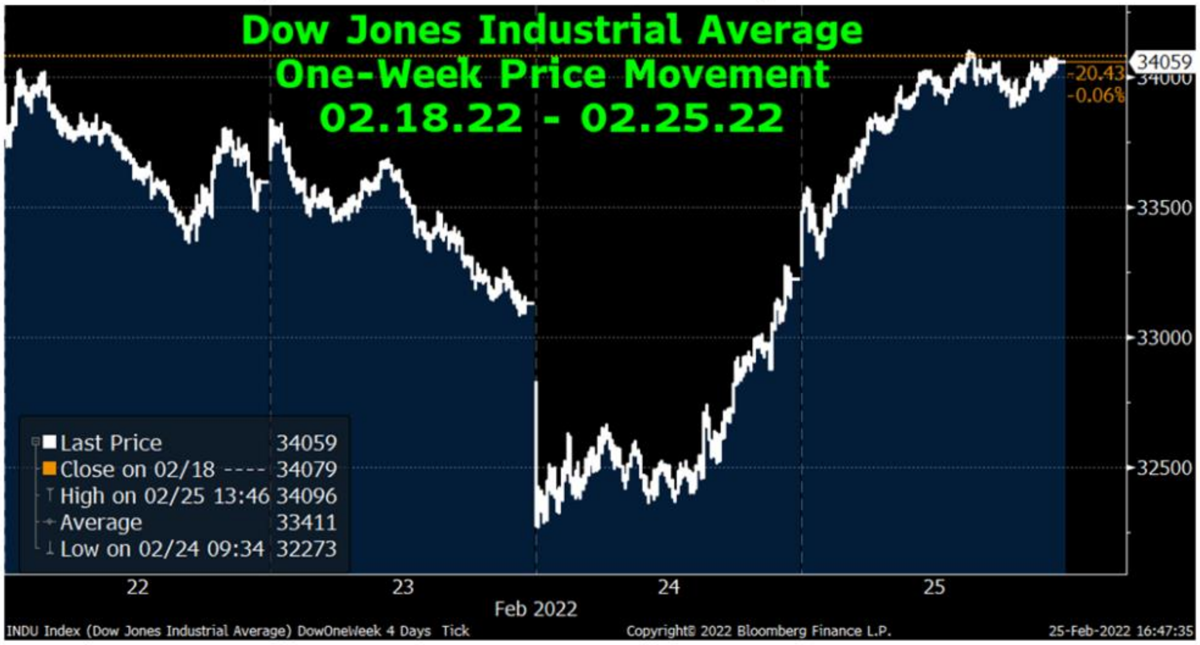
*****

Well, it was an uneventful holiday-shortened week of trading, given that the Dow Jones Industrial Average ended only 20 points from where it began.

THE PRUDENT SPECULATOR

DOW JONES INDUSTRIAL AVERAGE ROLLER COASTER RIDE

Volatility always depends on the measuring stick. Those paying constant attention watched the Dow Jones Industrial Average swing violently, suffering an intraweek loss of more than 1800 points (5.3%) early on Thursday morning before soaring nearly 1800 points (5.5%) later that day and on Friday to end the period virtually unchanged, with those checking that index once a week wondering what all the fuss was about!



Of course, that observation holds true only if one chooses to look through a weekly lens, as the *Breaking News* headlines will attest that there were massive daily and intraday swings in the global financial markets,…

THE PRUDENT SPECULATOR

HANGING ON THE HEADLINES CAN BE HAZARDOUS TO WEALTH

To say that the holiday-shortened trading week just ended was stunning might be an understatement as Russia's invasion of Ukraine led to spectacular equity market volatility, with stock investors hoping for a few moments on Tuesday morning that a peaceful resolution to the crisis would be found, worrying about the impact of potential Russian sanctions on the global economy, fearing the launch of military action, freaking out as Putin's army marched across the border, praying that diplomacy might eventually prevail and cheering when the resistance appeared to hold up better than thought. When all was said and done, and plenty of triple-digit moves down and up in the Dow Jones Industrial Average had taken place, that popular index ended the tumultuous four days just 20 points below where it began.

…as diplomacy and the threat of economic sanctions did not prevent Russia from launching an invasion of Ukraine. Incredibly, we suspect in the eyes of many, most equity market indexes ended in the green for the week, though it took a monster rebound and rally on Thursday and Friday to offset the plunge earlier in the week,…

THE PRUDENT SPECULATOR

MARKET OF STOCKS – INDEXES CAN HAVE WIDE DISPERSION IN RETURNS

With an amazing rebound late on 02.24.22 and a big rally on 02.25.22, the major averages ended an incredibly turbulent week in the green though the performance derby lead for Value versus Growth shrank a bit. Of course, the big drops in many momentum investor favorites this year have brought back memories of the Value victory when the Tech Bubble burst back in 2000.

Total Returns Matrix

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	M	-0.03	-5.99	10.47	31.85	90.34	30.98	39.23	82.73	Dow Jones Industrial Average	DJITR Index
1.01	-10.21	A	0.28	-4.02	10.46	36.05	95.72	31.05	39.35	61.67	New York Stock Exchange Composite	NYA Index
-39.18	-20.81	R	1.10	-12.37	5.10	26.74	102.57	55.16	86.28	146.20	Nasdaq Composite Index	CCMP Index
-22.43	-9.23	K	2.12	-13.38	-17.18	14.58	85.42	23.57	29.07	63.41	Russell 2000 Growth	RU20GRTR Index
22.83	**14.02**	E	**1.11**	**-4.57**	**5.68**	**57.60**	**130.03**	**39.93**	**34.52**	**45.17**	**Russell 2000 Value**	**RU20VATR Index**
-3.02	2.49		1.59	-8.99	-6.30	34.46	108.00	32.87	33.37	56.02	Russell 2000	RU20INTR Index
-11.75	-20.15	T	2.21	-14.15	-3.66	15.05	90.80	33.06	50.52	98.79	Russell Midcap Growth Index Total Return	RUMCGRTR Index
19.18	**2.33**		**0.88**	**-4.31**	**13.61**	**46.53**	**123.98**	**35.41**	**43.11**	**55.67**	**Russell Midcap Value Index Total Return**	**RUMCVATR Index**
8.25	-5.62	O	1.32	-7.84	7.25	34.62	113.34	37.02	48.94	76.39	Russell Midcap Index Total Return	RUMCINTR Index
-22.42	-19.63	F	1.12	-12.70	10.49	27.53	104.64	52.29	81.58	143.13	Russell 3000 Growth	RU30GRTR Index
8.04	**-4.33**		**0.88**	**-3.08**	**13.72**	**43.93**	**101.17**	**32.27**	**40.85**	**56.81**	**Russell 3000 Value**	**RU30VATR Index**
-7.46	-11.46	S	1.00	-8.15	12.04	35.28	104.09	43.54	61.99	98.20	Russell 3000	RU30INTR Index
9.64	-0.39	T	1.07	-4.65	16.71	47.31	122.75	46.45	57.49	87.31	S&P 500 Equal Weighted	SPXEWTR Index
-9.10	-11.89	O	0.84	-7.80	16.12	36.72	101.95	44.70	65.10	102.85	S&P 500	SPXT Index
-22.08	-12.73		1.01	-12.58	16.32	31.77	106.21	54.58	80.74	139.70	S&P 500 Growth	SPTRSGX Index
6.08	**-11.71**	C	**0.68**	**-2.48**	**15.37**	**42.30**	**93.50**	**31.02**	**45.35**	**63.47**	**S&P 500 Value**	**SPTRSVX Index**
-8.29	-17.75	K	1.79	-14.64	10.96	29.98	111.00	46.57	62.51	111.48	S&P 500 Pure Growth	SPTRXPG Index
13.16	**10.87**	S	**0.64**	**3.71**	**21.80**	**72.81**	**158.01**	**43.90**	**39.23**	**56.43**	**S&P 500 Pure Value**	**SPTRXPV Index**

As of 02.25.22. Source Kovitz using data from Bloomberg

…and again illustrating that patience can be a superb risk mitigation tool.

THE PRUDENT SPECULATOR

THE LONGER THE HOLD, THE LOWER THE RISK

Given that the most folks are investing for long-term objectives, we remain puzzled that so many continue to think about risk in terms of volatility of one-month returns. After all, while there is no assurance that past is prologue, the odds of losing money in Value Stocks or Dividend Payers is far lower over three-, five- and 10-year periods.

PATIENCE IS VIRTUOUS

VALUE STOCKS

	Count >0%	Count <=0%	Percent >0%
1 Month	717	418	63.2%
3 Months	768	365	67.8%
6 Months	803	327	71.1%
1 Year	822	302	73.1%
2 Year	927	185	83.4%
3 Year	961	139	87.4%
5 Year	963	113	89.5%
7 Year	1016	36	96.6%
10 Year	982	34	96.7%
15 Year	956	0	100.0%
20 Year	896	0	100.0%

DIVIDEND PAYERS

	Count >0%	Count <=0%	Percent >0%
1 Month	720	415	63.4%
3 Months	790	343	69.7%
6 Months	819	311	72.5%
1 Year	855	269	76.1%
2 Year	949	163	85.3%
3 Year	942	158	85.6%
5 Year	990	86	92.0%
7 Year	1010	42	96.0%
10 Year	981	35	96.6%
15 Year	956	0	100.0%
20 Year	896	0	100.0%

From 07.31.27 through 01.31.22. Value stocks represented by 50% small value and 50% large value returns rebalanced monthly. Dividend payers represented by 30% top of dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

Obviously, the war in Ukraine is terrible on many levels, even as there is some comfort in the surprisingly strong defense put up by the outmanned and outgunned Ukranians, with President Volodymyr Zelensky's response to a U.S. evacuation offer, "I don't need a ride, I need more ammunition," inspirational. Protests in Russia and near-global unity in opposition are also encouraging, though Russian President Putin's decision on Sunday to elevate the readiness level of his country's nuclear forces is chilling.

Needless to say, the humanitarian tragedy in Ukraine and risk that the conflict grows even wider puts equity market turbulence in perspective, but our focus on these missives must always remain on the long-term prospects of stocks in general and our portfolios in particular. As such, we continue to offer the reminder that equities have managed in the fullness of time to overcome numerous upsetting events on the Russia–America timeline,…

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

Disconcerting Headlines

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%	22808%
Death of Stalin	3/5/1953	25.79	2%	-9%	3%	79%	61%	16901%
Creation of the Warsaw Pact	5/14/1955	37.44	12%	24%	25%	15%	48%	11611%
Sputnik & The Space Race	10/4/1957	42.79	-4%	-3%	18%	24%	33%	10147%
The U-2 Incident	5/1/1960	54.37	-5%	-1%	20%	29%	64%	7964%
Cuban Missile Crisis	10/16/1962	57.08	-16%	21%	28%	60%	67%	7582%
Soviet Invasion of Czechoslovakia	8/20/1968	98.96	9%	1%	-4%	-1%	3%	4331%
Soviet Invasion of Afghanistan	12/24/1979	107.66	5%	7%	26%	30%	55%	3973%
U.S. Moscow Olympics Boycott	3/21/1980	102.31	-7%	26%	31%	48%	75%	4186%
Downing of Korean Air Flight 007	9/1/1983	164.23	9%	-4%	1%	54%	57%	2570%
Soviet Los Angeles Olympics Boycott	7/28/1984	151.19	-8%	17%	27%	107%	126%	2800%
Chernobyl Disaster	4/26/1986	242.29	29%	-2%	16%	27%	56%	1710%
Fall of Communism in Eastern Europe	8/19/1989	346.03	17%	-4%	-5%	21%	34%	1167%
German Reunification	10/3/1990	311.40	-9%	22%	23%	48%	87%	1308%
Dissolution of the Soviet Union	12/26/1991	404.84	9%	0%	9%	14%	87%	983%
Black Brant: Mistaken Nuclear War Scare	1/25/1995	467.44	3%	20%	32%	105%	202%	838%
Russo-Georgian War	8/7/2008	1,266.07	-5%	-31%	-20%	-5%	34%	246%
Putin Reelected	3/4/2012	1,369.63	17%	3%	11%	53%	74%	220%
Annexation of Crimea	3/21/2014	1,866.52	9%	8%	13%	26%	53%	135%
Skripal Poisoning & Diplomatic Expulsion	3/1/2018	2,473.92	0%	17%	13%	58%		77%
Price Changes Only - Does Not Include Dividends		**Averages:**	**4%**	**6%**	**14%**	**41%**	**70%**	**5078%**

As of 2.25.22. Source: Kovitz using Bloomberg, usrussiarelations.org, state.gov and Wikipedia

…while stocks, despite their constant volatility, have delivered superb long-term returns for those who remember that the only problem with market timing is getting the timing right.

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%	149	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	98	0.9	1/3/2022	2/23/2022
-7.5%	-15.4%	64	157	0.6	1/3/2022	2/23/2022
-5.0%	-10.9%	36	308	0.3	2/2/2022	2/23/2022

From 02.20.28 through 02.23.22. 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

*****

That does not mean that the downturns are easy to stomach, and we note that the S&P 500 just suffered its 35th correction of 10% of more since the inception of our newsletter 45 years ago.

THE PRUDENT SPECULATOR

PERSPECTIVE: 10% UPS AND DOWNS SINCE TPS INCEPTION

S&P 500 Moves (on a Closing Basis) of 10% Without a Comparable Move in the Other Direction

9/12/1978	11/14/1978	-13.55%	BEAR	11/14/1978	10/5/1979	20.30%	BULL
10/5/1979	11/7/1979	-10.25%	BEAR	11/7/1979	2/13/1980	18.59%	BULL
2/13/1980	3/27/1980	-17.07%	BEAR	3/27/1980	11/28/1980	43.07%	BULL
11/28/1980	9/25/1981	-19.75%	BEAR	9/25/1981	11/30/1981	12.04%	BULL
11/30/1981	3/8/1982	-15.05%	BEAR	3/8/1982	5/7/1982	11.30%	BULL
5/7/1982	8/12/1982	-14.27%	BEAR	8/12/1982	10/10/1983	68.57%	BULL
10/10/1983	7/24/1984	-14.38%	BEAR	7/24/1984	8/25/1987	127.82%	BULL
8/25/1987	10/19/1987	-33.24%	BEAR	10/19/1987	10/21/1987	14.92%	BULL
10/21/1987	10/26/1987	-11.89%	BEAR	10/26/1987	11/2/1987	12.33%	BULL
11/2/1987	12/4/1987	-12.45%	BEAR	12/4/1987	10/9/1989	60.68%	BULL
10/9/1989	1/30/1990	-10.23%	BEAR	1/30/1990	7/16/1990	14.23%	BULL
7/16/1990	10/11/1990	-19.92%	BEAR	10/11/1990	10/7/1997	232.74%	BULL
10/7/1997	10/27/1997	-10.80%	BEAR	10/27/1997	7/17/1998	35.32%	BULL
7/17/1998	8/31/1998	-19.34%	BEAR	8/31/1998	9/23/1998	11.37%	BULL
9/23/1998	10/8/1998	-10.00%	BEAR	10/8/1998	7/16/1999	47.88%	BULL
7/16/1999	10/15/1999	-12.08%	BEAR	10/15/1999	3/24/2000	22.45%	BULL
3/24/2000	4/14/2000	-11.19%	BEAR	4/14/2000	9/1/2000	12.10%	BULL
9/1/2000	4/4/2001	-27.45%	BEAR	4/4/2001	5/21/2001	19.00%	BULL
5/21/2001	9/21/2001	-26.43%	BEAR	9/21/2001	1/4/2002	21.40%	BULL
1/4/2002	7/23/2002	-31.97%	BEAR	7/23/2002	8/22/2002	20.68%	BULL
8/22/2002	10/9/2002	-19.31%	BEAR	10/9/2002	11/27/2002	20.87%	BULL
11/27/2002	3/11/2003	-14.71%	BEAR	3/11/2003	10/9/2007	95.47%	BULL
10/9/2007	3/10/2008	-18.64%	BEAR	3/10/2008	5/19/2008	12.04%	BULL
5/19/2008	10/10/2008	-36.97%	BEAR	10/10/2008	10/13/2008	11.58%	BULL
10/13/2008	10/27/2008	-15.39%	BEAR	10/27/2008	11/4/2008	18.47%	BULL
11/4/2008	11/20/2008	-25.19%	BEAR	11/20/2008	1/6/2009	24.22%	BULL
1/6/2009	3/9/2009	-27.62%	BEAR	3/9/2009	4/23/2010	79.93%	BULL
4/23/2010	7/2/2010	-15.99%	BEAR	7/2/2010	4/29/2011	33.35%	BULL
4/29/2011	10/3/2011	-19.39%	BEAR	10/3/2011	5/21/2015	93.85%	BULL
5/21/2015	8/25/2015	-12.35%	BEAR	8/25/2015	11/3/2015	12.97%	BULL
11/3/2015	2/11/2016	-13.31%	BEAR	2/11/2016	1/26/2018	57.07%	BULL
1/26/2018	2/8/2018	-10.16%	BEAR	2/8/2018	9/20/2018	13.55%	BULL
9/20/2018	12/24/2018	-19.78%	BEAR	12/24/2018	2/19/2020	44.02%	BULL
2/19/2020	3/23/2020	-33.92%	BEAR	3/23/2020	1/3/2022	114.38%	BULL
1/3/2022	2/23/2022	-11.91%	BEAR				
Average Drop		-18.17%		Average Gain		42.90%	

SOURCE: Kovitz using data from Bloomberg

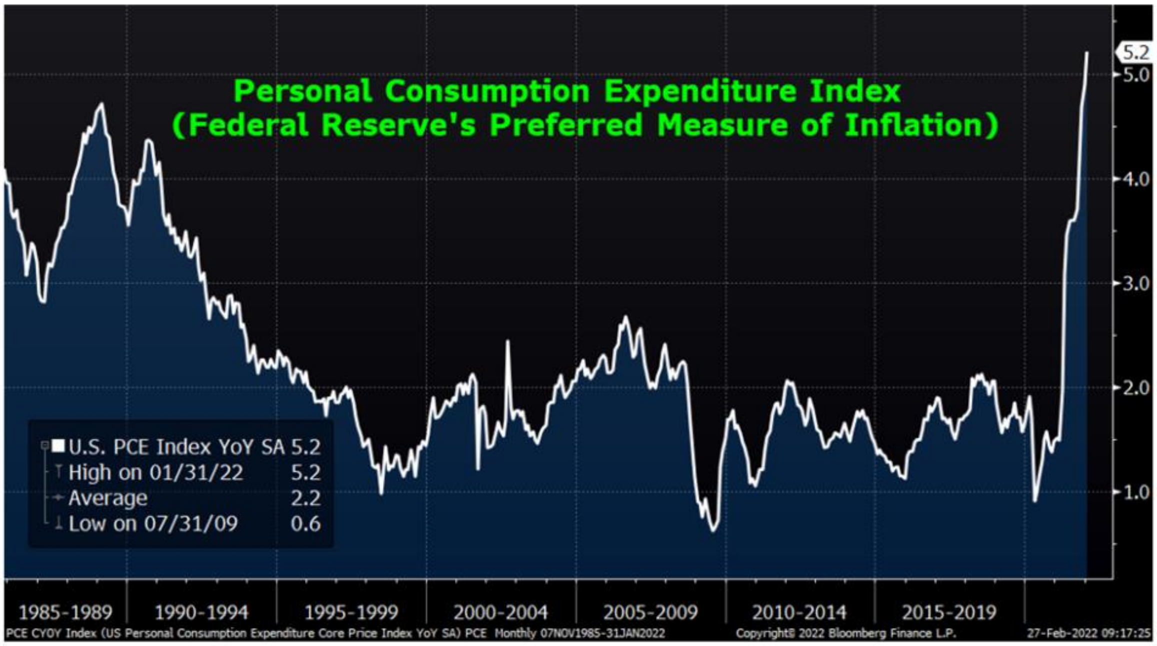
Trading has been rocky of late, to say the least, with many stocks enduring their worst performance since the five-week 2020 Bear Market brought on by the COVID-19 Pandemic. While the S&P 500 rallied out of correction territory over the last two days, the index closed on 2.23.22 with a 11.91% decline from the 01.03.22 high. Of course, a 10% setback is not unusual, given that we have now had 35 of them since the launch of *The Prudent Speculator* more than 44 years ago. Happily, there have also been 34 advances of 10% or greater, with the average gain during those periods in the green dwarfing the average loss.

There also is no assurance that the 11.91% closing-basis drop in the S&P on Wednesday or the 14.22% intraday plunge on Thursday will mark a near-term bottom, especially with folks concerned about inflation,…

THE PRUDENT SPECULATOR

FED FUNDS RATE INCREASES LIKELY TO BEGIN VERY SOON

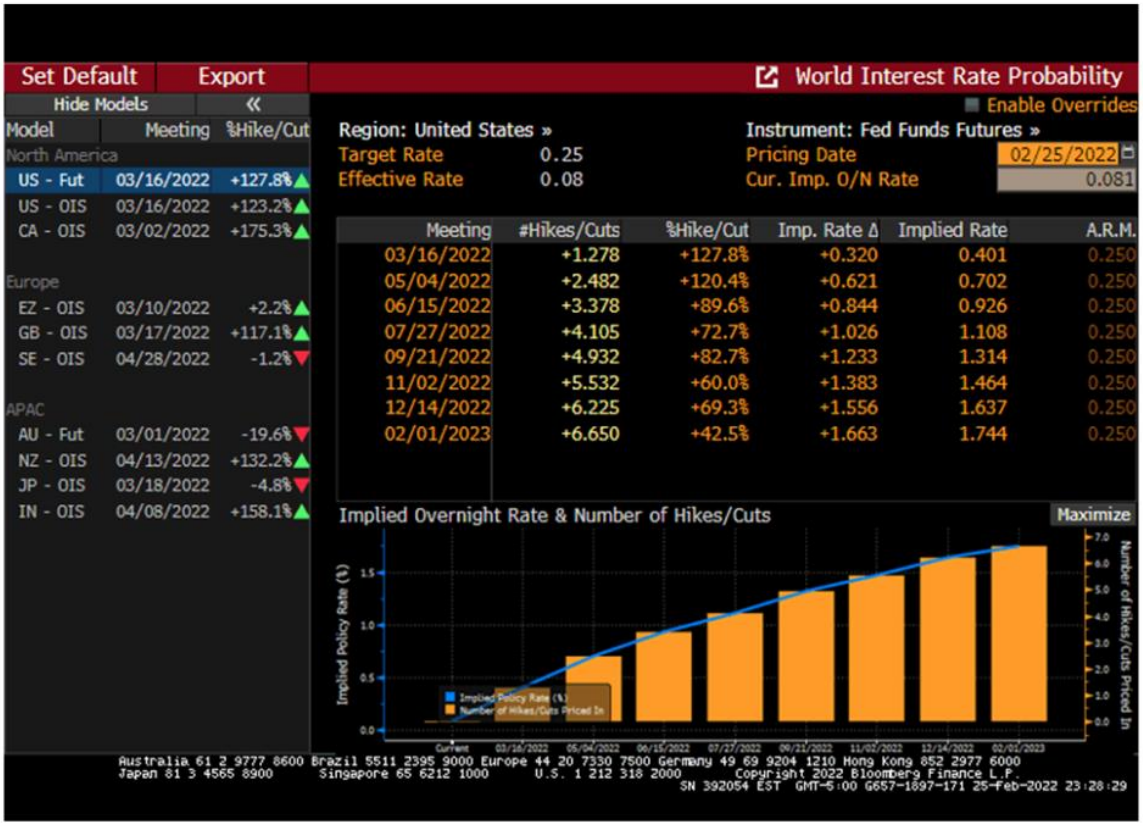
The Federal Reserve's preferred gauge of inflation, the core Personal Consumption Expenditure (PCE), jumped in January by 5.2%, above the 2.0% target, adding to investor worries about the timing and pace for interest rate hikes this year from Jerome H. Powell & Co.



…and the Federal Reserve raising interest rates.

THE PRUDENT SPECULATOR

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



Of course, as we have repeatedly noted on these missives, the historical evidence, while no guarantee of future performance, suggests that equities in general and Value stocks in particular have been very good hedges against inflation,…

THE PRUDENT SPECULATOR

EQUITY RETURNS AND 7%+ INFLATION – VALUE STOCKS THE PLACE TO BE


THE WALL STREET JOURNAL.

THURSDAY, JANUARY 13, 2022 - VOL. CCLXXIX NO. 10

What's News

Inflation Hits Fastest Clip Since '82

Consumer prices rise by 7% as pandemic disruptions, consumer demand stay strong

China's 'Zero-Covid' Efforts Face Big Test From Omicron

Heir to Scholastic Is Now in Charge Of Fixing It

Iole Lucchese faces innovation hurdles and some skepticism over her track record

McCarthy Rejects Panel's

Inflation Rate >= 7.0% and Ensuing Value/Growth Returns Since 1927

Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	4.5%	2.1%	10.3%	5.4%	24.5%	14.3%
Geometric Average	3.8%	1.5%	8.8%	4.1%	21.6%	11.7%
Median	3.9%	1.7%	6.7%	4.3%	18.0%	12.4%
Max	50.6%	33.2%	82.1%	61.2%	133.3%	84.3%
Min	-19.2%	-27.8%	-26.3%	-36.0%	-28.1%	-48.0%
Count	131	131	131	131	131	131

Source: Kovitz using data from Ibbotson Associates 06.30.27 - 11.30.21.

Inflation Rate <7.0% and Ensuing Value/Growth Returns Since 1927

Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	4.1%	3.2%	8.1%	6.3%	16.3%	12.4%
Geometric Average	3.1%	2.5%	6.1%	4.9%	12.1%	9.5%
Median	4.0%	3.5%	8.0%	6.5%	16.2%	13.1%
Max	201.1%	131.7%	245.2%	135.6%	358.2%	213.8%
Min	-43.5%	-40.4%	-56.3%	-47.0%	-71.5%	-64.8%
Count	1001	1001	998	998	992	992

Source: Kovitz using data from Ibbotson Associates 06.30.27 - 11.30.21.

Inflation Rate >= 7.0% and Ensuing Value/Growth Returns Since 1957

Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	4.2%	2.3%	9.3%	5.8%	22.3%	15.9%
Geometric Average	3.7%	1.6%	8.2%	4.1%	20.6%	12.6%
Median	4.7%	2.7%	6.9%	4.7%	20.6%	17.7%
Max	39.8%	33.2%	63.2%	61.2%	72.6%	84.3%
Min	-16.4%	-27.8%	-26.3%	-36.0%	-28.1%	-48.0%
Count	76	76	76	76	76	76

Source: Kovitz using data from Ibbotson Associates 03.31.57 - 11.30.21.

Inflation Rate < 7.0% and Ensuing Value/Growth Returns Since 1957

Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	3.8%	3.0%	7.7%	6.1%	15.6%	12.0%
Geometric Average	3.3%	2.6%	6.7%	5.1%	13.5%	10.2%
Median	4.0%	3.4%	8.1%	6.3%	17.1%	12.9%
Max	37.7%	32.0%	68.3%	49.7%	106.5%	92.6%
Min	-39.5%	-34.9%	-54.2%	-41.8%	-52.2%	-40.1%
Count	698	698	695	695	689	689

Source: Kovitz using data from Ibbotson Associates 03.31.57 - 11.30.21.

…while those hiding out in the perceived safety of fixed income could see a sizable decline in their purchasing power.

FEAR OVER FACTS – BE CAREFUL WHAT YOU READ

Why an Unpleasant Inflation Surprise Could Be Coming

If inflation turns up, economists have long assumed it would do so slowly, giving the Fed plenty of time to respond. But Michael Feroli of J.P. Morgan notes this assumption is built on models in which the world behaves in a predictable, linear way. In fact, he says, the world isn't linear and inflation can change suddenly for unexpected reasons: it "is sluggish and slow-moving, until it isn't."

A case in point: in 1966, inflation, which had run below 2% for nearly a decade, suddenly accelerated to over 3%. Some of the circumstances echo the present: unemployment had slid to 4%, taxes had been cut and federal spending for the Vietnam War and Lyndon Johnson's "Great Society" programs was surging. Deutsche Bank economists note the budget deficit jumped by more than 2% of gross domestic product between 1965 and 1968, similar to what they project between 2016 and 2019. Except in recessions, stimulus of this size "is unprecedented outside of these two episodes," they said.

The effect of an overheating economy was then compounded by policy errors. Fed chairmen William McChesney Martin Jr. and Arthur Burns were too optimistic about how low unemployment could go without pushing prices higher, and succumbed to pressure from Johnson and then Richard Nixon to keep interest rates low. **From 1966 to 1981, inflation and interest rates climbed to double digits, decimating stock and bond values.**

Wall Street Journal, February 28, 2018

In yet another example of fear over facts, *The Wall Street Journal* warned of dire consequences should we have another inflation and interest rate scare like 1965-1981. If past is prologue, as Value investors, we hope they are right.

Annualized Returns December 1965 - December 1981	
Inflation	7.0%
IA SBBI US 1 Yr Treasury TR	7.1%
IA SBBI US 30 Day TBill TR	6.8%
IA SBBI US LT Govt Bonds TR	2.5%
IA SBBI US IT Govt Bonds TR	5.8%
IA SBBI US LT Corp Bonds TR	2.9%
FF Growth Stocks TR	7.4%
S&P 500 TR	6.0%
Dow Jones Industrials TR	3.9%
FF Value Stocks TR	13.4%

Source: Morningstar

And the data since 1970 also suggest that worries about Fed Tightening, especially for those who favor inexpensive stocks, could be misguided.

Rates Change and Equities Rise

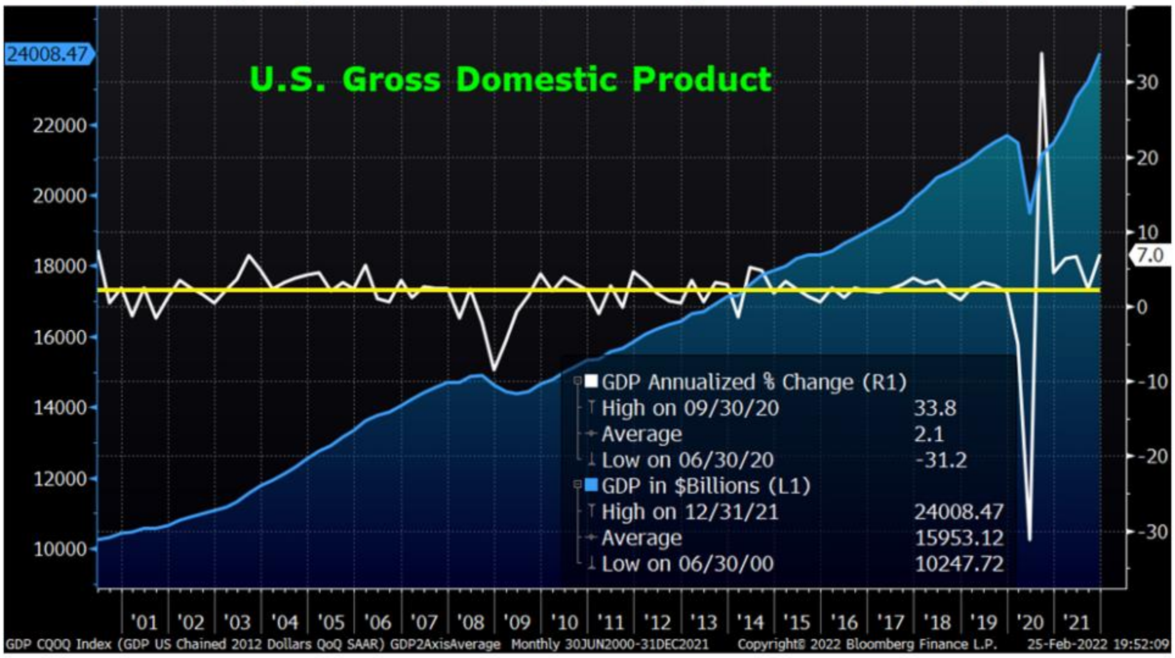
Beginning Rate	Rate Environment	Start Date	End Date	Large Stocks	Small Stocks	Value Stocks	Growth Stocks	Div. Payers	Non-Payers
9.0%	FALLING	01.31.1970	02.29.1972	15.5%	8.0%	18.5%	13.5%	2.3%	15.5%
3.3%	RISING	03.31.1972	07.31.1974	-9.3%	-19.5%	-8.9%	-23.4%	-30.8%	-9.8%
12.9%	FALLING	08.31.1974	01.31.1977	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%**

To be sure, we respect the risks that Jerome H. Powell & Co. will not be able to engineer a so-called soft landing and that the next domestic recession could arrive sooner than some expect. However, the latest U.S. economic data argues that business conditions will remain healthy for the foreseeable future, even as we won't likely see 7% GDP growth as witnessed in Q4 anytime soon.

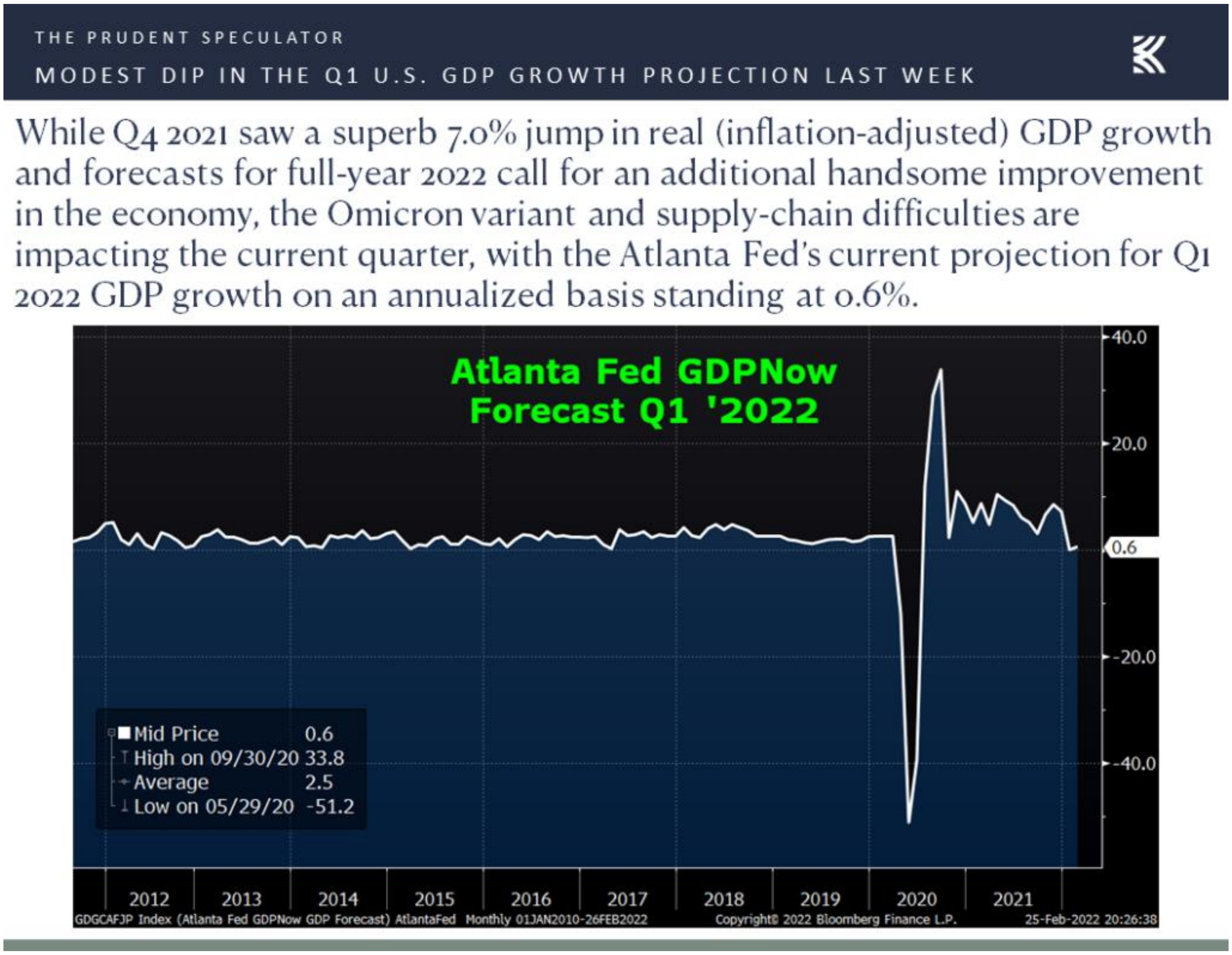
THE PRUDENT SPECULATOR

TERRIFIC REVISED Q4 U.S. GDP GROWTH OF 7.0%

Fourth quarter 2021 real (inflation-adjusted) domestic economic growth came in at an excellent revised 7.0% rate on an annualized basis, and the current-dollar GDP figure of $24.0 trillion is now at an all-time high, well above the pre-pandemic $21.7 trillion posted in Q4 2019.



Certainly, higher oil, gas and other commodity prices due to the war in Ukraine and sanctions on Russia are problematic, while the current GDP growth outlook for Q1 is hardly exciting,…

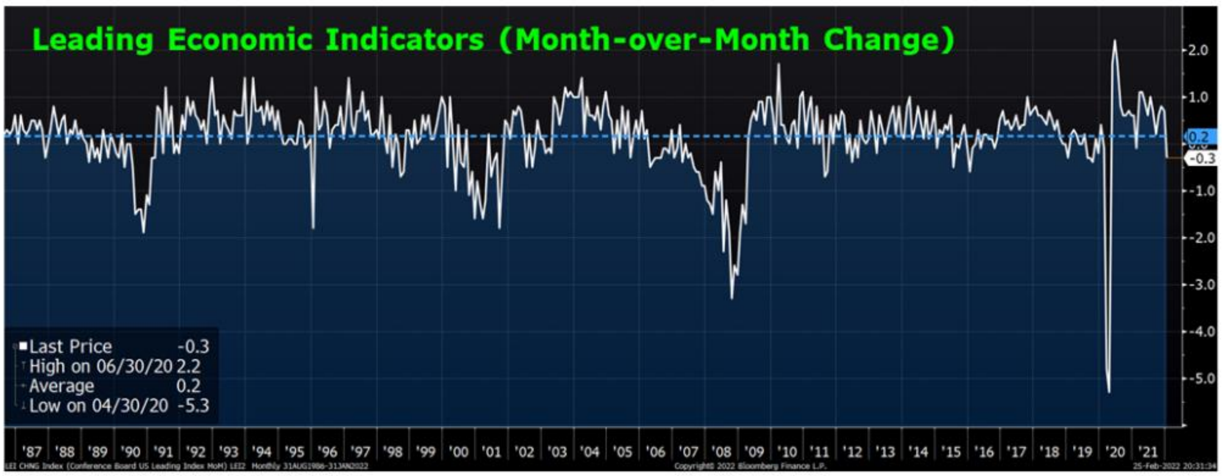


…but, despite a drop in its forward-looking Leading Economic Index for January, the Conference Board is estimating robust 3.5% real (inflation-adjusted) growth for 2022.

THE PRUDENT SPECULATOR

LEI DECREASES 0.3% IN JANUARY, BUT 3.5% GDP GROWTH FOR '22 EXPECTED

"Despite this month's decline and a deceleration in the LEI's six-month growth rate, widespread strengths among the leading indicators still point to continued, albeit slower, economic growth into the spring. However, labor shortages, inflation, and the potential of new COVID-19 variants pose risks to growth in the near term. The Conference Board forecasts GDP growth for Q1 to slow somewhat from the very rapid pace of Q4 2021. Still, the U.S. economy is projected to expand by a robust 3.5 percent year-over-year in 2022—well above the pre-pandemic growth rate, which averaged around 2 percent."



We also saw better-than-expected numbers for the manufacturing and service sectors last week,…

THE PRUDENT SPECULATOR

IHS MARKIT PMI READINGS RISE IN FEBRUARY

IHS Markit's preliminary U.S. PMIs for the factory and services sectors in February came in at 57.5 and 56.7, respectively, both nicely above expectations. IHS said, "In broad terms, the flash PMI data suggest that the economic impact of the Omicron wave has been both modest and short-lived in the U.S. and Europe, but at the same time inflationary pressures are showing increasing signs of persistence, with upwards pressure on inflation from raw materials moving to energy and wages."

…as well as improving jobs figures,…

THE PRUDENT SPECULATOR

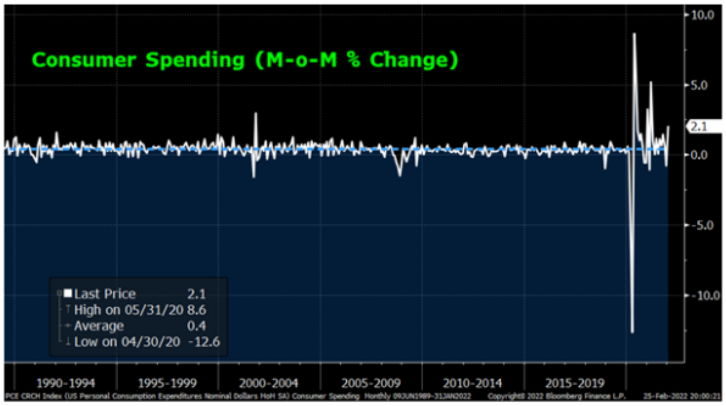
JOBLESS FILINGS AND CONTINUING CLAIMS NEAR/AT 50+ YEAR LOWS

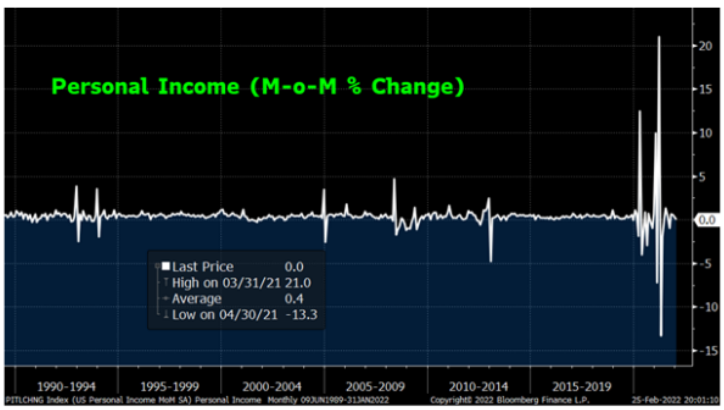
With the impact on the labor market of Omicron starting to fade, new filings for unemployment benefits for the period ended Feb. 19 came in at a seasonally adjusted 232,000, down 17,000 from the week prior, and near the lowest tally since 1969 when the work force was much smaller. Continuing claims filed through state programs dipped to 1.42 million, the lowest level since 1970 as businesses continue to hold tight to their workers.

…a strong read on consumer spending,…

THE PRUDENT SPECULATOR

CONSUMER SPENDING & PERSONAL INCOMES BOTH BEAT ESTIMATES



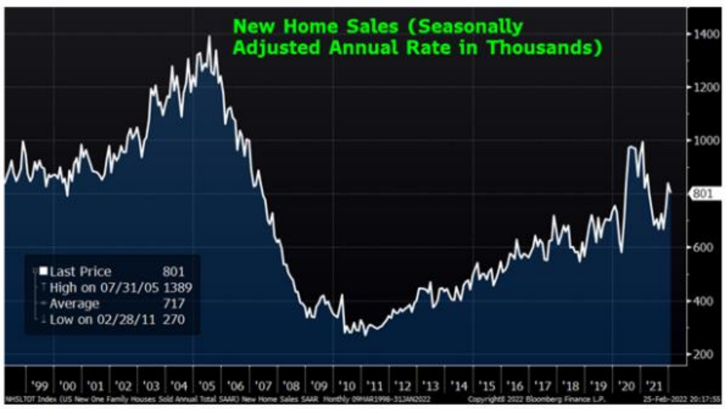


While inflation accounted for six-tenths of a percent of the gain, more money was shelled out for new cars and recreational goods in January, with consumer spending jumping 2.0%, better than expectations and up from a drop of 0.8% in December. Shoppers did have to reach into their wallets as personal income was flat for the month, down from a 0.4% increase in December. The savings rate came in at 6.4%, the lowest level since December 2013.

…and solid statistics on factory orders and housing.

THE PRUDENT SPECULATOR

HEALTHY ECONOMIC NUMBERS



The headline number for durable goods orders in January topped estimates, with orders for commercial aircraft soaring 15.6%, offsetting a huge 41.6% plunge in orders for defense aircraft and parts. Excluding the volatile transportation sector, orders still rose by a solid 0.7%, beating expectations. Meanwhile, sales of new homes for January fell by nearly 4.5% to a still-strong 801,000 units, with affordability and weather to blame for the pullback.

Not all econ data is rosy though, with consumer confidence and sentiment tallies declining this month,…

THE PRUDENT SPECULATOR

MODESTLY BETTER THAN EXPECTED CONSUMER CONFIDENCE/SENTIMENT

Consumer confidence, per data from the Conference Board, inched lower in February to 110.5, down from a revised 111.1 in January, but the tally was better than expected and well above the historical norm dating back to the 1980s. The final Univ. of Michigan gauge of consumer sentiment for February came in at 62.8, above estimates and up from 61.7 in January, though concerns about inflation are weighing, despite rapid job growth.

…but the prospects for corporate profit growth this year and next continue to improve.

THE PRUDENT SPECULATOR

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

Q4 earnings reporting season has been terrific in terms of the results, even as many stocks have sold off sharply on the news. An impressive 76.6% of the 476 S&P 500 companies to have announced thus far have beat EPS expectations and 69.9% have exceeded revenue forecasts.

S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2023	$64.98	$244.65
9/30/2023	$63.04	$238.91
6/30/2023	$60.18	$233.75
3/31/2023	$56.45	$228.51
12/31/2022	$59.24	$223.27
9/30/2022	$57.88	$218.03
6/30/2022	$54.94	$212.17
3/31/2022	$51.21	$209.28
12/31/2021	$54.00	$205.48
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 2.24.22

While we continue to be optimistic about the long-term prospects of our broadly diversified portfolios of what we believe to be undervalued stocks, we are braced for more tumult in the days and weeks ahead, and we note that the equity futures were pointing on Sunday evening to a sharply lower opening to the new equity trading week. Of course, the contrarian in us smiled when the latest Sentiment Survey from the American Association of Individual Investors was released late Wednesday night.

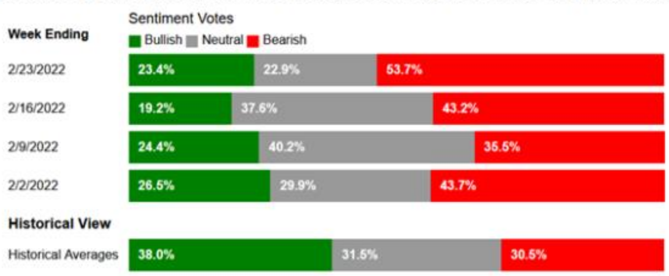
THE PRUDENT SPECULATOR

SUPER AAII CONTRARIAN BUY SIGNAL: BULL-BEAR SPREAD = -30.3

The gauge is widely viewed with a contrarian eye, so the AAII Sentiment Survey Bull-Bear spread plunging to -30.3 in the latest week was a major equity market buy signal. There have been only 29 less optimistic tallies in the 35-year history of the gauge and the ensuing six-month return during those periods for the Russell 3000 Index has averaged a whopping 14.8%, well above the 6.0% average for all periods, while the three-month return comparison has been 5.9% vs. 2.9% and the one-month comparison has been 3.0% vs. 0.9%.

AAII Investor Sentiment Survey

What Direction Do AAII Members Feel The Stock Market Will Be In The Next 6 Months?



AAII Bull-Bear Spread & Russell 3000 Forward TR

Date	Spread	1W RET	1M RET	3M RET	6M RET
10/18/1990	-54.0	1.5%	4.5%	10.1%	32.1%
3/5/2009	-51.4	10.3%	24.5%	40.3%	52.7%
10/4/1990	-44.0	-5.5%	-0.5%	4.3%	26.2%
9/20/1990	-43.0	-3.7%	-0.5%	6.9%	21.5%
11/15/1990	-43.0	-0.4%	3.6%	18.4%	20.1%
8/16/1990	-41.0	-8.0%	-4.6%	-4.4%	13.3%
1/10/2008	-39.3	-6.1%	-5.4%	-3.1%	-9.8%
3/13/2008	-38.7	0.7%	1.5%	5.0%	-3.0%
8/30/1990	-38.0	0.5%	-4.4%	1.4%	19.1%
2/20/2003	-36.8	0.2%	4.6%	10.9%	22.3%
7/8/2010	-36.1	2.4%	5.0%	9.9%	21.4%
10/15/1992	-36.0	1.4%	4.4%	9.4%	12.4%
4/11/2013	-35.2	-3.4%	2.7%	5.9%	9.1%
2/19/2009	-35.1	-3.4%	1.0%	18.1%	31.0%
9/13/1990	-35.0	-2.3%	-6.4%	4.1%	20.5%
10/25/1990	-35.0	-1.1%	2.4%	10.4%	27.1%
12/20/1990	-34.0	-0.3%	0.6%	13.7%	17.2%
7/20/2006	-34.0	1.0%	4.4%	10.1%	15.9%
1/24/2008	-33.9	2.2%	0.6%	3.5%	-5.3%
11/5/2009	-33.3	1.8%	3.9%	0.9%	11.9%
7/17/2008	-33.1	-0.6%	3.4%	-25.9%	-32.3%
2/1/1990	-33.0	1.7%	1.9%	1.9%	8.8%
7/10/2008	-33.0	0.8%	3.8%	-28.2%	-28.7%
11/20/2008	-32.8	18.6%	19.7%	4.8%	24.5%
2/8/1990	-32.0	0.6%	2.6%	3.0%	1.9%
10/11/1990	-31.0	3.3%	6.3%	8.4%	32.9%
11/22/1990	-31.0	0.4%	5.5%	18.1%	23.0%
2/26/2009	-30.8	-9.3%	11.3%	22.8%	40.0%
1/1/2009	-30.7	1.1%	-8.4%	-9.3%	4.8%
2/24/2022	-30.3				
29 Period Average		0.1%	3.0%	5.9%	14.8%
All Periods Average		0.2%	0.9%	2.9%	6.0%

Source: American Association of Indivdual Investors and Bloomberg

*****

We know that many are also questioning equity market valuations, especially with many high-flying "meme" stocks, special purpose acquisition vehicles and profitless companies suffering massive declines over the past few months, not unlike what happened with the bursting of the Tech Bubble 22 years ago. While we never like to see our portfolios in the red as they are thus far in 2022, we wouldn't be too unhappy if now was like 2000, especially as the Russell 3000 Value index peaked that year in the second week of January, as was the case this year, and it bottomed the fourth week of February, before rebounding and going on to post a solid gain for the full 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.

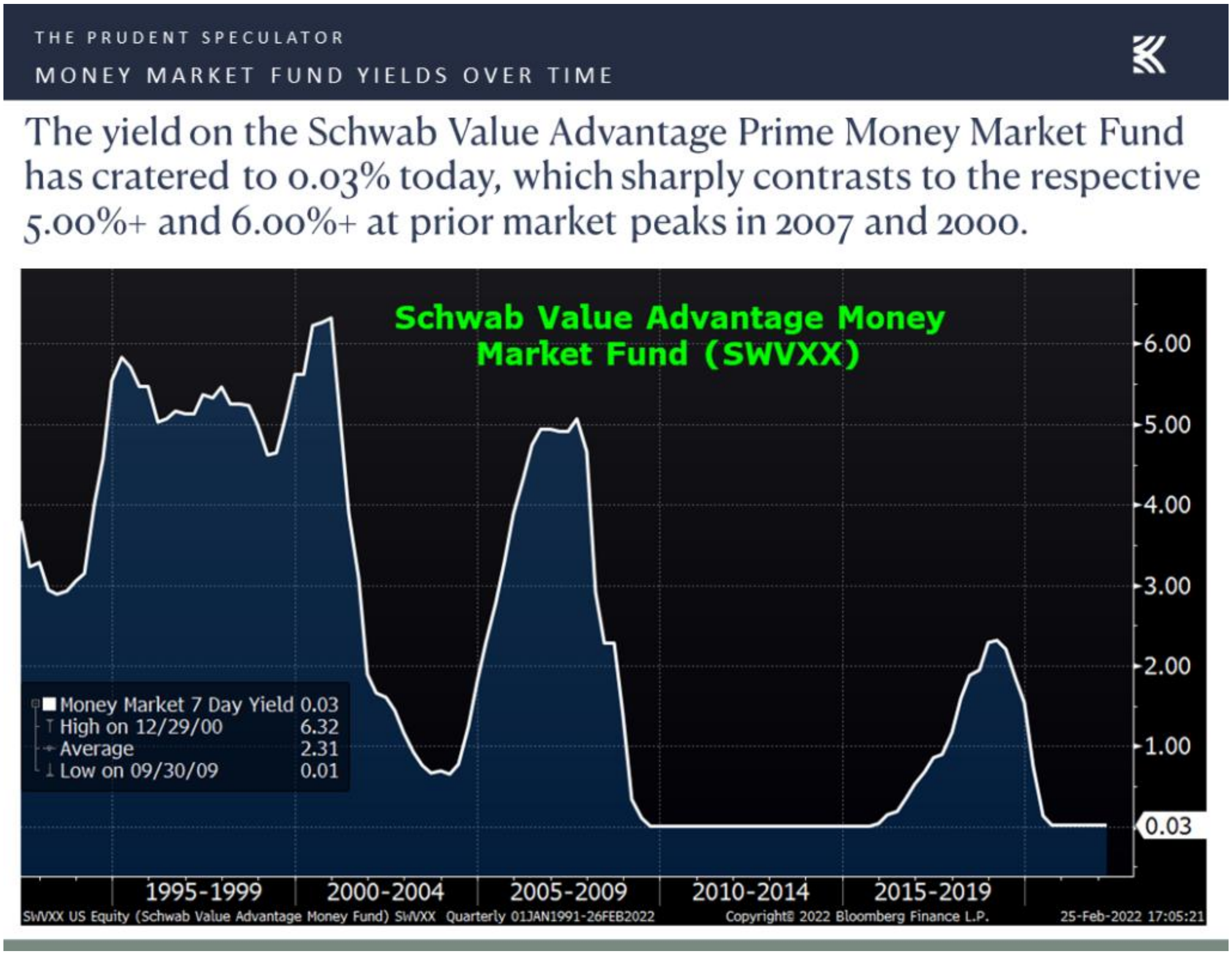
Of course, no two market environments are the same, and we think that stocks in general are still attractively priced today, given where interest rates reside.

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. 1.96% 10-Year) and S&P 500 dividend yield of 1.40%.

Yes, we know that folks will point to valuation metrics like the Shiller CAPE (Cyclically Adjusted P/E) to say that stocks are too expensive, but valuations cannot be looked at in a vacuum. After all, there is a big difference between a 600-basis-point yield on a "risk-free" money market fund as was the case in 2000 and a 3-basis-point yield offered today.



That may not soothe the skeptics, we know, but one does not have to invest in the expensive areas of the market as large-cap value stocks are trading near their forward P/E norm, albeit with data going back only 27 years.

THE PRUDENT SPECULATOR

LARGE CAP VALUE MULTIPLE SLIGHTLY ABOVE THE HISTORICAL P/E

While the numbers date back only to 1995, the Russell 1000 Value index is today trading with a forward P/E ratio of 15.8, near the 27-year median of 15.0.

And even better, for those looking to find a new home for their growth-stock dollars or other risk assets, large-cap value has lagged the S&P 500 considerably over the last five years, which goes against its historical propensity to outperform.

THE PRUDENT SPECULATOR

LARGE CAP VALUE TRAILING IN THE SHORT-TERM RETURNS DERBY

The Russell 1000 Value index has had very good returns over the last five years, but the performance race has been tilted in favor of the large-cap S&P 500...which history suggests could create a timely entry point for an investment in large-sized Value stocks.

It's a similar story for Mid-Cap Value, which has also seen an unusual performance lag over the last five years.

There are a lot of large company stocks in the Russell MidCap Value index, but that gauge is today trading slightly below its 27-year median on a forward P/E basis.

THE PRUDENT SPECULATOR

MID CAP VALUE NOT EXPENSIVE TODAY RELATIVE TO THE HISTORICAL P/E

While the numbers date back only to 1995, the Russell MidCap Value index is today trading with a forward P/E ratio of 16.0, below the 27-year median of 16.3.

Not surprisingly, we think that Value is the right pond in which investors should be fishing, especially today, but we sleep better at night knowing that our portfolios boast even lower price multiples and higher dividend yields than nearly all the Value indexes.

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	14.1	12.8	1.1	2.5	2.2
ValuePlus	14.6	12.8	1.4	2.5	2.0
Dividend Income	13.3	12.5	1.0	2.3	2.8
Focused Dividend Income	15.0	14.0	1.2	2.6	2.4
Focused ValuePlus	14.0	13.7	1.4	2.7	2.3
Small-Mid Dividend Value	11.5	10.6	0.6	1.7	2.4
Russell 3000	24.9	20.0	2.5	4.1	1.4
Russell 3000 Growth	34.9	27.1	4.2	11.1	0.8
Russell 3000 Value	19.3	15.9	1.8	2.5	2.0
Russell 1000	23.1	19.9	2.7	4.3	1.4
Russell 1000 Growth	32.4	26.6	4.7	12.1	0.8
Russell 1000 Value	17.9	15.8	1.9	2.6	2.0
S&P 500 Index	22.5	19.6	2.8	4.4	1.4
S&P 500 Growth Index	27.0	23.9	5.2	8.6	0.8
S&P 500 Value Index	19.3	16.7	1.9	2.9	2.0
S&P 500 Pure Value Index	12.2	11.0	0.8	1.4	2.4

As of 02.26.22. 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.

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

Shares of **Foot Locker** (FL – $29.07) plummeted more than 36% in the first few hours of trading on Friday, before closing down 30% on the day and 32% on the week following the footwear and apparel retailer's release of fiscal Q4 financial results. It wasn't the numbers from the previously completed quarter that sent traders into a selling frenzy, as the company blew away bottom-line expectations, posting EPS of $1.67, 12% better than the consensus analyst estimate. Revenue of $2.34 billion slightly outpaced expectations, led by apparel versus footwear as supply of the latter was short and Nike worked to do more direct-to-consumer sales.

FL CEO Richard Johnson commented, “We closed out a record year by delivering solid fourth quarter results that reflect the ongoing momentum we have built in our business in the midst of an evolving market. We made significant progress diversifying our brands, categories and channels in 2021, as well as expanding our customer base across demographics and high-growth geographies with the acquisitions of WSS and atmos. We also invested in our omni-channel platform to accelerate our DTC strategy and enhance the customer experience with new speed and convenience capabilities. And we continue to expand our private label merchandise offerings, including the most recent launch of our new womenswear brand.”

Alas, the problem was in the go-forward as the full-year outlook was dramatically below consensus expectations, due to continued changes in its vendor mix, specifically related to Nike. On an annual basis, Nike represented 75% of total purchases in 2020 and 70% in 2021. The forecast for 2022 is that Nike will represent no more than 60%. Mr. Johnson explained, “Our journey to diversify our mix of business and expand our reach as a house of brands and banners is ongoing. We look forward to continuing to build on the important areas of success from the past year that strengthen our position at the heart of the youth, sports, and sneaker communities.”

During the earnings call, Mr. Johnson noted that there was momentum building across shoe labels including Adidas, Puma and New Balance. The further diversification of merchandise and vendor mix also included the announcement of exclusive access to Reebok’s basketball footwear and a continued exclusive rising NBA star LaMelo Ball program with Puma.

Management also said that the company will focus on opening stores off-mall and under its key growth banners, and asserted that cost savings initiatives will be implemented that will generate $200 million of annualized savings.

All the changes have management projecting a drastic cut to the outlook, with sales for the full year down 4% to 6% vs. last year, given the Nike shift and the end to government stimulus checks. Additionally, same store sales were forecast to drop by a high-single-digit percentage.

Sounds terrible…until one realizes that the company still expects to produce adjusted EPS of $4.25 to $4.60 in fiscal 2022. CFO Andrew Page added, “As we look to 2022, Foot Locker is operating from a strong financial position and we continue to benefit from substantial flexibility in our real estate portfolio, allowing us to pivot our store footprint more easily as we amplify and optimize our omni-channel offerings. With the help of our external partners, we are looking to drive even more efficiency as we ensure alignment of our capital spend, cost structure and organization design in support of our strategic imperatives.”

The company also announced that its Board approved a 33% increase in its quarterly dividend from $0.30 to $0.40, and authorized a new share repurchase program of $1.2 billion. While we know FL can’t repurchase all those shares immediately, long-term-oriented investors should be happy to note that the buyback amount represents a whopping 41% of the current market capitalization. With only $347 million of net of debt cash on the balance sheet, we hope management puts some of those funds to work quickly, given the massive markdown.

While we understand the concern about the reduced emphasis on Nike and the slashing taken to the near-term outlook, we strongly believe that the Friday's selloff was more than overdone. Through a long-term lens, Foot Locker becoming less dependent on one vendor, shifting more store bases to off-mall locations and participating in new revenue streams from recent acquisitions and investments should be a positive. Additionally, more private label offerings should be supportive to margins. Yes, we were compelled to cut our Target Price to $72 on the news, but the market's punishment hardly fit the crime in our view and we strongly believe that averaging down on the position would be wise for those with cash in reserve and reasonable Retail and Consumer Discretionary exposure. With the increased dividend and the share price whack, FL now has massive and well-covered yield of 5.5%.

Medical device maker **Medtronic PLC** (MDT – $105.84) posted EPS of $1.37 for fiscal Q3, a 6% increase over the prior-year quarter, on revenue of $7.8 billion. As the impact of COVID-19 infections on hospitals receded in many areas, ICU capacity became available and MDT's procedure volume picked up. Of course, there were challenges with the supply chain, inflation and worker shortages that continue to drag on the ability of hospitals to complete procedures, but MDT's management team believes things are "on the path to recovery." In the quarter, the Cardiac Rhythm Management segment market share grew 1.5%, while Peripheral Vascular Health, Medical Surgical and Respiratory Interventions also gained market share.

MDT CEO Geoff Martha stated, "Over the last 18 months, we've made significant changes to our operating model, moving to 20 focused operating units as well as making major enhancements to our culture and incentives. These changes have improved our pace of innovation and our competitiveness, as evidenced by recent product filings and approvals that came faster than expected. And we're not finished driving change. We're accelerating improvements to our global supply chain and operations, leveraging our scale to further improve quality, increase product availability and reduce costs. In addition, we've enhanced our portfolio management and capital allocation processes. Our new operating model is giving us line of sight into what is required to compete and win over the long term in each of our businesses. As a result, we're looking at our portfolio with a more critical eye, with a focus on growth and creating shareholder value. I'd be surprised if there weren't changes over the coming fiscal year, but I don't know yet if they will be smaller or more significant."

CFO Karen Parkhill offered the company's guidance, "While procedure volumes are still impacted from Omicron in the first few weeks of February, we are beginning to see improvement. Our outlook assumes continued procedure volume recovery through March and April. And we expect to be back to pre-COVID levels in most of our markets before the end of the fourth quarter. Assuming that holds, for the fourth quarter, we're comfortable with current Street consensus for our organic revenue growth of approximately 5.5%. At recent foreign exchange rates, currency would be a headwind on fourth quarter revenue of approximately $185 million. By segment, we would model Cardiovascular at 7% to 8% growth, Neuroscience at 2.5% to 3.5% growth, Medical Surgical at 7.5% to 8.5% growth and Diabetes down 6% to 7%, all on an organic basis. On the bottom line, we expect fourth quarter non-GAAP diluted EPS in the range of $1.56 to $1.58, in line with current consensus. And at recent rates, we expect currency to have a flat to slightly positive impact on the bottom line."

Shares of MDT are not much higher than they were back in December when the company announced that it received a warning letter from the FDA that prompted a recall for its MiniMed 600 insulin pumps, as well as the remote controller for the MiniMed 508 and Paradigm series pumps. When asked about the status of the inquiry, management said that the "dialogue with the FDA is ongoing" and the talks are "very constructive." Despite the many challenges facing MDT, we still think very highly of the company's terrific products for acute procedures and pipeline for a variety of chronic diseases. Near-term performance will likely be impacted by supply chain challenges and hospital staffing issues, but we doubt the trials and tribulations will diminish Medtronic's competitive position in the med-tech space. With domestic demographic trends in its favor, and after a more-than-20% slide since the high in September 2021, we find shares of high-quality MDT attractive with a P/E ratio near 18. The dividend yield is 2.4% and our Target Price is $141.

Despite solid results and a great outlook, shares of **Lowe's Cos** (LOW – $219.88) fell on the week, no doubt influenced by the overall equity market turbulence, especially for retail stocks, and a quarterly earnings report from rival home-improvement retailer Home Depot that disappointed analysts. For its part, Lowe's said that it realized revenue of $21.3 billion, versus the consensus analyst estimate of $20.9 billion, and adjusted EPS of $1.78, 5% above the consensus forecast. Same-stores sales were up 5% in the quarter, propelled by Lowe's Total Home concept, which helps make its stores one-stop shopping for professionals and DIYers. The company is also seeing benefits from its redesigned rewards program, which seeks to engage members instead of treating rewards "as a series of one-time transactions."

CEO Marvin R. Ellison commented, "Our outlook for the home improvement industry remains strong, supported by a very healthy consumer balance sheet, especially for homeowners and continuing home price appreciation. Persistent solid demand for homes despite an uptick in interest rates is also expected to support residential investment. In fact, we're encouraged by the strengthening millennial household formation trends that will support home buying in the coming years. Other trends remain favorable, including baby boomers' increasing preference to-age-in-place. And with the extension of remote work for some employees, we're expecting a permanent step-up in repair and maintenance cycle. And as a reminder, 50% of the homes in the U.S. are over 40 years old and will continue to require investments for upkeep and approximately 2/3 of Lowe's annual sales are generated from repair and maintenance activity. Therefore, we're encouraged that the macro environment for home improvement remains very supportive."

CFO Dave Denton said, "We closed out 2021 ahead of the expectations that we presented at our December 15 investor update. Month-to-date, February, U.S. comparable sales trends are in line with our fourth quarter performance on a 2-year basis. And based on the continued momentum that we are seeing in Pro sales, as well as higher expectations for commodity inflation, we are raising our sales outlook for 2022 to a range of between $97 billion to $99 billion for the year, representing comparable sales of down 1% to up 1%…With higher projected sales, improving gross margin outlook and continued execution of our PPI initiatives, we are raising our outlook for operating margin to a range of 12.8% to 13% from a prior range of 12.5% to 12.8% for the full year. We are also raising our outlook for diluted earnings per share to a range of $13.10 to

$13.60 from a prior range of $12.25 to $13. In 2022, we continue to expect capital expenditures of approximately $2 billion and share repurchases of approximately $12 billion."

We believe that LOW will continue to benefit from positive home improvement trends, especially as home values have soared in most geographies and there's extra incentive for folks to spruce up, remodel or build their homes. We think it is worth noting that its shares still trade at a discount to the industry-gold-standard Home Depot. With continued operational momentum, we hope to see LOW receive more of a premium multiple (the forward P/E ratio is 16) as it benefits on the top and bottom line from the continued home improvement wave. Our Target Price has been hiked to $280.

NetApp (NTAP – $80.14) earnings per share grew 31% year-over-year to $1.44 in fiscal Q3 2022. Revenue rose 10% year-over-year to $1.61 billion as the Hybrid Cloud (NTAP's main business) and Public Cloud (about 10% of revenue) segments grew 23% and 98% year-over-year, respectively. In Hybrid Cloud, sales of object storage and all-flash arrays reached a record-high annualized run rate of $3.2 billion. The Public Cloud segment benefitted from the CloudCheckr acquisition, and the retention rate stands at 169%, suggesting that customers are adding to their existing utilization.

CEO George Kurian stated, "Our strong Q3 results underscore our unique position in solving organizations' most significant challenges in both cloud-native and traditional applications, on-premises and in hybrid multi-cloud environments. First, we help customers simplify and modernize existing data centers and deploy traditional applications quickly and confidently. Second, we help customers adopt modern application architectures like Kubernetes and microservices for new workloads and deploy data-rich applications like machine and deep learning. And third, we help customers optimize cost, performance, availability and security for applications and associated infrastructure across multiple clouds. The complexities created by rapid data growth, multi-cloud management and the adoption of next-gen technologies creates a sizable opportunity for us. With focused execution, I am confident in our ability to capture that opportunity and deliver continued growth."

NTAP expects Q4 revenue between $1.64 billion and $1.74 billion, compared with analyst estimates of $1.67 billion, and adjusted EPS between $1.21 and $1.31, which trailed the analyst consensus of $1.35. For full-year fiscal 2022, management expects EPS to come in between $5.07 and $5.17 (up from $4.90 to $5.10) and net revenue growth of 10% (previously 9% to 10%). Surprisingly and undeservedly, we think, shares slumped nearly 12% last week, and they were down substantially more prior to a sizable comeback.

NetApp bills itself as the "data authority for the hybrid cloud." That is, NTAP's products work as a neutral platform between any number of cloud vendors and on-premise environments. The company is #1 (according to Gartner) in general-purpose disk arrays and solid-state arrays, and calls Cisco, Microsoft, Oracle, VMWare, SAP, Citrix, Red Hat, IBM, Infosys, AWS and BMC among its partners. We think that NTAP's commodity hardware (i.e. non-proprietary) and proprietary software model remains attractive, especially as long-term market growth requires significant off-premise and hybrid cloud investments. NetApp's weaker-than-expected guidance was disappointing but seems to be a result of supply cost headwinds, which we think will eventually ease, not to mention the fact that fiscal Q3 numbers exceeded guidance by the projected Q4 shortfall.

We appreciate the exposure to the secular growth of public cloud, and its history of returning cash shareholders. The dividend has been increased at a rapid rate since initiation (in 2013) and the stock now yields 2.5% and the company's balance sheet shows the ability to hike the payout again. Management also continues to buy back shares, having spent $125 million last quarter, and offered no indication that the pace might be slowing. Our Target Price has been inched up to $104.

It was a miserable week for **HollyFrontier** (HFC – $29.82) as the company reported an $0.11 loss for Q4, plagued by tough weather at its newly purchased Puget Sound facility and both planned and unplanned refinery maintenance, which also extended into Q1. Management said the turnarounds were to blame for missing its previous throughput target of 450,000 to 470,000 barrels per day by 6% on the low end. The mid-continent refiner continues to work to get up and running its renewable diesel operation, with the Cheyenne unit currently in operation, and the one in Artesia expected to be operational by end of Q2. These facilities offer 21,000 barrels per day of renewable diesel, which is targeted for profitability in the second half of 2022. Holly also awaits approval from the FTC for its purchase of Sinclair Oil, which is expected by mid-year.

Total liquidity stood at approximately $1.6 billion at the end of the quarter, comprised of a cash balance of $234 million, along with an undrawn $1.35 billion unsecured credit facility. The net debt-to-capital ratio is 21%, with a cash tax benefit of $83 million expected to be recovered at some point this year. For all of 2022, management expects to spend between $250 million to $270 million at HollyFrontier Refining, $225 million to $300 million in renewables, $45 million to $60 million in HollyFrontier Lubes and Specialties and $70 million to $100 million for turnaround in catalysts.

CEO Michael Jennings concluded with a couple of points, "The first is that the fourth quarter included some significant operational challenges, many of which were brought about by extraordinary weather, but all of which we own and need to manage. On one hand, I'll recognize the major events made by our team to recover from these issues. And on the other, I'm going to say that my expectations are for better reliability and throughput… We're nearing the completion of our renewable diesel investments and look forward to the transition from project management to operations management. This is a really exciting new venture for our company, and I believe it's going to be an attractive business for our owners. And the final point is that the Sinclair transaction is truly transformative for HollyFrontier. It's an incredibly exciting time for us. And while the lag from announcement to close may take some of the limelight away from this deal, internally, we're working really aggressively to plan for the closing and the integration. And we continue to view the combined company as strategic and compelling as an investment, a supplier and an employer."

As we mentioned six months ago, our first reaction to Holly's operational overhaul (renewable spending and purchases of Sinclair and the Puget Sound facility) is that management may have bitten off more than it can chew. After all, renewable refining and downstream/marketing operations are new territories for Holly, while end-market demand had yet to fully recover.

Relative success for nearly all the firm's peers compounds the pain, with HFC shares lagging performance-wise by a sizable amount over the past year.

Nevertheless, there is something to be said for zigging when others are zagging. Holly ought to be relatively maintenance free (on a planned basis) for 2022, calls for renewable fuels are unlikely to dissipate, and should the latest geopolitical chaos persist, elevated spreads between foreign (Brent) and domestic oil (WTI) could offer a tailwind with the ability to source over a third of the firm's crude from the Permian Basin. In regard to the dividend, which was initially halted in May of last year to embark on the renewable diesel project, a payout of the previous $0.35 per share is slated for reinstatement in May. On a go-forward basis, the plan is to return 50% of free-cash-flow with $1 billion of total cash planned between dividends and repurchases into the first quarter of '23. Financials are likely to remain muddied for at least another quarter or two, but shares trade for 7.3 times the Street's EPS prediction of $4.11 for 2022, while the yield when the payout recommences will be 4.7%. Our Target Price remains $58.

Specialty chemicals concern **Celanese** (CE – $141.28) recently announced that it would acquire a majority of the Mobility and Materials business from Dupont for $11 billion cash. The deal expands Celanese's portfolio of engineered thermoplastics and elastomers, and adds industry-renowned brands, intellectual property and global production assets. Management says the deal will be immediately accretive to EPS and double free-cash-flow over the next 5 years, while it plans to reduce leverage to below 3 times EBITDA within 2 years. Dupont has committed to fully indemnifying CE for any and all PFAS liabilities that may come to pass.

CE CEO Lori Ryerkerk commented, "The acquisition of the M&M business is an important strategic step forward and establishes Celanese as the preeminent global specialty materials company. For nearly a decade, we have implemented, enhanced, and increasingly extended the Engineered Materials ("EM") commercial model to generate shareholder value. M&M will be a high-quality addition to EM and will unlock significant opportunities to generate further customer and shareholder value. We are eager to welcome the M&M team to Celanese and jointly elevate the future growth and cash generation of the combined Celanese portfolio."

Senior Vice President Engineered Materials Tom Kelly added, "The M&M business is a uniquely complementary specialty materials asset to EM, spanning product, geography, and end-market. This acquisition greatly enhances the EM product portfolio by adding new polymers, industry-renowned brands, leading product technology, and backward integration in critical polymers. We are eager to combine the product and technology leadership of M&M with the commercial excellence and customer engagement model of EM to accelerate our growth in high-value applications including future mobility, connectivity, and medical."

We like the direction Ms. Ryerkerk & Co. are going with the latest move reducing the firm's exposure to the more-commoditized and lower margin Acetyl Chain business (currently about 64% of sales). We have long appreciated the company's exposure to secular growth markets like electric vehicles and 5G through its Engineered Materials segment and think it is positioned to win from customer sustainability efforts. The firm's Q4 earnings came in a bit shy of estimates but were more than double the comparable quarter a year ago. While analysts expect the momentum to cool in the current year, shares still trade at a single digit P/E multiple. The dividend yield is 1.9% and our Target Price presently stands at $219.

French insurance company **AXA SA** (AXAHY – $28.04) posted adjusted EPS of $1.60 for the second half of 2021, 13% ahead of analyst estimates. However, shares dropped 7% as the broader French market sold off due to the war in Ukraine.

CEO Thomas Buberl commented, "2021 for us was a very decisive and pivotal year. Decisive because it determined for us how would we come out of this very difficult crisis. And you've seen in the numbers that we came out in a very strong way. Pivotal because we come to the end of a transformation phase, in which we have shifted the company significantly, and it looks very different from what we've seen in 2016. What are the highlights? EUR 100 billion revenue, a very symbolic number. It's a level of revenue that is higher than what we've seen pre-COVID. And certainly, having grown 6% versus last year is a very good performance. And what makes me even more confident is when you look into the detail, all of the engines have contributed to it. There is not 1 single one that is lagging behind. We have achieved all of this on a very strong balance sheet. 217% Solvency II ratio, 17 points up from last year is a tremendous achievement and is one of the elements that I mentioned earlier, when we talk about the question of how do we come out of this crisis in a reinforced way."

Mr. Buberl continued, "When we look at where we are positioned today and what is the setup for the future. We've got today a very strong growth momentum. And this is also represented in a great bench strength of talent that we have at the group in the local entities. And I'm very confident that the growth momentum we have achieved, certainly in the preferred lines can be kept up because we have an inherent demand of our customers for these risks. Health has become a very large interest of people post-COVID. We've got on company sites, many, many more risks certainly another one as of this morning. And so there is a high demand for insurance solution, a high demand for advice in order to make sure that the risk management of the company is well managed." Mr. Buberl expects earnings growth in on the high end of the 3% to 7% historical range.

AXA shares have dipped this year after a very large 43% total return in 2021. As the company streamlines and benefits from a better revenue mix, we expect a continued strong balance sheet and earnings growth above the GDP pace. Management was asked about exposure to Russia and Ukraine, CFO Alban de Mailly Nesle said, "On the asset side, we have the direct exposure to Russian assets is EUR 50 million, 5-0. And we have also a EUR 144 million exposure to Nord Stream 1. So the one that is not subject to sanction and provides EUR 55 million of cubic meters of gas to Europe every year. So that's that exposure. And that's all we have on Russia, and we have nothing on Ukraine. On the insurance side, we have — we sell political risk insurance. And we have an exposure of EUR 180 million to Russia and EUR 130 million to Ukraine. That business is reinsured 50%. So the net exposure is half the amounts that I gave you. So as [Thomas Buber] said, extremely negligible overall."

With the company hitting its operational stride and sporting an inexpensive valuation, including a forward P/E ratio under 9, we like AXAHY and its 5.1% net dividend yield. Our Target Price is now $39.

Biotech giant **Moderna** (MRNA – $151.33) reported Q4 2021 results that exceeded analyst expectations, sending the volatile share price rebounding by more than 15% on Thursday, before fickle traders bailed on the shares on Friday. MRNA earned $11.29 per share (vs. $10.17 est.) in the quarter and had revenue of $7.2 billion (vs. $6.8 billion est.). COVID-19 vaccine revenue was $6.9 billon, 3.7% better than the analyst consensus estimate.

CEO Stephane Bancel said, "In respiratory vaccines, for COVID, as you know, we received full BLA approval from the U.S. FDA for Spikevax. With authorization for 12 to 17 years old in key markets globally, we are running a 50-microgram dose study in the U.S. for adolescents following discussions with the FDA. We are pleased to report that we have also started to receive authorization for children aged — 6 to 11 years of age, beginning in Australia last week, with more countries expected in the days and weeks to come. We also dosed our first participants in our Omicron-specific vaccine trial, mRNA-1273.529. And today, we're announcing that we plan to bring mRNA-1273.214, a bivalent vaccine combining the wild-type vaccine mRNA1273 and the Omicron vaccine mRNA1273.529 into one single dose booster, into the clinic with total mass of 50 micrograms. We are very excited that now RSV is in Phase III. This is our third vaccine starting the Phase III. And for flu, we are waiting the Phase II data for mRNA1010. As soon as we have them, we will pick a dose and will initiate our Phase III for flu and we will start our Phase I for COVID plus flu program, mRNA1273."

Mr. Bancel continued, "For latent viruses, CMV is enrolling in Phase III, EBV and HIV are now in Phase I. And we are very excited to announce last week that we are adding 2 new latent virus programs to our development pipeline, one vaccine against HSV and one vaccine against VZV. More latent viruses vaccines are in the works in our labs. In therapeutics, PA and MMA are in the clinic, dosing and recruiting more patients. We announced a new checkpoint cancer vaccine, mRNA-4359. And Merck has informed us that they are returning the rights to the KRAS vaccine while evaluating future steps for this program. The company continues to expand at a rapid pace. We now have one approved medicine; 2 in Phase III, RSV and CMV; and 5 in Phase II, for a total of 44 programs. We are deploying capital to accelerate and expand the pipeline. The company now has 3,000 team members across the world with a great culture and 11 commercial subsidiaries across Americas, Europe and Asia Pacific. Our $17 billion cash balance at the end of the year is enabling us to scale across research, development, manufacturing, commercial and G&A."

MRNA signed $19 billion worth of advanced purchase agreements for COVID-19 vaccines for 2022, plus options for an additional $3 billion. Last month, the company completed a $1 billion share buyback program that was started in August 2021, and the Board announced a new $3 billion authorization. There was no indication that Moderna might start paying dividends, which is fine in this case because we would rather the company invest in the product pipeline. In our short holding period, MRNA has been a bumpy ride and we continue to like our position, especially given the cash on the books and product growth potential. 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 has been bumped up to $272.

Cash continues to pour out to investors of **EOG Resources** (EOG – $107.28) with another special dividend of $1 per share declared this past Thursday, payable in March. The independent oil and gas producer earned $3.09 per share in Q4, bringing full-year net income and free-cash-flow to record levels: $4.7 billion and $5.5 billion, respectively. For perspective, CEO Ezra Yacob offered, "The last time we set an earnings record was in 2014. We earned $5.32 per share while oil averaged $93. Last year, we shattered that record earning $7.09 per share with $68 oil. That's 50% higher earnings with a 27% lower oil price."

In 2022, EOG looks to generate even more free cash ($6 billion) as management executes its double premium strategy of tapping wells with a minimum of 60% after-tax rate of return and growing production about 3.6% to pre-pandemic levels between 455,000 and 467,000 MBod. CFO Tim Driggers added, "Keep in mind that back in 2016, when the premium investment standard was introduced, the oil price required for 10% ROCE was in excess of $80 per barrel. The dramatic improvements we have made to the profitability of our business reflect the benefits of using the highest investment threshold in the industry. The bottom-line financial impact of double premium is just beginning to show up. But like our original switch to premium, it will grow over the coming years."

EOG has some of the lowest-cost Permian assets of the U.S. oil and gas producers. We note that while capital constraints are in vogue today, EOG has historically been one of a handful of shareholder-friendly oil and gas producers. While shares are up nearly 52% over the past 12 months, an 8% dip in the past 2 weeks brings the forward P/E multiple to just more than 10 times. We like that EOG continues to sport a balance sheet with zero net debt and has refreshed its stock repurchase authorization ($5 billion) which management intends to use "opportunistically." With the regular common dividend doubled last November, the regular yield is now 2.8%. Our Target Price has been boosted to $132.

Similar to peers in the fertilizer/crop nutrient space, **Mosaic** (MOS – $49.53) posted terrific adjusted EPS of $1.95 in Q4. The figure was just shy of the $1.98 expected by analysts, but the estimate had been bumped up markedly over the past couple of quarters. The figure brings the full-year EPS total to $5.04, nearly six times what was earned a year ago. A confluence of geopolitical factors, elevated energy costs (natural gas is a key input) and strong demand have buoyed fertilizer prices to their highest level in over a decade, with uncertainty surrounding sanctions imposed on Belarus by the U.S. and Europe (not to mention the recent invasion by Russia of Ukraine) boosting global potash prices even higher. Not surprisingly, shares have rallied of late, bringing MOS to a new 52-week high on Friday.

The company expects upward pricing momentum to continue, with about 85% of first quarter sales committed and priced. Phosphate sales volumes in Q1 are expected to be in the range of 1.6 to 1.8 million tonnes, and potash sales volumes are expected to be in the range of 1.8 to 2.0 million tonnes.

President and CEO Joc O'Rourke commented, "Mosaic delivered record EBITDA in 2021, and we expect strong performance to continue in 2022. As a result of successful investments like our new Esterhazy K3 potash mine, Mosaic Fertilizantes in Brazil, and our cost-structure transformation, we are generating tremendous value in the current environment. This has provided us with the opportunity to return significant capital to shareholders, while still investing efficiently in the business and strengthening the balance sheet."

Supremely relevant, Mr. O'Rourke also touched on the situation in Belarus, "First, the potash market was already tight before any sanctions came into place. Higher crop prices, higher demand for fertilizer globally has led to a tightness in this market that was driving higher prices before the Belarusian sanctions. The Belarusian sanctions have simply exacerbated and made the tightness more serious. In terms of the length of the sanctions, we really don't know, and there's no obvious immediate resolution to that issue right now. Part of maybe a regime change, I can't see how that issue is going to be resolved. In terms of the shortfall, we believe it could be anywhere from a few million tonnes in the best-case scenario to as much as 8 million tonnes if the sanctions remain all through the year. Our base case we're working on right now is that there will be about a 4 million-tonne deficit this year. Now the best evidence for this from our perspective is not what we see but what our buyers are saying. Our buyers are signaling that this issue could be longer-lasting than some of our producers have suggested. India and China both signed 2022 contracts of $590 for longer durations than the previous 6-month contracts. And we are hearing similar sentiment from our other global customers. They cannot get the tonnage. And if they can, there is no method to pay for with U.S. banks. So it's fair to assume that every producer is likely already evaluating every economic tonne that they can get out to the market, including us. But remember, in addition to maximizing and increasing tonnage, we cannot forget about the supply chain constraints. To substantially increase our logistics capability, producers will need more railcars or port capacity, and all of this takes time and capital to overcome."

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, after fulfillment of the accelerated repurchase arrangement with Goldman Sachs to buy 7.1 million shares for $400 million by the end of Q2, Mosaic will have completed its previous $1 billion share buyback authorization from last August. The Board has also approved another $1 billion repurchase authorization in its stead. The quarterly dividend was recently hiked from $0.075 to $0.1125 per share and the yield is now 0.9%. We appreciate that operating leverage can work in both directions to amplify results but expect current events to keep fertilizer supplies tight for the foreseeable future. Our Target Price has been raised to $58.

Shares of **BASF SE** (BASFY – $17.23) dropped 10% last week, despite a solid report of Q4 results from the German chemical maker. Adjusted EPS came in at of 0.29 EUR (vs. 0.28 est.), with revenue of 19.8 billion EUR (vs. 19.7 billion EUR est.). Each of the company's five business segments had year-over-year revenue gains, with the largest coming from the Chemicals segment, which jumped 74% to 3.73 billion EUR. Looking ahead, BASF expects adjusted EPS between 6.6 billion and 7.2 billion EUR for 2022 and sales between 74 billion EUR and 77 billion EUR. The strong results and positive outlook were ignored, as the war in Ukraine unfolded and investor uncertainty surrounding European stocks soared.

CEO Martin Brudermueller commented, "Throughout 2021 and particularly in the fourth quarter, higher raw material prices and increased energy and logistic costs burdened the earnings development in all segments. Consequently, we will focus on further substantial price increases in the coming months to pass on the significantly higher costs and improve our margins in the downstream businesses. The established pricing produces — procedures in these businesses leads to a delay in passing on costs. Let's now turn to the macroeconomic environment. According to the currently available data, global growth in the chemical industry was 6.1% in 2022 — 2021. The strongest growth in chemical production was achieved in China, the world's largest chemical market, with a full year expansion of 7.7%. Here, however, growth slowed at a high level during the course of the year. Electricity cuts had a negative effect on production, particularly in the third and fourth quarters. Growth in Asia excluding China reached 6.2% in 2021. Chemical production growth in the European Union was extraordinarily high at 6%."

Dr. Brudermueller continued, "At BASF Group level, sales increased by 33% to EUR 78.6 billion due to considerably higher prices and volumes in all segments. Currency effects had a slightly negative effect and were mainly [and are] related to the U.S. dollar… our sales volume growth was well above the global chemical production. EBIT before special item — EBITDA before special items increased from EUR 7.4 billion to EUR 11.3 billion and thus by 53%. Our 2021 ROCE of 13.5% was considerably above the cost of capital rate of 9%. For 2021, we will propose a dividend of EUR 3.40 per [German] share to the Annual Shareholders' Meeting, thus delivering on our progressive dividend policy."

On Ukraine specifically, Dr. Brudermueller said, "Our forecast ranges take into account uncertainty resulting and particularly from the effects of ongoing supply chain disruptions, the further course of the corona pandemic and the development of energy prices. The impact of the escalation of the Ukraine conflict is not in favor — not factored in and can be — cannot be reliably predicted at this time. However, the war in Ukraine has the potential to significantly reduce growth of global GDP and industrial production." BASF's exposure is "it's roughly 1% of our sales in Russia and 0.2% in Ukraine, which more or less translates into about EUR 800 million sales in Russia and EUR 150 million in Ukraine. Whereas the distribution among the businesses in Russia is more equal — there is a high share of agriculture but also from all the other divisions. It is much more significantly [entwined towards] Agricultural Solutions business in the Ukraine, which is about 2/3 of it. So that is roughly the situation. So you see the size of the markets are not so big."

As a result of the retreat, shares of BASFY are down about 2% this year, as concerns about demand and trade were rehashed (BASF shares also dropped in the immediate vicinity of Russia's 2014 invasion of Crimea), not to mention the geopolitical and human costs that come with a war. We aren't sure what the ultimate outcome of the conflict will be, but it does seem that the impact to BASF will be limited. We continue to hold our BASF shares and think the valuation is cheap for 2022 (10 times estimated earnings) and the dividend yield (4.1% net of foreign tax) is hefty. The metrics look especially attractive compared to BASF's Materials sector peers. Our Target Price remains $28.

Following a setback last October regarding its most recent rate case decision, shares of Arizona utility **Pinnacle West** (PNW – $71.99) rebounded a bit following the release of Q4 financial results. Historically a weaker quarter for the utility, shares rallied 6.8% Friday as PNW announced that it earned $0.24 per share versus the $0.06 expected by analysts. Management continues to appeal the rate case decision, which went into effect in December, and has guided for full-year earnings in 2022 to be within a range of $3.90 to $4.10 per diluted share on a weather-normalized basis, a bit better than the prior projection.

CEO Jeff Guldner commented, “We don’t know what the final resolution of that case will be. However, we look forward to the opportunity to share with the court, our arguments and the reasons why we believe the commission erred in its rate case decision. Turning to the operations side. Although 2021 was extremely challenging, it was not without successes. And I want to start by recognizing our field team’s exceptional execution in 2021. We reliably served our over 1.3 million customers through the hottest June on record, followed by the third wettest monsoon season. Our non-nuclear fleet recorded an impressive reliability performance with a summertime equivalent availability factor or EAF of 94.4%.”

CFO Ted Geisler offered color around positive demographic trends in the state, “Employment recovered to pre-pandemic levels, a milestone reached by only 3 other states. In addition, Arizona was once again the third fastest-growing state in the U.S. last year. As a result of this robust population growth, Maricopa County residential housing permits had their strongest year since 2005, finishing with just over 43,000 permits. We are investing heavily to support this level of growth, which is beneficial to our customers and the entire state.”

PNW should benefit from what we believe to be rapid long-term growth potential in the Phoenix metropolitan area that is bolstered by major corporations (Microsoft, Intel, TSMC and others) committing to building infrastructure in the state. Nevertheless, the tension between Guldner & Co. and the Arizona Commission could be cut with a knife as those running PNW are faced with safely investing to facilitate load growth on a slimmer budget. We concede that the Commission has some grounds for defense given likely missteps in recent years and allegations involving the financing of previous board elections, but we are comfortable with the situation for now, as the stock is our sole utility exposure, the demographic trends remain favorable and the company has a long-term-growth target of 5% to 7%. We are content to collect our 4.7% dividend yield as we await the next rate-case decision. Our Target Price has edged higher to $91.