Market Commentary Monday, October 25, 2021

October 25, 2021

EXECUTIVE SUMMARY

Week in Review – October Rebound Continues
Patience – The Longer the Hold, The Lower the Risk
Buckingham Media Appearance – Bloomberg TV
Reasons for Optimism – Economy, Earnings, Valuations, Interest Rates, Sidelined Money, Seasonality
Inflation – Historical Equity Returns
Taper Tantrum – 2013/2014 Precedent
Sentiment – The Only Problem with Market Timing is Getting the Timing Right
Stock News – Updates on MAN, SYF, ANTM, ABT, STX, IBM, CMA, SNA, JNJ, INTC, LRCX, OMC & CE

Market Review

Providing another reminder of why we constantly assert that the secret to success in stocks is not to get scared out of them, the rebound from the September selloff continued for a third straight week.

THE PRUDENT SPECULATOR

BONDS IN THE RED THIS YEAR, BUT SOMEHOW STOCKS WERE IN TURMOIL???

We understand that splashy headlines sell newspapers, and September was miserable, but though volatility has picked up considerably, stocks haven't exactly been in turmoil thus far in October...or in 2021 for that matter. Now it is a different story this year for supposedly safe bonds.

THE WALL STREET JOURNAL.

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What's News

Business & Finance

Markets closed out the quarter on a tumultuous note, with stocks pulling back from all-time highs and Treasury yields hovering around their highest level since June. On Thursday, the Dow, S&P 500 and Nasdaq fell 1.6%, 1.2% and 0.4%, respectively. A1, B6-7, B11

◆ Facebook came under fire at a Senate hearing, where it faced accusations that it disregarded internal research that showed Instagram is harmful for significant numbers of teen girls. A1

◆ Disney and Scarlett Johansson have resolved their legal battle over her salary in the movie "Black Widow," the two sides said. A1

◆ Bed Bath & Beyond lost more than a fifth of its market value after the company reported a sharp drop in quarterly sales. B1

◆ Lordstown Motors said it plans to sell its factory in Ohio to contract assembler Foxconn, marking a major pivot for the cash-strapped electric-truck startup. B1

◆ Morgan Stanley and Interactive Brokers are facing federal scrutiny in connection with a Venezuelan businessman under investigation for allegedly helping to launder billions of dollars. B1

◆ Zoom Video's nearly $15 billion bid to acquire Five9 was shot down, as the deal failed to gain enough votes from Five9 shareholders. B4

◆ Activist investors including Starboard and Elliott have taken stakes in insurance broker Willis Towers Watson. B11

World-Wide

◆ House Democrats dropped

The S&P 500 rose for a sixth straight quarter, despite registering a 4.8% decline for September.

Index performance, year to date

S&P 500 +14.7% · Nasdaq Composite +12.1% · Dow Jones Industrial Average +10.6%

Source: FactSet

Number of S&P 500 companies mentioning inflation on their earnings calls each quarter

2Q 2021 224 companies

Most since FactSet began tracking data in 2010

Democrats Put Off Action on $1 Trillion Package

Infrastructure vote is delayed as factions fail to bridge differences on larger spending bill

By Kristina Peterson, Andrew Duehren and Eliza Collins

Key lawmakers said they were making progress toward a framework mapping out the overall level of spending and central planks of the healthcare, education and climate package, but that the discussions required more time. Majority Leader Steny Hoyer (D, Md.) advised lawmakers shortly before 11 p.m. that the House wouldn't hold further votes that day.

White House officials and top Democrats had held a stream of meetings with lawmakers in a scramble to bring the party together on advancing President Biden's domestic agenda in Congress by the end of the day before ultimately calling off their original plan.

"I don't see a deal tonight, I really don't," said Sen. Joe Manchin (D., W.Va.) after leaving a meeting with White House officials with fellow centrist Democratic Sen. Kyrsten Sinema of Arizona. "We just—we need a little bit more time," he said, predicting they would come to

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◆ Biden signs bill averting government shutdown..... A4

Stocks End Quarter in Turmoil, Worst Month Since March '20

By Akane Otani

Markets closed out the quarter on a tumultuous note.

Stocks pulled back from all-time highs. Shares of large, fast-growing companies had their worst month since the pandemic-fueled selloff of March 2020, and Treasury yields are around their highest level since June.

All three major U.S. indexes finished Thursday lower after a choppy session. Stocks jumped to start the day but then quickly wobbled and turned negative, with losses accelerating in the final minutes of trading. The economically sensitive Dow Jones Industrial Average fell 546.90 points, or 1.6%, to 33843.92, weighed down by losses in companies ranging from machinery giant Caterpillar to home-improvement retailer Home Depot.

The S&P 500 lost 51.92 points, or 1.2%, to 4307.54. The Nasdaq Composite edged down 63.86 points, or 0.4%, to 14448.58.

It is hardly the sanguine end to the quarter that investors had hoped for. Many money managers said they are heading into the final few months of the year feeling on edge.

Central bankers who had thought this year's rise in inflation would wind up being a short-term phenomenon aren't sure how long transitory pressures will persist. Strategists who had predicted another strong quarter of economic growth are cutting estimates because of supply-chain bottlenecks and the highly contagious Delta variant of Covid-19. Economic data have also been falling short of expectations. Citigroup's Economic Surprise Index, which tracks how much

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◆ Quarterly markets review and outlook..... B6-7

Total Returns Matrix

Sept. 2021	Since 9.30.21	2021 YTD	Name
-1.78	-0.26	-4.31	Bloomberg Global-Aggregate Bond
-0.87	-0.54	-2.09	Bloomberg U.S. Aggregate Bond
-4.20	5.50	18.30	Dow Jones Industrial Average
-3.72	6.16	19.96	New York Stock Exchange
-5.49	5.76	20.02	Russell 3000 Growth
-3.38	5.47	22.95	**Russell 3000 Value**
-4.49	5.62	21.45	Russell 3000
-4.65	5.58	22.39	S&P 500
-5.79	5.78	23.18	S&P 500 Growth
-3.29	5.35	21.48	**S&P 500 Value**
-5.33	6.37	26.05	S&P 500 Pure Growth
-1.67	6.89	34.19	**S&P 500 Pure Value**

As of 10.22.21. Source Kovitz using data from Bloomberg

Incredibly, that benchmark index has gained more than 5.5% this month,…

THE PRUDENT SPECULATOR

OCTOBER REBOUND IN THE S&P 500

One week remains, but sizable one-month rallies of more than 5% in the S&P 500 are rare, yet the index has soared 5.51% on a price basis so far in October, which would be the 130th best monthly gain since 1928.

Up > 5.51%

	1920's	1930's	1940's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	2020's	Totals
Years Ending in 0		2	1	1	0	2	3	2	2	4	4	17
Years Ending in 1		4	0	2	1	1	0	2	2	1	1	13
Years Ending in 2		3	2	0	2	0	2	0	2	0		11
Years Ending in 3		5	3	0	0	0	1	0	1	0		10
Years Ending in 4		2	0	3	0	1	1	0	0	0		7
Years Ending in 5		4	3	3	0	3	2	0	0	1		16
Years Ending in 6		3	1	1	0	1	2	1	0	1		10
Years Ending in 7		1	0	0	1	0	2	4	0	0		8
Years Ending in 8	4	5	3	0	1	1	0	5	0	1		20
Years Ending in 9	3	3	1	0	0	1	2	2	4	2		18
Totals	7	32	14	10	5	10	15	16	11	10	5	130

From 1.31.28 through 10.22.21. Months of index price increases of more than 5.51%. SOURCE: Kovitz using data from Bloomberg

Down > 5.51%

	1920's	1930's	1950's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	2020's	Totals
Years Ending in 0		4	1	1	2	3	1	2	1	1	2	16
Years Ending in 1		7	2	0	0	0	1	0	4	2	0	16
Years Ending in 2		5	1	0	3	0	1	0	5	1		16
Years Ending in 3		4	1	1	0	1	0	0	0	0		7
Years Ending in 4		2	0	0	0	3	1	0	0	0		6
Years Ending in 5		0	0	0	0	1	0	0	0	1		2
Years Ending in 6		1	3	1	1	0	2	0	0	0		8
Years Ending in 7		4	0	2	0	0	2	1	0	0		9
Years Ending in 8	0	1	1	0	0	2	0	1	5	2		12
Years Ending in 9	2	4	0	0	2	1	0	0	2	1		12
Totals	2	32	9	5	8	11	8	4	17	8	2	104

From 1.31.28 through 10.22.21. Weeks of index price decreases of more than 5.51%. SOURCE: Kovitz using data from Bloomberg

…overcoming, at least as of this writing, the big drop in September,…

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SEPTEMBER SWOON IN THE S&P 500

Rare are sizable one-month setbacks of more than 4% in the S&P 500, but the popular market gauge skidded 4.76% on a price basis during September 2021, the 127th worst monthly showing since 1928.

Down > 4.75%

	1920's	1930's	1950's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	2020's	Totals
Years Ending in 0		4	1	1	2	4	1	3	3	2	2	21
Years Ending in 1		7	3	0	0	0	2	1	4	2	1	19
Years Ending in 2		5	1	0	4	0	1	0	5	1		17
Years Ending in 3		4	1	1	0	1	0	0	0	0		7
Years Ending in 4		2	0	0	0	4	1	0	0	0		7
Years Ending in 5		0	1	0	1	1	0	0	0	1		4
Years Ending in 6		1	3	1	2	0	2	0	0	1		10
Years Ending in 7		6	0	2	1	1	2	1	0	0		13
Years Ending in 8	0	2	3	0	0	2	0	1	5	2		15
Years Ending in 9	3	5	0	0	2	1	0	0	2	1		14
Totals	3	36	13	5	12	14	9	6	19	10	3	127

From 1.31.28 through 09.30.21. Weeks of index price decreases of more than 4.75%. SOURCE: Kovitz using data from Bloomberg

Up > 4.75%

	1920's	1930's	1940's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	2020's	Totals
Years Ending in 0		2	1	1	0	3	3	2	2	4	4	18
Years Ending in 1		4	2	2	1	1	1	2	2	1	1	16
Years Ending in 2		3	3	1	2	0	2	0	2	0		13
Years Ending in 3		5	4	1	3	0	1	0	4	2		20
Years Ending in 4		3	1	6	0	1	1	0	0	0		12
Years Ending in 5		4	3	3	0	3	3	0	0	2		18
Years Ending in 6		3	1	2	1	2	5	2	0	1		17
Years Ending in 7		1	1	0	1	0	4	5	0	0		12
Years Ending in 8	4	5	3	2	2	2	0	6	1	1		26
Years Ending in 9	4	3	1	0	0	2	3	3	5	2		23
Totals	8	33	20	18	10	14	23	20	16	13	5	175

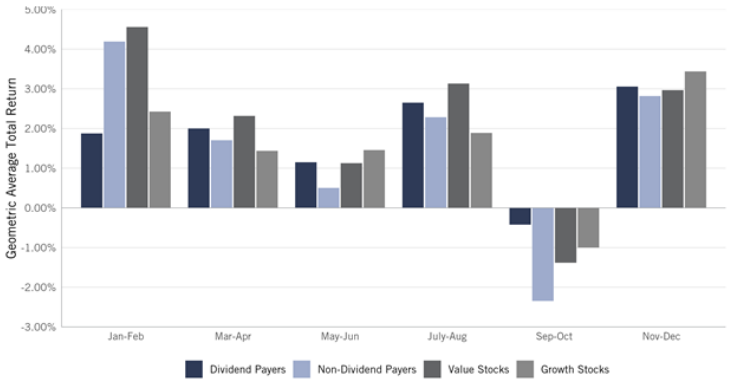
From 1.31.28 through 09.30.21. Months of index price increases of more than 4.75%. SOURCE: Kovitz using data from Bloomberg

…putting the sometimes scary September-October two-month time span on pace to land in the green this time around,…

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

	S&P 500	Russell 3000 Value	Russell 3000 Growth
Arithmetic Average	1.39	1.44	1.10
Geometric 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

…and providing more evidence in support of the merits of a long-term approach to investing in the equity markets.

THE PRUDENT SPECULATOR

THE LONGER THE HOLD, THE LOWER THE RISK

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

PATIENCE IS VIRTUOUS

VALUE STOCKS

	Count >0%	Count <=0%	Percent >0%
1 Month	714	417	63.1%
3 Months	764	365	67.7%
6 Months	800	326	71.0%
1 Year	818	302	73.0%
2 Year	923	185	83.3%
3 Year	957	139	87.3%
5 Year	959	113	89.5%
7 Year	1012	36	96.6%
10 Year	978	34	96.6%
15 Year	952	0	100.0%
20 Year	892	0	100.0%

DIVIDEND PAYERS

	Count >0%	Count <=0%	Percent >0%
1 Month	718	413	63.5%
3 Months	785	344	69.5%
6 Months	815	311	72.4%
1 Year	851	269	76.0%
2 Year	945	163	85.3%
3 Year	938	158	85.6%
5 Year	986	86	92.0%
7 Year	1006	42	96.0%
10 Year	977	35	96.5%
15 Year	952	0	100.0%
20 Year	892	0	100.0%

From 07.31.27 through 09.30.21. Value stocks represented by 50% small value and 50% large value returns rebalanced monthly. Dividend payers represented by 30% top of dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

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Keeping a positive long-term outlook was the focus of your Editor's appearance on Bloomberg Television on Friday, October 22. The appearance (two segments starting around 1:44 and ending around 1:56) was part of Bloomberg's *The Close* show, a link to which is available here: twitter.com/i/broadcasts/1mnxedMwMXNJX

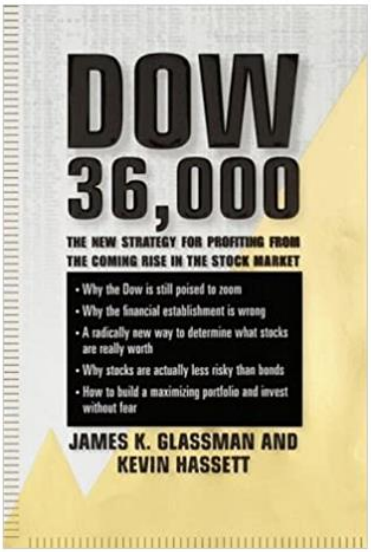
As is usual for these interviews, notes were provided to the show's producers and I share them here.

Obviously, with the major equity market averages near all-time highs, it is easy to accept that time in the market trumps market timing, but we respect that it has not always been easy to remain calm along the way. We have never once lost faith in the long-term prospects for undervalued stocks, with our nerves of steel buoyed by our study of market history.

THE PRUDENT SPECULATOR

JAMES K. GLASSMAN – DOW 36,000 VS. SAFETY NET

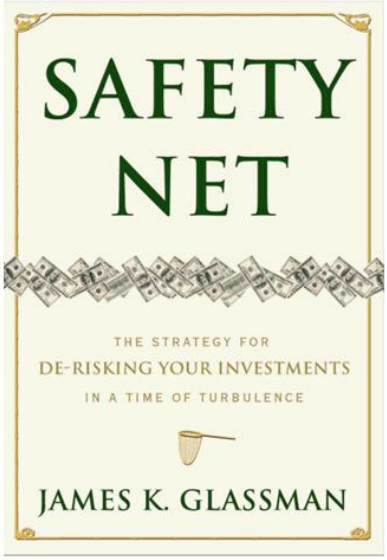
There is no assurance that the Dow Jones Industrial Average will continue its upward trajectory, but James K. Glassman's famous Dow 36,000 projection is less than 1% away. Alas, he advised loading up on stocks at Dow 10,000 in 1999 and de-risking portfolios at Dow 12,000 in 2011...the only problem with market timing is getting the timing right.



September 20, 1999

"In theory, historical averages show that stocks are a good buy if you can hang on through the miserable periods. But most investors find that excruciatingly difficult to do—a fact that I never fully appreciated in my 30 years of writing about investing."

— James K. Glassman, February 24, 2011



February 22, 2011

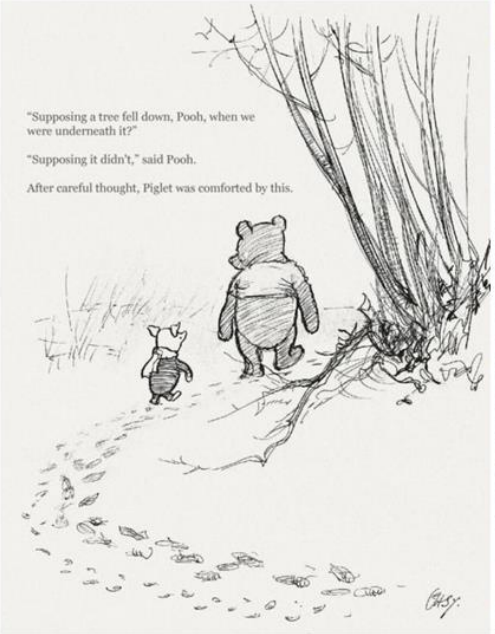
As the American engineer and inventor Vannevar Bush once said, "Fear cannot be banished, but it can be calm and without panic; it can be mitigated by reason and evaluation."

Contrary to popular belief, whether it is periods of rising interest rates, higher inflation rates, Fed Tapering, increased capital gains, corporate or personal income taxes, a "D" in the White House or a Democratically controlled Congress, equities have performed well, on average, with Value usually leading the way. And every scary event throughout history has been overcome in the fullness of time.

THE PRUDENT SPECULATOR

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

Capitol Hill has joined Evergrande, COVID-19, geopolitics, inflation, supply chain issues 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%	52261%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	30199%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	27131%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	10566%
Suez Canal Crisis	10/30/1956	10/31/1956	46.37	45.58	-2%	-10%	26%	51%	9871%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	11560%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	8397%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	6429%
MLK Assassination	4/3/1968	4/5/1968	93.47	93.29	0%	8%	8%	16%	4772%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	5925%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	4832%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	6394%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	4219%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	4527%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	3704%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	2707%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	1757%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	1921%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	1337%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	1107%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	1004%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	925%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	894%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	799%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	418%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	374%
Clinton Impeachment	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	269%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	239%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	371%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	396%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	316%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	279%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	572%
Price Changes Only - Does Not Include Dividends				**Averages:**	**-7%**	**18%**	**39%**	**66%**	**6257%**

As of 10.22.21. Source: Kovitz using Bloomberg and Ned Davis Research Events & Reaction Dates

Of course, disconcerting downturns are always part of the process,…

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%	992	27	3.4	3/23/2020	10/21/2021
17.5%	67.9%	581	39	2.3	3/23/2020	10/21/2021
15.0%	66.5%	564	45	2.0	3/23/2020	10/21/2021
12.5%	44.9%	339	72	1.3	3/23/2020	10/21/2021
10.0%	35.3%	248	98	0.9	3/23/2020	10/21/2021
7.5%	23.8%	150	157	0.6	9/23/2020	10/21/2021
5.0%	14.8%	73	307	0.3	10/4/2021	10/21/2021

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	306	0.3	9/2/2021	10/4/2021

From 02.20.28 through 10.21.21. 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%	21.3%
Dividend Paying Stocks	10.7%	18.0%
Non-Dividend Paying Stocks	9.3%	29.3%
Long-Term Corporate Bonds	6.1%	7.6%
Long-Term Gov't Bonds	5.5%	8.6%
Intermediate Gov't Bonds	5.1%	4.3%
Treasury Bills	3.3%	0.9%
Inflation	2.9%	1.8%

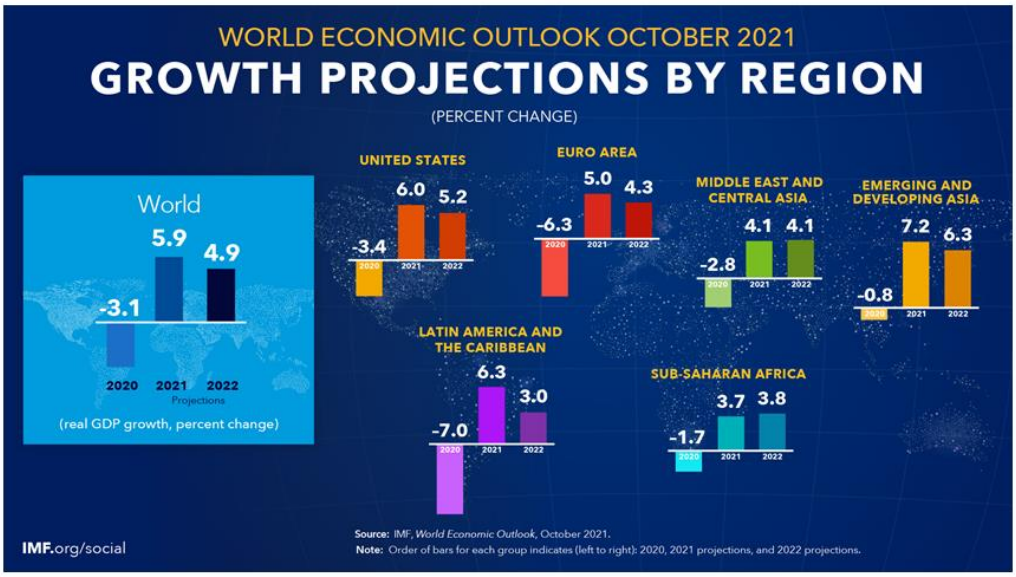
From 06.30.27 through 09.30.21. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Dividend payers = 30% top of Fama-French dividend payers, 40% of middle Fama-French dividend payers, and 30% bottom of Fama-French dividend payers rebalanced monthly. Non-dividend payers = Fama-French stocks that do not pay a dividend. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

…but these days, there are many reasons to be optimistic.

1. Global economic growth healthy, despite supply chain and COVID-19 issues

IMF OCTOBER WEO – MODEST REDUCTION (0.1%) IN PROJECTED GROWTH

"The global economic recovery is continuing, even as the pandemic resurges. The fault lines opened up by COVID-19 are looking more persistent—near-term divergences are expected to leave lasting imprints on medium-term performance. Vaccine access and early policy support are the principal drivers of the gaps. The global economy is projected to grow 5.9% in 2021 and 4.9% in 2022, 0.1% point lower for 2021 than in the July forecast. The downward revision for 2021 reflects a downgrade for advanced economies—in part due to supply disruptions—and for low-income developing countries, largely due to worsening pandemic dynamics. This is partially offset by stronger near-term prospects among some commodity-exporting emerging market and developing economies. Rapid spread of Delta and the threat of new variants have increased uncertainty about how quickly the pandemic can be overcome." – *IMF World Economic Outlook Update, October 2021*

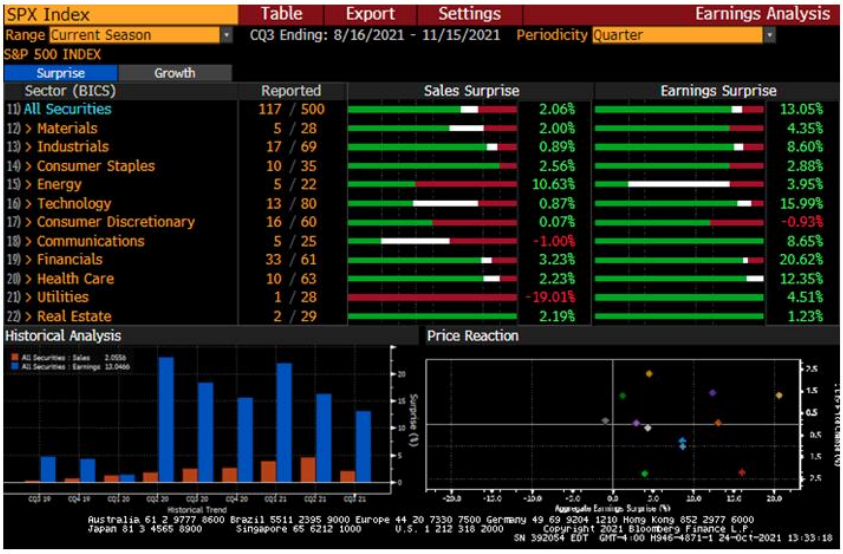


2. Corporate profits strong and expected to be even more robust next year

THE PRUDENT SPECULATOR

EPS PLUNGED IN 2020 BUT FANTASTIC GROWTH LIKELY IN 2021 AND 2022

Q3 earnings reporting season is off to a very good start vs. analyst projections that are still too pessimistic in their top- and bottom-line estimates. Thus far, 81.2% of the S&P 500 companies have topped EPS expectations and 66.7% 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		
12/31/2022	$57.30	$218.39
9/30/2022	$55.53	$211.95
6/30/2022	$54.19	$205.63
3/31/2022	$51.37	$203.49
12/31/2021	$50.86	$199.53
9/30/2021	$49.21	$186.85
ACTUAL		
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
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 10.19.21

3. Valuations reasonable, especially on Value 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	15.8	14.0	1.3	2.6	2.1
ValuePlus	16.8	14.0	1.6	2.6	1.9
Dividend Income	15.1	13.6	1.1	2.5	2.6
Focused Dividend Income	16.1	14.5	1.3	2.7	2.3
Focused ValuePlus	15.8	14.8	1.6	2.9	2.0
Small-Mid Dividend Value	13.3	11.8	0.8	1.8	2.3
Russell 3000	30.8	23.3	2.8	4.5	1.2
Russell 3000 Growth	44.3	33.3	4.8	13.2	0.7
Russell 3000 Value	23.2	17.6	1.9	2.6	1.9
Russell 1000	27.6	22.8	3.1	4.6	1.3
Russell 1000 Growth	40.2	32.2	5.5	14.1	0.7
Russell 1000 Value	20.6	17.4	2.1	2.7	1.9
S&P 500 Index	26.4	22.1	3.1	4.7	1.3
S&P 500 Growth Index	35.2	29.3	5.8	11.1	0.7
S&P 500 Value Index	20.5	17.2	2.0	2.8	2.0
S&P 500 Pure Value Index	12.9	11.2	0.8	1.4	2.2

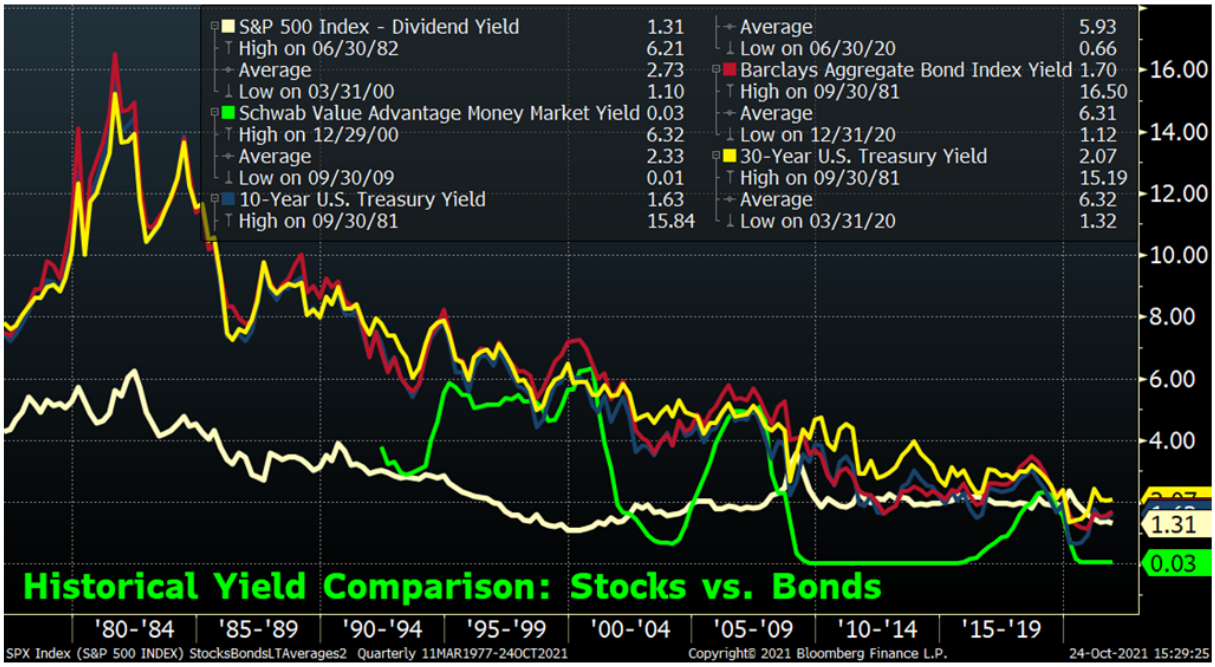
As of 10.23.21. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Kovitz using data from Bloomberg Finance L.P.

4. Interest rates very supportive, especially for Dividend Payers

THE PRUDENT SPECULATOR

EQUITY VS. FIXED INCOME YIELDS

Though stocks are not necessarily a substitute for cash, government or corporate bonds, the payout on the S&P 500 (1.31%) is generous versus the income provided by fixed income. Incredibly, **equities yield not much less than the Barclays Aggregate Bond Index and 43 times the yield of a "generous" Money Market Fund!**

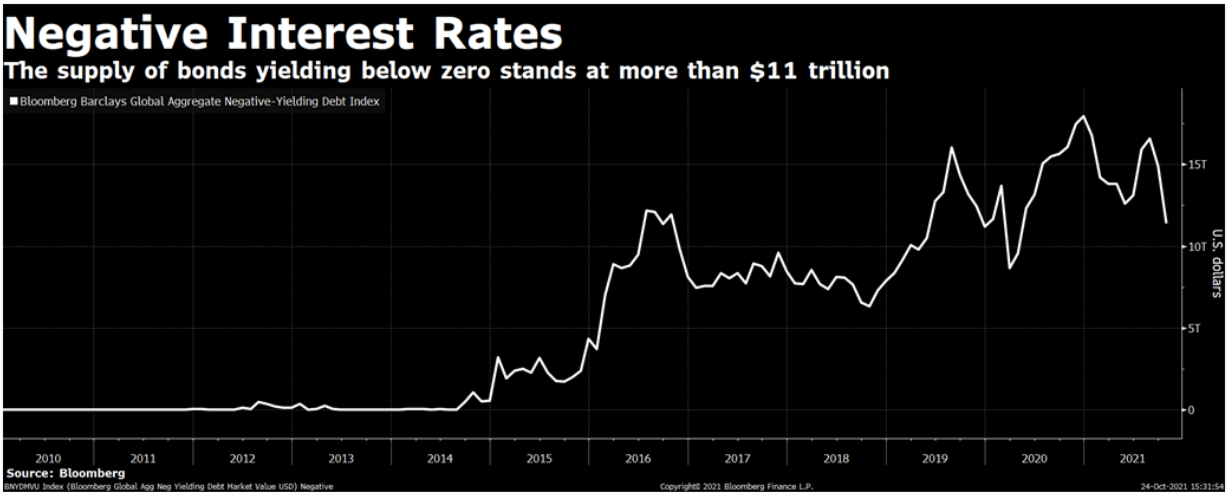


5. Investor sentiment hardly euphoric with tons of money hibernating in money markets and wasting away in negative yielding government debt

THE PRUDENT SPECULATOR

NEGATIVE YIELDING GOVERNMENT BONDS

Incredibly, investors around the world continue to love government debt, despite losses this year on the price of the bonds to go along with the negative yields. Yes, we understand that the pros can utilize derivatives and leverage to attempt to hedge against the guaranteed loss of principal if the debt is held to maturity but hoping for a greater fool to drive prices higher and yields even lower in the interim seems to us like reward-free risk.



6. Start of the seasonally favorable six months of the year only a week or so away

SEASONALLY FAVORABLE TIME OF YEAR: NOVEMBER THROUGH APRIL

History is merely a guide and not the gospel, but we like that the calendar suggests there have been plenty of treats for investors, on average, for the six-month periods beginning the day after Halloween.

Seasonally Favorable Six Months - October 31 through April 30

	S&P 500	Russell 3000 Value	Russell 3000 Growth		S&P 500	Russell 3000 Value	Russell 3000 Growth
Arithmetic Average	8.13	8.73	8.18	Geometric Average	7.69	8.19	7.57
20/21	28.85	37.64	25.08	05/06	9.64	13.27	8.19
19/20	-3.16	-14.31	5.21	04/05	3.28	6.28	0.87
18/19	9.76	7.61	11.81	03/04	6.27	8.23	4.13
17/18	3.82	1.86	5.66	02/03	4.48	5.40	4.49
16/17	13.32	12.18	15.47	01/02	2.31	10.27	-1.31
15/16	0.43	1.87	-1.64	00/01	-12.07	0.78	-25.83
14/15	4.40	2.82	6.59	99/00	7.19	-0.39	19.34
13/14	8.36	9.24	6.49	98/99	22.32	18.77	24.98
12/13	14.42	16.33	13.93	97/98	22.49	20.10	21.71
11/12	12.77	11.61	13.86	96/97	14.72	12.85	11.03
10/11	16.36	17.53	17.77	94/95	10.47	9.23	9.66
09/10	15.66	18.79	16.50	93/94	-2.32	-1.68	-3.05
08/09	-8.53	-13.21	-1.68	92/93	6.60	14.79	0.74
07/08	-9.64	-9.97	-9.68	91/92	7.31	8.76	6.14
06/07	8.60	9.48	8.34	90/91	25.62	25.75	30.60

% Total Return October 31 - April 30. Source Kovitz using data from Bloomberg

Not surprisingly, the news of the day led the discussion in other directions, with the anchors focused Friday on inflation. As *The New York Times* reported:

The pandemic-related shortages pushing consumer prices higher are poised to last longer than economists and policymakers expected, Jerome H. Powell, the Federal Reserve chair, said on Friday — adding that while officials still expect the rate of inflation to moderate, the central bank is positioning itself to react if it does not.

Supply chain snarls that have slowed deliveries and swelled prices throughout 2021 are "likely to last longer than previously expected, likely well into next year," Mr. Powell said at a virtual Bank for International Settlements-South African Reserve Bank conference. The same is true for upward pressure on wages, he said.

Certainly, significant and sustained consumer and producer price spikes are not easily ignored, but equities have proved to be a strong hedge against inflation, on average,…

Inflation Jumps to 13-Year High

May price rise was 5% as the economic rebound from virus lockdowns accelerated

By Gwynn Guilford

The U.S. economy's rebound from the pandemic is driving the biggest surge in inflation in nearly 13 years, with consumer prices rising in May by 5% from a year ago.

The Labor Department said last month's increase in the consumer-price index was the largest since August 2008, when the reading rose 5.4%. The core-price index, which excludes the often-volatile categories of food and energy, jumped 3.8% in May from the year before—the largest increase for that reading since June 1992.

Consumers are seeing higher prices for many of their purchases, particularly big-ticket items such as vehicles. Prices for used cars and trucks leapt 7.3% from the previous month, driving one-third of the rise in the overall index. The indexes for furniture, airline fares and apparel also rose sharply in May.

A separate reading showed the U.S. labor market continued to heal from the pandemic, with initial claims for unemployment benefits falling to another pandemic low.

Stocks edged higher on the inflation and labor-market news. The S&P 500 set a closing record, while both the Nasdaq Composite and the Dow Jones Industrial Average are within 1% of new highs.

May's jump in prices extends a trend that accelerated this spring amid widespread Covid-19 vaccinations, relaxed business restrictions, trillions of dollars in federal pandemic relief programs and ample household savings—all of which have stoked demand for people to spend and travel more.

Overall prices jumped at a 9.7% annualized rate over the three months ended in May. On a month-to-month basis, overall prices rose a seasonally adjusted 0.6% and core

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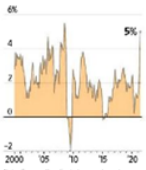
Consumer-price index



Note: Seasonally adjusted; percentage change from a year ago
Source: Labor Department

While many transitory factors appear to continue to be the cause, the consumer price index has jumped above 5% on a year-over-year basis the past five months...which if history is a guide bodes well for equity prices, especially Value stocks, over the next 3, 6 and 12 months!

Inflation Rate >= 5.0% and Ensuing Value/Growth Returns Since 1957

Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	4.2%	3.3%	8.3%	6.5%	19.3%	15.1%
Geometric Average	3.6%	2.5%	6.9%	4.7%	17.2%	12.0%
Median	4.4%	3.5%	6.7%	4.8%	18.8%	15.8%
Max	39.6%	32.9%	63.0%	60.8%	75.1%	84.2%
Min	-36.0%	-33.7%	-54.2%	-41.7%	-30.3%	-48.0%
Count	156	156	156	156	156	156

Source: Kovitz using data from Ibbotson Associates 03.31.57 - 03.31.21.

Inflation Rate >= 5.0% and Ensuing Value/Growth Returns Since 1927

Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	3.7%	2.6%	8.0%	5.5%	19.4%	13.5%
Geometric Average	3.0%	1.9%	6.3%	4.0%	16.4%	10.9%
Median	3.6%	2.2%	5.6%	4.1%	16.6%	11.3%
Max	50.9%	32.9%	82.7%	60.8%	134.0%	84.2%
Min	-36.0%	-33.7%	-54.2%	-41.7%	-55.8%	-48.0%
Count	228	228	228	228	228	228

Source: Kovitz using data from Ibbotson Associates 07.31.27 - 03.31.21.

Inflation Rate < 5.0% and Ensuing Value/Growth Returns Since 1957

Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	3.7%	2.9%	7.5%	5.8%	14.7%	11.2%
Geometric Average	3.2%	2.4%	6.6%	5.0%	12.9%	9.5%
Median	4.0%	3.3%	8.1%	6.3%	16.9%	12.6%
Max	37.8%	32.5%	68.5%	46.3%	105.8%	93.6%
Min	-39.5%	-34.9%	-46.3%	-36.6%	-52.2%	-39.9%
Count	610	610	607	607	601	601

Source: Kovitz using data from Ibbotson Associates 03.31.57 - 03.31.21.

Inflation Rate < 5.0% and Ensuing Value/Growth Returns Since 1927

Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	4.3%	3.2%	8.3%	6.3%	16.2%	12.1%
Geometric Average	3.2%	2.5%	6.3%	4.9%	12.0%	9.2%
Median	4.0%	3.7%	8.2%	6.7%	16.3%	13.1%
Max	200.5%	136.1%	244.7%	140.3%	357.8%	221.9%
Min	-43.1%	-40.4%	-56.1%	-47.0%	-71.3%	-64.8%
Count	895	895	892	892	886	886

Source: Kovitz using data from Ibbotson Associates 07.31.27 - 03.31.21.

…while Chair Powell's assertion on Friday, "I do think it is time to taper," should not cause great concern to those who remember what happened to stocks during the so-called Taper Tantrum.

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.

We also note that Mr. Powell added, "I don't think it is time to raise rates," with historically low interest rates, even if they move higher in the next few years, still providing plenty of support and offering little competition to equities.

THE PRUDENT SPECULATOR

INTEREST RATES STILL VERY SUPPORTIVE OF STOCKS

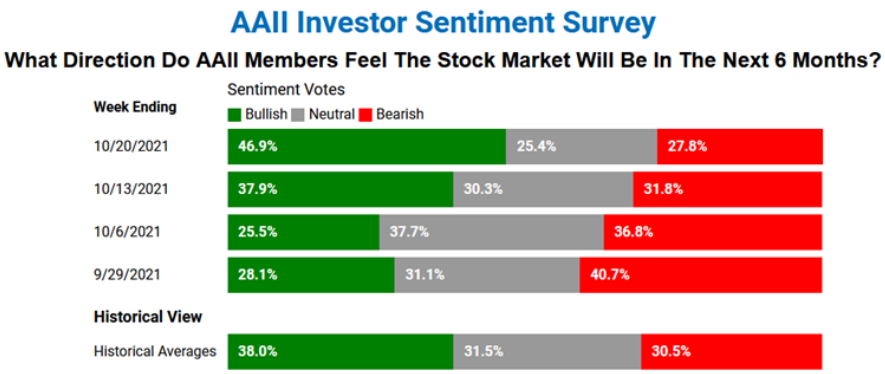
The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. Though many dismiss the Fed Model, investing is always a choice of this or that, and we like today's rich (and rising) earnings yield (3.78% vs. 1.63% 10-Year) and S&P 500 dividend yield of 1.31%.

*****

Certainly, we realize that stock prices don't always move in the northerly direction, so we are always braced for downside volatility, but we continue to believe that the only problem with market timing is getting the timing right. After all, investors on Main Street were very Bearish at the end of September, AFTER stocks had stumbled, and they are now quite Bullish, AFTER stocks have rallied.

THE PRUDENT SPECULATOR

AAII SENTIMENT: BULLISHNESS JUMPS & BEARISHNESS DROPS



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	911	0.27%	0.23%	1.26%	1.13%	3.65%	3.27%	7.16%	6.41%
ABOVE	8.1	62.9	873	0.17%	0.15%	0.51%	0.42%	1.97%	1.71%	4.57%	4.09%
Ten Groupings of 1784 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	175	0.35%	0.32%	0.95%	0.82%	3.82%	3.47%	7.08%	6.31%
3	-7.3	-1.4	178	0.31%	0.28%	1.49%	1.39%	3.29%	2.88%	7.24%	6.61%
4	-1.3	3.0	181	0.09%	0.05%	1.10%	1.01%	2.96%	2.60%	6.38%	5.85%
5	3.0	8.0	195	0.06%	0.03%	0.65%	0.56%	2.41%	2.16%	4.64%	4.13%
6	8.1	12.1	159	0.09%	0.07%	0.39%	0.26%	1.62%	1.38%	4.55%	4.07%
7	12.1	16.5	179	0.20%	0.18%	0.68%	0.58%	2.49%	2.24%	5.11%	4.67%
8	16.6	22.0	185	0.16%	0.15%	0.73%	0.66%	2.11%	1.84%	6.01%	5.59%
9	22.0	29.1	171	0.09%	0.07%	0.40%	0.32%	2.06%	1.78%	4.39%	3.81%
10	29.2	62.9	179	0.27%	0.25%	0.31%	0.24%	1.51%	1.28%	2.73%	2.30%

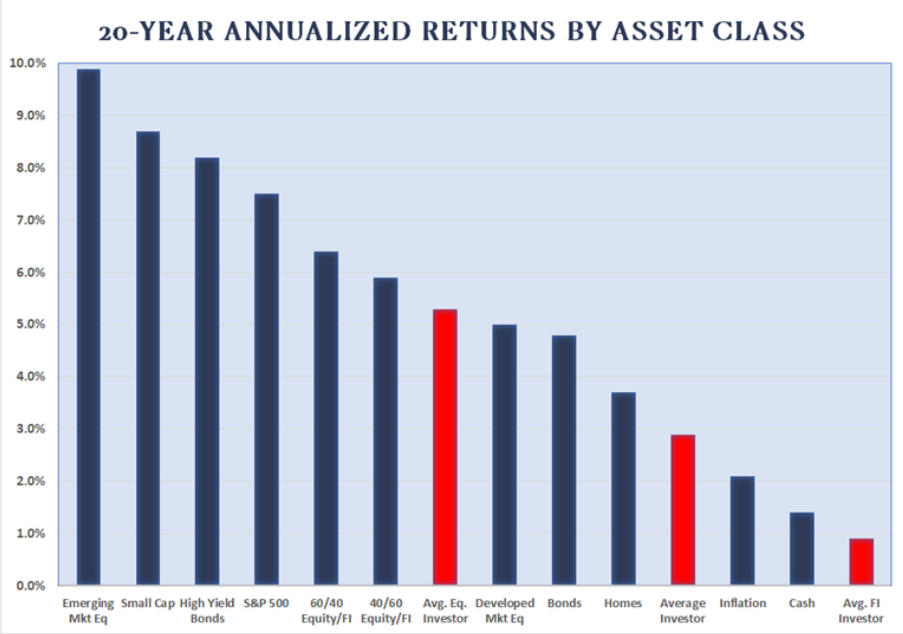
From 07.31.87 through 10.21.21. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

The gauge is widely viewed with a contrarian eye, so the tally of Bulls in the latest AAII Sentiment Survey 8.9 points above average and the number of Bears 2.7 points below the norm is a modest negative. The 19.1-point Bull-Bear spread is in the 8th decile, where future returns, happily, have been good.

Indeed, investing is an emotional roller coaster and, sadly, many folks end up with mediocre long-term returns.

THE PRUDENT SPECULATOR

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.

Stock Updates

Keeping in mind that all stocks are rated as a "Buy" until such time as they are a "Sell," a listing of all current recommendations is available for download via the following link: https://theprudentspeculator.com/dashboard/. We also offer the reminder that any sales we make for our newsletter strategies are announced via our *Sales Alerts*. Jason Clark, Chris Quigley and Zack Tart offer updates on a baker's dozen of our recommended stocks that reported quarterly results last week.

Shares of **ManpowerGroup** (MAN – $101.76) dove nearly 10% last week as Q3 results from the staffing services provider disappointed the analyst community. The $5.1 billion of revenue generated in the quarter was just shy of the midpoint of management's guidance and the company posted EPS of $1.93 in the period, above the consensus estimate of $1.89. Each of MAN's geographic segments grew year-over-year, led by Southern Europe (the largest territory, commanding 46% of revenue) which improved by 16%. Management elected not to buy back any outstanding shares in Q3 due to the purchase of ettain group, one of the largest IT staffing providers in the U.S. This leaves purchase totals for the year at 1.5 million shares (5.7% of outstanding shares at 12.31.20) for $150 million (about $100 per share). As of September 30, 1.9 million shares were remaining for repurchase under the 2019 share program and 4 million shares

were remaining under the share program approved in August 2021. Including a $0.13 contribution from ettain and an unfavorable currency impact of 4 cents, management expects Q4 earnings per share in the range of $1.99 to $2.07.

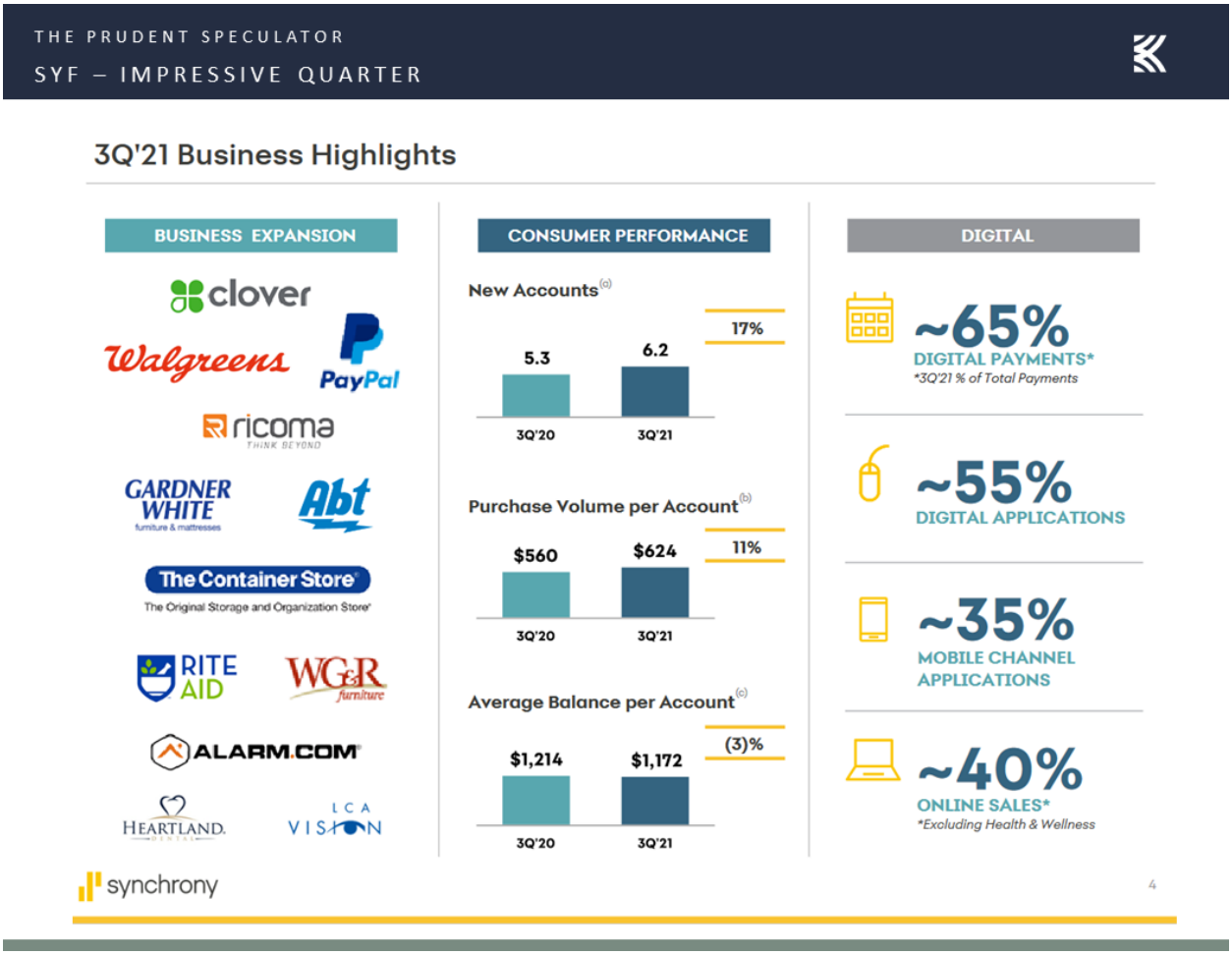
Regarding the purchase of ettain, MAN CEO Jonas Prising commented, "In addition to expanding our IT services and the financial and health care sectors, this acquisition also improves our geographic diversification in the U.S. and increases our strength in the digital workspace and business transformation practice areas."

Even in the throes of the pandemic, we believed that MAN's broad geographic footprint, wide range of offerings and shifts to recruitment outsourcing would provide a ramp as conditions eventually improve, and as organizations move to retrain existing employees for the changing landscape as well as hire new ones. We continue to hold fast to this line of thinking, as Mr. Jonas declared, "The acceleration of digitization and investment in technology by companies during the pandemic means organizations are requiring new skills and capabilities for the future. While hiring intentions are at some of the highest levels we have seen in years, it is unlikely employers will be able to fulfill all these intentions as a result of the labor market shortages for many skills. Our most recent global talent shortage survey found that shortages are at a 15-year high for the second consecutive quarter, with 69% of employers stating they cannot find the talent they need. In response, organizations are looking ahead, focusing on strengthening workforce and reskilling, upskilling and building the capabilities to ensure their existing and future workforce has the skills to remain competitive. We believe this is an opportunity for us. And through our diversification strategy, we are sourcing the talent they are looking for through the offerings in our Manpower, Experis and Talent Solutions brands."

Of course, be it supply chain issues or lingering curfews in certain regions, there always remains something about which to worry. But Manpower has managed through many crises throughout its 70-plus-year history. MAN's solid financial footing has allowed it to continue making acquisitions, paying dividends and repurchasing shares, noting that over a third of outstanding shares have been bought back since 2014, while the dividend has been increased 11 consecutive years. We continue to find shares attractive, especially on last week's pullback, as earnings are expected to approach $10 per share in a couple of years. The next dividend payment, which is paid twice per year, is expected in December and the yield is 2.5%. Our Target Price now stands at $145.

Shares of **Synchrony Financial** (SYF – $49.19) bounced around, but ended up down 2% over the past five trading days, despite the consumer finance company blowing consensus analyst earnings estimates out of the water (EPS of $2.00 vs. the $1.49 est.). Loan receivables and deposits were modestly higher and lower, respectively; management pinning the latter on liquidity management. Net charge-offs relative to loans receivable were 2.18%, half the figure from a year ago as consumer credit quality remains strong. Purchase volume per active account increased 11% during the period and total purchase volume grew 16% compared to last year. Management anticipates carving an additional $210 million or so from the expense base by year-end, even as the efficiency ratio is already an impressive 38.7%. Synchrony has begun the transition to a new accounting standard as mandated by federal banking regulators. Under the new standard, Synchrony will incrementally reserve capital for expected loan losses over the

next two years. Given the latest adjustments, SYF's CET1 ratio was an impressive 17.1% as of quarter-end, 130 basis points above last year's level of 15.8%.



Synchrony also inked a new deal to launch two credit cards for Walgreens, which reward customers with savings on future health and wellness purchases as well as a new PayPal-branded savings account. But given the latest enthusiasm for point-of-sale (also known as Buy-Now-Pay-Later) offerings highly promoted by fintech competitors that has caught the attention of nearly every major U.S. financial institution, we noted the confidence in which CEO Brian Doubles addressed the topic, "Our ability to remain nimble and adapt to the ever-changing consumer finance landscape has been driven by our continued investment in our product suite and our innovative digital capabilities. In fact, if you think about the last decade alone, the introduction of digital wallets, point-of-sale financing and a greater variety of installment offerings, just to name a few has demonstrated the importance of diversity, accessibility and utility in both products and experience. And so, Synchrony has continuously evolved adding new financing options, enhancing our technology platform and expanding our channels and distribution networks in order to reach and serve more partners and customers in sustainable ways that drive greater value for all. In addition to launching new products and partner programs, we are remaining focused on innovative ways to get scaled distribution of our product suite."

He continued, “Last week, we announced our expanded strategic partnership with Fiserv through which small businesses will now be able to access Synchrony products and services and accept private label credit card payments via the Clover point-of-sale and business management platform from Fiserv. This will enable accelerated growth for small businesses, empowering merchants to attract more customers and generate more revenue by offering our customers greater flexibility and choice in how they make purchases. We will also explore additional opportunities to cross-sell Synchrony products to existing Clover merchants. Importantly this strategic partnership also deepened Synchrony’s ecosystem and reinforces our growth strategy to expand and accelerate innovative product offerings through additional distribution channels. It builds on our momentum to bring our products to merchants faster and leverages Synchrony’s leadership in financing, analytics and services.”

Mr. Doubles concluded, “We believe we have the most comprehensive product suite out there, whether it’s private label, Dual, Co-Brand cards, buy now pay later, short- and long-term installment. And so we feel like that is obviously really important given the diversity of our partner set and what they want from us. The other really important part of the strategy is really around distribution of those financial products. So this is — think about integration into the merchants and providers making it easier to apply for those products and really getting that scale. So it’s one thing to have the products, but you’ve got to have the distribution channels as well. And so if you go back over time, we do a lot in terms of direct partner integration. So that’s leveraging our APIs Synchrony plug-in, et cetera. But in some cases, we’re looking to expand distribution through practice management systems like Epic. Any time we can build a solution once and reach thousands of merchants, we absolutely want to do that. And that’s really what Clover does for us. With the development of a single app, we can reach thousands of merchants we can tap into their roughly $180 billion of GPV. So we think this is a big opportunity and allows us to do something once and get immediate scale. And so if they’re — we’re looking — we’re actively looking at other opportunities to do that for our products. But this is really — think about it as really a two-pronged approach, you got to have the product set, but then you got to have a distribution channel or a set of distribution channels that allow you to scale quickly and get those products made available to our merchants and their customers.”

Even with the most recent loss of GAP as a client, we like that Synchrony has diversified its brick-and-mortar retail exposure and boosted partnerships with digital leaders such as PayPal and Amazon. Newer programs with Walgreens and Verizon further diversify and provide avenues for loan growth. We are mindful, however, that the top five partners represent close to 50% of total revenue. We have benefited handsomely from the stock’s 80%+ run over the past year but we do view SYF as a higher-risk name within our group of Financials, so we are careful not to let our exposure grow too large. Still, our Target Price has been lifted to $61.

Shares of managed health care provider **Anthem** (ANTM – $433.34) rallied over 10% last week as company reported fiscal Q3 2021 results. Anthem earned $6.73 per share in the quarter, ahead of the $6.37 consensus analyst estimate. Operating revenue was $35.5 billion, a 16% increase from the prior year quarter. The improvement was driven by higher premium revenue due to growth in Medicaid and Medicare and growth in pharmacy product revenue related to pharmacy benefit manager IngenioRx, partially offset by the repeal of the health insurance tax.

“Our deep connection to the communities we serve, commitment to advancing a digital platform for health and our differentiated approach to addressing the whole health of the people we serve has underpinned our strong performance despite the challenging environment due to COVID,” said Anthem CEO Gail Boudreaux. “The strong growth we saw across all of our benefits business in the third quarter demonstrates that our core offerings, as well as additional innovative products and services continue to resonate in the market. We believe the momentum we are seeing and our ability to deliver on our strategy will be further accelerated by recent changes in our leadership.”

Most recognizable to many is that ANTM is the exclusive licensee of the Blue Cross Blue Shield brand in 14 states. While the future remains uncertain as it relates to the Biden Administration and always-looming regulatory changes that might alter the health care industry, we believe the current regulatory scheme has elevated the barriers to entry for competition. Anthem ended the quarter with 45.1 million members, and now projects $25.85 of full-year EPS, above the $25.50 originally expected. We appreciate that longer term, demographic trends are in Anthem’s favor as a major player in the Medicare Advantage market, yet shares trade at a hefty discount to the S&P 500 on a forward P/E basis.

We still think that Anthem is an attractive Value name with multi-year earnings growth potential. In addition, we like IngenioRX, as well as countless cross-selling opportunities and the ability to use its scale for the benefit of its customers. We are intrigued by its work to align incentives with caregivers, including the creation of high-performance provider networks. Although ANTM shares have risen, we think the valuation remains reasonable and management is doing the right things to sustainably grow the business. Our Target Price for ANTM now resides at $528.

Abbott Labs (ABT – $126.72) earned $1.40 per share in Q3, 43% higher than a year ago as the diversified health care giant is still within reach of the $5.00 full-year EPS target for 2021 that was announced earlier in the year. Sales rose 23% year-over-year, with nearly half of that growth related to COVID-19 testing, which drove substantial growth for the Diagnostics segment. Abbott is banking on a transition to at-home testing even as vaccines become increasingly available. Meanwhile, the Nutrition segment grew 9% globally year-over-year on an organic basis.

CEO Robert Ford commented, "As we've seen since the start of the pandemic, our diversified mix of health care businesses continues to prove highly resilient. Even as COVID case rates surged in the U.S. and other geographies during the third quarter, strong growth in our more consumer-facing businesses, Nutritionals, Established Pharmaceuticals and Diabetes Care, mitigated the modest impacts we saw from the surges in certain areas of our hospital-based businesses. This has been a consistent theme throughout the pandemic, as evidenced by an increase in total company sales, excluding COVID test of 11% on an organic basis through the first 9 months of this year compared to our 2019 pre-pandemic baseline, which highlights that our growth is real and not simply a function of easy comps versus last year. As a result of our strong performance and outlook, today, we increased our full year adjusted earnings per share guidance range now at $5 to $5.10, which reflects nearly 40% growth compared to last year."

Abbott is in an attractive position with a lot of momentum carrying its leading diagnostics franchise, while other business areas are also showing healthy growth. Shares are marginally off the high set in September, so we are watchful of the valuation even as we continue to like our exposure to this stalwart. The board increased the dividend by 25% earlier in the year, pushing the streak of consecutive increases to 49 years, with the company having made a payment for 391 consecutive quarters since 1924. Having already cashed in some of our Abbott chips not all that long ago, we have bumped our Target Price up to $142.

A brief update to our October 11 note for hard-disk-drive (HDD) maker **Seagate Technology PLC** (STX – $87.23). The company's shares were then downgraded by an analyst at Morgan Stanley, due to what they thought was a "cautious" outlook for the overall hardware sector. STX's fiscal Q1 2022 results out on Friday showed that the worry was unfounded, at least in the near term. Shares rose more than 6% as EPS came in at $2.35 (vs. $2.20 est.), while revenue was in line at $3.1 billion.

CEO Dave Mosley said, "Seagate continues to deliver consistent financial results underpinned by strong operational discipline, focus is on profitability and growing demand for mass capacity storage. We believe these trends reflect the healthy structural changes that have taken place in the industry in recent years. Seagate is poised to benefit with our technology leadership position and strong track record of execution."

The 27 analysts that cover STX (12 have "Buy" ratings and 15 are "Holds") have kept the average target price of $101 unchanged from a few weeks ago. STX's guidance for next quarter included revenue between $2.95 billion and $3.25 billion with EPS between $2.20 and $2.50. Analysts expect STX to earn more than $9 in fiscal 2024, compared with less than $5 in 2020, which pencils out to a 2024 P/E ratio near 9 times, to go along with the current dividend yield of 3.2%. STX also bumped the quarterly dividend payment from $0.67 to $0.70 per share. Our Target Price, which is much longer in time horizon than a typical sell-side analyst, is now $120.

International Business Machines (IBM – $127.88) watched its shares take a drubbing last week on the release of the tech giant's Q3 results. The stock slid more than 11% over the five trading sessions, even as Big Blue earned $2.52 per share in the quarter, a touch below the consensus analyst estimate of $2.53, on revenue of $17.6 billion (mostly flat year-over-year). The Global Business Services segment was the lone standout, growing at 12% year over year, while the rest of IBM's businesses performed below Street expectations. The Cloud & Cognitive software segment grew 2.5% year over year. Revenue from the Global Technology Services business fell 4.8% year over year, but Red Hat revenue grew 17%.

"With the separation of Kyndryl early next month, IBM takes the next step in our evolution as a platform-centric hybrid cloud and AI company," said CEO Arvind Krishna. "We continue to make progress in our software and consulting businesses, which represent our higher growth opportunities. With our increased focus and agility to better serve clients, we are confident in achieving our medium-term objectives of mid-single digit revenue growth and strong free cash flow generation."

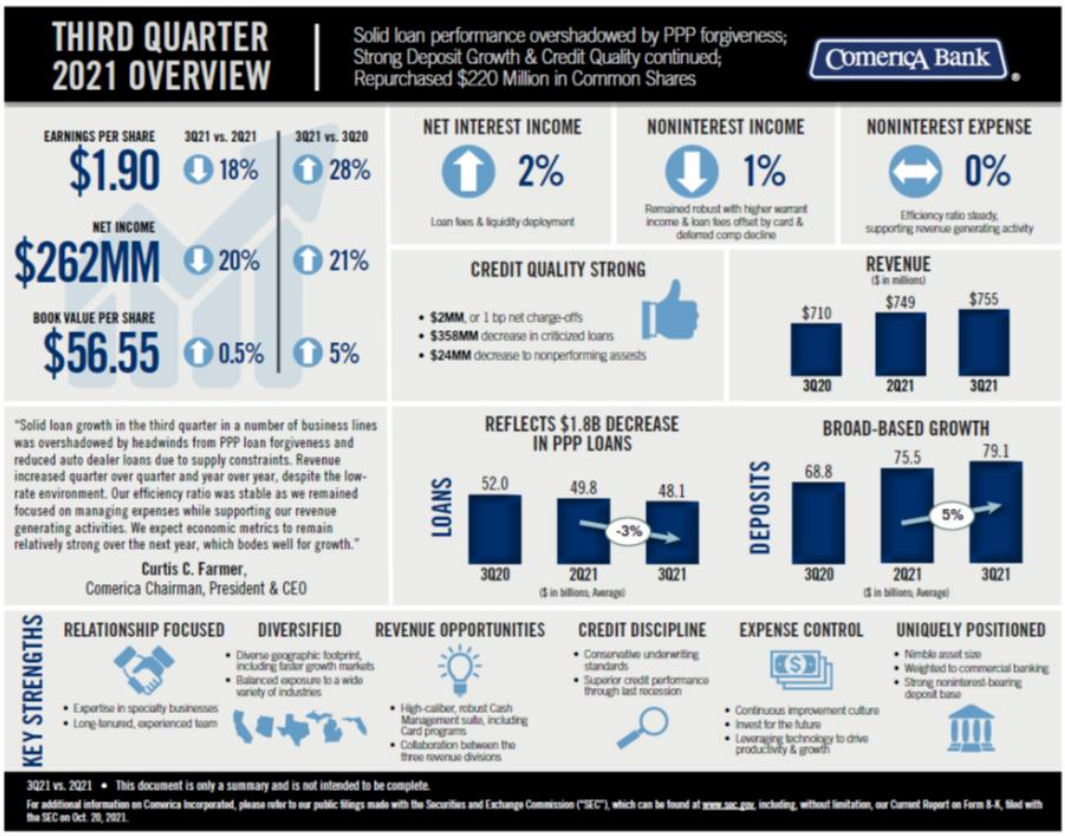
CFO James Kavanaugh added additional color, "Across our segments, IBM's cloud revenue was up 11% over last year, and it's up 17%, excluding the cloud revenue going to Kyndryl. This is led by Global Business Services and Cloud & Cognitive software, which are up 27% and 28%, respectively, over that period. Moving on to the profit dynamics. Pretax margin is up 10 basis points sequentially but down 100 basis points year-to-year. As we saw the demand environment improving in the fourth quarter of last year, we have been increasing investments in skills, innovation and our ecosystem, organically and through acquisition. In the third quarter, we continued to aggressively hire, bringing in technical talent in Red Hat and highly skilled expertise in Consulting. We're scaling resources in our garages to provide a more experiential

consulting and sales approach. We're adding client success managers to help clients get the most value out of their IBM solution, and we're increasing investments in R&D to deliver innovations in our hybrid cloud platform, AI and emerging technologies like Quantum. The structural actions we initiated at the end of last year are funding some of these investments. Roughly 2/3 of the savings from these actions address stranded costs from the separation and create financial flexibility to be reinvested for growth. The other 1/3 address the Global Technology Services profit profile ahead of the separation, and we're seeing improvement in the GTS gross margin."

While we had been hopeful that Q3 would bring the third straight quarter of revenue growth, the businesses apart from underperforming segments moving to Kendryl appear to be making some progress. Still, our ownership of IBM remains tenuous as our Investment Team continues to have plenty of debate on the future of the holding in our portfolios. With the benefit of hindsight, one might argue that much of the capital IBM has returned over the years would have been better spent investing in talent and new tech. With new management in Mr. Krishna, we have been patient as the stock trades at a much-lower earnings multiple (12 times forward earnings estimates) than other major cloud players. We also are comforted by a 5.1% dividend yield. For the moment, our Target Price is $164, but with every stock in our portfolios fighting for its spot, IBM remains on our watch list.

Shares of **Comerica Inc.** (CMA – $88.39) ended the week up more than 6% following a strong Q3 earnings release. For the three-month period, adjusted EPS was $1.90, versus the average forecast of $1.62. The quarter saw net interest income expand 3.7% and non-interest income climb 11%. Results benefited from improved credit quality, as evidenced by the $42 million loan loss reserve release versus a year-ago provision of $5 million. Management said it expects continued strength in customer-related fees heading into year end and relatively strong loan growth in Q4 and 2022.

CEO Curt C. Farmer commented, "We generated earnings of $1.90 per share and an ROE of 13.53% in the third quarter. Solid loan growth in a number of business lines was overshadowed by headwinds from PPP loan forgiveness and reduced auto dealer loans due to supply constraints. We continued to drive strong deposit growth, robust fee income, and excellent credit quality. Revenue increased quarter over quarter and year over year, despite the low-rate environment. Our efficiency ratio was stable as we remained focused on managing expenses while supporting our revenue-generating activities. Also, we repurchased over 3 million shares, reducing our share count by over 2%. We expect economic metrics to remain relatively strong over the next year, which bodes well for growth."



Although the stock has rallied sharply over the last year, we believe there is more ahead, as the bank is levered to higher interest rates. Even another relatively small rise would be highly beneficial as a large percentage of CMA's loan book is adjustable rate loans. Additionally, we like that the bank has one of the most attractive deposit franchises and its growth in Texas and California has helped diversify risk in Michigan, where it remains a dominant player. We like Comerica's longer-term prospects as the company realizes value from its deep, advisor-style relationships with small and midsize business clients. Fee income and wealth management also help support the bottom line. Shares offer a dividend yield of 3.1%. Our Target Price for CMA has been hiked to $98.

Despite turning in a solid Q3, premium tool manufacturer **Snap-on Inc.** (SNA – $210.43) saw its shares drop 4% last week as concerns of supply chain constraints led some analysts to downgrade the stock. Q3 adjusted EPS came in at $3.57, versus the consensus analyst estimate of $3.40. Revenue for the period was also much better than expected, coming in at $1.13 billion, which was 12% higher than the consensus analyst estimate. The quarter saw strength in Tools and OEM dealer activity, partially offset by a slower recovery in Commercial & Industrial. Sales rose 10.2% year-over-year and 15.1% vs. Q3 2019, indicative of strong demand beyond just the recovery from the COVID-19 pandemic. However, EBITDA margin declined 60 basis points in

the quarter, driven by recent acquisitions as well as industry-wide trends like input inflation and supply chain difficulties.

CEO Nick Pinchuk commented, “We’re encouraged by our third quarter performance as it reflects the ongoing positive trajectory of our businesses and represents our fifth consecutive period of advancement beyond the pre-pandemic levels of 2019. The continued momentum of our operations demonstrates the varied and abundant opportunities along our runways for growth and, we believe, confirms the resilience of our markets and our considerable capabilities to overcome the challenges of the COVID environment. As we have throughout the turbulence, we’ve leveraged our Snap-on Value Creation Processes to maintain and further develop our ongoing advantages in our people, our brands, and our products. In that regard, we were again honored with product awards from both Motor Magazine and Professional Tool & Equipment News, reflecting our success in connecting with customers and translating that deep insight into winning innovations, adding to the strength of our product line-up and driving our significant progress.”

As economies around the globe continue to return to more normalization, with the understanding that there could still be some additional setbacks, we would expect vehicle miles driven to continue to increase. Additionally, we continue to think Snap-on is positioned to benefit as the North American vehicle fleet is on average more than 12 years of age, with an ever-growing need to improve technician productivity. And as the appetite for new car purchases finally gets met with more supply, we expect service departments at dealerships across the country to increasingly rely on SNA’s specialty tools and sophisticated diagnostic solutions. Snap-on is conservatively financed with little debt on the balance sheet and the franchise remains competitively positioned within its market. The stock offers a solid dividend yield of 2.3%. Shares trade at just a little more than 14 times NTM projected adjusted EPS. Our Target Price for SNA has been ratcheted up to $277.

Johnson & Johnson (JNJ – $163.72) earned $2.60 in Q3 2021, $0.24 ahead of the analyst consensus, and had revenue of $23.3 billion, compared with the analyst consensus of $23.7 billion. JNJ benefitted from strong OTC medicine sales in the Consumer Health segment, including Tylenol and Motrin, as well as double-digit Pharmaceutical sales growth and surgery resumptions propelling demand in the Medical Sales segment.

CFO Joe Wolk offered guidance, “Given where we are in the year, our current assumptions around continued recovery in medical device markets and confidence in the business [for 2021], we are tightening our adjusted operational sales range to 12.9% to 13.5%. This adjusted operational sales growth is on a constant currency basis, consistent with how we assess our business performance. This guidance also incorporates the estimated $2.5 billion of COVID-19 vaccine sales, consistent with our July guidance. We are maintaining our estimate for the net impact of acquisitions and divestitures of approximately 50 basis points, resulting in an operational sales range of 12.4% to 13.0% or $92.8 billion to $93.3 billion for a midpoint of 12.7% or $93.1 billion. We do not predict the impact of currency movements, but utilizing the euro spot rate relative to the U.S. dollar as of last week at $1.16, there’s an estimated positive impact of foreign currency translation of approximately 150 basis points, consistent with our July guidance, resulting in estimated reported sales growth between 13.9% and 14.5% compared to

2020 or $94.1 billion to $94.6 billion…Consistent with our previous guidance, you can expect our operating margins to be nearly a 200 basis point improvement over last year… we would be comfortable with your models reflecting reported adjusted EPS ranging from $9.77 to $9.82, an increase versus 2020 of 22% at the midpoint. Consistent with what we shared before, given the not-for-profit nature of the vaccine, there is no significant EPS contribution in 2021 and, therefore, the EPS guidance I provided is inclusive of the vaccine revenue."

Talc-related claims continue to dog JNJ, which management explained, "Other income and expense in the third quarter includes a $2.1 billion charge of litigation expenses, primarily driven by an incremental $1.4 billion charge associated with the recently announced qualified settlement fund for current and future talc claims. The qualified settlement fund is intended to facilitate a final, equitable resolution of all talc litigation in a structured manner through established bankruptcy law precedent. Additionally, there is another $800 million legal expense in the quarter, representing final resolution of outstanding claims related to RISPERDAL." In response to an analyst question about the talc litigation and JNJ's bankruptcy maneuver to avoid claims by dumping all liabilities into spin-off LTL, Mr. Wolk said, "And while we believe the cases lack merit — and by the way, an overwhelming number of courts, juries and judges who have opined on this to full adjudication ultimately agree with us — we did establish a $2 billion qualified settlement fund. But as you note in your question, Josh, it's really the bankruptcy courts that will ultimately decide this. It's not plaintiff's attorneys. It's not Johnson & Johnson. But we do know that based on prior experience, precedent, that claimants are far better off, and clarity and resolution is in the best interest of all stakeholders. So we'll continue to monitor the process, but it will really beholden to how the bankruptcy court decides to proceed and their time line."

It seems like JNJ's legal maneuver is legitimate and will limit liability, despite some questioning the move. We hope the talc lawsuits are concluded sooner rather than later, especially as we think the stock would be afforded a much higher P/E ratio if the legal issues did not exist. We consider J&J a high-quality core holding, and we like the diversified healthcare giant's wide product range (within the health care space), reasonable valuation (including a P/E under 17) and 2.6% dividend yield. We appreciate management's willingness to selectively do M&A (and divestitures) and our Target Price is now $193.

Shares of **Intel** (INTC -$49.46) fell more than 11% on Friday after a flurry of analyst downgrades were sparked by management's soft margin outlook. This was the case even as the microchip giant posted earnings of $1.71 per share in Q3, compared with analyst expectations of $1.11, and had adjusted revenue of $18.1 billion, compared with analyst projections of $18.2 billion.

Intel CEO Pat Gelsinger said, "Q3 was a solid quarter where we navigated a challenging supply environment to deliver year-over-year growth on the top line while beating expectations on gross margin and EPS. We had record third quarter revenue in DCG and Mobileye, while IOTG had an all-time record as it continued its recovery from COVID slowdowns. Our focus on execution continued as we delivered on our initial IDM 2.0 commitments. We broke ground on new fabs, shared our accelerated path to regain process performance leadership and made our most dramatic architecture announcements in a decade…The demand for semiconductors remains strong, and our factories performed exceptionally well in a highly dynamic environment where

match sets posed huge challenges for our customers and overall industry supply remained very constrained. The resilience of our factory network was on display, delivering considerable upside and reacting to rapid demand shifts, reinforcing the unique and strategic value of IDM 2.0."

On the topic of margin, Mr. Gelsinger said, "As with free cash flow, our gross margins will be below current levels for the next 2 to 3 years before recovering but will remain comfortably above 50% as we continue to exercise financial prudence. We have the utmost confidence that our investment plans will ensure the company's long-term success and deliver attractive returns for our shareholders."

CFO George Davis added, "Moving to our Q4 outlook. We are forecasting $18.3 billion in revenue, up $200 million quarter-over-quarter, with DCG seeing modest — more modest growth than previously expected, as China demand and supply challenges persist. CCG is expected to be relatively flat quarter-over-quarter as strong demand for our higher-end products, bolstered by the launch of Alder Lake, are being offset by weaker OEM demand for lower-end products as they prioritize their limited component supply to support higher-end system sales. We see our edge businesses continuing to recover year-over-year from COVID-related impacts. Gross margin is expected to be approximately 53.5%, unchanged from prior expectations and continues to include the impact of a onetime charge related to our Intel federal business. Excluding this charge, gross margin will be approximately 55%, down 3 points quarter-over-quarter on new product ramps and factory start-up charges. We are forecasting EPS of $0.90 per share and a tax rate of 13%. We had previously expected $0.13 of the Q3 ICAP gain to have occurred in Q4, which accounts for the change from prior Q4 expectations."

Mr. Davis continued, "Turning to our full year outlook. We are holding revenue guidance at $73.5 billion with gross margin up modestly to 57% and EPS of $5.28, up $0.48 from our prior guide. Consistent with the investment mode we are in under IDM 2.0, we expect CapEx of $18 billion to $19 billion and free cash flow of approximately $12.5 billion, up $1.5 billion versus prior guidance. In our CCG business, we expect full year revenue to be approximately flat year-over-year as growth from an increasing TAM is offset by the ramp down of our Apple modem and CPU revenue and the exit of our Home Gateway business. Adjusting for all of the Apple and Home Gateway business, CCG would have been up approximately 9% year-over-year… We see revenue in 2022 of at least $74 billion despite ongoing supply constraints. As supply normalizes and our investments add capacity and drive leadership products into the marketplace, we expect to see our revenue growth accelerate to a 10% to 12% CAGR over the next 4 to 5 years. For gross margin, with the impact of our investment in capacity and the acceleration of our process technology, we expect gross margins between 51% and 53% over the next 2 to 3 years before moving upward."

It seems that more near-term pain is on the horizon for Intel. Gains by AMD, Arm and other competitors won't easily be undone, especially as Intel's delays have worried and caused problems for customers. Not only that, processors from competitors rival or exceed the capabilities of Intel's processors. This creates a dynamic that requires Intel to get its manufacturing issues sorted out and make processors that are dramatically better than others on the market. Ownership of Intel shares has been a bumpy ride for the last few years, especially as each turn-around has been followed by more bad news. That said, we think a healthy part, if not

all, of the known bad news is embedded in the stock price at this time. There may yet be hiccups and false starts, but our long-term thesis is that INTC will recover, and shares are deeply discounted considering the potential. Intel has a dividend yield of 2.8%, which we would not be disappointed to see trimmed in favor of business investment. Still our Target Price has been cut to $67.

Lam Research (LRCX – $556.74) reported fiscal Q1 2022 results that came up slightly short of analyst expectations, causing shares to slide approximately 2%. LRCX earned an adjusted $8.36 per share (vs. $8.15 est.) with revenue of $4.30 billion (vs. $4.33 billion est.).

Lam CEO Tim Archer explained, "In response [to rapidly growing demand], we have expanded our manufacturing capacity at existing facilities in the United States, Korea and Taiwan. In the September quarter, we celebrated the grand opening of our new Malaysia facility which, when fully ramped, will be the largest factory in our global network. And just last month, we announced a new factory in Oregon, primarily designed to meet increased demand for Lam tools and foundry/logic in advanced packaging applications. With these investments, we are building a solid foundation for delivering on our long-term growth objectives. In the near term, however, we are not immune to the widely reported supply chain constraints and elevated costs that continue to create new challenges for Lam and others across our industry. Our employees and supply chain partners are working tirelessly to meet the needs of our customers, and I would like to sincerely thank them for their efforts. From a wafer fab equipment spending perspective, we now see calendar 2021 ending in the mid-$80 billion range. Overall, WFE is higher in the second half versus the first half of the year, with both DRAM and Foundry/Logic up in the second half, while NAND is more balanced. Demand remains strong. And while it's a bit early to give a specific forecast for calendar year 2022, indications are that it will be another year of WFE growth."

Mr. Archer concluded, "To wrap up, we delivered a solid September quarter in an environment of ongoing supply chain challenges. We are seeing robust semiconductor demand across all segments, broadening of semiconductor applications across industries and rising capital intensity. We are excited about the healthy outlook for WFE spending and believe our innovative product portfolio is poised to capture new opportunities as semiconductor technology continues to advance."

CFO Doug Bettinger added, "We were active in our buybacks during the September quarter, allocating over $1.2 billion towards share repurchases. We deployed this cash in a combination of open market repurchases as well as an accelerated share repurchase program. This ASR will continue to execute in the December quarter. In addition, we paid $185 million in dividends in the quarter."

Strong earnings growth and a modest price retreat have resulted in a more reasonable valuation for Lam. The forward 12-month P/E ratio now stands at 16 times, while 6% projected EPS growth for 2023 results in a P/E around 15. We continue to have interest in the outcomes from President Biden's infrastructure plan and believe LRCX will benefit from the ongoing chip-supply pinch. Of course, we have previously taken money off the table, so our position size is generally not large in our broadly diversified portfolios, meaning that we are comfortable

maintaining this reasonably priced exposure to an industry with what we believe to be very lucrative prospects over the next few years. Our Target Price is now $731.

Advertising, marketing and corporate communications services firm **Omnicom** (OMC – $70.96) earned $1.65 per share in Q3 (vs. $1.37 est.) and had revenue of $3.44 billion (vs. $3.45 billion est.). Shares retreated 7% last week as analysts were disappointed with the top-line miss, even as the bottom-line trounced estimates.

CEO John Wren said, "The top line results were broad-based across our agencies, geographies and disciplines. Our growth was especially strong in CRM Precision at 24%. Our CRM Precision Group is helping clients on their MarTech transformation, digital and e-commerce communications and direct-to-consumer marketing. The group has played a key role in many of our recent new business wins where, overall, we continued our very strong momentum in Q3. Broadly, across our group, growth was driven by improved economic conditions. Omnicom's suite of services and capabilities are positioning us to be extremely competitive in the marketplace to: reimagine and strengthen our clients' brands, seamlessly connect them with their customers across their marketing journey, transform their marketing technology platforms and innovate in e-commerce and new media channels. Our revenue performance flowed through to our operating profit in bottom line. Our EBIT margins for the third quarter were 15.8%, which exceeded our 2020 margins and significantly outpaced the comparable period in 2019. Net income and EPS for the quarter grew by more than 13% versus 2020 and were also significantly above our 2019 results."

Mr. Wren continued, "As we head into the fourth quarter, we are well positioned competitively and expect to benefit as economic growth continues to improve globally and from ongoing cost management. We currently expect our full year organic growth to be approximately 9% and our full year EBIT margin to exceed our year-to-date margin for the 9 months ended September 30, 2021 of 15.1%. Going forward, we remain focused on our key strategic initiatives, which is centered around our talent, dedication to creativity and building on our already strong capabilities in precision marketing and MarTech consulting, e-commerce, digital and performance media and predictive data-driven insights."

OMC continues to score very well in our proprietary valuation framework and sports a 3.9% dividend yield. Also, management said, "While stock repurchases are down relative to pre-pandemic periods due to curtailment during the pandemic, we resumed our activity during the second and third quarters of this year, and we expect to continue in Q4 and beyond. You should not expect a change in our historical approach to capital allocation and the use of our free cash flow in the future." OMC's EPS took a hit in 2020 to $4.85, but analysts expect a recovery above 2019's $6 level this year as corporate advertising picks up. OMC trades for 1.1 times sales, while the free cash flow yield is around 16% and the forward P/E ratio is near 11. Omnicom's balance sheet includes $4.4 billion of cash, $0.75 billion of preferred obligations and $6.2 billion of long-term debt, with $2.5 billion of liquidity available, and the current debt load carries a weighted coupon of 2.9% and maturity of July 2028 (6.7 years), giving management flexibility to operate in a somewhat uncertain advertising environment. Our Target Price for OMC is now $105.

On the back of another solid quarter and a much stronger forward outlook than expected, shares of **Celanese** (CE – $168.48) ended trading last week up 2.3%. The specialty chemical producer announced Q3 adjusted EPS of $4.82 (versus $4.74 est.), while revenue was $2.27 billion (versus $2.15 billion est.). Sales during the three-month period were up 61% year over year and 3% quarter over quarter, driven by increased prices and volumes in the Acetyl Chain segment. Engineered Materials saw flat sequential sales and a 360-basis point drop in adjusted EBIT margin as price increases were offset by volume declines stemming from lower auto builds and sourcing constraints. Given the challenging environment for the auto industry as it awaits an increased supply of semiconductor chips so it can increase output to meet demand, we expect continued pressure on the margins of Engineered Materials in Q4. However, the segment should see a boost as chips become more available to the auto makers.

CEO Lori Ryerkerk elaborated, "I would like to thank our teams who throughout 2021 have delivered the three highest quarterly adjusted earnings per share performances in our history. Our recent performance is a testament to the agility of Celanese and its people to respond to what was an exceptionally volatile quarter with external challenges and disruptions that negatively impacted all three of our businesses. Demand for our products remains strong across most end markets as we enter the fourth quarter and we expect will offset any typical winter seasonality. Despite ongoing sourcing and logistics headwinds, which will continue to be our limiting constraint in meeting elevated demand, we expect to deliver fourth quarter adjusted earnings of approximately $5.00 per share. Our teams have been executing on opportunities to translate record performance across 2021 into future growth. With the close of the Santoprene acquisition expected in the fourth quarter, we expect to have deployed over $2.7 billion this year to organic investments, M&A, and share repurchases to drive future earnings per share growth in addition to approximately $300 million in dividends. These actions position us well amid a strong demand backdrop going into next year to deliver 2022 adjusted earnings of at least $15.00 per share, well in excess of the 2022 outlook provided at Investor Day in March."

The company announced that it completed a series of transactions to spread out debt maturities and reduce interest expense, consisting of a registered public offering of $400 million of 1.40% Senior Notes due 2026 following the maturity in June 2021 of $400 million previously outstanding 5.875% Senior Notes, a cash tender offer for €300 million of outstanding 1.125% Senior Notes due 2023 and a registered public offering of €500 million of 0.625% Senior Notes due 2028. Celanese reported record operating cash flow of $630 million and record free cash flow of $520 million in the third quarter. Capital expenditures in the quarter were $102 million. The company returned $376 million in cash to shareholders, including $300 million of share repurchases and $76 million of dividends.

Celanese has typically enjoyed a cost advantage in many of its markets and has been able to push through regular price increases. Despite an almost 30% rally year to date, shares trade at a very attractive 11.2 times NTM adjusted EPS expectations. The dividend yield now stands at 1.6%. We appreciate the company's exposure to secular growth markets like electric vehicles and 5G through its Engineered Materials segment and think it is positioned to win from customer sustainability efforts. Our Target Price for CE has been lifted to $214.

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