Market Commentary Monday, December 13, 2021

December 12, 2021

EXECUTIVE SUMMARY

Newsletter Purchases – 10 Buys Across Four Portfolios
Week In Review – Big Rally Follows Heavily Bearish AAII Sentiment
Omicron – News Not as Bad as Initially Feared
CPI – Inflation & Equity Market Returns
Negative Earnings Yield – Value Stock Buy Signal
Corporate Profits – Robust EPS Outlook Projected
Econ News – Favorable Outlook
Fed – Futures Suggesting More than Two Rate Hikes in 2022…and that is OK
Stock News – Updates on AAPL, ORCL, AVGO, CMCSA, CVS & VWAGY

Market Review

As discussed in the December edition of *The Prudent Speculator,* on Monday, December 6, we bought the following for our two real-money newsletter portfolios:

TPS Portfolio
105 **ManpowerGroup** (MAN – $94.53) at $95.5963
71 **Zimmer Biomet** (ZBH – $124.49) at $125.94

Buckingham Portfolio
131 **EnerSys** (ENS – $76.49) at $76.3209
92 **Allianz SE** (ALIZY – $22.92) at $22.905

We also added the following to our two hypothetical accounts:

Millennium Portfolio
134 **Benchmark Electronics** (BHE – $25.14) at $25.18
195 **Cardinal Health** (CAH – $48.49) at $47.71
150 **Kohl's** (KSS – $51.76) at $50.74

PruFolio
573 **BASF SE** (BASFY – $17.00) at $16.70
281 **Delta Air Lines** (DAL – $38.18) at $37.25
374 **World Fuel Services** (INT – $27.43) at $26.10

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Not sure if we can give full credit for the tremendous rebound in stocks last week,…

THE PRUDENT SPECULATOR

SANTA CLAUS CAME TO TOWN A COUPLE OF WEEKS EARLY

Rare are sizable one-week rallies of 4% in the Dow Jones Industrial Average, but the popular market gauge jumped 4.05% on a price basis from 12.03.21 to 12.10.21, the 177th best full-week showing since 1928.

Up > 4.05%

	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		5	1	0	1	5	3	1	5	1	5	22
Years Ending in 1		10	0	0	0	1	2	2	3	5	1	23
Years Ending in 2		16	1	0	2	0	4	0	4	0		27
Years Ending in 3		15	0	0	1	1	1	0	1	0		19
Years Ending in 4		5	0	0	0	5	2	0	0	0		12
Years Ending in 5		2	0	0	0	5	0	0	0	0		7
Years Ending in 6		2	1	1	1	1	2	0	0	1		9
Years Ending in 7		3	0	0	0	1	3	5	0	0		12
Years Ending in 8	5	10	0	0	1	0	2	2	5	2		27
Years Ending in 9	5	3	0	0	0	0	1	4	5	1		19
Totals	10	71	3	1	6	19	20	14	23	10	6	177

From 1.31.28 through 12.10.21. Weeks of index price increases of greater than or equal to 4.05%. SOURCE: Kovitz using data from Bloomberg

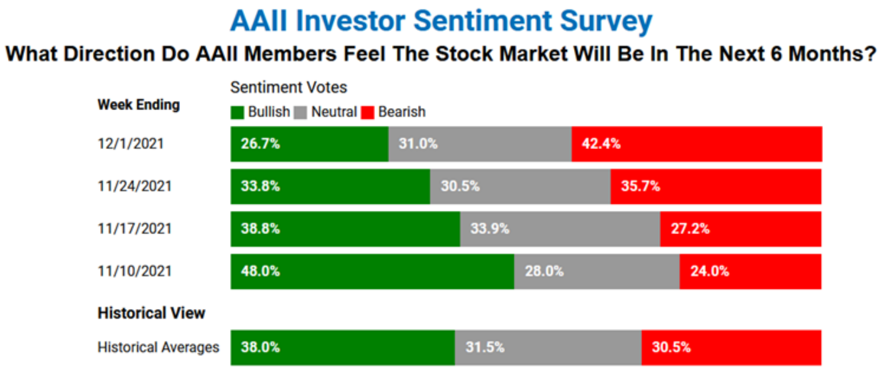
Down > 4.05%

	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		14	3	2	0	3	2	3	4	3	5	34
Years Ending in 1		20	2	0	0	0	1	0	3	4	0	30
Years Ending in 2		18	1	0	3	0	0	0	2	0		24
Years Ending in 3		9	1	0	0	4	0	0	2	0		16
Years Ending in 4		5	0	0	0	9	0	0	0	0		14
Years Ending in 5		1	0	2	0	1	0	0	0	1		5
Years Ending in 6		1	2	1	1	0	3	0	0	1		9
Years Ending in 7		7	0	1	0	0	4	1	4	0		17
Years Ending in 8	1	8	1	0	0	2	1	4	9	7		33
Years Ending in 9	10	6	0	0	0	1	1	2	5	0		25
Totals	11	89	10	6	4	20	12	10	29	16	5	207

From 1.31.28 through 12.10.21. Weeks of index price decreases of greater than or equal to 4.05%. SOURCE: Kovitz using data from Bloomberg

…to the pessimistic voters the week prior in the American Association of Individual Investors Sentiment Survey,…

AAII BULLISHNESS SKIDS & BEARISHNESS SOARS – MAJOR BUY SIGNAL



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	913	0.27%	0.23%	1.28%	1.15%	3.67%	3.29%	7.14%	6.40%
ABOVE	8.1	62.9	877	0.17%	0.15%	0.51%	0.42%	1.96%	1.71%	4.62%	4.15%
	Ten Groupings of 1790 Data Points										
1	-54.0	-15.0	183	0.55%	0.49%	2.14%	1.90%	5.83%	5.28%	10.57%	9.34%
2	-14.9	-7.3	175	0.35%	0.32%	1.04%	0.91%	3.82%	3.47%	7.08%	6.31%
3	-7.3	-1.4	179	0.30%	0.26%	1.48%	1.38%	3.31%	2.91%	7.20%	6.57%
4	-1.3	3.0	181	0.09%	0.05%	1.10%	1.01%	2.98%	2.63%	6.38%	5.85%
5	3.0	8.0	195	0.06%	0.03%	0.68%	0.59%	2.48%	2.23%	4.64%	4.13%
6	8.1	12.1	161	0.10%	0.08%	0.38%	0.25%	1.63%	1.39%	4.70%	4.22%
7	12.1	16.5	179	0.20%	0.18%	0.70%	0.61%	2.48%	2.23%	5.13%	4.69%
8	16.5	22.0	186	0.17%	0.15%	0.72%	0.65%	2.12%	1.85%	6.09%	5.67%
9	22.0	29.1	172	0.09%	0.08%	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 12.02.21. 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 falling 7.1 points from the week prior and the number of Bears rising 6.7 points is a major positive. The minus 15.7 Bull-Bear spread is in the 1st decile, where future returns have been the best.

…many of whom were spooked by the 900-plus-point plunge in the Dow Jones Industrial Average on Black Friday.

Rare are sizable one-day setbacks of 2.5% in the Dow Jones Industrial Average, but the popular market gauge skidded 2.53% on a price basis on Nov. 26, 2021, the 426th worst daily showing since 1928.

Down > 2.52%

	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		24	7	5	1	2	1	5	6	6	21	57
Years Ending in 1		48	3	1	1	0	0	1	6	7	1	67
Years Ending in 2		56	0	0	2	0	1	0	10	0		69
Years Ending in 3		27	2	0	1	4	0	0	2	0		36
Years Ending in 4		8	0	0	0	7	0	0	0	0		15
Years Ending in 5		2	0	2	0	1	0	0	0	3		8
Years Ending in 6		4	12	0	0	0	2	2	0	1		21
Years Ending in 7		20	3	0	0	0	11	2	5	0		41
Years Ending in 8	5	12	3	1	0	0	3	8	24	7		63
Years Ending in 9	25	6	0	0	0	1	1	1	12	3		49
Totals	30	207	30	9	5	15	19	19	65	27	22	426

From 1.31.28 through 11.26.21. Days of index price decreases of more than 2.52%. SOURCE: Kovitz using data from Bloomberg

Up > 2.52%

	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		12	4	1	0	4	1	4	5	5	13	36
Years Ending in 1		31	1	0	0	1	0	4	7	9	0	53
Years Ending in 2		50	0	0	4	0	9	0	16	0		79
Years Ending in 3		38	0	0	1	5	1	0	5	0		50
Years Ending in 4		8	0	0	0	11	4	0	0	0		23
Years Ending in 5		2	0	0	0	3	1	0	0	1		7
Years Ending in 6		0	6	0	1	0	1	0	0	0		8
Years Ending in 7		8	0	2	0	0	13	5	1	0		29
Years Ending in 8	4	22	0	0	0	3	4	5	24	2		64
Years Ending in 9	16	4	0	0	0	0	1	1	13	1		36
Totals	20	175	11	3	6	27	35	19	71	18	13	385

From 1.31.28 through 11.26.21. Days of index price increases of more than 2.52%. SOURCE: Kovitz using data from Bloomberg

While rebounds are not always so swift, the markets have quickly provided yet another validation of our oft-stated admonition that the secret to success in stocks is not to get scared out of them,…

So, stocks were rattled by the Omicron variant and a potentially less accommodative Federal Reserve as December began, but a week later the markets had rebounded, even as Jerome Powell & Co. were likely to stop refilling the proverbial punch bowl as fast as previously thought.

THE WALL STREET JOURNAL.

WEDNESDAY, DECEMBER 1, 2021 - VOL. CCLXXVIII NO. 129

What's News

Business & Finance

Vigil Held for Victims Killed in Michigan School Shooting

Powell Tees Up Quicker End to Stimulus

Citing inflation threat, the central-bank chief lays ground for rate increases earlier in '22

Stocks and Oil Rattled by Variant

THE WALL STREET JOURNAL.

TUESDAY, DECEMBER 7, 2021 - VOL. CCLXXVIII NO. 134

What's News

Business & Finance

Kentucky Derby Winner Medina Spirit Dies After Workout

Markets Rebound On Hopes Of Milder Variant

S&P 500 recoups last week's losses; bitcoin stabilizes; oil prices and bond yields rise

Inflation Surge, Hiring Gains Prompt the Fed's Policy Shift

…as, despite occasional and sometimes scary trips south, the long-term trend in stock prices is higher.

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%	113.2%	994	27	3.4	3/23/2020	12/10/2021
17.5%	68.1%	582	39	2.3	3/23/2020	12/10/2021
15.0%	66.7%	565	45	2.0	3/23/2020	12/10/2021
12.5%	45.0%	340	72	1.3	3/23/2020	12/10/2021
10.0%	35.4%	249	98	0.9	3/23/2020	12/10/2021
7.5%	23.8%	150	157	0.6	9/23/2020	12/10/2021
5.0%	14.8%	73	307	0.3	10/4/2021	12/10/2021

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 12.10.21. 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	13.3%	26.0%
Growth Stocks	10.0%	21.3%
Dividend Paying Stocks	10.8%	18.0%
Non-Dividend Paying Stocks	9.4%	29.3%
Long-Term Corporate Bonds	6.1%	7.6%
Long-Term Gov't Bonds	5.5%	8.6%
Intermediate Gov't Bonds	5.0%	4.3%
Treasury Bills	3.3%	0.9%
Inflation	2.9%	1.8%

From 06.30.27 through 10.31.21. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Dividend payers = 30% top of Fama-French dividend payers, 40% of middle Fama-French dividend payers, and 30% bottom of Fama-French dividend payers rebalanced monthly. Non-dividend payers = Fama-French stocks that do not pay a dividend. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

Certainly, the lack of worse-than-originally-feared developments with Omicron helped matters last week,…

STILL TOO EARLY TO KNOW FOR SURE, BUT BETTER OMICRON NEWS

HEALTH

Fauci says Omicron-specific version of Covid-19 vaccines may not be necessary

By Helen Branswell Dec. 10, 2021 Reprints

Anthony Fauci, director of the National Institutes of Allergy and Infectious Diseases.
AL DRAGO - POOL/GETTY IMAGES

Anthony Fauci isn't convinced Covid-19 vaccine manufacturers are going to need to produce an Omicron-specific version of their vaccines.

Rather, the long-time director of the National Institutes of Allergy and Infectious Diseases suggested to STAT in an interview Thursday, it's possible the current vaccines will provide enough protection against the new variant for most vaccinated and boosted individuals.

Fauci stressed that he was hypothesizing, based on how the vaccines have held up against other SARS-CoV-2 variants. Studies will need to be done, he insisted. And manufacturers are working on and will test versions of their vaccines based on the mutation-studded Omicron spike protein. That's prudent, he said.

"The companies are going to be making variant specific boosters," Fauci told STAT. But "what I think is something that we need to keep our eye on [is] it could be that things turn out better than we expected."

South African doctors see signs omicron is milder than delta

Published: Dec. 11, 2021 at 12:39 p.m. ET

By Associated Press

Melva Mlambo, right, and Puseletso Lesofi, both medical scientists prepare to sequence COVID-19 omicron samples at the Ndlovu Research Center in Elandsdoorn, South Africa, Dec. 8, 2021.
AP/JEROME DELAY

Listen to article
5 minutes

As the omicron variant of coronavirus sweeps through South Africa, Dr. Unben Pillay is seeing dozens of sick patients a day. Yet he hasn't had to send anyone to the hospital.

That's one of the reasons why he, along with other doctors and medical experts, suspect that the omicron version really is causing milder COVID-19 than delta, even if it seems to be spreading faster.

"They are able to manage the disease at home," Pillay said of his patients. "Most have recovered within the 10 to 14-day isolation period." said Pillay.

And that includes older patients and those with health problems that can make them more vulnerable to becoming severely ill from a coronavirus infection, he said.

In the two weeks since omicron first was reported in Southern Africa, other doctors have shared similar stories. All caution that it will take many more weeks to collect enough data to be sure, their observations and the early evidence offer some clues.

According to South Africa's National Institute for Communicable Diseases:
— Only about 30% of those hospitalized with COVID-19 in recent weeks have been seriously ill, less than half the rate as during the first weeks of previous pandemic waves.
— Average hospital stays for COVID-19 have been shorter this time – about 2.8 days compared to eight days.
— Just 3% of patients hospitalized recently with COVID-19 have died, versus about 20% in the country's earlier outbreaks.

…even as history shows that stocks have had some immunity to COVID-19 variants over the past 12 months,…

THE PRUDENT SPECULATOR

VARIANTS OF CONCERN AND EQUITY RETURNS

Variants of Concern (VOC)

Working definition:

A SARS-CoV-2 variant that meets the definition of a VOI (see below) and, through a comparative assessment, has been demonstrated to be associated with one or more of the following changes at a degree of global public health significance:

- Increase in transmissibility or detrimental change in COVID-19 epidemiology; OR
- Increase in virulence or change in clinical disease presentation; OR
- Decrease in effectiveness of public health and social measures or available diagnostics, vaccines, therapeutics.

Currently designated Variants of Concern (VOCs)*:

WHO label	Pango lineage*	GISAID clade	Nextstrain clade	Additional amino acid changes monitored*	Earliest documented samples	Date of designation
Alpha	B.1.1.7	GRY	20I (V1)	+S:484K +S:452R	United Kingdom, Sep-2020	18-Dec-2020
Beta	B.1.351	GH/501Y.V2	20H (V2)	+S:L18F	South Africa, May-2020	18-Dec-2020
Gamma	P.1	GR/501Y.V3	20J (V3)	+S:681H	Brazil, Nov-2020	11-Jan-2021
Delta	B.1.617.2	G/478K.V1	21A, 21I, 21J	+S:417N +S:484K	India, Oct-2020	VOI: 4-Apr-2021 VOC: 11-May-2021
Omicron*	B.1.1.529	GR/484A	21K	-	Multiple countries, Nov-2021	VUM: 24-Nov-2021 VOC: 26-Nov-2021

*see TAG-VE statement issued on 26 November 2021

* only found in a subset of sequences

Variants of Concern	Date of Designation	S&P End Value	1 Week Later	1 Month Later	3 Months Later	6 Months Later	12 Months Later	Event thru Present
Alpha	12/18/2020	3,709.41	0%	2%	6%	12%	27%	27%
Beta	12/18/2020	3,709.41	0%	2%	6%	12%	27%	27%
Gamma	1/11/2021	3,799.61	-1%	3%	9%	15%		24%
Delta	5/11/2021	4,152.10	-1%	2%	7%	12%		13%
Omicron	11/26/2021	4,594.62	-1%					3%
		Price Changes Only. Does not Include Dividends						
		Averages:	**-1%**	**2%**	**7%**	**13%**	**27%**	**19%**

Source: Kovitz using data from Bloomberg. As of 12.10.21

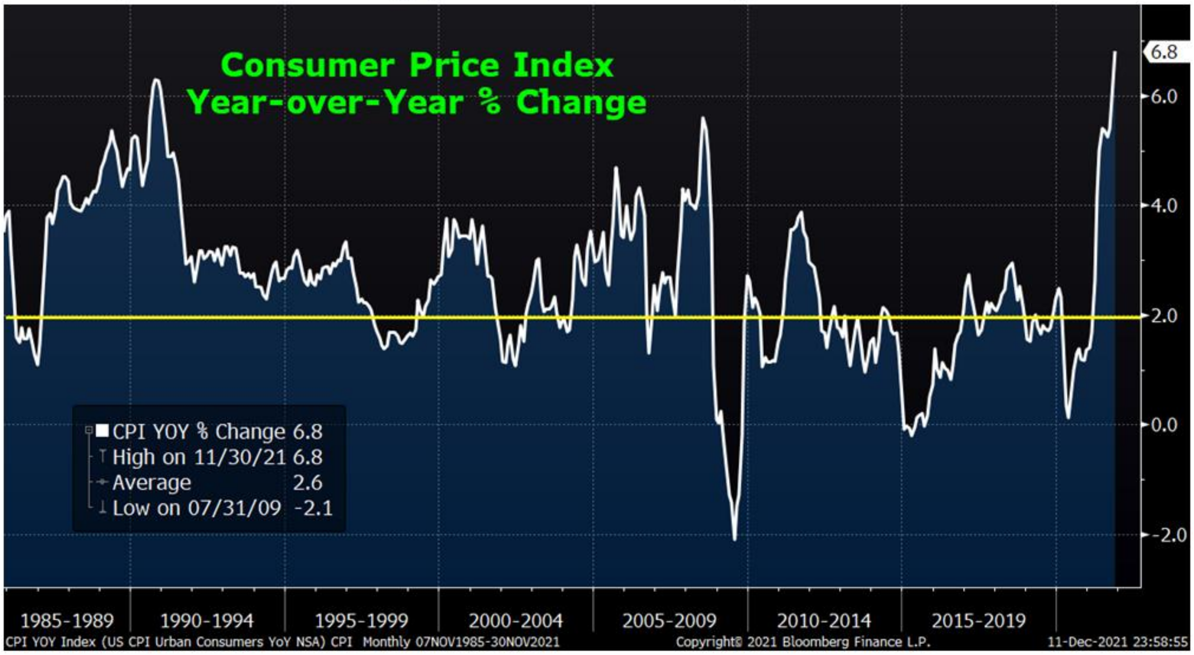
While there is still plenty to be learned about the Omicron Coronavirus variant, like transmissibility, disease severity, risk of reinfection and effectiveness of vaccines and therapeutics, this is the fifth Variant of Concern so designated by the World Health Organization (WHO). Stocks thus far have had pretty good immunity to the first four, including Delta.

…but some may be surprised by the equity advance, given that the important November consumer price index (CPI) inflation reading came in a bit hotter than expected.

THE PRUDENT SPECULATOR

INFLATION AT THE CONSUMER LEVEL HITS 39-YEAR HIGH

Inflation in the U.S. soared in November, with the Consumer Price Index rising by 6.8% on a year-over-year basis and 0.8% compared to the October reading, with hefty price hikes for groceries, gasoline, vehicles, home furnishings, rent and clothing the main drivers.



To be sure, students of market history understand that equities have proven to be a very good inflation hedge, on average, with Value stocks performing extraordinarily well, again on average, following CPI levels of 6% or higher.

THE PRUDENT SPECULATOR

EQUITY RETURNS AND 6%+ INFLATION – VALUE STOCKS THE PLACE TO BE

THE WALL STREET JOURNAL WEEKEND

SATURDAY/SUNDAY, DECEMBER 11 - 12, 2021 - VOL. CCLXXVIII NO. 138

U.S. Inflation's Persistent Rise Hits Fastest Pace in 39 Years

BY GWYNN GUILFORD

U.S. inflation reached a nearly four-decade high in November, as strong consumer demand collided with pandemic-related supply constraints.

The Labor Department said the consumer-price index—which measures what consumers pay for goods and services—rose 6.8% in November from the same month a year ago. That was the fastest pace since 1982 and the sixth straight month in which inflation topped 5%.

The so-called core price index, which excludes the often-volatile categories of food and energy, climbed 4.9% in November from a year earlier. That was a sharper increase than October's 4.6% rise, and the highest rate since 1991.

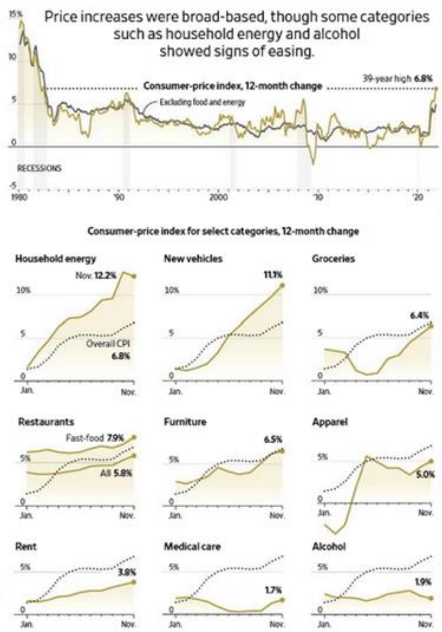
The increase in prices for new vehicles, which came in at 11.1% in November, was the largest on record, as were those for men's apparel and living room, kitchen and dining room furniture. A 7.9% surge in fast-food restaurant prices last month marked the sharpest on record too.

The steady rise in restaurant prices during the past few months is a sign of pass-through from wages into higher prices, economists say. That dynamic is increasingly showing up in other industries. Wages tracked by the Atlanta Fed climbed 4.3% in November, up from 4.1% in October and the highest since 2007.

Some energy prices showed signs of easing—in part be-

Please turn to page A4

◆ Fed under pressure to pare back stimulus.......... A4
◆ Heard on the Street: Inflation's warm-up act.... B16



Source: Labor Department via the Federal Reserve Bank of St. Louis

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

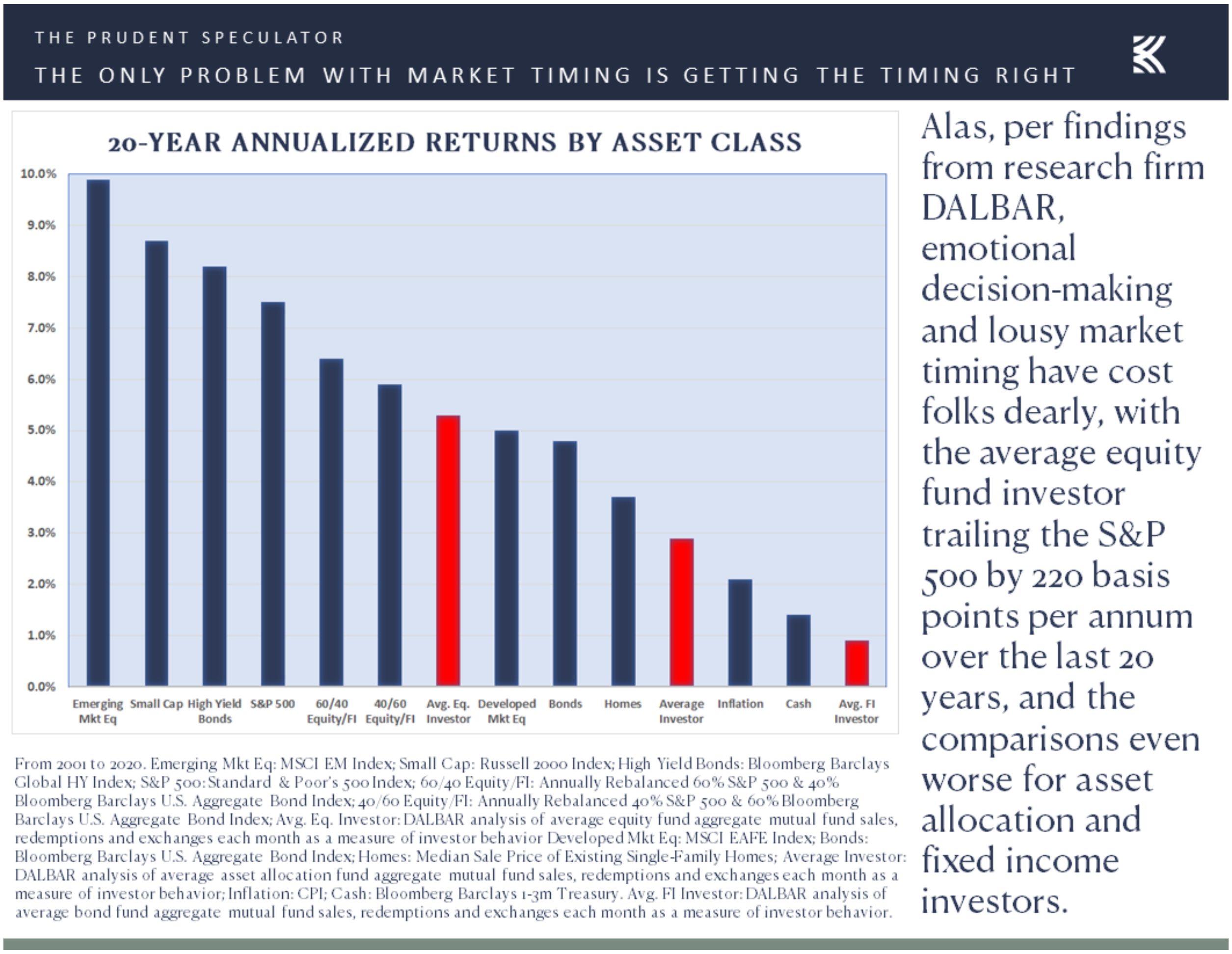
Source: Kovitz using data from Ibbotson Associates 03.31.57 - 03.31.21.

Inflation Rate < 6.0% and Ensuing Value/Growth Returns Since 1957

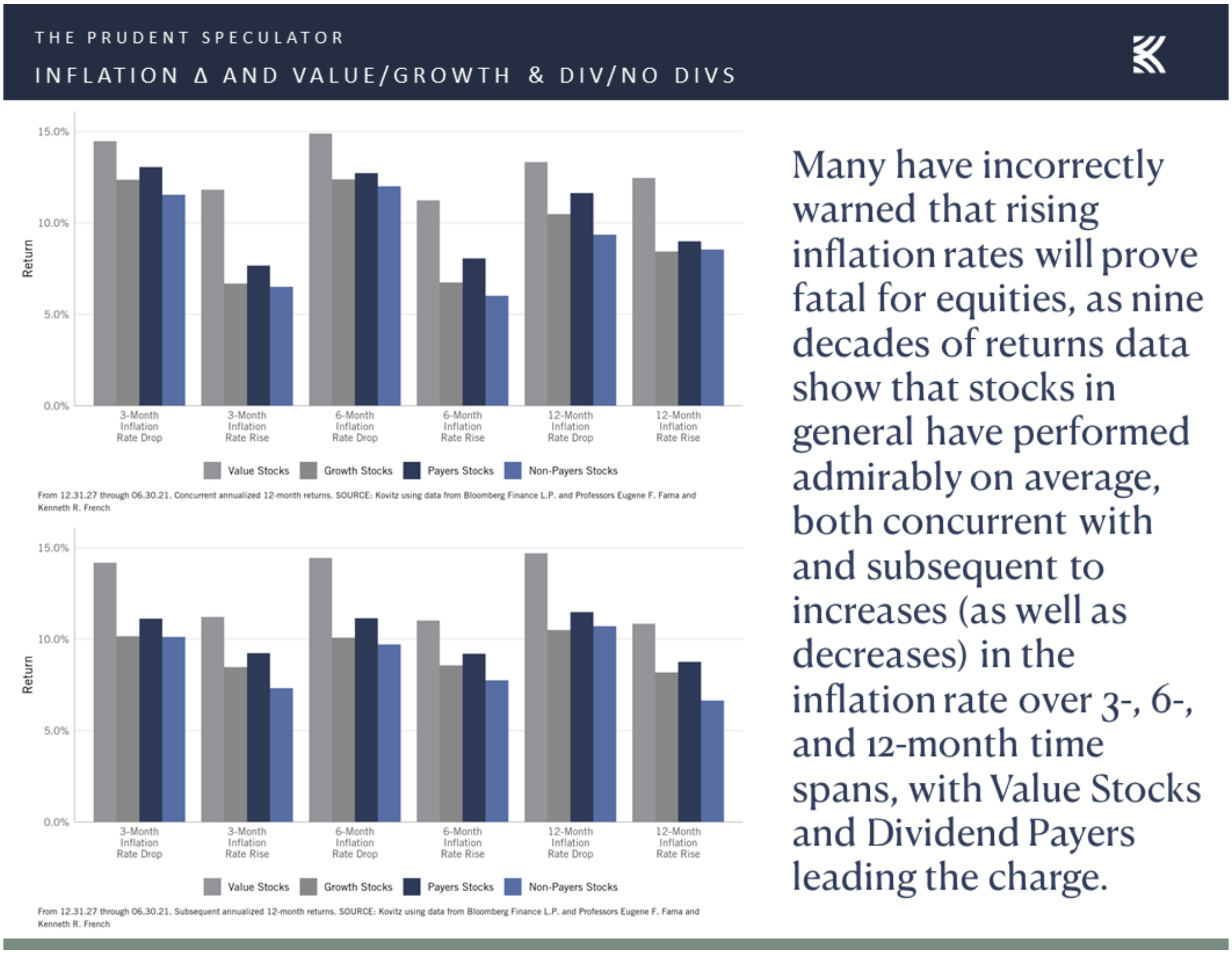
Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	3.5%	2.8%	7.1%	5.6%	14.0%	10.7%
Geometric Average	3.1%	2.4%	6.1%	4.7%	12.2%	8.9%
Median	4.0%	3.3%	7.9%	6.2%	16.1%	12.2%
Max	37.8%	32.5%	68.5%	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.

Sadly, and part of the reason so many investors end up with lousy overall returns over the long term,…



…it seems that very few market pundits bother to do much homework to show what has happened to stocks when previous instances of the currently disconcerting event have occurred.



Of course, sometimes the supposed experts also forget that it is a market of stocks and not simply a stock market as they offer dire warnings that maintaining exposure to richly priced equities may be perilous.

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	15.6	13.9	1.2	2.5	2.2
ValuePlus	16.1	13.8	1.5	2.4	2.0
Dividend Income	14.2	13.2	1.0	2.3	2.7
Focused Dividend Income	15.2	13.9	1.2	2.5	2.4
Focused ValuePlus	15.2	14.5	1.5	2.8	2.1
Small-Mid Dividend Value	12.1	11.2	0.7	1.7	2.4
Russell 3000	28.5	23.2	2.8	4.5	1.2
Russell 3000 Growth	42.1	34.1	5.1	13.1	0.7
Russell 3000 Value	20.9	16.9	1.9	2.5	1.9
Russell 1000	26.6	22.8	3.0	4.7	1.3
Russell 1000 Growth	39.4	33.2	5.6	14.4	0.7
Russell 1000 Value	19.3	16.8	2.0	2.6	1.9
S&P 500 Index	25.8	22.4	3.1	4.8	1.3
S&P 500 Growth Index	35.6	30.7	6.0	11.5	0.6
S&P 500 Value Index	19.2	16.7	2.0	2.8	2.1
S&P 500 Pure Value Index	12.0	10.6	0.8	1.4	2.4

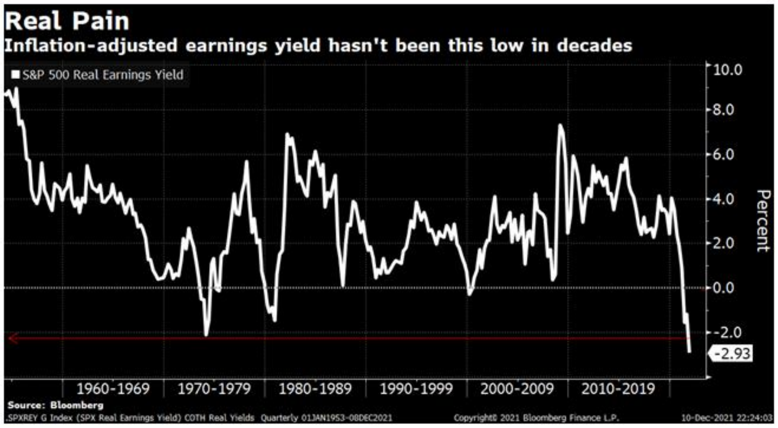
As of 12.11.21. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Kovitz using data from Bloomberg Finance L.P.

This was the case last week when *The New York Times* featured research from a prominent Wall Street strategist who argued that stocks may be in trouble because the big jump in inflation and rise in stock prices has pushed the earnings yield on the S&P 500 below zero.

The last time the S&P 500 had a negative real earnings yield, the Bank of America analysts said, was in 2000, before the tech bubble burst. It also happened twice during the stagflation of the 1970s and ’80s. This year, the S&P 500’s real earnings yield turned negative months ago, but it really sank recently as inflation has marched higher.

THE PRUDENT SPECULATOR

NEGATIVE REAL EARNINGS YIELD: ANOTHER VALUE STOCK BUY SIGNAL?



Negative Real Earnings Yield

Annualized Ensuing Equity Returns

	3/31/1974		12/31/1980		3/31/2000	
	Value	Growth	Value	Growth	Value	Growth
Ensuing Year	0.4%	-9.2%	16.0%	-9.0%	22.3%	-33.4%
Ensuing 3 Years	20.2%	7.0%	28.9%	8.9%	-0.6%	-21.2%
Ensuing 5 Years	19.9%	10.8%	26.0%	9.5%	13.0%	-5.5%
Ensuing 10 Years	22.1%	12.9%	16.5%	8.1%	7.3%	-1.3%

Source Kovitz using data from Professors Eugene F. Fama and Kenneth R. French. Annualized forward returns starting each period.

With the financial press parroting seemingly worrisome analysis from a prominent market strategist suggesting that stocks are in trouble due to the fourth such instance of a negative real (inflation-adjusted) earnings yield in the last 50 years, we crunched the numbers to see what really transpired in the ensuing periods after those three prior occurrences. Once again, the facts show that folks should consider with a skeptical eye warnings of impending doom, especially when the historical evidence generally suggests the opposite...for those who favor Value stocks.

Given what the returns in the chart above show for Value stocks, we would have no problem with history repeating, despite the headline, *Corporate Profits are not Keeping up with Inflation, a Warning Sign for the Marke*t, served up by the *Times*.

Frankly, given where interest rates reside, we think the nominal (actual) earnings yield is a positive for equities in general,…

THE PRUDENT SPECULATOR

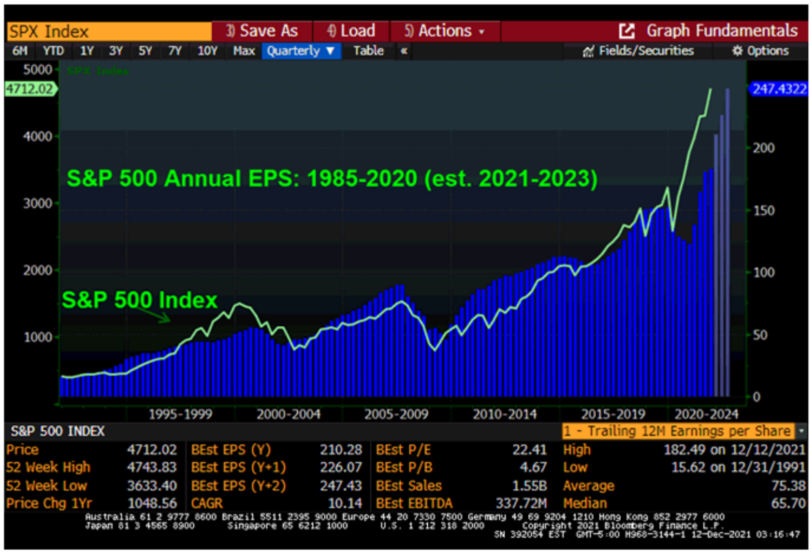
INTEREST RATES STILL VERY SUPPORTIVE OF STOCKS

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 (3.87% vs. 1.48% 10-Year) and S&P 500 dividend yield of 1.28%.

…especially as corporate profits should continue to deliver handsome growth,…

FANTASTIC EPS GROWTH LIKELY IN '22 AND '23 ESTIMATES ARE STRONG

Q3 2021 earnings reporting season was terrific on both an absolute and a relative basis. Of course, full-year 2020 COVID-19-impacted EPS were miserable, so a massive rebound was expected, but estimates have been moving higher for 2022 and 2023.



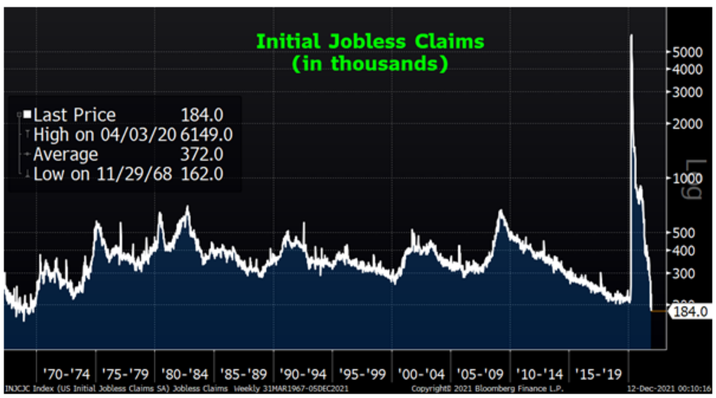
S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2022	$57.36	$219.68
9/30/2022	$56.61	$212.81
6/30/2022	$54.31	$208.35
3/31/2022	$51.40	$206.09
12/31/2021	$50.49	$202.10
9/30/2021	$52.15	$189.79
ACTUAL		
6/30/2021	$52.05	$175.54
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 12.8.21

…given relatively favorable economic data,…

THE PRUDENT SPECULATOR

NEAR RECORD JOB OPENINGS AND UNEMPLOYMENT FILINGS HAVE TUMBLED



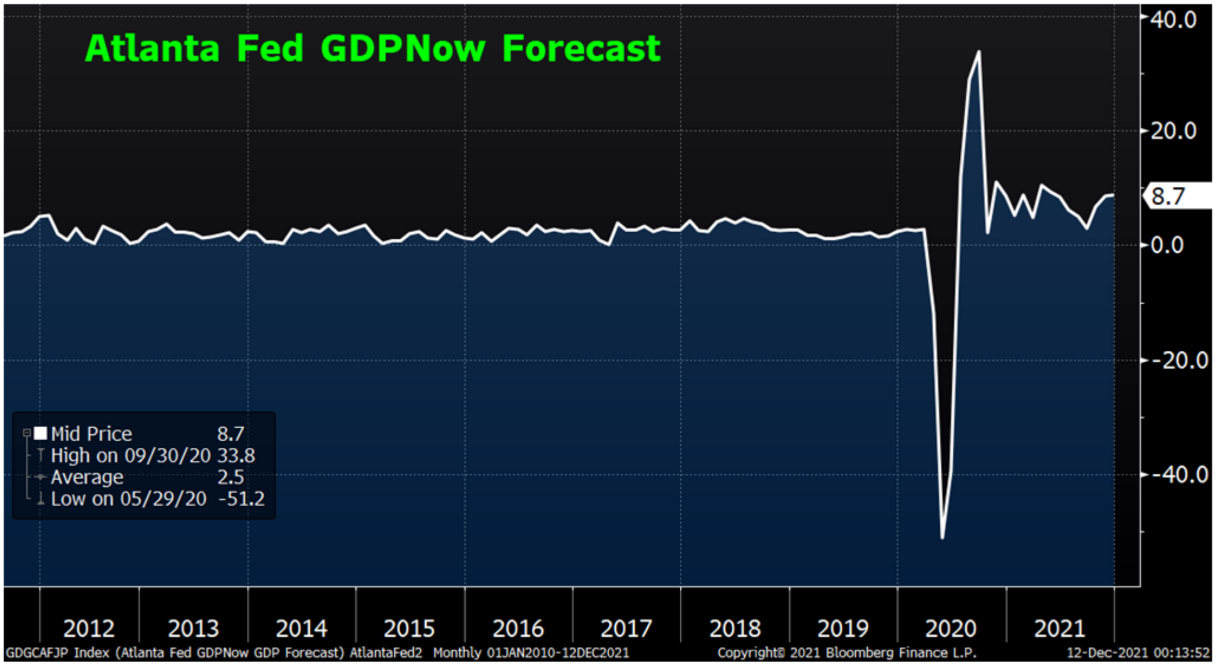
The November employment report saw a weaker-than-expected 210,000 new payrolls created, but businesses continue to have difficulty finding qualified employees as the number of job openings in October came in at 11.0 million, not far below the all-time high set three months prior. The labor picture is still a work in progress, but looking at more current data, first-time filings for jobless benefits fell to 184,000 in the week ending December 4, a new pandemic low

…and a robust near-term economic outlook.

THE PRUDENT SPECULATOR

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

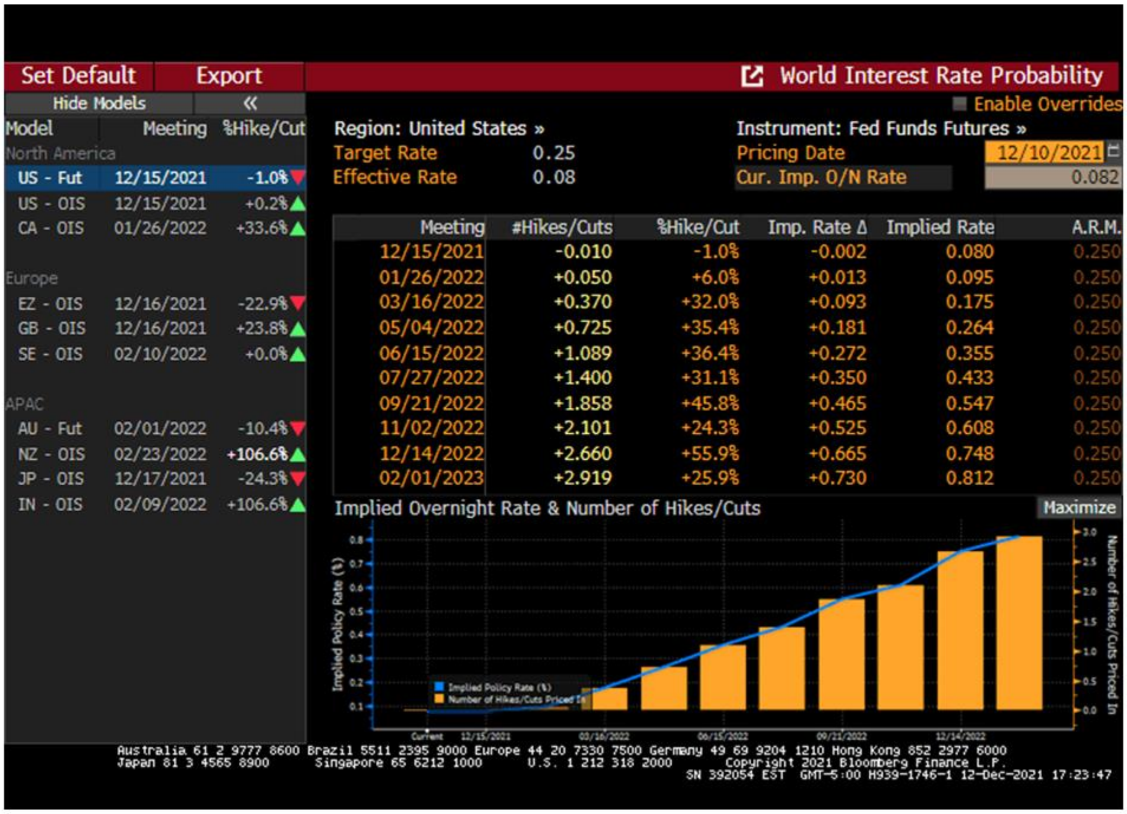
While Q1 and Q2 2021 saw an acceleration, the economic rebound slowed in Q3 to 2.0%, but the Atlanta Fed's current projection for Q4 2021 GDP growth on an annualized basis stands at a very robust 8.7%.



True, we must remain braced for more near-term volatility, especially as Federal Reserve Chair Jerome H. Powell and his colleagues at the Federal Open Market Committee meet for the final time in 2021 this week. Traders will be keen to pick up any signs of a more hawkish or dovish tone, but the equity markets seem comfortable with the current expectation of two to three hikes in the Federal Funds rate next year.

THE PRUDENT SPECULATOR

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



Some will argue that a less accommodative Fed is a headwind for equities, but the numbers we have crunched on interest rate environments should provide some comfort for those who share our long-term appreciation for inexpensively priced stocks. Yes, stocks do not perform as well in rising rate environments, but Value stocks have had solid returns, on average.

THE PRUDENT SPECULATOR
FED TIGHTENING – VALUE & DIVIDEND PAYERS THE PLACE TO BE

Rates Change and Equities Rise

Beginning Rate	Rate Environment	Start Date	End Date	Large Stocks	Small Stocks	Value Stocks	Growth Stocks	Div. Payers	Non-Payers
9.0%	FALLING	01.31.1970	02.29.1972	15.5%	8.0%	18.5%	13.5%	2.3%	15.5%
3.3%	RISING	03.31.1972	07.31.1974	-9.3%	-19.5%	-8.9%	-23.4%	-30.8%	-9.8%
12.9%	FALLING	08.31.1974	01.31.1977	20.2%	40.9%	38.6%	24.7%	31.2%	25.2%
4.6%	RISING	02.28.1977	06.30.1981	12.1%	35.8%	21.0%	21.6%	36.7%	14.7%
19.1%	FALLING	07.31.1981	02.28.1983	14.5%	21.4%	28.6%	13.5%	7.9%	15.5%
8.5%	RISING	03.31.1983	08.31.1984	11.2%	9.1%	18.1%	0.4%	-6.1%	10.1%
11.6%	FALLING	09.30.1984	10.31.1986	25.1%	14.1%	26.4%	18.5%	11.0%	26.1%
5.9%	RISING	11.30.1986	03.31.1989	11.2%	7.3%	12.4%	6.3%	5.6%	10.8%
9.9%	FALLING	04.30.1989	12.31.1992	13.5%	9.2%	12.3%	13.9%	12.0%	13.8%
2.9%	RISING	01.31.1993	04.30.1995	10.4%	12.7%	10.6%	5.2%	10.6%	9.6%
6.1%	FALLING	05.31.1995	01.31.1999	29.4%	14.1%	24.0%	21.3%	28.6%	27.2%
4.6%	RISING	02.28.1999	07.31.2000	12.1%	30.1%	15.2%	26.7%	36.5%	4.4%
6.5%	FALLING	08.31.2000	12.31.2003	-7.5%	10.8%	10.6%	-9.0%	-17.9%	2.9%
1.0%	RISING	01.31.2004	03.31.2007	9.5%	11.1%	15.2%	7.7%	8.6%	10.5%
5.3%	FALLING	04.30.2007	02.28.2014	5.7%	7.3%	4.1%	8.2%	9.9%	5.6%
0.1%	RISING	03.31.2014	04.30.2019	11.6%	5.7%	7.1%	11.9%	13.5%	10.6%
2.4%	FALLING	05.31.2019	09.30.2021	23.3%	19.8%	20.4%	31.5%	33.1%	20.9%
			AVERAGE	**12.3%**	**14.0%**	**16.1%**	**11.3%**	**11.3%**	**12.6%**
			FALLING	**15.5%**	**16.2%**	**20.4%**	**15.1%**	**13.1%**	**17.0%**
			RISING	**8.6%**	**11.5%**	**11.3%**	**7.0%**	**9.3%**	**7.6%**

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

Traders always have their ears to the ground, the expectation being that some little-known or a mosaic of well-known information might return improved investment opportunities in advance of changing prices. Most popular among these tactics are routine observations of supply chains, whereby many try to estimate end-product sales or demand through trends with parts suppliers. We suspect few supply chains are followed more closely than those of **Apple** (AAPL – $179.45), and new supply chain reports are always seeming to crop up. Of course, lots of it them are inaccurate or are otherwise not meaningful, while sometimes good information conflicts. Such was the case over the past two weeks when reports that parts suppliers were seeing reduced orders sent AAPL shares plunging, only to watch them recover and then some this past week on word that the company has apparently been telling suppliers to speed up deliveries. It's hard to say which is correct, or both reports might be for reasons other than Apple's demand changes (such as a reallocation between suppliers).

Of course, the supply chain speculation might be less important than Apple's legal victory against Epic last week. An appeals court placed a stay on an injunction that would have forced Apple to start accepting third-party payments on third-party applications on iOS devices beginning December 9. The stay, which is not a final and grants more time for the appeals court to fully consider the facts of the case, was an important victory for AAPL as it seeks to protect high margins for its App Store sales and for in-app purchases. We expect the legal battle will continue for many months and it's possible that the case ends up in front of the Supreme Court considering that the stakes are high.

While the valuation metrics certainly are not inexpensive, the market capitalization is an incredible $2.95 trillion and Apple generally remains the largest holding in our accounts, we continue to be content to let our remaining ownership ride for the time being, with our Target Price having been boosted to $190.

System software firm **Oracle** (ORCL – $102.63) posted adjusted earnings per share of $1.21, versus the $1.11 estimate, in fiscal Q2 2022. ORCL had sales of $10.36 billion, higher than the $10.21 billion estimate. CEO Safra Catz said the "fantastic quarter" can be attributed to a strengthening U.S. dollar, ORCL's differentiated strategy to combine applications and infrastructure in the cloud and highly capable second-generation autonomous cloud. Fantastic might not be a strong enough adjective as ORCL shares soared more than 15% on Friday in response to the results.

Founder Larry Ellison took a couple of shots at competitors, "In the old days with SAP, customers built [new features] themselves. They went out and hired Accenture or somebody else, IBM Services when it was IBM Services, to build these features for them. Now the new model is — you don't customize your product. You don't have to. Give us your list of new features that you need, and we'll build them and put them in the next release. And we can build them faster than you can. And you might have to wait 3 months or 4 months or 5 months before you get them a new version, but you get them quickly. And we're the ones that build them. And they're part of the standard product. They are not some customization that you have to maintain forever. So they're not expensive. In fact, they're free. They come with the product. This is radically different than what SAP offers in their — in what they call their cloud product, which I say is not a true cloud product because they don't have new versions every 3 months. They don't have new versions every 3 years in their so-called cloud product. You make all the same modifications you used to make by hiring people and customize. That's not the new model. That's not how it works in a real cloud system. That's a fundamental — and every time they go in and modify the system, what if they make a mistake? What if they have a bug? That's going to make the system less reliable and more expensive, potentially slower. That doesn't happen with real cloud systems. We, the vendor, are responsible for enhancing it and then testing it on a regular cadence and responding to their requirements and delivering things to them in months, not years. We're also on schedule to deliver some unprecedented new technology. We — won't be long before when our customers upgrade every 3 months, they upgrade. And sometimes, they're down for an hour or so, and we're going to — we're on schedule to deliver 0 downtime upgrades. So it won't be long now when our customers move to the new version. There'll be no downtime. Nobody else has this. Nobody else is working on."

Mr. Ellison continued, "Fusion ERP has been around — out for a while, and we are beginning to roll up entire industries. We're adding the features for banking. I think on an earlier quarterly call, I said our 2 largest investment strategic industries, going forward, in ERP would be banking and health care. Not — maybe not just ERP, but for the company in total will be banking and health care, and we're doing extremely well in those industries. Some of our live banking and financial service customers include JPMorgan, Bank of America, Bank of New York Mellon, HSBC, State Street, NatWest, Santander, Macquarie… Health care, the other industry I identified as being strategic and above the — and on par with banking in terms of the importance of our — to our future. So large health care customers include Kaiser, Cleveland Clinic, Providence St. Joseph."

Mr. Ellison had a "confession to make" at the end of his segment, "We are not on our way to building a $20 billion cloud ERP business in 5 years. I think it's going to be a lot bigger than that. Let me explain why. As more and more companies adopt and run Oracle Cloud ERP, I ask the question: What does a B2B procurement transaction look like? In other words, how does it work when one Oracle Cloud ERP system is talking to another Oracle Cloud ERP system and placing an order? We are working in concert with our banking and logistics partners to originate purchase financing, products shipped, delivery tracking, invoicing and payments right inside the 2 transacting Oracle Cloud ERP procurement system. Oracle Cloud ERP will soon bring an entirely new level of automation to B2B commerce, one that very much resembles the ease of doing business and efficiency of B2C e-commerce. This new ERP automation system, all these new capabilities will dramatically simplify our customers' procurement and supply chain processes. And as such, it represents a huge new opportunity for Oracle to grow its cloud ERP ecosystem."

Ms. Catz discussed the outlook, "I'm going to start by reiterating our expectation that full year 2022 revenue growth will accelerate from 2021 for all the reasons we've already seen so far this year. Given the strong performance in the first half, I now expect that we will see full year total revenue finish solidly in the mid-single digits, led by cloud revenue growth exiting the year in the mid-20s. Cloud is fundamentally a more profitable business compared to on-premise, and I expect that our operating margins this year will be the same or better than pre-pandemic levels of 44%…In Q3, assuming currency exchange rates remain the same as they are now, which we have no idea if they will or not, I expect we will see a currency headwind of 3% for revenue and $0.05 for EPS in Q3. Total revenue for Q3 is expected to grow between 6% to 8% in constant currency and grow between 3% to 5% in USD… [adjusted] EPS for Q3 is expected to grow between 2% and 6% in constant currency and be between $1.19 and $1.23 in constant currency."

Oracle repurchased 77 million shares for $7 billion in the quarter, bringing the total percentage of shares that the company has bought back over the past decade to 47%. The Board of Directors added $10 billion to the share repurchase authorization and kept the quarterly dividend at $0.32. Thanks to the soaring price, the yield now stands around 1.2%, though the forward P/E is under 21 and the free cash flow yield is 2.5%. Although the YTD total return on the stock is now above

60%, we remain excited by ORCL's best-in-class product offerings. We like founder Larry Ellison's first-place-or-nothing mentality and like Safra Catz's management of day-to-day operations. Having already taken some of our big ORCL winnings off the table, we have hiked our Target Price for the remainder of our stake to $111.

Shares of **Broadcom** (AVGO – $631.68) soared more than 8% on Friday, following the company's Thursday evening fiscal Q4-estimate-beating financial release. The semiconductor giant earned an adjusted $7.81 per share, versus the analyst consensus of $7.77. Revenue was $7.41 billion, compared to the projection of $7.36 billion. Revenue rose 15% year-over-year, propelled by a rebound in enterprise demand, strong wireless growth and the seasonal boost from new smartphones in North America.

CEO Hock Tan commented, "Our core software business continues to be steady with a focus on strategic customers. On the supply side, our lead times remain extended and stable. Inventory in our channels and at our customers remains very lean. Accordingly, in Q4, semiconductor solutions revenue grew 17% year-on-year to $5.6 billion and with infrastructure software revenue growing 8% year-on-year to $1.8 billion. Consolidated net revenue was a record $7.4 billion, up 15% year-on-year."

Mr. Tan continued, "In Q1, semiconductor revenue, excluding wireless is expected to be up 28% year-on-year. Wireless is expected to grow flat to low single-digit percentage compared to the peak of a year ago. So semiconductor revenue in total is expected to grow 17% year-on-year again, and consolidated revenue is expected to grow 14% year-on-year. Sequentially, this will drive revenue to grow from $7.4 billion in Q4 to $7.6 billion in Q1. We are very well positioned in every one of our franchise markets in fiscal '22 and beyond. We continue to significantly out-invest anyone else across our platforms, in switching and routing, offload compute, silicon photonics and wireless connectivity to accelerate our next-generation road maps as we continue to gain market share."

In addition to the favorable Q4 and strong Q1 guidance, Broadcom raised its quarterly dividend to $4.10 per share, a hike of 14%, and launched a $10 billion share repurchase program that is effective through December 2022. Mr. Tan said the new repurchase program "reflects our confidence in the company's ability to generate strong and sustainable cash flow."

Despite stumbling out of the gate, AVGO shares have risen more than 44% this year, thanks to the company's successful efforts under Mr. Tan to diversify and execute. Supply chain issues have been every CEO's go-to excuse this earnings season, and we were happy to hear Mr. Tan say lead times are stable, even if they are longer than usual. With Friday's inflation print, the theme is top of mind again. We think supply-demand dynamics will vary by business and those that are able to lower the impact and/or manage costs are likely to see both earnings growth and multiple expansion for the foreseeable future. We think AVGO fits in that mold, as both earnings and multiples have grown this year. Still, AVGO's metrics remain inexpensive relative to its peer group, with a NTM P/E ratio under 20, a 5% free cash flow yield and 2.6% dividend yield. Our Target Price has been lifted to $677.

Shares of **Comcast** (CMCSA – $48.45) shed over 6% last week as the global media, cable and entertainment company's expected addition of 1.3 million high-speed internet customers for the year fell short of analyst expectations for 1.4 million subscribers. This implies just 185,000 of new high-speed internet customers for Q4, well below the 538,000 it added in the same quarter a year ago.

Comcast Cable CEO Dave Watson added, "We continue to invest in innovation in the network and a real focus around connectivity. And the big drivers during this period continues to be, we have multiple growth drivers against a variety of large addressable market areas, so we're going to continue to focus on that. These — the shift towards connectivity continues to improve margins, and we're doing this in a way that, while we're going to aggressively and appropriately invest in our network and innovation, we have stable CapEx intensity, and we expect that to continue. And a core part of our go-to-market approach is packaging and taking multiple products surrounding broadband with it and really driving down churn. Churn is terrific right now. I'll talk about that in a second. So, when you add all these things up, to give you perspective financially where we are for the fourth quarter, we now expect that for EBITDA, we're going to be in the 7% to 8% range for the fourth quarter. When you look at free cash flow, we expect free cash flow to be in the low double digits. And so the formula is working. We continue to have really consistent, solid performance.

If feels like déjà vu, given that just a few months ago CFO Michael Cavanaugh threw water on seemingly enthusiastic expectations for Q3, when he said that additions would slow in Q3 versus the same quarter in 2019, given the strong performance early in the pandemic, but a strong Q4 would make the six-month comparison about 10% better than the pre-pandemic figure.

Producing over half of the firm's total revenue, we note the capital intensive, yet competitively advantaged nature of the cable business, and like that management intends to continue investing in the quality infrastructure as web access has become an indispensable utility for most. Meanwhile, theme park performance continues to improve, and we think NBC media assets will be able to remain competitive despite the changing landscape, particularly within sports. CMCSA continues to produce substantial cash flow and trades for less than 15 times analysts forward earnings estimates. With shares sliding 20% since the end of August, the dividend yield is back over 2.0%. Our Target Price is now $65.

Shares of **CVS Health** (CVS – $98.86) rallied more than 8% last week, thanks in large part to a favorable response to the health care giant's Investor Day. Management bumped its 2021 EPS estimate to at least $8.00 and illustrated its plan to achieve double-digit EPS growth by 2024. This effort leans on primary care offered through more than 600 enhanced CVS HealthHub locations while co-branded (CVS & Aetna) insurance offerings are expanding to eight new states in 2022. Management said it expects between $8.10 and $8.30 of EPS in 2022.

CVS CEO Karen S. Lynch explained, "Now is the time to undertake our next major evolution and capitalize on our role as the leading health solutions company in America by leaning into our high-growth foundational businesses and expanding our reach in areas like health services and primary care, we have an opportunity to shift care to be more centered around the consumer while capturing a meaningfully greater portion of health care spend. Ultimately, this plan is only possible with our unique combination of assets which will allow us to lower costs, increase access to quality care and improve health outcomes for consumers, patients and members – while delivering superior results for shareholders."

Although the competitive landscape isn't getting any less challenging and there seemingly is always a regulatory cloud in the operational sky, we think there is plenty of runway ahead to improve access to care using CVS's integrated health care delivery model. We appreciate that scale benefits from the Aetna acquisition are starting to show through, with cost savings allowing the company to raise its quarterly dividend for the first time since 2017 to $0.55 per share. While shares have had a solid run in 2021 (up nearly 45% year-to-date) we continue to find them attractive, trading for just 12.4 times NTM adjusted earnings estimates and yielding 2.2% after the dividend increase. Our Target Price for CVS has been boosted to $132.

Uncertainty over the future of current **Volkswagen** (VWAGY – $31.04) CEO Herbert Diess has weighed on shares of the German automaker in the latter half of 2021. A standoff ensued between the Porsche-Piëch family (the Volkswagen Group's largest shareholders) and German unions after Mr. Diess' suggestion in September of a 30,000-person job cut roiled its labor base. But Mr. Diess and his backers (including the Porsche-Piëch family) reached an agreement for him to stay in his post, while ceding responsibility for the Group's mass-market brands to VW brand chief Ralf Brandstätter.

The German automaker also has several additional irons in the fire, with chatter of a Porsche IPO, the ongoing chip shortage and a possible deal for its battery division making headlines just in the past week. Three distinct partnerships were announced to supply materials for the battery division, supporting plans to build six large-cell factories with partners across Europe. The unit is targeted to reach sales of 20 billion euros by the end of the decade.

With regard to Porsche, management attributed the news to speculation, but many see the cash afforded by a deal as needed to fund the Groups electric vehicle effort. We would not be surprised or opposed if a deal comes to fruition. We think the current valuation of the enterprise significantly undervalues the sports car maker and have previously written of the luxury brand's significant profitability and cash generation. We think Porsche would command a significant multiple if offered independently and note that competitor Ferrari trades at an enterprise value multiple of over 40 times operating income expected for 2021! Such a multiple would value Porsche well over 100 billion euros.

We continue to like VWAGY's differentiated brands that target volume (VW, Skoda, Seat), premium buyers even without Porsche (Audi, Lamborghini, Bentley), and trucks (MAN, Scania). We expect the chip shortages to be resolved in due time (although we have no concrete timeline) and we think highly of VW's electric car future. With plenty of enthusiasm remaining for often-profitless and even revenue-less stocks in the EV space, we continue to have a liking for value-priced Volkswagen. Our Target Price for VWAGY is $55.

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