Market Commentary Monday, April 11, 2022

April 11, 2022

EXECUTIVE SUMMARY

Newsletter Trades – Buy & Sells for Three Portfolios
Lousy Week – Bond & Stock Prices Retreat
Hawkish Fed – Brainard and FOMC Minutes Confirm Fed Balance Sheet Reduction Imminent
Taper Tantrum – It is Different This Time; But Equities Performed Well in 2013-2014
Fed Tightening, Rising Government Bond Yields & High Inflation – Not Unfavorable Historically for Stocks
More Fed Speak – Harker & Bullard See Economy as Very Healthy
Econ Stats – Strong Jobs Numbers & ISM NMI
Corporate Profits – Handsome Growth in ’21 and ’22 Remains the Projection
Recessions/Inversions & Stocks – Value Historically Has Performed Nicely
Sentiment – AAII Equity Market Buy Signal; Investors Bailing on Bonds
Stock News – Updates on GBX, AYI, CHNG, RCL & XOM

Market Review

As discussed on our March 31 *Sales Alert*, we closed out 79 and 127 shares of **McKesson** (MCK – $325.84) respectively held in Millennium Portfolio and PruFolio on Monday, April 4 at $305.44.

As discussed in the April edition of *The Prudent Speculator*, we bought the following for Buckingham Portfolio on Tuesday, April 5:

7 **Amgen** (AMGN – $252.02) at $246.70
11 **Alexandria Real Estate** (ARE – $202.89) at $205.185

We also added the following to our two hypothetical portfolios on April 5:

Millennium Portfolio
37 **Cisco Systems** (CSCO – $54.28) at $55.20
25 **Snap-on** (SNA – $208.40) at $208.16
41 **Tyson Foods** (TSN – $92.44) at $89.71

PruFolio

70 **Comerica** (CMA – $88.57) at $88.85
377 **Omnicom Group** (OMC – $77.91) at $82.08
339 **Synchrony Fin’l** (SYF – $36.64) at $35.48

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While the war in Ukraine continued to dominate the headlines,…

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%	23350%
Death of Stalin	3/5/1953	25.79	2%	-9%	3%	79%	61%	17303%
Creation of the Warsaw Pact	5/14/1955	37.44	12%	24%	25%	15%	48%	11888%
Sputnik & The Space Race	10/4/1957	42.79	-4%	-3%	18%	24%	33%	10389%
The U-2 Incident	5/1/1960	54.37	-5%	-1%	20%	29%	64%	8155%
Cuban Missile Crisis	10/16/1962	57.08	-16%	21%	28%	60%	67%	7763%
Soviet Invasion of Czechoslovakia	8/20/1968	98.96	9%	1%	-4%	-1%	3%	4435%
Soviet Invasion of Afghanistan	12/24/1979	107.66	5%	7%	26%	30%	55%	4069%
U.S. Moscow Olympics Boycott	3/21/1980	102.31	-7%	26%	31%	48%	75%	4287%
Downing of Korean Air Flight 007	9/1/1983	164.23	9%	-4%	1%	54%	57%	2633%
Soviet Los Angeles Olympics Boycott	7/28/1984	151.19	-8%	17%	27%	107%	126%	2869%
Chernobyl Disaster	4/26/1986	242.29	29%	-2%	16%	27%	56%	1752%
Fall of Communism in Eastern Europe	8/19/1989	346.03	17%	-4%	-5%	21%	34%	1197%
German Reunification	10/3/1990	311.40	-9%	22%	23%	48%	87%	1341%
Dissolution of the Soviet Union	12/26/1991	404.84	9%	0%	9%	14%	87%	1009%
Black Brant: Mistaken Nuclear War Scare	1/25/1995	467.44	3%	20%	32%	105%	202%	860%
Russo-Georgian War	8/7/2008	1,266.07	-5%	-31%	-20%	-5%	34%	255%
Putin Reelected	3/4/2012	1,369.63	17%	3%	11%	53%	74%	228%
Annexation of Crimea	3/21/2014	1,866.52	9%	8%	13%	26%	53%	140%
Skripal Poisoning & Diplomatic Expulsion	3/1/2018	2,473.92	0%	17%	13%	58%		81%
Price Changes Only - Does Not Include Dividends		**Averages:**	**4%**	**6%**	**14%**	**41%**	**70%**	**5200%**

As of 4.8.22. Source: Kovitz using Bloomberg, usrussiarelations.org, state.gov and Wikipedia

…it was another miserable week for bonds as the yield on the 10-Year U.S. Treasury jumped to a three-year high,…

THE PRUDENT SPECULATOR

TREASURY YIELDS SOAR TO A 3-YEAR HIGH

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 soared from 2.38% to 2.71% 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.

…on hawkish talk from Lael Brainard. The formerly dovish and very prominent Federal Reserve Board Governor said on Tuesday, "Currently, inflation is much too high and is subject to upside risks. It is of paramount importance to get inflation down…The Fed will continue tightening monetary policy methodically through a series of interest rate increases and by starting to reduce the balance sheet at a rapid pace as soon as our May meeting…Given that the recovery has been considerably stronger and faster than in the previous cycle, I expect the balance sheet to shrink considerably more rapidly than in the previous recovery, with significantly larger caps and a much shorter period to phase in the maximum caps compared with 2017–19."

Interestingly, Ms. Brainard's comments didn't really change expectations for the pace and number of hikes in the Fed Funds rate over the next year, as the week prior, the futures market was pricing in 8.7 additional 25-basis-point increases in the benchmark lending rate for 2022 versus 8.8 at present.

True, the Minutes from the March Federal Open Market Committee Meeting that were out on Wednesday echoed what Ms. Brainard said…and what the financial markets supposedly already were expecting:

Many participants noted that—with inflation well above the Committee's objective, inflationary risks to the upside, and the federal funds rate well below participants' estimates of its longer-run level—they would have preferred a 50 basis point increase in the target range for the federal funds rate at this meeting. A number of these participants indicated, however, that, in light of greater near-term uncertainty associated with Russia's invasion of Ukraine, they judged that a 25 basis point increase would be appropriate at this meeting. Many participants noted that one or more 50 basis point increases in the target range could be appropriate at future meetings, particularly if inflation pressures remained elevated or intensified. A number of participants noted that the Committee's previous communications had already contributed to a tightening of financial conditions, as evident in the notable increase in longer-term interest rates over recent months.

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

Perhaps the only surprise from the Minutes was in the size of the balance sheet reduction…

In their discussion, all participants agreed that elevated inflation and tight labor market conditions warranted commencement of balance sheet runoff at a coming meeting, with a faster pace of decline in securities holdings than over the 2017–19 period. Participants reaffirmed that the Federal Reserve's securities holdings should be reduced over time in a predictable manner primarily by adjusting the amounts reinvested of principal payments received from securities held in the SOMA. Principal payments received from securities held in the SOMA would be reinvested to the extent they exceeded monthly caps. Several participants remarked that they would be comfortable with relatively high monthly caps or no caps. Some other participants noted that monthly caps for Treasury securities should take into consideration potential risks to market functioning. Participants generally agreed that monthly caps of about $60 billion for Treasury securities and about $35 billion for agency MBS would likely be appropriate. Participants also generally agreed that the caps could be phased in over a period of three months or modestly longer if market conditions warrant.

…with equity prices joining bonds in the red for the week, even as stocks of the Value variety maintained their performance advantage this year and since Halloween.

THE PRUDENT SPECULATOR

"WE HAVE TO BE MORE DISCIPLINED THAN THE REST"- WARREN BUFFETT

November 2, 2021

the Prudent Speculator

Established in March 1977 - 20 Enterprise, Suite 308 - Aliso Viejo, California 92656 - 800.288.7786

Social media powerhouse Facebook on Oct. 28 announced plans to change its corporate name to Meta Platforms...which ignited a 26% after-hours gain that day in Meta Materials, a small Nova Scotian specialty chemicals company. Never mind that Meta Materials has nothing to do with Facebook, with the financial press quick to point out that folks were buying the wrong stock. Of course, that seemingly important fact did not slow interest in the Canadian company as the stock price jumped 6% in trading on Nov. 1 with more than 19 million shares changing hands.

Lest readers think this is a once in a lifetime occurrence, the Facebook disclosure led to a 30% three-day increase in assets in the Roundhill Ball Metaverse ETF, which had the good fortune of owning the META ticker symbol. Now to be fair, the Roundhill ETF boasts a 6% stake in Meta Platforms amongst its 43 holdings and Mark Zuckerberg and Co. have brought the word Metaverse into the public eye, but cases of mistaken identity happen more often that one might imagine. In fact, a research paper published in 2019 by Vadim Balashov and Andrei Nikiforov found 254 instances of companies that saw fluctuations in their stock price related to events at another company with a similar name or stock ticker.

Long-time followers of our publication will remember modem maker Zoom Telephonics, which thanks to its name and ZOOM ticker symbol skyrocketed not once (on Xoom.com confusion in 1999), not twice (on Zoom Video confusion in 2019), but three times (on ZoomInfo confusion in 2020). The company has since changed its name and ticker symbol, so there won't be a fourth resurrection of the essentially worthless shares...or so we think!

No doubt, some see the rise of the Meta doppelgangers as a red flag that the equity markets are too euphoric and due for a major correction. Of course, as the father of Value investing Benjamin Graham proclaimed years ago, "Most of the time common stocks are subject to irrational and excessive price fluctuations in both directions as the consequence of the ingrained tendency of most people to speculate or gamble... to give way to hope, fear and greed."

We would not be surprised to see the major market averages suffer a sizable setback, especially as 10% corrections occur every 11 months on average, but we believe that we are prudently investing in businesses that trade for reasonable, if not inexpensive, valuation metrics. To be sure, we are playing in an entirely different sandbox, with many market players more excited by "meme" stocks, SPACs and more than a few profitless companies.

> "In a free society, one does not have to deal with those who are irrational. One is free to avoid them."
>
> — Ayn Rand

Of course, given that one of our core tenets is to seek to avoid permanent impairment of investment capital, we sleep much better at night knowing that TPS Portfolio sports respective trailing and forward P/E ratios of 15.5 and 13.7, compared to 25.9 and 21.9 for the S&P 500. And we like that it also owns a price to sales ratio of 1.2 (vs. 3.1 for the S&P). Further, given low yields on fixed income and no yields on cash, we can't help but be excited by TPS Portfolio's dividend yield of 2.2% (vs. 1.3% for the S&P).

Anything can happen as we go forward, but vaccines and therapeutics are working in the COVID-19 battle, and supply-chain challenges are likely to sort themselves out. The outlook for U.S. and global GDP growth is robust as we head into 2022, with continued healthy corporate profit growth likely to boost the kind of stocks that we have long championed. And, contrary to popular belief, whether it is periods of rising interest rates, higher inflation rates, Fed Tapering, or increased capital gains, corporate or personal income taxes, equities have performed well, on average, with Value historically leading the way.

True, we have been a bit frustrated by disappointing market reactions to seemingly terrific Q3 earnings reports from a few of our companies, but we are patient, given our three-to-five-year time horizon. As Warren Buffett says, "If a business does well, the stock eventually follows."

Editor, Principal, Portfolio Manager
Kovitz

Celebrating more than 40 Years of Patience, Selection and Diversification

Total Returns Matrix

YTD	Since 10.31.21	Name	Symbol
-39.43	-68.30	Meta Materials Inc	MMAT Equity
-25.76	-26.44	Roundhill Ball Metaverse ETF	METV Equity
-32.94	-48.43	AMC Entertainment Holdings Inc	AMC Equity
-1.48	-20.34	GameStop Corp	GME Equity
-36.71	-67.86	Robinhood Markets Inc	HOOD Equity
-23.39	-31.71	VanEck Social Sentiment ETF	BUZZ Equity
-35.88	-49.57	ARK Innovation ETF	ARKK Equity
MARKET OF STOCKS			
-3.94	-2.18	Dow Jones Industrial Average TR	DJITR Index
-2.15	-0.90	New York Stock Exchange Composite Index	NYA Index
-16.14	-19.88	Russell 2000 Total Return Growth Index	RU20GRTR Index
-5.60	-5.10	Russell 2000 Total Return Value Index	RU20VATR Index
-10.88	-12.69	Russell 2000 Total Return Index	RU20INTR Index
-15.01	-18.32	Russell Midcap Growth Index Total Return	RUMCGRTR Index
-2.30	0.68	Russell Midcap Value Index Total Return	RUMCVATR Index
-6.86	-6.43	Russell Midcap Index Total Return	RUMCINTR Index
-11.88	-9.86	Russell 3000 Total Return Growth Index	RU30GRTR Index
-0.47	1.95	Russell 3000 Total Return Value Index	RU30VATR Index
-6.49	-4.29	Russell 3000 Total Return Index	RU30INTR Index
-3.18	0.21	S&P 500 Equal Weighted USD Total Return In	SPXEWTR Index
-5.46	-1.90	S&P 500 Total Return Index	SPXT Index
BONDS			
-8.35	-8.75	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index
-7.89	-7.86	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index

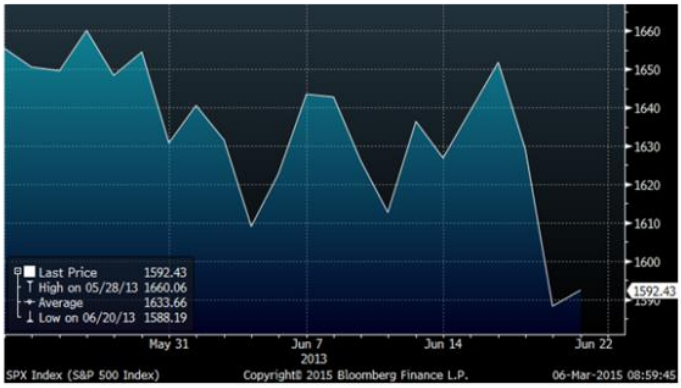
As of 04.08.22. Source: Kovitz using data from Bloomberg.

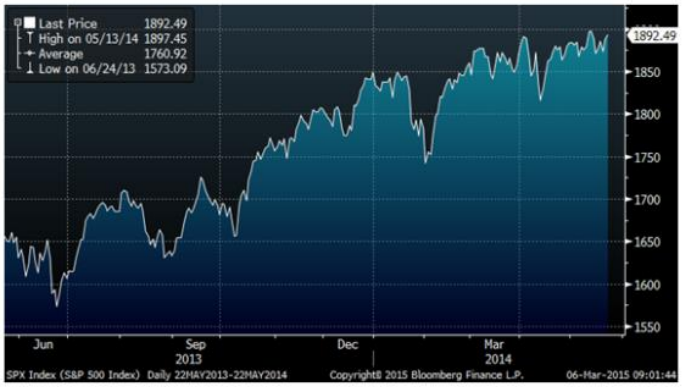
Of course, it should not be big shock that talk of reducing the size of the Fed's balance sheet would lead to equity market volatility,…

THE PRUDENT SPECULATOR

2013 "TAPER TANTRUM" WARNING

On May 22, 2013, Ben Bernanke hinted that the Federal Reserve would soon begin to taper it's $85 billion per month in purchases of bonds and mortgage-backed securities. One month later, the S&P 500 had dropped 3.8%.





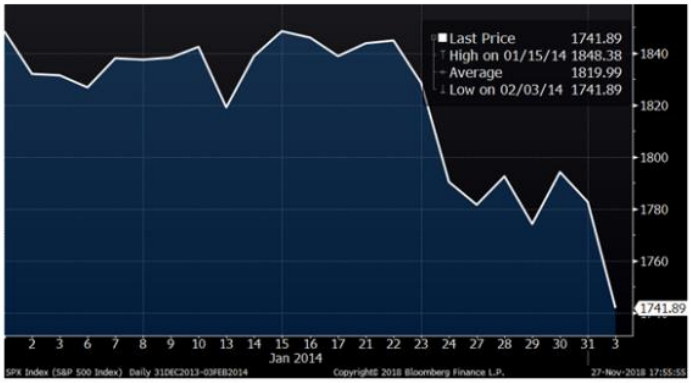
Yet, one year later, the S&P 500 had recouped those losses and then some, rising 14.3% from May 21, 2013, to May 22, 2014, even though Janet Yellen's Fed actually started to taper by $10 billion per month in January 2014.

…and we won't be surprised to see a continuation of the turbulence once the reduction actually begins,…

THE PRUDENT SPECULATOR

2014 "TAPER TANTRUM" REALITY

In January 2014, the Federal Reserve reduced by $10 billion to $75 billion its monthly additions to its holdings of mortgage-backed and longer-term Treasury securities. This "tapering" coincided with a 5.8% five-week dip in the S&P.



Yet, by the end of the year, the S&P 500 had recouped those losses and then some, rising 11.4% for the full-year 2014, even though Janet Yellen's Fed actually "tapered" those bond additions all the way to zero by October 2014.

…but we would love to see a repeat for the stock market performance of 2013-2014 in the wake of the so-called Taper Tantrum!

THE PRUDENT SPECULATOR

TAPER TANTRUM: LONG-TERM TREASURIES, YES, BUT STOCKS, NOT SO MUCH

With folks trying to figure out when the Federal Reserve might become less accommodative, pundits have been offering reminders like, "In 2013, the Fed's previous taper announcement drove markets into a tantrum and led long-term debt to sell off." Memories become fuzzy with time and the yield on the 10-Year U.S. Treasury did soar from 1.63% on 5.22.13 to 3.02% on 12.31.13, due to fears about Fed tightening, but stocks performed very well in 2013 and 2014, even as the actual tapering of bond purchases began in January 2014. Indeed, **the Russell 3000 Value index returned 50%** and had only two downturns of 5% or greater during the period, just a third of the three-per-year average.

We also note that history favors Value Stocks when the Fed is less accommodative,…

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%**

…and the evidence shows that equities have performed well, on average, even when interest rates are moving higher,…

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.

…with the same said, again on average, for high inflation environments.

THE PRUDENT SPECULATOR

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. B9

◆ 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 in 2020 when Britons were

Inflation Hits Fastest Clip Since '82

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

By Gwynn 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 is: 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

Please turn to page A12

◆ 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 Shalom 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.

To be sure, the worry on Wall Street these days is that Fed Tightening will lead to an economic recession. However, this is not the view of Philadelphia Federal Reserve Bank President Patrick Harker who said on Wednesday, "The Fed wants to act in a way that isn't so aggressive that we risk putting the economy in recession…People still need jobs. People still need a good economy. The good news is that the economy is very healthy as the Fed starts the process of moving away from its easy money policy stance."

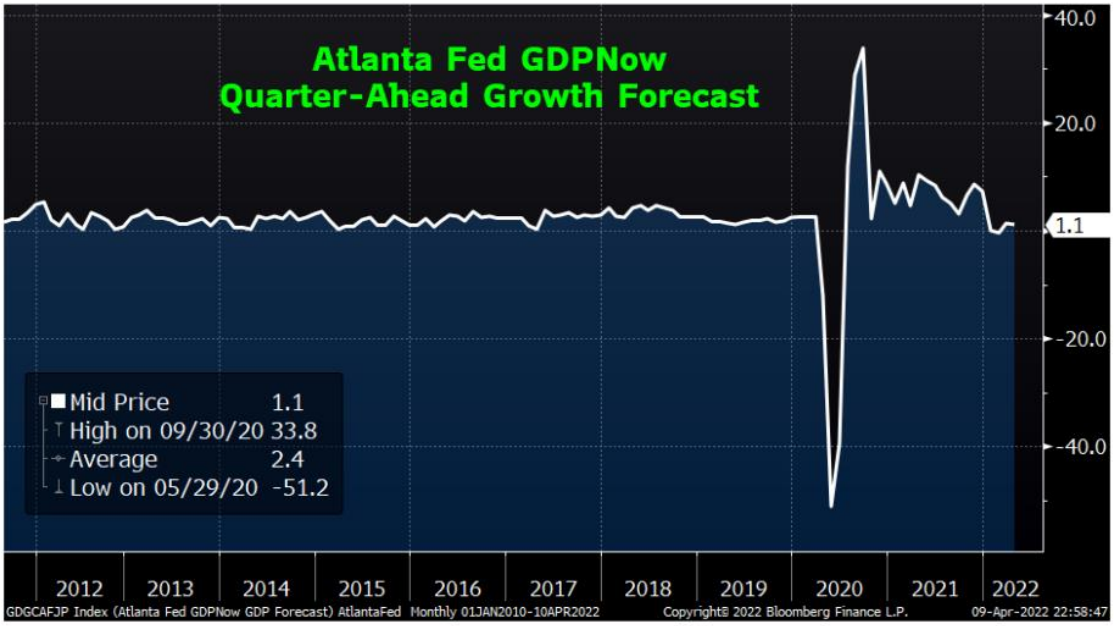
St. Louis Federal Reserve President James Bullard, who is advocating for a faster pace of hikes in the Fed Funds rate, agreed with Mr. Harker, "Even if you raise the policy rate substantially in the coming meetings, you'll still be below this neutral level. So that's why I've been puzzled by a lot of chatter about we're going to cause a recession or something…The U.S. expansion is not 'old' and can continue for a long time. Real GDP will continue to grow at a slower but still robust 2.8% in 2022, despite a relatively weak first-quarter reading due to the omicron variant and the Russia-Ukraine war…Labor markets are robust and are likely to improve further in 2022."

Obviously, economic forecasting is fraught with peril and the Fed is hardly infallible, while we realize that Q1 GDP growth is likely to be subpar,…

THE PRUDENT SPECULATOR

MODEST DIP 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 1.1%.



…but a recession does not appear to be in the cards with such a strong labor market,…

THE PRUDENT SPECULATOR

JOBLESS FILINGS AND CONTINUING CLAIMS AT 50+ YEAR LOWS

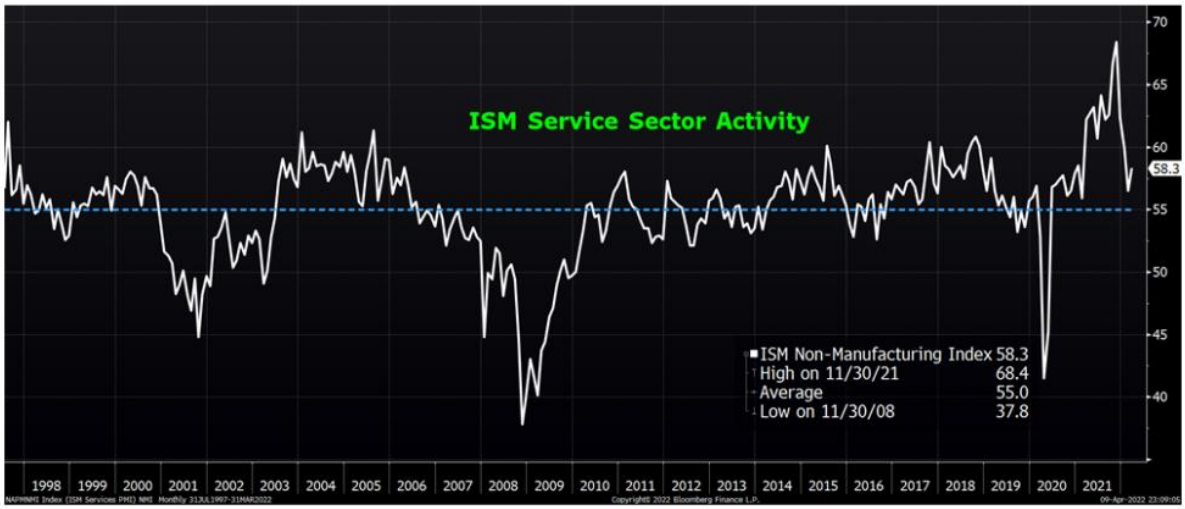
Coming in at the lowest lowest level since 1969 when the work force was much smaller, new filings for unemployment benefits for the period ended April 2 were a seasonally adjusted 166,000, down from revised 171,000 the week prior. Continuing claims filed through state programs edged up to 1.52 million, near the lowest level since the 1970s as businesses continue to hold onto workers with labor so difficult to obtain.

…and the latest read on the health of the all-important services sector suggesting 3.0% annualized GDP growth,…

THE PRUDENT SPECULATOR

ISM NON-MANUFACTURING GAINS: 3.0% ANNUALIZED GDP GROWTH

Despite soaring inflation and supply chain issues, the latest read on the health of the service sector rebounded to 58.3 in March. The figure was in line with expectations and well above average, suggesting a very healthy non-manufacturing economy. The Institute for Supply Management stated, "The past relationship between the Services PMI and the overall economy...corresponds to a 3.0% increase in real gross domestic product (GDP) on an annualized basis."



…with the outlook for corporate profit growth remaining robust.

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

*****

Obviously, anything can happen, and conditions can change very quickly, but we urge long-term-oriented investors to ignore the wild proclamations of the financial press,…

THE PRUDENT SPECULATOR

LOVE THE MEDIA – TRANSPORTS: GOOD SIGN OR SCARY SMOKE SIGNAL?

March 29, 2022

Transportation stocks have been zipping higher, a sign of optimism about the economy's strength that could fuel a broader market rally.

Transport Stocks Flash Good Sign

By Karen Langley

Transportation stocks have been zipping higher, a sign of optimism about the economy's strength that could fuel a broader market rally.

Companies that operate trains, planes, boats and trucks tend to see their prospects brighten when a growing economy boosts demand for goods, materials and travel. For that reason, some investors look to the performance of transportation shares as an indicator that a robust commercial environment will underpin gains across industries.

This month, the Dow Jones Transportation Average, which tracks 20 large U.S. companies ranging from United Parcel Service Inc. to Union Pacific Corp., has jumped ahead of other market gauges. The transportation average has advanced 8% in March, compared with a 3.1% gain for the Dow Jones Industrial Average and a 4.6% rise for the S&P 500.

The rally is a promising signal for investors worried how the U.S. economy will fare as the Federal Reserve begins raising interest rates to combat inflation.

"It suggests that perhaps the U.S. economy is more resilient or on firmer footing than some people would give it credit for," said Michael Arone, chief investment strategist at State Street Global Advisors.

Fed Chairman Jerome Powell has said the central bank is prepared to raise interest rates high enough to slow the economy if it determines that is needed to bring down inflation. Some analysts have pointed to the converging of yields on shorter-term and longer-term U.S. government bonds as a concerning sign that the bond market is close to predicting a recession.

Transportation stocks' recent leg higher has helped the group recoup its year-to-date

Please turn to page B10

Marttime shipper Matson, whose stock is up 35% this year, is among the sector leaders.

Source: FactSet

April 5, 2022

Transportation shares…are the worst performers in the U.S. in the past week amid growing concern that aggressive interest rate hikes by the Federal Reserve and surging inflation will curb consumer spending.

Gloom in Transports Sends a Scary Smoke Signal for U.S. Stocks

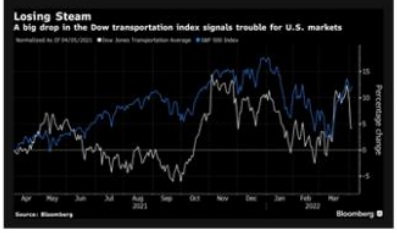
Monday, April 4, 2022 01:13 PM
By Esha Dey

- Dow Jones Transporation Index has slumped 7.3% in four days
- 'Another nail in the market's possible coffin,' CFRA says

(Bloomberg) -- The latest warning sign for U.S. stocks is emerging from a corner of the market that investors closely watch to get a read on the state of the economy and the health of American consumers.

Transportation shares, especially trucking and railroad stocks, make up the worst-performing group in the U.S. in the past week amid growing concern that aggressive interest rate hikes by the Federal Reserve and surging inflation will curb consumer spending. As a result, companies responsible for moving and delivering goods may see demand drop at a time when soaring oil prices squeeze margins.

The Dow Jones Transportation Average, whose gains from the depth of the pandemic outpaced those of the broader market, has plunged 7.3% since March 29 compared with a 1.1% decline in the S&P 500 Index. The transportation gauge posted its biggest four-day drop since Dec. 1.



…and remember that stocks have performed admirably, on average, before and after the start of the previous 15 recessions,…

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

…while even the supposedly dreaded yield-curve inversion recently witnessed could be viewed as a buy signal for equities over the next 12 months.

THE PRUDENT SPECULATOR

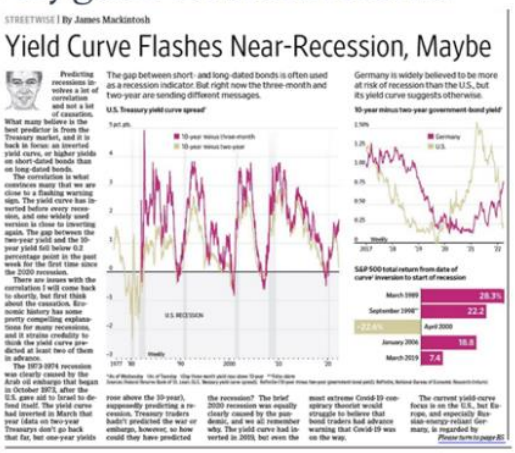
YIELD CURVE INVERSION…HAS BEEN GOOD FOR STOCKS

With the 2.70% yield on the 10-Year U.S. Treasury now 18 basis points above the yield on the 2-Year, we wonder if the financial press will remember that not all inversions lead to a recession and if they will note that such an event historically has been very good for stock returns.

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%	13815%
9/12/1980	1.8%	53.9%	86.8%	290.6%	10265%
1/14/1982	34.4%	71.2%	184.6%	440.2%	10425%
12/13/1988	32.1%	54.1%	97.7%	452.3%	3189%
3/8/1990	14.2%	47.1%	65.3%	411.5%	2460%
6/9/1998	19.6%	17.5%	-6.4%	43.3%	526%
2/2/2000	-3.1%	-36.7%	-8.6%	-6.2%	386%
1/31/2006	14.5%	-31.3%	11.7%	87.4%	387%
8/23/2019	21.6%				65%
S&P Total Return	**16.0%**	**27.7%**	**66.8%**	**251.8%**	**4613%**

As of 4.8.22. Source: Kovitz using data from Bloomberg and the St. Louis Federal Reserve


STREETWISE | By James Mackintosh

Yield Curve Flashes Near-Recession, Maybe

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

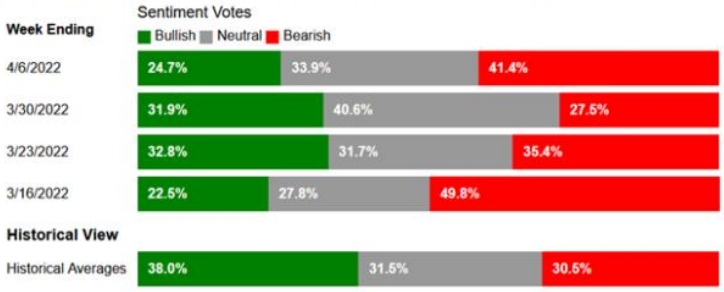
And, speaking of buy signals, the good folks at the American Association of Individual Investors are not feeling very optimistic about stocks these days, which has often coincided with strong equity market gains.

THE PRUDENT SPECULATOR

AAII CONTRARIAN BUY SIGNAL: BULL-BEAR SPREAD = -16.7

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 = 7.76											
BELOW	-54.0	7.8	904	0.27%	0.23%	1.24%	1.10%	3.60%	3.22%	6.96%	6.21%
ABOVE	7.8	62.9	904	0.16%	0.15%	0.52%	0.43%	1.96%	1.70%	4.77%	4.29%
Ten Groupings of 1805 Data Points											
1	-54.0	-15.5	181	0.55%	0.49%	2.13%	1.90%	5.64%	5.11%	10.19%	8.99%
2	-15.5	-7.7	181	0.31%	0.28%	1.01%	0.88%	3.75%	3.37%	6.98%	6.20%
3	-7.5	-1.6	181	0.30%	0.27%	1.42%	1.32%	3.28%	2.89%	7.06%	6.42%
4	-1.6	3.0	191	0.11%	0.08%	1.04%	0.95%	2.92%	2.56%	6.41%	5.90%
5	3.0	7.8	170	0.04%	0.02%	0.55%	0.44%	2.39%	2.14%	4.03%	3.49%
6	7.8	12.0	186	0.09%	0.07%	0.50%	0.39%	1.77%	1.53%	5.43%	5.06%
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 04.07.22. 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 24.7% and the number of Bears rising to 41.4% is a major positive. The minus 16.7% Bull-Bear spread is in the very favorable (i.e. highest future returns) 1st decile of the weekly figures going back to 1987.

We might also think that the recent exodus out of fixed income exchange traded and mutual funds could provide equity market fuel,…

THE PRUDENT SPECULATOR

BOND MARKET LOVE AFFAIR ENDING???

Combined Estimated Long-Term Fund Flows and ETF Net Issuance
Millions of dollars

Week Ended	3/30/2022	3/23/2022	3/16/2022	3/9/2022	3/2/2022
Total Equity	12,830	5,069	14,950	13,176	-1,040
Domestic	11,740	2,325	15,531	12,465	-2,672
World	1,090	2,744	-582	710	1,631
Hybrid	-1,527	-610	-2,291	-1,019	-2,734
Total Bond	-2,526	-1,520	-11,123	-11,718	-13,151
Taxable	1,183	973	-7,947	-10,078	-9,741
Municipal	-3,709	-2,492	-3,176	-1,641	-3,410
Commodities	1,035	1,861	1,597	3,592	2,817
Total	9,812	4,800	3,132	4,030	-14,109

Source: Investment Company Institute

Investment Company Institute
Long-Term Mutual Fund and Exchange-Traded Fund (ETF) Flows
Millions, U.S. dollars

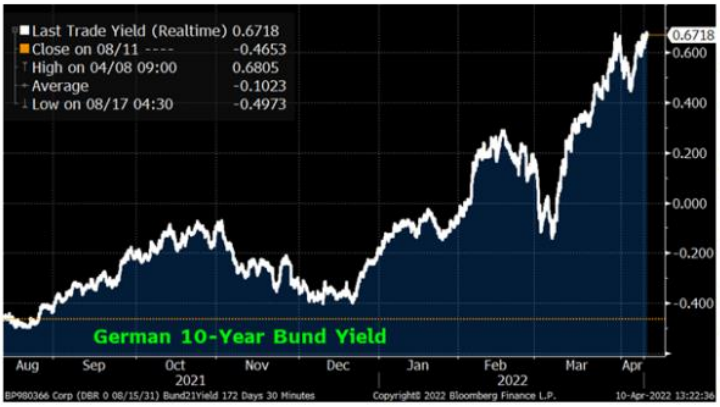
Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total
Jan-15	-14,465	17,535	Nov-16	22,993	-13,289	Sep-18	886	18,526	Jul-20	-46,524	98,490
Feb-15	5,547	30,321	Dec-16	18,859	-4,142	Oct-18	-9,657	-27,700	Aug-20	-57,594	84,113
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 March, 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.

…as "conservative" investors realize that they had in some instances embraced reward-free risk.

THE PRUDENT SPECULATOR

REWARD FREE RISK – GERMAN BUNDS



On 8.11.21, Germany issued €5 billion of 10-year bonds with a coupon of 0% in a deal that attracted plenty of "interest" at a price of €104.56. That is not a typo! In order to receive €100 back in 10 years and NO interest along the way, "investors" gladly paid €104.56, locking in a sizable loss if held to maturity. Hoping to lose roughly 0.46% per annum, they must be thrilled with the 22 times expected annual return (the bonds have lost more than 10%) over the past eight months!

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.

Railcar maker **Greenbrier Cos** (GBX – $44.07) earned $0.38 per share in fiscal Q2 that ended February 28, a seemingly impressive result nearly double the consensus analyst estimate. However, a look under the hood reveals that nearly all profit from the period came from the leasing division, boosted by a gain on sale of assets. We appreciate the firm's ability to generate value of this sort from time to time, but these windfalls tend to be irregular, while a near-halving of gross margins (vs. the comparable quarter a year ago) for the railcar manufacturing segment stood out as a negative. New orders picked up compared to Q1, pushing the backlog to 32,100 units valued at $3.6 billion. Despite a strong March, the stock has fully given up gains following a series of down days since the release.

Now Chairman, Bill Furman stated, "While the war creates challenges for everybody in the near-term, it also provides opportunities for major shifts in freight corridors and transportation roads that will enhance Greenbrier's business as the world enters a reordered state. History demonstrates the integral role of railroads to support civilian life and economies and a heightened manner during war time. The current war in Europe has created direct pressure on the availability and cost of commodities ranging from minerals to food, to fertilizer, to crude oil as well as coal and natural gas. Railroads and railway suppliers will help meet the challenge of keeping civilian life and economies functioning during the crisis."

Mr. Furman added, "The commodity markets are traditionally leading indicators for expansion in rail freight. Most commodities shipped by rail are experiencing upward pricing pressure from demand constraints due to either sanctions on Russia or reduced production from Russia and in the Ukraine. We expect rising global commodity prices and shifting trade patterns to elevate railcar demand in North America and Brazil and elsewhere in the world. As more freight ships to rail, in many cases, this will induce longer railcar dwell tough-times and lowered railroad velocity. In turn, railroad congestion causes the need for more railcars to make railroad service more efficient, notwithstanding the increase in demand we expect in major commodities like fertilizer, food [stuffs] and other products."

We have acknowledged in previous remarks the energy efficient nature of rail relative to trucks regarding the transport of freight. And we think a shortage of drivers, elevated fuel expense and rising wages ought to swing the pendulum in favor of rail for the foreseeable future. Nevertheless, we are mindful that costs will likely continue to negatively impact Greenbrier's manufacturing and service margins, but higher volume ought to offset the negatives somewhat, and we expect management to lean more into building out its leasing division as it complements the other segments. Noting that shares are notoriously cyclical, our Target Price is $56 as earnings are still expected to improve significantly into 2023.

Shares of **Acuity Brands** (AYI – $168.70) plunged over 11% last week following the release of Q1 financial results. The maker and distributor of lighting products earned $2.57 per share on $909 million of sales, 13% and 17% respective improvements over the year-ago quarter, while the bottom line also beat the consensus analyst target of $2.38. Nevertheless, the erosion of gross margin as a percentage of sales was the story of the day, despite the company's efforts to raise prices multiple times over recent quarters. And management cited on multiple occasions the challenges, including costs and long lead times, associated with sourcing components even as demand appears strong.

CEO Neil Ashe stated, "The current environment has reminded us all that it really matters who you do business with. Because we are the largest lighting company, we have certain advantages over our direct competitors. But those same components are also used by larger industries. Consequently, we are making investments in people, time and resources. We have recruited a new Head of Strategic sourcing for ABL. We are working with our key suppliers on effective planning and allocation management, and we are investing in inventory."

He added, "Our investments in service have allowed us to prioritize delivering for our customers when others have been unable to. At the same time, our investments in product vitality have

allowed us to continue to create compelling new products that are both innovative and market moving. By empowering our teams to prioritize access and speed over cost on available components, we have been able to ensure continuity of supply across many of our existing product lines while also supporting our ongoing product vitality efforts across our product portfolio. Finally, as I said last quarter, our engineering teams continue their herculean efforts to redesign products to the available components. At the same time, these teams have also managed to introduce around 220 new or significantly upgraded Lighting and Lighting Control products over the last 2 years. We expect the challenges around access to and cost of components to continue into the foreseeable future."

Management also continues to prioritize growth of the business in its capital allocation framework, followed by maintaining the dividend and the opportunistic repurchase of shares. We think Acuity is sufficiently capitalized to weather the obstacles facing most businesses today and we are patient to realize the multiple channels for growth on the horizon. After the latest whack, shares trade for just 14.5 times the 2022 EPS estimate. Our Target Price for AYI has been trimmed to $250.

Technology-focused health concern **Change Healthcare** (CHNG – $23.76) rose after the company announced that its deal with Optum was extended to the end of 2022. A joint statement distributed via press release said, "The extended agreement reflects our firm belief in the potential of our combination to improve health care, and in our commitment to contesting the meritless legal challenge to this merger. Change Healthcare and Optum share a vision for achieving a simpler, more intelligent and adaptive health system for patients, payers and providers. The combination of Optum and Change Healthcare will connect and simplify the core clinical, administrative and payment processes health care providers and payers depend on to serve patients. Increasing efficiency and reducing friction will benefit the entire health system, resulting in lower costs and a better experience for all stakeholders. Change Healthcare and Optum will detail the benefits of this combination at a two-week trial scheduled to begin on August 1. The U.S. Department of Justice's attempt to block the combination is without merit and serves only to delay improving the experience and outcomes for all participants in the health system."

In addition, Optum will now pay a $650 million breakup fee if the court blocks the merger. As a result, CHNG will pay a special $2.00 cash dividend around the time of closing. Court rulings are inherently unpredictable, but we think that's a lot of money for Optum to fork over if the deal isn't allowed to close. Happily, CHNG shareholders are the benefactors of this deal and either get a solid merger or a lot of cash for the pain and suffering. We like the long-term prospects of CHNG on a stand-alone basis, and believe that the stock may actually revalue much higher in time should the merger be scuttled. We appreciate that the services Change provides are essential in today's health care market, allowing providers to navigate the complexity of insurance reimbursement, ensuring accurate and timely payment while enhancing daily workflows. Our Target Price for CHNG remains $27.

One of our old friends, Carnival Cruises, reported that it had its best booking weekend ever, sending shares of **Royal Caribbean** (RCL – $77.86) temporarily higher early last week. In addition, RCL celebrated the keel laying for Icon of the Seas in Finland and retired COVID-

related policies like compulsory mask-wearing. Cruisers were among the hardest hit during the pandemic, as the boats became petri dishes for disease and travelers feared being stuck at sea for weeks if governments refused port entry, as happened to RCL, Holland America, MSC and others.

Happily, the outlook is more positive for RCL and while the first two quarters of 2022 are projected to show red ink, future quarters are all expected to be positive, with analysts expecting the company to earn $5.23 in FY2023 and $8.40 in FY2024. RCL's dividend remains suspended, and the balance sheet is much weaker than it once was, given all of the debt issuance during the pandemic, so we are keeping a watchful eye on our shares. Yes, we think the bottom line will improve considerably as things return to normal and we believe that the populous will value experiences well into the future, with cruising a compelling value for many, but we are concerned about debt-service costs impacting EPS. Plenty to think about regarding our long-time interest in Royal Caribbean, but for now our Target Price is $98.

Exxon Mobil (XOM – $86.84) offered a glimpse last week into its Q1 2022 results that by most counts reveal another successful reporting period as global energy price benchmarks have surged. Considering various impacts from seasonality and certain fluctuating market factors, the integrated oil and gas titan appears on course to clear over $9 billion of profit, supported by a strong Upstream segment even as the Downstream and Chemicals divisions are likely to have waned a bit. The company also noted that it would face an impairment of roughly $4 billion from its write-down of a development in Russia's Far East.

The success has drawn the attention of U.S. politicians, who have been quick to accuse Exxon and its competitors of "profiteering off the crisis in Ukraine." In addition, calls to reinvest profits into boosting fossil fuel supply are mounting at the expense of returning capital to shareholders.

While we acknowledge the burden faced by industry and consumers alike from higher commodity prices amidst the lingering supply crunch, recent [more modest] years for most fossil-fuel-related businesses remind that the effects of decisions regarding capital investment are often measured in several years. As such, it would be difficult for us to fault the managements of Exxon and its peers for maintaining their conservative stance toward production, despite the recent supply gaps in the macro economy. Meantime, we appreciate our exposure during an otherwise fickle period for markets. We continue to like XOM's competitive position with very high-quality assets in the Permian Basis and offshore Guyana. The dividend yield remains a robust 4.1% as our Target Price has been bumped up to $110.