

Market Commentary Monday, February 7, 2022

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EXECUTIVE SUMMARY

Newsletter Trades – Sales and Purchases for Four Accounts
Week in Review – Plenty of Volatility But Stocks Move Higher
Reward Free Risk – Red Ink in Bond Land
Fed Speak – Futures Predicting More than 5 Rate Hikes in '22
Econ Data – Strong Jobs Report & Solid ISMs
Earnings & Dividends – Both Expected to Move Nicely Higher This Year
Perspective – Ukraine Not the First Russian Issue the Markets Have Faced
Super Contrarian Buy Signal – AAI Bull-Bear Spread
Stock News – Updates on GOOG, NLOK, LITE, QCOM, PRU, GM, ETN, GILD, MRK, CHNG, MDC, XOM & APD

Market Review

As discussed on our January 27 and January 28 *Sales Alerts*, we exited the following positions last week for our two real-money portfolios:

TPS Portfolio

01.31.22: 114 **Biogen** (BIIB – \$221.53) at \$224.635 per share
01.31.22: 1,796 **Takeda Pharma** (TAK – \$14.70) at \$14.3814 per share
02.01.22: 51 **Brighthouse Fin'l** (BHF – \$57.80) at \$55.43 per share
02.01.22: 35 **Kyndryl Holdings** (KD – \$16.22) at \$16.83 per share
02.01.22: 50 **Sylvamo** (SLVM – \$32.32) at \$30.9501 per share
02.01.22: 117 **Viatis** (VTRS – \$15.13) at \$15.0449 per share

Buckingham Portfolio

01.31.22: 26 Biogen at \$224.635 per share
01.31.22: 186 Takeda Pharma at \$14.3814 per share
02.01.22: 11 Brighthouse Fin'l at \$55.43 per share
02.01.22: 13 Kyndryl Holdings at \$16.83 per share
02.01.22: 12 **Organon** (OGN – \$33.12) at \$32.6042 per share
02.01.22: 16 Sylvamo at \$30.9501 per share
02.01.22: 22 Viatis at \$15.0449 per share

We will use those prices to close out these stocks in our two hypothetical portfolios:

Millennium Portfolio: 37 Biogen, 151 Takeda, 26 Brighthouse, 16 Kyndryl Holdings, 18 Organon & 39 Viatris
PruFolio: 89 Biogen, 191 Takeda, 42 Brighthouse, 30 Kyndryl Holdings, 35 Organon, 71 Viatris

As discussed in the February edition of *The Prudent Speculator*, we bought the following on Friday, February 4:

TPS Portfolio

279 **Moderna** (MRNA – \$163.01) at \$160.9899 per share

Buckingham Portfolio

12 **Capital One Fin'l** (COF – \$150.35) at \$149.0139 per share

8 **General Dynamics** (GD – \$212.29) at \$211.898 per share

51 **Int'l Paper** (IP – \$46.79) at \$46.985 per share

In our hypothetical accounts we added the following, also on Friday, February 4:

Millennium Portfolio

14 **Caterpillar** (CAT – \$198.41) at \$200.21 per share

22 **Walt Disney** (DIS – \$142.02) at \$140.04 per share

10 **Lam Research** (LRCX – \$579.07) at \$586.50 per share

22 **Whirlpool** (WHR – \$202.00) at \$204.24 per share

PruFolio

759 **Koninklijke Philips NVR** (PHG – \$33.31) at \$32.92 per share

Stock market volatility showed no signs of abating last week, with Friday's trading illustrating yet again how difficult it can be to rationalize short-term market movements. Happily, while the Dow Jones Industrial Average dipped into the red for the day with a final-hour downturn on Friday,...



Amazing that stocks rallied in after-hours trading on Thursday evening due to strong Amazon earnings, yet the Dow Jones Industrial Average futures then went on to fall in pre-market trading on Friday as bond yields jumped on the jobs report. However, when trading opened that day, stocks were nearly flat, only for the Dow to plunge 300 points 80 minutes later, before rebounding more than 500 points, peaking around 3:13 PM Eastern time, but selling off again and ending with a modest loss.



...the week just ended was a good one for the equity market indexes across the board, though Growth stocks did have the upper hand over the five days.



While the big plunge on 02.03.22 reminded folks of the third week of January, stocks did gain a fair amount of ground last week. The performance gap between Value and Growth narrowed a bit, but it is still very wide this year, with the plunge 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												
2000	2001	M	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		A	1.06	-3.35	15.10	35.56	95.70	26.93	48.42	95.49	Dow Jones Industrial Average
1.01	-10.21	R	1.87	-2.57	14.01	38.09	98.66	26.33	45.34	67.81	New York Stock Exchange Composite	NYA Index
-22.43	-9.23	K	2.51	-14.88	-21.95	12.60	82.22	15.56	33.92	63.30	Russell 2000 Growth	RU20GRTR Index
22.83	14.02	E	1.03	-6.65	7.94	54.17	125.01	29.65	36.77	43.30	Russell 2000 Value	RU20VATR Index
-3.02	2.49	T	1.74	-10.78	-8.18	31.82	103.91	23.69	37.00	54.92	Russell 2000	RU20INTR Index
-11.75	-20.15	O	3.45	-13.53	-6.91	15.88	92.18	27.24	58.18	105.14	Russell Midcap Growth Index Total Return	RUMCGRTR Index
19.18	2.33		1.79	-4.23	17.82	46.65	124.17	29.31	47.49	58.78	Russell Midcap Value Index Total Return	RUMCVATR Index
8.25	-5.62	F	2.35	-7.57	8.47	35.01	113.97	30.86	54.67	80.72	Russell Midcap Index Total Return	RUMCINTR Index
-22.42	-19.63		1.89	-9.91	8.60	31.61	111.17	48.94	92.99	159.48	Russell 3000 Growth	RU30GRTR Index
8.04	-4.33	S	1.57	-2.20	18.22	45.23	102.99	27.25	46.42	62.24	Russell 3000 Value	RU30VATR Index
-7.46	-11.46		1.74	-6.27	13.18	38.06	108.28	39.22	70.29	108.29	Russell 3000	RU30INTR Index
9.64	-0.39	T	1.58	-4.35	20.01	47.78	123.46	39.57	63.28	93.09	S&P 500 Equal Weighted	SPXEWR Index
-9.10	-11.89		1.57	-5.47	17.89	40.18	107.05	40.96	73.99	114.71	S&P 500	SPXT Index
-22.08	-12.73	O	2.01	-9.02	15.59	37.14	114.62	52.38	93.96	157.88	S&P 500 Growth	SPTRSGX Index
6.08	-11.71		1.13	-1.52	20.12	43.70	95.40	26.16	50.35	70.17	S&P 500 Value	SPTRSVX Index
-8.29	-17.75	K	3.50	-13.39	7.93	31.89	114.09	40.24	70.11	119.80	S&P 500 Pure Growth	SPTRXPG Index
13.16	10.87		2.06	3.25	29.45	72.05	156.88	32.56	42.68	61.44	S&P 500 Pure Value	SPTRXPV Index
		S	As of 02.04.22. Source Kovit using data from Bloomberg									

As of 02.04.22. Source Kovitz using data from Bloomberg

Interestingly, the continued rebound in stocks came despite a big leap in interest rates, with the yield on the 10-Year U.S. Treasury climbing from 1.77% to 1.91% on the week, adding to the losses endured by fixed income investors this year,...



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GOLD \$1,806.60 ▲ \$3.60 EURO \$1.1449 YEN 115.20

Rate Jitters Fuel a Surge In Global Bond Yields

By ANNA HERTENSTEIN

Government bond yields surged world-wide after a strong report on the U.S. labor market boosted investors' expectations that central banks will begin steadily raising interest rates to fight inflation.

The benchmark 10-year U.S. Treasury yield, which helps set borrowing costs on everything from mortgages to corporate loans, settled at 1.930%, its highest close since December 2019. The 10-year German bond climbed to 0.2%, its highest level in nearly three years and further into positive territory after years below zero.

Yields, which rise as prices fall, began climbing in Europe after European Central Bank President Christine Lagarde on Thursday said inflation was higher and more sustained than expected, opening the door to interest-rate increases this year. Expectations that the Federal Reserve will raise rates multiple times in 2022 sparked an early-year bond rout that has jarred financial markets, fueling declines in stocks and other riskier investments.

The moves extended after the U.S. Labor Department released data showing that U.S. employers added 467,000 jobs in January. That was well above forecasts from economists who had expected a larger drag from the latest wave of Covid-19 cases. Along with upward revision to previous months, the surprisingly strong

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It is fascinating that the financial press has no problem with frightening equity markets headlines like the one in the 02.04.22 edition of *The Wall Street Journal* that screamed, "Meta Takes Down Stock Market," but when the bond prices plunge, readers are treated to the seemingly upbeat, "Rate Jitters Fuel a Surge in Global Bond Yields," that appeared in the 02.05.22 WSJ. One wonders if those invested in fixed income are aware that their losses so far in '22 might exceed those of the S&P 500 Value and Russell 3000 Value indexes!



...and further illustrating the dangers of investing in instruments that these days arguably offer little reward in exchange for plenty of risk.



On 8.11.21, Germany issued €5 billion of 10-year bonds with a coupon of 0% in a deal that attracted plenty of “interest” at a price of €104.56. That is not a typo! In order to receive €100 back in 10 years and NO interest along the way, “investors” gladly paid €104.56, locking in a sizable loss if held to maturity. Hoping to lose roughly 0.46% per annum, they must be thrilled with the 13 times expected annual return (the bonds have lost more than 6.0%) over the past six months!

To be sure, bonds have their place in many asset-allocation mixes, but market history (on average) shows that rising interest rates are not a big deal for equities (and they are great environments for Value stocks), but they are not very good for fixed income.



Rising Long-Term Government Rates - Annual Returns Review

Name	Value Stocks	Growth Stocks	Dividend Payers	Non-Dividend Payers	Long-Term Corp Bonds	Long-Term Government Bonds	Intermediate-Term Govt Bonds	U.S. Treasury Bills
Arithmetic Average	17.8%	12.5%	11.2%	15.7%	1.0%	-1.0%	2.2%	3.7%
Geometric Average	13.5%	9.4%	9.1%	10.1%	0.8%	-1.1%	2.1%	3.7%
Median	17.0%	12.2%	14.3%	10.9%	1.3%	-0.2%	1.8%	3.3%
Max	126.6%	93.1%	69.8%	88.2%	14.6%	9.2%	9.7%	14.7%
Min	-54.0%	-42.2%	-47.4%	-50.9%	-8.1%	-14.9%	-5.1%	0.0%
Count	46	46	46	46	46	46	46	46

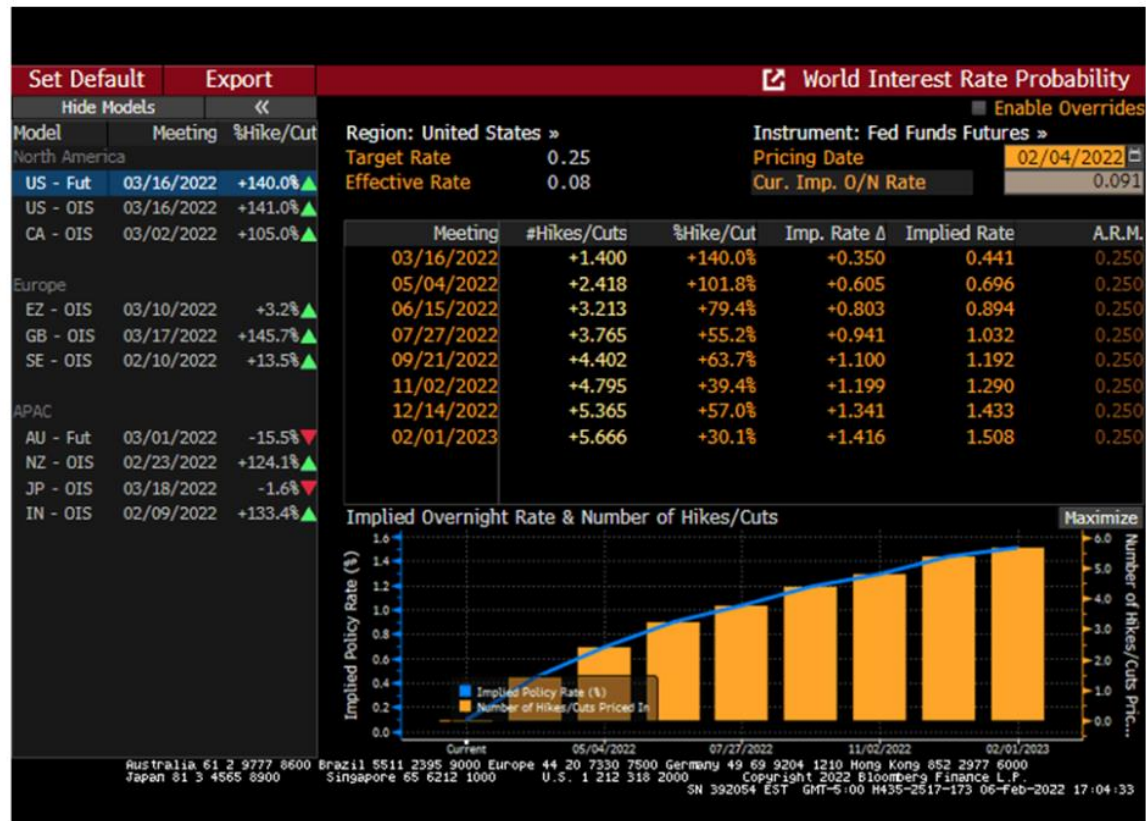
Source: Kovitz using data from Ibbotson Associates SBBI. From 1930 to 2020.

Falling Long-Term Government Rates - Annual Returns Review

Name	Value Stocks	Growth Stocks	Dividend Payers	Non-Dividend Payers	Long-Term Corp Bonds	Long-Term Government Bonds	Intermediate-Term Govt Bonds	U.S. Treasury Bills
Arithmetic Average	15.7%	12.7%	14.3%	11.5%	12.3%	13.4%	8.5%	2.9%
Geometric Average	12.9%	10.5%	12.6%	7.6%	12.0%	13.1%	8.4%	2.9%
Median	16.4%	13.8%	14.9%	12.3%	10.8%	10.7%	7.8%	2.1%
Max	71.1%	48.3%	53.5%	90.5%	42.6%	40.4%	29.1%	10.5%
Min	-43.6%	-37.0%	-34.8%	-48.6%	2.6%	2.8%	1.4%	0.0%
Count	45	45	45	45	45	45	45	45

Source: Kovitz using data from Ibbotson Associates SBBI. From 1930 to 2020.

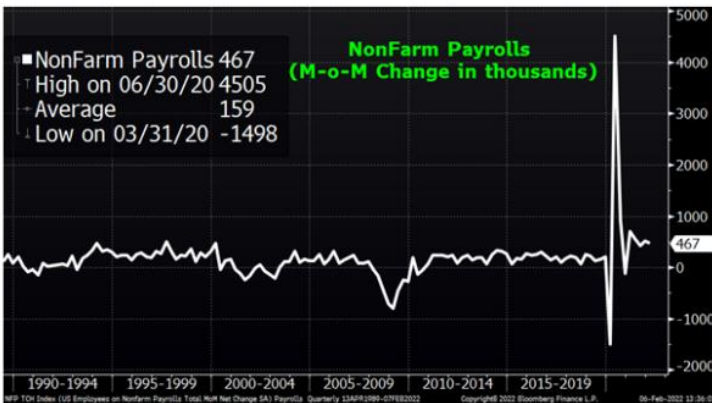
The latest spike in rates can be attributed in part to comments from a couple of Federal Reserve officials that convinced the Fed Fund futures market that Jerome H. Powell & Co. might hike more than five times this year.



Raphael Bostic, president of the Federal Reserve Bank of Atlanta, said, “The economy is far stronger than it has been, during any of my time in this role, and certainly, during any of the recoveries that we’ve been trying to navigate our policy through in recent memory. Any risk that our policies are going to lead to a contraction in the economy, I think they’re relatively far off.”

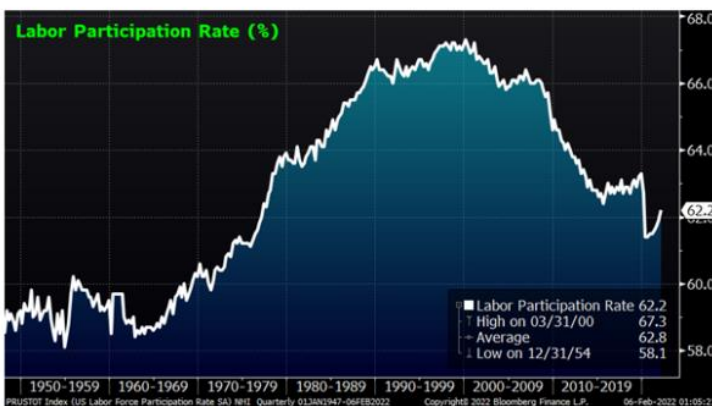
Meanwhile, Esther George, president of the Federal Reserve Bank of Kansas City, stated, “With inflation running at close to a 40-year high, considerable momentum in demand growth, and abundant signs and reports of labor market tightness, the current very accommodative stance of monetary policy is out of sync with the economic outlook.”

Those observations were supported by the economic data out last week, with a far-better-than-expected payrolls number in the January labor report,...



Economists were looking for a gain of 150,000 payrolls, so the increase of 467,000 in January was well above expectations, while the November and December tallies were revised sharply higher by a combined 709,000 jobs. With strong demand for labor, wages continued to rise as employers struggled to fill positions, with early retirements, lack of childcare, virus fears and Uncle Sam's largesse keeping some folks from returning to work.

...and solid supporting jobs figures for the full month,...



While there were far more jobs created than expected, the unemployment rate for January inched up to 4.0%, versus 3.9% in December, as more folks in the labor force boosted the denominator in the jobless percentage calculation. The so-called participation rate continued to inch upward, rising to 62.2% in January, up 0.3 points from December to the highest level since the beginning of the pandemic.

...and most recent weeks.



With the impact on the labor market of Omicron starting to fade, new filings for unemployment benefits for the period ended Jan. 29 came in at a seasonally adjusted 238,000, down 23,000 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 1.63 million, near five-decade lows as businesses continue to hold onto workers with labor so difficult to obtain.

Though down from December, the January outlooks from the widely followed Institute for Supply Management were also healthy on the state of the manufacturing sector...



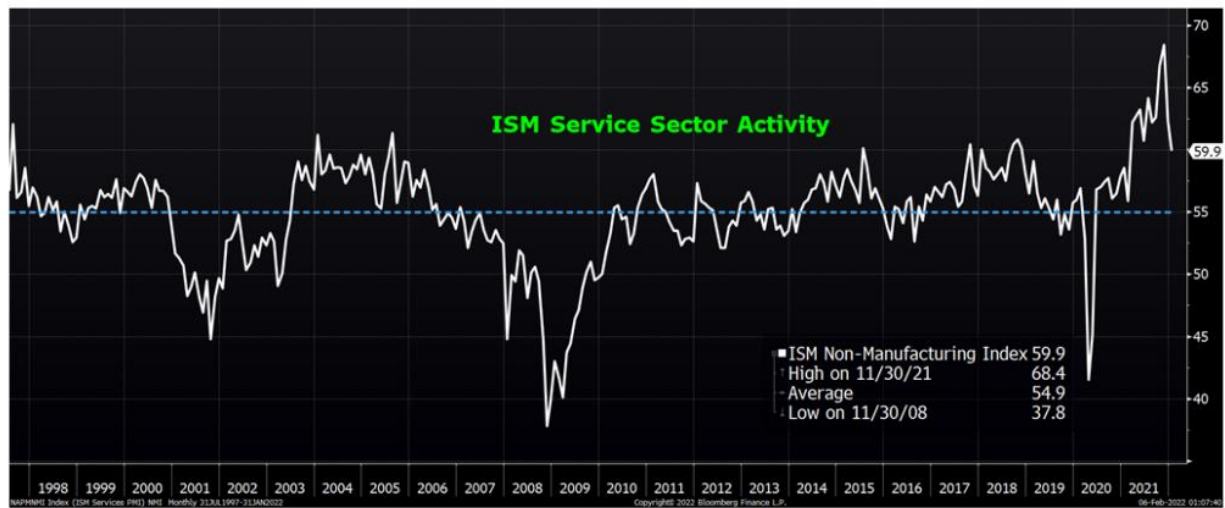
The latest data point on the health of the manufacturing sector came in above expectations at 57.6 in January, down from a reading of 58.8 in December, and residing at a level well above average for the 30-plus-year history of the gauge. The Institute for Supply Management stated, “The past relationship between the Manufacturing PMI and the overall economy... corresponds to a 3.1% increase in real gross domestic product (GDP) on an annualized basis.”



...and non-manufacturing sector.



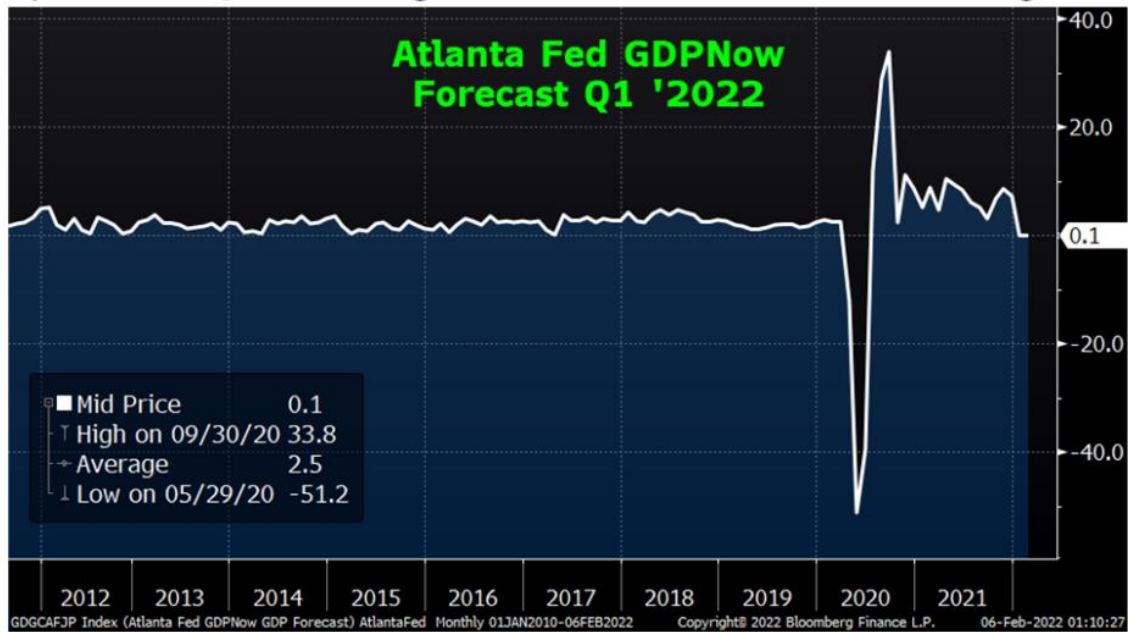
The latest read on the health of the service sector dropped to 59.9 in January. The figure was in line with forecasts, but well off the recent all-time high, even as it still suggests a strongly growing non-manufacturing economy, with the Institute for Supply Management stating, “The past relationship between the Services PMI and the overall economy...corresponds to a 3.5% increase in real gross domestic product (GDP) on an annualized basis.”



That is not to say that the near-term forecast is overly rosy,...



While Q4 2021 saw a superb 6.9% jump in real (inflation-adjusted) GDP growth and forecasts for full-year 2022 call for an additional handsome improvement in the economy, the Omicron variant and supply-chain difficulties are impacting the current quarter, with the Atlanta Fed's current projection for Q1 2022 GDP growth on an annualized basis standing at 0.1%.



...but corporate profit growth is expected to be robust this year,...



Q4 earnings reporting season has started off on a strong note, even as stocks sold off sharply in the week ended 1.21.22. An impressive 76.3% of the S&P 500 companies to have announced thus far have topped EPS expectations and 68.4% 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	\$64.08	\$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

...providing plenty of cash flow for dividend payout growth.



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 Prudential Financial, Air Products, Corning, Kimco Realty and Waste Management all just hiked their payouts.

COUNT OF S&P 500 DIVIDEND ACTIONS	INCREASES	INITIATIONS	DECREASES	SUSPENSIONS	S&P 500 DIVIDENDS PER SHARE	
2021	353	19	4	1	2023 (Est.)	\$69.18
2020	287	11	27	42	2022 (Est.)	\$66.19
2019	355	6	7	0	2021	\$60.54
2018	374	6	3	0	2020	\$58.95
2017	351	5	9	2	2019	\$58.69
2016	344	7	19	2	2018	\$53.86
2015	344	7	16	3	2017	\$50.47
2014	375	8	8	0	2016	\$46.73
2013	366	15	12	0	2015	\$43.49
2012	333	15	11	1	2014	\$39.44
2011	320	22	5	0	2013	\$34.99
2010	243	13	4	1	2012	\$31.25
2009	151	6	68	10	2011	\$26.43
2008	236	5	40	22	2010	\$22.73
Source: Standard & Poor's.					2009	\$22.41
					Source: Bloomberg. As of 02.04.22	

To be sure, though we remain very optimistic about the long-term prospects for our broadly diversified portfolios of what we believe to be undervalued stocks,...



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	15.0	13.4	1.2	2.6	2.2
ValuePlus	15.5	13.2	1.5	2.6	1.9
Dividend Income	13.9	12.9	1.0	2.3	2.7
Focused Dividend Income	15.1	13.9	1.2	2.6	2.4
Focused ValuePlus	14.8	14.2	1.5	2.7	2.1
Small-Mid Dividend Value	12.3	10.9	0.7	1.7	2.4
Russell 3000	26.1	20.5	2.6	4.2	1.3
Russell 3000 Growth	37.0	27.9	4.4	11.6	0.7
Russell 3000 Value	20.0	16.1	1.9	2.5	2.0
Russell 1000	24.1	20.4	2.8	4.4	1.3
Russell 1000 Growth	34.3	27.5	4.9	12.7	0.7
Russell 1000 Value	18.5	16.1	2.0	2.6	2.0
S&P 500 Index	23.6	20.2	2.9	4.5	1.4
S&P 500 Growth Index	28.8	25.0	5.4	9.0	0.7
S&P 500 Value Index	19.9	16.9	2.0	3.0	2.0
S&P 500 Pure Value Index	12.4	11.0	0.8	1.4	2.3

As of 02.05.22. 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.

...we understand that there is plenty about which to be concerned,...



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 entry on the timeline of U.S.-Russia relations.

Major Events in Russia - U.S. History	Date	S&P 500 Value	6 Months Later	12 Months Later	36 Months Later	60 Months Later	Event thru Present
Korean War Begins	6/25/1950	19.14	5%	11%	26%	114%	23414%
Death of Stalin	3/5/1953	25.79	-9%	3%	79%	61%	17351%
Creation of the Warsaw Pact	5/14/1955	37.44	24%	25%	15%	48%	11921%
Sputnik & The Space Race	10/4/1957	42.79	-3%	18%	24%	33%	10418%
The U-2 Incident	5/1/1960	54.37	-1%	20%	29%	64%	8178%
Cuban Missile Crisis	10/16/1962	57.08	21%	28%	60%	67%	7785%
Soviet Invasion of Czechoslovakia	8/20/1968	98.96	1%	-4%	-1%	3%	4448%
Soviet Invasion of Afghanistan	12/24/1979	107.66	7%	26%	30%	55%	4080%
U.S. Moscow Olympics Boycott	3/21/1980	102.31	26%	31%	48%	75%	4299%
Downing of Korean Air Flight 007	9/1/1983	164.23	-4%	1%	54%	57%	2640%
Soviet Los Angeles Olympics Boycott	7/28/1984	151.19	17%	27%	107%	126%	2877%
Chernobyl Disaster	4/26/1986	242.29	-2%	16%	27%	56%	1757%
Fall of Communism in Eastern Europe	8/19/1989	346.03	-4%	-5%	21%	34%	1201%
German Reunification	10/3/1990	311.40	22%	23%	48%	87%	1345%
Dissolution of the Soviet Union	12/26/1991	404.84	0%	9%	14%	87%	1012%
Black Brant: Mistaken Nuclear War Scare	1/25/1995	467.44	20%	32%	105%	202%	863%
Russo-Georgian War	8/7/2008	1,266.07	-31%	-20%	-5%	34%	255%
Putin Reelected	3/4/2012	1,369.63	3%	11%	53%	74%	229%
Annexation of Crimea	3/16/2014	1,841.13	9%	13%	29%	53%	144%
Skripal Poisoning & Diplomatic Expulsion	3/1/2018	2,473.92	17%	13%	58%		82%
Price Changes Only - Does Not Include Dividends		Averages:	6%	14%	41%	70%	5215%

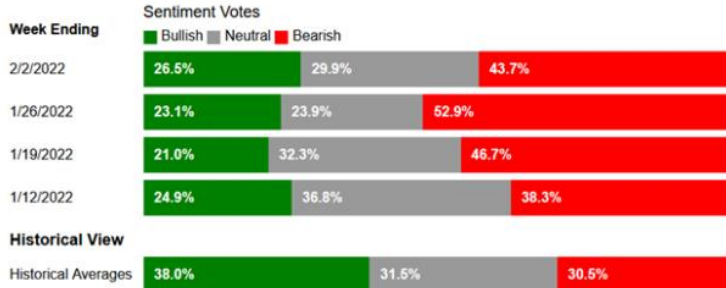
As of 2.4.22. Source: Kovitz using Bloomberg, usrussiarelations.org, state.gov and Wikipedia

...with folks on Main Street decidedly Bearish in the latest Sentiment Survey from the American Association of Individual Investors.



AAII Investor Sentiment Survey

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



AAII Bull-Bear Spread											
Decile	Low Reading of the Range	High Reading of the Range	Count	R3K Next 1-Week Arithmetic Average TR	R3K Next 1-Week Geometric Average TR	R3K Next 1-Month Arithmetic Average TR	R3K Next 1-Month Geometric Average TR	R3K Next 3-Month Arithmetic Average TR	R3K Next 3-Month Geometric Average TR	R3K Next 6-Month Arithmetic Average TR	R3K Next 6-Month Geometric Average TR
BELOW	-54.0	8.0	922	0.26%	0.22%	1.26%	1.13%	3.66%	3.28%	7.07%	6.33%
ABOVE	8.1	62.9	877	0.17%	0.15%	0.50%	0.41%	1.95%	1.70%	4.68%	4.20%
Below & Above Median Bull Bear Spread = 8.00											
Ten Groupings of 1799 Data Points											
1	-54.0	-15.1	180	0.56%	0.49%	2.16%	1.92%	5.73%	5.18%	10.46%	9.23%
2	-15.0	-7.5	180	0.32%	0.29%	1.03%	0.91%	3.97%	3.62%	7.12%	6.36%
3	-7.4	-1.4	180	0.32%	0.28%	1.51%	1.42%	3.43%	3.04%	7.14%	6.50%
4	-1.4	3.0	186	0.09%	0.05%	1.00%	0.91%	2.83%	2.47%	6.26%	5.74%
5	3.0	8.0	196	0.05%	0.02%	0.64%	0.54%	2.48%	2.24%	4.62%	4.11%
6	8.1	12.0	159	0.10%	0.08%	0.38%	0.26%	1.65%	1.41%	5.07%	4.68%
7	12.0	16.4	178	0.19%	0.17%	0.59%	0.49%	2.37%	2.12%	4.88%	4.35%
8	16.4	22.0	189	0.17%	0.16%	0.79%	0.71%	2.16%	1.89%	6.17%	5.76%
9	22.0	29.1	171	0.09%	0.07%	0.40%	0.32%	2.04%	1.76%	4.48%	3.90%
10	29.1	62.9	180	0.27%	0.25%	0.31%	0.24%	1.51%	1.29%	2.76%	2.33%

From 07.31.87 through 02.03.22. Unannualized. SOURCE: Kavitz using data from American Association of Individual Investors and Bloomberg

The gauge is widely viewed with a contrarian eye, so the tally of Bulls in the latest AAIL Sentiment Survey coming in at 26.5% and the number of Bears sitting at 43.7% points is a sizable positive. The minus 17.2 Bull-Bear spread is in the very favorable 1st decile of the weekly figures going back to 1987.

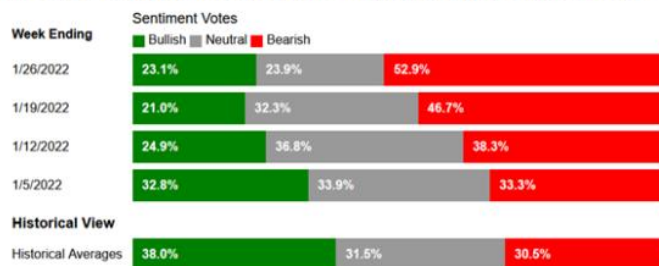
Of course, we are thrilled to see the recent AAIL numbers, especially given what history suggests about the terrified AAIL crew the week prior and subsequent equity returns.



The gauge is widely viewed with a contrarian eye, so the AAI Sentiment Survey Bull-Bear spread plunging to -29.8 in the week prior to the last one was a major equity market buy signal. There have been only 30 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 14.2%, well above the 6.0% average for all periods, while the first week since this super Bearish reading saw a handsome 3.6% gain for the Russell 3000 index.

AAII Investor Sentiment Survey

What Direction Do AAI 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%
1/17/2008	-30.1	1.6%	2.0%	3.5%	-3.1%
1/27/2022	-29.8	3.6%			
30 Period Average		0.3%	3.0%	5.8%	14.2%
All Periods Average		0.2%	0.9%	2.9%	6.0%

Source: American Association of Individual Investors and Bloomberg

No guarantee that history repeats, but as Mark Twain said, "It often rhymes," with the 6.08% rebound in the S&P 500 from 01.27.22 to 02.02.22 illustrating why it can pay to be greedy when others are fearful.


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	-8.60%	BEAR	9/9/2011	9/16/2011	5.35%	BULL
10/28/2011	11/25/2011	-8.84%	BEAR	10/3/2011	10/28/2011	16.91%	BULL
4/2/2012	6/1/2012	-8.94%	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	-5.89%	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	-8.54%	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	-8.60%	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%		1/27/2022	2/2/2022	6.08%	BULL
Average Drop		-8.97%		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 is likely still fresh in the mind of most investors, we suspect that many have forgotten the numerous other downturns endured by the equity markets. Believe it or not, just since the S&P 500 bottomed at 676.53 on March 9, 2009, there have been 38 setbacks of 5% or more without a comparable move in the other direction (three per year on average), including one already this year. Happily, the selloffs have always been followed by rallies, another of which just took place, and the popular index today stands at 4500.53.

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://theprudentpeculator.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 baker’s dozen of our stocks that reported quarterly results last week or had news out worthy of mention.

Search engine and internet technology leader **Alphabet** (GOOG – \$2860.32) posted adjusted earnings per share of \$30.69, versus the \$27.47 estimate, in Q4 2021. GOOG had adjusted sales of \$61.2 billion, versus the \$59.4 billion estimate. With the company crushing forecasts on the top and bottom lines, shares gained more than 7% nearing a \$2 trillion market cap once again. With the terrific quarter under its belt, it was stunning to watch Meta Platforms (aka Facebook) erase more than \$250 from its market capitalization after reporting a weak outlook two days later. Even though both sell advertisements as a primary business, we think folks go to Google to do something specific and useful, usually search for something or shop. Facebook, in

comparison, is a place that is constantly using its algorithms to battle for eyeball time, though Mark Zuckerberg and Co. make plenty of money as well.

Alphabet CEO Sundar Pichai commented, “Our new AI models are helping to create information experiences that are truly conversational, multimodal and personal. For example, multitask unified model, or MUM for short, has improved searches for vaccine information. And soon, we’ll introduce new ways to search with images and words simultaneously. In October, we introduced a new AI architecture called Pathways. AI models are typically trained to do only one thing. With Pathways, a single model can be trained to do thousands, even millions of things. From MUM to pathways to Burton more, these deep AI investments are helping us lead in search quality. They’re also powering innovations beyond Search. We are also seeing exciting momentum at YouTube. YouTube Shorts continues to drive significant engagement. We just hit 5 trillion all-time views and have over 15 billion views each day globally. This is helping our creator community reach newer and bigger audiences. In fact, more people are creating content on YouTube than ever before.”

Mr. Pichai continued, “Our product leadership continues with more than 2,000 new cloud products and feature releases in the last year. These were in four categories. First, our data cloud and our AI/ML platform is helping organizations like Cartier, Groupe Roche and Mitsubishi Heavy Industries understand and use their data intelligently across multiple clouds. Our fast secure data sharing capability helps the National Cancer Institute advance breast cancer research. Our unified data lake and data warehouse, which brings together unstructured and structured data helps Telus and Tyson Foods improve their understanding of customers. And our AI/ML platform helps CEN deliver better customer experience. Second, our open multi-cloud infrastructure enables customers like BBVA and Wells Fargo to run mission-critical systems on our cloud. We believe new auto scaling in our Kubernetes engine, which allows customers to run 15,000 node clusters outpaces the competition by up to 10x. Our edge cloud helps us grow in telecommunications, driving partnerships in Q4 with Indosat Oridu-Hurchison, Telenor and Verizon. They join existing customers and partners, including Ericsson, Reliance Jio and Nokia. Third, our cybersecurity products are helping product organizations like ANZ Bank, Meditech and Wayfair as a trusted cloud provider. VirusTotal helps product organizations from software supply chain vulnerabilities. Chronicle and security command center help organizations detect and protect themselves from cyber threats. And our fraud prevention and identity verification solutions are protecting over 5 million websites. Finally, our secure communication and collaboration platform, Google Workspace is helping public sector organizations like USAID and the U.S. Air Force Research Laboratory as well as global brands, including Colgate and Roche, adopt secure hybrid work. Our new Work Safer program launched in Q4 provides the highest security for e-mail meetings and documents by bringing together Google Workspace, Titan security keys, 0 trust and other security advances.”

CFO Ruth Porat offered the outlook, “For Google Services, we are very pleased with our year-on-year revenue growth in Q4 and for the full year 2021, which continued to be driven by broad-based advertiser strength and strong consumer online activity. The year-on-year growth rate also reflected a benefit from lapping COVID-related weakness in 2020, which obviously will not be a factor in 2022. Within other revenues, we are pleased with the momentum from Pixel 6 and Pixel 6 Pro reflected in our hardware revenues in the fourth quarter. As a reminder, hardware revenues

in 2021 also reflected the acquisition of Fitbit, which we lapped a couple of weeks ago. With respect to Play, the underlying consumer spend and engagement trends remained healthy in the fourth quarter. That being said, in 2022, Google Play's contribution to revenue growth will reflect the fee changes we started to implement in the third quarter of 2021. In terms of investment levels within Google Services, we are focused investing meaningfully in the many opportunities we see for growth. Turning to Google Cloud, 2021 represented another year of substantial growth. Our investments in our go-to-market organization, product innovation and partner ecosystem have been paying off as we help customers with their digital transformation. You can see that Google Cloud revenues increased by 47% for the full year 2021 compared to 2020 with GCP revenues continuing to grow at a faster rate than cloud overall. While cloud operating loss and operating margin improved in 2021, we plan to continue to invest aggressively in cloud given the sizable market opportunity we see. We do remain focused on the longer-term path to profitability and over time, operating loss and operating margin should benefit from increased scale."

Alphabet had \$18.6 billion of free cash flow in Q4 and finished the quarter with \$140 billion of cash and marketable securities. GOOG repurchased \$50 billion of shares in 2021 and Ms. Porat said, "We do have additional capacity under the existing [share repurchase] authorization and just are continuing to execute against it." The company will also split its shares at a ratio of 20 new shares for every 1 existing share, which would bring the share price down near \$143 if it happened today. Of course, that action doesn't create value on its own, but it does help portfolio managers and investors make tighter portfolio weighting decisions in smaller portfolios. We think the long term for Alphabet remains bright, and while the company's valuation is not super inexpensive (the forward P/E is in the 23x range, but it drops below 17x using the 2024 estimates), we believe the terrific balance sheet and great opportunities ahead make it an attractive holding. Regulatory risk always seems to linger for GOOG and Big Tech names, but at this point, it's not something that keeps us up at night. Our Target Price for GOOG has been hiked to \$3,783.

NortonLifeLock (NLOK – \$27.59) gained nearly 9% after reporting a good fiscal Q3 2022 and an earlier-than-expected closing date for its Avast acquisition. NLOK earned \$0.44 per share, a half-penny above the consensus estimate, and had \$702 million of revenue, \$500,000 above the consensus estimate. NLOK benefitted from broad revenue and bookings growth, new product launches and cross-selling. Its cyber-security software protects more than 80 million users in 150 countries worldwide.

On the topic of the merger, CEO Vincent Pilette said, "I'm also excited to announce that we are driving to an accelerated close date for the merger with Avast. As you will recall, we originally expected to close in mid-calendar year 2022. However, while there remain some outstanding regulatory conditions that will need to be satisfied or waived before we can close, we currently expect to close on February 24, 2022. We have made great strides towards combining the 2 companies, including receiving approvals from both NortonLifeLock and Avast shareholders; satisfying regulatory conditions in the U.S., Czech Republic, Australia and New Zealand; and securing permanent financing commitments. On the remaining regulatory conditions, we have submitted antitrust filings for the U.K., Germany and Spain and are fully engaged with each of them. We fundamentally believe that this merger will allow us to increase our pace of innovation

and better serve consumers around the world. In the meantime, we'll keep driving our business forward. We've made great progress and frankly can't wait to merge with Avast. Together, we will accelerate the transformation of consumer cyber safety and power digital freedom for everyone."

Mr. Pilette added, "It is clear to all of us that we are living more and more of our daily lives online: shopping, working, learning, creating, sharing, you name it. We are doing it all online. All of it is designed to make our lives easier and better, but it does come with a very real risk of more cyber criminality. Every day, this team wakes up driven by a singular purpose: making the world cyber safe for everyone and ultimately powering their digital freedom."

CFO Natalie Derse offered the outlook, "We have narrowed our full year fiscal 2022 non-GAAP guidance to the high end of the range. We now expect to achieve fiscal 2022 annual non-GAAP revenue in the range of \$2.795 billion to \$2.805 billion, assuming stable currency rates quarter-over-quarter, which translates to approximately 10% growth year-over-year in constant currency. For fiscal 2022 annual non-GAAP EPS, we expect to be in the range of \$1.73 to \$1.75, narrowing against that high end. Please note this guidance does not include any impact from the anticipated Avast merger close. We look forward to closing out another successful fiscal year. We remain well positioned as the leader in cyber safety. We have growing momentum, a very healthy business model and strong operating capabilities. I want to reiterate what we said last quarter. As we navigate forward, we will continue to challenge ourselves to anticipate, prioritize and meet customer needs in a growth-focused manner."

We are pleased with the upbeat quarter, outlook and accelerated closing timeline. We think that NLOK's trusted cybersecurity software suite is an attractive way to stay safe online, especially as virtual threats continue to ramp. The threats do not just impact big corporations or government officials; U.S. athletes travelling to China for the Olympics were encouraged to leave their usual devices behind and travel to the country using "burner" phones. Since cyber threats do not exist solely with foreign travel and NLOK's software should be highly attractive to all types of users. As is our custom, we aren't baking the Avast results into our model yet because there are some legal and regulatory hurdles to clear still, but we are positive on the deal. Our Target Price for NLOK has been elevated to \$36.

Lumentum (LITE – \$90.40), a recent recommendation and leading manufacturer of optical products and lasers, reported a solid fiscal Q2 2022, but shares plunged after the outlook came in below expectations. In Q2, LITE earned \$1.60 per share (vs. \$1.58 est.) on revenue of \$447 million (vs. \$445 million est.). Lumentum expects fiscal Q3 revenue between \$375 million and \$405 million, below the consensus estimate of \$429 million. The EPS range between \$1.01 and \$1.19 was also lower than the \$1.36 consensus. Management said the soft outlook was a result of supply chain issues that would cost the company \$65 million for the quarter, though we suspect that the revenue is delayed rather than lost.

CEO Alan Lowe said, "The insatiable demand for increased bandwidth and communication speed between networks, data centers, and all connected devices, plays to our strength as a technology and market leader in photonics. Demand is exceptionally strong and growing for our products. Our cloud and networking customers are entering a multiyear hardware upgrade cycle

and rely on our leading-edge photonics as their fundamental enabling technology. We are broadening the applications of our 3D sensing lasers beyond mobile handsets into automotive driver assistance designs, and AR/VR applications. Demand for our commercial lasers has never been stronger as industrial factories and semiconductor fabs expand and upgrade their capability.”

Mr. Lowe continued, “Second quarter demand was very strong across all major product lines. Our results were above the midpoint of our guidance on all metrics. Industry-wide supply shortages have worsened with the recent surge in COVID-19 and are negatively impacting our third quarter revenue guidance by more than \$65 million. These shortages come at a time when customer demand is accelerating for our differentiated communications products. Our products are essential to multiyear expansions in next-generation optical network capacity that are just beginning to be deployed.”



Key Points

- **Double-digit revenue growth expected in fiscal 2023 and beyond**

- Products and technology well aligned with key market inflections: 5G, 400G+ transition, cloud computing, AR/VR, LiDAR, ADAS, EVs, semiconductor manufacturing

- **Demand accelerating while supply hinders revenue in near term**

- All financial metrics exceeded Q2 guidance midpoint, despite \$50M of supply constraints
- Cloud and networking customers entering multi-year upgrade cycle, relying on our products

- **Telecom & Datacom**

- Revenue was up Q/Q with exceptional strength in nearly every Telecom line
- High-speed, 400G+ coherent revenue nearly doubled Q/Q
- Pump laser revenue grew Q/Q again to a new all-time high
- EML revenue was up 45% Y/Y

- **Industrial & Consumer**

- Revenue was down Q/Q as expected, due to 3D Sensing seasonality
- 3D Sensing revenue in 1H22 was higher than 1H21 due to new product execution and proven high-volume manufacturing leadership
- Diversification of 3D sensing into ADAS and LiDAR

- **Lasers**

- Revenue was up 16% Q/Q and 66% Y/Y from lasers for advanced manufacturing
- Growth into Q3 expected from new products and overall market expansion

In November, LITE announced the acquisition of NeoPhotonics and management said that the integration is on schedule and two key closing hurdles have been cleared. U.S. regulators have given the green light and NeoPhotonics shareholders approved the transaction. Antitrust authorities in China still need to sign off before the transaction can close in the second half of this year. The supply chain setback is likely to result in the first year-over-year earnings drop

since the company went public in 2017. Analysts (and our Target Price engine) expect LITE will quickly return to growth, with 2023 and 2024 earnings ahead of 2021's highwater mark. We think the forward P/E near 15 is a bargain, with both the "P" and the "E" likely to rise over time. The company also boasts a strong balance sheet with more than \$2 billion of cash and \$1.5 billion of debt (0.43% avg. coupon maturing in 2026). Our Target Price for LITE is now \$144.

Semiconductor designer **Qualcomm** (QCOM – \$179.47) earned \$3.23 per share in fiscal Q1 2022 (vs. \$3.05 est.). QCOM had adjusted sales of \$10.7 billion (vs. \$10.5 billion est.). Qualcomm's chipset business posted its second straight quarter of record revenue and strength in the QCT (Qualcomm CDMA Technologies) business translated to \$8.8 billion of revenue (up 35% year-over-year). Management said that Apple order flow will fluctuate, but the company remains focused on Android devices. While the stock had jumped in price ahead of the financial release, shares retreated after Automotive, RF Front-End and Internet of Things revenue came in below analyst estimates, though it was a terrific week with QCOM ending more than 7.5% higher.

CEO Cristiano Amon commented, "Based on our performance over the past several quarters and the strong fiscal second quarter guidance, it is clear that our strategy is working. Demand for our products and solutions continues to accelerate as our one technology road map is driving the growth of premium Android smartphones as well as enabling the connected intelligent edge, which is driving digital transformation for the cloud-connected economy."

Given Meta Platform's spectacular record-breaking price plunge on Thursday, Mr. Amon's had this to say: "Additionally, as the metaverse opportunity materializes, we continue to build on our industry leadership position in VR and AR devices with key ecosystem players, including Meta and Microsoft. At CES, we announced a collaboration with Microsoft to expand and accelerate the adoption of augmented reality in both the consumer and enterprise sectors. This partnership includes custom AR chips to enable a new wave of power-efficient, lightweight AR glasses to deliver rich and immersive experiences as well as plans to integrate our Snapdragon Spaces XR developer platform into Microsoft mesh. We're also very pleased that Time Magazine named our Snapdragon XR2 platform as one of the best inventions of 2021. And we're seeing strong support for our VR and AR platforms from virtually all ecosystem providers, OEMs and content creators."

CFO Akash Palkhiwala added, "Turning to global handsets and our guidance for the second fiscal quarter. For calendar 2021, consistent with the previous guidance, we estimate global 3G, 4G, 5G handsets grew 7% year-over-year, including approximately 535 million 5G handsets. For calendar 2022, there is no change to the forecast provided at our Investor Day with greater than 750 million 5G handsets... At the midpoint, this implies year-over-year revenue growth of 43% and EBT dollar growth of \$1.4 billion. For handsets and RF front end, we expect revenues to be in line sequentially as seasonal decline in Apple revenues is offset by continued growth in revenues from Android devices. Within handsets, the increase in Android revenue is driven by the launch of our new Snapdragon premium chipset and additional shipments across high and mid-tiers due to our second sourcing efforts. Additionally, we expect strong year-over-year and sequential growth in our IoT and automotive revenue streams."

QCOM expects EPS for fiscal Q2 2022 to come in around \$3.00 give or take \$0.10, which is triple the 2020 figure. Revenue is expected between \$10.2 billion and \$11.0 billion and the launch of several new 5G handsets in the second half of the calendar year should propel the QCT segment. Shares have slumped a bit this year, but the outlook was terrific and we think the prospects for the company are bright, especially as high-quality chips are in short supply. The valuation metrics are very reasonable, including a forward P/E around 15 and dividend yield of 1.5%. Our Target Price has been raised to \$225.

Shares of **Prudential Financial** (PRU – \$118.34) gained 5% over the past week as the insurance and asset management concern generated \$3.18 of adjusted earnings per share in Q4. The profits overwhelmed the \$2.36 analysts had expected. Strong market performance boosted net investment spreads and fee income for PRU's U.S. insurance business and for the firm's investment management arm as assets under management and management fees surged to record levels. PRU generated a record \$14.58 of EPS for all of 2021.

CEO Charles Lowrey commented, "Prudential reported strong financial results for the fourth quarter and full year, and made significant progress in becoming a higher growth, less market sensitive, and more nimble company. During 2021, we entered into agreements to divest lower growth and more market sensitive businesses and programmatically acquired businesses for sustainable long-term growth. We advanced our cost savings program and remain on track to achieve our previously announced goal of \$750 million of savings by the end of 2023. We also refined our product mix to meet our customers' changing needs. We did all of this while returning \$4.3 billion to shareholders through share repurchases and dividends, expanding our commitments to our employees and communities, and taking new steps to address climate change. Backed by this momentum and our rock solid financial position, we are starting 2022 from a position of strength, with an even sharper focus on growth, customers, and innovation, and on expanding access to investing, insurance, and retirement security for people around the world."

Shares have rallied significantly over the past year, returning more than 50%. Low interest rates have been a challenge for Prudential (particularly for the international segment) and peers in the past decade plus, although those pressures could alleviate somewhat in the coming years. We like that management is focused on what it can control (wringing out costs), and appreciate the double-digit returns on equity generated on average. Despite the share price jump, we still find plenty of upside with shares trading for under 10 times earnings expected in 2022 and 72% of book value. Our Target Price has been nudged up to \$145.

General Motors (GM – \$51.29) capped off a solid year in Q4, earning \$1.35 per share (12.9% better than the consensus analyst estimate) on price and product mix benefits as semiconductor availability improved from Q3. GM Financial contributed a \$1.7 billion dividend in the quarter, bringing the full-year total to \$3.5 million. The Detroit automaker also announced in mid-January that it will seek to take advantage of the tight used car market through the launch of a new platform/app called CarBravo, which aims to connect shoppers with inventory at the company and its dealer network. Shares rallied early in the week on the results but gave some back on Friday as rival Ford struck a more somber tone in its assessment of the supply-chain landscape for 2022.

The company expects to earn between \$6.25 and \$7.25 in 2022 as volumes improve 25% to 30% over 2021. But given the strong sales of trucks and SUVs last year, mix is likely to shift a bit toward slightly lower margin vehicles as it looks to clear inventory awaiting key parts. CFO Paul Jacobsen commented on the year ahead, “Today, we see a stabilizing semiconductor environment and envision wholesale getting to a normalized run rate towards the beginning of the third quarter with a target of around 800,000 units in North America on a quarterly basis. We expect total company volume to increase 25% to 30% year-over-year, with the majority of the increase occurring in the second half of the year, primarily due to the production constraints in the second half of 2021. Sequentially, we expect the positive trend to continue with Q1 wholesale volumes up 20% to 25% versus Q4 2021. In 2022, we anticipate light industry sales of approximately 16 million units, dealer stock to remain tight and the dynamic where production is the gating factor for sales volumes continuing into 2022. As you think about the mix of this incremental volume, remember that in 2021, we largely protected our high-demand truck production. As a result, the incremental volume in 2022 will be mostly weighted towards small and midsized SUVs and sedan.”

Regarding Cruise and GM’s investment spending, he added, “We’re at a very important stage in the growth and development of some of our key businesses, and we are taking the very intentional step of investing heavily into them to accelerate our expansion. Cruise expenses are expected to increase as they rapidly approach commercialization and hire around 500 additional employees, increasing their workforce by around 20% to advanced technology as well as accelerate the operational infrastructure to grow and expand. We also expect to see some wage rate pressure as we continue to attract top talent to the company.”



Investment Opportunity

Transforming from Automaker to Platform Innovator



COMPELLING REVENUE GROWTH

- > Expect to double revenue to \$275-315B by 2030
 - > ~50% CAGR on software and new businesses
 - > 4-6% CAGR from strong core auto business



SIGNIFICANT MARGIN EXPANSION

- > Expect to expand margins to 12-14% by 2030
 - > Auto margin expansion as EVs scale and battery costs decline
 - > New businesses margins in excess of 20%



COMPELLING PLATFORMS

- > Ultium is a key enabler in launching 30+ EVs globally by 2025
- > Ultifi will help open up \$20-25B in annual software and services revenues by 2030
- > Cruise is inviting members of the public to sign up for driverless rides – this major milestone brings Cruise even closer to generating \$50 billion in annual revenue by the end of the decade



WORLD-CLASS MANUFACTURING CAPABILITIES

- > North America EV capacity of 1M+ by the end of 2025 from five announced EV assembly plants
- > Announced significant battery capacity across 4 battery cell manufacturing plants
- > Consolidating semiconductor purchases into three families co-developed, sourced and built with leading manufacturers



The pivot to EVs has been extraordinary, especially by historical carmaker standards. We continue to like GM and believe that the company's move away from sedans and towards trucks and SUVs was important and supplies the huge amounts of cash flow required to launch more than 30 EVs in the very near term. Happily, EV vehicles are ahead of schedule. While the semiconductor shortage still might hamper manufacturing for a while longer (and probably has something to do with GM losing the #1 U.S. sales slot to Toyota for the first time), the impact seems to be fading. CEO Mary Barra continues to put the kibosh on the possibility of a common dividend as spending toward the advancement of its EV program remains priority. However she did opt to leave the light on for other options to reward shareholders, stating, "As we move forward, we will consider all opportunities to return excess capital to shareholders." Shares trade for less than 8 times the midpoint of management's 2022 earnings guidance. Our Target Price for GM is presently \$84.

Shares of engineered product manufacturer **Eaton Corp PLC** (ETN – \$151.00) have struggled thus far in 2022 as they are down more than 12% YTD. On Friday, the company reported Q4 results which included an adjusted EPS print of \$1.72 that was essentially in line with the consensus analyst estimate. Revenue of \$4.8 billion missed the average forecast by 2%. Organic growth of 6% year-over-year was slightly below prior 7% to 9% guidance, with supply chain

constraints and COVID-related disruptions greater than anticipated late in 2021. That said, segment margins in 2021 of 18.9% were 2.5% better than full-year 2020.

CEO Craig Arnold explained, “We delivered a solid fourth quarter with record adjusted earnings per share, and I’m proud of how our teams are performing in a challenging environment. Our businesses are managing well under continued supply and labor constraints, achieving record fourth quarter segment margins with particular strength in Electrical Global and Aerospace. Amid uncertainties, we’re very pleased with our record performance in 2021 including robust organic growth, record segment margins, transformative portfolio management and outstanding growth in earnings per share.”

For full year 2022, the company expects organic growth of 7% to 9% and adjusted earnings per share between \$7.30 and \$7.70, up 13% at the midpoint over 2021 (with consensus going into the report at \$7.47). For the first quarter of 2022, the company anticipates organic growth of 7% to 9% and adjusted earnings per share between \$1.55 and \$1.65. Annual free-cash-flow guidance of \$2.35 billion and \$2.55 billion was more than 10% below expectations as Eaton expects to increase capital spending. We see this near-term investment supporting capacity growth to serve its end markets. Business backlogs continue to be strong, highlighted by a 57% spike, to a new record, in the Electrical Americas segment.

While shares are not as cheap as we might like, we do not think the 20 times NTM adjusted EPS projections is too rich given the organic growth potential of Eaton. We believe that as supply chain constraints begin to abate, ETN has some strong quarters ahead. We continue to appreciate the company’s shift in recent years away from legacy segments and toward highly differentiated end markets exposed to tailwinds like the acceleration in data consumption and the production of electric vehicles. Additionally, ETN should benefit from the federal government’s current focus on potential green initiatives and reshoring. ETN also should be helped by higher manufacturing industry CapEx and a multi-year commercial aviation recovery. Given the additional info, we have made a small tweak to \$188 to our ETN Target Price.

Shares of **Gilead Sciences** (GILD – \$63.90) sank over 4% the morning the big biotech concern released Q4 financial results. The \$0.69 of adjusted earnings per share was negatively impacted by a legal settlement with GlaxoSmithKline’s ViiV segment, costing \$0.80 per share, and dilution from a decision to exercise a collaboration option with Arcus Biosciences, resulting in a \$0.38 impact. Management appears to have been a tad overzealous with its raising of full-year EPS guidance last November, bumping it to \$7.90 to \$8.10, from \$6.90 to \$7.25, as the the company ended the year earning \$7.28 per share.

The quarter was boosted by another period of strong sales (\$1.4 billion in Q4 vs. \$1.9 billion in Q3) of the firm’s COVID-19 therapy Veklury (remdesivir), as the number of daily hospitalizations accelerated throughout December. Total product sales excluding Veklury increased 8% to \$5.8 billion for Q4 compared to the same period in 2020, primarily reflecting higher demand for Biktarvy (GILD’s latest HIV treatment formulation) and favorable pricing dynamics in HIV as well as contributions from the Oncology segment (Trodely and Cell Therapy).

CEO Daniel O'Day commented on the firm's current-year outlook, "Our 2022 plans include a significant increase in clinical development studies across our novel oncology portfolio. We are planning at least 20 additional trials, including 7 Phase III for trials for Trodelvy, and these include the ASCENT-03 trial, which is evaluating Trodelvy in the frontline AAA and breast cancer in the PD-L1 negative population; the ASCENT-04 trial in collaboration with Merck to evaluate Trodelvy and KEYTRUDA in the frontline triple-negative breast cancer population and the PD-L1 positive population; and the EVOKE-03 trial, which will be led by Merck to evaluate Trodelvy and KEYTRUDA in non-small cell lung cancer."

He added, "You will also see ongoing momentum in our virology portfolio as we continue to expand our leadership in antiviral therapies. We are advancing our longer-acting HIV options with lenacapavir as the foundation and look forward to potential regulatory decisions in 2022. If approved, lenacapavir would be the only HIV treatment option administered twice yearly. In addition, we'll continue to drive progress across our broader virology portfolio, including hepatitis, COVID-19 and other emerging viruses. This is a really important time in Gilead's transformation journey. After the consistent work to execute on our strategy and expand our portfolio over the last 2 years, you will increasingly start to see this play out in tangible results. We're confident that Gilead has all the elements in place for a strong year and a strong decade."

The \$1.25 billion (plus 3% royalty of future sales) pound of flesh extracted by Glaxo's ViiV for Biktarvy is yet another example of the cutthroat and unpredictable nature of Big Pharma. Of course, the 80%+ gross margins for the firm's HIV franchise are sure keep a target on its back, even as formulations with purportedly fewer long-term side effects push patent expirations out to the latter part of the current decade for both treatment (Biktarvy) and prophylactic indications (Descovy). With regard to Veklury (remdesivir), the Street expects sales to dramatically decline from the \$5.6 billion in 2021 to below \$2 billion in 2022, but the estimate could prove too pessimistic. Demand could remain elevated even if we move to an endemic state, given that usage seems to track hospitalizations, while vaccination rates (assuming 2 mRNA doses) have tended to hover around 65% and the rate of those boosted is even lower. And, though taken with a grain of salt, management continues to see a role for intravenous administration alongside oral therapeutics, especially if strain resistance patterns emerge over the long-term.

The biggest wildcard (with arguably the largest upside) remains the future of Gilead's oncology portfolio, which is still too small to move the needle yet. But strong performers in Yescarta and Trodelvy (from the Kite Pharma side of the house) remain promising with both expected to breach \$1 billion in sales by 2023. We continue to like the single-digit P/E multiple, while robust cash flow generation ought to afford additional spending for R&D and/or acquisitions and provide support for the robust dividend (the yield is 4.6%). Nevertheless, our relatively small position in the stock has prompted us to more intensely consider it versus other potential opportunities presented in the latest market volatility. For the time being, our Target Price has been adjusted to \$86.

Shares of **Merck & Co.** (MRK – \$78.56) dropped 3.7% after the firm reported Q4 results. The pharmaceutical giant earned \$1.80 per share in the quarter, \$0.26 above the consensus analyst estimate, as revenue grew 8% year-over-year to \$13.5 billion. Management's guidance for 2022 includes revenue of between \$56.1 billion and \$57.6 billion and earnings per share between

\$7.12 and \$7.27, which seemed pretty good, but the Street was looking for EPS of \$7.28. MRK expects to benefit from recent approvals for its oncology business, along with strong demand for Gardasil and Animal Health therapies.

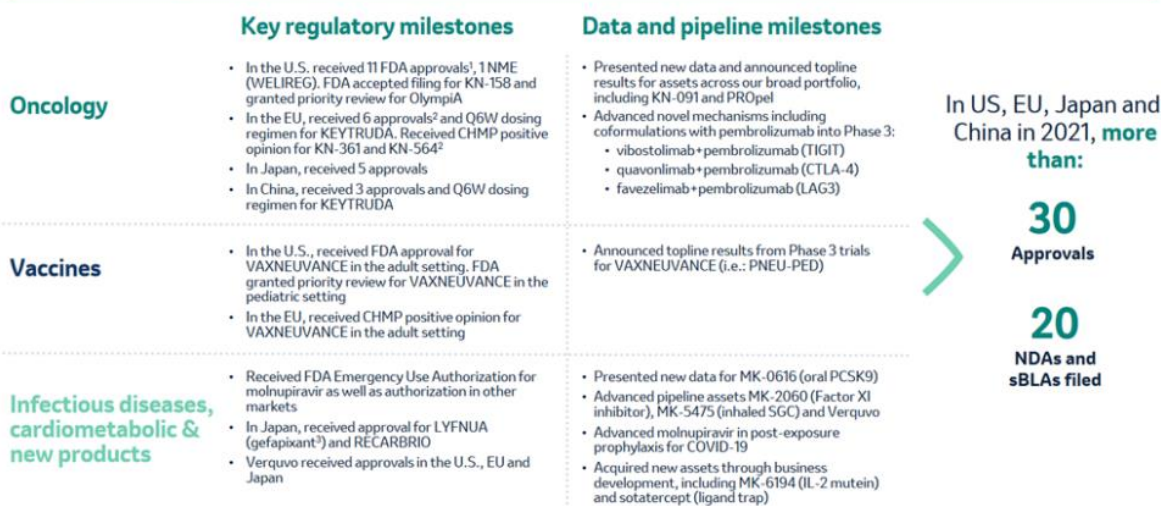
Merck's CEO Robert Davis commented, "We achieved strong operational performance, accelerated our broad pipeline, including molnupiravir, completed the spin-off of Organon and acted on key strategic business development activities. We enter 2022 with strong momentum and are pleased to reflect this in our initial revenue and EPS guidance. We continue to evolve with a more focused, more efficient and faster growing company, with an increased urgency to bring forward innovations to address critical unmet needs. This remains the core of our strategy to benefit the patients we serve and, in turn, create long-term value for all stakeholders, including our shareholders."

Mr. Davis continued, "Longer term, we are intensely focused on successfully navigating the headwind created by likely biosimilar competition to Keytruda at the end of the decade. We aspire to grow through and beyond this period. But at the very least, we will look to minimize the headwind and shorten the time it takes to return to strong growth. We have multiple levers to achieve this task, driving sustained growth well into the next decade." MRK's growth levers include the Keytruda and Gardasil lines, as well as cash flow generation from its drug R&D pipeline.

CFO Caroline Litchfield added, "As we look out to 2025, we remain confident in our ability to achieve strong revenue growth driven largely by our derisked portfolio and operating margin in excess of 43%. Our capital allocation priorities remain unchanged. First, we will continue to prioritize investments in our business and pipeline to drive near- and long-term growth. We also continue to augment our internal pipeline through strategic business development. We were active in 2021, including the acquisitions of Acceleron and Pandion, and we intend to pursue additional value-enhancing opportunities. We remain committed to the dividend with the goal of increasing it over time. To the extent we have excess cash, we will return it to shareholders through share repurchases. To conclude, our growth in the fourth quarter underscores our confidence in the underlying strength of our business and in the global demand of our innovative medicines and vaccines. We remain in a position of financial and operational strength, and our continued execution will enable us to deliver on that promise now and well into the future."



Driving value for patients and shareholders by progressing our pipeline in 2021



1. Reflects new approvals and conversions to full approvals 2. Received European Commission approval for KN-564 in January 2022 3. Received Ministry of Health, Labor and Welfare approval in January 2022



Merck has had several successes with Keytruda, Gardasil and Januvia grossing more than \$3 billion for the drugmaker in 2021. With a deep pipeline and room to add to existing franchises, we think MRK offers significant growth at a very reasonable valuation, while shareholders are rewarded with a big 3.5% yield. Also, MRK's concentration in antivirals, oncology and immunology seem to have given it a bounce in its step post spin-off of its branded drug and women's health segment Organon. MRK boasts a history of returning cash to shareholders, a diversified revenue stream and solid free-cash-flow generation. Our Target Price is \$110.

Technology-focused health concern **Change Healthcare** (CHNG – \$19.76) released fiscal Q3 financial results on Wednesday that edged analyst expectations (adjusted EPS of \$0.36 vs. \$0.35 est.), Change produced solutions revenue (94% of the total) of \$811 million (10.3% growth year-over-year), adjusted EBITDA of \$260 million (11.2% growth year-over-year) and free cash flow of \$112 million (16% decline year-over-year) during the quarter.

CEO Neil de Crescenzo commented, "The third quarter results demonstrate the underlying strength and momentum in our business. We continue to execute on our growth strategy and invest to advance our capabilities and support our customers and employees. We will continue to invest in innovation and optimize our cost structure, enabling us to deliver better experiences and outcomes for everyone in the healthcare system."

CHNG continues to await the closing of its merger with UnitedHealth Group's Optum business, which has extended the deadline until April 2022. The firm says it continues to cooperate with regulators who had stipulated that the marriage not consummate until at least February 22, 2022. However, United recently notified CHNG that it would be exercising its unilateral right provided in the merger agreement to extend the date to April 5, 2022. In addition, rumors circulated late January that Change had expressed interest in shedding certain assets for up to a value of \$8 billion should it aid regulators to better stomach the union.

Obviously, with the stock trading well below the \$25.75-in-cash merger price, the market is betting that antitrust issues will not be overcome and that the deal will fall apart. We respect that this is a very real possibility, but we like the long-term prospects of CHNG on a stand-alone basis, and believe that the stock may actually revalue much higher in time should the merger be scuttled. We appreciate that the services Change provides are essential in today's health care market, allowing providers to navigate the complexity of insurance reimbursement, ensuring accurate and timely payment while enhancing daily workflows. Our Target Price for CHNG remains \$27.

Shares **MDC Holdings** (MDC – \$43.68) fell more than 10% last week as the homebuilder reported results that fell short of lofty analyst expectations. Adjusted EPS for Q4 came in at \$2.21, versus the consensus expectation of \$2.49. Revenue of \$1.44 billion was up 22% year over year but didn't meet the mean forecast of \$1.55 billion. Gross margins from home sales improved 150 basis points (from 22.0% to 23.5%). The company said that net new orders increased 9% year-over-year to \$1.43 billion, with backlog units up 15% to 7,640.

Executive Chairman Larry Mizel explained, "MDC delivered another quarter of strong operating results in the fourth quarter of 2021, posting double digit year-over-year increases to both home sale revenues and earnings per share. The fourth quarter also capped an outstanding year for MDC, as we eclipsed the \$5 billion mark for home sale revenues and increased our fully diluted earnings per share by over 50% as compared to the previous year. With a record \$4.3 billion backlog to end the year and an improving margin profile, we believe we are in a great position to improve on these results in 2022."

Mr. Mizel added, "The housing industry continues to see healthy demand and pricing power in many markets across the country, driven by strong local economies, rising incomes and favorable demographics. Equally important has been the ongoing lack of existing home supply which has fueled the need for new home construction. We believe these market dynamics will persist for the foreseeable future, creating a favorable fundamental backdrop for our industry and particularly for MDC."

He concluded, "We made further improvements to our capital structure in the fourth quarter by retiring the remaining \$126 million of our 5.500% senior notes due in 2024. Our leverage ratios remain below the industry average, and our credit ratings are among the best in the industry. This financial strength provides us with a cost of capital advantage over many of our peers and allows us to pay the industry-leading annualized dividend of \$2.00 per share. It also allows us to better manage our business through a homebuilding cycle, which has been a long-standing hallmark of MDC's strategy."

For his part, CEO David Mandarich said, “Order activity stayed above normal seasonal levels during the quarter as our monthly absorption rate came in at 4.5 sales per community,” said . “The solid demand trends were evident across our geographic footprint, with each of our homebuilding regions posting an absorption rate above third quarter levels. These order results are a testament to the health of the housing market as well as to our dual strategy of adhering to a build-to-order operating model and focusing on the more affordable segments of the market. We believe these demand drivers will continue into the new year, positioning our company for growth in 2022.”

While Q4 fell below near-term minded analysts, and investors have become spooked about the rise in interest rates, albeit to a level well below historical norms, we continue to be impressed with MDC’s momentum and believe that the company is poised for more long-term success. Pressures in the new and resale home markets seem to continue to be slanted towards more of a supply issue, not a demand issue, which should be supportive for MDC. The company sports a broad geographic footprint, boasts successful cost control initiatives and maintains a solid balance sheet. Additionally, we like its focus on first-time buyers (many Millennials) with its Seasons collection of homes, and we think the company should continue to benefit from the migration out of big cities and into the suburbs. Home building is highly cyclical, but we think the current price is extraordinarily cheap as MDC trades for 4.1 times NTM estimated earnings and yields 4.6%.

It has been quite a ride for the price of oil and the brief dip in the front-month futures contract into negative territory early in the pandemic is a distant memory, with Energy stocks enjoying a renaissance. The upward momentum continued last week for energy titan **Exxon Mobil** (XOM – \$81.41), shares of which gained more than 8% as a constructive backdrop continued to lift financial results in the most recent quarter. XOM recorded the largest quarterly profit since 2014, with EPS hitting \$2.05 (vs. the \$1.93 est.) as price and margin strength improved earnings sequentially across upstream and downstream segments, while lower margins and higher turnaround expenses affected the chemical business. Presumably a result of the three new board members added in 2021, the firm announced at the end of January that it would relocate its headquarters from Dallas to Houston, combine its refining and chemical divisions into one called “ExxonMobil Product Solutions,” create a new “Exxon Low Carbon Solutions” division and support all 3 divisions (including Upstream) with a technology organization.

CEO Darren Woods commented, “Our effective pandemic response, focused investments during the down-cycle, and structural cost savings positioned us to realize the full benefits of the market recovery in 2021. Our new streamlined business structure is another example of the actions we are taking to further strengthen our competitive advantages and grow shareholder value. We’ve made great progress in 2021 and our forward plans position us to lead in cash flow and earnings growth, operating performance, and the energy transition...Cash flow from operating activities increased to \$48 billion, the highest since 2012. We used the available cash to restore our balance sheet, essentially paying back what we borrowed in 2020, reducing our debt-to-capital ratio to about 21%. As a result of our restored financial strength, we increased the annual dividend for the 39th consecutive year, and announced a \$10 billion share-repurchase program that started last month. Overall, a strong list of accomplishments.”

With newfound conservatism and production constraints across the fossil-fuel landscape, \$100 oil could be just around the corner. Even as the firm has changed its tone on the decarbonization front, we think that the transition away from fossil fuels will be measured in decades as vast emerging economies around the world will continue to increase consumption. We continue to think Exxon is well positioned to benefit from some of the highest quality assets in the sector in Guyana and the Permian Basin. Despite the rally, shares continue to boast a generous dividend (the yield is 4.3%). Our Target Price has been lifted to \$101.

Industrial gas company **Air Products** (APD – \$263.08) earned an adjusted \$2.52 per share in fiscal Q1, which is 19% above the same period last year. EBITDA was up 8% to \$1.0 billion, but concerns over rising input costs that compressed margins 4% lower versus fiscal Q4 sent shares 6.3% lower the day of the earnings release. Management attributes most of the margin compression to higher energy pass-through costs, but suggests actions to improve margins (through raising prices and controlling costs where possible) are underway. Management also expects the company's return on equity to improve into the low teens as it deploys liquidity into additional projects. Current plans include \$33 billion on projects through 2027, a combination that includes \$8 billion of cash and additional debt capacity available today, over \$16 billion expected to be available by 2027 and over \$9 billion already spent.

CFO Melissa Schaeffer elaborated on the cost pressure, "Rapidly escalating energy costs continue to negatively impact our business across the region this quarter. The situation was especially challenging in Europe and Americas as natural gas and electricity costs surged even higher from the already elevated levels we saw last quarter. Simon will share more details, but in Europe, natural gas costs were almost 6x higher, and power costs are almost 4x higher than the beginning of the year."

CEO Seifollah Ghasemi commented on the last quarter, "I am proud to say that despite significant challenges, including unprecedented energy cost increases, and I mean unprecedented, especially in Europe, supply chain disruptions and the continued adverse effects caused by the pandemic, the talented, committed and motivated people of Air Products continued to deliver excellent results, including earnings per share this quarter in the top half of our guidance range."



Dividend history

40 consecutive years of dividend increases

Moving forward



- 8% or \$0.12 per quarter dividend increase announced Feb 2022 (to \$1.62 per quarter)
- >\$1.4B of dividends to shareholders expected in 2022

11

* Based on annualized quarterly dividend declared in first quarter



Apart from the latest stock price volatility, we really favor the industry in which APD operates as we expect the global energy transition and demand for alternative fuels to offer a tremendous runway for growth. We appreciate that APD's customers tend to pay up for reliability of often indispensable inputs and to pursue long-term contracts to assure uninterrupted and timely supply, a combination of factors that contributes to onsite investments with customers and provides the company with stable cash flows, which we think is evidenced by the long track record of dividend payments. We note that the company has now increased its dividend for 40 consecutive years with the most recent bump of 8% announced last week pushing the yield up to 2.5%. Our Target Price has edged down to \$361.

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