Market Commentary Monday, April 4, 2022

April 4, 2022

EXECUTIVE SUMMARY

Wall of Worry – Stock Prices Have Rebounded Despite the War in Ukraine
Inflation & Stocks – Value Historically Has Performed Nicely
Rising Rates / Fed Tightening & Stocks – Values Historically Has Performed Nicely
Inversions – Stocks the Place to Reside
Econ News – Mixed Data, but No Recession Indicated
Corporate Profits – Handsome Growth in ’21 and ’22 Remains the Projection
Recessions & Stocks – Value Historically Has Performed Nicely
Patience – The Longer the Hold the Lower the Chance of Loss
Stock News – Updates on MU, PNC, NSC & FDX

Market Review

The April edition of *The Prudent Speculator* was emailed on Friday evening. As we discussed in our *Editor’s Note,* we suspect that casual market watchers are likely surprised that stocks have held up as well as they have, especially considering the sizable (for bonds) red ink in fixed income,…

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VALUE STILL BEATING FIXED INCOME 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
0.39	-6.70	-7.12	-2.70	1.81	8.15	-4.71	-8.26	-0.02	Bloomberg Barclays Global-Aggregate Bond
0.75	-6.19	-4.72	-3.83	5.26	10.89	-1.54	-6.60	-1.72	Bloomberg Barclays U.S. Aggregate Bond
-0.12	-3.72	6.98	73.06	41.44	88.27	20.95	35.04	94.95	Dow Jones Industrial Average
0.01	-1.63	8.93	78.58	40.79	65.91	20.82	39.44	100.59	New York Stock Exchange Composite
1.59	-11.62	-14.72	77.34	33.18	65.35	2.83	16.91	89.19	Russell 2000 Growth
-0.13	**-1.53**	**2.81**	**120.87**	**42.56**	**52.20**	**28.27**	**62.63**	**137.37**	**Russell 2000 Value**
0.68	-6.58	-6.24	99.45	39.47	60.81	14.82	38.02	113.49	Russell 2000
0.88	-8.92	11.50	94.90	83.21	151.38	25.85	33.06	113.51	Russell 3000 Growth
-0.40	**-0.34**	**10.59**	**85.84**	**43.28**	**63.05**	**25.37**	**47.98**	**106.84**	**Russell 3000 Value**
0.24	-4.86	10.99	91.62	64.12	105.53	25.66	40.12	111.39	Russell 3000
0.10	-2.34	12.33	104.91	58.66	92.31	29.63	50.87	128.14	S&P 500 Equal Weighted
0.08	-4.27	14.68	89.81	66.84	110.65	28.71	41.95	109.67	S&P 500
0.25	-8.43	16.55	97.20	82.16	148.39	32.01	38.02	115.99	S&P 500 Growth
-0.10	**0.35**	**12.26**	**78.26**	**47.47**	**70.43**	**24.90**	**46.43**	**99.12**	**S&P 500 Value**
-0.69	-13.10	9.80	94.04	60.05	112.74	29.81	32.32	114.80	S&P 500 Pure Growth
-1.39	**6.60**	**17.39**	**140.83**	**44.24**	**65.41**	**34.63**	**77.62**	**165.20**	**S&P 500 Pure Value**

As of 04.01.22. Source Kovitz using data from Bloomberg

…and the ongoing war in Ukraine,…

THE PRUDENT SPECULATOR

THE SECRET TO SUCCESS IN STOCKS IS NOT TO GET SCARED OUT OF THEM

Disconcerting Headlines

The crisis in the Ukraine continues to drag on 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%	23651%
Death of Stalin	3/5/1953	25.79	2%	-9%	3%	79%	61%	17526%
Creation of the Warsaw Pact	5/14/1955	37.44	12%	24%	25%	15%	48%	12042%
Sputnik & The Space Race	10/4/1957	42.79	-4%	-3%	18%	24%	33%	10524%
The U-2 Incident	5/1/1960	54.37	-5%	-1%	20%	29%	64%	8261%
Cuban Missile Crisis	10/16/1962	57.08	-16%	21%	28%	60%	67%	7864%
Soviet Invasion of Czechoslovakia	8/20/1968	98.96	9%	1%	-4%	-1%	3%	4494%
Soviet Invasion of Afghanistan	12/24/1979	107.66	5%	7%	26%	30%	55%	4122%
U.S. Moscow Olympics Boycott	3/21/1980	102.31	-7%	26%	31%	48%	75%	4343%
Downing of Korean Air Flight 007	9/1/1983	164.23	9%	-4%	1%	54%	57%	2668%
Soviet Los Angeles Olympics Boycott	7/28/1984	151.19	-8%	17%	27%	107%	126%	2907%
Chernobyl Disaster	4/26/1986	242.29	29%	-2%	16%	27%	56%	1776%
Fall of Communism in Eastern Europe	8/19/1989	346.03	17%	-4%	-5%	21%	34%	1214%
German Reunification	10/3/1990	311.40	-9%	22%	23%	48%	87%	1360%
Dissolution of the Soviet Union	12/26/1991	404.84	9%	0%	9%	14%	87%	1023%
Black Brant: Mistaken Nuclear War Scare	1/25/1995	467.44	3%	20%	32%	105%	202%	873%
Russo-Georgian War	8/7/2008	1,266.07	-5%	-31%	-20%	-5%	34%	259%
Putin Reelected	3/4/2012	1,369.63	17%	3%	11%	53%	74%	232%
Annexation of Crimea	3/21/2014	1,866.52	9%	8%	13%	26%	53%	144%
Skripal Poisoning & Diplomatic Expulsion	3/1/2018	2,473.92	0%	17%	13%	58%		84%
Price Changes Only - Does Not Include Dividends		**Averages:**	**4%**	**6%**	**14%**	**41%**	**70%**	**5268%**

As of 4.1.22. Source: Kovitz using Bloomberg, usrussiarelations.org, state.gov and Wikipedia

…that has driven commodity prices sharply higher, contributing to continued high readings on measures of inflation, including the announcement last week of a 5.4% increase in the Personal Consumption Expenditure, the Federal Reserve's preferred price gauge.

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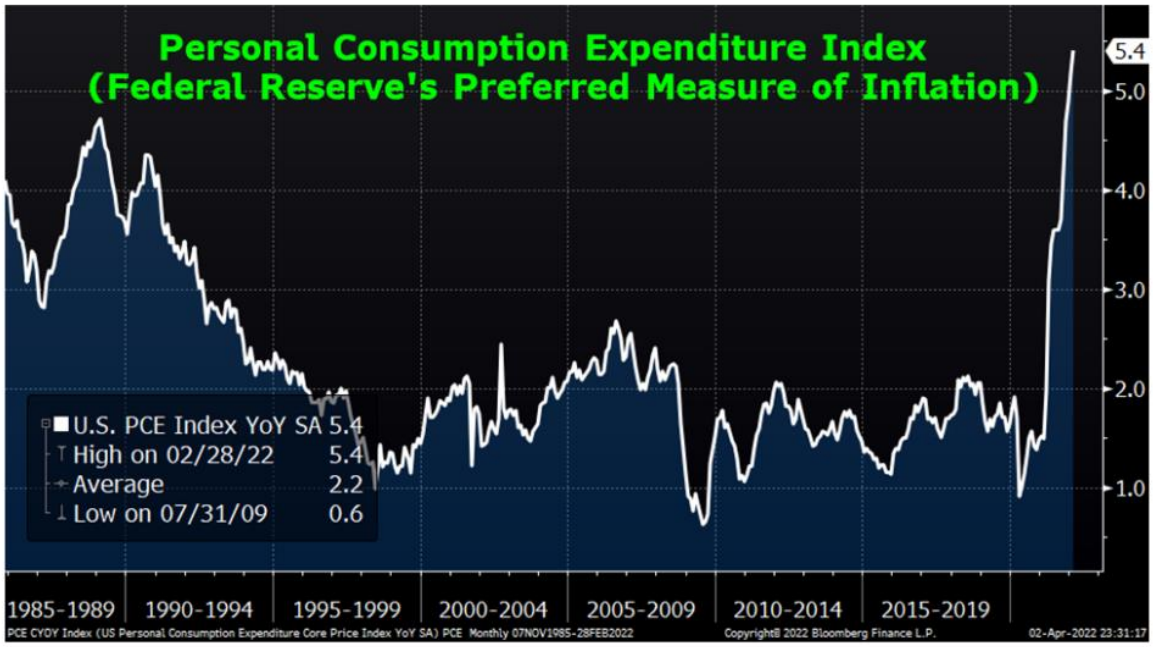
INFLATION NOT TRANSITORY: FED FUNDS RATE INCREASES UNDERWAY

The Federal Reserve's preferred gauge of inflation, the core Personal Consumption Expenditure (PCE), jumped in February by 5.4%, above the 2.0% target, adding to investor worries about the pace of interest rate hikes this year and next from Jerome H. Powell & Co.



Of course, the spike in the consumer price index (CPI) was even greater in February, soaring 7.9% and prompting many in the financial press to warn about the supposed risk to equities from high inflation, despite what the historical evidence shows dating back to both 1957 and 1927.

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

THE WALL STREET JOURNAL.

THURSDAY, JANUARY 13, 2022 - VOL. CCLXXIX NO. 10 WSJ.com ★★★★ $5.00

What's News

Business & Finance

U.S. inflation hit its fastest pace in nearly four decades last year as pandemic-related supply and demand imbalances, along with stimulus intended to shore up the economy, pushed prices up at a 7% annual rate. A1, A2

◆ Stocks took the inflation data in stride, with the S&P 500, Dow and Nasdaq adding 0.3%, 0.1% and 0.2%, respectively. U.S. government bond yields fell. B8

◆ TPG priced its initial public offering at $29.50 a share, the midpoint of its projected range, in the first big test of the IPO market in the new year. B1

◆ Thousands of workers at supermarket operator Kroger went on strike in Denver, seeking better pay, benefits and conditions. B1

◆ Checkout.com said it raised $1 billion in a recent share sale that valued the U.K.-based digital-payments processor at $40 billion. B5

◆ A federal judge has scheduled a late-September sentencing date for Theranos founder Holmes following her fraud conviction. B3

◆ TV and digital ratings for the NFL's regular-season games jumped 10% from last season, Nielsen data show. B4

◆ TransUnion will let consumers give blockchain companies access to their personal credit data. B4

World-Wide

◆ The Omicron variant is putting China's "zero-Covid" strategy to the test, as health experts say the highly contagious strain will be harder to manage, likely leading to more frequent and longer-lasting restrictions. A1

◆ U.K. Prime Minister Johnson, trying to defuse one of the most perilous moments of his tenure, apologized for attending a drinks party in the garden of 10 Downing Street

Inflation Hits Fastest Clip Since '82

Consumer-price index, change from a year earlier

Consumer-price index for select categories, change from a year earlier

Consumer prices rise by 7% as pandemic disruptions, consumer demand stay strong

By Gwyn Guilford

U.S. inflation hit its fastest pace in nearly four decades last year as pandemic-related supply and demand imbalances, along with stimulus intended to shore up the economy, pushed prices up at a 7% annual rate.

The Labor Department said Wednesday the consumer-price index—which measures what consumers pay for goods and services—rose 7% in December from the same month a year earlier, up from 6.8% in November. That was the fastest since June 1982 and marked the third straight month in which inflation exceeded 6%.

The so-called core price index, which excludes the often-volatile categories of food and energy, climbed 5.5% in December from a year earlier.

Please turn to page A2

◆ Grog Ip: Biden's inflation fix starts at micro level A2

◆ Stocks gain after high inflation data B9

◆ Heard on the Street: Watch for wage spiral B10

China's 'Zero-Covid' Efforts Face Big Test From Omicron

By Natasha Khan, Liyan Qi and Keith Zhai

HONG KONG—Over the past two years, China has used some of the strictest measures anywhere to keep Covid-19 out and long succeeded in holding numbers down. But as Omicron poses the biggest challenge since the start of the pandemic, the country is looking more boxed in by its own formula.

Beijing has repeatedly pointed to Western countries where the virus has run rampant as cautionary examples. But as the Omicron variant spreads inside China ahead of February's 2022 Beijing Winter Olympic Games, an uncomfortable reality is setting in: The country's ability to keep the virus at bay has meant low levels of natural immunity. Vaccination rates are high, but how effective Chinese vaccines are against Omicron remains in question.

China has held fast to its "zero-Covid" strategy despite a mounting toll on its people

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◆ India festival fuels Covid-spread fears A12

Heir to Scholastic Is Now in Charge Of Fixing It

Iole Lucchese faces innovation hurdles and some skepticism over her track record

By Sharon Ramachandran And Jeffrey A. Trachtenberg

Scholastic Corp. was attempting an overhaul of its websites with the goal of creating a single online identity for its many divisions, which had each gone in its own direction.

When the effort hit the digital projects at the publishing company known for titles such as the "Harry Potter" series, "Clifford the Big Red Dog" and "The Hunger Games,"

Ms. Lucchese, 55, is now in an even more influential position. Mr. Robinson's will bequeathed his controlling stake in the company to her

McCarthy Rejects Panel's

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.

Certainly, there are some scary declines in the return numbers displayed in the chart above, so there is never any guarantee that history will repeat. Still, we endeavor to provide real-world analytics, lest our readers succumb to the siren songs of the purveyors of gloom and doom. After all, many supposed market experts have perpetuated the myth that rising interest rates are bad for stocks,…

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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.

…or that the fact that the Federal Reserve is now tightening monetary policy is somehow a sell signal.

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%**

Last week, the yield-curve-inversion bogeyman made an appearance when the yield on the 10-Year U.S. Treasury fell below that of the 2-Year, with the pundits arguing that a recession is now in the cards. True, there are only nine data points in the table below, but one could easily argue that the 10/2 Inversion is a major buy signal for equities,…

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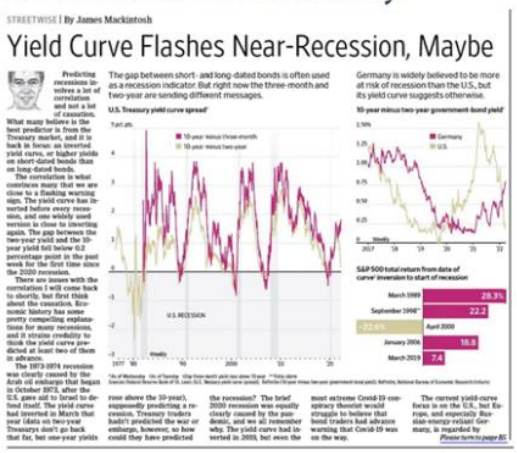
YIELD CURVE INVERSION…COULD BE GOOD FOR STOCKS

With the 2.39% yield on the 10-Year U.S. Treasury now some 8 basis points below the yield on the 2-Year, the financial press has been busy warning that an inversion could lead to a recession or otherwise be bad for stocks…despite interesting evidence to the contrary.

S&P 500 Total Return Post 10-Year/2-Year Yield-Curve Inversion

Inversion Date	1 Year S&P 500 TR	3 Year S&P 500 TR	5 Year S&P 500 TR	10 Year S&P 500 TR	To Present S&P 500 TR
8/18/1978	9.2%	45.5%	103.4%	295.0%	13989%
9/12/1980	1.8%	53.9%	86.8%	290.6%	10395%
1/14/1982	34.4%	71.2%	184.6%	440.2%	10556%
12/13/1988	32.1%	54.1%	97.7%	452.3%	3230%
3/8/1990	14.2%	47.1%	65.3%	411.5%	2492%
6/9/1998	19.6%	17.5%	-6.4%	43.3%	534%
2/2/2000	-3.1%	-36.7%	-8.6%	-6.2%	392%
1/31/2006	14.5%	-31.3%	11.7%	87.4%	393%
8/23/2019	21.6%				67%
S&P Total Return	**16.0%**	**27.7%**	**66.8%**	**251.8%**	**4672%**

As of 4.1.22. Source: Kovitz using data from Bloomberg and the St. Louis Federal Reserve


STREETWISE | By James Mackintosh

Yield Curve Flashes Near-Recession, Maybe

Predicting recessions involves a lot of correlation and not a lot of causation. What many believe is the best predictor is from the Treasury market, and it is back in focus: an inverted yield curve, or higher yields on short-dated bonds than on long-dated bonds.

The correlation is what convinces many that we are close to a flashing warning sign. The yield curve has inverted before every recession, and one widely used version is close to inverting again. The gap between the two-year yield and the 10-year yield fell below 0.2 percentage point in the past week for the first time since the 2020 recession.

There are issues with the correlation I will come back to shortly, but first think about the causation. Economic history has some pretty compelling explanations for many recessions, and it strains credulity to think the yield curve predicted at least two of them in advance.

The 1973-1974 recession was clearly caused by the Arab oil embargo that began in October 1973, after the U.S. gave aid to Israel to defend itself. The yield curve had inverted in March that year (data on two-year Treasuries don't go back that far, but one-year yields rose above the 10-year), supposedly predicting a recession. Treasury traders hadn't predicted the war or embargo, however, so how could they have predicted the recession? The brief 2020 recession was equally clearly caused by the pandemic, and we all remember why. The yield curve had inverted in 2019, but even the most extreme Covid-19 conspiracy theorist would struggle to believe that bond traders had advance warning that Covid-19 was on the way.

The current yield-curve focus is on the U.S., but Europe, and especially Russian-energy-reliant Germany, is regarded by

The gap between short- and long-dated bonds is often used as a recession indicator. But right now the three-month and two-year are sending different messages.

U.S. Treasury yield curve spread*

Germany is widely believed to be more at risk of recession than the U.S., but its yield curve suggests otherwise.

10-year minus two-year government-bond yield

S&P 500 total return from date of curve' inversion to start of recession

…while other statistical work involving Treasury yields suggests that the chance of recession actually is lower today than normal.

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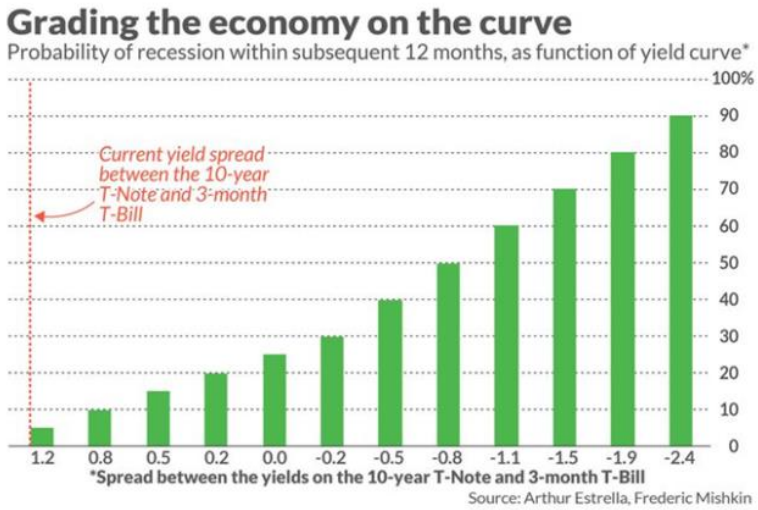
10-YEAR / 3 MONTH YIELD CURVE: VERY LOW ODDS OF RECESSION

Consider one of the first studies to formally measure how the slope of the yield curve affects the odds of a recession. Entitled "The Yield Curve as a Predictor of U.S. Recessions," it was conducted by Arturo Estrella (currently an economics professor at Rensselaer Polytechnic and, from 1996 through 2008, senior vice president of the New York Federal Reserve Bank's Research and Statistics Group) and Frederic Mishkin (a Columbia University professor who was a member of the Federal Reserve's Board of Governors from 2006 to 2008).

For their study, the professors defined the yield curve as the difference between the yields on the 10-year and 90-day Treasurys. Based on the econometric model they constructed, the current yield curve translates into a recession probability of less than 5%. This is illustrated in this chart:

"Stop panicking over the inverted yield curve" - Mark Hulbert



These low odds are caused in part because the 10-year versus 90-day yield curve is nowhere close to being inverted currently. In contrast, the 10-year versus 2-year curve is currently close to zero, having gone briefly negative earlier this week. But even if we were to insert this 10-year versus 2-year difference into the professors' model, the odds of a recession would still be no more than 25%, having grown no more than 5 percentage points over the last month.

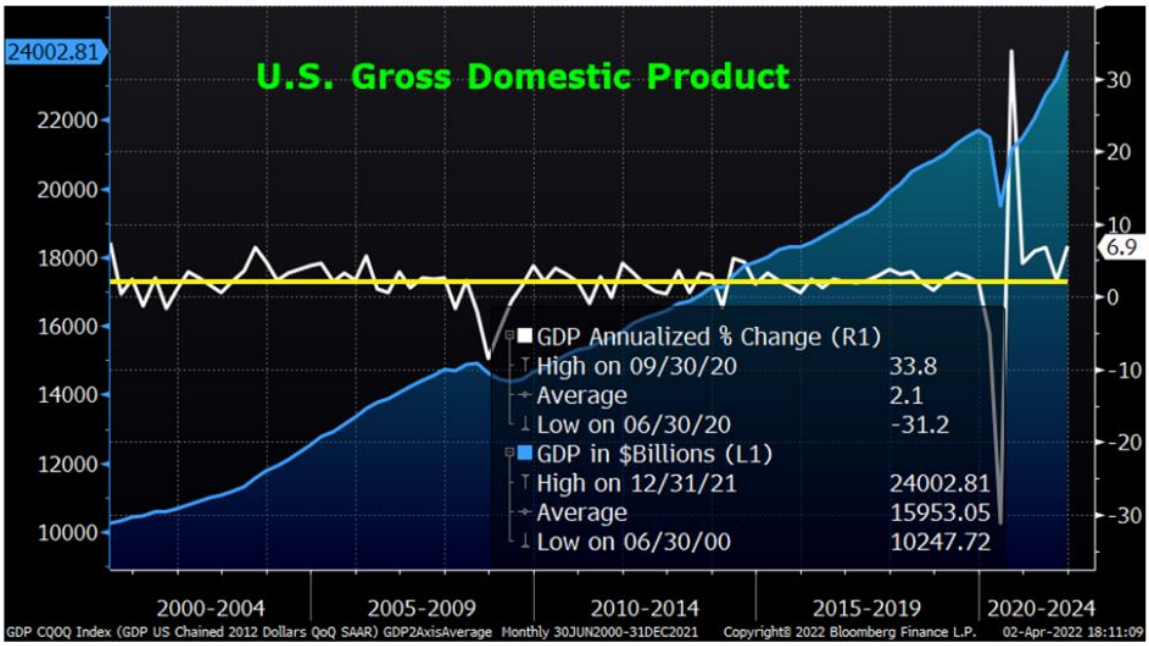
And while a 25% probability of a recession might alarm you, it shouldn't. According to the National Bureau of Economic Research, the U.S. economy has been in a recession 29% of the time since 1857. So even at 25% the current odds are lower than what we would predict based on nothing more than the historical average.

To be sure, nobody knows what the future will bring, while even if one could predict the economic numbers, there is no way of knowing how the stock market might respond to the data. For example, stocks fell last week the day that Q4 GDP Growth was revised down by 0.1% to an incredibly strong reading of 6.9%, as at least one market strategist argued that this now three-month-old statistic suggests that the economy is in for a rough patch.

THE PRUDENT SPECULATOR

TERRIFIC REVISED Q4 U.S. GDP GROWTH OF 6.9%

Fourth quarter 2021 real (inflation-adjusted) domestic economic growth came in at an excellent revised 6.9% rate on an annualized basis, and the current-dollar GDP figure of $24.0 trillion is now at an all-time high, well above the pre-pandemic $21.7 trillion posted in Q4 2019.

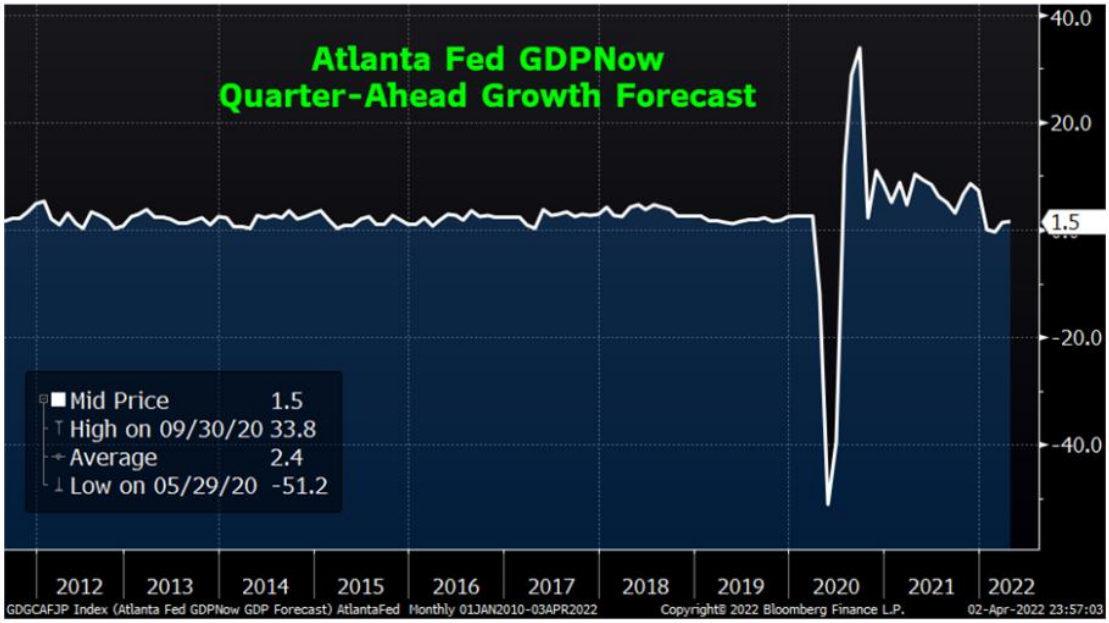


No doubt, economic growth is more challenged today, even as the prognosis for the Q1 GDP figure improved last week versus the week prior,…

THE PRUDENT SPECULATOR

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

While Q4 2021 saw a superb 6.9% jump in real (inflation-adjusted) GDP growth and forecasts for full-year 2022 call for an additional improvement, the Omicron variant, supply-chain difficulties, the war in Ukraine and inflation are impacting the economy, with the Atlanta Fed's current projection for Q1 2022 GDP growth on an annualized basis standing at 1.5%.



…with strong readings on the jobs market,…

THE PRUDENT SPECULATOR

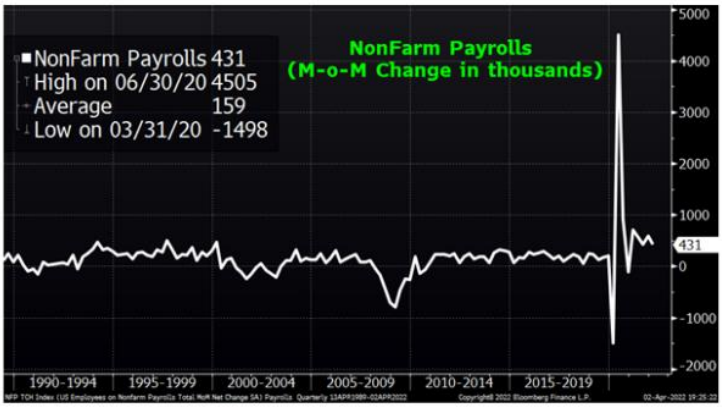
NEAR RECORD JOB OPENINGS AND UNEMPLOYMENT FILINGS HAVE TUMBLED

The March employment report saw a robust, but weaker-than-expected 431,000 new payrolls created, but businesses continue to have difficulty finding qualified employees as the number of job openings in February came in at 11.3 million, not far below the all-time high set two months prior. Looking at more current data, first-time filings for jobless benefits rose by 14,000 to 202,000 in the week ending March 26, still near a pandemic low.

…capped off by a very good labor report for the month of March,…

THE PRUDENT SPECULATOR

VERY HEALTHY JOBS PICTURE

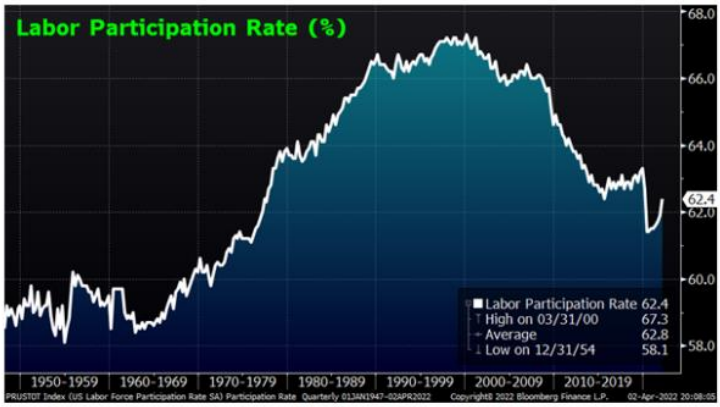


Economists were looking for a gain of 490,000 payrolls, so the increase of 431,000 in March was below expectations, but the January and February tallies were revised higher by a combined 95,000 jobs, and this was the 11th straight month of job gains above 400,000. With strong demand for labor, wages continued to rise as employers struggled to fill positions and the impact of the coronavirus pandemic continued to recede.

…that featured the best tallies since the start of the pandemic.

THE PRUDENT SPECULATOR

PANDEMIC LOW JOBLESS RATE & PANDEMIC HIGH PARTICIPATION RATE



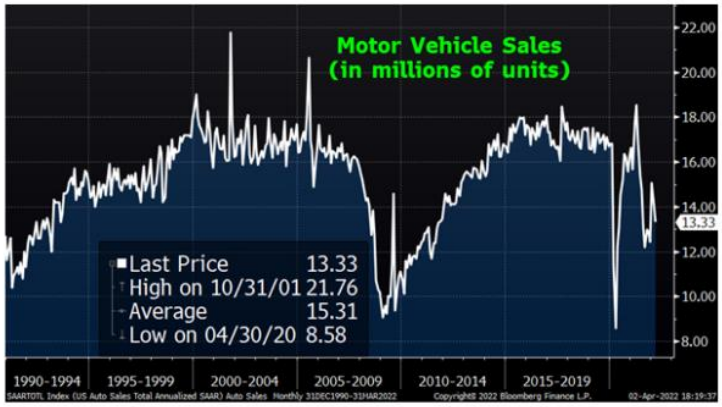
Despite fewer jobs created than expected, the unemployment rate for March dropped to 3.6%, versus 3.8% in February, even as 418,000 more folks in the labor force boosted the denominator in the jobless percentage calculation. The so-called participation rate continued to inch upward, rising to 62.4% in March, up 0.1 points from February to the highest level since the beginning of the pandemic.

Everything was not completely rosy with the latest set of economic stats, as there were weaker-than-expected readings on the health of the consumer,…

THE PRUDENT SPECULATOR

MIXED READINGS ON THE HEALTH OF THE CONSUMER

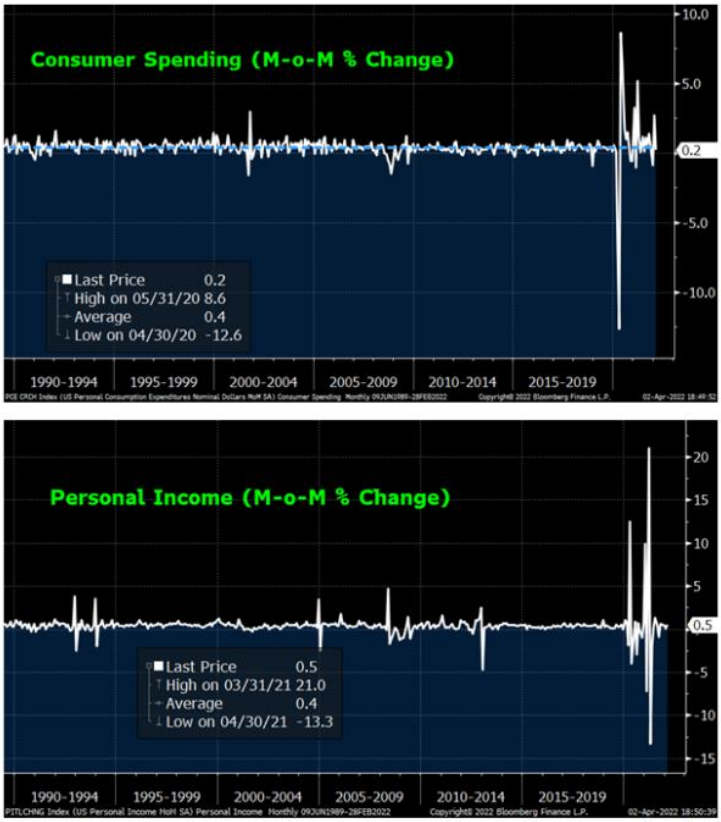
Consumer confidence, per data from the Conference Board, rose for the first time this year in March, climbing to 107.2, but inflation and the war in Ukraine are troubling folks. Meanwhile, supply chain issues and the ongoing shortage of semiconductors continue to impact dealer inventories, so much so that sales of cars and trucks skidded in March to a seasonally adjusted annualized rate of 13.3 million units, according to Wards Automotive Group.



…as inflation is weighing on behavior,…

THE PRUDENT SPECULATOR

CONSUMER SPENDING & PERSONAL INCOMES BOTH RISE



While inflation accounted for the gain, money was shelled out for hotels, restaurants and other services in February, with consumer spending rising 0.2%, trailing expectations and down from an increase of 2.7% in January. Shoppers did not have to reach too deep into their wallets as personal income gained 0.5% for the month, up from a 0.1% increase in January, though the savings rate came in at 6.4%, near the lowest level since December 2013.

…while the prospects for manufacturing were not as exciting as hoped.

THE PRUDENT SPECULATOR

ISM MANUFACTURING RISES: 2.9% ANNUALIZED GDP GROWTH

The latest data point on the health of the manufacturing sector came in below expectations at 57.1 in March, down from a reading of 58.6 in February, and residing at a level well above average for the 30-plus-year history of the gauge. The Institute for Supply Management stated, "The past relationship between the Manufacturing PMI and the overall economy... corresponds to a 2.9% increase in real gross domestic product (GDP) on an annualized basis."

However, none of the numbers were indicating that a recession is looming, while the prospects for corporate profit growth this year and next remain very good, at least if the Wall Street analyst community is to be believed.

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.

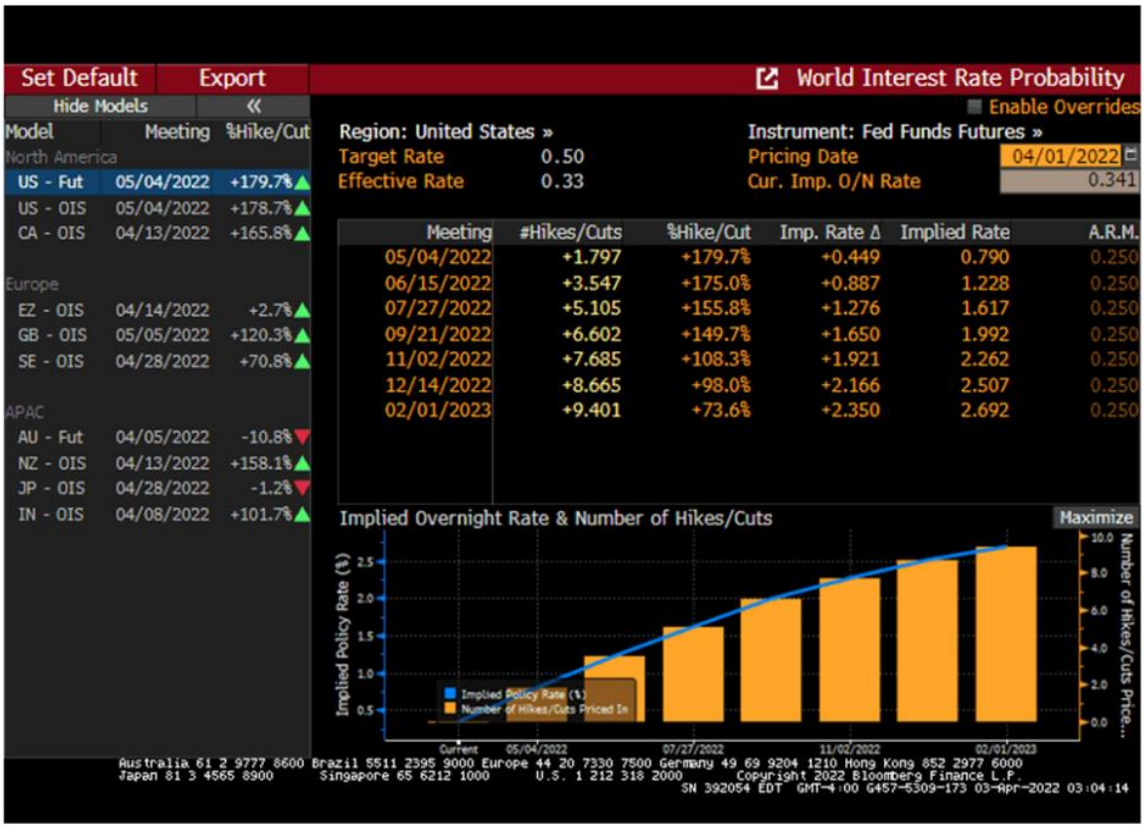
S&P 500 Earnings Per Share

Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2023	$65.46	$246.79
9/30/2023	$63.50	$241.42
6/30/2023	$60.74	$236.63
3/31/2023	$57.09	$231.42
12/31/2022	$60.09	$225.50
9/30/2022	$58.71	$222.12
6/30/2022	$55.53	$215.43
3/31/2022	$51.17	$211.95
12/31/2021	$56.71	$208.19
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 3.31.22

Of course, we understand that the pessimists are predicting that the Federal Reserve will not be able to engineer a so-called soft landing for the economy and that the numerous hikes in the Federal Funds rate expected over the next 12 months will be the catalyst for the next recession.

FED FUNDS RATE ODDS SUGGEST EIGHT-PLUS ADDITIONAL RATE HIKES IN '22



Time will tell if that will be the case, but, like the Federal Reserve, we are not projecting that a recession will arrive this year or next.

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

Still, it is good to know that if we are wrong and a recession does come, stocks have performed well, on average, in the year before, and OK, on average, in the year after the start of the previous 15 economic contractions.

THE PRUDENT SPECULATOR

EQUITY RETURNS AND RECESSIONS (PRE AND POST)

As the saying goes, the stock market (and economists) has predicted nine of the last five recessions, but the 15 prior instances of actual negative economic growth illustrate that long-term-oriented investors (on average) should stay invested (in Value, preferably) no matter what.

U.S. Recession Commencement (per NBER) & Equity Returns
S&P 500 and Fama/French Value Performance

Year Prior S&P 500 TR	Year Prior FF Value TR	Recession Start Date	1 Year S&P 500 TR	1 Year FF Value TR	3 Year S&P 500 TR	3 Year FF Value TR	5 Year S&P 500 TR	5 Year FF Value TR	10 Year S&P 500 TR	10 Year FF Value TR	To Present S&P 500 TR	To Present FF Value TR
51.9%	30.8%	August 1929	-32.6%	-32.0%	-73.5%	-64.9%	-71.1%	-61.4%	-58.0%	-47.7%	333185%	8306935%
18.2%	42.6%	May 1937	-39.3%	-55.8%	-33.2%	-55.1%	-32.5%	-44.3%	53.7%	142.7%	619166%	7759742%
26.3%	54.4%	February 1945	26.0%	42.2%	12.0%	28.5%	64.3%	75.7%	379.2%	468.6%	445903%	3744739%
4.0%	4.6%	November 1948	19.2%	12.4%	101.8%	108.9%	145.2%	130.7%	542.0%	584.7%	362185%	2715765%
3.1%	4.7%	July 1953	31.9%	25.6%	128.9%	118.0%	136.5%	138.2%	308.5%	381.9%	149653%	1139258%
-1.2%	-0.4%	August 1957	10.0%	16.4%	40.2%	55.0%	55.1%	77.9%	188.9%	418.4%	68726%	538778%
-2.4%	-6.4%	April 1960	24.2%	29.0%	41.7%	51.5%	92.4%	131.0%	107.7%	268.9%	51758%	365091%
-8.4%	-20.9%	December 1969	3.9%	8.7%	41.4%	40.3%	-11.3%	-7.3%	77.0%	267.9%	22284%	92789%
-15.2%	-19.4%	November 1973	-23.8%	-14.8%	20.8%	77.1%	23.7%	142.4%	182.3%	719.9%	18828%	80870%
20.6%	31.3%	January 1980	19.5%	12.3%	49.5%	80.4%	102.4%	183.5%	342.4%	480.7%	11807%	23233%
13.0%	22.9%	July 1981	-13.3%	-0.8%	34.0%	78.6%	127.9%	217.1%	343.5%	408.6%	9517%	18258%
6.5%	-6.9%	July 1990	12.7%	9.9%	38.2%	76.0%	83.2%	129.3%	407.4%	424.9%	2344%	3867%
-21.7%	17.0%	March 2001	0.2%	14.6%	1.9%	33.8%	21.4%	83.4%	38.3%	96.0%	489%	546%
5.6%	-2.9%	December 2007	-37.0%	-38.2%	-8.3%	-14.9%	8.6%	0.9%	125.9%	117.4%	314%	229%
8.2%	-9.7%	February 2020	31.3%	38.8%							59%	70%
7.2%	**9.5%**	**Averages**	**2.2%**	**4.6%**	**28.2%**	**43.8%**	**53.3%**	**85.5%**	**217.1%**	**338.1%**	**139748%**	**1652678%**

S&P 500 as of 4.1.22. FF Value as of 1.31.22. Source: Kovitz Investment Group using data from Bloomberg, Professors Eugene F. Fama & Kenneth R. French and the National Bureau of Economic Research

Equity prices will always be volatile in the short run, but we offer the reminder that the chances of success in stocks favor those who are patient.

THE PRUDENT SPECULATOR

THE LONGER THE HOLD, THE LOWER THE RISK

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

PATIENCE IS VIRTUOUS

VALUE STOCKS

	Count >0%	Count <=0%	Percent >0%
1 Month	717	418	63.2%
3 Months	768	365	67.8%
6 Months	803	327	71.1%
1 Year	822	302	73.1%
2 Year	927	185	83.4%
3 Year	961	139	87.4%
5 Year	963	113	89.5%
7 Year	1016	36	96.6%
10 Year	982	34	96.7%
15 Year	956	0	100.0%
20 Year	896	0	100.0%

DIVIDEND PAYERS

	Count >0%	Count <=0%	Percent >0%
1 Month	720	415	63.4%
3 Months	790	343	69.7%
6 Months	819	311	72.5%
1 Year	855	269	76.1%
2 Year	949	163	85.3%
3 Year	942	158	85.6%
5 Year	990	86	92.0%
7 Year	1010	42	96.0%
10 Year	981	35	96.6%
15 Year	956	0	100.0%
20 Year	896	0	100.0%

From 07.31.27 through 01.31.22. Value stocks represented by 50% small value and 50% large value returns rebalanced monthly. Dividend payers represented by 30% top of dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

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 several of our stocks that had news out worthy of mention last week.

Micron Technology (MU – $76.18) reported fiscal Q2 2022 results that beat the consensus estimates after the closing bell on Tuesday. The memory chip maker had sales of $7.79 billion (vs. $7.58 billion est.) and EPS of $2.14 (vs. $1.99 est.). Micron expects Q3 revenue between $8.5 billion and $8.9 billion and adjusted EPS between $2.36 and $2.56. For comparison, MU had revenue of $7.42 billion in Q3 2021 and $1.88 of EPS. Shares soared in after-hours trading thanks to receding concern about a slowdown in the memory business but sold off in Wednesday's trading session as part of the broader market pullback and ended the week off 2.5%.

CEO Sanjay Mehrotra was positive on the business environment, “Micron delivered an excellent performance in fiscal Q2 with results above the high end of our guidance. We grew revenue and margins sequentially while driving favorable mix and cost reductions amid ongoing global supply chain challenges. We saw broad-based demand for our products, with our SSD products achieving record revenue and our auto market revenue also reaching an all-time high. Execution was outstanding with our industry-leading 1-alpha DRAM and 176-layer NAND technology node ramps, delivering strong cost reductions. Our portfolio transformation continues to gain momentum as we lead the industry on the DDR5 transition and grow our mix of NVMe data center SSDs. Following a solid first half, we are on track to deliver record revenue and robust profitability in fiscal 2022 and remain well positioned to create significant shareholder value in fiscal ’22 and beyond.”

Looking ahead, Mr. Mehrotra said, “Our view of calendar 2021 and calendar 2022 industry bit demand and supply growth is largely unchanged from last quarter. We expect calendar 2021 DRAM industry bit demand growth to be in the low 20% range and industry NAND bit demand growth to be in the high 30% range. We expect calendar 2022 industry bit demand growth to be in the mid- to high teens for DRAM and approximately 30% for NAND, in line with our view of the long-term bit demand growth CAGRs for each. We anticipate underlying demand in calendar 2022 to be led by increasing volume of data center server deployments, 5G mobile shipments and continued strength in automotive and industrial markets. Non-memory supply shortages have constrained customer builds and pushed out some demand across many end markets. While these shortages may cause some variability to our demand, we expect them to ease through 2022, supporting memory and storage demand growth.”

Mr. Mehrotra continued, “We expect calendar ’22 industry bit demand growth to be in the mid- to high teens for DRAM and at approximately 30% for NAND. We anticipate underlying demand in calendar ’22 to be led by data center, ongoing adoption of 5G smartphones and continued strength in automotive and industrial markets. Currently, we see a healthy supply/demand balance across both DRAM and NAND given these demand trends, supply discipline across the memory industry, long semiconductor manufacturing equipment lead times, and reduced NAND supply from some of our competitors that experienced a contamination issue in their fab. Non-memory component shortages are improving, and we expect that further improvements should support memory and storage demand growth for the rest of this year…Consistent with the rest of the industry, we are experiencing a challenging environment for equipment and material supplies. However, due to strong execution by Micron’s operations team, our calendar year ’22 bit supply growth for DRAM and NAND remains unchanged from prior expectations and will be in line with industry demand…We remain confident in our long-term technology road map and our ability to drive competitive cost reductions for years to come.”

Micron repurchased 4.8 million shares in Q2 for $408 million, and the company remains “committed to returning more than 50% of the cross-cycle free cash flow through a combination of dividends and buybacks.” Although MU shares are down more than 14% this year, we think that the Q2 results indicate that some of the concern regarding a pullback in demand for memory was unnecessary, even as risk factors like inflation and global macro conditions are likely to remain a while longer. Micron has exposure to the fast-growing data center and automotive

markets, which we believe will help drive earnings over the longer term. We continue to think that the overarching industry themes are broadly positive, and we are comfortable with our long-term-oriented positioning, especially with the forward P/E now a very inexpensive 6.6. Our Target Price for MU has been increased to $128.

PNC Financial (PNC – $181.14) declared a 20% increase to its quarterly dividend, announced a reorganization to its non-interest business segments and updated its guidance for Q1 (to be released mid-month). The nation's second-largest regional bank expects a modest decline to net interest income and a 14% to 16% drop of fee income, even as non-interest expense is projected to fall by 6% to 8% relative to Q4.

We aren't all that shocked to see management revise fee income lower, given lower capital markets activity across the industry year-to-date, and as the rise of interest rates ought to have tempered the mortgage business. Also, although Russia's involvement in Ukraine and persistent inflation have likely spurned uncertainty for the business environment as a whole, management stated that benefits from higher interest rates (the firm's forecast is between 2.00% to 2.25% for the Federal Funds rate by the end of this year) would accelerate throughout the year, boosting full-year revenue by 14% to 16%. And these benefits ought to continue from any bumps to the target rate in 2023, with the bank's net interest income sensitivity supposedly gaining in year 2 of the rate-hike cycle.

In addition, the BBVA USA acquisition, which gives PNC access to 29 of the top 30 Metropolitan Statistical Areas across the country and provides a runway for prolonged growth in these new markets, should bear fruit from this point forward. Of course, the soothsayers are getting louder with their calls for recession, but a 20% slide from the 52-week high makes shares attractive for owners with a long-term orientation, as the P/E ratio is 13 times the 2022 EPS estimate. The dividend yield of 3.3% boosts the stock's appeal as our Target Price now stands at $239.

Norfolk Southern (NSC – $265.84) announced a $10 billion share buyback program last week, and the stock skidded $17! The repurchase authorization began on April 1 and does not have an expiration date, so we hope management put some money to work on Friday, with worries about a freight recession hitting the transportation sector.

As the railroad biz ebbs and flows, NSC shares have been volatile lately, but the trajectory has been broadly positive. Analysts expect NSC to earn nearly $14 per share this year, a figure that is expected to grow to more than $17 by 2024. The NTM forward P/E ratio is in the 19x range, while longer-term expectations put the ratio in the 16x to 17x range.

We like the firm's extensive intermodal network in the East, which frequently includes automotive and industrial products in its manifests. The precision railroading story continues to drive the operating ratio lower, which should allow the company to effectively reduce its asset base and labor costs. The share buyback should boost EPS, while the yield is 1.9%. Our Target Price for NSC is $332.

Also hit hard in the transportation-stock selloff on Friday, **FedEx** (FDX – $221.25) announced last week that its founder and chairman Fred Smith would relinquish his seat as CEO to current COO Raj Subramaniam. A native of India, Mr. Subramaniam has held positions that include president of FedEx Express in Canada and chief marketing & communications officer throughout his 31 years with the shipping giant. The move was expected by many, given that Mr. Subramaniam had joined the board in 2020 and has taken a lead role on the company's quarterly conference calls with analysts for several quarters. Mr. Smith started FedEx nearly 50 years ago with 14 jets, growing from 186 packages delivered on the firm's first day to an average of over 18 million today.

Mr. Smith, who will stay on as the firm's executive chairman, stated in the firm's release, "FedEx has changed the world by connecting people and possibilities for the last 50 years. As we look toward what's next, I have a great sense of satisfaction that a leader of the caliber of Raj Subramaniam will take FedEx into a very successful future. In my role as Executive Chairman, I look forward to focusing on Board governance as well as issues of global importance, including sustainability, innovation, and public policy."

Mr. Submramaniam added, "Fred is a visionary leader and a legend of the business world. He founded one of the world's greatest and most admired companies, and it is my honor and privilege to step into this role and build upon what he has created. As we continue to transform as a company and reimagine what's next, we will keep our people-service-profit philosophy at our core. I am immensely proud of our 600,000 team members around the world. Together we've set into motion ideas that have changed the world for the better, and together we will unlock new value for our people, customers, and shareholders."

Like many global businesses, inflation of costs has weighed on bottom-line results in recent quarters. Nevertheless, the firm is expected to earn over $20 per share this fiscal year compared to the $15.52 in 2019 prior to the pandemic and more than $26 by fiscal 2025. Should FDX hit that $26+ mark, it will have navigated global trade headwinds and a tumultuous (at times) integration of Dutch courier TNT to nearly triple EPS over a decade, an impressive feat for a capital-intensive, macro-sensitive logistics company. A 14% slide in the share price over the past year makes them inexpensive with a forward P/E ratio of 10. 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. The dividend yield is 1.4% as our Target Price for FDX currently resides at $369.