# Market Commentary Monday, September 27, 2021

September 27, 2021

**EXECUTIVE SUMMARY**



## Market Review

As indicated on our *Sales Alert* of Thursday, September 16, we sold on Monday, September 20, the 793 shares of **AT&T** (T – $27.13) held in TPS Portfolio at $27.31.

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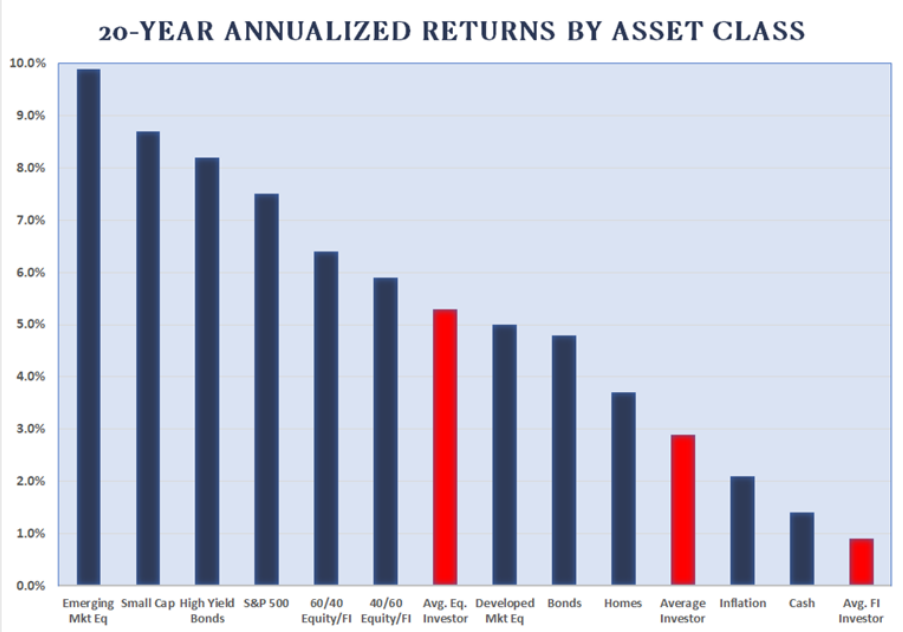
We suppose that it isn't that surprising that many investors fare poorly in the financial markets,…

THE ONLY PROBLEM WITH MARKET TIMING IS GETTING THE TIMING RIGHT




From 2001 to 2020. Emerging Mkt Eq: MSCI EM Index; Small Cap: Russell 2000 Index; High Yield Bonds: Bloomberg Barclays Global HY Index; S&P 500: Standard & Poor's 500 Index; 60/40 Equity/FI: Annually Rebalanced 60% S&P 500 & 40% Bloomberg Barclays U.S. Aggregate Bond Index; 40/60 Equity/FI: Annually Rebalanced 40% S&P 500 & 60% Bloomberg Barclays U.S. Aggregate Bond Index; Avg. Eq. Investor: DALBAR analysis of average equity fund aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior Developed Mkt Eq: MSCI EAFE Index; Bonds: Bloomberg Barclays U.S. Aggregate Bond Index; Homes: Median Sale Price of Existing Single-Family Homes; Average Investor: DALBAR analysis of average asset allocation fund aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior; Inflation: CPI; Cash: Bloomberg Barclays 1-3m Treasury. Avg. FI Investor: DALBAR analysis of average bond fund aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior.

Alas, per findings from research firm DALBAR, emotional decision-making and lousy market timing have cost folks dearly, with the average equity fund investor trailing the S&P 500 by 220 basis points per annum over the last 20 years, and the comparisons even worse for asset allocation and fixed income investors.

…with last week's volatile trading in equities illustrating the difficulty many have in sticking with a long-term investment plan.

After all, in response to a big plunge in stocks on Monday, *The New York Times* reported on Tuesday, "But beginning this month, as Evergrande began to teeter and the likelihood of the Fed's scaling back — or tapering — its bond-buying programs grew, the market's protective bubble began to deflate. Some U.S. investors are also concerned that tax increases are in the offing — including on share buybacks and corporate profits — to help pay for a spending push by the federal government, the signature piece of which is President Biden's proposed $3.5 trillion budget bill. Separately, Congress also must act to raise the government's borrowing limit, a politically charged process that has at times thrown markets for a loop. On Monday, those currents combined, reflecting the interconnectedness of the global markets as investors everywhere sold their holdings."

With some pundits warning that Evergrande could be another Lehman moment (we just had the 13th anniversary of the collapse of the investment bank, which was the seminal event in the Great Financial Crisis), *The Wall Street Journal* story that same day cited market experts who said, "Everyone is looking at Evergrande and saying, 'Has the time come for a major default in that area, and then the potential for contagion into the broader property sector?' It's an imminent risk now rather than being a theoretical risk as it has been for the past few years…This is a threat

to global growth. What if things worsen? That means a hit to the financial system in China [and] overall economic activity around the world…We are definitely being a little more cautious at this point."


No doubt, it is the duty of the financial press to try to rationalize short-term market movements, but the media must have given whiplash to all those "folks everywhere who sold their holdings" on Monday or those who "were a little more cautious at this point" as stocks jumped on Wednesday and Thursday. Indeed, *The Wall Street Journal* proclaimed, "The Dow Jones Industrial Average broke out of its September slump with its biggest two-day rally in more than six months, lifted by investors' growing confidence the economy can withstand the end of pandemic stimulus measures and troubles in Chinese property markets…Bank stocks and shares of energy companies surged. Brent crude, the international gauge of oil prices, hit a nearly three-year high at more than $77 a barrel. Benchmark government bond yields, which tend to rise when investors expect growth and inflation, posted their biggest one-day climb since March."

Incredibly, the *WSJ* told us that "Investors had expected a rebound from the downward drift that had carried the S&P 500 lower for much of the month…After a steep decline fueled by worries about the collapse of property giant China Evergrande Group that began the week, shares stabilized, then began climbing Wednesday even before the Federal Reserve signaled the

economy had made enough progress for the central bank to begin reducing pandemic stimulus measures soon."

Never mind that, as the *WSJ* conceded, "U.S. markets closed with no word on whether Evergrande would make $83.5 million in debt payments by a Thursday deadline." So, it made perfect sense for a chief investment officer to explain, "The patient, the U.S. economy, is no longer in the emergency room and needing life support. Even though the Fed is telling us they expect the growth to slow down, it is a measured slow down and not a derailment that plunges the U.S. economy into a recession."

Obviously, there are no crystal balls that can predict the future…or that could tell us how stocks will react if tomorrow's headlines were known in advance. For example, the *WSJ* Saturday edition had a front-page story entitled, "Evergrande's Bondholders Are Left In the Dark on Payments." Had the September Swoon continued, fears of the fallout around a collapse of Evergrande would have been a major cause, along with "The Fed telling us that they expect the growth to slow down!"

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Not surprisingly, we take the inevitable equity market setbacks in stride as downturns are always part of the game, with 5% declines having happened three time a year on average, 10% corrections having transpired every 11 months and 20% Bear Markets having taken place every 3.4 years, per historical data dating back to 1928. Happily, advances of even greater magnitude have occurred with similar frequency, so much so that equities have provided handsome rewards for those with the courage, patience and discipline to stick with them.

THE PRUDENT SPECULATOR

VOLATILITY IS NORMAL BUT VALUE & DIVIDENDS WIN RACE

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

**Advancing Markets**

| Minimum Rise % | Average Gain | Average # Days | Count | Frequency (in Years) | Last Start | Last End |
|---|---|---|---|---|---|---|
| 20.0% | 112.9% | 990 | 27 | 3.4 | 3/23/2020 | 9/2/2021 |
| 17.5% | 67.9% | 579 | 39 | 2.3 | 3/23/2020 | 9/2/2021 |
| 15.0% | 66.5% | 563 | 45 | 2.0 | 3/23/2020 | 9/2/2021 |
| 12.5% | 44.9% | 338 | 72 | 1.3 | 3/23/2020 | 9/2/2021 |
| 10.0% | 35.3% | 248 | 98 | 0.9 | 3/23/2020 | 9/2/2021 |
| 7.5% | 23.8% | 149 | 157 | 0.6 | 9/23/2020 | 9/2/2021 |
| 5.0% | 14.8% | 73 | 306 | 0.3 | 10/30/2020 | 9/2/2021 |

**Declining Markets**

| Minimum Decline % | Average Loss | Average # Days | Count | Frequency (in Years) | Last Start | Last End |
|---|---|---|---|---|---|---|
| -20.0% | -35.4% | 286 | 26 | 3.5 | 2/19/2020 | 3/23/2020 |
| -17.5% | -30.4% | 217 | 38 | 2.4 | 2/19/2020 | 3/23/2020 |
| -15.0% | -28.4% | 189 | 44 | 2.1 | 2/19/2020 | 3/23/2020 |
| -12.5% | -22.8% | 138 | 71 | 1.3 | 2/19/2020 | 3/23/2020 |
| -10.0% | -19.6% | 102 | 97 | 0.9 | 2/19/2020 | 3/23/2020 |
| -7.5% | -15.5% | 65 | 156 | 0.6 | 9/2/2020 | 9/23/2020 |
| -5.0% | -10.9% | 36 | 305 | 0.3 | 10/12/2020 | 10/30/2020 |

From 02.20.28 through 9.2.21. 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% | 21.4% |
| Dividend Paying Stocks | 10.7% | 18.0% |
| Non-Dividend Paying Stocks | 9.4% | 29.3% |
| Long-Term Corporate Bonds | 6.1% | 7.6% |
| Long-Term Gov't Bonds | 5.5% | 8.6% |
| Intermediate Gov't Bonds | 5.1% | 4.3% |
| Treasury Bills | 3.3% | 0.9% |
| Inflation | 3.0% | 1.8% |

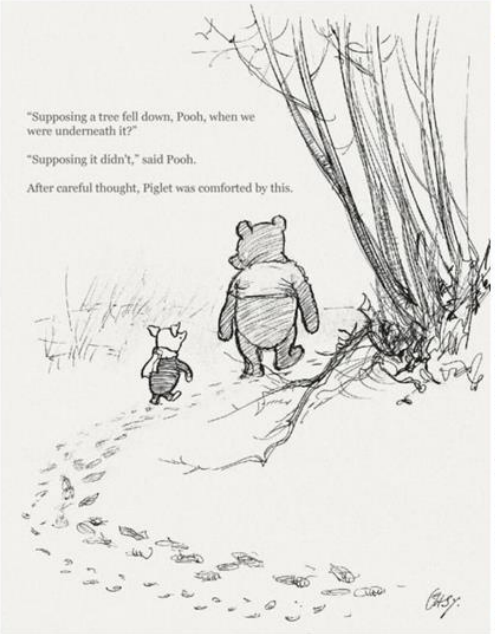
From 06.30.27 through 07.31.21. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the 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 is not to say that it is easy to endure the volatility, ignoring when stock prices are heading south the siren songs to do something to protect against further declines, but our nerves of steel are bolstered by our constant attention to market history. To be sure, there can be no assurance that whatever might be ailing the equity markets at a given time will pass in the fullness of time, but that has been the case without fail thus far,…

THE PRUDENT SPECULATOR

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

## China Evergrande has joined COVID-19, geopolitics, inflation, supply chain disruptions and Fed Tapering as bogeymen spooking investors, but history is filled with plenty of frightening events, yet equities have provided handsome rewards...for those who stick with them.




| Event | Reaction Dates | | S&P Start Value | S&P End Value | Event Gain/Loss | 12 Months Later | 36 Months Later | 60 Months Later | Event End thru Present |
|---|---|---|---|---|---|---|---|---|---|
| Pearl Harbor | 12/6/1941 | 12/10/1941 | 9.32 | 8.68 | -7% | 8% | 51% | 76% | 51230% |
| Truman Upset Victory | 11/2/1948 | 11/10/1948 | 16.70 | 15.00 | -10% | 8% | 52% | 62% | 29603% |
| Korean War | 6/23/1950 | 7/13/1950 | 19.14 | 16.69 | -13% | 32% | 45% | 153% | 26596% |
| Eisenhower Heart Attack | 9/23/1955 | 9/26/1955 | 45.63 | 42.61 | -7% | 8% | 17% | 25% | 10356% |
| Suez Canal Crisis | 10/30/1956 | 10/31/1956 | 46.37 | 45.58 | -2% | -10% | 26% | 51% | 9675% |
| Sputnik | 10/3/1957 | 10/22/1957 | 43.14 | 38.98 | -10% | 31% | 37% | 41% | 11330% |
| Cuban Missile Crisis | 8/23/1962 | 10/23/1962 | 59.70 | 53.49 | -10% | 36% | 72% | 78% | 8230% |
| JFK Assassination | 11/21/1963 | 11/22/1963 | 71.62 | 69.61 | -3% | 24% | 14% | 53% | 6301% |
| MLK Assassination | 4/3/1968 | 4/5/1968 | 93.47 | 93.29 | 0% | 8% | 8% | 16% | 4676% |
| Kent State Shootings | 5/4/1970 | 5/14/1970 | 79.00 | 75.44 | -5% | 35% | 40% | 22% | 5806% |
| Arab Oil Embargo | 10/18/1973 | 12/5/1973 | 110.01 | 92.16 | -16% | -28% | 12% | 6% | 4735% |
| Nixon Resigns | 8/9/1974 | 8/29/1974 | 80.86 | 69.99 | -13% | 24% | 38% | 56% | 6266% |
| U.S.S.R. in Afghanistan | 12/24/1979 | 1/3/1980 | 107.66 | 105.22 | -2% | 30% | 31% | 56% | 4134% |
| Hunt Silver Crisis | 2/13/1980 | 3/27/1980 | 118.44 | 98.22 | -17% | 37% | 55% | 83% | 4436% |
| Falkland Islands War | 4/1/1982 | 5/7/1982 | 113.79 | 119.47 | 5% | 39% | 51% | 147% | 3629% |
| U.S. Invades Grenada | 10/24/1983 | 11/7/1983 | 165.99 | 161.91 | -2% | 4% | 52% | 69% | 2652% |
| U.S. Bombs Libya | 4/15/1986 | 4/21/1986 | 237.73 | 244.74 | 3% | 20% | 27% | 57% | 1720% |
| Crash of '87 | 10/2/1987 | 10/19/1987 | 328.07 | 224.84 | -31% | 23% | 39% | 85% | 1882% |
| Gulf War Ultimatum | 12/24/1990 | 1/16/1991 | 329.90 | 316.17 | -4% | 32% | 50% | 92% | 1309% |
| Gorbachev Coup | 8/16/1991 | 8/19/1991 | 385.58 | 376.47 | -2% | 11% | 23% | 77% | 1083% |
| ERM U.K. Currency Crisis | 9/14/1992 | 10/16/1992 | 425.27 | 411.73 | -3% | 14% | 42% | 132% | 982% |
| World Trade Center Bombing | 2/26/1993 | 2/27/1993 | 443.38 | 443.38 | 0% | 5% | 46% | 137% | 905% |
| Russia Mexico Orange County | 10/11/1994 | 12/20/1994 | 465.79 | 457.10 | -2% | 33% | 107% | 210% | 875% |
| Oklahoma City Bombing | 4/19/1995 | 4/20/1995 | 504.92 | 505.29 | 0% | 28% | 122% | 184% | 782% |
| Asian Stock Market Crisis | 10/7/1997 | 10/27/1997 | 983.12 | 876.99 | -11% | 21% | 57% | 2% | 408% |
| Russian LTCM Crisis | 8/18/1998 | 10/8/1998 | 1,101.20 | 959.44 | -13% | 39% | 11% | 8% | 364% |
| Clinton Impeachment | 12/19/1998 | 2/12/1999 | 1,188.03 | 1,230.13 | 4% | 13% | -10% | -6% | 262% |
| USS Cole Yemen Bombings | 10/11/2000 | 10/18/2000 | 1,364.59 | 1,342.13 | -2% | -20% | -23% | -12% | 232% |
| September 11 Attacks | 9/10/2001 | 9/21/2001 | 1,092.54 | 965.80 | -12% | -12% | 17% | 36% | 361% |
| Iraq War | 3/19/2003 | 5/1/2003 | 874.02 | 916.30 | 5% | 21% | 42% | 54% | 386% |
| Madrid Terrorist Attacks | 3/10/2004 | 3/24/2004 | 1,123.89 | 1,091.33 | -3% | 7% | 32% | -26% | 308% |
| London Train Bombing | 7/6/2005 | 7/7/2005 | 1,194.94 | 1,197.87 | 0% | 6% | 5% | -11% | 272% |
| 2008 Market Crash | 9/15/2008 | 3/9/2009 | 1,192.70 | 676.53 | -43% | 69% | 103% | 178% | 559% |
| **Price Changes Only - Does Not Include Dividends** | | | | **Averages:** | **-7%** | **18%** | **39%** | **66%** | **6132%** |

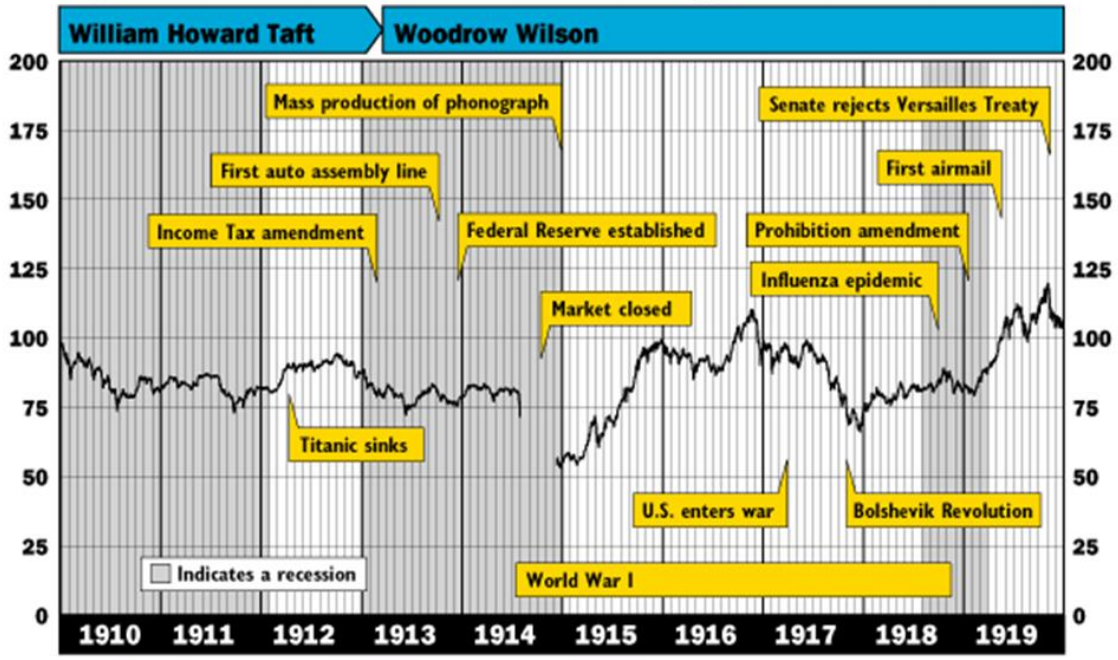
*As of 9.24.21. Source: Kovitz using Bloomberg and Ned Davis Research Events & Reaction Dates*

…with not just hazards to wealth overcome, but also hazards to health, be they the Spanish Flu in 1918-1919,…

THE PRUDENT SPECULATOR

PANDEMIC PRECEDENT – SPANISH FLU

It was 100 years ago and life obviously is different today, but stocks managed to gain ground during the 1918-1919 Spanish Flu Pandemic, despite 50 million deaths worldwide, with 675,000 of those in the U.S.




https://leduc998.wordpress.com/2008/05/14/dow-jones-history-1910-1919/

…or the viruses of the modern era, including COVID-19.

THE PRUDENT SPECULATOR

VIRUSUS HAVE YET TO KILL THE STOCK MARKET


September 29, 2014


March 30, 2020

| Magazine Cover | Date | S&P End Value | 3 Months Later | 6 Months Later | 12 Months Later | 36 Months Later | 60 Months Later | Event thru Present |
|---|---|---|---|---|---|---|---|---|
| *Time Magazine: The Aids Hysteria* | 7/4/1983 | 168.91 | -2% | -1% | -9% | 49% | 61% | 2538% |
| *Time Magazine: The Truth About SARS* | 5/5/2003 | 926.55 | 4% | 14% | 21% | 43% | 52% | 381% |
| *Time Magazine: Avian Flu Death Threat* | 9/26/2005 | 1,215.63 | 4% | 7% | 10% | 0% | -6% | 267% |
| *Time Magazine: H1N1 How Bad Will It Get?* | 8/24/2009 | 1,025.57 | 8% | 8% | 3% | 38% | 94% | 334% |
| *Bloomberg BusinessWeek: Ebola Is Coming* | 9/29/2014 | 1,977.80 | 6% | 4% | -5% | 27% | 50% | 125% |
| *Time Magazine: Coronavirus* | 3/30/2020 | 2,626.65 | 18% | 28% | 51% | | | 70% |
| Price Changes Only. Does not Include Dividends | | | | | | | | |
| | | **Averages:** | **6%** | **10%** | **12%** | **31%** | **50%** | **619%** |

*Source: Kovitz using data from Bloomberg. As of 9.24.21*


August 24, 2009


September 26, 2005

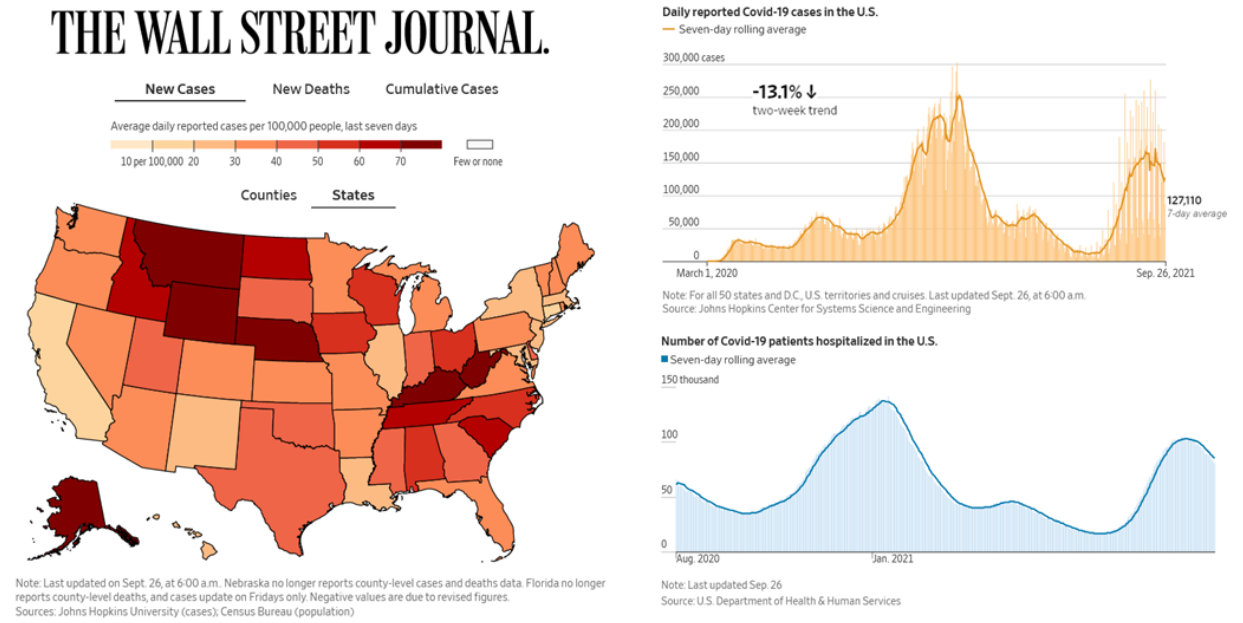

May 5, 2003


July 4, 1983

And speaking of the current coronavirus, the news has improved somewhat,…

## LOW VACCINATION RATES AND THE DELTA VARIANT = COVID-19 SPIKE

While the death toll continues to mount, COVID-19 case counts and hospitalizations have been trending lower, though the virus is worse, not surprisingly, in states with lower vaccination rates. With only 66.4% of those 18 and over in the U.S. fully vaccinated, the health crisis has been extended, delaying a return to normalcy for Corporate America.




…with **Pfizer** (PFE – $43.94) CEO Albert Bourla stating on Sunday, "Within a year I think we will be able to come back to normal life," though he added, "I don't think that this means that the variants will not continue coming, and I don't think that this means that we should be able to live our lives without having vaccinations. But that, again, remains to be seen." Those comments echoed what Moderna CEO Stéphane Bancel said on Thursday, when asked for an estimate of a return to normal life, "As of today, in a year, I assume."

Clearly, there is a lot of time between now and a return to normal life, and as was mentioned above, the Federal Reserve did downgrade its outlook last week for 2021 U.S. GDP Growth,…

## FED: LOWERING '21 GDP GROWTH FORECASTS, BUT RAISING '22 AND '23

The Delta variant to blame, the Fed cut its consensus projection for the magnitude of the U.S. economic recovery this year, taking its GDP forecast for real (inflation-adjusted) growth to 5.9%, down from a 7.0% prediction just three months ago. And, though the near-term PCE inflation estimates have jumped, there was no change in the longer run forecast, so Jerome H. Powell & Co. will likely remain very friendly, even if the Fed Funds rate eventually moves up a bit.

**Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, September 2021**

Percent

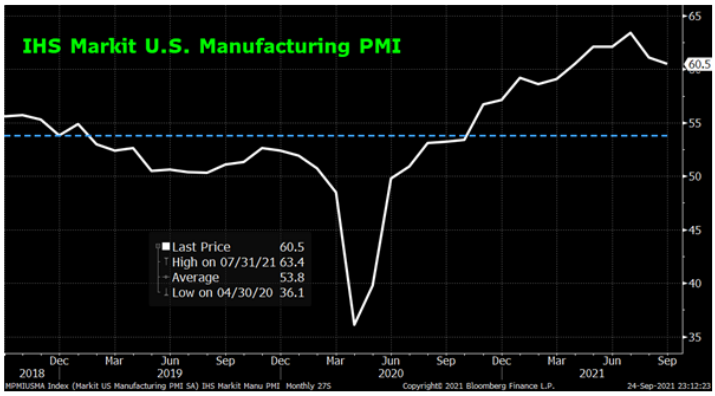
| Variable | Median[1] | | | | | Central Tendency[2] | | | | | Range[3] | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2024 | Longer run | 2021 | 2022 | 2023 | 2024 | Longer run | 2021 | 2022 | 2023 | 2024 | Longer run |
| Change in real GDP | 5.9 | 3.8 | 2.5 | 2.0 | 1.8 | 5.8–6.0 | 3.4–4.5 | 2.2–2.5 | 2.0–2.2 | 1.8–2.0 | 5.5–6.3 | 3.1–4.9 | 1.8–3.0 | 1.8–2.5 | 1.6–2.2 |
| June projection | 7.0 | 3.3 | 2.4 | | 1.8 | 6.8–7.3 | 2.8–3.8 | 2.0–2.5 | | 1.8–2.0 | 6.3–7.8 | 2.6–4.2 | 1.7–2.7 | | 1.6–2.2 |
| Unemployment rate | 4.8 | 3.8 | 3.5 | 3.5 | 4.0 | 4.6–4.8 | 3.6–4.0 | 3.3–3.7 | 3.3–3.6 | 3.8–4.3 | 4.5–5.1 | 3.0–4.0 | 2.8–4.0 | 3.0–4.0 | 3.5–4.5 |
| June projection | 4.5 | 3.8 | 3.5 | | 4.0 | 4.4–4.8 | 3.5–4.0 | 3.2–3.8 | | 3.8–4.3 | 4.2–5.0 | 3.2–4.2 | 3.0–3.9 | | 3.5–4.5 |
| PCE inflation | 4.2 | 2.2 | 2.2 | 2.1 | 2.0 | 4.0–4.3 | 2.0–2.5 | 2.0–2.3 | 2.0–2.2 | 2.0 | 3.4–4.4 | 1.7–3.0 | 1.9–2.4 | 2.0–2.3 | 2.0 |
| June projection | 3.4 | 2.1 | 2.2 | | 2.0 | 3.1–3.5 | 1.9–2.3 | 2.0–2.2 | | 2.0 | 3.0–3.9 | 1.6–2.5 | 1.9–2.3 | | 2.0 |
| Core PCE inflation[4] | 3.7 | 2.3 | 2.2 | 2.1 | | 3.6–3.8 | 2.0–2.5 | 2.0–2.3 | 2.0–2.2 | | 3.5–4.2 | 1.9–2.8 | 2.0–2.3 | 2.0–2.4 | |
| June projection | 3.0 | 2.1 | 2.1 | | | 2.9–3.1 | 1.9–2.3 | 2.0–2.2 | | | 2.7–3.3 | 1.7–2.5 | 2.0–2.3 | | |
| Memo: Projected appropriate policy path | | | | | | | | | | | | | | | |
| Federal funds rate | 0.1 | 0.3 | 1.0 | 1.8 | 2.5 | 0.1 | 0.1–0.4 | 0.4–1.1 | 0.9–2.1 | 2.3–2.5 | 0.1 | 0.1–0.6 | 0.1–1.6 | 0.6–2.6 | 2.0–3.0 |
| June projection | 0.1 | 0.1 | 0.6 | | 2.5 | 0.1 | 0.1–0.4 | 0.1–1.1 | | 2.3–2.5 | 0.1 | 0.1–0.6 | 0.1–1.6 | | 2.0–3.0 |

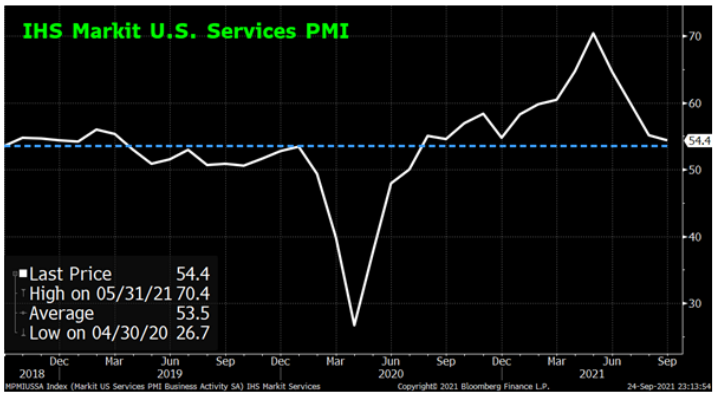
Source: Federal Reserve, September 22, 2021

…with the latest set of economic numbers from IHS Markit trailing expectations…

THE PRUDENT SPECULATOR

## IHS MARKIT PMI READINGS PULL BACK IN SEPTEMBER



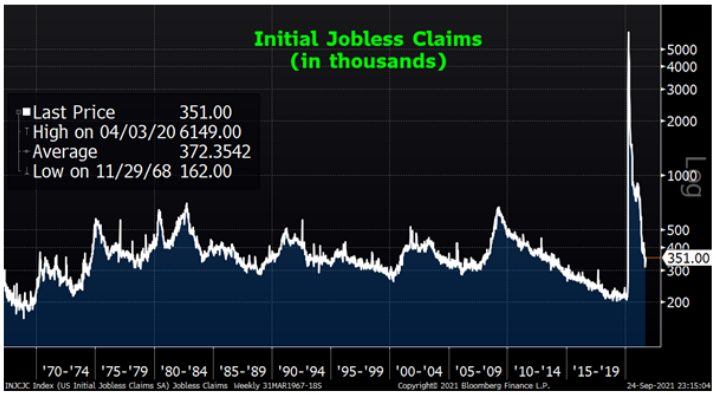



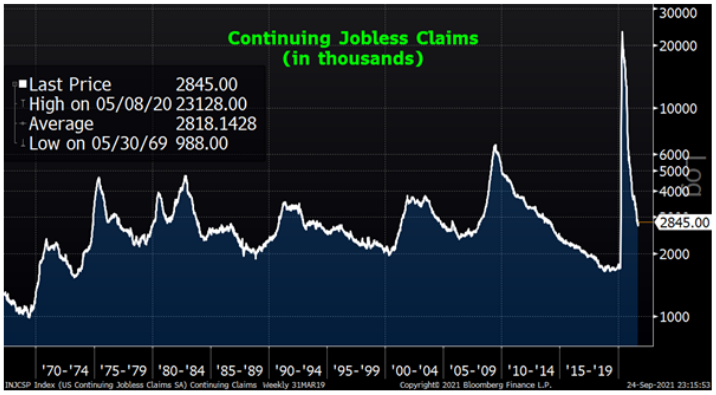

IHS Markit's preliminary U.S. PMIs for the manufacturing and services sectors in September came in at 60.5 and 54.4, respectively, the former not far off a record high for the relatively young data series, even as the latter dipped further from the May peak. IHS said, "The pace of U.S. economic growth cooled further in September, having soared in the second quarter, reflecting a combination of peaking demand, supply chain delays and labor shortages."

…and first-time filings and continuing claims for jobless benefits ticking up in the most recent period.

THE PRUDENT SPECULATOR

## JOBLESS FILINGS AND CONTINUING CLAIMS RISE




With Hurricane Ida still deserving some of the blame for the increase, new filings for unemployment benefits for the period ended September 18 came in at a seasonally adjusted 351,000, up 16,000 from the week prior and higher than forecast. Continuing claims filed through state programs jumped to 2.85 million, rising by 140,000 from a pandemic low the week prior, even as businesses continue to struggle to find workers.

The Federal Reserve also chose to leave the Federal Funds rate at a range of 0% to 0.25% at last week's FOMC Meeting,…

THE PRUDENT SPECULATOR

FOMC STATEMENT: 9.22.21

The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.

With progress on vaccinations and strong policy support, indicators of economic activity and employment have continued to strengthen. The sectors most adversely affected by the pandemic have improved in recent months, but the rise in COVID-19 cases has slowed their recovery. Inflation is elevated, largely reflecting transitory factors. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.

The path of the economy continues to depend on the course of the virus. Progress on vaccinations will likely continue to reduce the effects of the public health crisis on the economy, but risks to the economic outlook remain.

The Committee seeks to achieve maximum employment and inflation at the rate of 2% over the longer run. With inflation having run persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2% for some time so that inflation averages 2% over time and longer-term inflation expectations remain well anchored at 2%. The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved. The Committee decided to keep the target range for the federal funds rate at 0 to 1/4% and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2% and is on track to moderately exceed 2% for some time. Last December, the Committee indicated that it would continue to increase its holdings of Treasury securities by at least $80 billion per month and of agency mortgage-backed securities by at least $40 billion per month until substantial further progress has been made toward its maximum employment and price stability goals. Since then, the economy has made progress toward these goals. If progress continues broadly as expected, the Committee judges that a moderation in the pace of asset purchases may soon be warranted. These asset purchases help foster smooth market functioning and accommodative financial conditions, thereby supporting the flow of credit to households and businesses.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

…even as Chair Jerome H. Powell said in his opening remarks to his September 22 Press Conference:

*If progress continues broadly as expected, the Committee judges that a moderation in the pace of asset purchases may soon be warranted. We also discussed the appropriate pace of tapering asset purchases once economic conditions satisfy the criterion laid out in the Committee's guidance. While no decisions were made, participants generally view that, so long as the recovery remains on track, a gradual tapering process that concludes around the middle of next year is likely to be appropriate. Even after our balance sheet stops expanding, our elevated holdings of longer-term securities will continue to support accommodative financial conditions.*

Certainly, the financial press has been busy warning of the risks of a Fed Tapering, even as few seem willing to study what happened the other time such an event occurred,…

THE PRUDENT SPECULATOR

TAPER TANTRUM: LONG-TERM TREASURIES, YES, BUT STOCKS, NOT SO MUCH

With folks trying to figure out when the Federal Reserve might become less accommodative, pundits have been offering reminders like, "In 2013, the Fed's previous taper announcement drove markets into a tantrum and led long-term debt to sell off." Memories become fuzzy with time and the yield on the 10-Year U.S. Treasury did soar from 1.63% on 5.22.13 to 3.02% on 12.31.13, due to fears about Fed tightening, but stocks performed very well in 2013 and 2014, even as the actual tapering of bond purchases began in January 2014. Indeed, **the Russell 3000 Value index returned 50%** and had only two downturns of 5% or greater during the period, just a third of the three-per-year average.


…and common sense would argue that an economy that is healthy enough to stand on its own should not be viewed negatively. Happily, Chair Powell sounded fairly upbeat in his comments on the state of the U.S. economy.

*Progress on vaccinations and unprecedented fiscal policy actions are also providing strong support to the recovery. Indicators of economic activity and employment have continued to strengthen. Real GDP rose at a robust 6.4 percent pace in the first half of the year, and growth is widely expected to continue at a strong pace in the second half. The sectors most adversely affected by the pandemic have improved in recent months, but the rise in COVID-19 cases has slowed their recovery. Household spending rose at an especially rapid pace over the first half of the year, but flattened out in July and August as spending softened in COVID-sensitive sectors, such as travel and restaurants. Additionally, in some industries, near-term supply constraints are restraining activity. These constraints are particularly acute in the motor vehicle industry, where the worldwide shortage of semiconductors has sharply curtailed production. Partly reflecting the effects of the virus and supply constraints, forecasts from FOMC participants for economic growth this year have been revised somewhat lower since our June Summary of Economic projections, but participants still foresee rapid growth.*

Of course, though it wasn't a big surprise, the big development from the Fed last week was a change in the so-called "dot-plot," in which 9 of the 18 FOMC Participants are now predicting that interest rates would be increased next year, rather than in 2023,…

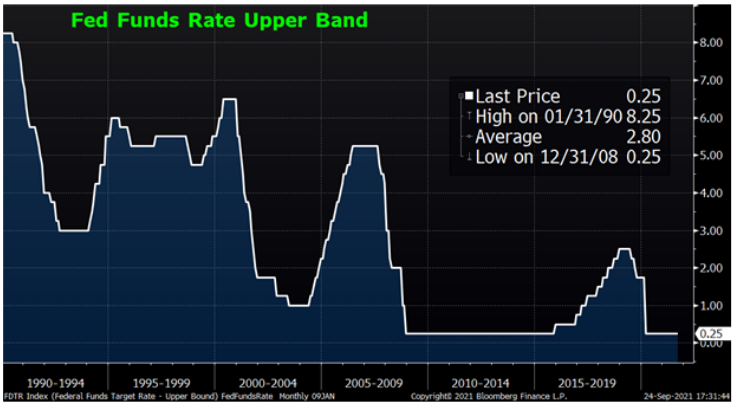
THE PRUDENT SPECULATOR

ACCOMMODATIVE FEDERAL RESERVE EVEN IF RATES MOVE UP SOMEWHAT

| FOMC Participants' Fed Funds Rate Target Level Number with each projection | | | | | |
|---|---|---|---|---|---|
| Midpoint of Target Range | 2021 | 2022 | 2023 | 2024 | Longer Run |
| 3.125 | | | | | |
| 3.000 | | | | | 2 |
| 2.875 | | | | | |
| 2.750 | | | | | |
| 2.625 | | | | 1 | |
| 2.500 | | | | | 9 |
| 2.375 | | | | 1 | 1 |
| 2.250 | | | | | 4 |
| 2.125 | | | | 6 | |
| 2.000 | | | | | 1 |
| 1.875 | | | | 1 | |
| 1.750 | | | | | |
| 1.625 | | | 3 | 2 | |
| 1.500 | | | | | |
| 1.375 | | | | | |
| 1.250 | | | | | |
| 1.125 | | | 6 | 3 | |
| 1.000 | | | | | |
| 0.875 | | | 1 | 3 | |
| 0.750 | | | | | |
| 0.625 | | 3 | 3 | 1 | |
| 0.500 | | | | | |
| 0.375 | | 6 | 4 | | |
| 0.250 | | | | | |
| 0.125 | 18 | 9 | 1 | | |
| 0.000 | | | | | |

Source: Federal Reserve, September 22, 2021

The weaker economic outlook for 2021 offered last week by Jerome H. Powell & Co. was unsurprising, so we might look favorably upon the so-called "dot-plot" suggesting that the Federal Reserve may initiate a couple of upticks in the Fed Funds rate next year, especially as 15 of the 17 longer-run estimates are below the average rate since 1990.




…as most economists are of the mind that GDP growth for 2022 in the U.S. and the World will be robust,…

THE PRUDENT SPECULATOR

## OECD – GLOBAL ECONOMIC RECOVERY REMAINS STRONG BUT TOO UNEVEN

Table 1. **OECD Interim Economic Outlook Forecasts September 2021**

**Real GDP growth**

Year-on-year % change

| | 2020 | 2021 | | 2022 | |
|---|---|---|---|---|---|
| | | Interim EO projections | Difference from May EO | Interim EO projections | Difference from May EO |
| World | -3.4 | 5.7 | -0.1 | 4.5 | 0.1 |
| G20[1] | -3.1 | 6.1 | -0.2 | 4.8 | 0.1 |
| Australia | -2.5 | 4.0 | -1.1 | 3.3 | -0.1 |
| Canada | -5.3 | 5.4 | -0.7 | 4.1 | 0.3 |
| Euro area | -6.5 | 5.3 | 1.0 | 4.6 | 0.2 |
| Germany | -4.9 | 2.9 | -0.4 | 4.6 | 0.2 |
| France | -8.0 | 6.3 | 0.5 | 4.0 | 0.0 |
| Italy | -8.9 | 5.9 | 1.4 | 4.1 | -0.3 |
| Spain[2] | -10.8 | 6.8 | 0.9 | 6.6 | 0.3 |
| Japan | -4.6 | 2.5 | -0.1 | 2.1 | 0.1 |
| Korea | -0.9 | 4.0 | 0.2 | 2.9 | 0.1 |
| Mexico | -8.3 | 6.3 | 1.3 | 3.4 | 0.2 |
| Turkey | 1.8 | 8.4 | 2.7 | 3.1 | -0.3 |
| United Kingdom | -9.8 | 6.7 | -0.5 | 5.2 | -0.3 |
| United States | -3.4 | 6.0 | -0.9 | 3.9 | 0.3 |
| Argentina | -9.9 | 7.6 | 1.5 | 1.9 | 0.1 |
| Brazil | -4.4 | 5.2 | 1.5 | 2.3 | -0.2 |
| China | 2.3 | 8.5 | 0.0 | 5.8 | 0.0 |
| India[3] | -7.3 | 9.7 | -0.2 | 7.9 | -0.3 |
| Indonesia | -2.1 | 3.7 | -1.0 | 4.9 | -0.2 |
| Russia | -2.5 | 2.7 | -0.8 | 3.4 | 0.6 |
| Saudi Arabia | -4.1 | 2.3 | -0.5 | 4.8 | 1.0 |
| South Africa | -7.0 | 4.6 | 0.8 | 2.5 | 0.0 |

Note: Difference from May 2021 Economic Outlook in percentage points, based on rounded figures. World and G20 aggregates use moving nominal GDP weights at purchasing power parities.

1. The European Union is a full member of the G20, but the G20 aggregate only includes countries that are also members in their own right.
2. Spain is a permanent invitee to the G20.
3. Fiscal years, starting in April.

Economic growth has picked up this year, helped by strong policy support, the deployment of effective vaccines and the resumption of many economic activities.

Global GDP is projected to grow by 5.7% in 2021 and 4.5% in 2022. A strong rebound in Europe, the likelihood of additional fiscal support in the United States next year, and lower household saving will boost growth prospects in the advanced economies.

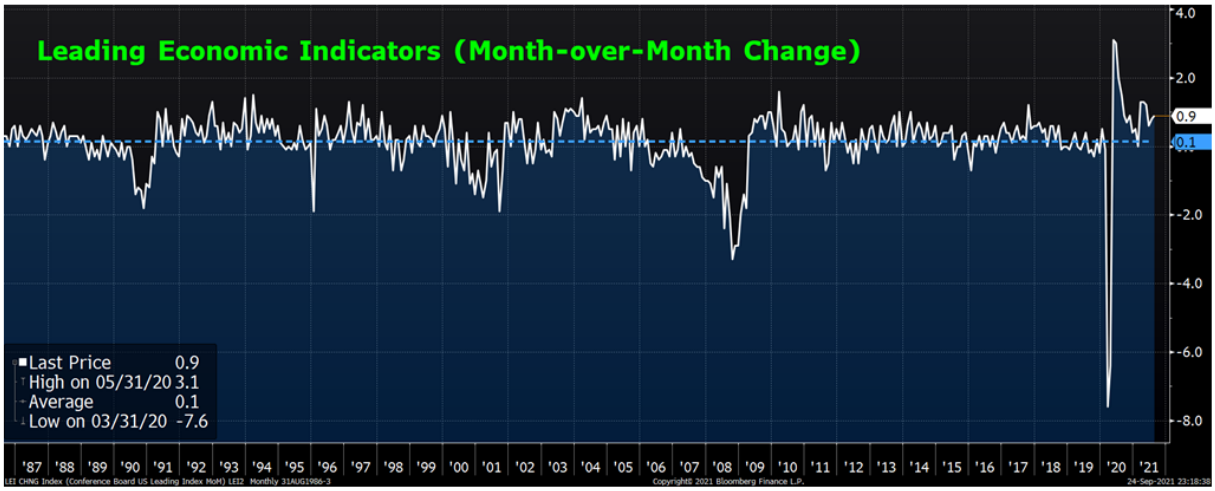
Global GDP has now surpassed its pre-pandemic level, but output and employment gaps remain in many countries, particularly in emerging-market and developing economies where vaccination rates are low.

…and the latest forward-looking Leading Economic Index from the Conference Board exceeded estimates.

THE PRUDENT SPECULATOR

LEI JUMPS AGAIN – 4.0% U.S. GDP GROWTH PROJECTED IN 2022

The forward-looking Leading Economic Index rose by 0.9% in August. The keeper of the metric stated, "The U.S. LEI rose sharply in August and remains on a rapidly rising trajectory. While the Delta variant—alongside rising inflation fears—could create headwinds for labor markets and the consumer spending outlook in the near term, the trend in the LEI is consistent with robust economic growth in the reminder of the year. Real GDP growth for 2021 is expected to reach nearly 6.0% year-over-year, before easing to a still-robust 4.0% for 2022."

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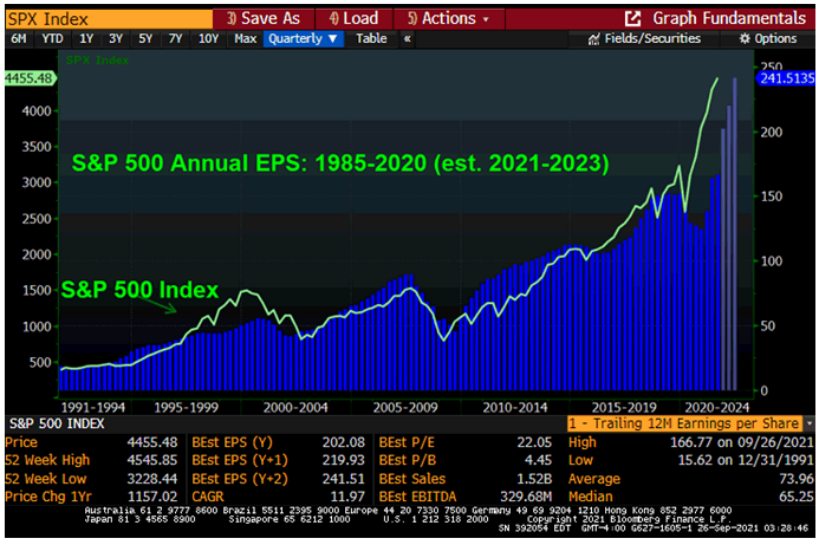
With the outlook for corporate profit growth remaining very favorable,…

THE PRUDENT SPECULATOR

## EPS PLUNGED IN '20 BUT LIKELY TO REBOUND MIGHTILY IN '21 & '22

Q2 2021 earnings reporting season has been terrific on both an absolute and a relative basis. Of course, full-year 2020 COVID-19-impacted EPS were miserable, so a massive rebound was expected, but estimates have been moving higher for 2021, 2022 and 2023.




| S&P 500 Earnings Per Share | | |
|---|---|---|
| Quarter Ended | Bottom Up Operating EPS 3 Month | Bottom Up Operating EPS 12 Month |
| ESTIMATES | | |
| 12/31/2022 | $57.08 | $217.69 |
| 9/30/2022 | $55.29 | $211.17 |
| 6/30/2022 | $54.02 | $204.20 |
| 3/31/2022 | $51.30 | $202.21 |
| 12/31/2021 | $50.56 | $198.32 |
| 9/30/2021 | $48.32 | $185.94 |
| 6/30/2021 | $52.03 | $175.52 |
| | | |
| ACTUAL | | |
| 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 |
| 9/30/2018 | $41.38 | $150.42 |
| 6/30/2018 | $38.65 | $140.37 |
| 3/31/2018 | $36.54 | $132.23 |
| 12/31/2017 | $33.85 | $124.51 |

*Source: Standard & Poor's. As of 9.22.21*

…and valuations for the stocks we own continuing to be very reasonable, we can't help but be enthusiastic about the long-term prospects for our portfolios.

## CURRENT PORTFOLIO AND INDEX VALUATIONS

| Name | Price to Earnings Ratio | Price to Fwd. Earnings Ratio | Price to Sales Ratio | Price to Book Ratio | Dividend Yield |
|---|---|---|---|---|---|
| TPS Portfolio | 16.1 | 13.9 | 1.2 | 2.5 | 2.1 |
| ValuePlus | 17.0 | 13.9 | 1.5 | 2.4 | 2.0 |
| Dividend Income | 15.0 | 13.3 | 1.0 | 2.4 | 2.7 |
| Focused Dividend Income | 15.6 | 13.6 | 1.2 | 2.5 | 2.5 |
| Focused ValuePlus | 15.6 | 14.4 | 1.6 | 2.8 | 2.1 |
| Small-Mid Dividend Value | 13.1 | 11.6 | 0.8 | 1.7 | 2.3 |
| Russell 3000 | 31.2 | 23.2 | 2.8 | 4.4 | 1.3 |
| Russell 3000 Growth | 44.6 | 33.1 | 4.8 | 13.1 | 0.7 |
| Russell 3000 Value | 23.4 | 17.4 | 1.9 | 2.5 | 1.9 |
| Russell 1000 | 27.9 | 22.7 | 3.0 | 4.6 | 1.3 |
| Russell 1000 Growth | 40.4 | 32.0 | 5.5 | 14.0 | 0.7 |
| Russell 1000 Value | 20.8 | 17.2 | 2.0 | 2.6 | 1.9 |
| S&P 500 Index | 26.7 | 22.0 | 3.1 | 4.7 | 1.3 |
| S&P 500 Growth Index | 35.1 | 29.1 | 5.8 | 11.0 | 0.7 |
| S&P 500 Value Index | 20.8 | 17.1 | 2.0 | 2.8 | 2.1 |
| S&P 500 Pure Value Index | 12.5 | 10.7 | 0.8 | 1.3 | 2.4 |

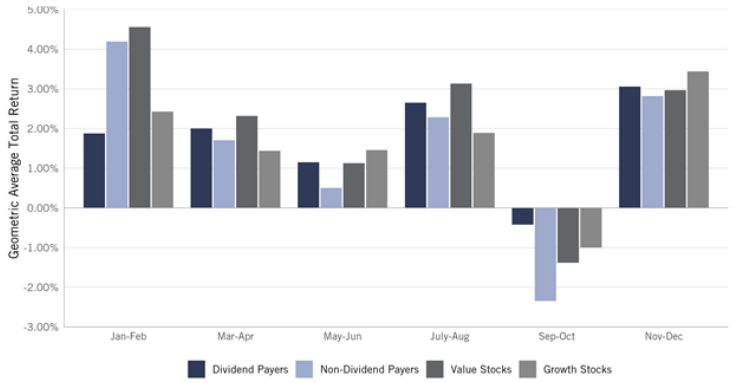
As of 09.25.21. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Kovitz using data from Bloomberg Finance L.P.

True, September and October have often been disconcerting months,…the past 25 years notwithstanding,…

THE PRUDENT SPECULATOR

SEPTEMBER & OCTOBER – SCARY SINCE 1927, BUT NOT SINCE 1995

While the losses have been relatively modest over the last nine decades, and the period has been nicely positive on average for equities over the past 25 years, with our benchmark Russell 3000 Value index leading the way, September and October are the only two months where returns on stocks have been negative dating back to 1927.




From 07.31.27 through 06.30.21. Geometric average. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

**Scary September & October Last 25 Years**

| Geometric | S&P 500 | Russell 3000 Value | Russell 3000 Growth |
|---|---|---|---|
| Average | 1.08 | 1.18 | 0.68 |
| 2020 | -6.36 | -3.60 | -7.59 |
| 2019 | 4.08 | 5.19 | 2.78 |
| 2018 | -6.30 | -5.46 | -8.93 |
| 2017 | 4.44 | 3.97 | 5.37 |
| 2016 | -1.81 | -1.81 | -2.21 |
| 2015 | 5.75 | 4.11 | 5.37 |
| 2014 | 1.01 | 0.11 | 1.10 |
| 2013 | 7.88 | 7.17 | 9.06 |
| 2012 | 0.69 | 2.64 | -0.95 |
| 2011 | 3.13 | 2.94 | 2.78 |
| 2010 | 13.07 | 11.30 | 16.18 |
| 2009 | 1.80 | 0.47 | 2.56 |
| 2008 | -24.21 | -23.42 | -27.42 |
| 2007 | 5.39 | 3.29 | 7.72 |
| 2006 | 5.92 | 5.40 | 6.43 |
| 2005 | -0.87 | -1.30 | -0.73 |
| 2004 | 2.63 | 3.43 | 2.96 |
| 2003 | 4.54 | 5.22 | 4.59 |
| 2002 | -3.02 | -4.62 | -2.17 |
| 2001 | -6.32 | -7.90 | -5.45 |
| 2000 | -5.68 | 3.11 | -13.67 |
| 1999 | 3.41 | 1.63 | 5.24 |
| 1998 | 15.06 | 13.50 | 16.30 |
| 1997 | 1.95 | 3.15 | 1.09 |
| 1996 | 8.54 | 7.56 | 7.18 |

*% Total Return August 31 - October 31. Source Kovitz using data from Bloomberg*

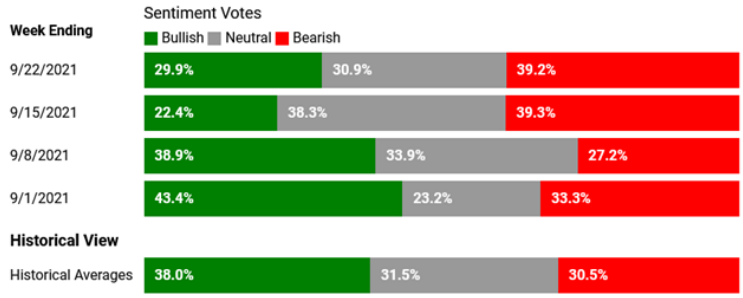
…so we must be braced for additional near-term downside, but we like that our favorite Main Street sentiment gauge is still issuing a contrarian buy signal,…

THE PRUDENT SPECULATOR

AAII SENTIMENT BUY SIGNAL: LOW BULLISHNESS & HIGH BEARISHNESS

## AAII Investor Sentiment Survey

**What Direction Do AAII 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 & Above Median Bull Bear Spread = 8.00 | | | | | | | | | | | |
| BELOW | -54.0 | 8.0 | 908 | 0.27% | 0.23% | 1.27% | 1.13% | 3.66% | 3.28% | 7.18% | 6.43% |
| ABOVE | 8.1 | 62.9 | 872 | 0.17% | 0.15% | 0.52% | 0.43% | 1.96% | 1.70% | 4.54% | 4.06% |
| Ten Groupings of 1780 Data Points | | | | | | | | | | | |
| 1 | -54.0 | -15.0 | 182 | 0.55% | 0.49% | 2.15% | 1.91% | 5.86% | 5.31% | 10.63% | 9.40% |
| 2 | -14.9 | -7.3 | 174 | 0.36% | 0.33% | 0.96% | 0.83% | 3.84% | 3.49% | 7.18% | 6.41% |
| 3 | -7.3 | -1.3 | 178 | 0.33% | 0.30% | 1.49% | 1.39% | 3.28% | 2.87% | 7.15% | 6.51% |
| 4 | -1.2 | 3.0 | 180 | 0.07% | 0.04% | 1.10% | 1.01% | 2.98% | 2.63% | 6.45% | 5.92% |
| 5 | 3.0 | 8.0 | 194 | 0.05% | 0.02% | 0.66% | 0.56% | 2.42% | 2.17% | 4.67% | 4.15% |
| 6 | 8.1 | 12.1 | 160 | 0.09% | 0.07% | 0.42% | 0.29% | 1.58% | 1.34% | 4.52% | 4.03% |
| 7 | 12.2 | 16.5 | 178 | 0.20% | 0.18% | 0.69% | 0.59% | 2.51% | 2.26% | 5.14% | 4.71% |
| 8 | 16.6 | 22.0 | 184 | 0.17% | 0.15% | 0.73% | 0.66% | 2.10% | 1.83% | 6.04% | 5.62% |
| 9 | 22.0 | 29.2 | 172 | 0.06% | 0.05% | 0.38% | 0.29% | 2.01% | 1.73% | 4.30% | 3.72% |
| 10 | 29.2 | 62.9 | 178 | 0.29% | 0.27% | 0.34% | 0.27% | 1.55% | 1.32% | 2.65% | 2.21% |

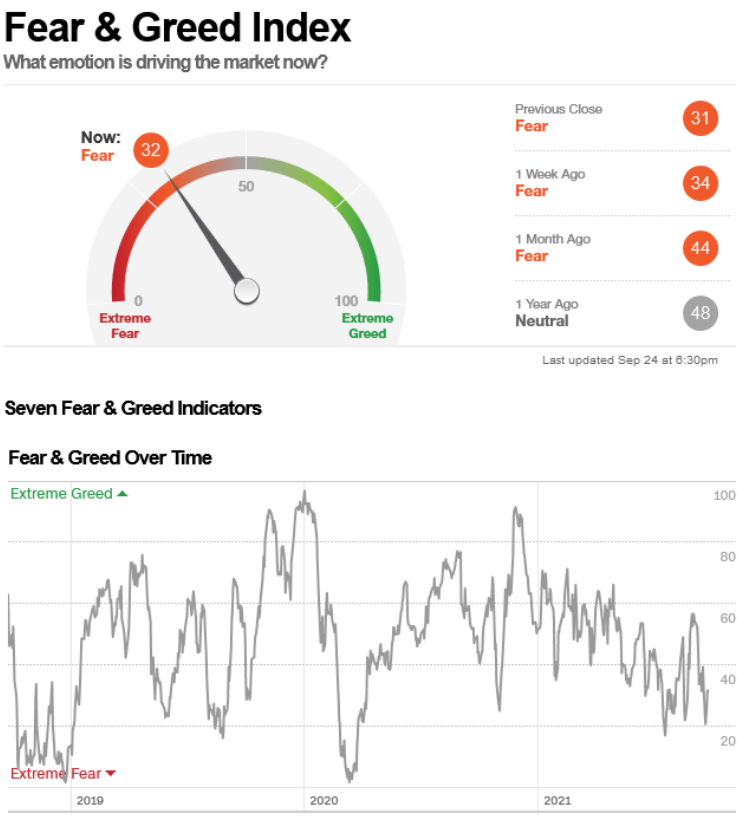
*From 07.31.87 through 9.23.21. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg*

The gauge is widely viewed with a contrarian eye, so the tally of Bulls in the latest AAII Sentiment Survey more than 8 points below normal and the Bear count more than 8 points above average are major positives, as is the minus-9.3-point Bull-Bear spread residing in the second lowest historical decile.

…with fear still the predominant emotion.

THE PRUDENT SPECULATOR

FEAR & GREED INDEX…STILL SHOWING FEAR




While the major market averages rebounded over the last half of the latest week from the recent downturn, folks remain pessimistic. The *CNNMoney* Fear & Greed Index is in Fear territory. Extreme Fear readings for Safe Haven Demand, Stock Price Breadth, Stock Price Strength and Put and Call Options, as well as Fear in Market Momentum, were offset only by Extreme Greed in Junk Bond Demand.

**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*.

The markets have pulled back from recent highs this month, with the S&P 500 piercing a 5% drop intraday on Monday before rebounding to avoid the 37th downturn of that magnitude on a closing basis since the end of the Financial Crisis in March 2009.

THE PRUDENT SPECULATOR

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

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

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | 3/9/2009 | 3/26/2009 | 23.11% | BULL |
| 3/26/2009 | 3/30/2009 | -5.44% | BEAR | 3/30/2009 | 6/12/2009 | 20.15% | BULL |
| 6/12/2009 | 7/10/2009 | -7.09% | BEAR | 7/10/2009 | 10/19/2009 | 24.89% | BULL |
| 10/19/2009 | 10/30/2009 | -5.62% | BEAR | 10/30/2009 | 1/19/2010 | 11.01% | BULL |
| 1/19/2010 | 2/8/2010 | -8.13% | BEAR | 2/8/2010 | 4/23/2010 | 15.19% | BULL |
| 4/23/2010 | 5/7/2010 | -8.74% | BEAR | 5/7/2010 | 5/12/2010 | 5.47% | BULL |
| 5/12/2010 | 6/7/2010 | -10.34% | BEAR | 6/7/2010 | 6/18/2010 | 6.38% | BULL |
| 6/18/2010 | 7/2/2010 | -8.49% | BEAR | 7/2/2010 | 8/9/2010 | 10.29% | BULL |
| 8/9/2010 | 8/26/2010 | -7.14% | BEAR | 8/26/2010 | 2/18/2011 | 28.25% | BULL |
| 2/18/2011 | 3/16/2011 | -6.41% | BEAR | 3/16/2011 | 4/29/2011 | 8.49% | BULL |
| 4/29/2011 | 6/15/2011 | -7.20% | BEAR | 6/15/2011 | 7/7/2011 | 6.94% | BULL |
| 7/7/2011 | 8/8/2011 | -17.27% | BEAR | 8/8/2011 | 8/15/2011 | 7.60% | BULL |
| 8/15/2011 | 8/19/2011 | -6.72% | BEAR | 8/19/2011 | 8/31/2011 | 8.49% | BULL |
| 8/31/2011 | 9/9/2011 | -5.30% | BEAR | 9/9/2011 | 9/16/2011 | 5.35% | BULL |
| 9/16/2011 | 10/3/2011 | -9.60% | BEAR | 10/3/2011 | 10/28/2011 | 16.91% | BULL |
| 10/28/2011 | 11/25/2011 | -9.84% | BEAR | 11/25/2011 | 4/2/2012 | 22.47% | BULL |
| 4/2/2012 | 6/1/2012 | -9.94% | BEAR | 6/1/2012 | 9/14/2012 | 14.69% | BULL |
| 9/14/2012 | 11/15/2012 | -7.67% | BEAR | 11/15/2012 | 5/21/2013 | 23.34% | BULL |
| 5/21/2013 | 6/24/2013 | -5.76% | BEAR | 6/24/2013 | 1/15/2014 | 17.50% | BULL |
| 1/15/2014 | 2/3/2014 | -5.76% | BEAR | 2/3/2014 | 9/18/2014 | 15.47% | BULL |
| 9/18/2014 | 10/15/2014 | -7.40% | BEAR | 10/15/2014 | 3/2/2015 | 13.69% | BULL |
| 5/21/2015 | 8/25/2015 | -12.35% | BEAR | 8/25/2015 | 9/16/2015 | 6.84% | BULL |
| 9/16/2015 | 9/28/2015 | -5.69% | BEAR | 9/28/2015 | 11/3/2015 | 12.12% | BULL |
| 11/3/2015 | 2/11/2016 | -13.31% | BEAR | 2/11/2016 | 6/23/2016 | 5.64% | BULL |
| 6/23/2016 | 6/27/2016 | -5.34% | BEAR | 6/27/2016 | 1/26/2018 | 43.60% | BULL |
| 1/26/2018 | 2/8/2018 | -10.16% | BEAR | 2/8/2018 | 3/9/2018 | 7.96% | BULL |
| 3/9/2018 | 4/2/2018 | -7.35% | BEAR | 4/2/2018 | 9/20/2018 | 13.55% | BULL |
| 9/20/2018 | 11/23/2018 | -10.17% | BEAR | 11/23/2018 | 12/3/2018 | 5.99% | BULL |
| 12/3/2018 | 12/24/2018 | -15.74% | BEAR | 12/24/2018 | 4/30/2019 | 25.30% | BULL |
| 4/30/2019 | 6/3/2019 | -6.84% | BEAR | 6/3/2019 | 7/26/2019 | 10.25% | BULL |
| 7/26/2019 | 8/14/2019 | -6.12% | BEAR | 8/14/2019 | 2/19/2020 | 16.11% | BULL |
| 2/19/2020 | 3/12/2020 | -26.74% | BEAR | 3/12/2020 | 3/13/2020 | 9.29% | BULL |
| 3/13/2020 | 3/23/2020 | -17.47% | BEAR | 3/23/2020 | 3/26/2020 | 17.55% | BULL |
| 3/26/2020 | 4/1/2020 | -6.07% | BEAR | 4/1/2020 | 6/8/2020 | 30.84% | BULL |
| 6/8/2020 | 6/11/2020 | -7.12% | BEAR | 6/11/2020 | 9/2/2020 | 19.28% | BULL |
| 9/2/2020 | 9/23/2020 | -9.60% | BEAR | 9/23/2020 | 10/12/2020 | 9.18% | BULL |
| 10/12/2020 | 10/30/2020 | -7.48% | BEAR | 10/30/2020 | 9/2/2021 | 38.75% | BULL |
| **Average Drop** | | **-9.10%** | | **Average Gain** | | **15.62%** | |

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 36 setbacks of 5% or more without a comparable move in the other direction (three per year on average), yet the popular index today stands at 4455.48.

Of course, it is a market of stocks and not simply a stock market, so some stocks have suffered steeper declines from their 52-week highs. For example, in the table below, we offer 30 undervalued stocks that are each off at least 18% from recent peaks, providing, in our view, very attractive entry points for those looking to add to their equity exposure.

## Undervalued Stocks in a Bear Market/Correction

| Symbol | Common Stock | 09.24.21 Price | Target Price | 52-Week High | % Below High | 52-Week Low | % Above Low | Sector | P/E | P/S | P/TBV | ROCE | EV/ EBITDA | FCF Yld | Debt/ TE (%) | Div Yld | Mkt Cap |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ALK | Alaska Air Group | $60.79 | $84.37 | $74.25 | -18% | $35.06 | 73% | Transportation | nmf | 2.0 | 6.0 | -17.0 | -22.0 | 4.1 | 277% | 0.0% | 7,613 |
| AMGN | Amgen | $213.61 | $286.62 | $276.69 | -23% | $210.28 | 2% | Pharma, Biotechnology | 13.1 | 4.8 | nmf | 60.8 | 13.4 | 7.2 | nmf | 3.3% | 121,299 |
| APD | Air Products | $259.56 | $343.44 | $327.89 | -21% | $245.75 | 6% | Materials | 29.8 | 5.9 | 4.9 | 16.0 | 16.9 | 2.5 | 61% | 2.3% | 57,457 |
| BIG | Big Lots | $46.56 | $82.67 | $73.23 | -36% | $42.05 | 11% | Retailing | 6.6 | 0.2 | 1.3 | 21.0 | 6.0 | -3.7 | 129% | 2.6% | 1,516 |
| BIIB | Biogen | $291.71 | $431.69 | $468.55 | -38% | $223.25 | 31% | Pharma, Biotechnology | 11.9 | 3.7 | 16.7 | 17.4 | 16.5 | 5.6 | 293% | 0.0% | 43,475 |
| CAH | Cardinal Health | $51.19 | $80.76 | $62.96 | -19% | $44.92 | 14% | Health Care Equip/Srvcs | 9.2 | 0.1 | nmf | 34.1 | 14.3 | 13.5 | nmf | 3.8% | 14,526 |
| CAT | Caterpillar | $196.82 | $260.43 | $246.69 | -20% | $143.01 | 38% | Capital Goods | 22.0 | 2.3 | 11.6 | 28.7 | 12.9 | 5.3 | 282% | 2.3% | 107,753 |
| COHU | Cohu | $33.05 | $58.05 | $51.86 | -36% | $16.43 | 101% | Semiconductors | 11.9 | 2.0 | 3.8 | 19.9 | 6.0 | 3.7 | 32% | 0.0% | 1,606 |
| FDX | FedEx | $226.64 | $348.31 | $319.90 | -29% | $226.60 | 0% | Transportation | 12.8 | 0.7 | 3.4 | 23.3 | 9.5 | 5.8 | 194% | 1.3% | 60,207 |
| FL | Foot Locker | $48.23 | $81.02 | $66.71 | -28% | $31.41 | 54% | Retailing | 7.0 | 0.6 | 1.6 | 35.5 | 5.9 | 13.8 | 75% | 2.5% | 5,007 |
| GM | General Motors | $52.23 | $76.94 | $64.30 | -19% | $28.50 | 83% | Autos & Components | 5.8 | 0.5 | 1.6 | 27.6 | 3.5 | 27.8 | 167% | 0.0% | 75,824 |
| HFC | HollyFrontier | $32.31 | $54.70 | $42.39 | -24% | $16.81 | 92% | Energy | nmf | 0.4 | 2.1 | 3.6 | 9.5 | -1.5 | 138% | 0.0% | 5,250 |
| HPE | Hewlett Packard Enter | $13.41 | $19.97 | $16.74 | -20% | $8.29 | 62% | Technology Hardware | 6.9 | 0.6 | nmf | 6.2 | 8.0 | 7.5 | nmf | 3.6% | 17,541 |
| INTC | Intel | $54.22 | $73.00 | $68.49 | -21% | $43.61 | 24% | Semiconductors | 10.2 | 2.8 | 4.4 | 22.2 | 7.0 | 7.4 | 63% | 2.6% | 219,971 |
| JWN | Nordstrom | $29.41 | $42.98 | $46.45 | -37% | $11.72 | 151% | Retailing | nmf | 0.3 | nmf | 0.0 | 6.2 | 8.8 | nmf | 0.0% | 4,674 |
| LEG | Leggett & Platt | $46.59 | $64.68 | $59.16 | -21% | $39.25 | 19% | Consumer Durables | 16.6 | 1.3 | nmf | 29.7 | 10.4 | 7.0 | nmf | 3.6% | 6,210 |
| MDC | MDC Holdings | $49.19 | $76.10 | $63.86 | -23% | $38.14 | 29% | Consumer Durables | 7.0 | 0.7 | 1.5 | 24.1 | 6.1 | -2.8 | 67% | 3.3% | 3,474 |
| MU | Micron Technology | $74.05 | $120.65 | $96.96 | -24% | $46.50 | 59% | Semiconductors | 15.7 | 3.3 | 2.0 | 10.3 | 7.5 | 0.7 | 17% | 0.5% | 83,362 |
| NEM | Newmont Corp | $53.87 | $78.64 | $75.31 | -28% | $53.52 | 1% | Materials | 15.4 | 3.4 | 2.1 | 12.7 | 7.5 | 8.3 | 28% | 4.1% | 43,049 |
| ONB | Old National Bancorp | $16.55 | $23.15 | $21.28 | -22% | $12.11 | 37% | Banks | 9.0 | nmf | 1.4 | 10.3 | nmf | nmf | nmf | 3.4% | 2,743 |
| PNW | Pinnacle West Capital | $72.55 | $105.30 | $91.88 | -21% | $69.89 | 4% | Utilities | 14.2 | 2.2 | 1.5 | 10.3 | 10.0 | -5.2 | 126% | 4.6% | 8,183 |
| QCOM | Qualcomm | $133.88 | $180.32 | $167.94 | -20% | $111.80 | 20% | Semiconductors | 18.0 | 4.6 | nmf | 160.3 | 13.0 | 6.2 | nmf | 2.0% | 151,017 |
| STX | Seagate Tech | $86.08 | $113.90 | $106.22 | -19% | $46.92 | 83% | Technology Hardware | 14.8 | 1.8 | nmf | 108.7 | 12.3 | 5.5 | nmf | 3.1% | 19,452 |
| T | AT&T | $27.13 | $40.18 | $33.88 | -20% | $26.35 | 3% | Telecom Services | 8.3 | 1.1 | nmf | -1.3 | 10.7 | 14.8 | nmf | 7.7% | 193,708 |
| TKR | Timken Co | $67.85 | $92.74 | $92.39 | -27% | $52.71 | 29% | Capital Goods | 14.4 | 1.3 | 9.4 | 17.2 | 9.5 | 6.4 | 271% | 1.8% | 5,174 |
| TPR | Tapestry | $39.46 | $57.87 | $49.67 | -21% | $15.23 | 159% | Consumer Durables | 13.2 | 1.9 | 18.7 | 30.1 | 8.2 | 11.0 | 530% | 2.5% | 10,983 |
| VTRS | Viatris Inc | $13.38 | $35.29 | $18.86 | -29% | $12.94 | 3% | Pharma, Biotechnology | 3.4 | 1.0 | nmf | -12.4 | 12.2 | 14.2 | nmf | 3.3% | 16,180 |
| VWAGY | Volkswagen AG | $31.39 | $56.27 | $48.72 | -36% | $15.40 | 104% | Autos & Components | 7.3 | 3.1 | 2.2 | 15.3 | 2.0 | 16.0 | 216% | 1.2% | 92,623 |
| WHR | Whirlpool | $210.16 | $301.29 | $257.68 | -18% | $171.33 | 23% | Consumer Durables | 7.7 | 0.6 | 22.9 | 47.9 | 5.2 | 18.6 | 1013% | 2.7% | 13,178 |
| WRK | Westrock | $50.45 | $71.12 | $62.03 | -19% | $32.58 | 55% | Materials | 17.5 | 0.7 | 6.6 | -5.5 | 15.7 | 12.8 | 423% | 1.9% | 13,470 |

As of 9.24.21. nmf=Not meaningful. ROCE = Return on Common Equity. TBV = Tangible book value. EV/EBITDA = Enterprise value to earnings before interest, taxes, depreciation and amortization. FCF Yield = Free Cash Flow Yield

There was not a ton of individual company news last week, but Jason Clark, Chris Quigley and Zack Tart look at a couple of our companies that had sufficient news out to warrant a review of their respective Target Prices.

CEO Bob Chapek of entertainment powerhouse **Walt Disney Co.** (DIS – $176.00) presented at the 2021 Goldman Sachs 30th Annual Communacopia Conference on September 21. His comments, which we offer our selection of highlights below, sent shares plunging, though some of the losses were recovered later in the week.

On the topic of Disney's handling of COVID challenges, Mr. Capek said, "I think where we've taken a major step forward during the last 18 months has really been on the level of investment that we are putting into our business, particularly our direct-to-consumer business, and that takes the form of two different avenues. One is the increased investment in our content…[Secondly,] we've been very aggressively going into new markets with our direct-to-consumer propositions, our different brands across the world and we are very, very pleased with how that's gone. But not to forget parks at the very same time, we use the opportunity, if you will, of the parks being closed, a horrible thing, but we didn't let that opportunity go by so that we can really reconceive our whole park experience in terms of maximizing the guest experience."

Sharing his thoughts on the Parks segment, Mr. Chapek continued, “We’ve not really frankly seen any pushback from the guest as we reinstituted mask requirements in our indoor facilities. Our guests have been extraordinarily agreeable and compliant, I guess, to the health and safety measures that we’ve sort of led the way with. From the very beginning of the pandemic, we made a commitment to our guests and our cast members that we would operate responsibly. And while we reopened up our parks at different points and times across the world and in some cases had to close and reopen. We’ve always done it with a sense of ultimate responsibility for our people that are in our care. And I think that’s paid dividends in terms of giving confidence to our guests that they can come to a Disney park and be handled responsibly. And our guests are returning that to us. At the same time, they come to us and they are acting responsibly, and so it’s all a symbiosis, if you will, and that we are all — even though everyone has sort of a different take on what health and safety measures are appropriate or necessary in the midst of the pandemic, people really come together. And I think that’s what Disney does. It brings people together regardless of how different points of view that they may have. It’s a place where everyone can agree.”

The company’s direct-to-consumer business had 174 million total subscribers, slightly short of Netflix, and is notably different in terms of the unbundling (Disney+, ESPN+, Hulu are offered separately). Mr. Chapek commented, “We really do it on a market-by-market basis depending on consumer preferences, what assets we have, whether we have sports rights. And what we are finding is that consumer choice is the lowest common denominator, if you will, in terms of what drives our decision. We want to be able to give consumers the ability to a la carte if they choose to a la carte, but if they want to bundle, we have plenty of bundling options, but those look completely different in each market, again, because of how important general entertainment is to the mix, how important family entertainment is to the mix, how important sports maybe to the mix and really sort of customize.”

Mr. Chapek’s comments on production delays causing lower DTC subscription numbers sent shares skidding, “The supply chain is healthy just like we talked about last December, it’s flowing, but the resurgence of COVID and Delta did impact some of our productions, so that we’ve got a lighter product quarter in Q4 than we might have expected. All to say, again, we are very bullish and confident about our long-term sub growth, but we are going to see a little bit more noise than I think maybe the Street expects in terms of our ultimate projections quarter-to-quarter.”

When asked about dividends and buybacks, Mr. Chapek said, “Once we get back to a more normalized operating environment where we’re back to A and our cash flow is such that we’re not — we don’t have the concerns that we’ve had over the last couple of years. I think what we’re going to do is number one, our clear priority and the Board agrees with management that the clear priority is funding our new growth businesses that we’ve got. But once we get to a point where again, our cash flow is funding that, handling some of the debt that we’ve got, then everyone agrees that it would be a great thing to reinstate that dividend and do share buybacks, but that’s sort of in the distant future, and we’re not going to entertain doing that until we can reach that A level and we have clear sailing from here in this pandemics in the rearview mirror.”

All things considered, we thought Mr. Chapek's comments were neither new nor particularly concerning. Disney has long been one of our favorites and we think it's handling of the pandemic has been both terrific and lucky. Of course, we would like to see the dividend reinstated, but also understand that DIS has a lot of high-expected-return growth projects to which it should allocate capital first. Analysts expect DIS earnings per share this fiscal year to come in around the $2.25 level but think that number will swell near $5 in fiscal 2022 and above $6 in fiscal 2023. Of course, that makes DIS look very expensive in the near term, and less expensive over the long term. We continue to like management's choices to leverage Disney's deep content portfolio, while we think that rest of the business lines are poised for a great rebound as the pandemic recedes. Our Target Price for DIS presently resides at $208.

Shares of **Foot Locker** (FL – $48.23) fell more than 7% Friday, following Thursday evening's quarterly financial release by key supplier Nike. While Nike reported a strong quarter, the athletic footwear powerhouse said that the coming quarter and overall fiscal year would be behind pace as supply chain issues continued to mount. This is near-term problematic for Foot Locker, as Nike products have been 70% or more of their inventory during the last few years. The lag in incoming product will force the company to miss out on potential sales as demand for athletic gear and footwear has remained hot.

Shutdowns in Vietnam due to a Covid resurgence are hitting athleticwear makers hard as they're unable to supply enough shoes to consumers across the world. Nike had shifted approximately half of its shoe production over the past handful of years from China to Vietnam. Nike CFO Matthew Friend outlined the issues during the company's call with analysts. "Most Nike factories in Vietnam remain shut due to government mandates and the company has lost about 10 weeks of production since mid-July, he said. Nike doesn't expect the facilities to reopen until October, and they'll take several months to ramp up manufacturing."

While shares of Foot Locker will continue to face near-term supply chain headwinds, we note that they are more than 20% off their mid-July high and we see this as a good entry point to add to or initiate a new position in a broadly diversified portfolio as we don't see demand for their product offerings waning anytime soon. We continue to believe the company has several competitive edges, including broad distribution channels, geographic locations, and multiple banners and product categories. We also think that longer term FL will benefit from its strategic cost control and productivity plans, in addition to further penetration of its apparel offerings and solid growth of its digital shopping platforms, including eastbay.com. There will continue to be evolution as the company is seeing the value of bolstering its digital presence, and it may have to consider "off-mall" concepts in the future as there is the chance that some malls in the U.S. might not survive or may no longer be optimal in some geographic locations. FL shares trade at less than 8 times NTM consensus EPS projections, and offer a current dividend yield of 2.5%, while the balance sheet is in terrific shape. Our Target Price for FL have been trimmed a bit to $80.