

Market Commentary Monday, December 27, 2021

December 26, 2021

EXECUTIVE SUMMARY

Happy Christmas – Somewhat Surprising Santa Claus Rally, All Things Considered
COVID-19 – Lots of Omicron Cases, But Still Appears Less Lethal; Antivirals Approved
Earnings Yield – Stocks Still Reasonably Priced Given Interest Rate Climate
Income – Equities Still Compare Favorably
TPS Valuations – Liking the Metrics for our Portfolios

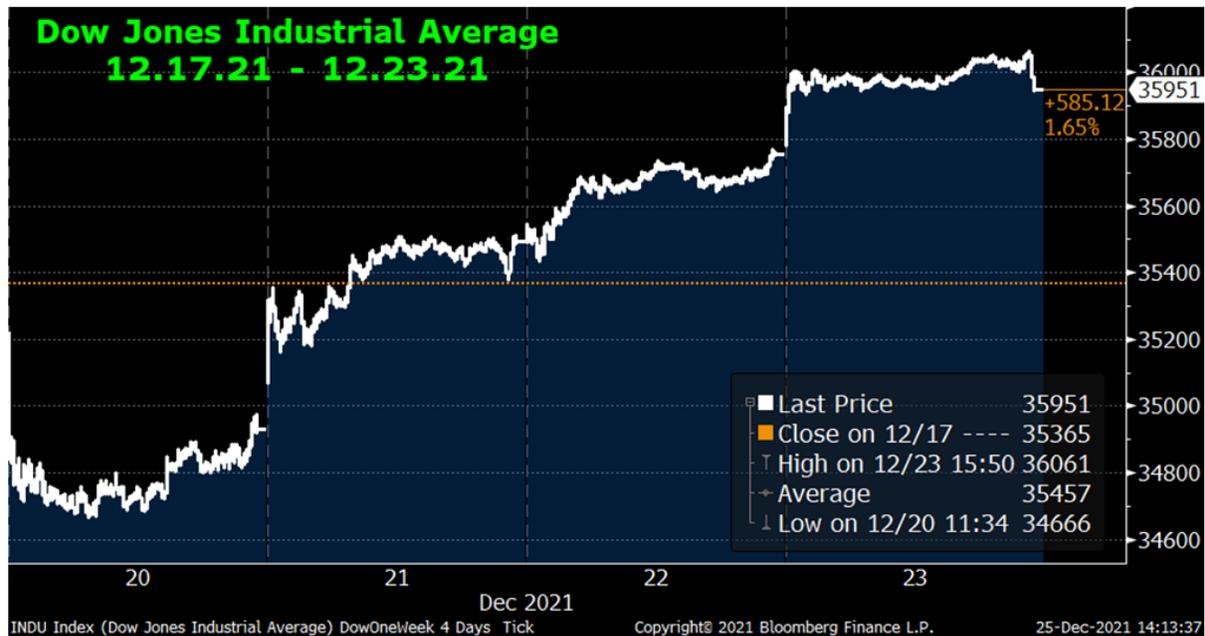
Market Review

We hope everyone enjoyed the Holiday. With most of the Investment Team traveling for Christmas, we offer a brief update this week.

Considering where things stood mid-day on Monday, and the proliferation of COVID-19 cases around the world during the week, Santa Claus delivered more than a few presents to equity market investors, with the Dow Jones Industrial Average reclaiming 36000 for a time on Friday, before closing 49 points below that milestone.



Even as COVID-19 cases continued to spike and governments in Europe imposed new lockdowns, stocks rebounded from a nasty selloff on Monday to close the holiday-shortened week sharply higher, illustrating again why time in the market trumps market timing.



No doubt, more evidence that Omicron is far less virulent helped the cause, with the United Kingdom Health Agency stating that those contracting the variant are 50% to 70% less likely to need hospital care compared to the previous variant. Also, cases in South Africa appeared to have peaked with hospitalizations remaining relatively stable, while the FDA delivered good news on the two COVID-19 antiviral pills.



FDA authorizes Pfizer pill to treat Covid-19 in patients as young as 12

By Matthew Herzer Dec. 22, 2021

Reprints



MARK LEMMONIAF

The Food and Drug Administration on Wednesday authorized Paxlovid, a pill developed and made by Pfizer, as a treatment for Covid-19, a significant step in the battle against the SARS-CoV-2 virus.

The drug was authorized for use in people as young as 12 so long as they weigh at least 88 pounds.

The authorization of an oral antiviral to beat back Covid has been eagerly anticipated because such a medicine could reach large numbers of people infected with the virus and prevent them from becoming seriously ill or hospitalized. Existing medicines, such as monoclonal antibodies, must be given intravenously or as injections.

Still, initial supplies of Paxlovid will be limited. Pfizer has said it expects to produce more than 180,000 courses of the treatment this year. The company said Wednesday it now expects to provide 120 million courses by the end of 2022, up from 80 million previously, thanks in part to new contract manufacturers. Pfizer has contracted with the U.S. government to provide 10 million courses by the end of 2022 at a cost of \$5.29 billion.

BIOTECH

FDA authorizes Merck's Covid-19 pill, but stresses its use should be limited

By Matthew Herzer Dec. 23, 2021

Reprints



MERCK

The Food and Drug Administration on Thursday granted emergency authorization to Merck's molnupiravir, an antiviral pill shown to reduce hospitalization and death in cases of Covid-19, but only in cases where other FDA-authorized Covid treatments are not accessible or clinically appropriate.

The approval comes a day after the FDA [authorized an antiviral pill from Pfizer](#) for much broader use in patients as young as 12.

"Today's authorization provides an additional treatment option against the COVID-19 virus in the form of a pill that can be taken orally. Molnupiravir is limited to situations where other FDA-authorized treatments for COVID-19 are inaccessible or are not clinically appropriate and will be a useful treatment option for some patients with COVID-19 at high risk of hospitalization or death," Patrizia Cavazzoni, director of the FDA's Center for Drug Evaluation and Research, said in a statement.

To be sure, we expect there to be plenty of equity market volatility in the near-term, especially given the disruption in air travel caused by COVID-related employee absences. As always, we are braced for the inevitable trips south, but we continue to think that those who keep the faith through the inevitable ups and downs will be rewarded in the fullness of time, as has been the case for more than nine decades.



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

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 12.23.21. 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 an 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

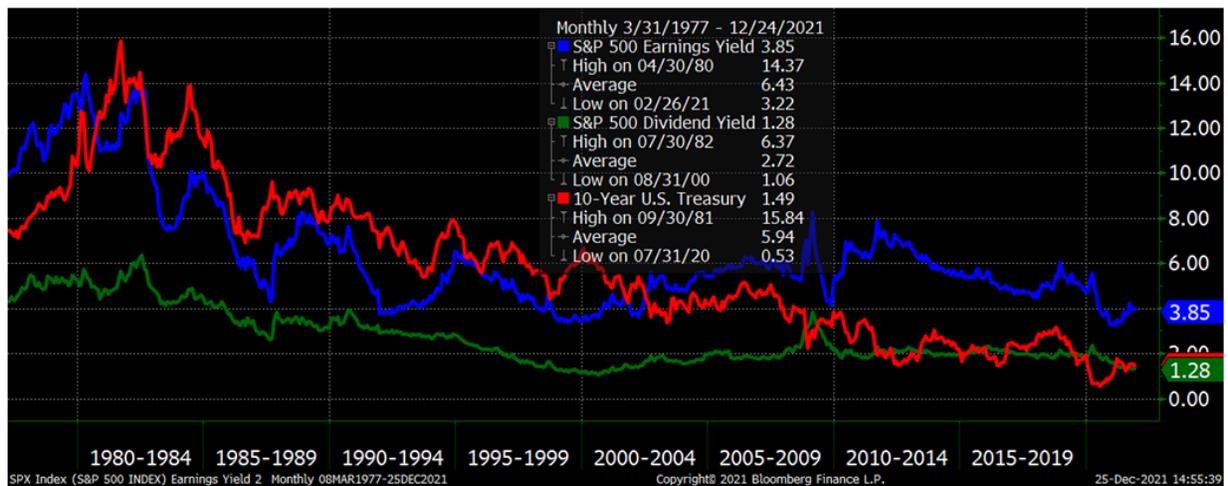
	Annualized Return	Standard Deviation
Value Stocks	13.3%	26.0%
Growth Stocks	10.0%	21.3%
Dividend Paying Stocks	10.8%	18.0%
Non-Dividend Paying Stocks	9.4%	29.3%
Long-Term Corporate Bonds	6.1%	7.6%
Long-Term Gov't Bonds	5.5%	8.6%
Intermediate Gov't Bonds	5.0%	4.3%
Treasury Bills	3.3%	0.9%
Inflation	2.9%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

Of course, we also think that equity prices in general are still very reasonable on an earnings basis,...



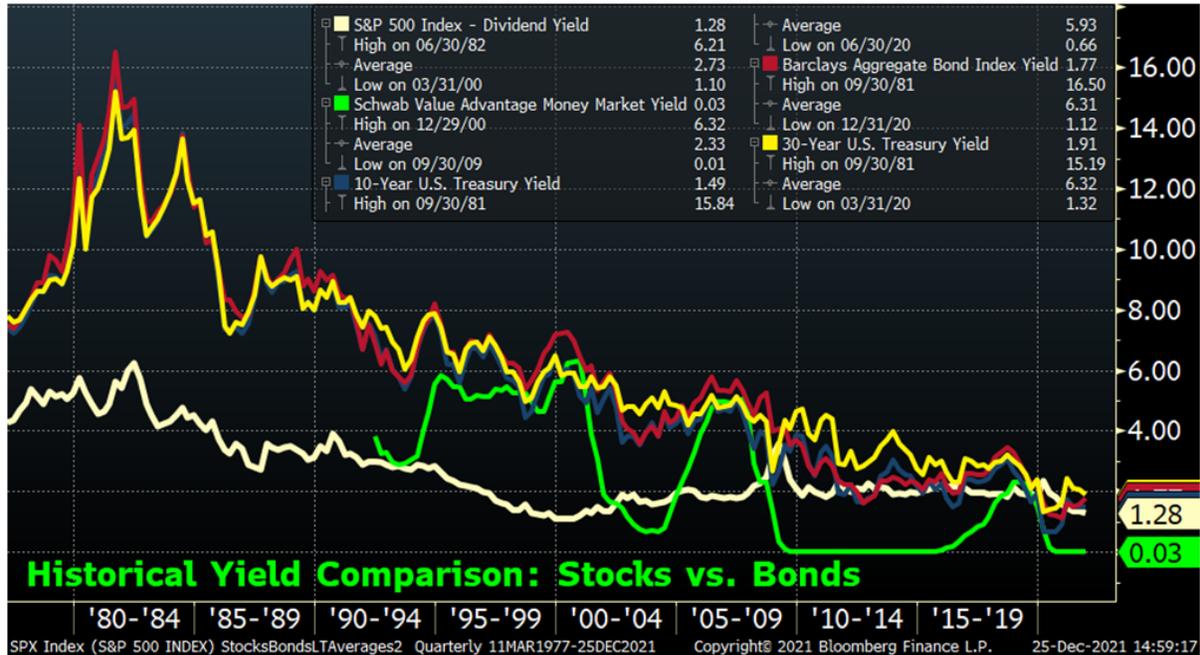
The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. 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 (3.85% vs. 1.49% 10-Year) and S&P 500 dividend yield of 1.28%.



...and that they compare favorably on an income basis,...



Though stocks are not necessarily a substitute for cash, government or corporate bonds, the payout on the S&P 500 (1.28%) is generous versus the income provided by fixed income. Incredibly, **equities yield not much less than the Barclays Aggregate Bond Index and 43 times the yield of a “generous” Money Market Fund!**



...while we think our broadly diversified portfolios of what we believe to be undervalued stocks are particularly attractive on both counts.



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	2.1
ValuePlus	16.1	13.7	1.5	2.4	2.0
Dividend Income	14.2	13.2	1.0	2.3	2.7
Focused Dividend Income	15.3	14.0	1.3	2.5	2.4
Focused ValuePlus	15.2	14.5	1.5	2.7	2.1
Small-Mid Dividend Value	12.1	11.2	0.7	1.7	2.4
Russell 3000	29.2	23.5	2.8	4.5	1.2
Russell 3000 Growth	42.9	34.3	5.0	13.2	0.7
Russell 3000 Value	21.4	17.3	1.9	2.6	1.9
Russell 1000	26.8	23.1	3.1	4.7	1.3
Russell 1000 Growth	39.5	33.3	5.6	14.4	0.7
Russell 1000 Value	19.6	17.2	2.0	2.7	1.9
S&P 500 Index	26.0	22.6	3.2	4.9	1.3
S&P 500 Growth Index	32.7	28.7	6.1	10.2	0.6
S&P 500 Value Index	21.1	18.3	2.0	3.1	2.0
S&P 500 Pure Value Index	12.3	10.9	0.7	1.4	2.5

As of 12.24.21. 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.

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://theprudentpeculator.com/dashboard/>. We also offer the reminder that any sales we make for our newsletter strategies are announced via our *Sales Alerts*.

Due to the Holiday, we have no stock updates on this missive.

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