Market Commentary Monday, March 21, 2022

March 21, 2022

EXECUTIVE SUMMARY

Week in Review – Huge Rebound Despite the Headlines
FOMC Meeting – Fed Tightening Underway
Historical Data – Higher Interest Rates and Equity Returns
Powell Q&A – Fed Chair Upbeat on the Strength of the Economy
Econ News – Latest Data are Mixed
Corporate America – Income Statements and Balance Sheets are Healthy
Sentiment – Traders Not Liking Stocks…or Bonds
Stock News – Updates on KSS, BIG, DINO, NLOK, LMT, GD, ALK, DAL, INT, FDX & JBL

Market Review

It isn't as if news from the Russian Invasion of Ukraine improved over the past five trading days,…

Disconcerting Headlines

The crisis in the Ukraine continues to escalate and the world remains on edge, with investors concerned about potential market fallout. No doubt, nobody knows how these tense events will play out, but the equity markets, in the fullness of time, have overcome every other disconcerting entry on the timeline of U.S.-Russia relations.

Major Events in Russia - U.S. History	Date	S&P 500 Value	6 Months Before	6 Months Later	12 Months Later	36 Months Later	60 Months Later	Event thru Present
Korean War Begins	6/25/1950	19.14	15%	5%	11%	26%	114%	23218%
Death of Stalin	3/5/1953	25.79	2%	-9%	3%	79%	61%	17206%
Creation of the Warsaw Pact	5/14/1955	37.44	12%	24%	25%	15%	48%	11821%
Sputnik & The Space Race	10/4/1957	42.79	-4%	-3%	18%	24%	33%	10330%
The U-2 Incident	5/1/1960	54.37	-5%	-1%	20%	29%	64%	8109%
Cuban Missile Crisis	10/16/1962	57.08	-16%	21%	28%	60%	67%	7719%
Soviet Invasion of Czechoslovakia	8/20/1968	98.96	9%	1%	-4%	-1%	3%	4410%
Soviet Invasion of Afghanistan	12/24/1979	107.66	5%	7%	26%	30%	55%	4046%
U.S. Moscow Olympics Boycott	3/21/1980	102.31	-7%	26%	31%	48%	75%	4262%
Downing of Korean Air Flight 007	9/1/1983	164.23	9%	-4%	1%	54%	57%	2618%
Soviet Los Angeles Olympics Boycott	7/28/1984	151.19	-8%	17%	27%	107%	126%	2852%
Chernobyl Disaster	4/26/1986	242.29	29%	-2%	16%	27%	56%	1742%
Fall of Communism in Eastern Europe	8/19/1989	346.03	17%	-4%	-5%	21%	34%	1190%
German Reunification	10/3/1990	311.40	-9%	22%	23%	48%	87%	1333%
Dissolution of the Soviet Union	12/26/1991	404.84	9%	0%	9%	14%	87%	1002%
Black Brant: Mistaken Nuclear War Scare	1/25/1995	467.44	3%	20%	32%	105%	202%	855%
Russo-Georgian War	8/7/2008	1,266.07	-5%	-31%	-20%	-5%	34%	253%
Putin Reelected	3/4/2012	1,369.63	17%	3%	11%	53%	74%	226%
Annexation of Crimea	3/21/2014	1,866.52	9%	8%	13%	26%	53%	139%
Skripal Poisoning & Diplomatic Expulsion	3/1/2018	2,473.92	0%	17%	13%	58%		80%
Price Changes Only - Does Not Include Dividends		**Averages:**	**4%**	**6%**	**14%**	**41%**	**70%**	**5171%**

As of 3.18.22. Source: Kovitz using Bloomberg, usrussiarelations.org, state.gov and Wikipedia

…while developments on the Coronavirus front were not exactly encouraging,…

THE PRUDENT SPECULATOR

VARIANTS OF CONCERN AND EQUITY RETURNS

Variants of Concern (VOC)

Working definition:

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

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

Currently designated Variants of Concern (VOCs)*:

WHO label	Pango lineage*	GISAID clade	Nextstrain clade	Additional amino acid changes monitored*	Earliest documented samples	Date of designation
Alpha	B.1.1.7	GRY	20I (V1)	+S:484K +S:452R	United Kingdom, Sep-2020	18-Dec-2020
Beta	B.1.351	GH/501Y.V2	20H (V2)	+S:L18F	South Africa, May-2020	18-Dec-2020
Gamma	P.1	GR/501Y.V3	20J (V3)	+S:681H	Brazil, Nov-2020	11-Jan-2021
Delta	B.1.617.2	G/478K.V1	21A, 21I, 21J	+S:417N +S:484K	India, Oct-2020	VOI: 4-Apr-2021 VOC: 11-May-2021
Omicron*	B.1.1.529	GR/484A	21K	- +S:R346K	Multiple countries, Nov-2021	VUM: 24-Nov-2021 VOC: 26-Nov-2021

*see TAG-VE statement issued on 26 November 2021

* only found in a subset of sequences

Variants of Concern	Date of Designation	S&P End Value	1 Week Later	1 Month Later	3 Months Later	6 Months Later	12 Months Later	Event thru Present
Alpha	12/18/2020	3,709.41	0%	2%	6%	12%	25%	20%
Beta	12/18/2020	3,709.41	0%	2%	6%	12%	25%	20%
Gamma	1/11/2021	3,799.61	-1%	3%	9%	15%	24%	17%
Delta	5/11/2021	4,152.10	-1%	2%	7%	12%		7%
Omicron	11/26/2021	4,594.62	-1%	3%	-5%			-3%
Price Changes Only. Does not Include Dividends								
		Averages:	**-1%**	**2%**	**4%**	**13%**	**24%**	**13%**

Source: Kovitz using data from Bloomberg. As of 3.18.22

With China reporting a sizable spike in cases and its first deaths in over a year, and the easily spread sub-variant of Omicron, called BA.2, sweeping across the United Kingdom, we are reminded that the COVID-19 virus has not gone away, even as life has mostly returned to normal in the United States. Of course, vaccines still provide protection, and new lockdowns, outside of the Middle Kingdom, are unlikely.

…but equity prices soared, with the S&P 500 rebounding by more than 6%, the weekly advance coming in as one of the four best of the last decade.

THE PRUDENT SPECULATOR

FANTASTIC REBOUND

Rare are significant weekly rallies of more than 6% in the S&P 500, but the popular market gauge jumped 6.16% on a price basis for the week ended March 18, 2022, the 62nd best showing since 1928.

Up > 6.15%

	1920's	1930's	1940's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	2020's	Totals
Years Ending in 0		0	1	0	0	0	1	0	1	0	3	6
Years Ending in 1		4	0	0	0	0	0	0	1	1	0	6
Years Ending in 2		9	0	0	0	0	3	0	0	0	1	13
Years Ending in 3		10	0	0	0	0	0	0	1	0		11
Years Ending in 4		2	0	0	0	2	1	0	0	0		5
Years Ending in 5		0	0	0	0	0	0	0	0	0		0
Years Ending in 6		0	0	0	0	0	0	0	0	0		0
Years Ending in 7		1	0	0	0	0	0	1	0	0		2
Years Ending in 8	1	6	1	0	0	0	0	1	2	0		11
Years Ending in 9	3	1	0	0	0	0	0	0	4	0		8
Totals	4	33	2	0	0	2	5	2	9	1	4	62

From 1.31.28 through 3.18.22. Weeks of index price increases of greater than or equal to 6.15%. SOURCE: Kovitz using data from Bloomberg

Down < -6.15%

	1920's	1930's	1950's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	2020's	Totals
Years Ending in 0		3	2	1	0	0	0	0	1	1	3	11
Years Ending in 1		6	2	0	0	0	0	0	2	2	0	12
Years Ending in 2		9	0	0	1	0	0	0	2	0	0	12
Years Ending in 3		5	0	0	0	0	0	0	0	0		5
Years Ending in 4		2	0	0	0	4	0	0	0	0		6
Years Ending in 5		0	0	0	0	0	0	0	0	0		0
Years Ending in 6		0	0	0	0	0	1	0	0	0		1
Years Ending in 7		6	0	0	0	0	3	0	0	0		9
Years Ending in 8	1	5	1	0	0	1	0	0	5	1		14
Years Ending in 9	5	3	0	0	0	0	1	1	2	0		12
Totals	6	39	5	1	1	5	5	1	12	4	3	82

From 1.31.28 through 3.18.22. Weeks of index price decreases of greater than or equal to 6.15%. SOURCE: Kovitz using data from Bloomberg

True, the bounce back was much better for Growth versus Value, though the latter is still winning the returns race this year by a wide margin…and has even outperformed the supposedly safer fixed income indexes,…

MONSTER WEEK FOR GROWTH; VALUE OUTPERFORMING BONDS IN 2022

Total Returns Matrix

Last Week	YTD	Last 12 Months	Last 2 Years	Last 3 Years	Last 5 Years	2021	Since 10.31.20	Since 3.23.20	Name
-0.28	-5.52	-6.25	1.50	3.50	10.32	-4.71	-7.10	1.25	Bloomberg Barclays Global-Aggregate Bond
-0.68	-5.44	-3.36	0.44	6.94	12.52	-1.54	-5.85	-0.94	Bloomberg Barclays U.S. Aggregate Bond
5.53	-3.89	7.74	81.85	43.06	85.66	20.95	34.80	94.60	Dow Jones Industrial Average
5.52	-2.73	8.97	85.58	39.99	62.87	20.82	37.88	98.35	New York Stock Exchange Composite
7.71	-11.63	-14.45	95.38	32.68	65.15	2.83	16.89	89.16	Russell 2000 Growth
3.42	**-2.08**	**0.84**	**132.89**	**41.08**	**50.57**	**28.27**	**61.72**	**136.04**	**Russell 2000 Value**
5.43	-6.86	-7.04	115.30	38.47	59.82	14.82	37.60	112.85	Russell 2000
8.32	-11.06	12.88	99.39	82.15	145.05	25.85	29.93	108.48	Russell 3000 Growth
4.33	**-1.46**	**10.57**	**89.38**	**42.24**	**59.64**	**25.37**	**46.33**	**104.53**	**Russell 3000 Value**
6.30	-6.52	11.64	95.81	63.05	100.78	25.66	37.68	107.71	Russell 3000
5.15	-3.37	13.48	108.75	59.07	89.78	29.63	49.30	125.75	S&P 500 Equal Weighted
6.19	-6.05	15.60	92.04	65.80	105.48	28.71	39.31	105.78	S&P 500
8.18	-10.41	18.88	100.59	81.82	142.54	32.01	35.04	111.33	S&P 500 Growth
4.25	**-1.20**	**11.78**	**78.97**	**45.79**	**65.95**	**24.90**	**44.16**	**96.03**	**S&P 500 Value**
9.64	-12.77	16.10	107.89	64.12	113.42	29.81	32.82	115.61	S&P 500 Pure Growth
3.96	**5.11**	**14.26**	**143.36**	**42.08**	**61.22**	**34.63**	**75.15**	**161.50**	**S&P 500 Pure Value**

As of 03.18.22. Source Kovitz using data from Bloomberg

…but we were again reminded that while equity volatility is a constant part of the investment process, time in the market trumps market timing.

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%	149	157	0.6	9/23/2020	1/3/2022
5.0%	14.8%	72	309	0.3	3/8/2022	3/18/2022

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%	-22.6%	137	72	1.3	1/3/2022	3/8/2022
-10.0%	-19.6%	102	98	0.9	1/3/2022	3/8/2022
-7.5%	-15.4%	64	157	0.6	1/3/2022	3/8/2022
-5.0%	-10.9%	36	308	0.3	2/2/2022	3/8/2022

From 02.20.28 through 03.18.22. 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	13.3%	26.0%
Growth Stocks	9.8%	21.4%
Dividend Paying Stocks	10.8%	18.0%
Non-Dividend Paying Stocks	9.2%	29.3%
Long-Term Corporate Bonds	6.0%	7.7%
Long-Term Gov't Bonds	5.4%	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 01.31.22. 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

After all, the major financial news of the week was the March meeting of the Federal Open Market Committee, in which Jerome H. Powell & Co. raised the target for the Fed Funds rate by 25 basis points to a range of 0.25% to 0.50%,…

THE PRUDENT SPECULATOR

FOMC STATEMENT: 3.16.22

Indicators of economic activity and employment have continued to strengthen. Job gains have been strong in recent months, and the unemployment rate has declined substantially. Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher energy prices, and broader price pressures.

The invasion of Ukraine by Russia is causing tremendous human and economic hardship. The implications for the U.S. economy are highly uncertain, but in the near term the invasion and related events are likely to create additional upward pressure on inflation and weigh on economic activity.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With appropriate firming in the stance of monetary policy, the Committee expects inflation to return to its 2 percent objective and the labor market to remain strong. In support of these goals, the Committee decided to raise the target range for the federal funds rate to 1/4 to 1/2 percent and anticipates that ongoing increases in the target range will be appropriate. In addition, the Committee expects to begin reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities at a coming meeting.

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.

…increased the projection for inflation, lowered the outlook for U.S. GDP growth this year,…

THE PRUDENT SPECULATOR

FED: HIGHER INFLATION AND FED FUNDS & LOWER GDP GROWTH EXPECTED

With the invasion of Ukraine by Russia, along with supply chain imbalances from the pandemic and broader price pressures adding to current and expected inflation numbers, Federal Reserve members have sharply increased their estimates for PCE inflation and their targets for the Fed Funds rate. The median inflation projection for 2022 now stands at 4.3% with the year-end forecast for the Fed Funds rate climbing to 1.9%, up from the prior 0.9% estimate offered in December.

Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, March 2022

Percent

Variable	Median[1]				Central Tendency[2]				Range[3]			
	2022	2023	2024	Longer run	2022	2023	2024	Longer run	2022	2023	2024	Longer run
Change in real GDP	2.8	2.2	2.0	1.8	2.5–3.0	2.1–2.5	1.8–2.0	1.8–2.0	2.1–3.3	2.0–2.9	1.5–2.5	1.6–2.2
December projection	4.0	2.2	2.0	1.8	3.6–4.5	2.0–2.5	1.8–2.0	1.8–2.0	3.2–4.6	1.8–2.8	1.7–2.3	1.6–2.2
Unemployment rate	3.5	3.5	3.6	4.0	3.4–3.6	3.3–3.6	3.2–3.7	3.5–4.2	3.1–4.0	3.1–4.0	3.1–4.0	3.5–4.3
December projection	3.5	3.5	3.5	4.0	3.4–3.7	3.2–3.6	3.2–3.7	3.8–4.2	3.0–4.0	2.8–4.0	3.1–4.0	3.5–4.3
PCE inflation	4.3	2.7	2.3	2.0	4.1–4.7	2.3–3.0	2.1–2.4	2.0	3.7–5.5	2.2–3.5	2.0–3.0	2.0
December projection	2.6	2.3	2.1	2.0	2.2–3.0	2.1–2.5	2.0–2.2	2.0	2.0–3.2	2.0–2.5	2.0–2.2	2.0
Core PCE inflation[4]	4.1	2.6	2.3		3.9–4.4	2.4–3.0	2.1–2.4		3.6–4.5	2.1–3.5	2.0–3.0	
December projection	2.7	2.3	2.1		2.5–3.0	2.1–2.4	2.0–2.2		2.4–3.2	2.0–2.5	2.0–2.3	
Memo: Projected appropriate policy path												
Federal funds rate	1.9	2.8	2.8	2.4	1.6–2.4	2.4–3.1	2.4–3.4	2.3–2.5	1.4–3.1	2.1–3.6	2.1–3.6	2.0–3.0
December projection	0.9	1.6	2.1	2.5	0.6–0.9	1.4–1.9	1.9–2.9	2.3–2.5	0.4–1.1	1.1–2.1	1.9–3.1	2.0–3.0

Source: Federal Reserve, March 16, 2022

…and signaled that there may be six additional interest rate hikes this year and four more in 2023.

THE PRUDENT SPECULATOR

FED LIFTOFF HAS BEGUN – INTEREST RATES STILL HISTORICALLY VERY LOW

FOMC Participants' Fed Funds Rate Target Level Number with each projection				
Midpoint of Target Range	2022	2023	2024	Longer Run
3.750				
3.625		2	2	
3.500				
3.375		1	2	
3.250				
3.125	1	2	1	
3.000				2
2.875		3	3	
2.750				
2.625	1	3	2	
2.500				5
2.375	3	4	3	1
2.250			1	6
2.125	2	1	2	
2.000				1
1.875	5			
1.750				
1.625	3			
1.500				
1.375	1			
1.250				
1.125				
1.000	1			
0.875				
0.750				
0.625				

Source: Federal Reserve, March 16, 2022

Although the estimate for GDP growth this year has been pared to 2.8%, down from 4.0% in December, the Federal Reserve lifted its target for the Fed Funds rate by 25 basis points at the latest FOMC meeting. Jerome H. Powell & Co. now project that there will be rate hikes at each of the six remaining get-togethers this year, with three to four more likely in 2023.

No doubt, many market pundits will argue that higher interest rates,…

THE PRUDENT SPECULATOR

TREASURY YIELD KEEPS RISING IN A RISK-ON WEEK FOR RISK ASSETS

We understand that the War in Ukraine has caused many investors to seek supposedly safer investments, but the yield on the benchmark 10-Year bond jumped from 1.99% to 2.15% over the past trading week, as high inflation and a still-healthy economy are compelling Jerome H. Powell & Co. to hike interest rates and soon reduce the size of the Federal Reserve's balance sheet.

…are a headwind for stocks, but nine decades of market history confirm that about the only conclusion that can be drawn is that a higher benchmark U.S. Treasury yield generally is not good for longer-term bonds.

THE PRUDENT SPECULATOR

RISING INTEREST RATES ARE NOT GOOD FOR ~~STOCKS~~ BONDS, 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

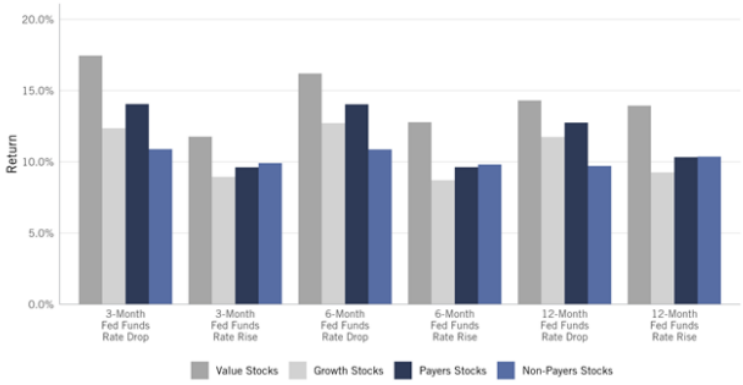
Name	Value Stocks	Growth Stocks	Dividend Payers	Non-Dividend Payers	Long-Term Corp Bonds	Long-Term Government Bonds	Intermediate-Term Govt Bonds	U.S. Treasury Bills
Arithmetic Average	15.7%	12.7%	14.3%	11.5%	12.3%	13.4%	8.5%	2.9%
Geometric Average	12.9%	10.5%	12.6%	7.6%	12.0%	13.1%	8.4%	2.9%
Median	16.4%	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.

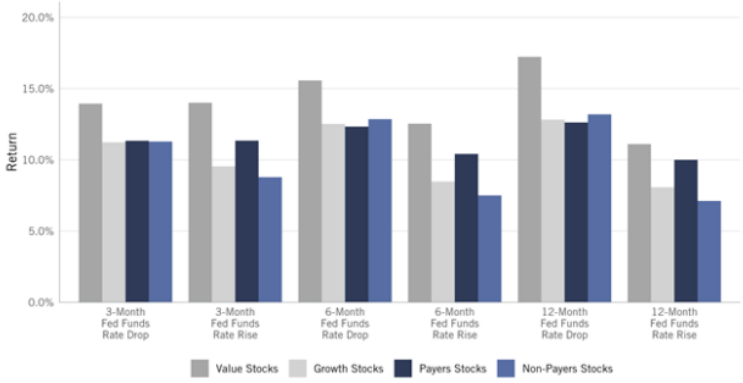
Interestingly, our number crunching shows that Value stocks have performed fine, on average, whether the Fed Funds rate is rising or falling,…

THE PRUDENT SPECULATOR

FED FUNDS RATE Δ EQUITY RETURNS



From 07.31.54 through 12.31.21. 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 12.31.21. 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.

…with inexpensively priced equities enjoying very good average returns when the Federal Reserve is tightening monetary policy.

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%**

Now to be fair, stock prices caught a bid last week after Fed Chair Powell highlighted the strength of the economy in his Q&A session with the press following the FOMC announcement on interest rates:

The probability of a recession within the next year is not particularly elevated. And why do I say that? Aggregate demand is currently strong, and most forecasters expect it to remain so. If you look at the labor market, also very strong. Conditions are tight, and payroll job growth is continuing at very high levels. Household and business balance sheets are strong. And so all signs are that this is a strong economy and, indeed, one that will be able to flourish, not to say withstand but certainly flourish, as well, in the face of less accommodative monetary policy. So, I guess that's how I would say I'm looking at that. Of course, the objective is to achieve price stability, while also sustaining a strong labor market. And that is our overall objective. But we do feel the economy is very strong and well positioned to withstand tighter monetary policy.

The latest economic numbers seemed to support Mr. Powell, with the Conference Board still suggesting 3.0% GDP growth this year after the release of its Leading Economic Indicators index,…

THE PRUDENT SPECULATOR

LEI RISES BY 0.3% IN FEBRUARY, 3.0% GDP GROWTH FOR '22 EXPECTED

"The global economic impact of the war on supply chains and soaring energy, food, and metals prices—coupled with rising interest rates, existing labor shortages, and high inflation—all pose headwinds to U.S. economic growth. While the Omicron wave and its economic impact waned in recent months, the potential for new COVID-19 variants remains. Amid these risks, The Conference Board revised its growth projection for the U.S. economy down to 3.0 percent year-over-year GDP growth in 2022— still well above the pre-pandemic growth rate, which averaged around 2 percent."

…and the weekly jobs data remaining very strong.

THE PRUDENT SPECULATOR

JOBLESS FILINGS AND CONTINUING CLAIMS NEAR 50+ YEAR LOWS

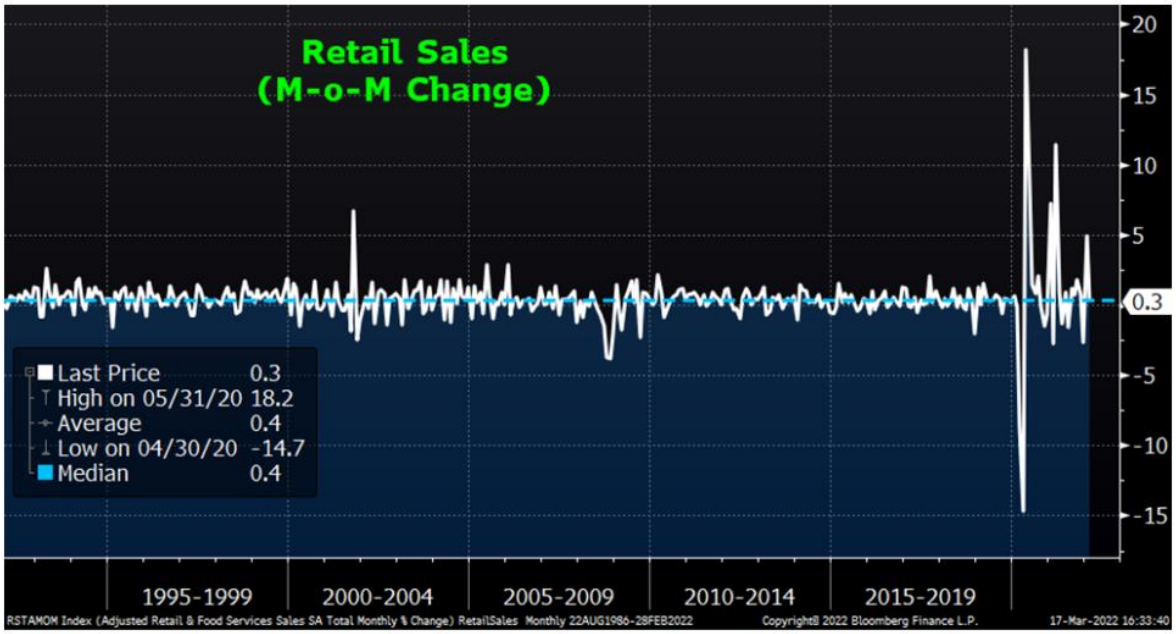
Coming in at a two and a half month low and near the lowest level since 1969 when the work force was much smaller, new filings for unemployment benefits for the period ended March 12 were a seasonally adjusted 214,000, down from revised 229,000 the week prior. Continuing claims filed through state programs dipped to 1.42 million, near five-decade lows as businesses continue to hold onto workers with labor so difficult to obtain.

Yes, the most recent read on the health of the consumer was somewhat disappointing,…

THE PRUDENT SPECULATOR

RETAIL SALES BARELY RISE, LAGGING EXPECTATIONS IN FEBRUARY

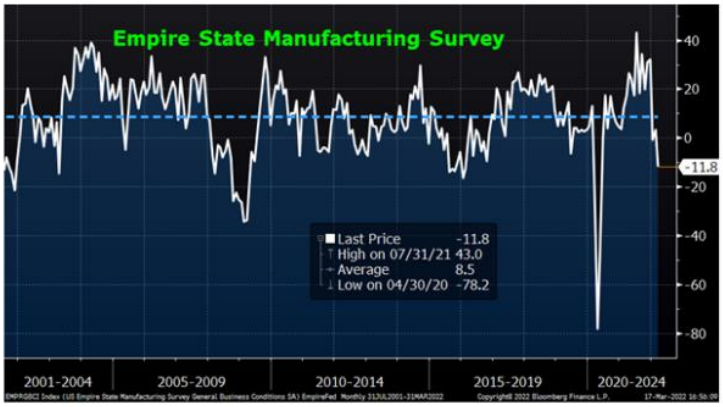
While January's gain was revised up to 4.9% from the 3.8% advance initially reported, retail sales for February rose just 0.3%, trailing estimates for a 0.4% rise, with higher prices at the pump eating into cash that might have been used on home furnishings and electronics.

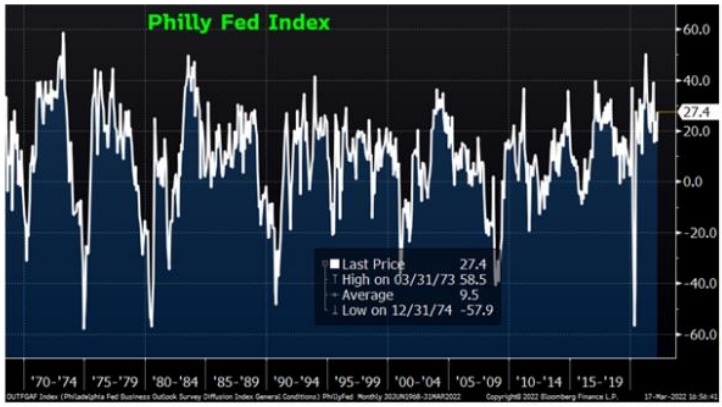


…and the latest manufacturing stats were mixed,…

THE PRUDENT SPECULATOR

EAST COAST FACTORY ACTIVITY MIXED IN MARCH



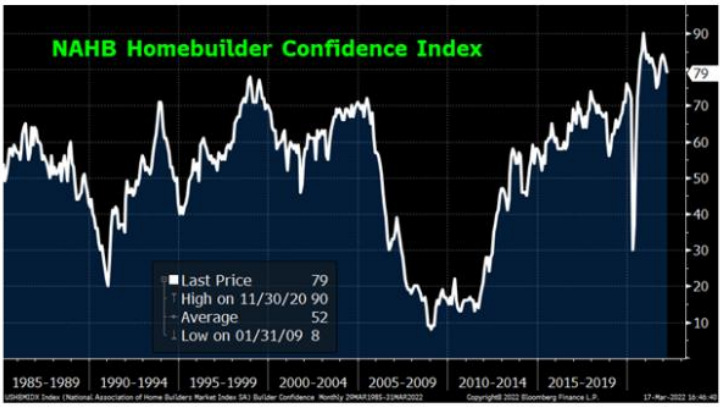


The Empire State gauge of manufacturing activity in the New York area skidded in March to a much-weaker-than-expected minus 11.8, some 17 points below forecasts. The Philadelphia Fed's March measure of manufacturing activity in the mid-Atlantic region jumped to 27.4, up from February's 16.0 reading. No doubt, the invasion of Ukraine and the resulting energy and other commodity price spikes weighed on the new-orders components.

…but the housing market remains solid despite the threat of higher interest rates,…

THE PRUDENT SPECULATOR

HOUSING MARKET REMAINS HEALTHY



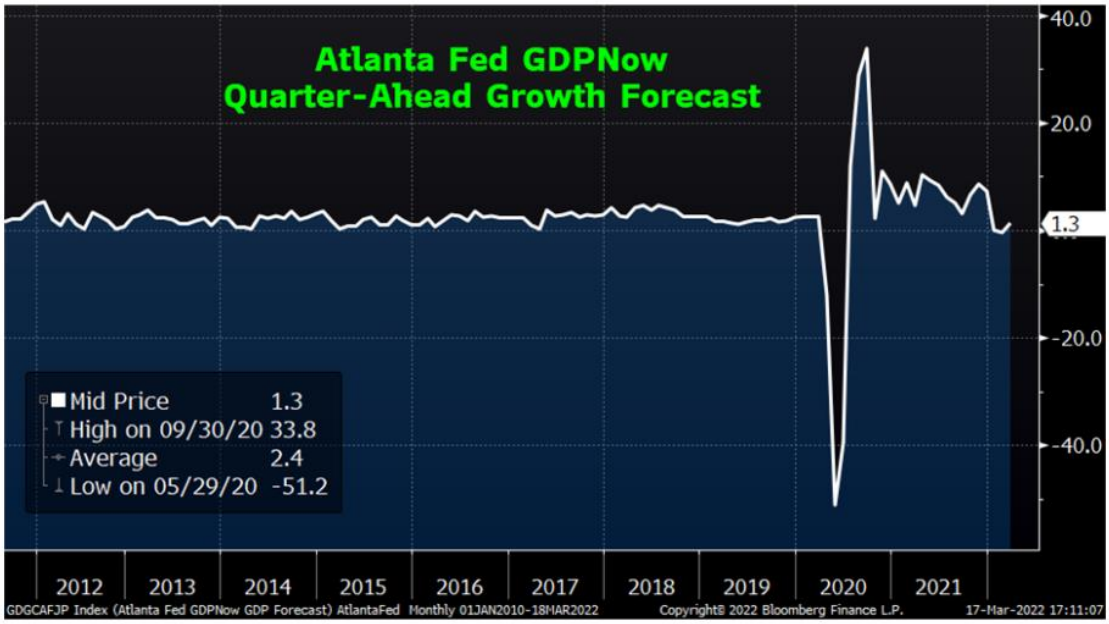
The National Association of Home Builders' monthly confidence index for March lagged forecasts, dipping to 79, the lowest level since June 2020, but still well above the long-term average on the 35-year-old gauge. Worker shortages, high prices and limited material availability remain constraints, even as ground was broken on new homes last month at a still hefty seasonally adjusted annual rate of 1.77 million units, though building permits fell 1.9% versus January.

…and the outlook for Q1 GDP growth from the Atlanta Fed ticked up a few tenths of a percent last week.

THE PRUDENT SPECULATOR

BUMP UP IN THE Q1 U.S. GDP GROWTH PROJECTION LAST WEEK

While Q4 2021 saw a superb 7.0% jump in real (inflation-adjusted) GDP growth and forecasts for full-year 2022 call for an additional improvement in the economy, the Omicron variant, supply-chain difficulties, the War in Ukraine and inflation are impacting the current quarter, with the Atlanta Fed's current projection for Q1 2022 GDP growth on an annualized basis standing at 1.3%.



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Certainly, the equity markets are hardly out of the woods, and we expect volatility to continue to be elevated,…

THE PRUDENT SPECULATOR

5% UPS AND DOWNS (ON A CLOSING PRICE BASIS) SINCE FINANCIAL CRISIS

S&P 500 Moves (on a Closing Basis) of 5% Without a Comparable Move in the Other Direction Since 03.09.09

3/26/2009	3/30/2009	-5.44%	BEAR	3/9/2009	3/26/2009	23.11%	BULL
6/12/2009	7/10/2009	-7.09%	BEAR	3/30/2009	6/12/2009	20.15%	BULL
10/19/2009	10/30/2009	-5.62%	BEAR	7/10/2009	10/19/2009	24.89%	BULL
1/19/2010	2/8/2010	-8.13%	BEAR	10/30/2009	1/19/2010	11.01%	BULL
4/23/2010	5/7/2010	-8.74%	BEAR	2/8/2010	4/23/2010	15.19%	BULL
5/12/2010	6/7/2010	-10.34%	BEAR	5/7/2010	5/12/2010	5.47%	BULL
6/18/2010	7/2/2010	-8.49%	BEAR	6/7/2010	6/18/2010	6.38%	BULL
8/9/2010	8/26/2010	-7.14%	BEAR	7/2/2010	8/9/2010	10.29%	BULL
2/18/2011	3/16/2011	-6.41%	BEAR	8/26/2010	2/18/2011	28.25%	BULL
4/29/2011	6/15/2011	-7.20%	BEAR	3/16/2011	4/29/2011	8.49%	BULL
7/7/2011	8/8/2011	-17.27%	BEAR	6/15/2011	7/7/2011	6.94%	BULL
8/15/2011	8/19/2011	-6.72%	BEAR	8/8/2011	8/15/2011	7.60%	BULL
8/31/2011	9/9/2011	-5.30%	BEAR	8/19/2011	8/31/2011	8.49%	BULL
9/16/2011	10/3/2011	-9.60%	BEAR	9/9/2011	9/16/2011	5.35%	BULL
10/28/2011	11/25/2011	-9.84%	BEAR	10/3/2011	10/28/2011	16.91%	BULL
4/2/2012	6/1/2012	-9.94%	BEAR	11/25/2011	4/2/2012	22.47%	BULL
9/14/2012	11/15/2012	-7.87%	BEAR	6/1/2012	9/14/2012	14.69%	BULL
5/21/2013	6/24/2013	-5.76%	BEAR	11/15/2012	5/21/2013	23.34%	BULL
1/15/2014	2/3/2014	-5.76%	BEAR	6/24/2013	1/15/2014	17.50%	BULL
9/18/2014	10/15/2014	-7.40%	BEAR	2/3/2014	9/18/2014	15.47%	BULL
5/21/2015	8/25/2015	-12.35%	BEAR	10/15/2014	3/2/2015	13.69%	BULL
9/16/2015	9/28/2015	-5.69%	BEAR	8/25/2015	9/16/2015	6.84%	BULL
11/3/2015	2/11/2016	-13.31%	BEAR	9/28/2015	11/3/2015	12.12%	BULL
6/23/2016	6/27/2016	-5.34%	BEAR	2/11/2016	6/23/2016	5.64%	BULL
1/26/2018	2/8/2018	-10.16%	BEAR	6/27/2016	1/26/2018	43.60%	BULL
3/9/2018	4/2/2018	-7.35%	BEAR	2/8/2018	3/9/2018	7.96%	BULL
9/20/2018	11/23/2018	-10.17%	BEAR	4/2/2018	9/20/2018	13.55%	BULL
12/3/2018	12/24/2018	-15.74%	BEAR	11/23/2018	12/3/2018	5.99%	BULL
4/30/2019	6/3/2019	-6.84%	BEAR	12/24/2018	4/30/2019	25.30%	BULL
7/26/2019	8/14/2019	-6.12%	BEAR	6/3/2019	7/26/2019	10.25%	BULL
2/19/2020	3/12/2020	-26.74%	BEAR	8/14/2019	2/19/2020	16.11%	BULL
3/13/2020	3/23/2020	-17.47%	BEAR	3/12/2020	3/13/2020	9.29%	BULL
3/26/2020	4/1/2020	-6.07%	BEAR	3/23/2020	3/26/2020	17.55%	BULL
6/8/2020	6/11/2020	-7.12%	BEAR	4/1/2020	6/8/2020	30.84%	BULL
9/2/2020	9/23/2020	-9.60%	BEAR	6/11/2020	9/2/2020	19.28%	BULL
10/12/2020	10/30/2020	-7.48%	BEAR	9/23/2020	10/12/2020	9.18%	BULL
9/2/2021	10/4/2021	-5.21%	BEAR	10/4/2021	1/3/2022	11.54%	BULL
1/3/2022	1/21/2022	-8.31%	BEAR	1/27/2022	2/2/2022	6.08%	BULL
2/2/2022	3/8/2022	-9.12%	BEAR	3/8/2022	3/18/2022	7.01%	BULL
Average Drop		**-8.98%**		**Average Gain**		**14.46%**	

SOURCE: Kovitz using data from Bloomberg

While the traumatic five-week February/March 2020 Bear Market brought on by the COVID-19 Pandemic and Great Lockdown likely has not yet faded from the minds of most investors, and the Russian Invasion of Ukraine, Fed Tightening and Spike in Inflation have many on edge today, we suspect that most have forgotten the numerous other downturns endured by the equity markets. Believe it or not, just since the S&P 500 bottomed at 676.53 on March 9, 2009, there have been 39 setbacks of 5% or more without a comparable move in the other direction (three per year on average), including two already this year. Happily, the selloffs eventually have always been followed by more rewarding rallies, and the popular index today stands at 4463.12.

…but we remain very comfortable with the long-term prospects and valuation metrics associated with 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	13.7	12.6	1.1	2.4	2.3
ValuePlus	14.9	12.9	1.5	2.4	1.9
Dividend Income	13.3	12.6	1.0	2.3	2.8
Focused Dividend Income	14.2	13.1	1.2	2.4	2.6
Focused ValuePlus	13.4	13.4	1.4	2.5	2.3
Small-Mid Dividend Value	11.7	10.7	0.6	1.7	2.4
Russell 3000	24.4	20.2	2.6	4.1	1.4
Russell 3000 Growth	34.7	27.6	4.3	11.3	0.8
Russell 3000 Value	18.8	15.9	1.8	2.5	2.0
Russell 1000	23.5	20.0	2.7	4.3	1.4
Russell 1000 Growth	33.0	27.0	4.7	12.3	0.8
Russell 1000 Value	18.2	15.8	1.9	2.6	2.0
S&P 500 Index	22.9	19.8	2.9	4.5	1.4
S&P 500 Growth Index	27.6	24.3	5.2	8.8	0.8
S&P 500 Value Index	19.6	16.7	2.0	3.0	2.0
S&P 500 Pure Value Index	12.3	11.1	0.8	1.4	2.4

As of 03.19.22. 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.

We also like that corporate profit growth is expected to remain robust this year and next,…

THE PRUDENT SPECULATOR

FANTASTIC EPS GROWTH LIKELY IN '22 AND '23/'24 ESTIMATES ARE STRONG

Q4 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	$65.26	$246.22
9/30/2023	$63.37	$240.88
6/30/2023	$60.65	$236.00
3/31/2023	$56.94	$230.70
12/31/2022	$59.92	$225.04
9/30/2022	$58.49	$221.71
6/30/2022	$55.35	$215.24
3/31/2022	$51.28	$211.94
12/31/2021	$56.59	$208.07
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 3.17.22

…while we note that EPS estimates, despite the geopolitical turmoil and equity market turbulence, have been on the rise over the last six weeks.

THE PRUDENT SPECULATOR

IF A BUSINESS DOES WELL, THE STOCK EVENTUALLY FOLLOWS

Analysts are often overly rosy in their corporate profit outlooks but despite the Russian invasion of Ukraine, it is interesting that EPS estimates for the index for '22 ($222.12 on 2.4.22, rising to $225.04 on 3.17.22) and '23 ($242.08 on 2.4.22, rising to $246.22 on 3.17.22) still have been steadily climbing.

S&P 500 Earnings Per Share

Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2023	$65.26	$246.22
9/30/2023	$63.37	$240.88
6/30/2023	$60.65	$236.00
3/31/2023	$56.94	$230.70
12/31/2022	$59.92	$225.04
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ACTUAL		
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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 3.17.22

S&P 500 Earnings Per Share

Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2023	$64.91	$244.32
9/30/2023	$62.94	$238.62
6/30/2023	$60.11	$233.53
3/31/2023	$56.36	$228.34
12/31/2022	$59.21	$223.14
9/30/2022	$57.85	$217.81
6/30/2022	$54.92	$211.98
3/31/2022	$51.16	$209.11
12/31/2021	$53.88	$205.36
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 2.28.22

S&P 500 Earnings Per Share

Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2023	$64.69	$243.83
9/30/2023	$62.78	$238.17
6/30/2023	$59.98	$233.15
3/31/2023	$56.38	$228.05
12/31/2022	$59.03	$222.94
9/30/2022	$57.76	$217.93
6/30/2022	$54.88	$212.19
3/31/2022	$51.27	$209.36
12/31/2021	$54.02	$205.50
ACTUAL		
9/30/2021	$52.02	$189.66
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3/31/2021	$47.41	$150.28
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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 2.15.22

S&P 500 Earnings Per Share

Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2023	$64.08	$242.08
9/30/2023	$62.45	$236.35
6/30/2023	$59.69	$231.41
3/31/2023	$55.86	$226.50
12/31/2022	$58.35	$222.12
9/30/2022	$57.51	$216.36
6/30/2022	$54.78	$210.87
3/31/2022	$51.48	$208.14
12/31/2021	$52.59	$204.07
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 2.4.22

Further, corporate balance sheets generally are very sound, allowing companies to reward shareholders with hefty stock buybacks,…

Corporate America Flush with Cash

Buybacks Are on Track for Another Record

By Haridika Singh

Companies are unveiling plans to repurchase their own shares at a record pace, lending support to the battered stock market.

Firms in the S&P 500 have outlined buyback plans valued at $238 billion through the first two months of 2022, according to data from **Goldman Sachs Group Inc.**, a high for this point in the year.

They appear to be taking advantage of the volatility that rattled markets lately. Stocks have come under pressure this year on worries about the pace of the Federal Reserve's plan to raise interest rates, Russia's invasion of Ukraine and a surge in commodity prices that could stall the economy. The S&P 500 is down 12% year to date.

Repurchases can support stocks by reducing a company's share count, boosting its per-share profit. And they can boost investor sentiment by suggesting executives are optimistic about their companies' prospects.

"It does add a layer of overall support during periods of volatility," said Anthony Saglimbene, global market strategist at Ameriprise Financial.

Union Pacific Corp. has led the way, outlining plans for a buyback plan valued at roughly $25 billion, while **PepsiCo** Inc. and industrial-gas company **Linde** PLC said they plan to repurchase as much as $10 billion in stock.

The surge of activity has continued in March. **Amazon.com** Inc. said last week that it would buy back as much as $10 billion in shares, while **Colgate-Palmolive** Co. and **Best Buy** Co. unveiled $5 billion plans.

Goldman analysts recently raised their 2022 forecasts for buybacks to a record $1 trillion, which would represent a 12% rise from last year when repurchase activity helped propel the S&P 500 to a 27% gain.

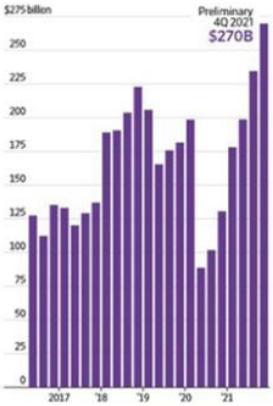
The analysts said the breadth of buyback activity is near a historic high, with the number of active programs double the typical figure.

To be sure, some investors worry buybacks redirect corporate spending from capital expenditures, research and development, and workers' wages—advancing stock prices in the short run at the expense of long-term growth.

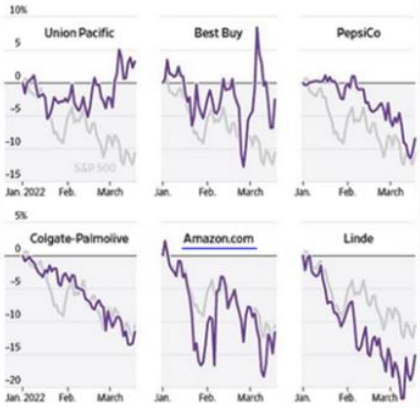
In mid-December, the Securities and Exchange Commission proposed greater disclosure requirements on buybacks, which would compel companies to detail their rationale and the criteria used to determine the amount of shares to be repurchased.

This hasn't stopped companies from planning more buybacks this year. "Companies have created, in the last six to 12 months, something of a fortress in their balance sheets," said Jessica Bemer, portfolio manager at Easterly Investment Partners.

S&P 500 stock buybacks, quarterly



Stock performance this year of companies authorizing buybacks



Sources: S&P Dow Jones Indices (buybacks); FactSet (performance)

Corporate balance sheets generally are in superb shape with Q4 2021 seeing record stock buybacks and the first two months of 2022 continuing the trend. Massive repurchase authorizations are in place at Apple, Microsoft, Alphabet, Meta Platforms, JPMorgan Chase, Bank of America and Cisco Systems, among numerous other *TPS* companies.

…and generous dividend payouts.

THE PRUDENT SPECULATOR

DIVIDENDS HAVE GROWN OVER TIME

Dividends are never guaranteed, but Corporate America has a history of raising payouts. Believe it or not, per share dividends for the S&P 500 inched up in 2020, despite the pandemic and associated economic turmoil, while *TPS* picks Nordstrom, Qualcomm, Deutsche Post, Digital Realty and General Dynamics all hiked their payouts this month.

COUNT OF S&P 500 DIVIDEND ACTIONS	INCREASES	INITIATIONS	DECREASES	SUSPENSIONS
2022 (as of 3.17.22)	125	2	3	0
2021	353	19	4	1
2020	287	11	27	42
2019	355	6	7	0
2018	374	6	3	0
2017	351	5	9	2
2016	344	7	19	2
2015	344	7	16	3
2014	375	8	8	0
2013	366	15	12	0
2012	333	15	11	1
2011	320	22	5	0
2010	243	13	4	1
2009	151	6	68	10
2008	236	5	40	22

Source: Standard & Poor's.

S&P 500 DIVIDENDS PER SHARE	
2023 (Est.)	$69.83
2022 (Est.)	$64.91
2021	$60.54
2020	$58.95
2019	$58.69
2018	$53.86
2017	$50.47
2016	$46.73
2015	$43.49
2014	$39.44
2013	$34.99
2012	$31.25
2011	$26.43
2010	$22.73
2009	$22.41

Source: Bloomberg. As of 03.18.22

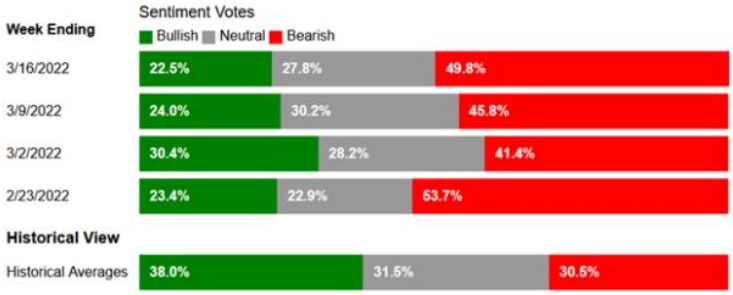
We also like, given our contrarian bias, that our optimism for stocks is not currently shared by investors on Main Street,…

THE PRUDENT SPECULATOR

AAII CONTRARIAN BUY SIGNAL: BULL-BEAR SPREAD = -27.3

AAII Investor Sentiment Survey

What Direction Do AAII Members Feel The Stock Market Will Be In The Next 6 Months?



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 = 7.92											
BELOW	-54.0	7.9	903	0.27%	0.23%	1.24%	1.10%	3.64%	3.25%	6.99%	6.24%
ABOVE	8.0	62.9	902	0.16%	0.15%	0.51%	0.43%	1.95%	1.69%	4.76%	4.29%
Ten Groupings of 1805 Data Points											
1	-54.0	-15.5	181	0.60%	0.53%	2.17%	1.94%	5.79%	5.25%	10.40%	9.18%
2	-15.3	-7.7	180	0.25%	0.22%	0.92%	0.79%	3.62%	3.26%	6.79%	6.02%
3	-7.5	-1.6	181	0.29%	0.25%	1.44%	1.34%	3.34%	2.95%	7.11%	6.48%
4	-1.6	3.0	190	0.13%	0.09%	1.03%	0.94%	2.94%	2.58%	6.39%	5.87%
5	3.0	7.8	170	0.05%	0.02%	0.57%	0.47%	2.47%	2.22%	4.11%	3.57%
6	7.9	12.0	185	0.09%	0.07%	0.48%	0.36%	1.73%	1.49%	5.39%	5.01%
7	12.0	16.3	176	0.20%	0.18%	0.59%	0.49%	2.31%	2.06%	5.01%	4.49%
8	16.4	22.0	191	0.17%	0.15%	0.78%	0.71%	2.18%	1.92%	6.03%	5.61%
9	22.0	29.1	170	0.08%	0.06%	0.39%	0.30%	2.02%	1.74%	4.53%	3.95%
10	29.1	62.9	181	0.28%	0.26%	0.33%	0.26%	1.50%	1.28%	2.72%	2.29%

From 07.31.87 through 03.17.22. 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 sinking to 22.5% and the number of Bears rising to 49.8% is a major positive. The minus 27.3% Bull-Bear spread is in the very favorable (i.e. highest future returns) 1st decile of the weekly figures going back to 1987.

…though some of those folks are growing weary of the losses and minimal upside potential associated with their bond funds, possibly providing a source of new cash for equities.

THE PRUDENT SPECULATOR

BOND MARKET LOVE AFFAIR ENDING???

Combined Estimated Long-Term Fund Flows and ETF Net Issuance

Millions of dollars

Week Ended	3/9/2022	3/2/2022	2/23/2022	2/16/2022	2/9/2022
Total Equity	13,171	-1,045	-1,388	4,943	29,427
Domestic	12,464	-2,672	-3,203	4,531	27,311
World	706	1,626	1,815	411	2,116
Hybrid	-1,019	-2,734	-621	-455	187
Total Bond	-11,737	-13,151	-3,696	-9,415	1,896
Taxable	-10,096	-9,741	-1,606	-6,922	2,188
Municipal	-1,641	-3,410	-2,090	-2,493	-292
Commodities	3,592	2,817	1,398	913	1,646
Total	4,007	-14,114	-4,307	-4,015	33,156

Source: Investment Company Institute

Investment Company Institute

Long-Term Mutual Fund and Exchange-Traded Fund (ETF) Flows

Millions, U.S. dollars

Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total
Jan-15	-14,465	17,535	Nov-16	22,993	-13,289	Sep-18	886	18,526	Jul-20	-46,524	98,490
Feb-15	5,547	30,321	Dec-16	18,859	-4,142	Oct-18	-9,657	-27,700	Aug-20	-57,594	84,113
Mar-15	-1,494	4,905	Jan-17	5,097	31,037	Nov-18	2,783	-7,459	Sep-20	-28,900	51,000
Apr-15	-34,681	11,027	Feb-17	17,613	33,991	Dec-18	-28,953	-49,512	Oct-20	-52,484	63,918
May-15	-17,287	5,010	Mar-17	9,411	36,562	Jan-19	-21,195	29,308	Nov-20	41,143	58,854
Jun-15	-7,023	6,324	Apr-17	-8,266	22,064	Feb-19	3,632	45,138	Dec-20	-34,003	76,186
Jul-15	-14,864	-1,255	May-17	-10,725	33,070	Mar-19	-3,654	38,412	Jan-21	-37,308	93,759
Aug-15	-18,569	-18,122	Jun-17	-7,944	29,372	Apr-19	-5,307	40,565	Feb-21	45,112	71,788
Sep-15	-4,725	-10,849	Jul-17	-12,518	29,139	May-19	-24,652	21,332	Mar-21	53,232	51,294
Oct-15	-807	15,397	Aug-17	-22,771	25,078	Jun-19	-11,997	39,771	Apr-21	-484	79,732
Nov-15	654	-5,573	Sep-17	-9,775	33,440	Jul-19	-7,889	44,811	May-21	8,334	39,541
Dec-15	476	-25,043	Oct-17	3,166	36,110	Aug-19	-29,908	22,304	Jun-21	-3,056	56,807
Jan-16	-27,222	7,686	Nov-17	-4,417	19,788	Sep-19	-4,650	38,482	Jul-21	-5,093	32,389
Feb-16	-9,108	11,915	Dec-17	-9,054	19,491	Oct-19	-24,645	43,187	Aug-21	6,145	52,884
Mar-16	7,711	29,296	Jan-18	10,778	46,287	Nov-19	-11,716	44,480	Sep-21	-333	42,157
Apr-16	-12,610	22,114	Feb-18	-41,444	2,706	Dec-19	-27,500	50,733	Oct-21	23,104	29,678
May-16	-14,252	16,925	Mar-18	-22,152	14,148	Jan-20	-24,544	73,855	Nov-21	3,502	28,970
Jun-16	-15,530	16,623	Apr-18	-7,403	24,176	Feb-20	-28,220	25,064	Dec-21	7,234	13,082
Jul-16	292	33,575	May-18	10,068	11,749	Mar-20	-7,485	-273,714	Jan-22	-1,280	-20,015
Aug-16	-9,956	30,859	Jun-18	-21,004	16,995	Apr-20	2,664	14,672	Feb-22	25,967	-24,366
Sep-16	-5,713	24,669	Jul-18	1,007	22,495	May-20	-20,929	73,166			
Oct-16	-23,109	13,855	Aug-18	-6,660	17,219	Jun-20	-24,819	100,103	Totals:	-662,917	2,110,465

While investors have had a multi-year love affair with fixed income, red ink in 2021 and thus far in 2022 has finally led to a modest flight out of bonds, with some of that money evidently finding its way into equities in February, per data on flows for stock and bond mutual and exchange traded funds as calculated by the Investment Company Institute. Happily, given the massive disparity in fund flows over the last seven years, there are plenty of additional fixed income fund dollars that could transition into equities, especially if bond folks grow more worried about inflation and Federal Reserve rate hikes.

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

We continue to talk quite a bit about omni-channel specialty retailer **Kohl's** (KSS – $62.43) this year as external investor agitation has investors believing again that a successful buyout offer might emerge. Shares added more than 15% this past week on reports that private-equity firm Sycamore Partners and Canadian department store operator Hudson's Bay were preparing a takeover offer that could value the company at more than $9 billion, or the high-$60s on a per-share basis. This comes after reports in February that private-equity firm Leonard Green & Partners was interested in bidding.

Kohl's Board of Directors hasn't had much to say, but will evaluate any and all offers that come their way. Of course, we think that the price could and should be higher. Kohl's average 10-year trailing price-to-earnings ratio has been 12 times. That valuation would equate to more than $80 a share, which would be in line with our current Target Price of $81, so with the stock well below that price, we will simply continue to hold tight to our KSS shares.

Continuing the discussion of undervalued retailers, **Big Lots** (BIG – $39.08), which we discussed extensively in last week's *Market Commentary*, saw its shares rocket 23% last week after it was disclosed that Mill Road Capital had amassed a 5.1% stake in the discount vendor. Mill Road actually commended management in its letter to Big Lot's shareholders, saying leadership had done a "good job executing on its strategic plan over the last several years which has materially improved the company's long-term outlook and underlying value."

Nonetheless, Mill Road is encouraging the Big Lots Board to pursue the sales process to maximize their believed present value of $55 to $70 per share. Given our recently published Target Price of $73, we would agree with the upper end of Mill Road's present value calculation, so we continue to hold our BIG shares.

This past Tuesday, HollyFrontier Corporation (HFC) and Holly Energy Partners, L.P. (HEP) announced the establishment of **HF Sinclair Corporation** (DINO – $36.61) as the new parent holding company of HollyFrontier and HEP after the completion of their respective acquisitions of Sinclair Oil Corporation and Sinclair Transportation Company from The Sinclair Companies.

While there is still a lot of work to be done to effectively transform and operate the "new" company, HF Sinclair (DINO) will have an expanded refining business that includes seven complex refineries across the Mid-Continent Southwest, Rocky Mountain and Pacific Northwest. DINO will have a growing renewables business with three production facilities that are expected to produce approximately 380 million gallons of renewable diesel annually, and the company will operate a multi-national lubricants business that produces specialty products and base oils, marketed under the Petro-Canada Lubricants, Sonneborn, Red Giant Oil and HollyFrontier Specialty Products brands. The marketing business will be featuring the Sinclair brand and be comprised of 300-plus distributors and more than 1,300 independent wholesale branded sites located across 30 states, while the company's logistics business will operate under HEP with an integrated logistics network connecting key crude and product regions and interests in strategic joint ventures that provide access to finished product pipelines and storage.

"The completion of our transactions and the launch of HF Sinclair marks the start of the next phase of our Company's history," said CEO Mike Jennings. "We are moving forward as a more diverse, downward integrated business with scale that is positioned to drive growth and capital returns to our shareholders. We are also optimistic about the significantly expanded scale of HEP, which will benefit from long-term commitments from HF Sinclair. I am honored to welcome the talented Sinclair team to our organizations, and I look forward to working closely with them to capture the significant growth and value-creation opportunities ahead at both HF Sinclair and HEP."

In connection with the close of the transaction, all existing shares of HollyFrontier have automatically converted on a one-for-one basis into shares of common stock of HF Sinclair, and HF Sinclair has issued approximately 60.2 million shares of common stock to Sinclair, representing 27% of the pro forma equity of HF Sinclair with a value of approximately $2.1 billion based on HollyFrontier's fully diluted shares of common stock outstanding and closing stock price on March 11, 2022.

While the dividend has been suspended, the $0.35 per share quarterly payout is expected to return in May. Holly ought to be relatively maintenance free (on a planned basis) for 2022, calls for renewable fuels are unlikely to dissipate and given recent fossil fuel energy price spikes may get even louder, and a return to increased spreads between foreign (Brent) and domestic oil (WTI) could offer a tailwind with the ability to source over a third of the firm's crude from the Permian Basin. The consensus '22 EPS forecast stands at $4.15, putting the forward P/E at less than 9. Our Target Price for DINO is $58.

Just last month, the management team from **NortonLifeLock** (NLOK – $27.45) announced that its Avast acquisition was ahead of schedule and an accelerated closing date was expected. So it came as a surprise when shares plunged more than 10% on Wednesday after U.K. regulators announced that there will be an in-depth investigation into the merger on the grounds that it risks reducing competition. The Tempe-based company responded via press release, "Based upon potential impact in the U.K. market, the CMA intends to refer the Merger to a Phase 2 investigation if the company does not offer Phase 1 remedies. The decision is surprising. We believe this transaction can only benefit consumers across the globe, including in the U.K., through increased innovation and greater consumer freedom and choice beyond big tech platform providers in the burgeoning Cyber Safety market. Regulators from across the globe, including the US Department of Justice, and in Europe the German Federal Cartel Office, and the Spanish National Markets and Competition Commission, have reviewed and cleared the transaction. NortonLifeLock remains confident that the transaction should be approved and does not intend to propose any Phase 1 remedies. The company will continue to constructively engage with the CMA and their review. With the commencement of a Phase 2 review, the company now expects to close the transaction in mid-to-late 2022."

We aren't sure what the result of the inquiry will be. NLOK may have to make concessions or abandon the deal completely. We have no complaints about the standalone business, though, especially as state-sponsored cyber attacks have been vicious and frequent lately, especially between Russia and Ukraine. The impacts of these attacks are felt by everyone and we think NLOK's software should be highly attractive to all types of users. As is our custom, we aren't baking the Avast results into our model yet, but we are positive on the deal. Our Target Price for NLOK resides at $35.

It's a dangerous world out there and soaring geopolitical tensions have sent defense contractors like **Lockheed Martin** (LMT – $426.18) and **General Dynamics** (GD – $230.23K) higher this year in an otherwise difficult equity market environment. LMT has gained 20% this year, while GD has added 10%. Lockheed builds airplanes and helicopters, missiles and space products. In addition to its Gulfstream business jet division, General Dynamics is involved with nuclear submarines, surface ships, military vehicles, combat systems, weapons and armament. While it's

unclear which assets will be deployed to combat situations and when, it's apparent that defense spending is top of mind again. German Chancellor Olaf Scholz announced that the country would boost spending to 2% of economic output and said on March 15 that the country plans to purchase 35 U.S.-made F-35A Lightning fighter jets. The jets will replace the aging Tornados and will be capable of carrying nuclear munitions.

As the situation in Ukraine evolves rapidly, we expect the share price movements of LMT and GD to remain volatile, with impacts in both directions. For example, Russian orders make up 5% of Gulfstream's backlog, while President Biden announced that the U.S. would provide drones to Ukraine and the Pentagon lowered its budgeted F-35 order by 33 units to 61. Six F-35 jets are deployed to Estonia and Romania, as part of an air policing mission and a deterrent to wider Russian aggression.

We like LMT for its combination of cost-plus contracts with R&D effectively paid for by customers, and believe they offer the ability to use cash flow for share buybacks and generous dividends (the yield is 2.6%). General Dynamics is attractive due to its growing number of aircraft deliveries, additional revenue in Combat Systems programs and long-term demand for submarine work. GD yields 2.2% and both firms trade at reasonable valuations. Our Target Price for LMT is $502 and for GD is $273.

Airline stock prices enjoyed a terrific week, propelled by positive comments by several carriers at the JP Morgan Industrials Conference on March 15. While spiking fuel prices are expected to adversely impact profitability in the near term, **Alaska Air Group** (ALK – $55.19) CFO Shane Tackett explained that the near-term hit might not be terrible, "We aren't really rethinking the [fuel hedging] program right now; we're glad that we have it. I think we'll continue to do as we've always done 50% hedge starting 18-months out 20% out of the money call options only, we don't do exotics our counterparts down in Texas are very good, hedge in the hedge with a lot of different tools than we do, but they're really, capable and sophisticated and we try to be very simple with it. So we're in good shape for the next three or four quarters we're just now putting hedges on into the middle to back half back half of next year. So, if we see fuel prices at this level out into next year, that advantage that we have right now probably it tells away at some point."

Even though **Delta Air Lines** (DAL – $37.68) does not hedge its fuel prices, it expects to feel only part of the pinch, passing off the costs to customers. At the same conference, DAL President Glen Hauenstein said, "I think a lot of industry observers have questioned whether or not the industry will be able to pass on the higher cost of fuel to the end consumer. We, at Delta, given our demographics and our average client, feel that, that is something that we can easily achieve and that we will achieve in the Second Quarter as fuel prices fluctuate rapidly here. We need to recapture somewhere between $15 and $20 each way on a ticket, on an average ticket value of about $200. So somewhere under 10%. I'd say we're well on our way to recapturing that, and we feel very confident that we will capture it in the Second Quarter, which is usually in advance of when we would recapture usually at 60 to 90 days, given the advanced booking curves of the airline industry."

Delta CEO Ed Bastian also said on Tuesday, "Delta had the two busiest days for sales in its near 100-year history last week, while the North Atlantic market has been swamped with bookings despite the outbreak of hostilities in eastern Europe…People have decided to start traveling again. And in the last three weeks the governments of the world have decided it's time to go, that the Covid era is over. We're moving into a period where we're managing this virus, rather than being managed by it…One-hundred dollar oil prices are not something that we haven't already dealt with in the past. The earlier part of the last decade, oil averaged north of $100 a barrel and the airlines did just fine. It just takes time for the impact to be passed through to pricing systems."

Thanks to cheap debt, all of the major U.S. carriers were able to upgrade their fleets with more efficient airplanes over the past few years and that is paying off. And with business travel continuing to recover and travel restrictions loosening around the world, we think that DAL and ALK remain attractive. The near-term valuations are expensive, but analysts project a swift recovery for air travel, and we think the longer-term metrics are discounted. Both ALK and DAL have kept their dividends suspended, but we expect to see enough operating momentum to warrant a resumption in payments down the road. Our Target Price for ALK is $82 and for DAL is $65.

With oil prices up, corporate travel as popular as ever and airlines seeking to achieve their pre-pandemic route networks, it has been perplexing to observe the negative price action for fuel supplier and marketer **World Fuel Services** (INT – $27.13). CFO Ira Birns was asked about rising fuel prices on February 24, the day Russia invaded Ukraine, replying, "On a historical basis, there's been a much tighter correlation between price and margin in marine than our other businesses because it's principally a spot business and arguably more of a bulk business, selling for dollars per unit instead of pennies per unit. So the issue is it doesn't happen overnight. There's historically been a bit of a lag, I would say, not necessarily that happen every single time either. So we were starting to see that at the tail end of the quarter, which is why we outperformed our expectation in Q4, to be honest. And I'll use the term I don't want to count my chickens because I have 33 of them at home, but that's still in thus far to the first quarter, not meaningfully, but margins are certainly consistent with or maybe slightly higher than where we were in December. So that will play out over time. Of course, prices are even higher as we speak today because of last night's events. But there are opportunities there, and that's why we were a bit more optimistic in our comments about marine for '22 than we may have been 3 months ago. But that will play out over time."

If INT counts as an Energy stock, it didn't get any love when oil spiked over the past few weeks. INT was off a couple percent since February 24, compared to the S&P 500 Energy index's 10% gain. And if it is a Travel/Airline stock, it should have been up sharply last week, given the 15% gain in the S&P 500 Airlines index, rather than roughly unchanged. Whatever the grouping, INT seems to have been forgotten, though our Target Price of $41 indicates that it should rally when the market comes to its senses. INT trades below 15 times forward earnings, with a dividend yield of 1.8% and a solid balance sheet.

Shares of **FedEx** (FDX – $218.91) dropped 4% after the company reported a fiscal Q3 2022 that trailed analyst estimates on the bottom line. The shipper earned $4.59 per share (vs. $4.65 est.)

and had revenue of $23.6 billion (vs. $23.49 billion). FDX did not change its full-year adjusted EPS guidance of between $20.50 and $21.50, and lowered its capital expenditures estimate by $200 million to $7 billion.

COO Raj Subramaniam commented, "Execution of our strategies resulted in substantially higher operating income for the quarter as Team FedEx delivered yet another outstanding peak season. December 2021 was our most profitable December in FedEx history. Our ability to handle the influx of packages was years in the making as we've taken deliberate steps to enhance our unparalleled network and support of customers large and small. We have fundamentally changed our performance as we handled increased e-commerce volume during peak and set a new precedent for peak seasons moving forward. Having said that, we are laser focused on improving our margins… Even with the successful execution of peak, the new year brought new challenges, mostly driven by Omicron. This affected our business in 2 ways: first, we experienced staffing shortages, particularly in our air operations. In January alone, the absentee rate of our crew due to Omicron was over 15%, which caused significant flight disruptions. Second, our customers experienced Omicron-driven staffing shortages, which reduced demand for our services, especially in U.S. domestic and European markets. Both of those factors resulted in softer-than-expected volume levels, especially in January. We estimate the effect of Omicron-driven volume softness in our Q3 results was approximately $350 million."

Looking ahead, Mr. Subramaniam said, "As we prepare to close fiscal year '22, permit me a moment to share what's on the horizon for FedEx as we continue to focus on margin expansion and shareholder return. In addition to the opportunity to enhance performance at Ground that I just discussed, we have other levers for profitable growth, which include: number one, driving improved results in Europe; number two, increasing collaboration and efficiency to optimize our networks, lower our cost to serve and enhance return on capital; and number three, unlocking new value through digital innovation. Of course, we'll do this in an environment of strong revenue quality management…We have the networks, the strategy and the right team in place as we deliver financial returns and drive shareholder value for years to come."

CMO Brie Carere said, "Several macroeconomic forces, including the tragic conflict in Ukraine, uncertainty around the pandemic, a tight labor market, supply chain disruptions, high energy prices and inflationary pressure have dampened the current GDP outlook globally and for the United States. Last week, we lowered our economic outlook. U.S. GDP is now expected to increase 3.4% in calendar year 2022, revised down from 3.7%, and our outlook is 2.3% in calendar year 2023, with consumer spending tilting towards services and B2B growth supported by inventory rebuilding. Global GDP growth is expected to be 3.5% in calendar year 2022, previously 4.1% and it will be 3.1% in calendar year 2023. Growth will be driven by the release of pent-up demand for services while investment demand and inventory restocking support global manufacturing and trade. Given the tremendous fluidity of the macroeconomic environment, we will continue to update our outlook. Our teams are ready to adjust plans, as required, to drive margin improvement despite the dynamic environment in which we operate."

Top of mind for everyone, Ms. Carere commented on fuel costs, "With fuel prices increasing around the world, today, we announced a fuel surcharge increase effective April 4 for FedEx Express, Ground and Freight. The change in economic outlook does not change our confidence

that e-commerce will continue to drive strong parcel market growth. We believe the e-commerce growth rate in the United States will be in the mid- to high single digits for the next 3 to 4 years." Preferring to pass costs directly to customers, FedEx does not hedge its fuel in derivatives markets and the company did not quantify the expected impact of higher fuel prices, other than by saying, "How long this lasts is anybody's guess."

Lower-than-expected package volume for FDX in the quarter and ongoing labor challenges were disappointing. We are concerned that rising transportation costs, even if passed directly to customers via surcharges, will result in lower volume. The increased costs, made worse by inflation, seem likely to adversely impact FedEx for the rest of the calendar year. Of course, that sounds bleak, but FDX has been experiencing significant success. In 2019, prior to the impact of the pandemic, FDX earned $15.52 per share, which dropped to $9.50 in 2020 and rose to $18.17 in 2021. The company is projected to earn $20.58 in FY 2022, a figure expected to grow to nearly $27 by 2025. If FDX can hit that $27 mark, it will have tripled EPS in a decade, which we think is impressive for a capital-intensive, macro-sensitive logistics company. As a result of the undeserved beating, FDX shares remain inexpensive. The forward P/E ratios are 10.5x for 2022 and drop to 8.1x for 2025, while the quarterly dividend of $0.75 per share could be increased. We appreciate that FDX has been using its free cash flow to grow the business, manage its debt load in its infrastructure-intensive business and make fleet changes. Our Target Price for FDX has inched up to $369.

Electronic manufacturing services firm **Jabil, Inc.** (JBL – $62.69) earned an adjusted $1.68 per share in Q2 of fiscal 2022 (vs. $1.47 est.), a 32% improvement over the same quarter a year ago. Net revenue for the period was a record $7.55 billion, an increase of 11% year-over-year. JBL's key catalyst in the quarter was momentum in the commercial portfolio. The DMS segment reported $3.8 billion of revenue, 4.6% ahead of analyst estimates. The EMS segment also saw broad-based strength and $3.8 billion of revenue, matching analyst estimates.

CFO Mike Dastoor said, "For the quarter, revenue was approximately $7.6 billion, up 10.6% over the prior year quarter and ahead of the midpoint of our guidance from December. The additional upside was mainly driven by our 5G and cloud businesses, while our automotive, health care and retail end markets remain very strong… Turning now to our cash flows and balance sheet. In Q2, inventory days came in at 86 days. The sequential increase in days was driven largely by 2 factors. Firstly, the ongoing tightness in the supply chain continues to weigh on our inventory balances… And second, at the end of the quarter, we experienced a timing difference on the sell-through of finished goods within our DMS segment. I anticipate this timing difference to reverse in Q3. In spite of these 2 factors impacting inventory, our second quarter cash flows from operations were very robust, coming in at $246 million, and net capital expenditures totaled $201 million."

Mr. Dastoor continued, "In Q3, GAAP operating income is expected to be in the range of $276 million to $336 million. Core diluted earnings per share is estimated to be in the range of $1.40 to $1.80. GAAP diluted earnings per share is expected to be in the range of $1.24 to $1.64. The core tax rate in the third quarter is estimated to be approximately 21%…Today, the outlook for our business is strong, with end markets across both segments continuing to benefit from multiyear secular trends. We believe these markets will continue to drive our growth, as we

concentrate our efforts on long-term secular growth markets with strong margin and cash flow dynamics, markets such as electric vehicles, personalized medicine and health care, semi-cap, clean and smart energy infrastructure, cloud, 5G infrastructure and the associated connected devices… All in all, our performance during the first half of the year gives us excellent momentum as we look to close out another strong year. We're now anticipating core EPS will be in the neighborhood of $7.25 per share on revenue of approximately $32.6 billion. Notably, this incremental revenue will improve mix and drive operating leverage, thereby giving us the confidence to raise our core margin by 10 basis points to 4.6% for FY '22, as we continue to drive the organization to 5% and beyond. Importantly, for the year, we also remain committed to generating in excess of $700 million in free cash flow, in spite of the higher revenue and associated working capital."

The strong results and solid guidance sent shares up more than 12% last week, though they remain down more than 10% this year. In fiscal Q2, JBL repurchased 2.3 million shares for $145 million and still has room left on its $1 billion share buyback program. When asked about capital plans in future quarters, CEO Mark Mondello replied that share buybacks make a lot more sense than changing the dividend payment, which currently stands at $0.08 per share per quarter (penciling out to a 0.5% yield). We like the company's strong execution, diverse business (which management has worked consistently to improve since 2016) and very inexpensive valuation. Shares trade for less than 9 times forward earnings and analysts expect EPS growth of at least 8% in the upcoming three years. We like the exposure JBL gives us to multi-year tailwinds in Cloud, 5G and the electrification of automobiles. Our Target Price has been increased to $86.