Market Commentary Monday, December 20, 2021

December 19, 2021

EXECUTIVE SUMMARY

Omicron – Rising Cases But Pfizer Antiviral Remains Very Promising
FOMC Statement – Accelerated Tapering
FOMC Projections – Stronger GDP Growth and 3 Rate Hikes in 2022
Econ News – Mixed Numbers, but Chair Powell Relatively Upbeat
Historical Evidence – Tapering & Tightening Good for Value
Sentiment – Contrarian Positive: Big Jump in Bears
Stock News – Updates on PFE, MDT, IBM, FDX & JBL

Market Review

The week just ended was a volatile one with big moves occurring in both directions before the major market averages ended well into the red at Friday's close.

THE PRUDENT SPECULATOR

DOW JONES INDUSTRIAL AVERAGE ROLLER COASTER RIDE

With it Fed Week, the Dow Jones Industrial Average swung violently, reclaiming the 36000 level early on Thursday, before the so-called quadruple witching expiration of options, index options, single-stock futures and index futures contributed to a big end-of-week decline.

Clearly, significant increases in Omicron cases around the world did not help matters, even as the severity of the latest COVID-19 Variant of Concern still seems to be relatively mild and Pfizer's oral antiviral remains very promising.

GOOD COVID-19 NEWS & NOT-SO-GOOD OMICRON DEVELOPMENTS

HEALTH

Pfizer's Covid pill remains 89% effective in final analysis, company says

By Matthew Herper Dec. 14, 2021 Reprints

Paxlovid, Pfizer's pill to treat Covid-19
PFIZER

Paxlovid, Pfizer's pill to treat Covid-19, retained its 89% efficacy at preventing hospitalization and death in the full results of a study of 2,246 high-risk patients, the company said Tuesday.

In early November, Pfizer had released interim results from the first 1,219 patients in the study. But another oral antiviral targeting Covid, from Merck and Ridgeback Biotherapeutics, had seen estimates of its efficacy at preventing hospitalization drop from 50% to 30% between an interim result and a final one. A panel of experts advising the Food and Drug Administration on Nov. 30 recommended 13-11 that the Merck pill, molnupiravir, should be authorized for emergency use. The FDA has not announced a decision.

The oral medicines are seen as important because they could be much easier to deliver to infected people than existing drugs like monoclonal antibodies, which must be infused intravenously or injected.

Experts contacted by STAT breathed a sigh of relief that the Pfizer results held up, though all emphasized the need to more fully examine the data, which were shared in a press release, not a scientific publication.

"The protection from hospitalization is obviously fantastic," said Andrew Pekosz, vice chair of microbiology and immunology at the Johns Hopkins Bloomberg School of Public Health. "That number was a great number. The fact that it was conserved in that final analysis really points to this being a really important weapon in our arsenal to fight Covid-19 particularly as we see more variants that are going to be chipping at that efficacy number."

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WORLD

Omicron's Spread Prompts Canceled Holiday Events, Tightened Restrictions

President Biden plans to deliver remarks Tuesday, as cities and organizations cancel many holiday celebrations

Lining up outside the Barclays Center in Brooklyn, N.Y., on Saturday for Covid-19 tests.
PHOTO: ANDREW KELLY/REUTERS

By Jennifer Levitz Follow, Julie Wernau Follow and Anisha Dudi Patel Follow
Updated Dec. 18, 2021 10:06 pm ET

SAVE PRINT TEXT

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More places in Europe and the U.S. were tightening restrictions, canceling holiday gatherings and bracing for a surge in new Covid-19 cases, as officials worked to boost testing and healthcare capacity amid the rising risk from the Omicron variant.

The coronavirus's Omicron variant has been detected in 89 countries, and Covid-19 cases of the variant are doubling every 1.5 to 3 days in places with community transmission, the World Health Organization said Saturday. The variant is spreading rapidly even in countries with high levels of immunity in the population, the WHO said.

The Dutch government imposed lockdown measures, with all nonessential shops, bars and restaurants closed until mid-January.

Paris canceled its traditional New Year's Eve festivities on the Champs-Élysées. London Mayor Sadiq Khan declared a "major incident" in the British capital following what he said was the largest daily rise in cases in the city since the pandemic began, with 26,000 new cases recorded in the latest 24 hours.

With trading volumes likely to be lighter in the week ahead, news on the health front will remain very important to the near-term direction of stocks (the futures are suggesting a selloff at the open when trading resumes today), even as equities have managed to hold up well against the COVID-19 Variants of Concern thus far,…

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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%	25%	25%
Beta	12/18/2020	3,709.41	0%	2%	6%	12%	25%	25%
Gamma	1/11/2021	3,799.61	-1%	3%	9%	15%		22%
Delta	5/11/2021	4,152.10	-1%	2%	7%	12%		11%
Omicron	11/26/2021	4,594.62	-1%					1%
Price Changes Only. Does not Include Dividends								
		Averages:	**-1%**	**2%**	**7%**	**13%**	**25%**	**17%**

Source: Kovitz using data from Bloomberg. As of 12.17.21

While many questions remain about Omicron it appears to be much more contagious, but far less lethal than other COVID-19 variants. Still, given the seasonal surge in cases, governments are taking aggressive steps to protect hospitals from being overrun via new restrictions and even lockdowns. Of course, vaccines still provide protection, while oral antiviral treatments are nearing approval.

…and against viruses in general over the years.

THE PRUDENT SPECULATOR

VIRUSUS HAVE YET TO KILL THE STOCK MARKET

September 29, 2014

March 30, 2020

Magazine Cover	Date	S&P End Value	3 Months Later	6 Months Later	12 Months Later	36 Months Later	60 Months Later	Event thru Present
Time Magazine: The Aids Hysteria	7/4/1983	168.91	-2%	-1%	-9%	49%	61%	2636%
Time Magazine: The Truth About	5/5/2003	926.55	4%	14%	21%	43%	52%	399%
Time Magazine: Avian Flu	9/26/2005	1,215.63	4%	7%	10%	0%	-6%	280%
Time Magazine: H1N1 How Bad	8/24/2009	1,025.57	8%	8%	3%	38%	94%	351%
Bloomberg BusinessWeek: Ebola Is Coming	9/29/2014	1,977.80	6%	4%	-5%	27%	50%	134%
Time Magazine: Coronavirus	3/30/2020	2,626.65	18%	28%	51%			76%
Price Changes Only. Does not Include Dividends								
		Averages:	**6%**	**10%**	**12%**	**31%**	**50%**	**646%**

Source: Kovitz using data from Bloomberg. As of 12.17.21

August 24, 2009

September 26, 2005

May 5, 2003

July 4, 1983

In reality, Omicron was probably a supporting actor last week. The Federal Reserve was the star of the show,…

With multi-decade highs on U.S. inflation measures, it wasn't a great surprise that at the mid-December FOMC Meeting, the Federal Reserve announced a doubling in the pace of the tapering of its bond purchase program and suggested that there will be two to three hikes in the Fed Funds rate in 2022.

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What's News

Business & Finance

The Fed set the stage for a series of rate increases beginning next spring, completing a policy pivot that showed much greater concern about the potential for inflation to stay high. A1

◆ Stocks rose after the Fed meeting, with the S&P 500, Dow and Nasdaq ending the session up 1.6%, 1.1% and 2.2%, respectively. Treasury yields edged higher. B1, B11

◆ The SEC issued a raft of proposals, including measures aimed at shoring up money-market funds and curbing executives' ability to trade their own companies' stock. A1

◆ U.S. retail sales rose modestly at the start of the holiday season, as shoppers faced rising inflation and supply shortages. A2

◆ Anchorage Capital Group is closing its flagship hedge fund after 18 years and returning the $7.4 billion it manages to clients. B1

◆ Airline executives answered lawmakers' questions about the travel recovery at a hearing to evaluate the success of aid to the carriers. B1

◆ Hackers linked to China and other nations are believed to be seeking to exploit the Log4j software flaw. B1

◆ Reddit said it has confidentially filed paperwork with the SEC for an initial public offering. B2

World-Wide

Fed Maps Out 2022 Rate Increases

Officials project at least three rises, set plans to more quickly reduce bond purchases

By Nick Timiraos

The Federal Reserve set the stage for a series of interest-rate increases beginning next spring, completing a major policy pivot that showed much greater concern about the potential for inflation to stay high.

Most central-bank officials, in projections released on Wednesday at the conclusion of their two-day meeting, penciled in at least three quarter-percentage-point rate increases next year. In September, around half of those officials thought rate increases wouldn't be warranted until 2023.

For months, Fed leaders stuck to a view that stronger price pressures this year were caused primarily by supply-chain bottlenecks and would ease on their own, but Fed Chairman Jerome Powell in recent weeks signaled much less conviction about that forecast, and the projections Wednesday suggest most of his colleagues share his concern.

Stocks closed higher as investors welcomed the Fed's messages. The S&P 500 rose 1.6%, reversing earlier declines and ending the day near a record. The Dow Jones Industrial Average added about 383 points, or 1.1%. The Nasdaq Composite Index surged 2.2%. Treasury yields rose as well.

One immediate sign of officials' increased urgency: They approved plans that will more quickly scale back their pandemic stimulus efforts, ending a program of asset purchases by March instead of June. That opens the door for them to start raising rates at their second scheduled meeting next year, in mid-March.

The Fed wants to end the asset purchases, a form of economic stimulus, before it lifts its short-term benchmark rate from zero to prevent inflation

Please turn to page A2

Fed officials' median interest-rate forecast at the end of the next two years has risen sharply

Source: Federal Reserve

◆ Inflation, shortages hold back retail sales A2

◆ Stock prices rise after Fed's shift on rates B1

◆ Heard on the Street: Fed move isn't without risks... B12

President Pledges Help to Rebuild Tornado-Ravaged Towns

Colleges, Companies Respond To Rising Outbreaks

A sharp rise in Covid-19 cases and concern about the fast-spreading Omicron variant are stirring new uncertainty about the pandemic, with several colleges reinstating remote learning, companies delaying return-to-office dates and some event organizers rethinking crowds.

By Omar Abdel-Baqui, Jennifer Calfas and Douglas Belkin

Upending the last days of the fall term before winter break, Princeton University, Cornell University, Middlebury

"All the News That's Fit to Print" The New York Times Late Edition

Today, breezy and partly sunny, record warmth, high 63. Tonight, partly cloudy, breezy, mild, low 53. Tomorrow, partly cloudy, warm, high 60. Weather map, Page B12.

VOL. CLXXI .... No. 59,274 © 2021 The New York Times Company NEW YORK, THURSDAY, DECEMBER 16, 2021 $3.00

Evaporation ponds run by the state lithium company at the vast salt flats in Bolivia, which has a quarter of the world's known lithium.

MEISHIN KURIYAMA FOR THE NEW YORK TIMES

Energy Riches In Bolivia Lure Global Suitors

By Clifford Krauss

SALAR DE UYUNI, Bolivia — The mission was quixotic for a small Texas energy start-up: Beat out Chinese and Russian industrial giants in unlocking mineral riches that could one day power tens of millions of electric vehicles.

A team traveled from Austin to Bolivia in late August to meet with local and national leaders at a government lithium complex and convince them that the company, Tu-

Trump Loyalists Turned Election Lies Into Action

This article is by Katie Benner, Carie Edmondson, Luke Broadwater and Alan Feuer.

How Meadows Worked With Lawmakers to Ramp Up Pressure

WASHINGTON — Two days after Christmas last year, Richard P. Donoghue, a top Justice Department official in the waning days of the Trump administration, saw an unknown number appear on his phone.

Mr. Donoghue had spent weeks fielding calls, emails and in-person requests from President Donald J. Trump and his allies, all of whom asked the Justice Department to declare, falsely, that the election was corrupt. The lame-duck president had surrounded himself with a crew of unscrupulous lawyers, conspiracy theorists, even the chief executive of MyPillow — and they were stoking his election lies.

Mr. Trump had been handing out Mr. Donoghue's cellphone number so that people could pass on rumors of election fraud. Who could be calling him now?

It turned out to be a member of Congress: Representative Scott Perry, Republican of Pennsylvania, who began pressing the president's case. Mr. Perry said he had compiled a dossier of voter fraud allegations that the department needed to vet. Jeffrey Clark, a Justice Department lawyer who had found favor with Mr. Trump, could "do something" about the president's claims, Mr. Perry said, even if others in the department would not.

The message was delivered by an obscure lawmaker who was doing Mr. Trump's bidding. Justice

Continued on Page A20

ON DEFENSE Two Fox News hosts stood by text messages they sent during the Capitol riot. PAGE B1

FED PROJECTS RISE IN INTEREST RATES TO TAME INFLATION

Slows Effort to Boost Pandemic-Battered Economy as Prices Keep Jumping

By Jeanna Smialek

Federal Reserve policymakers moved into inflation-fighting mode on Wednesday, saying they would cut back more quickly on their pandemic-era stimulus at a moment of rising prices and strong economic growth, capping a challenging year with a policy shift that could usher in higher interest rates in 2022.

The central bank's policy statement set up a more rapid end to the monthly bond-buying program that the Fed has been using throughout the pandemic to keep money chugging through markets and to bolster growth. A fresh set of economic projections released on Wednesday showed that officials expect to raise interest rates, which are now set near zero, three times next year.

"Economic developments and changes in the outlook warrant this evolution," Jerome H. Powell, the Fed chair, said of the decision to pull back on bond purchases more quickly.

By tapering off its bond-buying faster, the Fed is doing less to stimulate the economy with each passing month, and putting the program on track to end completely in March.

That would place Fed policymakers in a position to raise interest rates — their more traditional and more powerful tool — sooner. The Fed has made clear it wants to end its bond-buying program before it raises rates, which would cool off demand by making it more expensive to borrow for a home, a car or expanding a business. That would in turn weigh on growth and, eventually, price gains. The Fed's new economic projections suggested rates, which have been at rock-bottom since March 2020, might rise to 2.1 percent by the end of 2024.

Continued on Page A18

MANDEL NGAN/THE NEW YORK TIMES

Jerome H. Powell, chair of the Fed, cited a heating economy.

…with Jerome Powell & Co. eliminating "transitory" from its inflation vocabulary and doubling the rate of the reduction of bond purchases to $30 billion per month so the buying program is now on track to end in March.

THE PRUDENT SPECULATOR

FOMC STATEMENT: 12.15.21

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

With progress on vaccinations and strong policy support, indicators of economic activity and employment have continued to strengthen. The sectors most adversely affected by the pandemic have improved in recent months but continue to be affected by COVID-19. Job gains have been solid in recent months, and the unemployment rate has declined substantially. Supply and demand imbalances related to the pandemic and the reopening of the economy have continued to contribute to elevated levels of inflation. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.

The path of the economy continues to depend on the course of the virus. Progress on vaccinations and an easing of supply constraints are expected to support continued gains in economic activity and employment as well as a reduction in inflation. Risks to the economic outlook remain, including from new variants of the virus.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent. With inflation having exceeded 2 percent for some time, the Committee expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment. In light of inflation developments and the further improvement in the labor market, the Committee decided to reduce the monthly pace of its net asset purchases by $20 billion for Treasury securities and $10 billion for agency mortgage-backed securities. Beginning in January, the Committee will increase its holdings of Treasury securities by at least $40 billion per month and of agency mortgage-backed securities by at least $20 billion per month. The Committee judges that similar reductions in the pace of net asset purchases will likely be appropriate each month, but it is prepared to adjust the pace of purchases if warranted by changes in the economic outlook. The Federal Reserve's ongoing purchases and holdings of securities will continue to foster smooth market functioning and accommodative financial conditions, thereby supporting the flow of credit to households and businesses.

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

The Fed also offered new economic projections that raised the 2022 outlook for U.S. GDP growth…

FED: WIDER VARIABILITY IN ECONOMIC PROJECTIONS

With the uncertainty surrounding the Omicron variant weighing, the Fed cut its consensus forecast for the magnitude of the U.S. economic recovery this year to real (inflation-adjusted) GDP growth of 5.5%, down from 5.9% just three months ago, but raised its outlook for GDP growth in 2022 to 4.0%. With the projection for the unemployment rate next year falling to 3.5% and inflation rising to 2.6%, Jerome H. Powell & Co. now expect a higher 0.9% Fed Funds rate, which is still very low.

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

Percent

Variable	Median[1]					Central Tendency[2]					Range[3]				
	2021	2022	2023	2024	Longer run	2021	2022	2023	2024	Longer run	2021	2022	2023	2024	Longer run
Change in real GDP	5.5	4.0	2.2	2.0	1.8	5.5	3.6–4.5	2.0–2.5	1.8–2.0	1.8–2.0	5.3–5.8	3.2–4.6	1.8–2.8	1.7–2.3	1.6–2.2
September projection	5.9	3.8	2.5	2.0	1.8	5.8–6.0	3.4–4.5	2.2–2.5	2.0–2.2	1.8–2.0	5.5–6.3	3.1–4.9	1.8–3.0	1.8–2.5	1.6–2.2
Unemployment rate	4.3	3.5	3.5	3.5	4.0	4.2–4.3	3.4–3.7	3.2–3.6	3.2–3.7	3.8–4.2	4.0–4.4	3.0–4.0	2.8–4.0	3.1–4.0	3.5–4.3
September projection	4.8	3.8	3.5	3.5	4.0	4.6–4.8	3.6–4.0	3.3–3.7	3.3–3.6	3.8–4.3	4.5–5.1	3.0–4.0	2.8–4.0	3.0–4.0	3.5–4.5
PCE inflation	5.3	2.6	2.3	2.1	2.0	5.3–5.4	2.2–3.0	2.1–2.5	2.0–2.2	2.0	5.3–5.5	2.0–3.2	2.0–2.5	2.0–2.2	2.0
September projection	4.2	2.2	2.2	2.1	2.0	4.0–4.3	2.0–2.5	2.0–2.3	2.0–2.2	2.0	3.4–4.4	1.7–3.0	1.9–2.4	2.0–2.3	2.0
Core PCE inflation[4]	4.4	2.7	2.3	2.1		4.4	2.5–3.0	2.1–2.4	2.0–2.2		4.4–4.5	2.4–3.2	2.0–2.5	2.0–2.3	
September projection	3.7	2.3	2.2	2.1		3.6–3.8	2.0–2.5	2.0–2.3	2.0–2.2		3.5–4.2	1.9–2.8	2.0–2.3	2.0–2.4	
Memo: Projected appropriate policy path															
Federal funds rate	0.1	0.9	1.6	2.1	2.5	0.1	0.6–0.9	1.4–1.9	1.9–2.9	2.3–2.5	0.1	0.4–1.1	1.1–2.1	1.9–3.1	2.0–3.0
September projection	0.1	0.3	1.0	1.8	2.5	0.1	0.1–0.4	0.4–1.1	0.9–2.1	2.3–2.5	0.1	0.1–0.6	0.1–1.6	0.6–2.6	2.0–3.0

Source: Federal Reserve, December 15, 2021

…and suggested the likelihood of as many as three hikes in the Fed Funds rate in 2022,…

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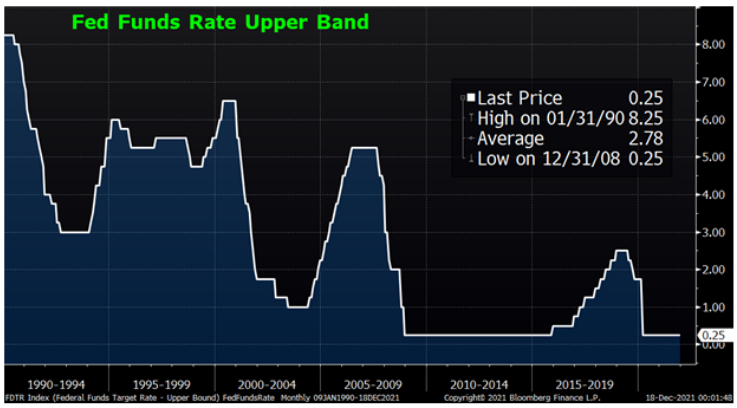
ACCOMMODATIVE FEDERAL RESERVE EVEN IF RATES MOVE UP SOMEWHAT

FOMC Participants' Fed Funds Rate Target Level Number with each projection					
Midpoint of Target Range	2021	2022	2023	2024	Longer Run
3.125				1	
3.000					2
2.875				4	
2.750					
2.625					
2.500					9
2.375				2	1
2.250				1	4
2.125			3	5	
2.000					1
1.875			5	5	
1.750					
1.625			3		
1.500					
1.375			5		
1.250					
1.125		2	2		
1.000					
0.875		10			
0.750					
0.625		5			
0.500					
0.375		1			
0.250					
0.125	18				
0.000					

Source: Federal Reserve, December 15, 2021

Stronger GDP growth in 2022, lower unemployment, higher inflation and more potential hikes in the Fed Funds rate than previously projected is not cause for alarm in our view. We would rather a more normal approach to monetary policy, especially as 15 of the 17 longer-run estimates for the Fed Funds rate are below the average rate since 1990.



…and a continuation of the improvement in the employment situation.

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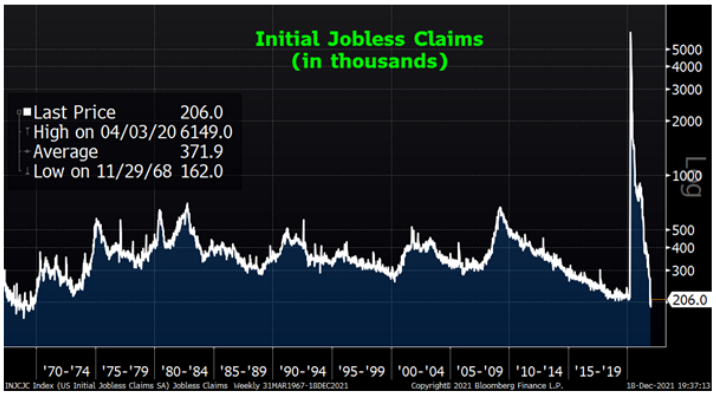
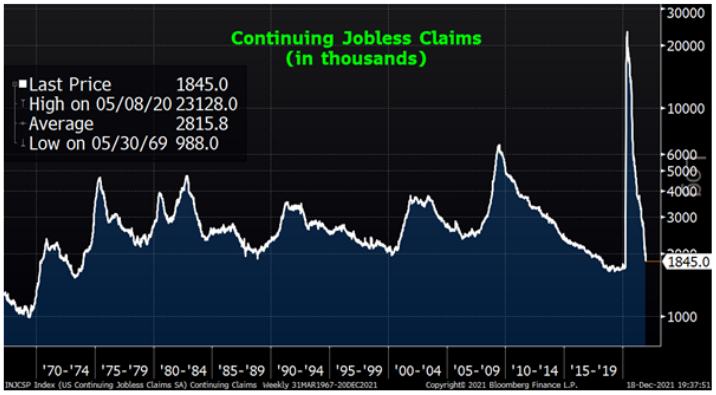
JOBLESS FILINGS AND CONTINUING CLAIMS WELL BELOW AVERAGE





While there is noise in the numbers due to seasonal holiday hiring, new filings for unemployment benefits for the period ended December 11 came in at a seasonally adjusted 206,000, up 18,000 from the week prior but still near a five-decade-plus low. Continuing claims filed through state programs fell to 1.85 million, hitting a new pandemic low, even as businesses continue to struggle to find workers.

No doubt, the strength of the economy is uncertain, with consumers not as willing to open their wallets in November,…

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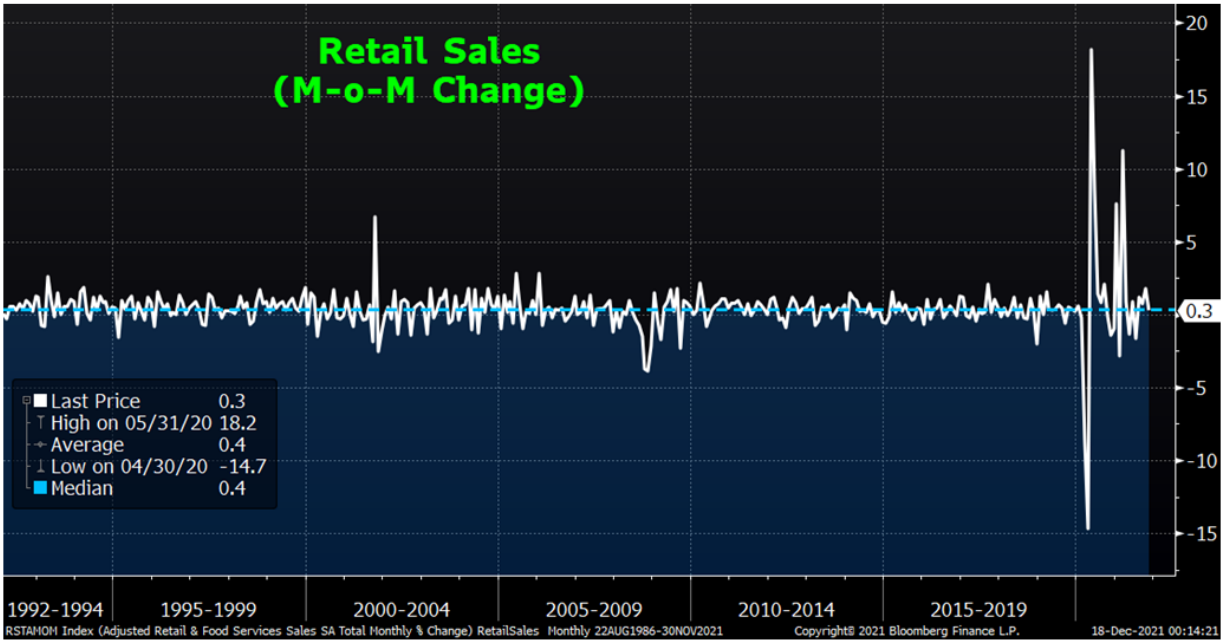
RETAIL SALES TRAIL EXPECTATIONS IN NOVEMBER

With higher inflation weighing on pocketbooks, retail sales rose 0.3% in November, the size of the gain down sharply from the 1.8% increase in October. Excluding autos, sales also rose 0.3%. Despite the latest relative softness, retail sales jumped 18.2% over the past 12 months.



…and the factory and services sectors seeing a modest drop in activity this month.

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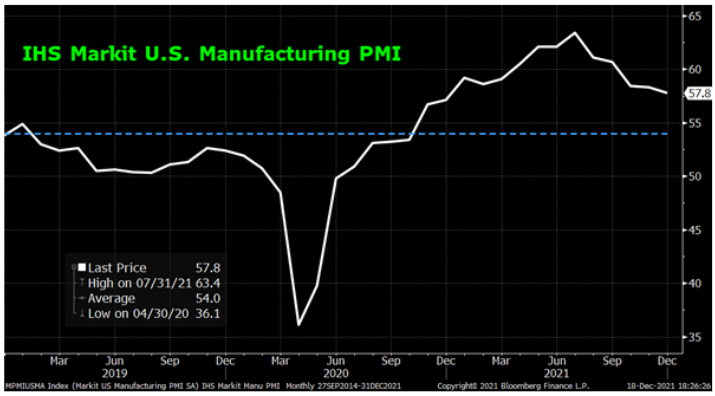
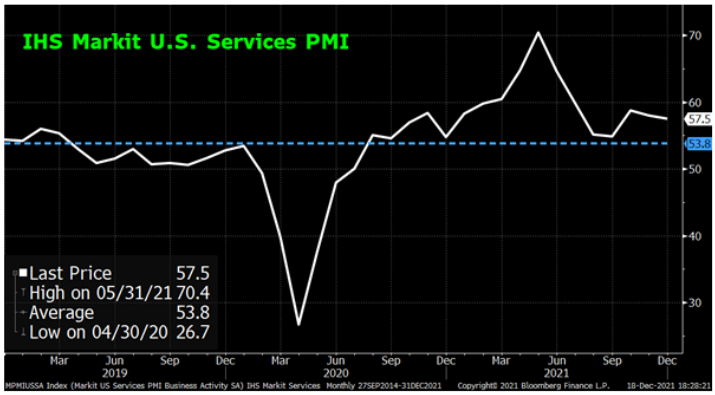
IHS MARKIT PMI READINGS PULL BACK IN DECEMBER



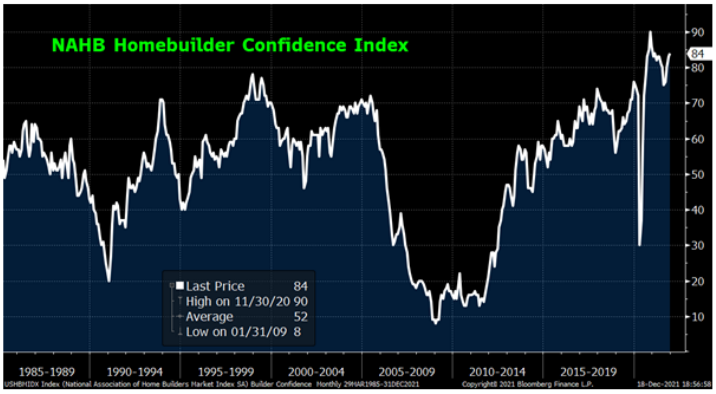


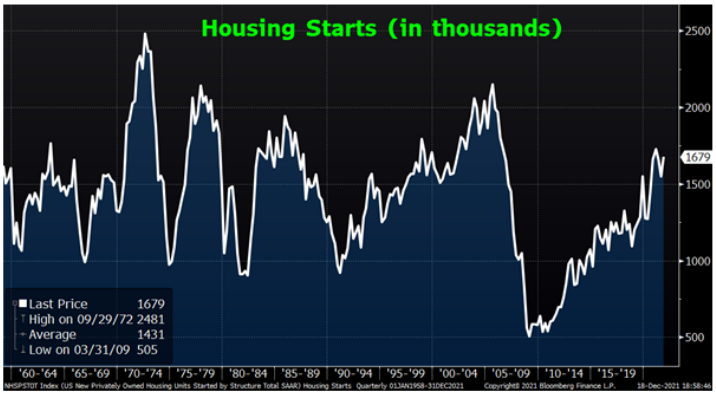
IHS Markit's preliminary U.S. PMIs for the factory and services sectors in December came in at 57.8 and 57.5, respectively, both modestly below expectations. IHS said, "The survey data paint a picture of an economy showing encouraging resilience to rising virus infection rates and worries over the Omicron variant. Business growth slipped only slightly during the month and held up especially well in the vulnerable service sector."

On the other hand, the latest housing numbers were favorable,…

THE PRUDENT SPECULATOR

HOUSING MARKET REMAINS STRONG

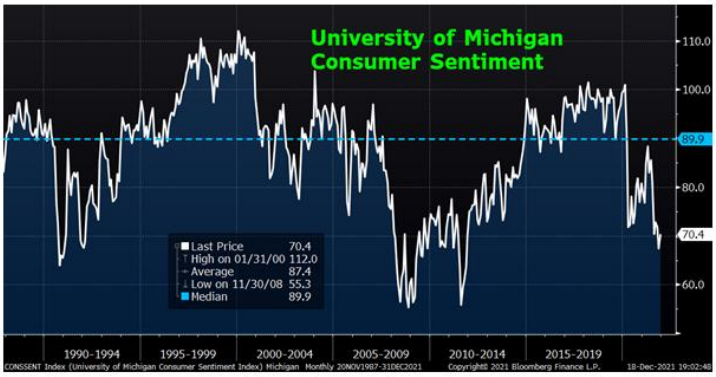




The National Association of Home Builders' monthly confidence index for December matched expectations, inching up to 84, its highest reading since May and well above the long-term average on the 35-year-old gauge. No doubt, home prices and rents rising at their fastest pace in years are boosting builder optimism, but higher materials and labor costs are keeping a lid on housing, though ground was broken on new homes at a hefty clip in November.

…and confidence measures improved somewhat.

MAIN STREET SENTIMENT IMPROVES MODESTLY



The NFIB Small Business Index for November edged up 0.2 points to 98.4, in line with the historical norm, with owners still struggling with shortages of supplies and skilled labor. The University of Michigan gauge of consumer sentiment this month rebounded to a better-than-expected 70.4, up from 67.4 in November, even as the measure remains pessimistic. Inflation expectations in the Michigan survey held steady at 4.9%, but that figure is the highest since 2008.

Obviously, time will tell how robust economic growth is next year, but Chair Powell was relatively upbeat in his comments at his Press Conference last week:

Economic activity is on track to expand at a robust pace this year, reflecting progress on vaccinations and the reopening of the economy. Aggregate demand remains very strong, buoyed by fiscal and monetary policy support and the healthy financial positions of households and businesses. The rise in COVID cases in recent weeks, along with the emergence of the Omicron variant, pose risks to the outlook. Notwithstanding the effects of the virus and supply constraints, FOMC participants continue to foresee rapid growth; as shown in our Summary of Economic Projections, the median projection for real GDP growth stands at 5.5 percent this year and 4 percent next year.

Amid improving labor market conditions and very strong demand for workers, the economy has been making rapid progress toward maximum employment. Job gains have been solid in recent months, averaging 378,000 per month over the last three months. The unemployment rate has declined substantially, falling six tenths of a percentage point since our last meeting and reaching 4.2 percent in November. The recent improvements in labor market conditions have narrowed the differences in employment across groups, especially for workers at the lower end of the wage distribution, as well as for African Americans and Hispanics. Labor force

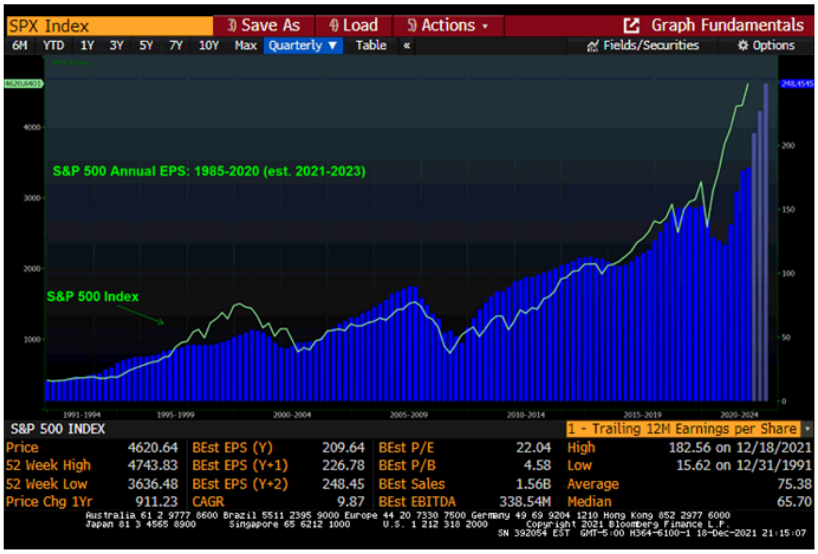
participation showed a welcome rise in November but remains subdued, in part reflecting the aging of the population and retirements. In addition, some who otherwise would be seeking work report that they are out of the labor force because of factors related to the pandemic, including caregiving needs and ongoing concerns about the virus. At the same time, employers are having difficulties filling job openings, and wages are rising at their fastest pace in many years. How long the labor shortages will persist is unclear, particularly if additional waves of the virus occur. Looking ahead, FOMC participants project the labor market to continue to improve, with the median projection for the unemployment rate declining to 3.5 percent by the end of the year. Compared with the projections made in September, participants have revised their unemployment rate projections noticeably lower for this year and next.

Those observations in mind, we think that corporate profits will continue to show solid growth next year and into 2023, which we believe is supportive of higher equity prices.

THE PRUDENT SPECULATOR

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

*****

Considering what happened to long-term U.S. government bonds (and equities) in the previous Fed Tapering back in 2013/2014,…

THE PRUDENT SPECULATOR

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

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

…it was somewhat surprising to see investors gravitate toward the 10-Year U.S. Treasury last week,…

SHORT-TERM MARKET MOVES DO NOT ALWAYS MAKE SENSE

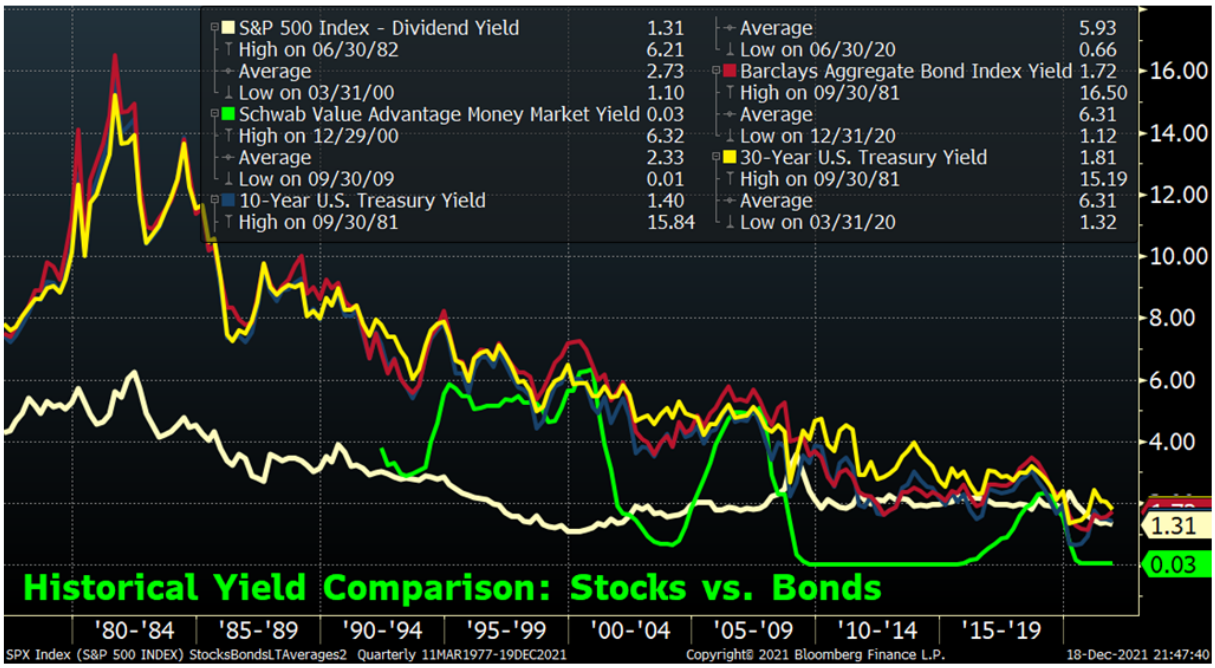
With inflation no longer seeming transitory, Jerome H. Powell & Co. accelerating the tapering and the Fed turning more hawkish on interest rates next year, it is interesting that traders piled into 10-Year U.S. Treasuries last week, sending the yield down 8 basis points to 1.40%.

…with the drop in bond yields, in our view, adding to the appeal of equities,…

THE PRUDENT SPECULATOR

EQUITY VS. FIXED INCOME YIELDS

Though stocks are not necessarily a substitute for cash, government or corporate bonds, the payout on the S&P 500 (1.31%) is generous versus the income provided by fixed income. Incredibly, **equities yield not much less than the Barclays Aggregate Bond Index and 44 times the yield of a "generous" Money Market Fund!**



…especially considering that stocks, led by Value, have enjoyed solid returns, on average, during Fed tightening cycles,…

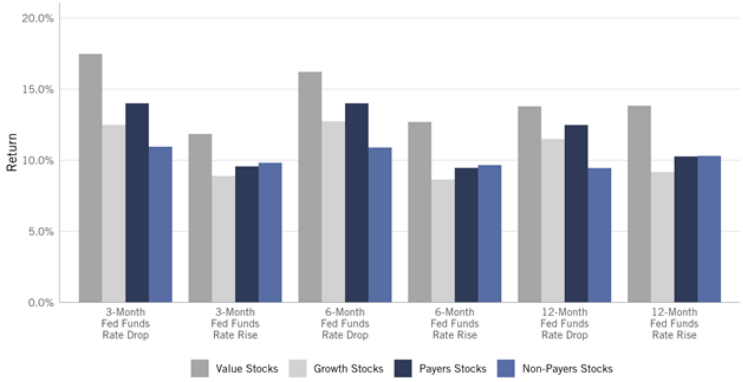
Rates Change and Equities Rise

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%**

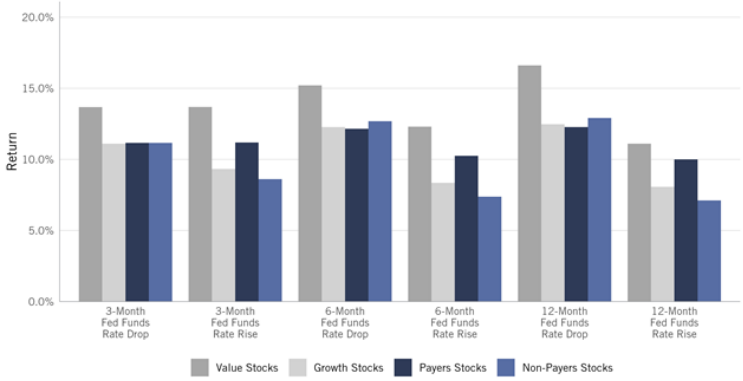
…while the historical evidence also shows good performance, on average, whether the Fed Funds rate is moving higher (and lower).

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.

Certainly, this does not mean that stocks are without downside risk as we know that anything can happen, especially in the short run, but we continue to think the odds favor the long-term equity investor,…

THE PRUDENT SPECULATOR

THE LONGER THE HOLD, THE LOWER THE RISK

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

PATIENCE IS VIRTUOUS

VALUE STOCKS

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

DIVIDEND PAYERS

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

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

…while the contrarian in us liked what we saw last week on the sentiment front.

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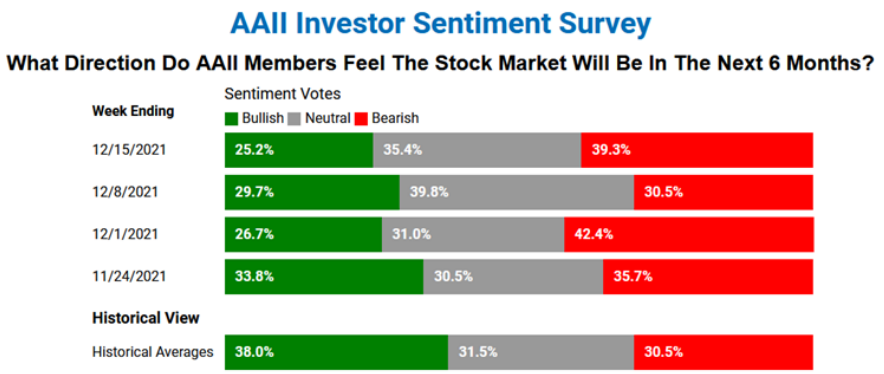
AAII BULLISHNESS SINKS & BEARISHNESS SOARS



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	915	0.27%	0.23%	1.28%	1.15%	3.67%	3.28%	7.13%	6.38%
ABOVE	8.1	62.9	877	0.17%	0.15%	0.50%	0.41%	1.97%	1.71%	4.64%	4.17%
Ten Groupings of 1792 Data Points											
1	-54.0	-15.0	183	0.56%	0.50%	2.14%	1.90%	5.85%	5.30%	10.57%	9.34%
2	-14.9	-7.3	176	0.35%	0.32%	1.03%	0.91%	3.80%	3.45%	7.04%	6.27%
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	182	0.09%	0.05%	1.10%	1.01%	2.96%	2.61%	6.34%	5.81%
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	12.0	160	0.10%	0.08%	0.37%	0.24%	1.63%	1.39%	4.73%	4.25%
7	12.1	16.5	179	0.20%	0.18%	0.68%	0.58%	2.46%	2.21%	5.11%	4.67%
8	16.5	22.0	187	0.17%	0.15%	0.73%	0.66%	2.15%	1.88%	6.12%	5.71%
9	22.0	29.1	171	0.09%	0.07%	0.40%	0.32%	2.04%	1.76%	4.43%	3.85%
10	29.1	62.9	180	0.27%	0.25%	0.31%	0.24%	1.51%	1.29%	2.76%	2.33%

From 07.31.87 through 12.16.21. 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 dropping 4.5 points from the week prior and the number of Bears jumping 8.8 points is a big positive. The minus 14.1 Bull-Bear spread is in the 2nd decile, where future returns have been very good.

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

Despite pulling back on Friday, shares of **Pfizer** (PFE – $59.48) continued their ascent, rising more than 12% last week as the pharmaceutical giant announced an acquisition, a dividend increase and that it now sees 2022 vaccine sales of $31 billion.

On Monday, Pfizer said that it would acquire for approximately $6.7 billion in cash Arena Pharmaceuticals, a clinical stage company developing innovative potential therapies for the treatment of several immuno-inflammatory diseases. "The proposed acquisition of Arena complements our capabilities and expertise in Inflammation and Immunology, a Pfizer innovation engine developing potential therapies for patients with debilitating immuno-

inflammatory diseases with a need for more effective treatment options," said Mike Gladstone, Global President & General Manager, Pfizer Inflammation and Immunology. "Utilizing Pfizer's leading research and global development capabilities, we plan to accelerate the clinical development of etrasimod for patients with immuno-inflammatory diseases."

In addition to continuing to invest in building out its pipeline, the company said it would be raising the quarterly dividend on its common stock to $0.40 per share. "The increase in dividend is a direct reflection of our strong financial performance and continued confidence in our current product portfolio and R&D pipeline," said CEO Dr. Albert Bourla.

Last, but certainly not least, PFE officials gave some updates on Friday concerning their COVID-19 vaccine and potential oral anti-viral COVID-19 treatment (Paxlovid). With many more people globally needing to be vaccinated, and the call for booster shots to spike antibodies to fight against the Delta and Omicron variants, PFE now sees 2022 COVID-19 vaccine sales climbing to $31 billion vs the $29 billion previously projected. That said, the company said it actually will have the ability to produce 4 billion doses in the year if needed.

During the analyst update, there weren't many in-depth details on Paxlovid, but there is still a lot of buzz as this would give PFE not only the vaccine for prevention, but also treatment for those that become infected. Management continued to share that Paxlovid showed a very strong ability to keep high-risk patients out of the hospital and/or keep them without severe symptoms, and currently is still being studied within standard risk patients. The testing is occurring within 5 days of the onset of symptoms. PFE says that it believes it can produce 80 million treatment courses in 2022.

Considering Pfizer overall, we continue to think there is still plenty of revenue opportunity related to the virus, both from boosters (and the possibility that the boosters are needed annually like a flu shot) and from the antiviral pill. We also believe that the market underappreciates Pfizer's emerging pipeline of products, which expands with the purchase of Arena, and management's increasing confidence in its organic growth potential. Shares trade for just 10.2 times COVID-boosted NTM earnings expectations and boast a dividend yield of 2.7%. Our Target Price for PFE has shot up to $69.

Providing the reminder that undervalued stocks can always become more so, sentiment further soured for **Medtronic PLC** (MDT – $100.63) on the news that the medical device maker had received a warning letter from the Food & Drug Administration. The FDA letter was a result of an inspection of its Diabetes HQ, and as a result, the company will recall its MiniMed™ 600 series insulin infusion pump as well as a remote controller device for MiniMed™ 508 and Paradigm™ pumps. We gather that Medtronic's Minimed 508 is no longer being marketed as it is not listed on the current product site, and the latest versions are 700 series products. Of course, the warning could lead to a delay in the FDA approval of its latest version (the 780G automated insulin delivery (AID) system) as well as possible reputational damage with the regulator.

We note that this is not the first warning Medtronic has received in recent years, having been issued a letter in 2018 regarding its Cardiac Unit, resulting in the recall of the Medtronic Cardiac Resynchronization Therapy with Defibrillation (CRT-Ds) and Implantable Cardiovert

Defibrillators (ICDs) models over a defect in the manufacturing process. As for the latest issue, management released a statement suggesting that, "Medtronic is not recommending any action by patients or their healthcare providers as a result of this warning letter."

Given that sales from Diabetes products were $2.5 billion out of more than $30 billion generated in fiscal 2021 (ended April), we suspect that the latest punishment of the stock may not fit the crime, insofar as operating performance is concerned. As we wrote just a few weeks ago, despite the latest rough patch, we still think very highly of MDT's terrific products for acute procedures and pipeline for a variety of chronic diseases. Additionally, and notwithstanding any hits to near-term performance from COVID-19 (or the FDA warning letter for that matter), we think Medtronic's competitive position in the med-tech space will remain intact. After a nearly 20% slide since September, we find shares of high-quality MDT attractive with a forward P/E ratio of 17, far below where they usually trade. The dividend yield is 2.5% though we have trimmed our Target Price to $141.

Just over a month since **International Business Machines** (IBM – $127.40) spun off its technology services business into **Kyndryl Holdings** (KD – $18.28), CEO Arvind Krishna has vowed to refocus Big Blue on the cloud and artificial intelligence to bring mid-single-digit growth by next year. In a conversation last w**e**ek with Bloomberg, Mr. Krishna referenced the more than a dozen acquisitions in these areas the firm has completed over the past year as evidence of the transformation. And some market watchers have even gone as far as deeming Mr. Krishna the next Satya Nadella, in a reference to Mr. Nadella's makeover of Microsoft into a cloud services powerhouse.

Like many, we are skeptical given our view of the enormity of the task at hand as certain businesses remain in decline (i.e. transaction processing software). On the one hand, we are pleased to see IBM double down on fast growing areas of technology with arguably much brighter prospects than the mainframe services business that was recently spun out. On the other, the firm's ability to commercialize its latest innovations are in question, given several false-starts in recent years even as competitors have raced ahead. Of course, given the gradual revenue slide over the past decade, should Mr. Krishna capitalize on his goal to achieve steady revenue growth in the quarters and years ahead, we think that there is tremendous upside potential in the stock price. In the interim, IBM continues to produce significant cash flow to support a substantial dividend (the yield is over 5%) and trades under 12 times estimated next-12-month EPS (a far lower earnings multiple than other major cloud players). At times a contentiously debated stock within our Investment Team, we are for the time being content to remain patient as management executes its current strategy. Our Target Price is $155.

Shares of **FedEx** (FDX – $250.32) gained 5% after the company reported a fiscal Q2 2022 that topped analyst estimates. The shipper earned $4.83 per share (vs. $4.27 est.) and had revenue of $23.5 billion (vs. $22.4 billion). After lowering fiscal 2022 guidance in September, management raised guidance back to the original level offered in June. FDX expects full-year EPS between $20.50 and $21.50 and capital expenditures around $7.2 billion, compared with $5.9 billion for 2021.

CEO Fred Smith commented, “We are seeing strong levels of volume in our network given unprecedented levels of shopping and shipping this holiday season. FedEx Ground had an outstanding Cyber Week, with 100 million packages picked up during the first official week of peak. Our ability to handle this influx of packages has been years in the making as we’ve taken deliberate steps to enhance our unparalleled network to support customers, large and small. This includes strategically adding more capacity across our network to support our growing customer base.”

Looking ahead, Mr. Smith said, “The FedEx business has been built over nearly 5 decades. And during that time, we have built networks and capabilities that are differentiated from our competitors and nearly impossible to replicate. Our customers and their customers value these networks and capabilities as we enable global supply chains to stay connected. This has never been illustrated more clearly than during the last two years of the global COVID pandemic. Our industry has proven to be absolutely critical in delivering during this pandemic, whether it is business-to-business or e-commerce. And within this industry, our strategy is unique. Our future growth and profitability will be driven by our strategy, and we will drive total shareholder value over the immediate, mid- and long term. There is solid momentum in our base business as we continue to lean into the dynamic growth of e-commerce amid a robust pricing environment…Ongoing investments, network capacity, automation and technology have helped FedEx build the most flexible and most responsive network in the industry, affording us significant competitive advantages.”

CFO Mike Lenz added, “[FedEx’s] improved outlook represents another outstanding financial year with a year-over-year increase in adjusted EPS ranging from 13% to 18%, following our strong 2021 results. While the second quarter exceeded our expectations, uncertainty remains across many fronts, including the labor market. We are closely monitoring developments related to the federal vaccine mandate, ongoing pandemic developments and inflation as we consider our outlook. Labor headwinds will persist in Q3, but the labor availability and network inefficiency component will continue to mitigate as we move through the quarter, given our progress to date and plans to address this. In addition, we do not expect a recurrence of approximately $1 billion in notable second half headwinds from a year ago that included the timing of variable compensation expense, historic severe winter weather, a onetime Express frontline bonus and our commitment to the Yale Carbon Capture initiative.”

The FDX benefit from the online spending boom has been dampened in part by the tight labor market. The company estimates that there was a $470 million negative impact from higher costs, which can be disaggregated into $230 million from higher transportation rates and $240 million from network inefficiencies due to labor shortages. FedEx also continues to spend capital to improve the business, including on its European operation, sorting facilities and delivery equipment.

Nonetheless, we think FDX shares remain inexpensive. With more than $20 of EPS expected in fiscal 2022 and nearly $23 in 2024, the forward P/E ratios are 12x and 11x, respectively, while the quarterly dividend of $0.75 per share could be increased. We appreciate that FDX has been using its free cash flow to grow the business, manage its debt load in its infrastructure-intensive business and make fleet changes. Our Target Price for FDX has been hiked to $370.

Electronic manufacturing services firm **Jabil, Inc.** (JBL – $65.58) earned an adjusted $1.92 per share in Q1 of fiscal 2022 (vs. $1.80 est.), a 20% improvement over the same quarter a year ago. Net revenue for the period was a record $8.57 billion, an increase of 9% year-over-year. JBL benefitted from strong demand from its health care, automotive and mobility clients in the DMS segment. The EMS segment also saw broad-based strength, resulting in a year-over-year revenue increase above 7%.

CFO Mike Dastoor explained, "Both segments [DMS and EMS] are in incredibly good shape. In September, I highlighted several long-term sustainable secular trends in strategically important end markets, such as Healthcare, Automotive, Cloud, Semi-Cap, 5G Infrastructure and the associated connected devices, along with power generation and energy storage. For the remainder of FY '22 and beyond, we continue to expect these secular trends to drive strong growth. Our electric vehicle business, in particular, continues to outperform in spite of global supply chain issues as the transition to ED accelerates. And importantly, our broad-based growth associated with these secular trends is expected to drive solid year-over-year core operating margin expansion in both segments, all of which gives us confidence in our ability to deliver strong financial results for FY '22. And a balanced capital allocation framework approach is aligned and focused on driving long-term value creation to shareholders."

Mr. Dastoor continued, "Turning to our second quarter guidance. DMS segment revenue is expected to increase 4% on a year-over-year basis to $3.8 billion, while the EMS segment revenue is expected to increase 14% on a year-over-year basis to $3.6 billion. We expect total company revenue in the second quarter of fiscal '22 to be in the range of $7.1 billion to $7.7 billion. Core operating income is estimated to be in the range of $290 million to $350 million. Core diluted earnings per share is estimated to be in the range of $1.35 to $1.55."

JABIL MADE POSSIBLE. MADE BETTER.

Our Portfolio
Intentionally Diversified and Evermore Resilient

DIVERSIFIED MANUFACTURING

$ in billions	FY20	FY21	FY22E
Auto & Transportation	$1.7	$2.2	$3.2
Healthcare & Packaging	$4.2	$4.5	$5.0
Connected Devices	$4.0	$4.5	$4.6
Mobility	$3.3	$4.2	$4.2
Total Revenue	**$13.2**	**$15.4**	**$17.0**
Core Operating Margin**	3.7%	4.8%	5.0%

ELECTRONICS MANUFACTURING

$ in billions	FY20	FY21	FY22E
Digital Print & Retail	$2.3	$2.3	$2.7
Industrial & Semi-Cap	$3.5	$3.4	$3.8
5G Wireless & Cloud	$5.5	$5.3*	$5.7
Networking & Storage	$2.8	$2.8	$2.6
Total Revenue	**$14.1**	**$13.9**	**$14.8**
Core Operating Margin**	2.7%	3.7%	3.9%

Numbers may not foot due to rounding.

* In FY21 Cloud transitioned to a consignment model.
** Core margin defined as core operating income divided by net revenue

9

Jabil ended Q3 with cash balances near $1.2 billion and $3.2 billion in available credit facilities (plus an additional $2.6 billion of debt outstanding at 3.38% with 6 years to maturity). Although JBL has a very modest dividend yield just shy of 0.5%, the company repurchased 2.1 million shares for $127 million. The company announced a new $1 billion buyback program back in July, extending the repurchases through 2023.

JBL gained nearly 3% following the report, bringing the YTD return above 55%. Management anticipates ongoing supply chain challenges (they are embedded in JBL's guidance), while demand for semiconductors has outstripped supply since 2019. We like the company's strong execution, diverse business (which management has worked consistently to improve since 2016) and very inexpensive valuation. Shares trade for less than 10 times forward earnings and analysts expect EPS growth of at least 7% in the upcoming three years. Even though we trimmed some of our JBL position earlier this year, we like the exposure JBL gives us to multi-year tailwinds in Cloud, 5G and the electrification of automobiles. Our Target Price has been increased to $81.