Market Commentary Monday, January 10, 2022

January 9, 2022

EXECUTIVE SUMMARY

Newsletter Trades – 10 Additions Across Four Portfolios
Week in Review – Sensational Relative Five Days for Value
Market of Stocks – Best and Worst Week One *TPS* Performers
Valuations – Growth Unusually Expensive; Value Reasonably Priced
Fed – Less Accommodative – Historically Not a Bad Thing for Value
Econ Stats – Numbers Remain Solid
Stock News – Updates on Banks, ANTM, DE, GM, NTR, AYI & GBX

Market Review

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

TPS Portfolio
96 **Verizon** (VZ – $54.24) at $53.81 per share
207 **Leggett & Platt** (LEG – $41.96) at $41.79 per share
510 **Change Healthcare** (CHNG – $21.10) at $20.755 per share
34 **Air Products** (APD – $297.41) at $298.86 per share
596 **Physicians Realty** (DOC – $18.86) at $18.7791 per share
88 **Pinnacle West Capital** (PNW- $70.80) at $70.16 per share

Buckingham Portfolio
36 **Citigroup** (C- $65.78) at $63.54 per share

In our two hypothetical newsletter portfolios, we added the following also on January 6:

Millennium Portfolio
159 **Norton LifeLock** (NLOK – $26.61) at $26.20 per share
39 **Timken** (TKR – $74.07) at $73.28 per share

PruFolio
74 **Exxon Mobil** (XOM – $68.88) at $68.00 per share

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While *The Wall Street Journal's* Saturday edition was a bit tamer with its *U.S. Markets Hit Bumps In the First Week of 2022* headline, *The New York Times* proclaimed, *Bond Yields Rise, Roiling Wall Street*, in its Jan. 8 publication.

To be sure, it was a very tough week for many investors as the upward spike in interest rates sent the bond markets skidding, adding to the modest losses suffered in 2021. More importantly, for those of us who favor the equity markets, there was a rush to the exits in so-called risk assets, which produced a big drop in the Growth indexes, with traders piling into the more reasonably priced corner of Wall Street.

THE PRUDENT SPECULATOR

SENSATIONAL RELATIVE START TO 2022: VALUE SHOWING ITS METTLE

Total Returns Matrix

Last Week	Last Month	2021	Since 10.31.20	Since 7.9.20	Since 3.23.20	Last 2 Years	Last 3 Years	Last 5 Years	Name
-1.17	-1.42	-4.71	-2.82	-0.88	5.91	2.78	9.35	16.61	Bloomberg Barclays Global-Aggregate Bond
-1.26	-1.34	-1.54	-1.70	-2.18	3.44	4.18	13.41	17.45	Bloomberg Barclays U.S. Aggregate Bond
-0.25	1.52	20.95	39.91	45.07	101.97	32.11	64.41	102.98	Dow Jones Industrial Average
0.06	2.06	20.82	41.82	48.79	104.03	29.54	59.52	73.63	New York Stock Exchange Composite
-3.99	-5.29	2.83	26.99	37.01	105.51	33.21	63.86	87.04	Russell 2000 Growth
0.55	**1.38**	**28.27**	**66.07**	**87.81**	**142.39**	**36.30**	**58.46**	**54.59**	**Russell 2000 Value**
-1.73	-2.00	14.82	45.19	60.24	124.60	36.17	63.01	72.03	Russell 2000
-3.78	-3.28	25.85	40.56	46.70	125.54	65.83	122.98	181.93	Russell 3000 Growth
0.55	**3.09**	**25.37**	**49.31**	**58.19**	**108.70**	**30.40**	**60.49**	**67.50**	**Russell 3000 Value**
-1.74	-0.30	25.66	44.73	52.15	118.35	48.93	91.73	120.67	Russell 3000
-0.42	1.99	29.63	53.85	65.57	132.64	46.01	83.71	102.93	S&P 500 Equal Weighted
-1.45	-0.09	28.71	46.13	52.32	115.86	49.83	94.09	126.04	S&P 500
-4.47	-3.74	32.01	43.99	50.12	125.34	66.73	117.23	175.20	S&P 500 Growth
1.10	**4.18**	**24.90**	**47.53**	**53.71**	**100.61**	**28.74**	**65.75**	**75.13**	**S&P 500 Value**
-6.34	-7.13	29.81	42.62	49.73	131.50	56.55	98.96	142.80	S&P 500 Pure Growth
5.04	**7.35**	**34.63**	**75.03**	**94.53**	161.32	**30.08**	**55.17**	**64.63**	**S&P 500 Pure Value**

As of 01.07.22. Source Kovitz using data from Bloomberg

Indeed, all the Value indexes ended the first five days of trading in 2022 nicely in the green, and our broadly diversified portfolios enjoyed a terrific week on the relative performance front. There were still some sizable losers (shares of which folks may want to consider picking up if not already owned), but the winners won much more than the losers lost.

THE PRUDENT SPECULATOR

MARKET OF STOCKS: BEST & WORST TPS RECOMMENDATIONS SO FAR IN '22

There was significant dispersion in returns over the first five trading days of the year, with Value stocks generally thrashing Growth. Happily, so far, our winners have won more than our losers have lost.

Market of Stocks: 2022 Week One

TPS Winners

Sector	Symbol	Company	01.07.22 Price	Target Price	YTD 2022 TR	2021 TR	52-Week High	52-Week Low
Banks	CFG	Citizens Financial Grou	$54.22	$69.63	14.8%	57.1%	$54.46	$35.09
Banks	KEY	KeyCorp	$26.35	$28.88	13.9%	66.2%	$26.45	$16.69
Energy	XOM	Exxon Mobil	$68.88	$93.13	12.6%	77.5%	$69.18	$44.29
Banks	FITB	Fifth Third Bancorp	$48.80	$50.61	12.1%	82.0%	$48.95	$28.25
Banks	PNC	PNC Financial	$223.73	$228.46	11.6%	54.2%	$224.52	$141.60
Banks	CMA	Comerica	$97.07	$104.34	11.6%	80.2%	$97.30	$55.87
Banks	TFC	Truist Fin'l	$65.00	$73.26	11.0%	40.0%	$65.42	$47.69
Banks	BAC	Bank of America	$49.18	$53.17	10.5%	65.3%	$49.31	$29.57
Energy	EOG	EOG Resources	$98.16	$118.84	10.5%	108.5%	$98.27	$48.32
Capital Goods	DE	Deere & Co.	$378.65	$490.15	10.4%	42.3%	$400.34	$278.95
Retailing	BIG	Big Lots	$49.67	$81.00	10.3%	18.3%	$73.23	$40.06
Banks	OZK	Bank OZK	$50.84	$64.33	9.3%	67.2%	$51.01	$33.22
Telecom Services	T	AT&T	$26.29	$36.91	9.0%	0.2%	$33.88	$22.02
Banks	C	Citigroup	$65.78	$105.78	8.9%	10.0%	$80.29	$57.40
Technology Hardware	HPE	Hewlett Packard Enter	$17.13	$21.17	8.6%	49.2%	$17.35	$11.67
Banks	ONB	Old National Bancorp	$19.67	$24.27	8.6%	22.6%	$21.28	$15.53
Capital Goods	CAT	Caterpillar	$224.19	$271.97	8.4%	25.7%	$246.69	$179.34
Insurance	MET	MetLife	$67.26	$97.86	7.6%	47.8%	$67.88	$47.69
Banks	NYCB	NY Community Banc	$13.13	$17.00	7.5%	31.9%	$14.33	$10.28
Capital Goods	CMI	Cummins Inc.	$234.35	$324.10	7.4%	5.6%	$277.09	$203.38
Materials	BASFY	BASF SE	$18.83	$28.39	7.4%	0.4%	$21.77	$16.27
Diversified Financials	BK	Bank of NY	$62.33	$68.53	7.3%	50.8%	$62.39	$39.46
Transportation	ALK	Alaska Air Group	$55.86	$83.88	7.2%	7.4%	$74.25	$46.26
Energy	TTE	Total S.A.	$52.97	$85.00	7.1%	34.9%	$53.05	$40.33

TPS Losers

Sector	Symbol	Company	01.07.22 Price	Target Price	YTD 2022 TR	2021 TR	52-Week High	52-Week Low
Real Estate	DLR	Digital Realty Trust	$161.06	$184.32	-8.9%	19.0%	$178.22	$124.65
Consumer Durables	MDC	MDC Holdings	$51.18	$78.37	-8.3%	17.3%	$63.86	$42.20
Materials	NTR	Nutrien	$69.13	$88.94	-8.1%	47.8%	$77.35	$49.10
Semiconductors	AVGO	Broadcom	$619.15	$700.85	-7.0%	45.6%	$677.76	$419.14
Semiconductors	LRCX	Lam Research	$669.29	$756.94	-6.9%	43.0%	$731.85	$481.05
Software & Services	MSFT	Microsoft	$314.04	$377.21	-6.6%	42.4%	$349.67	$212.03
Real Estate	ARE	Alexandria Real Estate	$209.00	$238.03	-6.3%	20.1%	$224.95	$154.37
Health Care Eqp/Srvc	ANTM	Anthem Inc.	$434.99	$523.17	-6.2%	37.1%	$470.02	$286.04
Semiconductors	COHU	Cohu Inc.	$35.92	$57.03	-5.7%	-5.9%	$51.86	$29.00
Pharma, Biotech	PFE	Pfizer	$55.72	$70.62	-5.6%	57.3%	$61.71	$33.36
Media & Entertain	GOOG	Alphabet Class C	$2,740.09	$3,432.85	-5.3%	56.4%	$3,037.00	$1,721.55
Materials	NEM	Newmont Corp	$59.43	$75.89	-4.2%	2.9%	$75.31	$52.60
Technology Hardware	JNPR	Juniper Networks	$34.24	$37.84	-4.1%	56.6%	$35.92	$23.12
Semiconductors	KLIC	Kulicke & Soffa	$58.16	$83.67	-3.9%	84.8%	$75.29	$33.12
Health Care Eqp/Srvc	ABT	Abbott Labs	$135.56	$148.85	-3.7%	25.7%	$142.60	$105.36
Retailing	FL	Foot Locker	$42.05	$81.85	-3.6%	5.7%	$66.71	$39.76
Consumer Durables	WHR	Whirlpool	$227.04	$310.63	-3.2%	29.0%	$257.68	$176.28
Consumer Durables	TPR	Tapestry Inc.	$39.34	$60.00	-3.1%	28.1%	$49.67	$30.24
Commercial/Pro Serv	WM	Waste Management	$161.76	$175.15	-3.1%	39.4%	$168.04	$109.11
Pharma, Biotech	BIIB	Biogen	$232.60	$379.67	-3.1%	-5.0%	$468.55	$221.72
Technology Hardware	AAPL	Apple	$172.17	$190.14	-3.0%	30.6%	$182.94	$116.21
Technology Hardware	CSCO	Cisco Systems	$61.13	$70.00	-3.0%	41.5%	$64.29	$44.15
Capital Goods	ETN	Eaton Corp	$167.85	$186.06	-2.9%	42.5%	$175.72	$114.01
Retailing	LOW	Lowe's Cos	$251.09	$273.79	-2.9%	58.7%	$263.31	$150.84

As of 1.7.22. Source: Kovitz using data from Bloomberg

Certainly, we are aware that Growth stocks have enjoyed far more time in the sun in recent years, while one week/month of lopsided returns in favor of Value hardly a trend makes. Still, the renewed interest in less expensive names should not be a big surprise to those who study market history as increases in the benchmark U.S. government bond yield,…

THE PRUDENT SPECULATOR

MASSIVE JUMP IN THE 10-YEAR YIELD

With Jerome H. Powell & Co. now tapering, the Fed more hawkish on interest rates next year and the latest Minutes suggesting a potentially quicker balance sheet runoff than in the past, traders bailed on 10-Year U.S. Treasuries last week, sending the yield soaring from 1.51% to 1.76%.

…historically have been positive, on average, for Value.

RISING INTEREST RATES ARE NOT BAD FOR STOCKS, ON AVERAGE

Rising Long-Term Government Rates - Annual Returns Review

Name	Value Stocks	Growth Stocks	Dividend Payers	Non-Dividend Payers	Long-Term Corp Bonds	Long-Term Government Bonds	Intermediate-Term Govt Bonds	U.S. Treasury Bills
Arithmetic Average	17.8%	12.5%	11.2%	15.7%	1.0%	-1.0%	2.2%	3.7%
Geometric Average	13.5%	9.4%	9.1%	10.1%	0.8%	-1.1%	2.1%	3.7%
Median	17.0%	12.2%	14.3%	10.9%	1.3%	-0.2%	1.8%	3.3%
Max	126.6%	93.1%	69.8%	88.2%	14.6%	9.2%	9.7%	14.7%
Min	-54.0%	-42.2%	-47.4%	-50.9%	-8.1%	-14.9%	-5.1%	0.0%
Count	46	46	46	46	46	46	46	46

Source: Kovitz using data from Ibbotson Associates SBBI. From 1930 to 2020.

Falling Long-Term Government Rates - Annual Returns Review

Name	Value Stocks	Growth Stocks	Dividend Payers	Non-Dividend Payers	Long-Term Corp Bonds	Long-Term Government Bonds	Intermediate-Term Govt Bonds	U.S. Treasury Bills
Arithmetic Average	15.7%	12.7%	14.3%	11.5%	12.3%	13.4%	8.5%	2.9%
Geometric Average	12.9%	10.5%	12.6%	7.6%	12.0%	13.1%	8.4%	2.9%
Median	16.4%	13.8%	14.9%	12.3%	10.8%	10.7%	7.8%	2.1%
Max	71.1%	48.3%	53.5%	90.5%	42.6%	40.4%	29.1%	10.5%
Min	-43.6%	-37.0%	-34.8%	-48.6%	2.6%	2.8%	1.4%	0.0%
Count	45	45	45	45	45	45	45	45

Source: Kovitz using data from Ibbotson Associates SBBI. From 1930 to 2020.

Of course, despite what many supposed market experts will argue, stocks have performed fine, again on average, whether rates are rising or falling, though Value wins the returns race either way.

Rates Change and Equities Rise

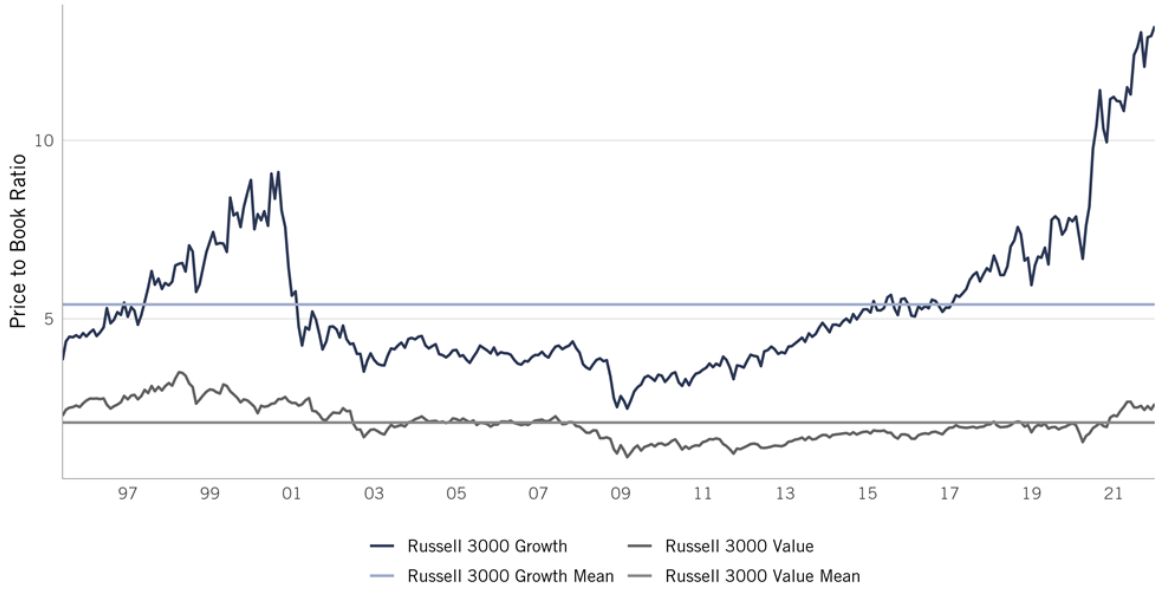
Beginning Rate	Rate Environment	Start Date	End Date	Large Stocks	Small Stocks	Value Stocks	Growth Stocks	Div. Payers	Non-Payers
9.0%	FALLING	01.31.1970	02.29.1972	15.5%	8.0%	18.5%	13.5%	2.3%	15.5%
3.3%	RISING	03.31.1972	07.31.1974	-9.3%	-19.5%	-8.9%	-23.4%	-30.8%	-9.8%
12.9%	FALLING	08.31.1974	01.31.1977	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%**

We do offer the caveat that Growth stocks these days are very expensive on both a book value basis,…

THE PRUDENT SPECULATOR

WHY VALUE TODAY?: VALUATION DISPARITY – PRICE TO BOOK VALUE

Value stocks still are as attractive relative to Growth as at any time since the Tech Bubble, the bursting of which led to massive Value outperformance.



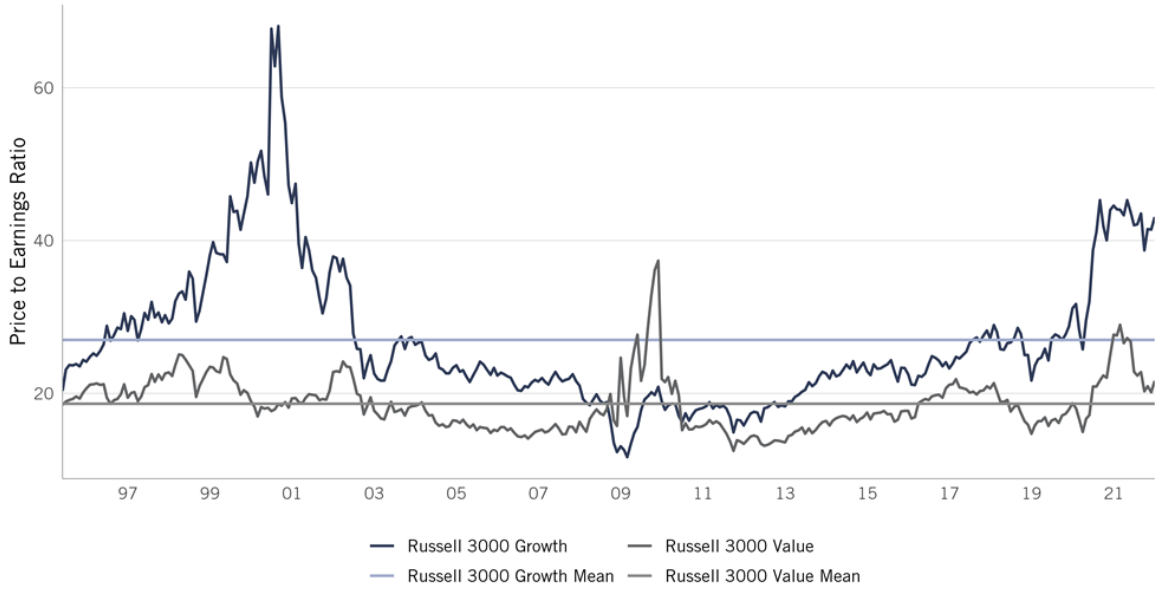
From 05.31.95 through 12.31.21. SOURCE: Kovitz using data from Bloomberg Finance L.P.

…and an earnings basis,…

THE PRUDENT SPECULATOR

WHY VALUE TODAY?: VALUATION DISPARITY – PRICE TO EARNINGS

Value stocks still are as attractive relative to Growth as at any time since the Tech Bubble, the bursting of which led to massive Value outperformance.



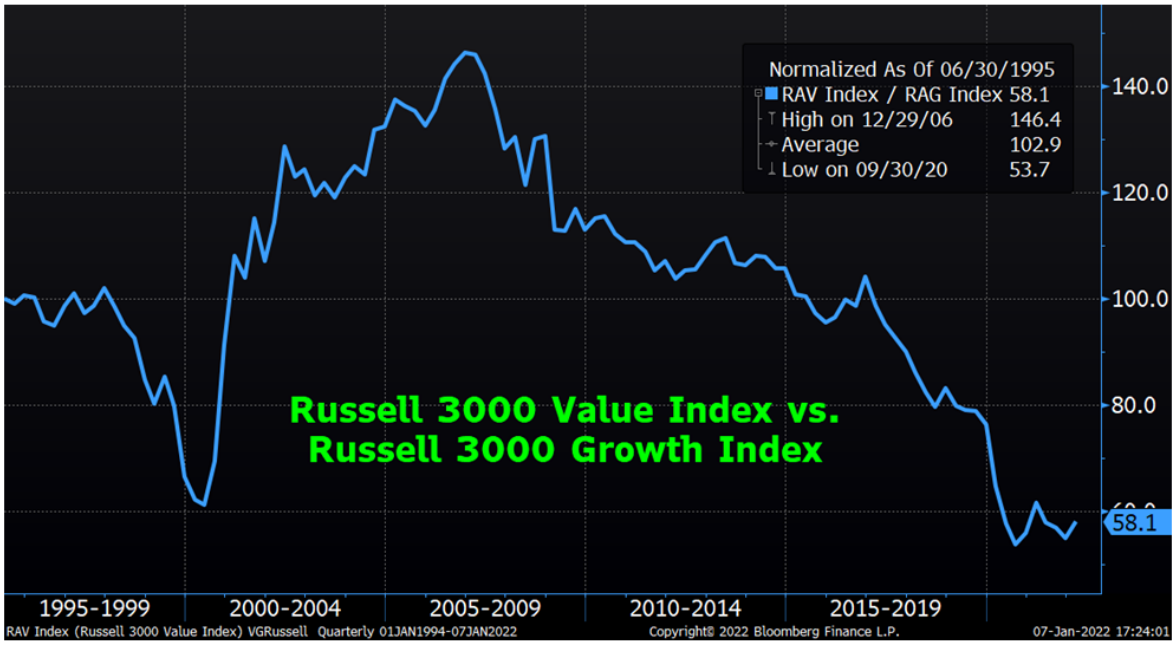
From 05.31.95 through 12.31.21. SOURCE: Kovitz using data from Bloomberg Finance L.P.

…so we would not be surprised to see continued interest in the much more reasonably priced Value end of the spectrum, especially as there is a tremendously long way to go just to get back to equilibrium, much less the historical propensity toward long-term outperformance.

THE PRUDENT SPECULATOR

WHY VALUE TODAY?: R3K VALUE "BUY" SIGNAL LIKE 2000

Stocks with inexpensive financial metrics have enjoyed very nice returns of late despite the COVID-19 pandemic, but the growthier grass has been greener, driving the R3K Value index relative to the R3K Growth index on a total return basis to near 2000 levels.



Not surprisingly, we sleep much better at night with the reasonable valuation metrics for our portfolios,…

CURRENT PORTFOLIO AND INDEX VALUATIONS

Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	15.8	14.1	1.2	2.5	2.1
ValuePlus	16.5	14.0	1.6	2.5	1.9
Dividend Income	14.7	13.6	1.1	2.4	2.6
Focused Dividend Income	15.8	14.4	1.3	2.6	2.3
Focused ValuePlus	15.7	15.0	1.6	2.8	2.0
Small-Mid Dividend Value	12.6	11.7	0.7	1.7	2.3
Russell 3000	28.7	21.6	2.8	4.4	1.3
Russell 3000 Growth	40.9	29.9	4.8	12.5	0.7
Russell 3000 Value	21.8	16.8	1.9	2.6	1.9
Russell 1000	26.3	21.5	3.0	4.6	1.3
Russell 1000 Growth	37.7	29.4	5.3	13.7	0.7
Russell 1000 Value	20.0	16.7	2.1	2.7	1.9
S&P 500 Index	25.7	21.3	3.1	4.8	1.3
S&P 500 Growth Index	31.4	26.9	5.9	9.8	0.7
S&P 500 Value Index	21.6	17.4	2.1	3.1	1.9
S&P 500 Pure Value Index	13.1	11.3	0.8	1.5	2.3

As of 01.08.22. 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.

…while we agree with Benjamin Graham who said, “Investors should purchase stocks like they purchase groceries, not like they purchase perfume.” We think Value investing should make sense to folks,…

WHY VALUE?: BUYING FUTURE CASH FLOWS

- It's a matter of Investing 101:

SHAREHOLDERS OWN
SOME FRACTION
OF FUTURE CASH FLOW

- We should like to

PAY AS LITTLE AS POSSIBLE FOR

- that future cash flow, whether it's in the form of

DIVIDENDS or REINVESTED EARNINGS.

…as most are bargain hunters by nature in their everyday lives.

WHY VALUE?: RETURN MAXIMIZATION & RISK MINIMIZATION

- REASONING:
- First…paying as little as possible for those cash flows maximizes our yield on those cash flows.
- Second…that we paid as little as possible for those cash flows minimizes the consequence of misestimating where those cash flows might be a few years down the road.

Equally important, the odds of success generally are in Value's favor,…

WHY VALUE?: VALUE OFFERS SEVERAL WAYS TO WIN

- FURTHER…
- In buying low, we're looking for two primary forces (among others…) to potentially lift return:
- 1: Suppose the existing relatively low price multiple of various income-oriented fundamental metrics (price to: revenue, earnings…) does not change, growth in the underlying fundamental series can lift the stock;
- AND/OR given an existing relatively pessimistic view on a particular financial health metric (debt-to-equity, interest coverage…), modest gains to financial health also may lift the shares.
- 2: Tied to the above, given already relatively low-price multiples or relatively pessimistic views on financial health, the forces that generally drive reversion to the mean mostly point up.

…while the risk of permanent impairment of capital is much greater for Growth stocks, many of which lack sufficient earnings or dividends to support their elevated valuations.

WHY VALUE?: GROWTH OFTEN REQUIRES MORE GOOD NEWS

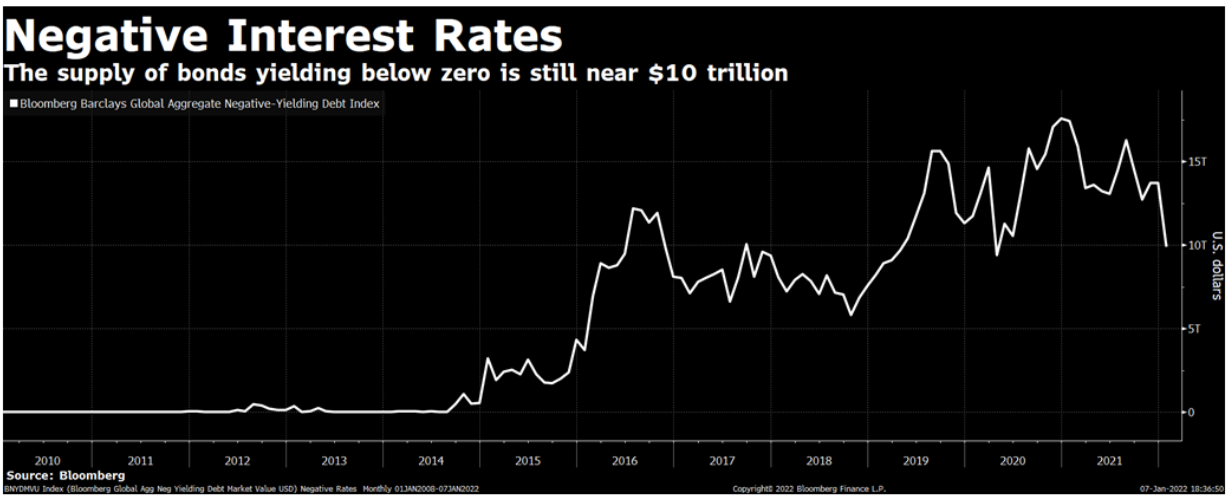
- RATHER…PAYING UP FOR GROWTH:
- Requires the fulfillment of an already aggressive prophesy. Unless continued, long-term exceptional growth can be justified, exuberant multiples leave room only to justify the expansion of the underlying fundamental series.
- Too, the forces that generally drive reversion to the mean mostly point down.
- Seems to us just as easy to fail to meet "priced to perfection" projections, as it is to surpass "price to fail" projections.

None of this means that investors will come to their senses quickly – after all, nearly $10 trillion still thinks owning negative-yielding debt is a good idea,…

THE PRUDENT SPECULATOR

NEGATIVE YIELDING GOVERNMENT BONDS

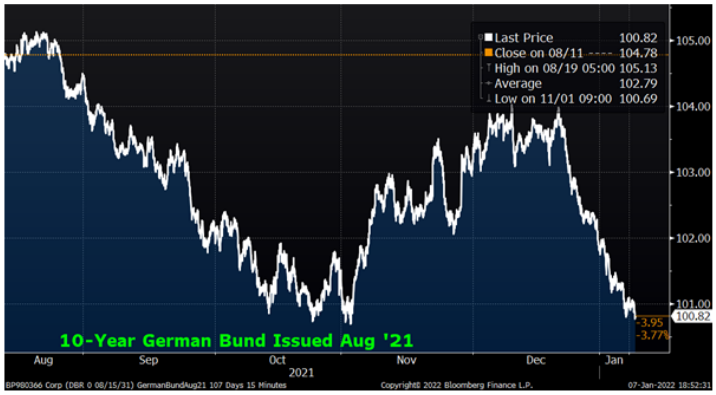
Incredibly, investors around the world continue to love government debt, despite losses last year and this year on the price of the bonds to go along with the negative yields. Yes, we understand that the pros can utilize derivatives and leverage to attempt to hedge against the guaranteed loss of principal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



…despite recent real-life evidence to the contrary.

THE PRUDENT SPECULATOR

REWARD FREE RISK – GERMAN BUNDS



On 8.11.21, Germany issued €5 billion of 10-year bonds with a coupon of 0% in a deal that attracted plenty of "interest" at a price of €104.56. That is not a typo! In order to receive €100 back in 10 years and NO interest along the way, "investors" gladly paid €104.56, locking in a sizable loss if held to maturity. Hoping to lose roughly 0.46% per annum, they must be thrilled with the 8 times expected annual return (the bonds have lost more than 3.7%) over the past five months!

*****

Money was already moving out of bonds and Growth as soon as the calendar turned to 2022, but the exodus gathered steam following the release of the Minutes from the December FOMC Meeting. Recall that at that meeting, Jerome Powell & Co. sped up the tapering of the Fed's bond buying program,…

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.

…raised the economic outlook for 2022,…

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 in 2021 to real (inflation-adjusted) GDP growth of 5.5%, down from 5.9% three months prior, but raised its outlook for GDP growth in 2022 to 4.0%. With the projection for the unemployment rate in 2022 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

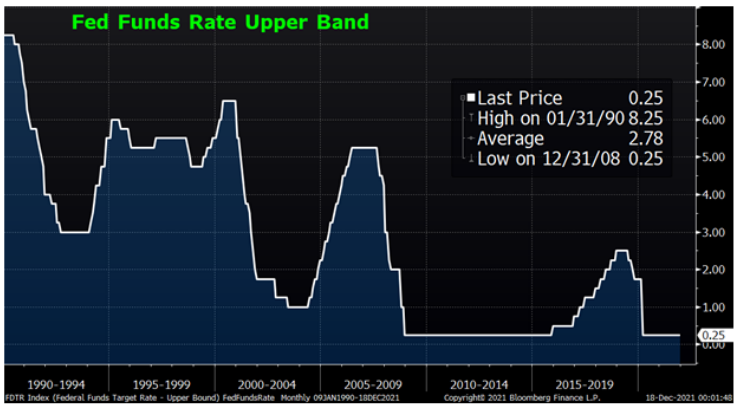
…and suggested that there would be two or three hikes in the Federal Funds rate this year.

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.

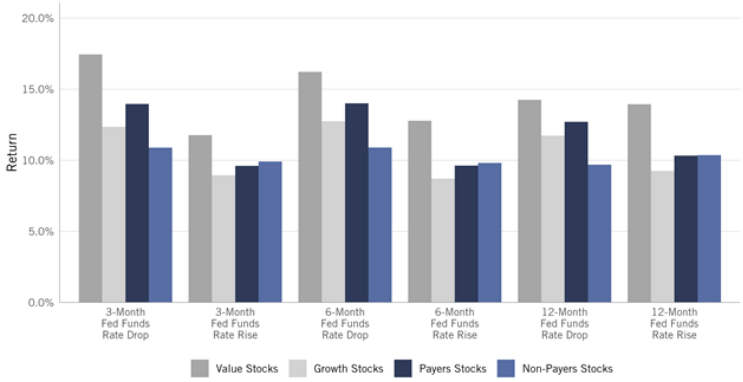


The Minutes, in our view, did not offer a whole lot in the way of new revelations, but the markets evidently were fixated on comments that officials were of the mind that rising inflation and a tight labor market would warrant lifting the Fed Funds rate "sooner or at a faster pace than participants had earlier anticipated." Also, the subject of shrinking the Fed's balance sheet was discussed for the first time, with comments including, "Participants judged that the appropriate timing of balance sheet runoff would likely be closer to that of policy rate liftoff than in the Committee's previous experience," and "Many participants judged that the appropriate pace of balance sheet runoff would likely be faster than it was during the previous normalization episode."

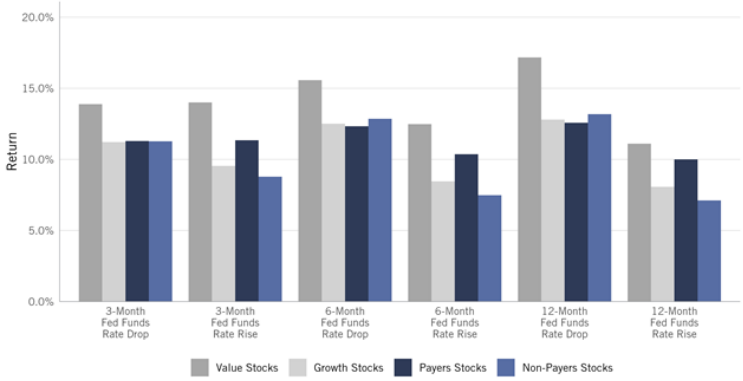
We respect that the equity markets are very sensitive to Fed moves, but we would not be unhappy to see a more normal approach to monetary policy, especially as Value stocks have performed admirably when the Federal Reserve is lifting the Fed Funds rate,…

THE PRUDENT SPECULATOR

FED FUNDS RATE Δ EQUITY RETURNS



From 07.31.54 through 11.30.21. Concurrent annualized 12-month returns. SOURCE: Kovitz using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French



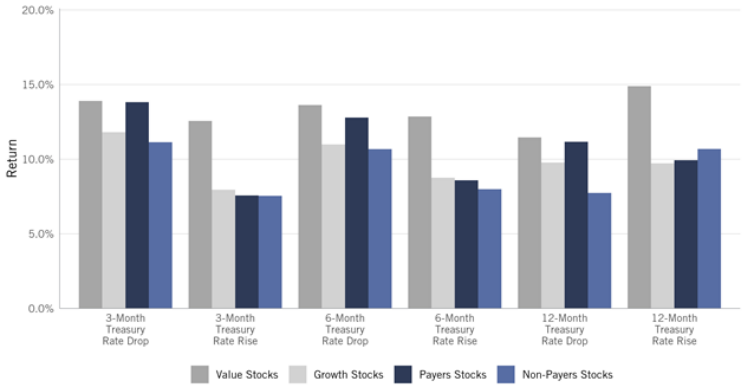
From 07.31.54 through 11.30.21. Subsequent annualized 12-month returns. SOURCE: Kovitz using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French

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.

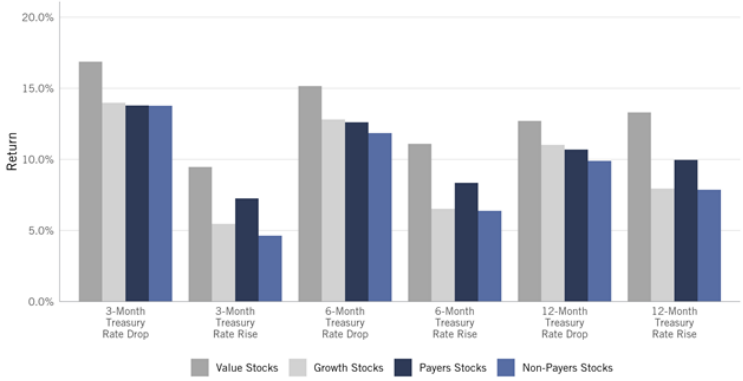
…and when the benchmark U.S. government bond yield is climbing.

THE PRUDENT SPECULATOR

10-YEAR TREASURY Δ AND VALUE/GROWTH & DIV/NO DIVS



From 06.30.27 through 11.30.21. Concurrent annualized 12-month returns. SOURCE: Kovitz using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French



From 06.30.27 through 11.30.21. 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 rising interest rates will prove to be a big headwind for equities, but nine decades of returns data show that stocks in general have performed admirably on average, both concurrent with and subsequent to increases (as well as decreases) in the yield on the 10-Year U.S. Treasury over 3-, 6-, and 12-month time spans, with Value Stocks leading the charge no matter the direction.

There are never any guarantees that the past is prologue and we know that stocks of all varieties are always subject to setbacks, with 5% drops happening 3 times per year on average, but none of the Value return figures in the charts above should be a surprise, given the long-term performance scorecard.

THE PRUDENT SPECULATOR

VOLATILITY IS NORMAL BUT VALUE WINS THE 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%	113.4%	995	27	3.4	3/23/2020	1/3/2022
17.5%	68.2%	583	39	2.3	3/23/2020	1/3/2022
15.0%	66.8%	566	45	2.0	3/23/2020	1/3/2022
12.5%	45.0%	340	72	1.3	3/23/2020	1/3/2022
10.0%	35.4%	249	98	0.9	3/23/2020	1/3/2022
7.5%	23.8%	150	157	0.6	9/23/2020	1/3/2022
5.0%	14.8%	73	307	0.3	10/4/2021	1/3/2022

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 01.03.22. Price return series. We defined a Declining Market as an instance when stocks dropped the specified percentage or more without a recovery of equal magnitude, and an Advancing Market as in instance when stocks appreciated the specified percentage or more without a decline of equal magnitude. SOURCE: Kovitz using data from Bloomberg, Morningstar and Ibbotson Associates

LONG-TERM RETURNS

	Annualized Return	Standard Deviation
Value Stocks	13.2%	26.0%
Growth Stocks	9.9%	21.3%
Dividend Paying Stocks	10.7%	18.0%
Non-Dividend Paying Stocks	9.4%	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	3.0%	1.8%

From 06.30.27 through 11.30.21. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Dividend payers = 30% top of Fama-French dividend payers, 40% of middle Fama-French dividend payers, and 30% bottom of Fama-French dividend payers rebalanced monthly. Non-dividend payers = Fama-French stocks that do not pay a dividend. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

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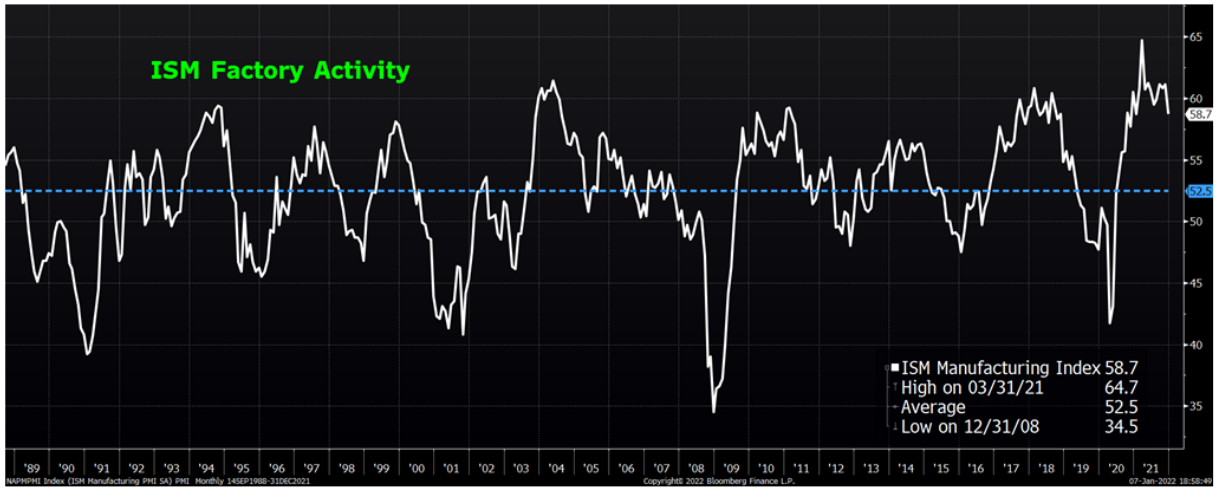
Clearly, COVID-19 remains a major wildcard in the prognoses for the U.S. and global economies, but the major domestic stats out last week, though generally weaker than in the month prior, were still robust, whether it was the outlook for manufacturing,…

THE PRUDENT SPECULATOR

ISM MANUFACTURING RETREATS: 4.4% ANNUALIZED GDP GROWTH

The latest data point on the health of the manufacturing sector came in below expectations at 58.7 in December, down from a reading of 61.1 in November, and residing at a level well above average for the 30-plus-year history of the gauge. The Institute for Supply Management stated, "The past relationship between the Manufacturing PMI and the overall economy... corresponds to a 4.4% increase in real gross domestic product (GDP) on an annualized basis."



…the prospects for the service sector,…

THE PRUDENT SPECULATOR

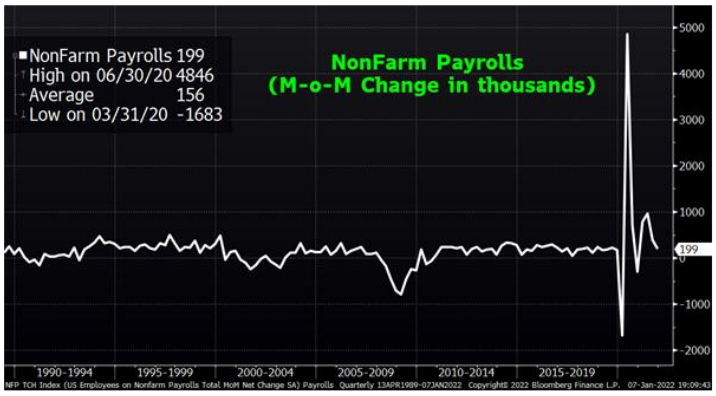
ISM NON-MANUFACTURING PULLS BACK: 4.5% ANNUALIZED GDP GROWTH

The latest read on the health of the service sector tumbled to 62.0 in December. The figure was better than forecast, but well off the recent all-time high, even as it still suggests a strongly growing non-manufacturing economy, with the Institute for Supply Management stating, "The past relationship between the Services PMI and the overall economy...corresponds to a 4.5% increase in real gross domestic product (GDP) on an annualized basis."

…or the labor situation.

THE PRUDENT SPECULATOR

WEAKER-THAN-EXPECTED JOBS REPORT



Economists were looking for a big gain of 422,000 payrolls, so the increase of 199,000 in December was well below expectation, even as the October and November tallies were revised higher by a combined 141,000 jobs. With strong demand for labor, wages continued to rise as employers struggled to fill positions, with early retirements, lack of childcare, virus fears and Uncle Sam's largesse keeping some folks from returning to work.

And speaking of jobs, the unemployment rate fell to a new pandemic low,…

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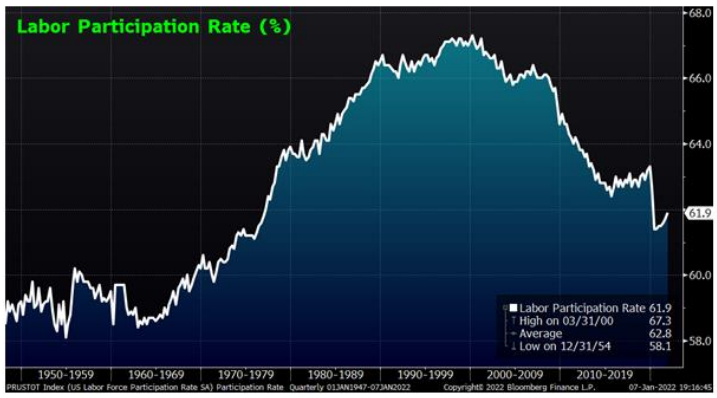
PANDEMIC LOW JOBLESS RATE & PANDEMIC HIGH PARTICIPATION RATE

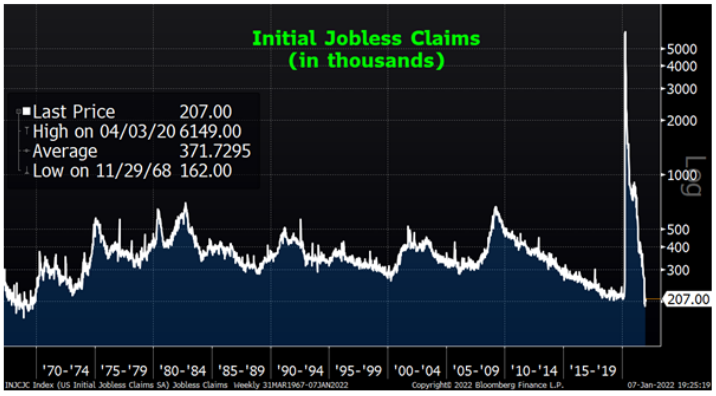


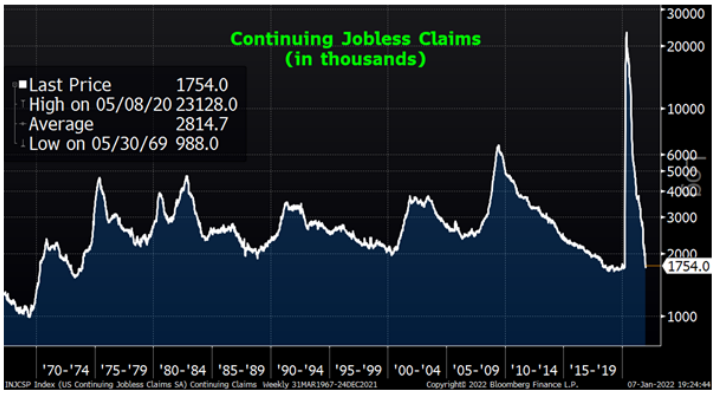
While there were fewer jobs created than expected, the unemployment rate for December improved again, tumbling to 3.9%, a new pandemic low and down from 4.2% in November. A big jump of 651,000 folks in the labor force helped the denominator in the jobless rate, while the so-called participation rate continued to inch higher, rising to 61.9% in December, up 0.1 points from November to the highest level since the beginning of the pandemic.

…while those unemployed remained near multi-generational lows.

THE PRUDENT SPECULATOR

JOBLESS FILINGS AND CONTINUING CLAIMS NEAR PANDEMIC LOWS





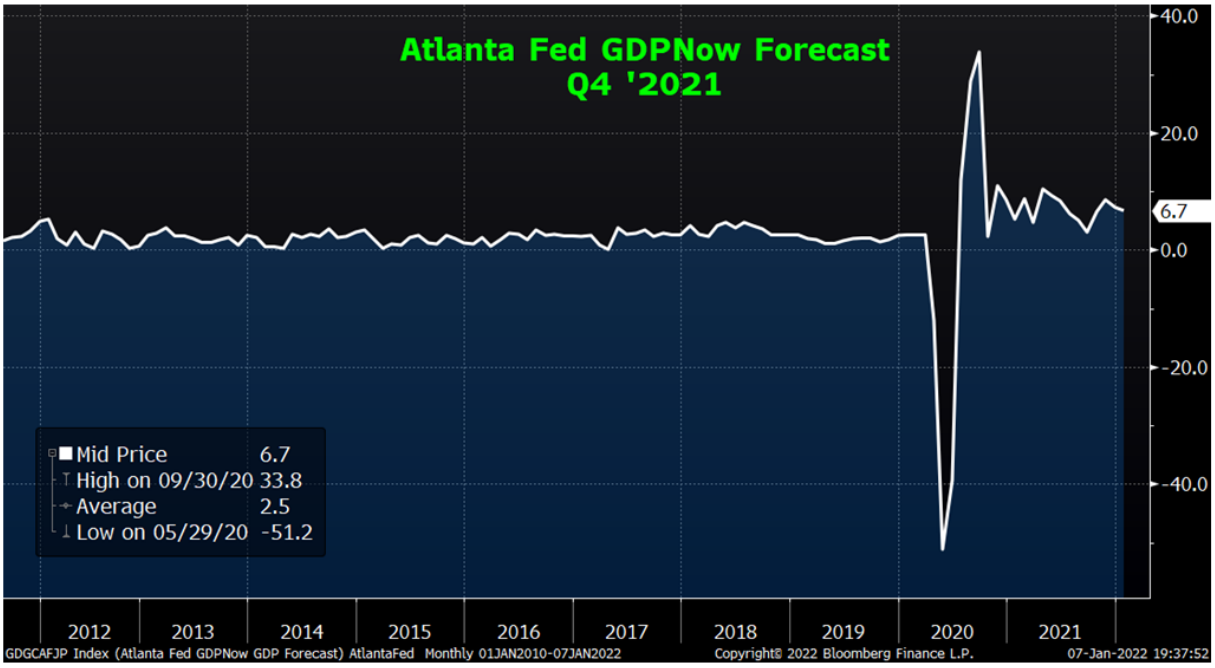
While there is likely some noise in the number due to the Holidays, new filings for unemployment benefits for the period ended January 1 came in at a seasonally adjusted 207,000, not too far above the lowest tally since 1969 when the work force was much smaller. Continuing claims filed through state programs inched up to 1.75 million, just above a pandemic low, as businesses continue to hold on to workers, despite Omicron trauma with labor so difficult to obtain.

As such, we think economic growth will continue to be solid,…

THE PRUDENT SPECULATOR

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

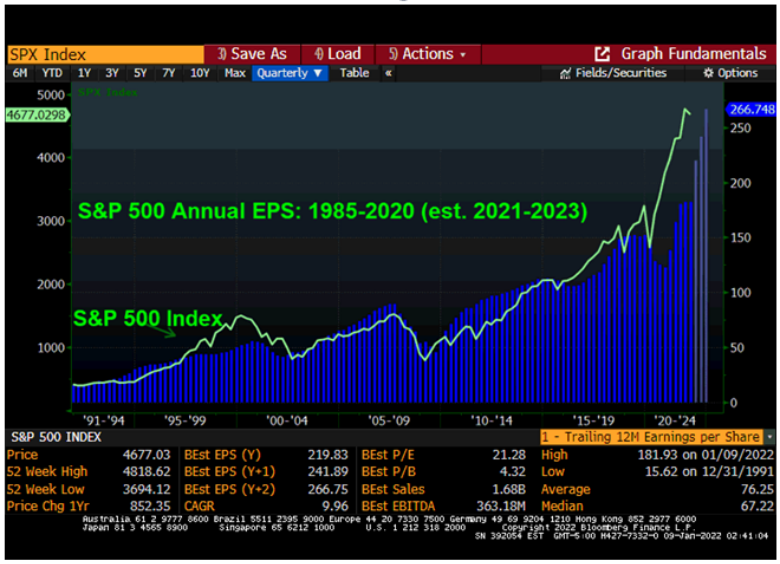
While Q1 and Q2 2021 saw an acceleration, the economic rebound slowed in Q3 to 2.0%, but the Atlanta Fed's current projection for Q4 2021 GDP growth on an annualized basis stands at a very robust 6.7%.



…which will support the view that corporate profit growth will be healthy this year.

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	$57.58	$220.21
9/30/2022	$56.79	$213.14
6/30/2022	$54.35	$208.37
3/31/2022	$51.49	$206.07
12/31/2021	$50.51	$201.99
ACTUAL		
9/30/2021	$52.02	$189.66
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 1.6.22

That does not mean that we think a rising equity tide will lift all boats as we expect folks to need to be much more selective in 2022 and beyond, given that there are still tons of richly valued (or impossible to value) names, despite the recent Growth stock retreat. Naturally, we are partial to our broadly diversified portfolio of what we believe to be undervalued stocks, especially as we remember what happened following the bursting of the Tech Bubble back in the year 2000.

THE PRUDENT SPECULATOR

WHY VALUE TODAY?: WOULD NOT BE AWFUL IF NOW IS LIKE MARCH 2000

Despite enduring significant volatility along the way, not to mention suffering through a miserable 2002, 2008 and 2011, Value strategies performed admirably, with the S&P 500 Pure Value index the easy winner, following the bursting of the Tech Bubble in March 2000.

Total Returns Matrix Post March 31, 2000

Name	1-Year	3-Year	5-Year	7-Year	10-Year	15-Year	20-Year	Symbol
Dow Jones Industrial Average TR	-8.21	-22.70	6.14	30.81	25.09	132.79	224.39	DJITR Index
Russell 3000 Total Return Growth Index	-42.52	-58.70	-43.96	-31.70	-33.57	37.77	119.25	RU30GRTR Index
Russell 3000 Total Return Value Index	**1.48**	**-17.20**	**33.14**	**76.71**	**41.17**	**167.78**	**190.12**	**RU30VATR Index**
Russell 3000 Total Return Index	-22.26	-40.39	-11.79	12.17	-0.73	97.19	161.01	RU30INTR Index
S&P 500 Growth Total Return Index	-38.19	-50.50	-34.68	-23.23	-25.53	54.87	143.54	SPTRSGX Index
S&P 500 Value Total Return Index	**-1.07**	**-30.12**	**10.04**	**46.09**	**15.97**	**114.98**	**154.67**	**SPTRSVX Index**
S&P 500 Total Return Index	-21.68	-40.93	-14.84	6.40	-6.35	84.03	154.83	SPXT Index
S&P 500 Pure Growth Total Return Index	-31.60	-54.66	-26.15	-10.93	-8.12	119.03	177.90	SPTRXPG Index
S&P 500 Pure Value Total Return Index	**23.92**	**3.59**	**103.40**	**183.68**	**140.69**	**438.00**	**352.33**	**SPTRXPV Index**

Source Kovitz using data from Bloomberg. Forward returns starting 03.31.00

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

The November CPI reading of 6.8% inflation, the largest year-over-year increase in 39 years, appeared to be the straw that broke the "transitory" camel's back at the Federal Reserve. Indeed, in mid-December, Jerome Powell & Co. elected to double the pace of the tapering of its bond purchase program (from $15 billion to $30 billion per month) and suggested that there could be as many as three hikes in the Federal Funds rate in 2022. And if the latest jobs report is evidence that higher wages are required to incent folks back into the job market, the pace and size of the Fed's taper could intensify.

The market appears to have adjusted accordingly with an additional 25 basis points added to the 10-year treasury rate since the year began. The KBW index, which tracks the performance of 24 leading U.S. banks and thrifts, has risen 10% year-to-date, with some banks like **Fifth Third Corp** (FITB – $48.80) and **Comerica** (CMA – $97.07) gaining even more, as the increase in rates ought to support earnings for banks that drive a significant portion of their income from net interest margin. Of course, increases in short-term rates could affect funding costs, but we note that many (if not most) banks in our portfolios boast significant deposit balances relative to the loans on their books, so they have less of a need to aggressively raise incentives to attract more money.

We think the incremental rate increase could serve to boost loan growth (which has been lacking for much of the pandemic), as consumers and businesses look to lock in loans for fear that reasonable rates may soon be out of reach. Also, not to be overlooked is that most bank balance sheets are in fantastic shape, with plenty of loan-loss reserves and low levels of non-performing assets. We'll be watching for clues to these items for the year ahead as well as changes to the capital return programs for major money center banks like **JPMorgan Chase** (JPM – $167.16), **Bank of America** (BAC – $49.18), and **Citigroup** (C – $65.78) when they report Q4 earnings in the next couple of weeks. Given our enthusiasm, we have boosted the Target Prices for most banks across our portfolios.

Shares of managed health care provider **Anthem** (ANTM – $434.99) dropped as rival Humana warned that membership enrollments for 2022 would likely come up short of expectations. Humana explained that the lowered forecast was a result of "higher than anticipated terminations" during annual benefits election periods. Humana is still projecting membership growth between 150,000 and 200,000 members and analysts are projecting EPS growth of at least 10% for the next three years, leading us to believe that the outlook is far from bleak.

Anthem's outlook is similar, with EPS growth of 15%, 10% and 14% projected for the next three fiscal years. We continue to think longer-term demographic trends are in Anthem's favor, even in its Medicare Advantage market, while shares trade at a hefty discount to the S&P 500 on a forward P/E basis. ANTM shares rose 46% in 2021 and are down 6% YTD, which we think is a buying opportunity for those that could use health care exposure in their broadly diversified portfolios. Our Target Price for ANTM now resides at $523.

Shares of powerhouse agricultural firm **Deere & Co.** (DE – $378.65) plowed ahead last week, gaining more than 10%, seemingly on the heels of its announcement at CES 2022 that the company had a fully autonomous tractor that is ready for large-scale production. The autonomous tractor will have an attached tillage implement. Deere laid out during CES that tillage is a very important, time-consuming and tedious process for farmers. Once crops have been harvested, farmers till the field, breaking up residue from the harvest before the ground freezes, helping to get the soil ready for the next season's planting. Failing to till a field effectively means some seeds won't take and yield will drop.

Automatic steering on tractors has been available for quite some time, but Deere's new autonomous tractor can till fields with the driver's cabin empty. With a tiller attached, the tractor can cover an entire field, while detecting obstacles that might otherwise damage the equipment.

Deere said the tractor can run "fully driverless" around the clock, potentially saving farmers significant time and labor costs. The system includes live video and images from the field, with six stereo cameras to detect obstacles—holes, debris, or other material—notifying the farmer when an issue needs to be addressed. Deere estimates this new tractor can improve productivity by as much as 20% and is targeted at farms growing wheat and other crops of at least 1,000 acres. Eventually, Deere expects to expand the autonomous tractor into additional tasks, like planting and spreading herbicides.

With the strongest brand in agriculture, Deere continues to operate at a very high level. We think the firm will continue to benefit from a sustainable equipment replacement cycle and precision ag as technology advancements support and drive pricing. We note that the foray into autonomous equipment could create major tailwinds as the equipment will not only have to be purchased but will also have substantial ongoing need for data connectivity and navigation services (which will further drive revenue). Additionally, the company should see gains in the aftermarket as retrofitting expands. Shares have run markedly higher over the past year, but we continue to appreciate the diversification of its construction products, while U.S. infrastructure spending should provide a boost in the coming years. Our Target Price on DE has been hiked to $490.

General Motors (GM – $62.27) CEO Mary Barra presented as a keynote speaker at (virtual) CES 2022 and outlined the carmaker's plan for EV production. Ms. Barra said, "GM is redefining how people and goods are moved. Our commitment to a vision of a world with zero crashes, zero emissions and zero congestion has become a movement and has positioned us ahead of much of the competition. As we implement our growth strategy, we have an opportunity and frankly a responsibility to create a better future for generations to come. Visionary investments made over the past decade in electrification, software-enabled services and autonomous driving have enabled GM to transform from automaker to platform innovator, one with the vision, the people and the technology to change the world. We are creating world-class technology solutions and services that will change the way people move along with new fleet solutions and entirely new business models."

Ms. Barra continued, "Our stated goals begin with becoming carbon-neutral as a company by 2040. To help us meet that goal, we are on track to invest $35 billion in electric and autonomous vehicles by 2025. Powering our plants to launch more than 30 electric vehicles globally over that same timeframe, including options for every price point and lifestyle. As previously announced, our plan is to have all new light duty vehicles be electric by 2035 and, today, I'm pleased to announce that we will introduce all-electric heavy-duty vehicles on that same timetable. These all-electric HD trucks will be engineered to deliver effortless heavy duty hauling and towing, while offering customers amazing new features and a range needed to get the toughest jobs done."

Additionally, Ms. Barra discussed GM's vehicle software platform Ultifi, commented on **Fedex** (FDX – $263.99) and **Walmart** (WMT – $144.89) purchases of GM's electric delivery vehicles, launched an all-electric version of the Silverado pickup, highlighted purchases of electric vehicles by car rental companies, mentioned self-driving cars from Cadillac and in a Tesla-like

way, explained that GM will be a software company as much as it'll be car manufacturing company. The pivot to EVs has been extraordinary, especially by historical carmaker standards.

We continue to like GM and believe that the company's move away from sedans and towards trucks and SUVs was important and supplies the huge amounts of cash flow required to launch more than 30 EVs in the very near term. Happily, electric vehicles are ahead of schedule. While the semiconductor shortage still might hamper manufacturing for a while longer (and probably has something to do with GM losing the #1 U.S. sales slot to Toyota for the first time), the impact seems to be fading. The valuation for GM isn't as cheap as it once was but is still only 10.2 times the consensus NTM adjusted EPS forecast. Our Target Price for GM is presently $81.

Potash producer and distributor **Nutrien** (NTR – $69.13) announced the resignation of Mayo Schmidt from the CEO position. Mr. Schmidt was the CEO from April 2021 to January 2022, having previously served as the CEO of Hydro One Inc. With strong demand for fertilizer and prices soaring, the short stay and speedy departure is perplexing.

Nutrien said in a press release:

Nutrien has delivered exceptional results in 2021 and is well positioned to continue this strong momentum into 2022," said Russ Girling, Chair of the Nutrien Board of Directors. "Nutrien has a talented and deep executive team, and we are confident that Ken Seitz and this team will continue to build on the organization's record financial and operating performance."

"The Nutrien Board of Directors will work with an executive search firm to begin a global search to select a long-term leader that will take the company into its next phase, which will consider internal and external candidates," added Mr. Girling.

Mr. Seitz said, "I look forward to working with the executive leadership team, our tremendous employees and the Board of Directors to execute on our plan, continue this exciting progression across our business to serve our stakeholders, and deliver on our commitment to advance sustainable solutions to feed a growing world."

Mr. Schmidt's departure is not a good look for NTR, even as the stock price has performed well over the last 12 months, returning nearly 38%. EPS for 2021 is expected to come in around $6, rising to more than $8 in 2022 (up from $1.80 in 2020), but then declining near $5 in 2023, illustrating the cyclical nature of the crop nutrients business. While the turnover in the executive suite is disappointing, the company does boast a strong crop protection and seed business to help balance the gyrations of the potash biz. Further, NTR sports a generous 2.7% dividend yield. We are keeping close watch on the goings on to make sure management turmoil doesn't adversely impact NTR's operational success, but for the time being we are comfortable holding the shares for our revised Target Price of $89.

Shares of **Acuity Brands** (AYI – $202.83) closed in the green for the first week of 2022, on the back of a strong fiscal Q1 earnings report. The lighting and lighting control systems concern earned $2.85 per share in the quarter (vs. the $2.41 analyst estimate), as sales grew 17% year-over-year to $883.6 million. Gross margin contracted by 30 basis points, although operating

margin expanded 160 basis points. Management said the company saw growth across all end markets with the exception of retail, which it expects will improve later this year.

CEO Neil Ashe commented, "In short, it's the best of times and the most challenging of times. First, on demand. Business is strong both in ABL and in spaces. Within ABL, demand is strong across all of our channels to market, except retail, which we expect to improve this calendar year. In this dynamic pricing environment, we have been prudent and successful passing on price increases, while at the same time, providing as much consistency as we can to our customers so that they can plan and execute their projects effectively. At the same time, input costs and availability remain unpredictable, and we expect this to continue. Obviously, everyone is dealing with this. Our strategy for managing through this has been consistent: prioritize satisfying customer demand and ensuring the health and well-being of our associates. First, we have chosen to honor pricing on all of our placed orders. As I've said before, it is important to me that we are known in the industry for doing what we say. There is a gap in time between when we receive orders and when we fulfill them in normal times, and that is even greater now. Therefore, we believe that this position will serve us well in the long term with specific customers and with the industry. From there, we are also doing everything that we can to fulfill these orders as quickly as we can. While we don't disclose backlog, what I will say is that it is meaningfully higher than during normal periods. This is the result of higher demand, coupled with changing component availability and the general supply chain and transportation challenges."

With additional color at the segment level, CFO Karen Holcomb added, "During the quarter, our Lighting and Lighting Control segment saw sales increase 17% to $884 million versus the prior year. This was driven by improvements within our independent sales network, which grew 14%, and the direct sales network, which grew about 12%. These increases were a direct result of our strong go-to-market efforts and an improved demand environment as well as the favorable impact of price increases. Our corporate accounts channel saw an increase in sales of approximately 62% compared to the prior year, as large accounts began previously deferred maintenance and renovations. The performance in this channel is dependent upon our customers' renovation cycles and can be uneven quarter to quarter. Sales in the retail channel declined approximately 16% in the current quarter. ABL operating profit for the first quarter of fiscal 2022 increased 30% to $128 million versus the prior year, with operating margin improving 160 basis points to 12.4%."

We continue to appreciate the financial and operational flexibility built into Acuity's business model, which allows it to scale with prevailing demand despite the unrelenting scarcity of inputs. Moreover, a strong competitive position has afforded the ability to defend margins through price increases despite increasing costs. Acuity continues to improve its product assortment through technological enhancements, and we are optimistic about the several channels for growth the company has on the horizon. While the divided yield is small, management has been opportunistic with its share repurchase program, buying back 3.8 million of outstanding shares at an average price of $114 in fiscal 2021, with 3.5 million shares remaining under the current authorization. We have boosted our Target Price for AYI to $255.

Railcar manufacturing and leasing concern **Greenbrier Companies** (GBX – $44.69) reported that it earned $0.32 per share in fiscal Q1, which ended in November, 51% better than the $0.21

expected by analysts. Shares had gained on the print in premarket trading but soon retraced and then some following the revelation that gross margin contracted by nearly half the Q4 figure (owing to labor shortage and weak pricing) and that the beat was aided by sales of assets from within the leasing division that contributed roughly $0.25 per share to the bottom line. Nevertheless, orders were strong in Q1 and equaled 35% of the new orders received in all of last year, bringing the backlog to 28,000 units valued at $3.0 billion, not including another $200 million of re-bodywork on the books. Management now expects fiscal '22 deliveries of 17,500 to 19,500 units, including approximately 1,500 units in Brazil, higher than the 16,000 and 18,000 projected a quarter ago. Greenbrier also recently inked a partnership with U.S. Steel and **Norfolk Southern** (NSC – $296.81) to produce a modern, higher-capacity gondola designed to eventually replace North America's aging gondola fleet. NSC has committed to order 800 units.

CEO Bill Furman stated, "We maintain a positive outlook for the fiscal year for a variety of reasons. These are supported by industry metrics as well as operating momentum driven by a strong order book, demand backlog and manufacture ramping. For example, a portion of idle railcars in North America decreased from 32% in July to just below 20% by December. Industry forecasts for 2022 and 2023 are very encouraging…All this suggest that industry fleet utilization is nearing 80%."

Company President Lorie Tekorius, who will take over for Mr. Furman as CEO on March 6, commented on Greenbrier's labor struggles, "I'm proud of our employees around the world that continue to perform well even as uncertainty abound. It is certainly an understatement to say that increasing head count safely by several thousand employees and increasing production rate by 40% to 50% is challenging. And with an experienced leadership team, we'll meet this opportunity to scale our operations all while keeping our workforce healthy and safe. Safety across our organization has been and will continue to be our number one priority. In the quarter just ended, we delivered 4,100 units including 400 units in Brazil."

She continued, "Deliveries decreased by about 9% sequentially, which primarily reflects the timing of syndication activity and line change over the North America. Our global manufacturing continues to take a measured approach to increasing production rate and activity as they work through orders taken during the trough. Our global sourcing team continues to perform minor miracle on a regular basis we avoid significant production delays. Our maintenance service business was significantly impacted by labor shortages exacerbated by the COVID pandemic. These shortages impact throughput, billing efficiencies, and profitability."

We continue to think consolidating acquisitions in North America and expansion abroad have both strengthened Greenbrier's competitive position and added beneficial diversification. And although railcar manufacturing has been a historically cyclical and capital-intensive industry, management insists that operational momentum is building, guiding for margins to improve into the low teens throughout the year as orders from weaker quarters roll off the book. Shares charted a rapid, V-shaped recovery from the pandemic bottom in March 2020 but have consolidated for much of the past year. They now trade for 21 times FY 2022 EPS estimates, but the figure shrinks to 12 using the FY 2023 figure. The dividend yield is 2.4% and our Target Price remains $55.