Market Commentary Monday, November 15, 2021

November 15, 2021

EXECUTIVE SUMMARY

Market of Stocks – S&P 500 Index Down, Equal-Weight Up
6.2% CPI – Inflation & Equity Returns
Fed Tapering – Sensational Value Returns 2012-2014
Fed Funds Rate – Interest Rate Hikes and Equity Returns
Econ News – Strong Q4 Growth Expected
Sentiment – AAII Bulls Jump; Investors Still Love Bonds
Stock News – Updates on VTRS, OGN, JNJ, WRK, ALIZY, TPS, CAH, SIEGY & DIS

Market Review

The Saturday newspaper headline in *The Wall Street Journal* lamented, "Stocks 5-Week Winning Streak Fizzles," but we were again reminded that it is a market of stocks and not simply a stock market. True, the returns of both were not too far from breakeven, but while the S&P 500 fell 0.27% over the five days, the S&P 500 Equal-Weighted index advanced 0.20%, so the week was a win for the average S&P stock.

Certainly, we can't complain that the major market averages took a bit of a breather last week, given gains of more than 20% this year for just about every index but the Dow Jones Industrial Average where the total return is 19.79%. It is also nice to have further validation over the last six weeks or so of our constant admonition that the secret to success in stocks is not to get scared out of them, especially after the 5% setback in September, a drop in magnitude that historically has happened three times per year on average.

THE PRUDENT SPECULATOR

PERSPECTIVE: 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%	113.2%	993	27	3.4	3/23/2020	11/8/2021
17.5%	68.1%	581	39	2.3	3/23/2020	11/8/2021
15.0%	66.7%	564	45	2.0	3/23/2020	11/8/2021
12.5%	45.0%	339	72	1.3	3/23/2020	11/8/2021
10.0%	35.4%	248	98	0.9	3/23/2020	11/8/2021
7.5%	23.8%	150	157	0.6	9/23/2020	11/8/2021
5.0%	14.8%	73	307	0.3	10/4/2021	11/8/2021

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 11.08.21. 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

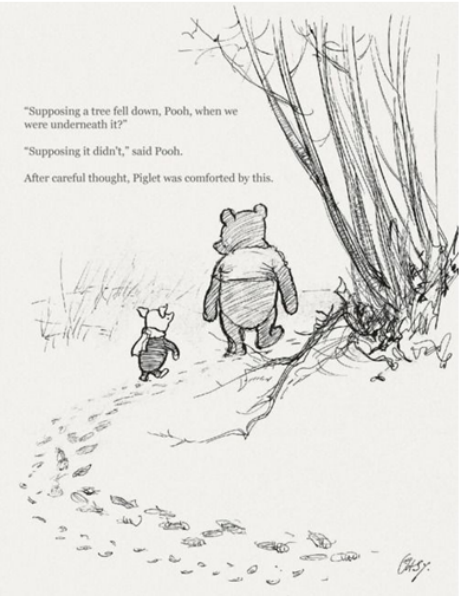
	Annualized Return	Standard Deviation
Value Stocks	13.2%	26.0%
Growth Stocks	9.9%	21.3%
Dividend Paying Stocks	10.7%	18.0%
Non-Dividend Paying Stocks	9.3%	29.3%
Long-Term Corporate Bonds	6.1%	7.6%
Long-Term Gov't Bonds	5.5%	8.6%
Intermediate Gov't Bonds	5.1%	4.3%
Treasury Bills	3.3%	0.9%
Inflation	3.0%	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

Of course, there have been numerous scary events throughout history, but equities have thus far managed to surmount every hurdle.

PLENTY OF OBSTACLES HAVE BEEN OVERCOME

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.



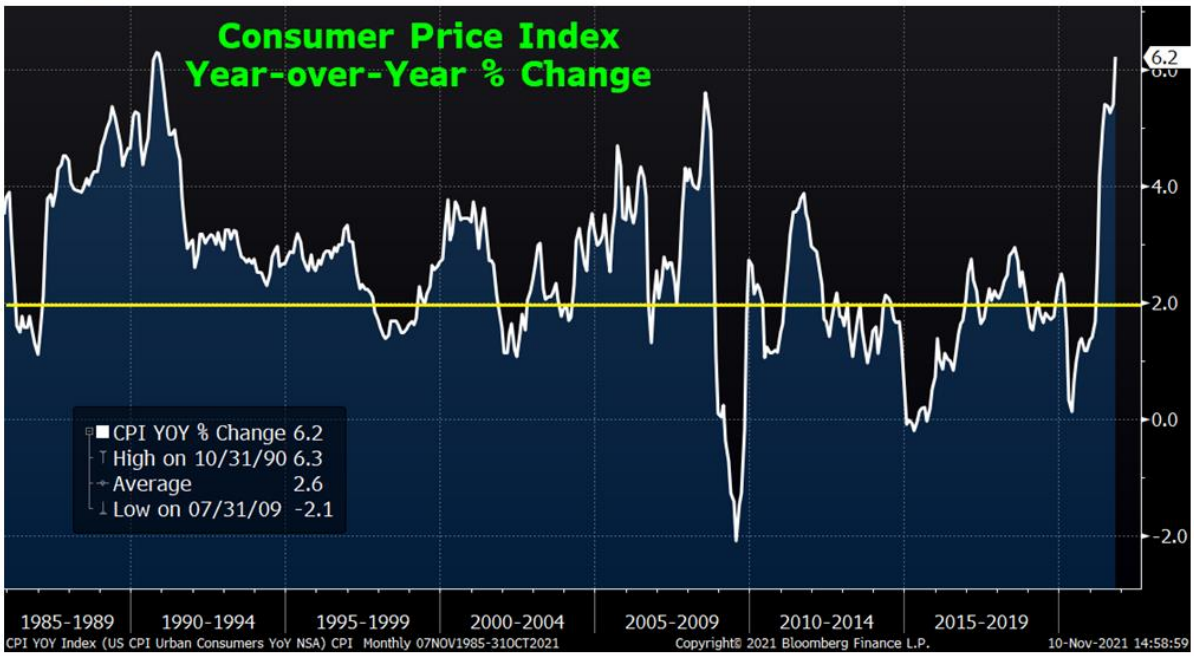
Event	Date	S&P End Value	3 Months Later	6 Months Later	12 Months Later	36 Months Later	60 Months Later	Event to Present
Flash Crash	5/6/2010	1,128.15	-1%	9%	19%	43%	84%	315%
Japan Tsunami	3/11/2011	1,304.28	-3%	-12%	5%	43%	55%	259%
S&P Downgrade	8/6/2011	1,199.38	4%	12%	16%	60%	82%	290%
Hurricane Sandy	10/22/2012	1,433.82	4%	9%	22%	43%	80%	227%
Fiscal Cliff	1/1/2013	1,426.19	10%	13%	30%	43%	87%	228%
Taper Tantrum	5/22/2013	1,655.35	0%	9%	14%	24%	65%	183%
Russia and Ukraine	2/20/2014	1,839.78	2%	8%	15%	28%	51%	155%
Ebola Scare	9/4/2014	1,997.65	4%	5%	-4%	24%	47%	134%
Charlie Hebdo	1/7/2015	2,025.90	2%	3%	-4%	35%	60%	131%
Greek Default	6/30/2015	2,063.11	-7%	0%	2%	32%	50%	127%
China Devalues Yuan	8/10/2015	2,104.18	-1%	-12%	3%	35%	60%	123%
Paris Bataclan	12/13/2015	2,012.37	0%	3%	13%	32%	82%	133%
U.S. Interest Rate Hike	12/16/2015	2,073.07	-2%	0%	9%	25%	79%	126%
China GDP Slowing	1/19/2016	1,881.33	12%	15%	20%	42%	102%	149%
Brexit Vote	6/23/2016	2,113.32	2%	7%	15%	40%	101%	122%
Trump Victory	11/8/2016	2,139.56	7%	12%	21%	45%	120%	119%
Trump Trade War	3/2/2018	2,691.25	2%	8%	4%	44%		74%
COVID-19 Pandemic	3/11/2020	2,741.38	10%	22%	44%			71%
Biden Victory	11/3/2020	3,369.16	14%	24%	38%			39%
Georgia Runoff	1/5/2021	3,726.86	9%	17%				26%
Price Changes Only								
Does Not Include Dividends		**Averages:**	**3%**	**8%**	**15%**	**38%**	**75%**	**151%**

Source: Kovitz using data from Bloomberg. As of 11.12.21

To be sure, some more disconcerting than others, and last week the financial press was focused on the latest inflation figures as the consumer price index soared by 6.2%, the largest increase in 31 years.

GHOULS & GOBLINS: INFLATION AT THE CONSUMER LEVEL SOARS 5.4%

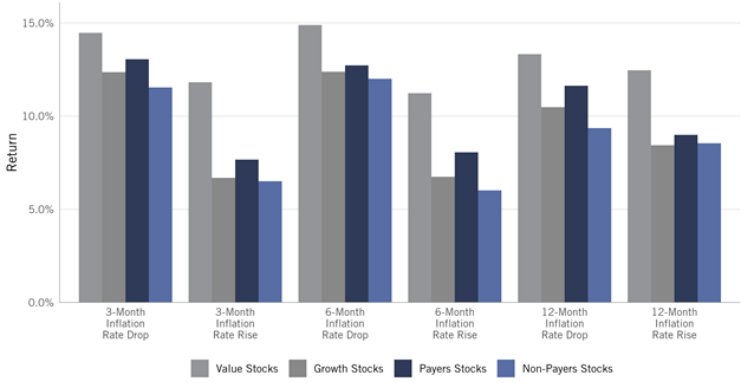
Inflation in the U.S. soared in October, with the Consumer Price Index rising by 6.2% on a year-over-year basis and 0.9% compared to the September reading, with hefty price hikes for groceries, gasoline, heating fuels, new vehicles, rent and furniture the main drivers.



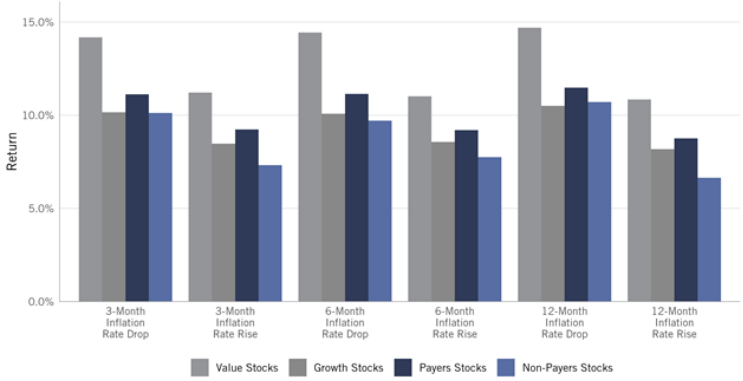
Given that the S&P 500 dropped 0.8% on Wednesday after the inflation measure was released, market watchers were quick to tie weakness in stocks that day to the spike in the CPI. We found this interesting in that nine-plus decades of market history suggests that equities have gained ground, on average, whether inflation is rising or falling. Yes, stocks have performed better when inflation is moving lower,…

THE PRUDENT SPECULATOR

INFLATION Δ AND VALUE/GROWTH & DIV/NO DIVS



From 12.31.27 through 06.30.21. Concurrent annualized 12-month returns. SOURCE: Kovitz using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French



From 12.31.27 through 06.30.21. Subsequent annualized 12-month returns. SOURCE: Kovitz using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French

Many have incorrectly warned that rising inflation rates will prove fatal for equities, as nine decades of returns data show that stocks in general have performed admirably on average, both concurrent with and subsequent to increases (as well as decreases) in the inflation rate over 3-, 6-, and 12-month time spans, with Value Stocks and Dividend Payers leading the charge.

…but, as we have been pointing out for six months now, elevated inflation rates at or above 5% have led to better returns for equities on average than when inflation is below 5%, with Value leading the way.

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.

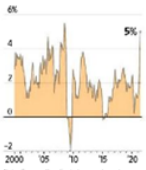
May's jump in prices extends a trend that accelerated this spring amid widespread Covid-19 vaccinations, relaxed business restrictions, trillions of dollars in federal pandemic relief programs and ample household savings—all of which have stoked demand for people to spend and travel more.

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

Please turn to page A4

◆ Jobless claims drop, but hiring falls short..... A2
◆ Heard on the Street: Step into inflation's looking-glass..... B10

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 six 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.

And, believe it or not, returns have been even better when inflation has exceeded 6%,…

Inflation Rate Of 6.2% Marks A 31-Year High

Persistent supply squeeze, consumer demand trigger broad rise in consumer prices

By Gwynn Guilford

Inflation in the U.S. hit a three-decade high in October, delivering widespread and sizable price increases to households for everything from groceries to cars due to persistent supply shortages and strong consumer demand.

The Labor Department said the consumer-price index—which measures what consumers pay for goods and services—rose by 6.2% last month from a year ago. That was the fastest 12-month pace since 1990 and the fifth straight month of inflation above 5%.

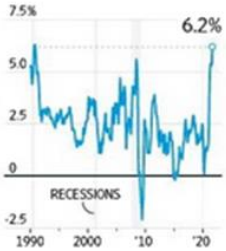
The core price index, which excludes the often-volatile categories of food and energy, climbed 4.6% in October from a year earlier, higher than September's 4% rise and the largest increase since 1991.

On a monthly basis, the CPI increased a seasonally adjusted 0.9% in October from the prior month, a sharp acceleration

Please turn to page A2

◆ Greg Ip: Economy at odds with Washington's script... A2

Consumer-price index, change from a year earlier



Source: Labor Department

Inflation Rate >= 6.0% 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	4.8%	2.7%	10.5%	6.4%	24.5%	16.2%
Geometric Average	4.1%	2.1%	9.1%	5.0%	22.0%	13.8%
Median	4.0%	2.1%	6.9%	4.4%	19.3%	13.1%
Max	50.9%	32.9%	82.7%	60.8%	134.0%	84.2%
Min	-19.2%	-27.6%	-26.4%	-35.9%	-28.0%	-48.0%
Count	176	176	176	176	176	176

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

Inflation Rate < 6.0% and Ensuing Value/Growth Returns Since 1927

Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	4.1%	3.1%	7.8%	6.0%	15.4%	11.6%
Geometric Average	3.0%	2.4%	5.8%	4.7%	11.2%	8.7%
Median	4.0%	3.6%	8.0%	6.5%	15.4%	12.6%
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	947	947	944	944	938	938

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

Inflation Rate >= 6.0% 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	5.0%	3.4%	10.6%	7.7%	24.4%	19.0%
Geometric Average	4.5%	2.6%	9.6%	6.0%	22.9%	16.1%
Median	4.6%	2.9%	7.5%	5.7%	23.0%	19.6%
Max	39.6%	32.9%	63.0%	60.8%	75.1%	84.2%
Min	-16.5%	-27.6%	-26.4%	-35.9%	-28.0%	-48.0%
Count	112	112	112	112	112	112

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

Inflation Rate < 6.0% 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	3.5%	2.8%	7.1%	5.6%	14.0%	10.7%
Geometric Average	3.1%	2.4%	6.1%	4.7%	12.2%	8.9%
Median	4.0%	3.3%	7.9%	6.2%	16.1%	12.2%
Max	37.8%	32.5%	68.5%	46.3%	105.8%	93.6%
Min	-39.5%	-34.9%	-54.2%	-41.7%	-52.2%	-39.9%
Count	653	653	650	650	644	644

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

…though we suspect the empirical evidence won't stop the media from incorrectly arguing otherwise.

Why an Unpleasant Inflation Surprise Could Be Coming

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

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

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

Wall Street Journal, February 28, 2018

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

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

Source: Morningstar

No doubt, part of the doom-and-gloom argument is that the Federal Reserve will respond to higher inflation by raising interest rates, with *The Wall Street Journal* pointing out on Thursday that Jerome H. Powell & Co. are now more likely to boost the Fed Funds rate next year. Clearly, such an event would not be a big surprise as half of the FOMC Participants in September projected at least one interest rate hike in 2022,…

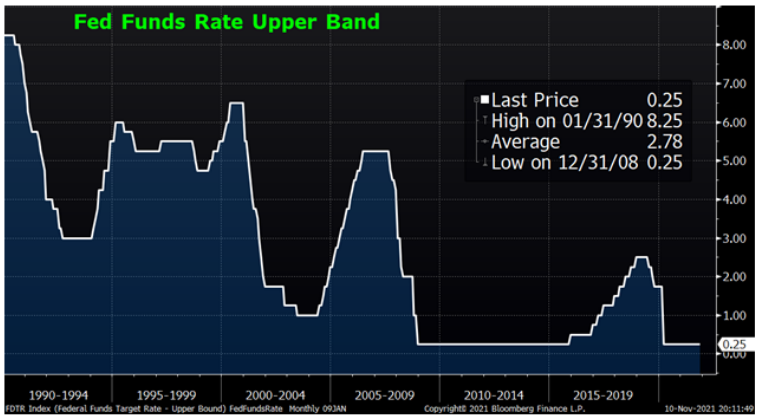
THE PRUDENT SPECULATOR

ACCOMMODATIVE FEDERAL RESERVE

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 in September 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.



…but, like with a Fed Tapering,…

THE PRUDENT SPECULATOR

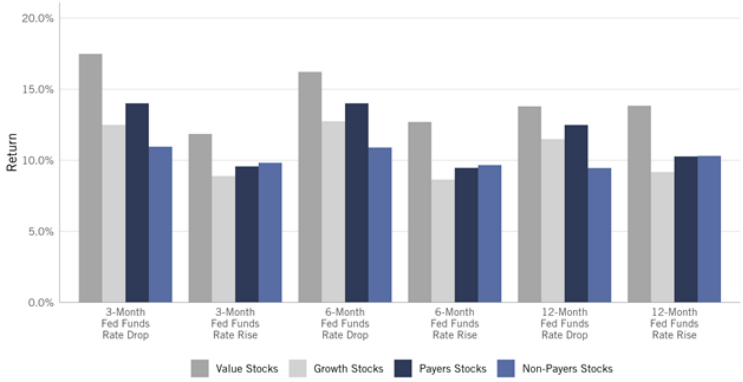
TAPER TANTRUM? WE CERTAINLY HOPE SO

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.

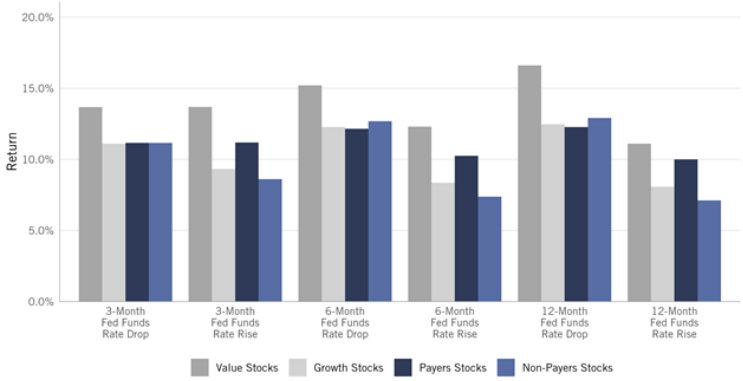
…the historical evidence suggests that increases in the Fed Funds rate, on average, are not a reason to fret about equity prices.

THE PRUDENT SPECULATOR

FED FUNDS RATE Δ EQUITY RETURNS



From 07.31.54 through 06.30.21. Concurrent annualized 12-month returns. SOURCE: Kovitz using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French



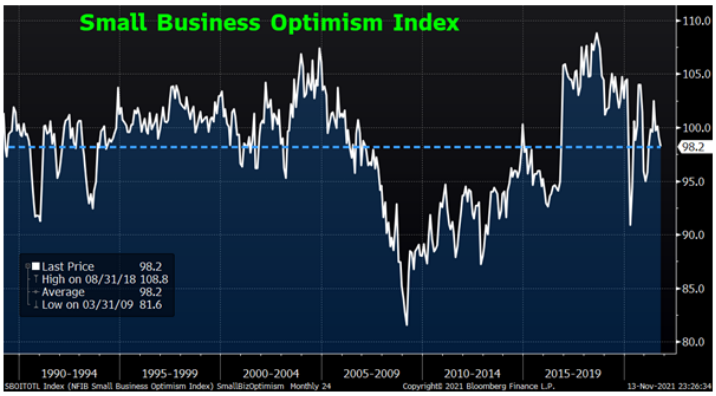
From 07.31.54 through 06.30.21. Subsequent annualized 12-month returns. SOURCE: Kovitz using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French

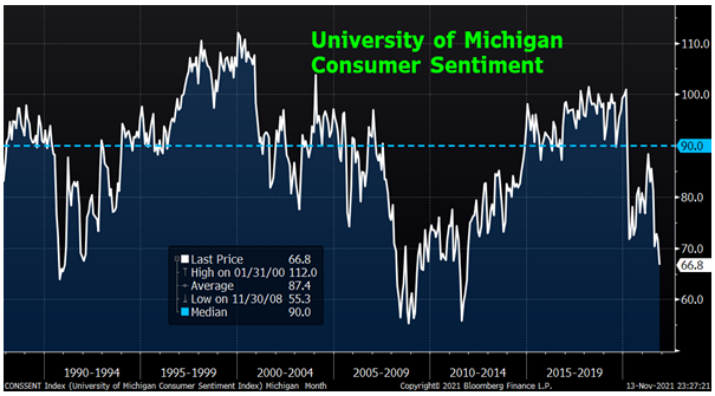
Many think the Federal Reserve hiking the Fed Funds rate will prove to be a big headwind for equities, but seven decades of returns data show that stocks in general have performed admirably on average, both concurrent with and subsequent to increases (as well as decreases) in the Fed Funds rate over 3-, 6-, and 12-month time spans, with Value Stocks leading the charge no matter the direction.

In fact, we would welcome higher interest rates as we think it would be another signal that the economy has put the COVID-19 Pandemic into the rear-view mirror, especially as many folks are not as optimistic about the future as one might expect,…

THE PRUDENT SPECULATOR

MAIN STREET SENTIMENT SOURS



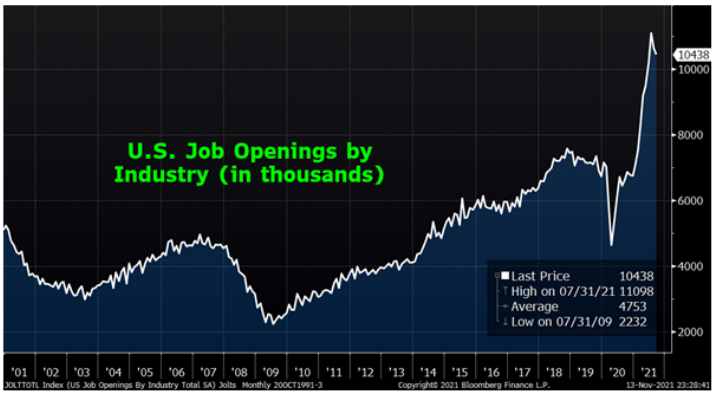


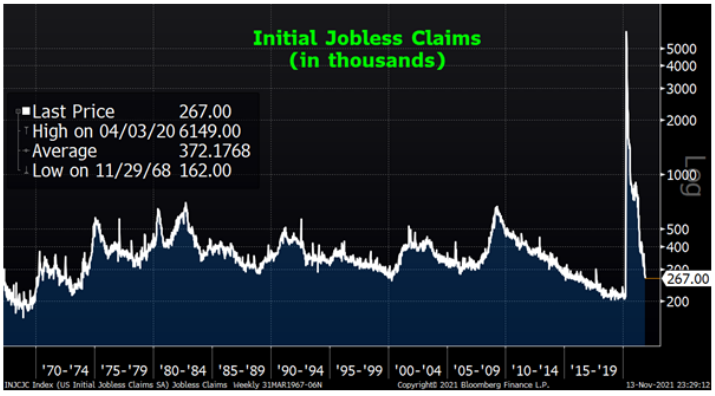
The NFIB Small Business Index for October pulled back 0.9 points to 98.2, in line with the historical norm, with owners still struggling with shortages of supplies and skilled labor. Showing much more pessimism, the preliminary University of Michigan gauge of consumer sentiment this month fell to 66.8, down from 71.7 in October and trailing expectations. One-in-four consumers cited inflationary reductions in their living standards in November for their less-enthusiastic view.

…even as the jobs picture continues to improve,…

THE PRUDENT SPECULATOR

NEAR RECORD JOB OPENINGS AND UNEMPLOYMENT FILINGS HAVE TUMBLED





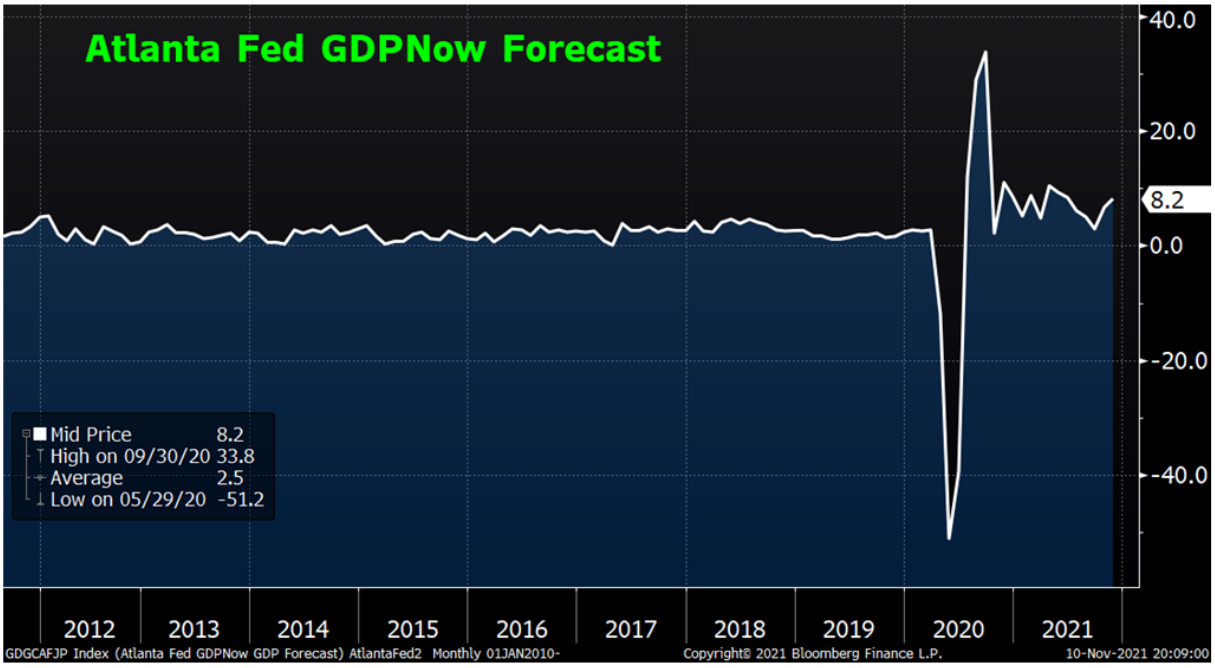
The October employment report saw a better-than-expected 531,000 new payrolls created, but businesses continue to have difficulty finding qualified employees as the number of job openings in September came in at 10.4 million, not far below the all-time high set two months ago. The labor picture is still a work in progress, but looking at more current data, first-time filings for jobless benefits fell to 267,000 in the week ending November 6, a new pandemic low

…and the forecast for Q4 U.S. GDP growth is robust,…

THE PRUDENT SPECULATOR

BIG JUMP IN U.S. GDP GROWTH ESTIMATED FOR Q4

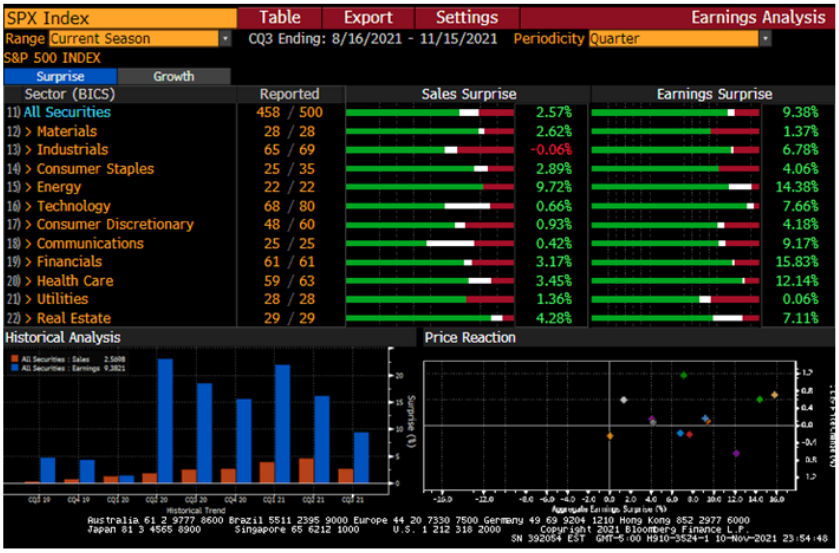
While Q1 and Q2 2021 saw an acceleration, the economic rebound slowed in Q3 to 2.0%, but the Atlanta Fed's current projection for Q4 2021 GDP growth on an annualized basis stands at a robust 8.2%.



…along with projections for corporate profit growth in 2022.

FANTASTIC EPS GROWTH LIKELY IN '21 AND '22

Q3 earnings reporting season has turned out to be very good vs. analyst projections that were 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 67.8% 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	$56.95	$218.95
9/30/2022	$56.29	$212.46
6/30/2022	$54.29	$208.27
3/31/2022	$51.42	$206.03
12/31/2021	$50.46	$202.02
9/30/2021	$52.10	$189.74
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

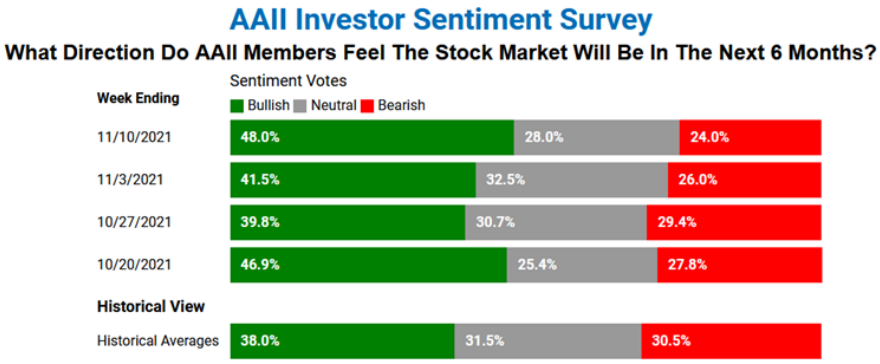
Source: Standard & Poor's. As of 11.11.21

*****

Not surprisingly, we remain optimistic in our outlook for the long-term prospects of our broadly diversified portfolios of what we believe to be undervalued stocks, even as we respect that at least one contrarian sentiment gauge is showing elevated Bullishness on Main Street,…

THE PRUDENT SPECULATOR

AAII BULLISHNESS JUMPS



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%	1.28%	1.15%	3.66%	3.28%	7.16%	6.41%
ABOVE	8.1	62.9	876	0.17%	0.15%	0.51%	0.42%	1.97%	1.71%	4.59%	4.12%
Ten Groupings of 1787 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	176	0.35%	0.33%	1.04%	0.91%	3.80%	3.45%	7.10%	6.33%
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%	3.01%	2.65%	6.45%	5.92%
5	3.0	8.0	195	0.06%	0.03%	0.65%	0.56%	2.44%	2.19%	4.64%	4.13%
6	8.1	12.1	161	0.10%	0.08%	0.38%	0.25%	1.62%	1.38%	4.49%	4.01%
7	12.2	16.5	179	0.20%	0.18%	0.68%	0.59%	2.51%	2.26%	5.11%	4.68%
8	16.6	22.0	185	0.17%	0.15%	0.73%	0.66%	2.11%	1.84%	6.14%	5.72%
9	22.0	29.1	172	0.09%	0.07%	0.40%	0.32%	2.04%	1.77%	4.37%	3.79%
10	29.2	62.9	179	0.27%	0.25%	0.31%	0.24%	1.51%	1.28%	2.78%	2.34%

From 07.31.87 through 11.11.21. 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 rising 6.5 points from the week prior and the number of Bears falling 2.0 points is not great. The 24.0-point Bull-Bear spread is in the 9th decile, where future returns have been just OK.

…though mutual and exchange traded fund investors remain infatuated with fixed income.

THE PRUDENT SPECULATOR

INFLOWS CONTINUE…INTO BOND FUNDS

Combined Estimated Long-Term Fund Flows and ETF Net Issuance

Millions of dollars

Week Ended	11/3/2021	10/27/2021	10/20/2021	10/13/2021	10/6/2021
Total Equity	4,114	17,358	12,931	437	1,623
Domestic	1,313	9,936	9,427	-1,084	-5,807
World	2,801	7,422	3,504	1,521	7,430
Hybrid	-701	249	397	-795	-1,414
Total Bond	12,176	7,214	10,858	3,890	986
Taxable	10,691	6,588	10,403	3,381	352
Municipal	1,485	626	455	509	634
Commodities	189	132	-31	612	-52
Total	15,778	24,953	24,154	4,145	1,143

Source: Investment Company Institute

Investment Company Institute

Long-Term Mutual Fund and Exchange-Traded Fund (ETF) Flows

Millions, U.S. dollars

Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total
Jan-15	-14,465	17,535	Oct-16	-23,109	13,855	Jul-18	1,007	22,495	Apr-20	2,664	14,672
Feb-15	5,547	30,321	Nov-16	22,993	-13,289	Aug-18	-6,660	17,219	May-20	-20,929	73,166
Mar-15	-1,494	4,905	Dec-16	18,859	-4,142	Sep-18	886	18,526	Jun-20	-24,819	100,103
Apr-15	-34,681	11,027	Jan-17	5,097	31,037	Oct-18	-9,657	-27,700	Jul-20	-46,524	98,490
May-15	-17,287	5,010	Feb-17	17,613	33,991	Nov-18	2,783	-7,459	Aug-20	-57,594	84,113
Jun-15	-7,023	6,324	Mar-17	9,411	36,562	Dec-18	-28,953	-49,512	Sep-20	-28,900	51,000
Jul-15	-14,864	-1,255	Apr-17	-8,266	22,064	Jan-19	-21,195	29,308	Oct-20	-52,484	63,918
Aug-15	-18,569	-18,122	May-17	-10,725	33,070	Feb-19	3,632	45,138	Nov-20	41,143	58,854
Sep-15	-4,725	-10,849	Jun-17	-7,944	29,372	Mar-19	-3,654	38,412	Dec-20	-34,003	76,186
Oct-15	-807	15,397	Jul-17	-12,518	29,139	Apr-19	-5,307	40,565	Jan-21	-37,308	93,759
Nov-15	654	-5,573	Aug-17	-22,771	25,078	May-19	-24,652	21,332	Feb-21	45,112	71,788
Dec-15	476	-25,043	Sep-17	-9,775	33,440	Jun-19	-11,997	39,771	Mar-21	53,232	51,294
Jan-16	-27,222	7,686	Oct-17	3,166	36,110	Jul-19	-7,889	44,811	Apr-21	-484	79,731
Feb-16	-9,108	11,915	Nov-17	-4,417	19,788	Aug-19	-29,908	22,304	May-21	8,332	39,543
Mar-16	7,711	29,296	Dec-17	-9,054	19,491	Sep-19	-4,650	38,482	Jun-21	-4,043	56,808
Apr-16	-12,610	22,114	Jan-18	10,778	46,287	Oct-19	-24,645	43,187	Jul-21	-5,075	32,387
May-16	-14,252	16,925	Feb-18	-41,444	2,706	Nov-19	-11,716	44,480	Aug-21	6,163	52,887
Jun-16	-15,530	16,623	Mar-18	-22,152	14,148	Dec-19	-27,500	50,733	Sep-21	-346	42,135
Jul-16	292	33,575	Apr-18	-7,403	24,176	Jan-20	-24,544	73,855	Oct-21	13,785	35,124
Aug-16	-9,956	30,859	May-18	10,068	11,749	Feb-20	-28,220	25,064	**Totals:**	**-708,625**	**2,118,221**
Sep-16	-5,713	24,669	Jun-18	-21,004	16,995	Mar-20	-7,485	-273,714			

While net inflows into U.S. equity funds returned in the last three reported week, the long-playing investor love affair with fixed income remains intact, per data on flows for stock and bond mutual and exchange traded funds as calculated by the Investment Company Institute. With the major equity market averages near all-time highs, one wonders where stocks would be if bonds weren't so popular!

We are always braced for downside volatility, but we also like that the calendar is now in the seasonally favorable time of the year.

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	7.73	8.35	7.62	Geometric Average	7.33	7.85	7.08
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	95/96	13.76	14.30	13.83
09/10	15.66	18.79	16.50	94/95	10.47	9.23	9.66
08/09	-8.53	-13.21	-1.68	93/94	-2.32	-1.68	-3.05
07/08	-9.64	-9.97	-9.68	92/93	6.60	14.79	0.74
06/07	8.60	9.48	8.34	91/92	7.31	8.76	6.14

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

Stock Updates

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

The latest 12 months have seemed like a fashionable time for major pharmaceuticals companies to divide themselves. In November of 2020, owners of **Pfizer** (PFE – $49.73) received shares of **Viatris** (VTRS – $14.11), **Merck** (MRK – $84.00) owners landed shares of **Organon** (OGN – $33.70) in June 2021, and now **Johnson & Johnson** (JNJ – $165.01) just announced that it plans to follow suit. Of course, JNJ seemingly has an extra incentive to separate its consumer product division, given the litigation involving its talc products.

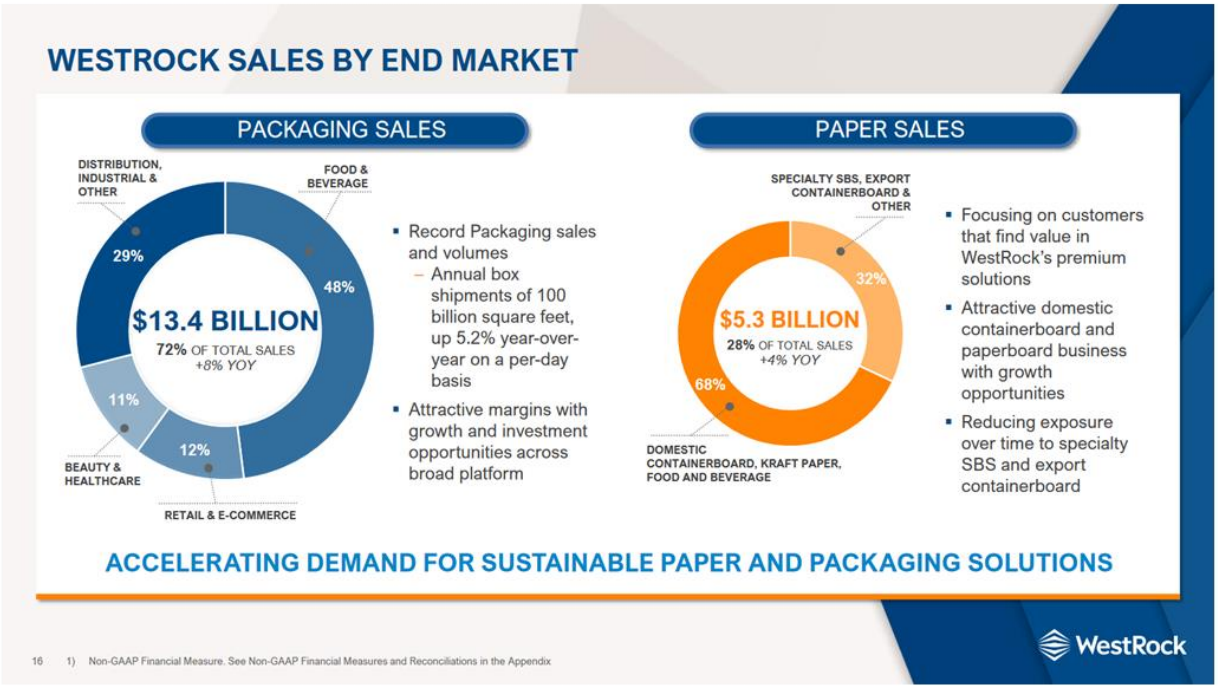
Though we own but a handful, trading in shares of Viatris and Organon has been quite volatile over recent quarters (OGN was down as much as 20% in June) as the market digests each of their strategies and future potential. We, too, are evaluating whether we want to increase our

ownership in the duo, or simply exit the tiny positions, but at present our respective Target Prices for VTRS and OGN are $34 and $54. As for JNJ, we will await additional financial data on the two stand-alone entities, but the market, for a day anyway, seemed to view the decision to break in two as positive. Our Target Price for JNJ is now $195.

Packaging and paper concern **Westrock** (WRK – $49.00) posted earnings per share of $1.23 in fiscal Q4 ended September, a 68% increase compared to prior year. Sales grew 14% year-over-year to $5.1 billion, while adjusted segment EBITDA also improved 22% year-over-year to $878 million. Higher volumes and prices in packaging more than offset higher-than-expected inflation (for recycled fiber, virgin fiber and natural gas) over the full year, while paper volumes increased 13% year-over-year on strong demand across all grades. For the full year, packaging sales increased by 8%, driven by the implementation of price increases across the business, although volumes were down 1.6%, with box volumes down 1%.

CEO David Sewell commented, "Overall demand remains strong. As we have highlighted, supply chain challenges negatively impacted our production and sales volumes. Looking at our markets, our demand for food and beverage products make up almost half of our packaging volumes. Within food and beverage, retail food demand continues to be strong with COVID related market gains continuing. Food service trends are improving especially in quick-serve and fast casual. Although these channels are experiencing ongoing labor challenges, which are impacting total consumption. Volumes in the retail and e-commerce channel were stable year-over-year. This channel makes up approximately 13% of our packaging volume and our e-commerce remains a key driver of overall box demand. The holiday buying season should be lengthened due to supply chain disruptions."

He continued, "We anticipate total projected growth rates to be in line with our overall fiscal 2022 expectation. Sales to the beauty and healthcare markets are 12% of our packaging volume. These markets were significantly impacted by the pandemic, and they continue to recover as markets reopen. Our broad mix of end market participation enables us to remain resilient in the face of uncertainty and our capabilities and manufacturing footprint allows us to quickly pivot to meet our customers' needs. We will continue to grow our packaging business driven by our unique innovation portfolio and our ability to design solutions for our customers that optimize primary, secondary and tertiary packaging."



Despite lingering supply chain challenges, we continue to view Westrock as a beneficiary of tailwinds from e-commerce (via shipping boxes). Of course, we are interested to watch how far the paper/packaging industry can go with increasing its prices while supply remains tight. Shares now trade for 10.4 and 9.6 times the fiscal 2022 and 2023 respective earnings estimates. Our Target Price presently resides at $69 and the dividend yield is 2.0%.

Multinational financial services titan **Allianz SE** (ALIZY – $23.43) posted adjusted EPS of $0.59 in Q3 2021, higher than the $0.54 estimate. Operating profit, in euros, grew 11.3% year-over-year to 3.2 billion euros, while the nine-month total is 9.9 billion euros, 82% of the full-year target. Allianz benefitted from a strong global recovery across all business lines, and the Asset Management and Life/Health segments reported best-ever third quarter results.

CFO Giulio Terzariol explained, "[We had] a very good quarter and also a very good 9 months with growth in revenue, growth in operating profit. Again, even if you adjust for COVID last year, the growth rate in operating profit was almost double digit, a good increase, very healthy increase in net income. Our solvency ratio is stable, much above our target. We have paid between dividend buyback EUR 4.7 billion of remittances to our shareholders. And as you know, considering the strong underlying performance, we have also revised the outlook from upper half

of the range to the higher end of the range. So I will say that based on where we are right now, we are very confident about our operating performance in the fourth quarter."

When asked by an analyst about inflationary pressures, Mr. Terzariol responded, "I will say we don't see a widespread increase in inflation. So that's not the case. And then clearly, it's always a different situation country by country or line of business by line of business. I would say motor TPL, in general, we don't see increase in inflation, and that's also because as you know, for the time being, there is no real wage inflation kicking in. So from a motor liability point of view, we don't see that. As you know, we don't have exposure or meaningful exposure to workers' compensation, but also for workers' comp, that will be the same line of thing as long as you don't see wage inflation, you're not going to see necessarily an increase in severity…So if you ask me, do we see any impact in our numbers as we speak? No. Do expect to see an impact in the fourth quarter numbers? Not really. Clearly, we are monitoring this development very carefully."

We have been pleased to see the company navigate the negative-to-microscopic global yield environment better than some of its peers. While Allianz's growth trajectory hasn't been as steep as some of our other holdings, we think that it's sustainable at this level over the long term (high-single-digits). Of course, it certainly helps to have asset managers, including bond manager PIMCO, to diversify the income stream, while management has been diligent in improving operating ratios, minimizing losses and growing the insurance business. Shares continue to look attractive, trading for less than 10 times earnings, while boasting a net dividend yield of 3.4%. Our Target Price now stands at $34.

Shares of **Tapestry** (TPR – $45.53) climbed nearly 10% on Wednesday, buoyed by strong results in fiscal Q1. The luxury fashion and accessory designer earned $0.82 in the period, a 45% improvement over a solid comparable quarter last year, and 18% better than the consensus Street estimate. Sales grew 26% year-over-year to $1.5 billion, a 9% improvement compared to the latest comparable, pre-pandemic quarter. Coach continues to represent over 90% of profits, which grew over 30% year-over-year. With $400 billion added to the repurchase authorization by the Board, management has doubled its prior expectation for buybacks from $500 million to $1 billion in the current fiscal year. This includes the $250 million spent last quarter at an average cost of $41.02.

CEO Joanne Crevoiserat commented, "We delivered another quarter of solid performance, reflecting strong customer engagement and increased demand for our brands. Importantly, revenue trends accelerated compared to pre-pandemic levels driven by North America, as well as continued growth in Digital and China – two key drivers of long-term opportunity. Tapestry's standout results highlight our teams' extraordinary execution and the foundational changes we've made to transform into a more consumer-centric, data-driven, and responsive organization through the pillars of our Acceleration Program. Overall, our first quarter results and the momentum we're delivering are evidence that our strategy, led by the Acceleration Program, is working. We've radically transformed our company, realizing material operating margin improvement while fueling investments in key growth areas of our business. We're largely a direct-to-consumer business with a digital-first mindset, building a deeper understanding of our customers. We're utilizing these capabilities along with the additional benefits of our multi-

brand platform to drive even further growth at Coach and accelerate the trajectory of both Kate Spade and Stuart Weitzman over our planning horizon."

She continued, "I'm encouraged by the growing vibrancy of each of our brands and the strengthening engagement with consumers, backed by the work of our talented and passionate teams. Our confidence is underscored by the stronger outlook for fiscal year '22 and additional shareholder return plans announced today. We've entered the second quarter with momentum and have proactively put in place plans to deliver for our customers this holiday season and into the New Year. We are well positioned to capture market share at structurally higher operating margin in the years to come, creating significant value for all our stakeholders."

Boosted by share repurchases, management now expects $3.45 to $3.50 of EPS for the current year, ahead of the prior guidance for a range of $3.30 to $3.35. While fashion and accessory markets remain intensely competitive and consumer preference can be fickle, we continue to think the firm's brands (Coach in particular) boast significant appeal for luxury consumers. Shares have rallied mightily over the past year but remain below the latest peak in 2018, while earnings over the past year have surpassed where they were at that point. The current rate on the dividend remains below the pre-pandemic level, but should operational momentum continue, we expect a major hike to be forthcoming. With a forward P/E ratio of 13 and a present dividend yield of 2.2%, our Target Price for TPR has been raised to $60.

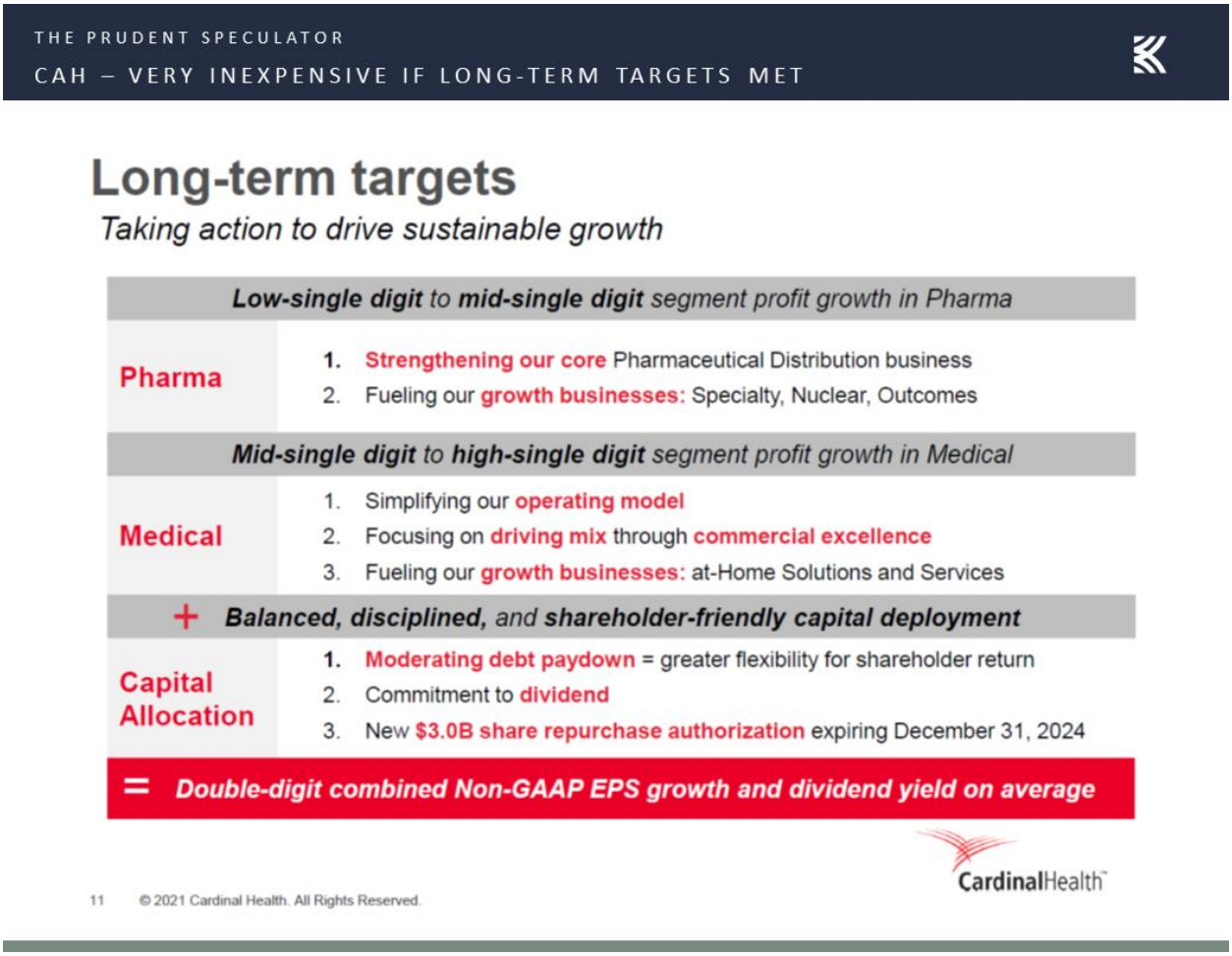
Shares of **Cardinal Health** (CAH – $51.44) rallied handsomely on Friday even as the health care supply chain company turned in fiscal Q1 bottom-line results earlier in the week that were just shy of the consensus analyst estimate, and in line with the latest comparable pre-pandemic period. Pharmaceutical segment revenue grew 13% year-over-year, driven primarily by branded pharmaceutical sales growth from large pharmaceutical distribution and specialty customers. The more profitable Medical segment grew revenue by 5%, but profits were affected by elevated supply-chain costs, which management expects to abate over the latter half of the fiscal year.

CEO Michael Kauffman commented, "Our Medical segment continues to be impacted by the disruptions in the global supply chain that we called out last quarter. Recently, these pressures have rapidly escalated and we are experiencing significantly elevated product costs due to international freight and commodities. While we believe the majority of these elevated supply chain costs are temporary, we do not expect them to return to normalized levels this fiscal year. As a result, we are lowering our FY '22 outlook for Medical segment profit to adjust for these increased headwinds. We are taking action to mitigate these impacts across the enterprise, and we are reaffirming our FY '22 EPS guidance of $5.60 to $5.90 per share. We have been on a journey to simplify our portfolio and strengthen our core businesses, so we are positioned for broad-based sustainable growth as noted in the long-term targets we're announcing today. We are prioritizing investment in our strategic growth areas and in innovative solutions to meet our customers' needs today and tomorrow."

Mr. Kauffman also mentioned the opioid settlement recently proposed, "In September, we announced that enough states agreed to settle to proceed to the next phase. And each participating state is offering its political subdivisions the opportunity to participate in the settlement for an additional 120-day period, which ends on January 2, 2022. At that point, each

of the distributors and the states will have the opportunity to determine whether there is a sufficient participation to proceed with the agreement. If all conditions are satisfied, this agreement would result in the settlement of a substantial majority of opioid lawsuits filed by the state and local governmental entities."

In addition, the board recently approved a new 3-year authorization (through the end of calendar year 2024) to buy back up to an additional $3 billion of common stock. Management now expects to repurchase approximately $1 billion of shares in fiscal '22, including the $500 million of share repurchases executed to date, contributing to the target for double-digit combined EPS growth over the long term.



As a distributor, we acknowledge that Cardinal is at the brunt of the ever-present crunch to the global supply chain, which has eaten into already razor-thin margins. But the past year (or two) have demonstrated the value of a well-functioning distribution system for pharmaceutical and health supplies. Shares remain inexpensive at less the 10 times forward EPS estimates while the firm continues to generate strong free cash flow, which we believe is supported by demographic trends in the U.S. as the population continues to age and requires greater health care usage. The dividend yield is 3.8%, while our Target Price is now $83.

German industrial conglomerate **Siemens AG** (SIEGY – $85.11) earned 0.68 euros per share in fiscal Q4 (vs. a 0.73 euro est.). Revenue came in around 20.6 billion euros (vs. a 19.3 billion euro est.). Sales grew 11.5% year-over-year thanks to a robust economic recovery in most regions, and demand growth is expected to accelerate as customers work to meet environmental, sustainability and digital transition targets.

CEO Roland Busch stated, "The macroeconomic environment was and remains complex, with persistent pandemic-related challenges, supply chain-related risks, component shortages and cost inflation. Together, we mastered all these challenges very successfully so far. Many thanks go to all Siemens employees worldwide for their strong commitment to our customers and their focus on execution. This led to outstanding financial performance across all metrics. We achieved or even exceeded our guidance, a guidance that we raised 4 times over the course of the year. Revenue shows excellent growth of 11.5%. And we seized many customer opportunities as new orders rose impressively by 21%, up double-digits in all businesses. A book-to-bill of 1.15 bodes well for fiscal 2022. Our step change in performance is particularly visible in a sharp increase in net income to EUR 6.7 billion, well above our guided range. And I'm even more proud of an exceptional free cash flow of EUR 8.2 billion. This is a stunning 123% cash conversion and an all-time high in Siemens history."

CFO Ralf Thomas added, "Looking at our key vertical end markets for the next quarters, we expect a continuing recovery along broad-based positive sentiment in a wide range of our key industries. Fundamentals of investment demand for automation and digitalization, driven by labor shortages, transformation towards more sustainability and focus on resilience of industrial value chains, are intact and beneficial for Siemens way forward… On Siemens AG Group level, we anticipate mid-single-digit comparable revenue growth and again a book-to-bill ratio above 1. As introduced at the Capital Market Day, we will switch to earnings per share pre-PPA as a key guidance performance indicator to give better transparency on operational improvement. We expect EPS pre-PPA in the range of EUR 8.70 to EUR 9.10, clearly up from fiscal '21 level of EUR 8.32."

Siemens continues to generate substantial free cash flow and is "striving for a progressive dividend" policy going forward. The board proposed a dividend of 4 euros per German-traded share (which closed at 148.40 euros on Friday), which should pencil out to about $2.23 per U.S.-traded share before customary taxes. Siemens' previous 3 billion euros share buyback program has been completed and the company will start a new 3 billion euros share buyback program this month and it's expected to last through 2026. On the earnings front in dollar terms, analysts expect SIEGY's EPS to grow from $3.75 this year to $5.66 by 2024, putting the P/E around 22 in the near term and 15 for 2024. Given the potential ahead, we think that SIEGY remains attractively priced. Our Target Price has been hiked to $105.

Shares of **Walt Disney** (DIS – $159.63) plunged after the company reported weaker-than-expected Disney+ subscriber growth in fiscal Q4. Subscribers for the streaming platform grew by 1.8% quarter-over-quarter to 118.1 million (vs. 119.6 million consensus estimate), while EPS was $0.37 (vs. $0.49 est.) and global revenue was $18.53 billion (vs. $18.78 billion est.). The company's Media and Entertainment Distribution revenue rose 3.2% quarter-over-quarter to

$13.08 billion and Parks, Experiences and Products revenue rose 26% quarter-over-quarter to $5.45 billion.

CEO Bob Capek said, “And as we head into fiscal ’22, we remain keenly focused on advancing them to drive our continued growth. First and foremost, telling the world’s most original and enduring stories; second, maximizing the synergy of our unique ecosystem to deepen consumers’ connection to our characters and our stories; and lastly, using the power of our far-reaching platforms and new technologies to give consumers the best entertainment experience possible… This Friday, we will celebrate the 2-year anniversary of the launch of Disney+ with our first ever Disney+ Day, a global company-wide celebration. We are enormously proud of all that we’ve accomplished with the service in just the first 2 years. It has exceeded our wildest expectations, and we are so excited for what’s to come. With this in mind, we have numerous activations planned across the entire company for Disney+ Day, including the streaming premiere of Marvel’s Shang-Chi and the Legend of the Ten Rings, which has already surpassed $430 million at the global box office.”

Mr. Capek mentioned that the company’s new annual pass program is off to a strong start, “In late August, Disneyland Resort launched Magic Key, the new annual membership program that is resonating strongly with legacy annual passholders, while also attracting new passholders. In fact, about 40% of current sales are to new passholders. And most Magic Key holders have purchased the top 2 tiers: Dream Key and Believe Key, with Dream Key selling out in just 2 months. We’re also seeing a great response to the new annual passholder program at Walt Disney World, a testament to the demand for our in-park experiences and the success of our yield management strategy.”

Sharing his thoughts on the Parks segment, Mr. Chapek continued, “Our parks around the globe now have more to offer guests than ever before with our new offerings, and we’re making it even easier for them to have the best time imaginable tailored specifically to their individual needs and preferences in a way only Disney can. Our company is truly unique and that we have a significant presence in the physical world through our parks and resorts as well as media entertainment assets in the digital world. And it is incredible to see how our use of emerging technology and insights gained through our enumerable consumer touch points is enabling us to transform the way people interact with and experience our stories and products in both worlds.”

Mr. Chapek closed, “The Walt Disney Company has a long track record as an early adopter in the use of technology to enhance the entertainment experience, Steamboat Willie, the first cartoon with synchronized sound, our groundbreaking development and use of audio animatronics. We were the first to distribute downloaded content on the new Apple iPod back in 2005. Pixar has been a pioneer in computer animation. These are just a few examples. Suffice it to say, our efforts to date are merely a prologue to a time when we’ll be able to connect the physical and digital worlds even more closely, allowing for storytelling without boundaries in our own Disney metaverse. And we look forward to creating unparalleled opportunities for consumers to experience everything Disney has to offer across our products and platforms wherever the consumer may be. As we look ahead to this next frontier, given our unique combination of brands, franchises, physical and digital experiences and global reach, we see

limitless potential and that makes us as excited as ever about The Walt Disney Company's next 100 years."

We thought Disney's results were solid and note that Disney's target for Disney+ subscribers is between 230 million and 260 million by the end of fiscal 2024. Disney is a long way from that number, but with the service expanding to new international markets and Disney+ serving as a nice complement to other streaming services, we think it remains an accomplishable goal. The dividend has yet to be reinstated and management did not discuss its status on the call, but our Bloomberg data suggests that it might be brought back in mid-2022. Disney earnings are projected to grow from $2.29 per share this year to $4.51 next year and near $7.00 by 2024. That makes the near-term valuation metrics a little bit expensive, but we think the long-term outlook plus Disney's high-quality business makes it a core component in our broadly diversified portfolios. Our Target Price is $202.