Market Commentary Monday, January 17, 2022

January 16, 2022

EXECUTIVE SUMMARY

Market of Stocks – Value up and Growth Down
CPI – Inflation & Equity Returns
Interest Rates – Higher Bond Yields & Equity Returns
Jamie Dimon – Expects Four+ Rate Hikes & Terrific Economic Growth
Econ Data – Mixed Numbers Last Week, but Solid GDP Growth Expected in 2022
Corporate Profits – Robust Growth in EPS Projected
Contrarian Sentiment – Bulls Tumble & Bears Jump
Stock News – Updates on JPM, C, BLK, DAL, BIG, CAH & CVS

Market Review

After a second successive week to start 2022 where inexpensive stocks generally were higher and expensive stocks generally were lower,…

THE PRUDENT SPECULATOR

VALUE UP AND GROWTH DOWN HAS HAPPENED BEFORE

While it has been only two weeks of Value generally up and Growth generally down thus far in 2022, such a divergence in returns took place after the bursting of the Tech Bubble...which was the last time the valuation gap between Value and Growth was as wide as it is today.

Total Returns Matrix

MARKET OF STOCKS

2000	2001	Last Week	YTD	Last 12 Months	Since 10.31.20	Since 3.23.20	Last 2 Years	Last 3 Years	Last 5 Years	Name	Symbol
-4.85	-5.44	-0.88	-1.13	18.03	38.67	100.19	29.32	60.35	101.98	Dow Jones Industrial Average	DJITR Index
1.01	-10.21	0.33	0.39	16.99	42.29	104.69	28.63	57.29	74.32	New York Stock Exchange Composite	NYA Index
-22.43	-9.23	-1.71	-7.45	-12.84	22.42	98.10	25.94	55.02	78.34	Russell 2000 Growth	RU20GRTR Index
22.83	**14.02**	**-0.18**	**-0.14**	**17.66**	**64.93**	**140.72**	**35.19**	**54.22**	**54.00**	**Russell 2000 Value**	**RU20VATR Index**
-3.02	2.49	-0.93	-3.81	1.33	42.12	119.84	31.88	56.48	67.78	Russell 2000	RU20INTR Index
-11.75	-20.15	-2.15	-9.53	-0.89	21.23	101.05	34.53	79.18	117.34	Russell Midcap Growth Index Total Return	RUMCGRTR Index
19.18	**2.33**	**-0.05**	**-0.19**	**22.49**	**52.85**	**133.63**	**33.88**	**63.16**	**67.78**	**Russell Midcap Value Index Total Return**	**RUMCVATR Index**
8.25	-5.62	-0.77	-3.54	13.72	40.89	123.29	36.60	72.74	91.12	Russell Midcap Index Total Return	RUMCINTR Index
-22.42	-19.63	-1.16	-5.97	18.60	37.36	120.41	58.82	114.88	174.46	Russell 3000 Growth	RU30GRTR Index
8.04	**-4.33**	**0.29**	**1.06**	**21.48**	**50.07**	**109.75**	**29.87**	**58.83**	**68.96**	**Russell 3000 Value**	**RU30VATR Index**
-7.46	-11.46	-0.45	-2.65	19.99	43.38	116.31	45.37	87.16	118.61	Russell 3000	RU30INTR Index
9.64	-0.39	0.03	-0.56	24.41	53.64	132.32	43.99	79.84	102.95	S&P 500 Equal Weighted	SPXEWTR Index
-9.10	-11.89	-0.29	-2.11	24.59	45.15	114.40	46.68	90.24	124.72	S&P 500	SPXT Index
-22.08	-12.73	-0.65	-5.10	26.20	43.05	123.87	62.40	113.23	172.94	S&P 500 Growth	SPTRSGX Index
6.08	**-11.71**	**0.10**	**1.20**	**22.48**	**47.67**	**100.80**	**27.78**	**63.48**	**75.98**	**S&P 500 Value**	**SPTRSVX Index**
-8.29	-17.75	-0.77	-7.07	17.76	41.51	129.71	52.88	93.71	140.03	S&P 500 Pure Growth	SPTRXPG Index
13.16	**10.87**	**1.85**	**6.98**	**32.81**	**78.27**	**166.16**	**31.70**	**54.73**	**68.37**	**S&P 500 Pure Value**	**SPTRXPV Index**

As of 01.14.22. Source Kovitz using data from Bloomberg

…the financial press has been warming to Value, even as the commentary is often skewed more toward the risks for the "market" of the shift in sentiment as opposed to the opportunity in owning companies with less-pricey valuation metrics.

STREETWISE | By James Mackintosh

Stock-Market Routine Returns, and It Hurts

In one way this year so far looks very like last year: the benchmark 10-year Treasury yield has risen by almost exactly the same amount, a little over 0.2 percentage points. In most ways, though, it looks completely different: rather than rewarding rampant speculation, the stock market has been punishing those who bet on fashionable stocks.

Here are three ways the market seems to be returning to normal after its pandemic unruliness, plus one possible change in its long-term pattern.

Share prices are irrelevant again. The start of January last year was unusual for the rush into stocks with a low share price, a sign of uninformed betting on the markets. The price of a share means nothing on its own. It matters only in relation to some measure of earnings or assets, so performance should not be linked to prices. But a year ago the strongest determinant of performance was the raw price, probably because of an influx of new individual traders who had yet to learn the basics.

This year, the market's returned to normal: there's no relationship between the price and performance. That's a good thing, except for those few who still bet on penny stocks.

Bubble stocks are back to doing badly when monetary conditions tighten. Early last year, speculators bet on popular themes, which inflated into minibubbles: clean energy, cannabis, electric vehi-

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Normality In Stocks Returns

Continued from page B1

cles, crypto and SPACs—special-purpose acquisition companies—as well as meme stocks such as **GameStop** and **AMC Entertainment**. The thematic bubbles peaked from January to March and began to deflate, although froth returned in October (and **Tesla** held on to its gains better than other EV stocks).

This year, higher bond yields have hit many of the bubble stocks hard again, with the **Ark Innovation ETF**—the purest expression of bets on unproven new technology—down more than 10%. ETFs tracking companies listed via SPACs and clean-energy stocks are off about 6%, while many of the electric-car companies and suppliers (again, Tesla excepted) have been hit. All the frothy themes are down more than 40% from last year's highs.

Cheap stocks are back in fashion—where cheap means a low valuation, not a low share price. Last year, growth stocks beat the cheap "value" stocks, with the Russell 1000 Growth Index returning 27.6% including dividends against 25.2% for the value index. That's not what should be expected in a year when bond yields rose: Higher bond yields ought to hurt growth stocks by making earnings far in the future less appealing, while helping value stocks, which benefit from the stronger economy that led to the yield rise.

It has worked so far this year, though, with value stocks up while growth stocks, as well as the tech-heavy Nasdaq, are down.

The strength of the link between bond yields and growth stocks was on full display on Monday and Tuesday. When 10-year Treasury yields rose above 1.8% for the first time since January of 2020 it prompted an intraday 3% selloff in growth stocks—before Treasury yields started to fall and growth stocks tore ahead again.

This pattern could be part of a broader shift back to how stocks used to behave before the dot-com bubble of the late 1990s, when higher bond yields were generally bad for stocks, and lower yields were good.

Back in the 1990s, and earlier, higher yields were more likely to be an indication of concern about inflation than of stronger real growth, so there was nothing good to offset the pain of higher yields for stocks, and vice versa. Since 2000, days with higher bond yields have also tended to be good days for stocks, as investors focused on the positive news of a stronger economy.

The switch shows up in the link between stocks and bond yields: the correlation of daily changes between the two was mostly negative until 1997, and later turned strongly positive.

Last year, the correlation flipped again, with the weakest link between the S&P 500 and bond yields since early 2007, shortly before the subprime mortgage crisis kicked off. It isn't clear if last year's flip was temporary, or a return to the pre-1997 era, but certainly this year higher yields hurt stocks and investors are again (quite rightly) worried about inflation. If this is a permanent shift in the stock-bond relationship, it makes it harder to construct a low-risk portfolio, because bonds won't provide offsetting gains on days when stocks fall. Worse, higher yields undermine the case for ignoring the high valuation of U.S. stocks: that they are cheap compared with bonds, the main alternative.

I'm less concerned about value stocks, which are much cheaper and ought to be less affected by higher yields. The obvious risk this year is that yields rise, monetary policy tightens and growth stocks drag down the overall market. That isn't the sort of return to normal investors want.

Here are three ways the market seems to be returning to normal after its pandemic unruliness, plus one possible change in its long-term pattern.

Share prices are irrelevant again. The start of January last year was unusual for the rush into stocks with a low share price, a sign of uninformed betting on the markets.

Bubble stocks are back to doing badly when monetary conditions tighten.

Cheap stocks are back in fashion—where cheap means a low valuation, not a low share price.

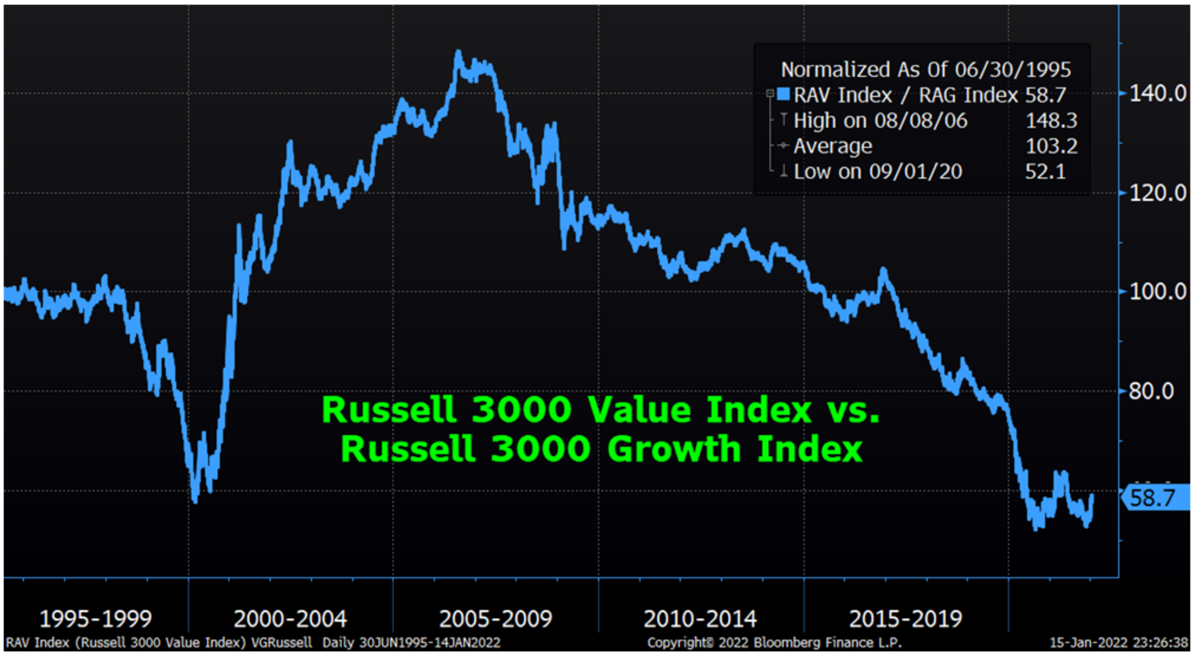
I'm less concerned about value stocks, which are much cheaper and ought to be less affected by higher yields. But the obvious risk this year is that yields rise, monetary policy tightens and **growth stocks drag down the overall market.** That isn't the sort of return to normal that investors want.

After all, Value stocks have a long way to go just to make it back to equilibrium with their more richly valued peers,…

THE PRUDENT SPECULATOR

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.



…much less return to their historical propensity for higher long-term returns.

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

To be sure, there is no assurance that stocks of any valuation will continue to appreciate, and pullbacks are always part of the investment landscape, but history shows that the major market averages have overcome plenty of difficulties along the way.

THE PRUDENT SPECULATOR

KEEP CALM AND CARRY ON

Memories tend to fade over time, but since the end of the Financial Crisis in March 2009, there have been more than a few frightening events, yet stocks have still managed to move higher.

Event	Date	S&P End Value	3 Months Later	6 Months Later	12 Months Later	36 Months Later	60 Months Later	Event to Present
Flash Crash	5/6/2010	1,128.15	-1%	9%	19%	43%	84%	313%
Japan Tsunami	3/11/2011	1,304.28	-3%	-12%	5%	43%	55%	258%
S&P Downgrade	8/6/2011	1,199.38	4%	12%	16%	60%	82%	289%
Hurricane Sandy	10/22/2012	1,433.82	4%	9%	22%	43%	80%	225%
Fiscal Cliff	1/1/2013	1,426.19	10%	13%	30%	43%	87%	227%
Taper Tantrum	5/22/2013	1,655.35	0%	9%	14%	24%	65%	182%
Russia and Ukraine	2/20/2014	1,839.78	2%	8%	15%	28%	51%	153%
Ebola Scare	9/4/2014	1,997.65	4%	5%	-4%	24%	47%	133%
Charlie Hebdo	1/7/2015	2,025.90	2%	3%	-4%	35%	60%	130%
Greek Default	6/30/2015	2,063.11	-7%	0%	2%	32%	50%	126%
China Devalues Yuan	8/10/2015	2,104.18	-1%	-12%	3%	35%	60%	122%
Paris Bataclan	12/13/2015	2,012.37	0%	3%	13%	32%	82%	132%
U.S. Interest Rate Hike	12/16/2015	2,073.07	-2%	0%	9%	25%	79%	125%
China GDP Slowing	1/19/2016	1,881.33	12%	15%	20%	42%	102%	148%
Brexit Vote	6/23/2016	2,113.32	2%	7%	15%	40%	101%	121%
Trump Victory	11/8/2016	2,139.56	7%	12%	21%	45%	120%	118%
Trump Trade War	3/2/2018	2,691.25	2%	8%	4%	44%		73%
COVID-19 Pandemic	3/11/2020	2,741.38	10%	22%	44%			70%
Biden Victory	11/3/2020	3,369.16	14%	24%	38%			38%
Georgia Runoff	1/5/2021	3,726.86	9%	17%	26%			25%
Price Changes Only								
Does Not Include Dividends		**Averages:**	**3%**	**8%**	**15%**	**38%**	**75%**	**150%**

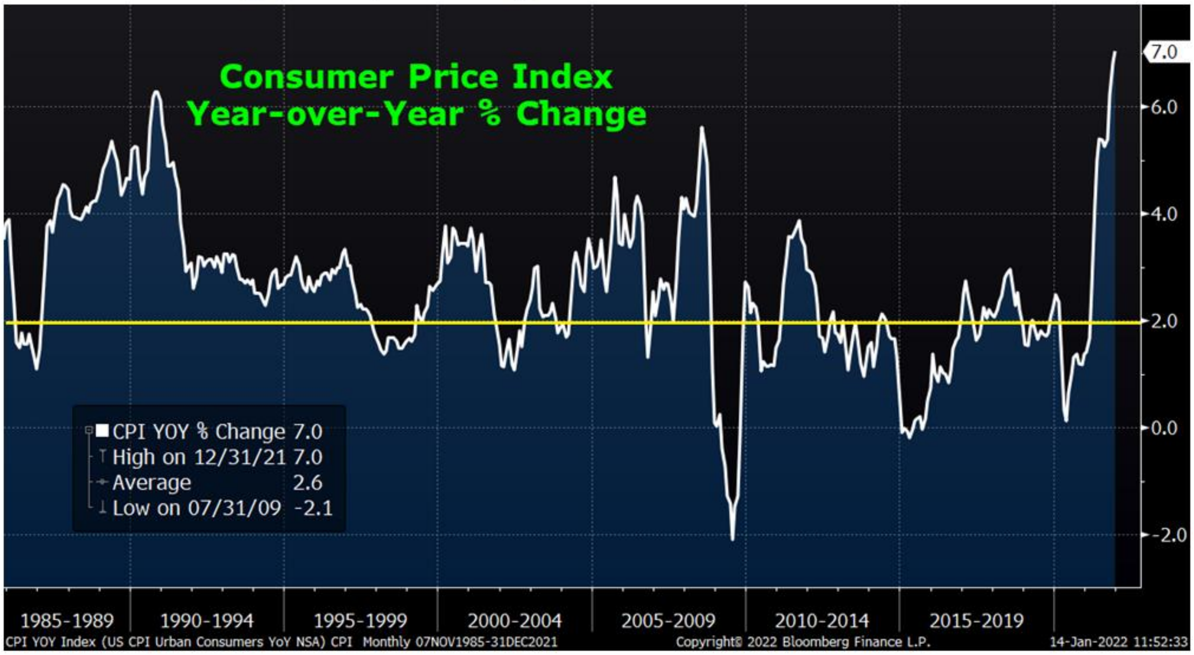
Source: Kovitz using data from Bloomberg. As of 1.14.22

One of those difficulties supposedly is higher inflation, with the latest read on the consumer price index leaping by 7.0%,…

THE PRUDENT SPECULATOR

INFLATION AT THE CONSUMER LEVEL HITS 39-YEAR HIGH

Inflation in the U.S. soared in December, with the Consumer Price Index rising by 7.0% on a year-over-year basis and 0.5% compared to the November reading, with hefty price hikes for groceries, vehicles, home furnishings, rent, clothing and medical care the main drivers.



…but the long-term evidence would suggest that equities in general and Value stocks in particular are excellent hedges against inflation.

THE PRUDENT SPECULATOR

EQUITY RETURNS AND 7%+ INFLATION – VALUE STOCKS THE PLACE TO BE

Inflation Rate >= 7.0% and Ensuing Value/Growth Returns Since 1927

Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	4.5%	2.1%	10.3%	5.4%	24.5%	14.3%
Geometric Average	3.8%	1.5%	8.8%	4.1%	21.6%	11.7%
Median	3.9%	1.7%	6.7%	4.3%	18.0%	12.4%
Max	50.6%	33.2%	82.1%	61.2%	133.3%	84.3%
Min	-19.2%	-27.8%	-26.3%	-36.0%	-28.1%	-48.0%
Count	131	131	131	131	131	131

Source: Kovitz using data from Ibbotson Associates 06.30.27 - 11.30.21.

Inflation Rate <7.0% and Ensuing Value/Growth Returns Since 1927

Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	4.1%	3.2%	8.1%	6.3%	16.3%	12.4%
Geometric Average	3.1%	2.5%	6.1%	4.9%	12.1%	9.5%
Median	4.0%	3.5%	8.0%	6.5%	16.2%	13.1%
Max	201.1%	131.7%	245.2%	135.6%	358.2%	213.8%
Min	-43.5%	-40.4%	-56.3%	-47.0%	-71.5%	-64.8%
Count	1001	1001	998	998	992	992

Source: Kovitz using data from Ibbotson Associates 06.30.27 - 11.30.21.

Inflation Rate >= 7.0% and Ensuing Value/Growth Returns Since 1957

Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	4.2%	2.3%	9.3%	5.8%	22.3%	15.9%
Geometric Average	3.7%	1.6%	8.2%	4.1%	20.6%	12.6%
Median	4.7%	2.7%	6.9%	4.7%	20.6%	17.7%
Max	39.8%	33.2%	63.2%	61.2%	72.6%	84.3%
Min	-16.4%	-27.8%	-26.3%	-36.0%	-28.1%	-48.0%
Count	76	76	76	76	76	76

Source: Kovitz using data from Ibbotson Associates 03.31.57 - 11.30.21.

Inflation Rate < 7.0% and Ensuing Value/Growth Returns Since 1957

Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	3.8%	3.0%	7.7%	6.1%	15.6%	12.0%
Geometric Average	3.3%	2.6%	6.7%	5.1%	13.5%	10.2%
Median	4.0%	3.4%	8.1%	6.3%	17.1%	12.9%
Max	37.7%	32.0%	68.3%	49.7%	106.5%	92.6%
Min	-39.5%	-34.9%	-54.2%	-41.8%	-52.2%	-40.1%
Count	698	698	695	695	689	689

Source: Kovitz using data from Ibbotson Associates 03.31.57 - 11.30.21.

Sadly, far too many seem to ignore the long-term data,…

Why an Unpleasant Inflation Surprise Could Be Coming

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

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

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

Wall Street Journal, February 28, 2018

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

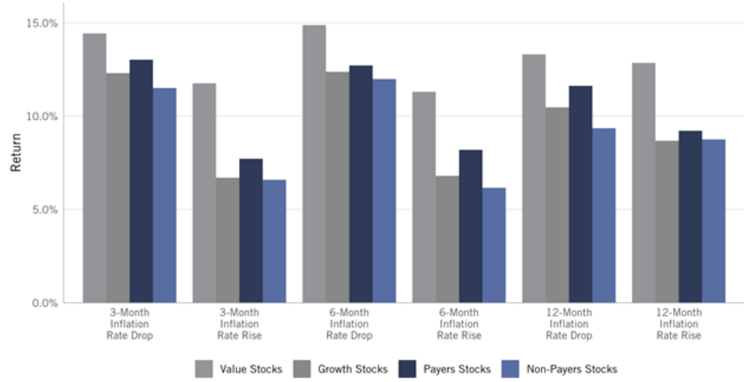
Annualized Returns December 1965 - December 1981	
Inflation	7.0%
IA SBBI US 1 Yr Treasury TR	7.1%
IA SBBI US 30 Day TBill TR	6.8%
IA SBBI US LT Govt Bonds TR	2.5%
IA SBBI US IT Govt Bonds TR	5.8%
IA SBBI US LT Corp Bonds TR	2.9%
FF Growth Stocks TR	7.4%
S&P 500 TR	6.0%
Dow Jones Industrials TR	3.9%
FF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

Source: Morningstar

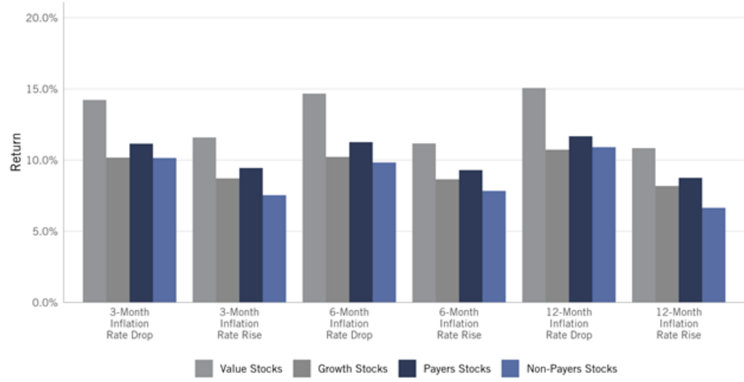
…which is why these missives are filled with plenty of numbers.

THE PRUDENT SPECULATOR

INFLATION Δ AND VALUE/GROWTH & DIV/NO DIVS



From 12.31.27 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 12.31.27 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 have incorrectly warned that rising inflation rates will prove fatal for equities, as nine decades of returns data show that stocks in general have performed admirably on average, both concurrent with and subsequent to increases (as well as decreases) in the inflation rate over 3-, 6-, and 12-month time spans, with Value Stocks and Dividend Payers leading the charge.

Not surprisingly, we are fans of the Vannevar Bush quotation, “Fear cannot be banished, but it can be calm and without panic; it can be mitigated by reason and evaluation.”

Continuing with the reason and evaluation, we know that many folks are concerned about rising interest rates,…

…even as, on average, U.S. Treasury yields trending higher over the course of a year have only been a major headwind for bonds.

THE PRUDENT SPECULATOR

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.

Certainly, we respect that the Federal Reserve is a wildcard, with **JPMorgan Chase** (JPM – $157.89) CEO Jamie Dimon saying last week, “It’s possible that inflation is worse than they think and they raise rates more than people think. I personally would be surprised if it’s just four increases.”

For his part, Fed Chair Jerome Powell said last week, “If we see inflation persisting at high levels longer than expected, if we have to raise interest rates more over time, we will.” That would be OK by us, as, though stocks have performed better when the Fed is easing, Value has enjoyed terrific annualized returns, on average, when the Fed is tightening monetary policy.

THE PRUDENT SPECULATOR

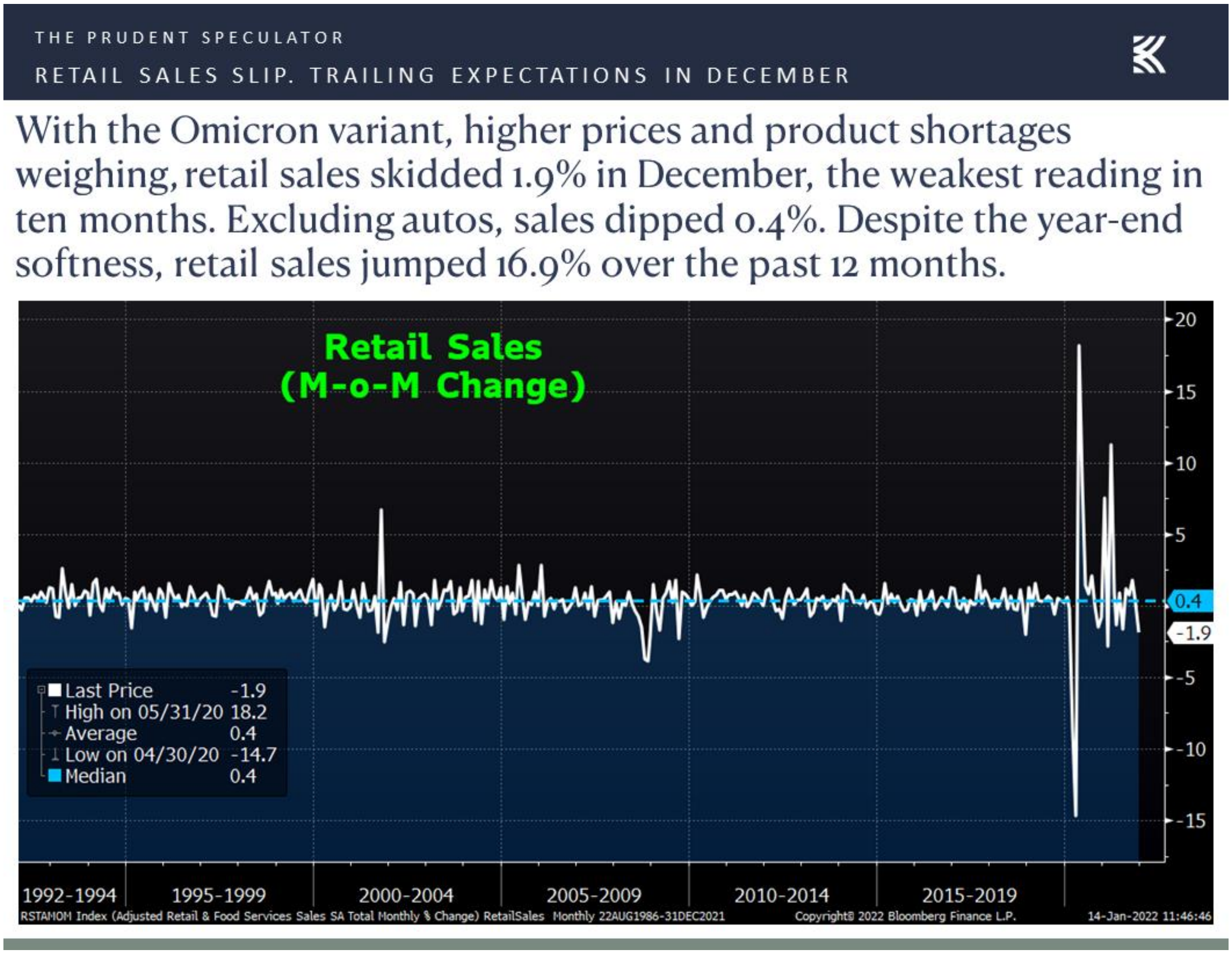
FED TIGHTENING – VALUE & DIVIDEND PAYERS THE PLACE TO BE

Rates Change and Equities Rise

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

We also thought it interesting that Mr. Dimon added, "We're going to have the best growth we've ever had this year, I think since maybe sometime after the Great Depression. Next year will be pretty good too…The consumer balance sheet has never been in better shape; they're spending 25% more today than pre-Covid. Their debt-service ratio is better than it's been since we've been keeping records for 50 years."

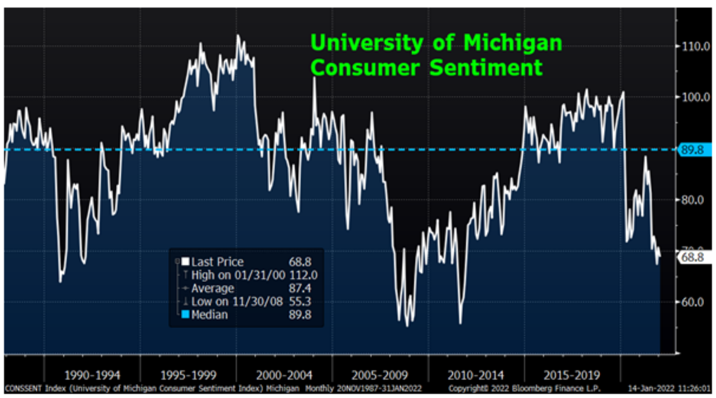
That is not to say that there won't be bumps in the economic road, especially as the Omicron variant is still with us and supply chains remain disrupted. Such was the case with last week's retail sales tally for December,…



…and less-than-stellar Main Street sentiment figures.

THE PRUDENT SPECULATOR

MAIN STREET SENTIMENT NOT EXACTLY OPTIMISTIC

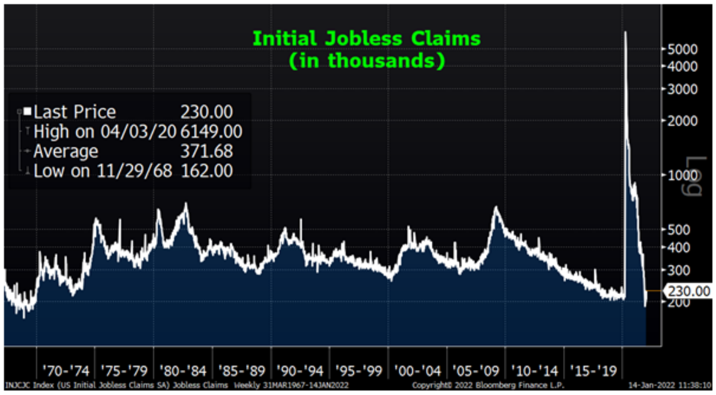


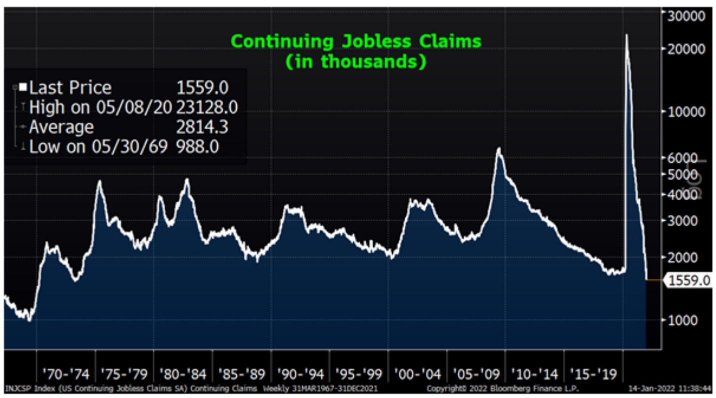
The NFIB Small Business Index for December edged up 0.5 points to 98.9, above the historical norm, with owners most worried about inflation, along with shortages of supplies and skilled labor. The University of Michigan gauge of consumer sentiment this month dropped to a weaker-than-expected 68.8, the second worst reading in a decade. Some 75% of consumers ranked inflation, and not unemployment, as the biggest problem facing the country.

On the other hand, the latest news on the labor market was impressive with a near five-decade low in continuing jobless claims,…

THE PRUDENT SPECULATOR

JOBLESS FILINGS RISE BUT CONTINUING CLAIMS AT A 49-YEAR LOW



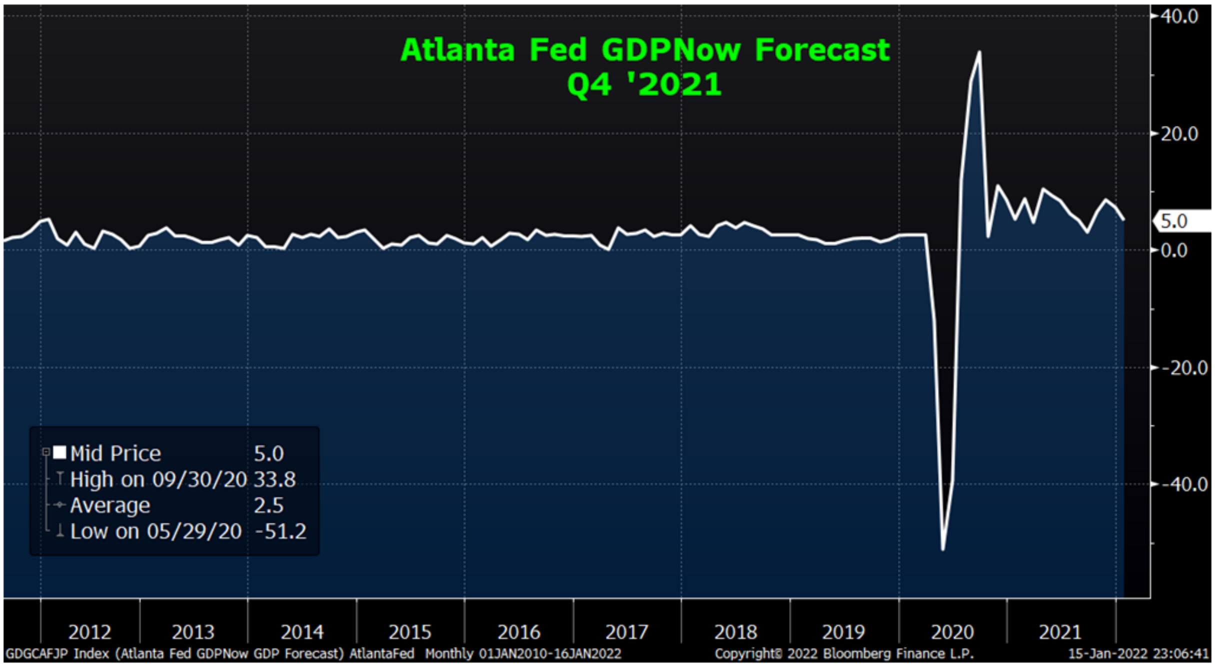


While there is still some noise in the numbers due to holiday hiring, new filings for unemployment benefits for the period ended January 8 came in at a seasonally adjusted 230,000, the highest level since mid-November, but still not far off a five-decade-plus low. Continuing claims filed through state programs plunged by 194,000 to 1.56 million, hitting the lowest level since 1973 as businesses are laying off few workers with labor scarce.

…while Q4 U.S. GDP growth is still expected to come in above 5%.

HEALTHY U.S. GDP GROWTH STILL 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 solid 5.0%.



Yes, global growth estimates have of late been trimmed,…

THE WORLD BANK: 3.7% U.S. & 4.1% WORLD GDP GROWTH NOW PROJECTED

The World Bank
Global Economic Prospects January 2022

TABLE 1.1 Real GDP[1]
(Percent change from previous year)

						Percentage point differences from June 2021 projections		
	2019	2020	2021e	2022f	2023f	2021e	2022f	2023f
World	**2.6**	**-3.4**	**5.5**	**4.1**	**3.2**	**-0.2**	**-0.2**	**0.1**
Advanced economies	**1.7**	**-4.6**	**5.0**	**3.8**	**2.3**	**-0.4**	**-0.2**	**0.1**
United States	2.3	-3.4	5.6	3.7	2.6	-1.2	-0.5	0.3
Euro area	1.6	-6.4	5.2	4.2	2.1	1.0	-0.2	-0.3
Japan	-0.2	-4.5	1.7	2.9	1.2	-1.2	0.3	0.2
Emerging market and developing economies	**3.8**	**-1.7**	**6.3**	**4.6**	**4.4**	**0.2**	**-0.1**	**0.0**
East Asia and Pacific	5.8	1.2	7.1	5.1	5.2	-0.6	-0.2	0.0
China	6.0	2.2	8.0	5.1	5.3	-0.5	-0.3	0.0
Indonesia	5.0	-2.1	3.7	5.2	5.1	-0.7	0.2	0.0
Thailand	2.3	-6.1	1.0	3.9	4.3	-1.2	-1.2	0.0
Europe and Central Asia	2.7	-2.0	5.8	3.0	2.9	1.9	-0.9	-0.6
Russian Federation	2.0	-3.0	4.3	2.4	1.8	1.1	-0.8	-0.5
Turkey	0.9	1.8	9.5	2.0	3.0	4.5	-2.5	-1.5
Poland	4.7	-2.5	5.1	4.7	3.4	1.3	0.2	-0.5
Latin America and the Caribbean	0.8	-6.4	6.7	2.6	2.7	1.5	-0.3	0.2
Brazil	1.2	-3.9	4.9	1.4	2.7	0.4	-1.1	0.4
Mexico	-0.2	-8.2	5.7	3.0	2.2	0.7	0.0	0.2
Argentina	-2.0	-9.9	10.0	2.6	2.1	3.6	0.9	0.2
Middle East and North Africa	0.9	-4.0	3.1	4.4	3.4	0.6	0.8	0.1
Saudi Arabia	0.3	-4.1	2.4	4.9	2.3	0.0	1.6	-0.9
Iran, Islamic Rep.[3]	-6.8	3.4	3.1	2.4	2.2	1.0	0.2	-0.1
Egypt, Arab Rep.[2]	5.6	3.6	3.3	5.5	5.5	1.0	1.0	0.0
South Asia	4.4	-5.2	7.0	7.6	6.0	0.1	0.8	0.8
India[3]	4.0	-7.3	8.3	8.7	6.8	0.0	1.2	0.3
Pakistan[2]	2.1	-0.5	3.5	3.4	4.0	2.2	1.4	0.6
Bangladesh[2]	8.2	3.5	5.0	6.4	6.9	1.4	1.3	0.7
Sub-Saharan Africa	2.5	-2.2	3.5	3.6	3.8	0.7	0.3	0.0
Nigeria	2.2	-1.8	2.4	2.5	2.8	0.6	0.4	0.4
South Africa	0.1	-6.4	4.6	2.1	1.5	1.1	0.0	0.0
Angola	-0.6	-5.4	0.4	3.1	2.8	-0.1	-0.2	-0.7

The global economy is set to experience its sharpest slowdown after an initial rebound from a global recession since at least the 1970s. Global growth is projected to decelerate from 5.5% in 2021 to 4.1% in 2022, reflecting continued COVID-19 flare-ups, diminished policy support, and lingering supply disruptions. Growth is envisioned to slow further in 2023, to 3.2%, as pent-up demand is depleted and supportive macroeconomic policies continue to be unwound.

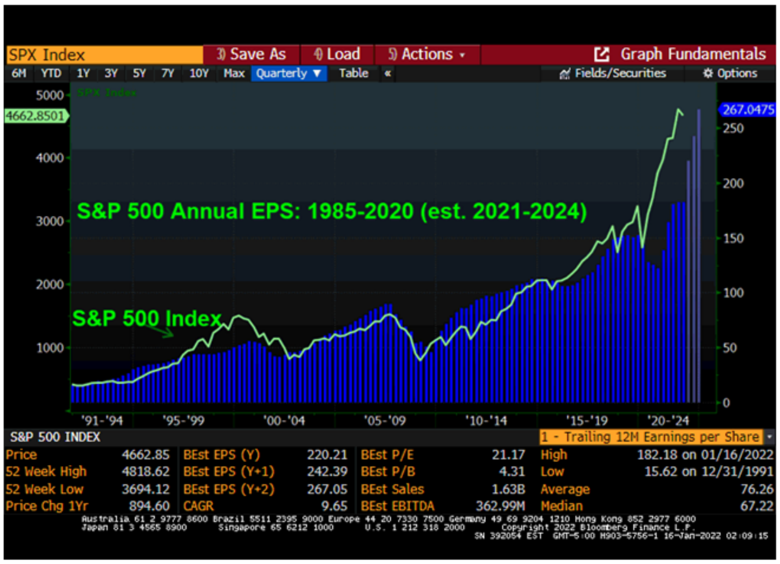
— The World Bank

…but a still-healthy economy should continue to provide plenty of support for corporate profits.

THE PRUDENT SPECULATOR

FANTASTIC EPS GROWTH LIKELY IN '22 AND '23/'24 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, 2023 and 2024.



S&P 500 Earnings Per Share

Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2023	$61.53	$234.23
9/30/2023	$60.41	$230.36
6/30/2023	$57.62	$226.78
3/31/2023	$54.67	$223.51
12/31/2022	$57.66	$220.31
9/30/2022	$56.83	$213.31
6/30/2022	$54.35	$208.50
3/31/2022	$51.47	$206.20
12/31/2021	$50.66	$202.14
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

Source: Standard & Poor's. As of 1.13.22

So, we are always braced for downside movements, and we concede that Mr. Dimon added, "The market is different. We're kind of expecting that the market will have a lot of volatility this year as rates go up and people kind of redo projections." However, we continue to believe that it is a market of stocks and not simply a stock market, and we remain optimistic about the long-term prospects of our broadly diversified portfolios of what we believe to be undervalued stocks,…

CURRENT PORTFOLIO AND INDEX VALUATIONS

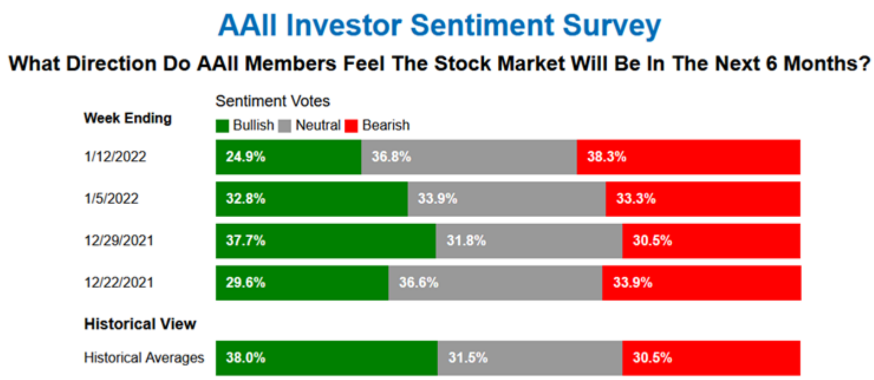
Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	15.9	14.1	1.2	2.6	2.1
ValuePlus	16.7	14.1	1.6	2.5	1.9
Dividend Income	14.8	13.6	1.1	2.4	2.5
Focused Dividend Income	15.8	14.4	1.3	2.6	2.3
Focused ValuePlus	15.9	15.1	1.6	2.9	2.0
Small-Mid Dividend Value	12.8	11.7	0.7	1.7	2.2
Russell 3000	28.5	21.5	2.8	4.4	1.3
Russell 3000 Growth	40.3	29.6	4.7	12.4	0.7
Russell 3000 Value	21.8	16.7	2.0	2.6	1.9
Russell 1000	26.2	21.4	3.0	4.6	1.3
Russell 1000 Growth	37.2	29.2	5.3	13.6	0.7
Russell 1000 Value	20.0	16.7	2.1	2.7	1.9
S&P 500 Index	25.6	21.2	3.1	4.8	1.3
S&P 500 Growth Index	31.2	26.6	5.8	9.7	0.7
S&P 500 Value Index	21.6	17.5	2.1	3.1	1.9
S&P 500 Pure Value Index	13.3	11.5	0.8	1.5	2.3

As of 01.15.22. 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 the contrarian in us likes that investors have become much less Bullish and much more Bearish!

THE PRUDENT SPECULATOR

AAII BULLISHNESS SKIDS & BEARISHNESS JUMPS



AAII Bull-Bear Spread

Decile	Low Reading of the Range	High Reading of the Range	Count	R3K Next 1-Week Arithmetic Average TR	R3K Next 1-Week Geometric Average TR	R3K Next 1-Month Arithmetic Average TR	R3K Next 1-Month Geometric Average TR	R3K Next 3-Month Arithmetic Average TR	R3K Next 3-Month Geometric Average TR	R3K Next 6-Month Arithmetic Average TR	R3K Next 6-Month Geometric Average TR
	Below & Above Median Bull Bear Spread = 8.00										
BELOW	-54.0	8.0	919	0.27%	0.23%	1.28%	1.15%	3.67%	3.29%	7.10%	6.35%
ABOVE	8.1	62.9	877	0.17%	0.15%	0.50%	0.41%	1.97%	1.71%	4.67%	4.20%
	Ten Groupings of 1796 Data Points										
1	-54.0	-15.0	183	0.56%	0.50%	2.16%	1.92%	5.85%	5.30%	10.57%	9.34%
2	-14.9	-7.3	176	0.35%	0.32%	1.00%	0.88%	3.87%	3.52%	6.99%	6.22%
3	-7.3	-1.4	180	0.31%	0.27%	1.56%	1.47%	3.41%	3.02%	7.21%	6.58%
4	-1.4	3.0	184	0.09%	0.05%	1.02%	0.93%	2.85%	2.49%	6.28%	5.75%
5	3.0	8.0	196	0.05%	0.02%	0.68%	0.59%	2.47%	2.22%	4.62%	4.11%
6	8.1	12.0	159	0.10%	0.08%	0.38%	0.26%	1.68%	1.44%	5.04%	4.65%
7	12.0	16.4	179	0.20%	0.18%	0.61%	0.51%	2.38%	2.13%	4.90%	4.37%
8	16.5	22.0	188	0.17%	0.15%	0.77%	0.70%	2.18%	1.91%	6.17%	5.75%
9	22.0	29.1	171	0.09%	0.07%	0.40%	0.32%	2.04%	1.76%	4.48%	3.90%
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 01.13.22. 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 7.9 points from the week prior and the number of Bears rising 5.0 points is a positive. The minus 13.4 Bull-Bear spread is in the favorable 2nd decile of the weekly figures going back to 1987.

Stock Updates

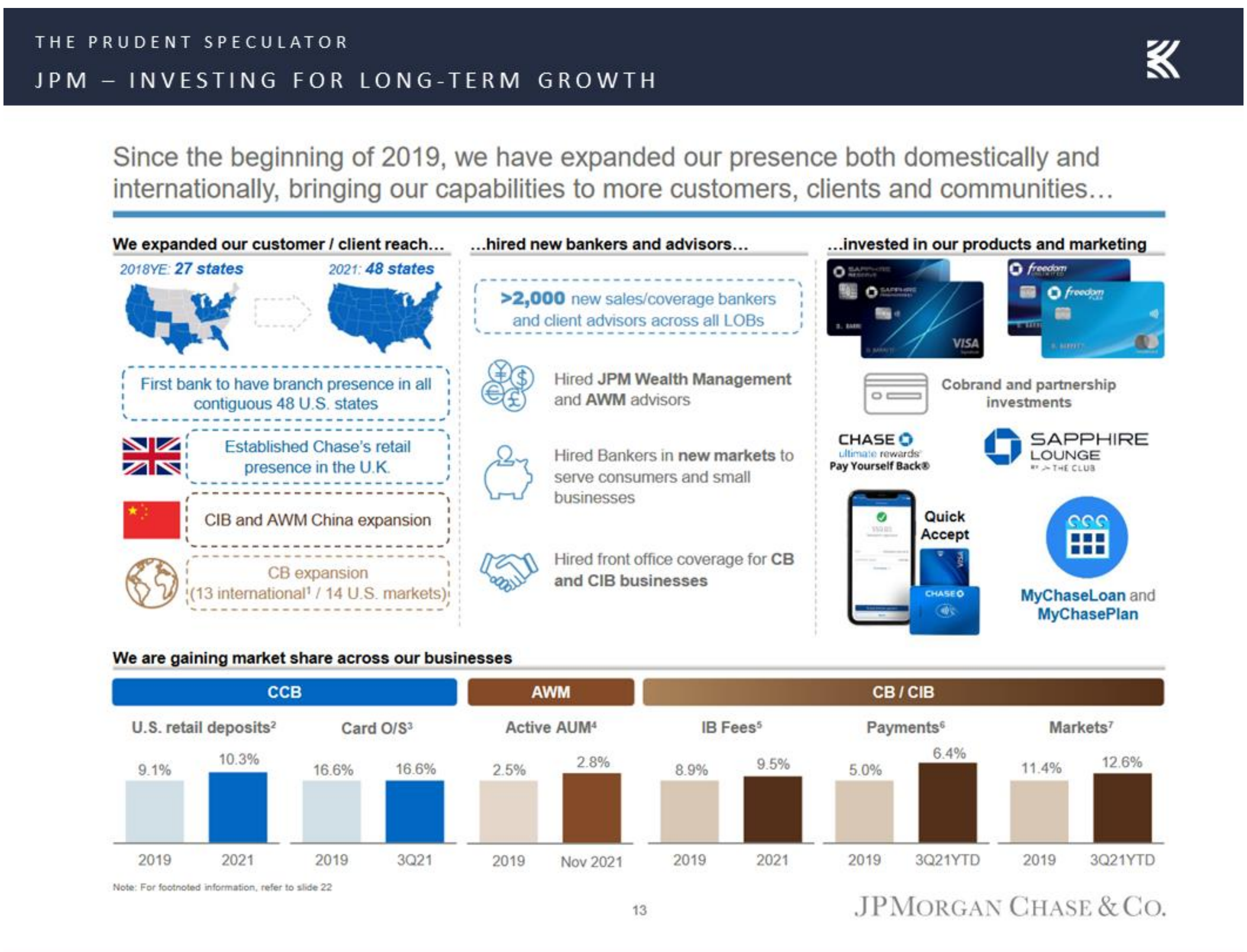
Keeping in mind that all stocks are rated as a “Buy” until such time as they are a “Sell,” a listing of all current recommendations is available for download via the following link: https://theprudentspeculator.com/dashboard/. We also offer the reminder that any sales we make for our newsletter strategies are announced via our *Sales Alerts*.

Jason Clark, Chris Quigley and Zack Tart offer updates on seven of our stocks that reported quarterly results last week or had news out worthy of mention.

Shares of **JP Morgan Chase** (JPM – $157.89) dipped more than 6% on Friday after the release of Q4 financial results revealed a jump in non-interest expenses (up 5% vs. Q3 ’21 and up 11% vs. Q4 ’20) as rising wages ate into margins. The release of credit reserves padded the bottom line and contributed to $3.33 of earnings per share (11% better than the analyst estimate). Average loans grew 6% year-over-year as strong growth in securitized lending and auto loans offset stagnant loan performance across the rest of the business. Calmer markets weighed on performance by the trading department that had proved so beneficial throughout the pandemic. Momentum continued for dealmakers, however, as investment banking fees grew 28% year-over-year.

On the topic of wage pressures CEO Jamie Dimon declared, “As we’ve always said, we’re going to — we want to be very, very competitive and pay. There’s a $1 billion in merit increase. There’s a lot more compensation for our top bankers and traders and managers who actually say, by the way, did an extraordinary job in the last couple of years delivering this stuff. And we will be competitive and pay. And if that squeezes margin a little bit for shareholders, so be it.”

But wages aren’t the only driver of expense growth, as JPM intends to lift its spending another 8% or so in 2022 on modernization and continued hiring across the franchise. CFO Jeremy Barnum explained, “We’ve expanded our reach across the U.S. and are thrilled to be the first bank in all contiguous 48 states, an important milestone in our branch market expansion plans. We also continue to expand internationally, including 13 international markets as part of our Commercial Bank expansion, China in both our CIB and AWM businesses, and in the U.K. with Chase U.K., where we’ve seen exciting progress since we launched in September, although we expect this to be a multiyear journey before having a measurable impact on the firm overall. We continue to hire bankers and advisers in Investment Banking, private banking and wealth management, really across all of the wholesale and consumer footprint, where we believe we have opportunities to better penetrate geographies and sectors to continue to grow share.”



He added, “It’s important to understand what’s in the investment category. About half of that is foundational and mandatory, which includes regulatory-related investments, modernization and the retirement of technical debt, in addition to other key strategic initiatives to help us face the future. Modernization, which includes migrations to the cloud as well as upgrading legacy infrastructure and architecture; data strategy that enables us to extract the value that exists in our proprietary data set by cleaning it and staging it in the right ways and then deploying modern techniques against it; attracting and acquiring top talent with modern skills; and a product operating model, which is obviously a popular buzzword these days. But if you look through all that, it reflects the simple reality that the best products get delivered when developers and business owners are working together iteratively with end-to-end ownership. Underpinning all of this is our continued emphasis on cybersecurity to protect the firm and our clients and customers as well as maintaining a sound control environment.”

Mr. Barnum concluded, “As I wrap up, it’s another good moment to stop and note how privileged we are to have the financial strength and the earnings-generating capacity to absorb these inflationary pressures while also making critical investments to secure the future of the company…We’re happy with what we’ve been able to achieve over the last 2 years, not only the business results, some of which are highlighted here on the page, but also continuing to serve our customers, clients and communities, and importantly, executing on our strategic priorities. As we look ahead, we will continue to invest and innovate to build and strengthen this franchise for the long term. And while there may be headwinds in the near term as we continue to work through the consequences of the pandemic, we’ve never felt better about the company and our position in this very competitive dynamic landscape.”

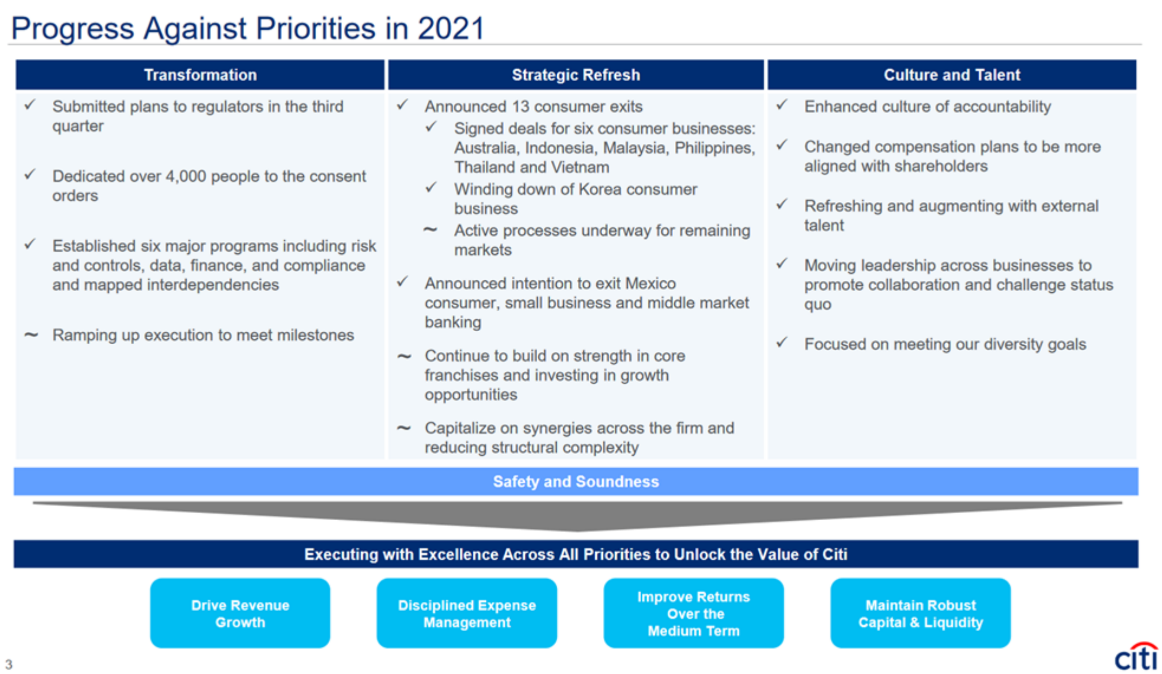
JPM remains a favored holding in many of our diversified portfolios as we continue to like the multiple levers available to generate business in varying environments. We expect the prospect of higher rates to support consumer and commercial core business, while capital market activity remains robust. With a fondness for Mr. Dimon, we are patient while the seeds are sown at the nation’s largest bank in anticipation of the fruit to come. Shares trade at 13.5 times the consensus EPS estimate for FY 2022 and the dividend yield is 2.5%. Our Target Price for JPM is presently $193.

Citigroup (C – $66.93) continued down the reorganization path in Q4 toward what management says are higher returning parts of the business (wealth management, investment banking and service-related), announcing an agreement to dispose of four consumer businesses in Asia. The bank also intends to introduce Personal Banking & Wealth Management and Legacy Franchises as new segments within its reporting structure, a move that new CEO Jane Fraser says “will make it easier for our investors to understand the performance of our core businesses and optimize the businesses we have chosen to exit.” The third largest U.S. bank by assets earned an adjusted $1.99 per share in the quarter, 23% higher than analysts had expected, but modestly lower than the same quarter a year ago. Like other banks that reported last week, higher expenses from transformational and business-led investments, selling costs and those related to voluntary retirement programs were offset by a $1.4 billion credit release, while a 4% reduction in the share count improved per-share results.

Another effort at Citi involves further aligning the bank with shareholders. On this front, Ms. Fraser added, “Given where the stock is trading, it makes buybacks highly attractive…We’re taking the structure and strategic decisions to put the bank in the best position to drive shareholder value. And you can see we’re executing, and we are delivering with urgency, and we’re very driven to get the valuation in a far higher place than it is today. And then finally, we are also making changes to compensation. So more of our senior business leaders will be on the PSUs for this coming year. We’ve moved to 100% deferred stock versus a mix of stock and cash in the geographies that we’re permitted to do so. And we’re increasing the importance of returns in determining performance evaluations. There is a myriad of — and rounds of different actions that we’re taking because our shareholders matter to us. And we want to get our valuation up to one that we think has — realizes its full potential.”

THE PRUDENT SPECULATOR

C – NEW CEO JANE FRASER MOVING QUICKLY TO OVERHAUL CITI



We continue to monitor Ms. Fraser’s efforts to clean up Citi’s risk and regulatory issues and streamline the bank all while investing to remain competitive. The company also just announced plans to exit Mexico consumer, small business and middle market banking. We are watching trends in card spending (which trended higher by 24% last quarter) and balances, which represent a larger percentage of Citi’s business than peers. Despite the baggage, we appreciate the notion of exiting underperforming markets and that the stock is trading far below that of its peers (84% of tangible book value), while offering a dividend yield of 3.1%. Our Target Price for C now resides at $106.

A 2.3% decline in price on Friday extended the year-to-date slide for shares of **BlackRock** (BLK – $848.60) to over 7%, even as the ETF and asset management giant turned in a successful Q4 on most counts. BlackRock earned an adjusted $10.42 per share (a couple percent above estimates), propelling the full-year EPS total 16% higher to $39.18. Another double-digit percentage surge in assets under management contributed to 67.5% of cumulative growth over the past 3 years, with the total now over $10 trillion.

CEO Larry Fink commented, "BlackRock delivered the strongest organic growth in our history, even as our assets under management reached new highs. We generated $540 billion of net inflows in 2021, including an industry leading $267 billion of active net inflows. Our business is more diversified than ever before – active strategies, including alternatives, contributed over 60% of 2021 organic base fee growth. Our industry-leading iShares® ETF platform remained a significant growth driver with record flows of $306 billion. And our technology services businesses, powered by Aladdin®, delivered $1.3 billion in revenue with [Annual Contract Value] up 13% year over year."

He added, "As the world continues to navigate uncertainty and profound shifts in economies and societies at large, BlackRock remains focused on helping our clients meet their investment goals. Every dollar that is entrusted to us, by every client, is treated with the same care and responsibility. BlackRock enters 2022 better positioned than ever – we remain confident in our ability to continue generating differentiated organic growth over the long-term and helping more and more people experience financial well-being."

Even as shares have marched substantially higher over our holding period, the latest dip keeps the stock reasonably priced at roughly even with the market P/E multiple. We continue to like our exposure to BLK given its scale, competitive ETF franchise and diversified product base across asset classes. Analysts project BLK's EPS to climb to over $50 in the next three years, while the dividend was just hiked, pushing the yield up to 2.3%. Our Target Price has been bumped up to $1,039.

Delta Air Lines (DAL – $40.31) reported Q4 2021 results that trailed analyst expectations, but shares gained 2% on Thursday after CEO Ed Bastian said that he sees only a short-term impact from the Omicron variant, before they retreated on Friday. DAL earned an adjusted $0.22 per share in Q4, compared with the analyst consensus estimate of $0.23. The airline's adjusted revenue was $8.43 billion, compared with the $8.45 billion consensus.

In comments on Omicron, Mr. Bastian said, "As everyone is aware, the omicron variant has significantly impacted our people, our customers and our operation, as well as most parts of society over the last 3 weeks. The combination of the rapid spread of the variant at the peak of a strong holiday demand period and in the face of extreme winter condition in parts of the country created some of the most difficult travel conditions that we ever remember experiencing… The good news is that over the past 7 days, our operation has stabilized with omicron-related cancellations impacting only about 1% of our flights. And since Sunday, the number of omicron-affected cancellations are around 20 a day out of nearly 4,000 daily flights. And in fact, yesterday, we only had 2 omicron-related mainline cancellations. So while the new variant is not done, it appears that the worst may be behind us."

Mr. Bastian continued, "Based on how quickly the case counts have risen, our medical team expects cases to peak in the U.S. over the next few days, followed by a steep decline in cases, and we're already starting to see that happen amongst our own staff. Given the high transmissibility and lower severity of omicron, this variant is likely to mark the shift in COVID-19 from being a pandemic to a manageable and ordinary seasonal virus, which should accelerate the path to a normalized environment. When we spoke last month about omicron as a risk at Capital Markets Day, a lot was unknown. Today, we know a lot more. And while the first 60 days of the year will be impacted, we're confident that the pace of travel recovery will resume its December trajectory as we move into President's Day weekend and a strong spring and summer travel season are ahead of us."

Mr. Bastian discussed business dynamics, "The omicron case surge is impacting business travel and international recovery the most. As meetings are canceled, planned office reopenings are postponed and countries put restrictions back in place. On the consumer side, we're seeing some near-term hesitation and booking behavior given the prominence of COVID in our daily lives. And that, combined with operational challenges that the industry is facing, consumers are delaying travel until case counts subside and the industry operational reliability is restored. So as a result, we're seeing the rate of recovery step down in the months of January and February to approximately 70% versus '19 levels from nearly 80% where we were in December."

Delta said it expects revenue to come in between 72% and 76% of the Q1 2019 figure ($10.47 billion). Fuel is expected to cost between $2.35 and $2.50 per gallon based on $81 brent crude. While the flying part of Delta's business remains challenging, consumers have been spending at a tremendous clip, netting the airline $1.2 billion of remuneration payments from American Express. Delta also said business and premium cabin demand continues to improve, while cargo revenue soared to $304 million (up 63% from Q4 2019). Given the trajectory for Omicron infections in South Africa, we aren't surprised to see that the variant hit hard and is passing reasonably quickly. Fortunately for Delta, if that works out, then the company will be able to have full airplanes for spring and summer travel. The P/E for the carrier is presently 19x, which should drop below 7x for 2023 if the impact of the pandemic recedes and folks spend their piles of accumulated cash traveling the world. Our Target Price for DAL is now $67.

Shares of **Big Lots** (BIG – $43.41) slid over 12% last week as management reduced its earnings guidance for fiscal Q4, which it attributes to "softening of traffic and sales trends, which it believes, in addition to adverse weather conditions, has been significantly driven by the rapid spread of the Omicron strain of COVID-19 and its impact on consumer behavior." The discount retailer now expects to report diluted earnings per share in the range of $1.80 to $1.95, down from the previous guidance of $2.05 to $2.20.

Management also announced details pertaining to its long-term outlook and strategic plan deemed Operation North Star: A sales goal of $8 billion to $10 billion driven by approximately 500 net store openings, merchandise sales productivity initiatives and continued e-commerce growth; an operating margin goal of 6% to 8% driven by gross margin improvement and expense leverage; and a return on invested capital goal of 20% to 25%.

CEO Bruce Thorn explained, “We are highly confident that Operation North Star has put us on track to create tremendous long-term value for shareholders, and that we now have the visibility to provide a long-term financial outlook. We see a clear and long runway for growth ahead of us, coupled with the opportunity to drive returns through margin expansion and judicious capital allocation. We have all of the foundations in place to accomplish this, including a seasoned and ambitious team, new tools and technologies, and a proven pipeline of innovation. We will do all of this by accomplishing our mission to help our customer Live BIG and Save Lots!”

We are patient for supply chain issues to eventually subside and expect store traffic to return as consumer behavior normalizes. The thrill of finding a solid bargain is timeless and ought to keep BIG’s long-term earnings power intact for the foreseeable future. With shares trading at a single-digit earnings multiple, we welcome efforts to put the $180 million available under the current stock repurchase plan to work. The dividend is an attractive 2.8% and our Target Price has been tuned to $79.

Shares of **Cardinal Health** (CAH – $53.09) opened trading this past Monday down some 11% as management said that inflationary impacts and lower volumes from supply constraints would trim EPS by $0.40 to $0.45 for fiscal year 2022. Management had reaffirmed its full-year guidance just two months ago, previously expecting $5.60 to $5.90 of EPS, pinning elevated supply-chain costs as temporary. Shares climbed back later that day, as management presented at the JPMorgan Healthcare Conference, and throughout the week, finishing down just 2% from where they ended the week prior.

CEO Michael Kaufman commented, “Our differentiated portfolio of growth businesses across Pharma and Medical are aligned with industry trends, positioned to grow double digits and are becoming a bigger contributor to our company’s performance. We continue to operate with urgency and have a strong pipeline of initiatives to take cost out of our business. Our Pharma Distribution business continues to see stability, evidenced by the growth we expect in FY ’22. And while performance in Medical Products and Distribution has been challenged throughout the pandemic, we have confidence in our plans and actions that I discussed to drive medical performance. Overall, our business models continue to generate robust operating cash flow. We are focused on allocating capital in a balanced, disciplined and shareholder-friendly manner, which includes our commitment to our dividend and our new $3 billion share repurchase program. So, as we deploy capital and our performance improves in line with our recently established long-term targets, we believe that our current valuation will prove compelling.”

As a distributor, we acknowledge that Cardinal is at the brunt of the ever-present crunch to the global supply chain, which has eaten into already razor-thin margins. But the past year (or two) have demonstrated the value of a well-functioning distribution system for pharmaceutical and health supplies. Shares remain inexpensive at less the 10 times forward EPS estimates while the firm continues to generate strong free cash flow, which we believe is supported by demographic trends in the U.S. as the population continues to age and requires greater health care usage. The dividend yield is 3.7%, while our Target Price is now $80.

Shares of **CVS Health** (CVS – $106.22) churned higher last week after management updated its 2021 full-year adjusted EPS guidance from at least $8.00 given a month ago to a revised range of $8.33 to $8.38. This equates to a 12% boost from the midpoint of the initial range of $7.39 to $7.55. The integrated healthcare provider will have generated at least $13.5 billion of cash flow in 2021, and will have repaid $21 billion of long-term debt since the Aetna transaction closed.

CEO Karen Lynch commented, "No health care company has ever had the collection of assets that we have, and with that comes with an ability to dramatically reshape how consumers are experiencing their care. We do have an unmatched range of consumer touch points in different channels to meet health needs across the entire care continuum. The leadership role that we played during the pandemic has underscored our competitive advantages and clearly has solidified our place as a health care leader with consumers…This experience and our collection of assets has enabled us to make some bold shifts in our strategy. And these moves will leverage our existing assets and our businesses that already have given us that personal relationship with the consumer. Our moves are starting with primary care with a different new model needed to support consumers. These models will be convenient, multichannel, multidisciplinary and affordable. So they're driving engagement, which will lead to better outcomes. And as we advance our strategy, we will optimize our footprint, and we'll reimagine our CVS locations as community health destinations."

On the back of Humana's warning a week ago that Medicare Advantage enrollments for 2022 would likely come up short of expectations, Ms. Lynch was prompted to elaborate on Aetna's experience. She responded, "For open enrollment, we did see sales performance better than last year. We saw retention better than last year. So, we anticipate, as we said in December, we anticipate having a strong growth in individual Medicare. So, results look solid, and we feel quite good about where we are relative to our Medicare Advantage growth."

Although the competitive landscape isn't getting any less challenging and there seemingly is always a regulatory cloud in the operational sky, we think there is plenty of runway ahead to improve access to care using CVS's integrated health care delivery model. We appreciate that scale benefits from the Aetna acquisition are starting to show through, with cost savings allowing the company to recently raise its quarterly dividend for the first time since 2017 to $0.55 per share. While shares had a solid run in 2021 (up 43% over the past 12 months) we continue to find them attractive, trading for just 13.1 times NTM adjusted earnings estimates and yielding 2.1% after the dividend increase. Our Target Price for CVS has been boosted to $135.