Market Commentary Monday, April 18, 2022

April 17, 2022

EXECUTIVE SUMMARY

Newsletter Trades – Sells for Three Portfolios
Down Week – Bond & Stock Prices Retreat
Rising Rates – Bad for Long-Term Bonds
CPI – Inflation & Equity Returns
Econ Stats – Retail Sales Disappoint; Manufacturing Numbers Impress
Recessions/Inversions & Stocks – Value Historically Has Performed Nicely
Corporate Profits – Handsome Growth in ’21 and ’22 Remains the Projection
Sentiment – Major AAII Equity Market Buy Signal
Stock News – Updates on JPM, GS, MS, C, PNC, BLK & DAL

Market Review

As discussed on our April 8 *Sales Alert*, we sold 215 shares of **AT&T** (T – $19.54) at $19.675 for Buckingham Portfolio on Tuesday, April 12. That day, we also sold the 52 shares of **Warner Brother Discover** (WBD – $24.18) at $24.15 that were received via spin-off a few days earlier.

We will use those sale prices to close out the 488 and 485 T shares respectively held in our hypothetical portfolios, Millennium and PruFolio, as well as the 118 WBD shares held in the former and 117 WBD shares held in the latter.

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It was more of the same for the holiday-shortened trading week, with the war in Ukraine continuing to dominate the headlines,…

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 all disconcerting events.

Event	Reaction Dates		S&P Start Value	S&P End Value	Event Gain/Loss	12 Months Later	36 Months Later	60 Months Later	Event End thru Present
Pearl Harbor	12/6/1941	12/10/1941	9.32	8.68	-7%	8%	51%	76%	50506%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	29184%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	26219%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	10209%
Suez Canal Crisis	10/30/1956	10/31/1956	46.37	45.58	-2%	-10%	26%	51%	9537%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	11169%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	8112%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	6210%
MLK Assassination	4/3/1968	4/5/1968	93.47	93.29	0%	8%	8%	16%	4609%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	5723%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	4666%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	6176%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	4075%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	4372%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	3577%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	2613%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	1695%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	1854%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	1289%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	1067%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	967%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	891%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	861%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	769%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	401%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	358%
Clinton Impeachment	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	257%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	227%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	355%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	379%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	302%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	267%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	549%
Price Changes Only - Does Not Include Dividends				**Averages:**	**-7%**	**18%**	**39%**	**66%**	**6044%**

As of 4.14.22. Source: Kovitz using Bloomberg and Ned Davis Research Events & Reaction Dates

…the yield on the 10-Year U.S. Treasury climbing to a new three-year high,…

…and Value stocks, despite losing ground over the four days, adding to their performance advantage over Growth stocks 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 305 · Aliso Viejo, California 92656 · 800.258.7786

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.

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

— Ayn Rand

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.

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!"

John Buckingham

Editor, Principal, Portfolio Manager
Kovitz

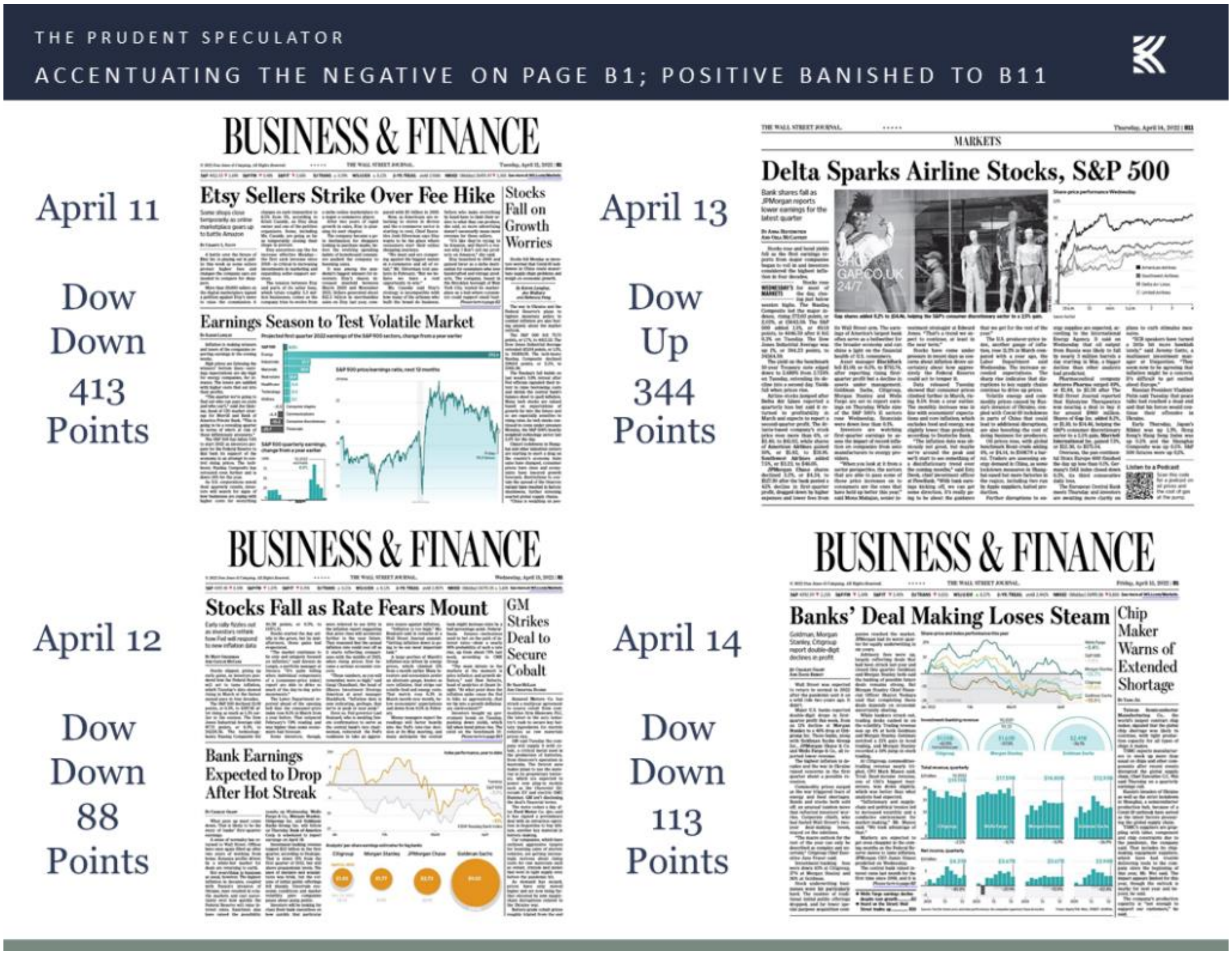
Celebrating more than 40 Years of Patience, Selection and Diversification

Total Returns Matrix

YTD	Since 10.31.21	Name	Symbol
-39.43	-68.30	Meta Materials Inc	MMAT Equity
-28.52	-29.18	Roundhill Ball Metaverse ETF	METV Equity
-33.75	-49.05	AMC Entertainment Holdings Inc	AMC Equity
1.60	-17.84	GameStop Corp	GME Equity
-35.92	-67.46	Robinhood Markets Inc	HOOD Equity
-24.88	-33.04	VanEck Social Sentiment ETF	BUZZ Equity
-37.64	-50.95	ARK Innovation ETF	ARKK Equity
MARKET OF STOCKS			
-4.68	-2.94	Dow Jones Industrial Average TR	DJITR Index
-3.15	-1.90	New York Stock Exchange Composite Index	NYA Index
-16.29	-20.02	Russell 2000 Total Return Growth Index	RU20GRTR Index
-4.49	-3.99	Russell 2000 Total Return Value Index	RU20VATR Index
-10.41	-12.22	Russell 2000 Total Return Index	RU20INTR Index
-16.03	-19.30	Russell Midcap Growth Index Total Return	RUMCGRTR Index
-2.49	0.48	Russell Midcap Value Index Total Return	RUMCVATR Index
-7.34	-6.92	Russell Midcap Index Total Return	RUMCINTR Index
-14.24	-12.27	Russell 3000 Total Return Growth Index	RU30GRTR Index
-1.32	1.07	Russell 3000 Total Return Value Index	RU30VATR Index
-8.14	-5.98	Russell 3000 Total Return Index	RU30INTR Index
-3.97	-0.61	S&P 500 Equal Weighted USD Total Return In	SPXEWTR Index
-7.45	-3.97	S&P 500 Total Return Index	SPXT Index
BONDS			
-9.20	-9.59	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index
-8.54	-8.50	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index

As of 04.14.22. Source: Kovitz using data from Bloomberg.

Of course, the financial press did its part to highlight the supposed negatives, while glossing over the positives,…



…with many suggesting that higher interest rates should make bonds more appealing, despite the recent exodus out of fixed income funds and ETFs,…

THE PRUDENT SPECULATOR

BOND MARKET LOVE AFFAIR ENDING???

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

Week Ended	4/6/2022	3/30/2022	3/23/2022	3/16/2022	3/9/2022
Total Equity	1,133	12,253	5,069	14,950	13,176
Domestic	-7,636	11,163	2,325	15,531	12,465
World	8,769	1,090	2,744	-582	710
Hybrid	-1,118	-1,527	-610	-2,291	-1,019
Total Bond	-3,996	-2,526	-1,530	-11,123	-11,718
Taxable	638	1,183	969	-7,947	-10,078
Municipal	-4,634	-3,709	-2,499	-3,176	-1,641
Commodities	575	1,035	1,861	1,597	3,592
Total	-3,406	9,235	4,789	3,132	4,030

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	-1,128	-20,351
Aug-16	-9,956	30,859	Jun-18	-21,004	16,995	Apr-20	2,664	14,672	Feb-22	39,616	-23,947
Sep-16	-5,713	24,669	Jul-18	1,007	22,495	May-20	-20,929	73,166	Mar-22	41,484	-26,897
Oct-16	-23,109	13,855	Aug-18	-6,660	17,219	Jun-20	-24,819	100,103	Totals:	-607,632	2,083,651

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.

…and historical evidence that, on average, shows something far different.

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.

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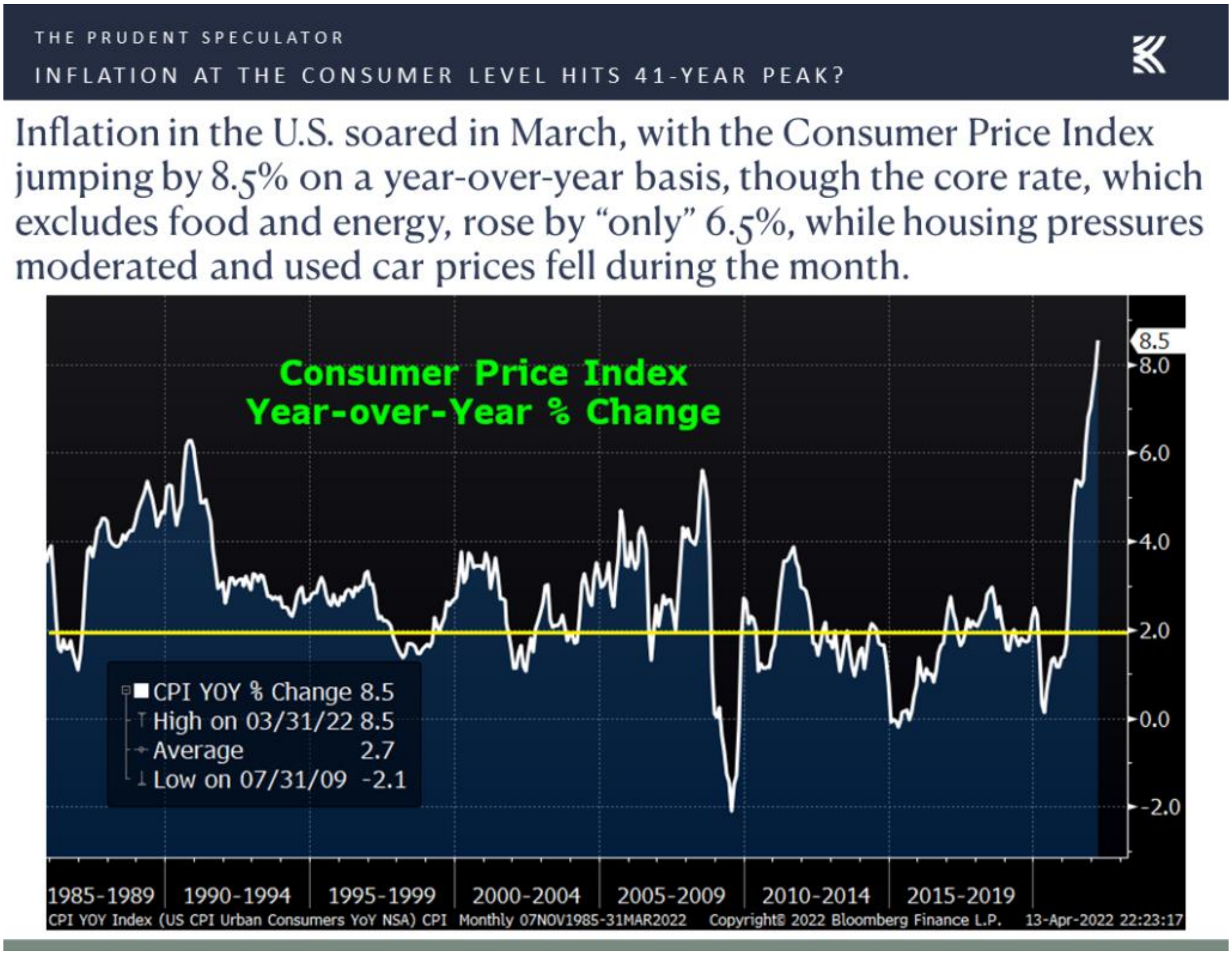
That is not to suggest that the worries that are front and center these days should be ignored, but we continue to like what Vannever Bush said, “Fear cannot be banished, but it can be calm and without panic; it can be mitigated by reason and evaluation.”

Indeed, the big news last week was the Consumer Price Index jumping by 8.5% in March, the highest increase since 1981,…



…but equity returns over the ensuing 12 months when inflation is high have been sensational on average,…

THE PRUDENT SPECULATOR

EQUITY RETURNS AND 8%+ INFLATION – VALUE STOCKS THE PLACE TO BE

Inflation Rate >= 8.0% 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	4.2%	2.4%	10.4%	6.0%	25.2%	15.1%
Geometric Average	3.6%	1.8%	8.9%	4.6%	22.3%	12.8%
Median	3.9%	1.7%	6.8%	4.7%	17.8%	12.8%
Max	50.6%	33.2%	82.1%	61.2%	133.3%	64.2%
Min	-19.2%	-27.8%	-26.3%	-36.0%	-20.9%	-30.8%
Count	110	110	110	110	110	110

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

Inflation Rate <8.0% 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	4.2%	3.1%	8.1%	6.2%	16.4%	12.4%
Geometric Average	3.1%	2.5%	6.1%	4.8%	12.2%	9.5%
Median	4.0%	3.5%	8.0%	6.3%	16.5%	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	1022	1022	1019	1019	1013	1013

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

Inflation Rate >= 8.0% 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	4.1%	2.9%	8.9%	6.4%	22.5%	17.0%
Geometric Average	3.6%	2.2%	7.8%	4.6%	21.3%	14.4%
Median	4.7%	2.7%	6.9%	6.4%	22.0%	21.1%
Max	39.8%	33.2%	63.2%	61.2%	60.2%	63.4%
Min	-16.4%	-27.8%	-26.3%	-36.0%	-20.9%	-30.8%
Count	63	63	63	63	63	63

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

Inflation Rate < 8.0% and Ensuing Value/Growth Returns Since 1957

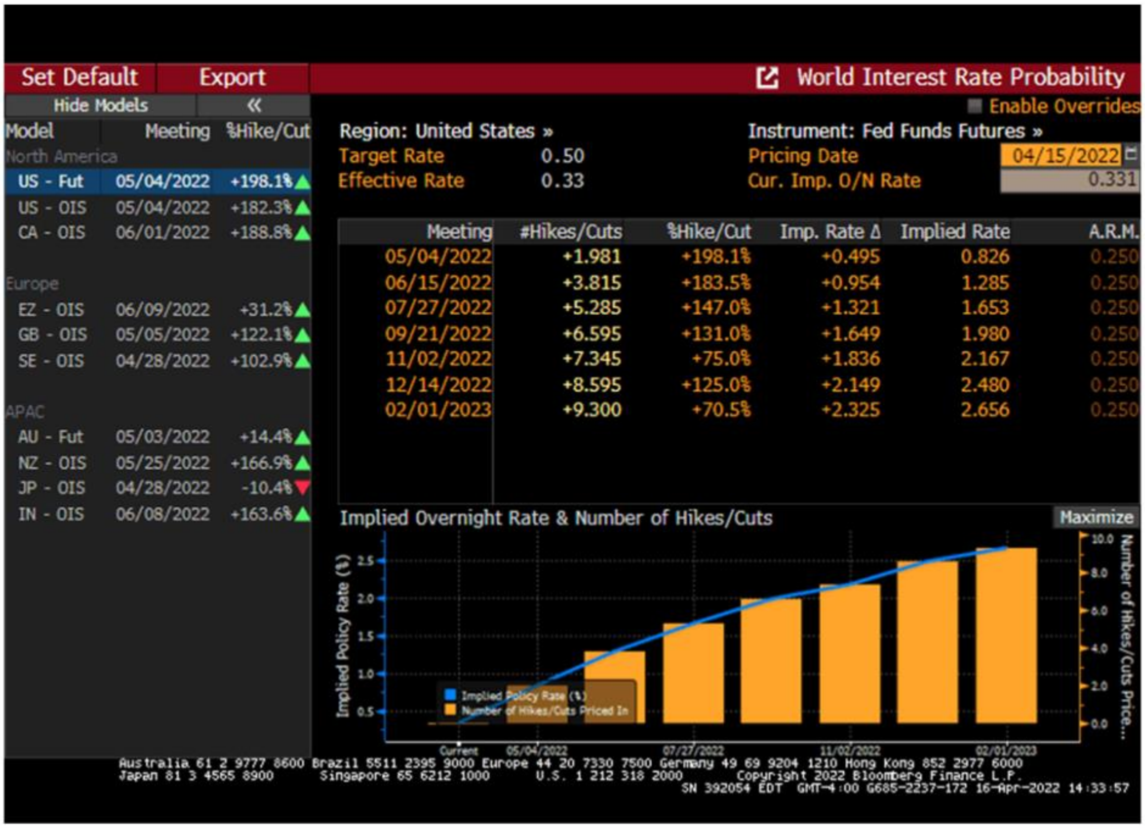
Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	3.8%	3.0%	7.7%	6.0%	15.7%	12.0%
Geometric Average	3.3%	2.5%	6.7%	5.0%	13.6%	10.1%
Median	4.0%	3.4%	8.0%	6.2%	17.2%	13.0%
Max	37.7%	32.0%	68.3%	49.7%	106.5%	92.6%
Min	-39.5%	-34.9%	-54.2%	-41.8%	-52.2%	-48.0%
Count	711	711	708	708	702	702

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

…while the Fed Funds futures last week saw a slight drop in the number of expected rate increases this year,…

THE PRUDENT SPECULATOR

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



…and influential Federal Reserve Board Governor Lael Brainard reminded that the core inflation rate (excludes food and energy), which moderated in March, deserves the most focus in setting monetary policy because it is the inflation component “that most closely reflects the strength of domestic demand.”

Further, Ms. Brainard said, “The U.S. economy enters this period of elevated uncertainty with a very strong labor market and significant underlying economic momentum. And that, I think, bodes well for the ability to bring inflation down while also continuing to sustain the recovery.”

THE PRUDENT SPECULATOR

JOBLESS FILINGS AND CONTINUING CLAIMS NEAR/AT 50+ YEAR LOWS

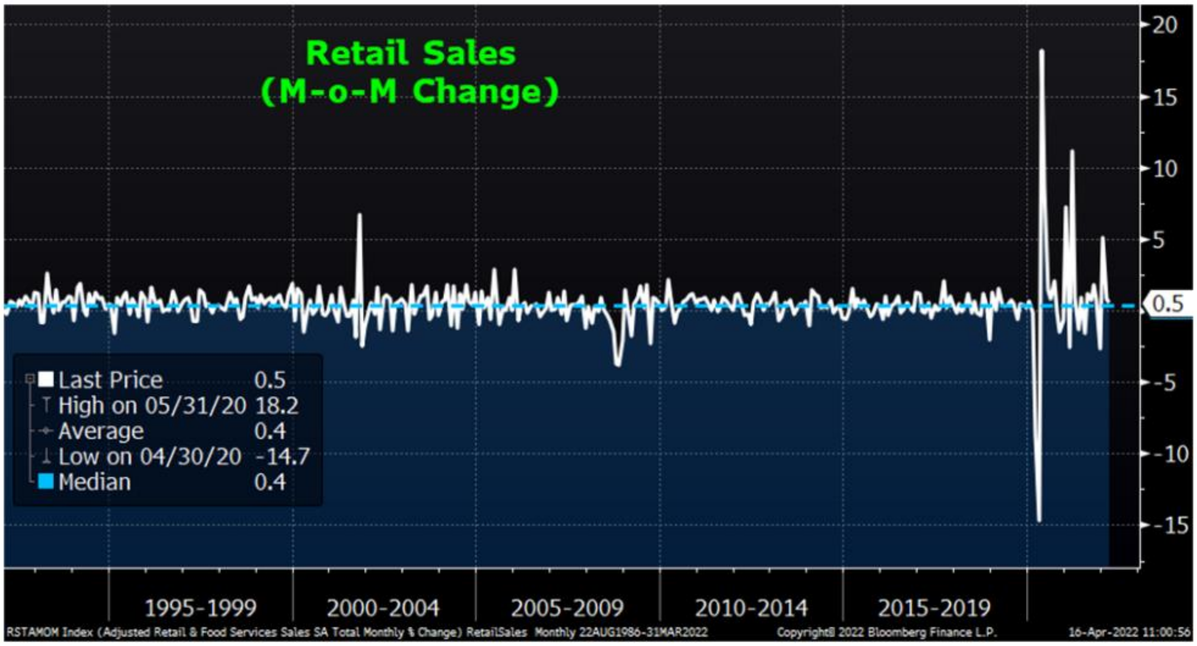
Coming in near the lowest lowest level since 1969 when the work force was much smaller, new filings for unemployment benefits for the period ended April 9 were a seasonally adjusted 185,000, up from a revised 167,000 the week prior. Continuing claims filed through state programs edged down to 1.48 million, the lowest level since the 1970s as businesses continue to hold onto workers with labor so difficult to obtain.

To be sure, the other economic numbers out last week were mixed, with retail sales coming in a bit weaker than expected,…

THE PRUDENT SPECULATOR

RETAIL SALES RISE, BUT TRAIL EXPECTATIONS IN MARCH

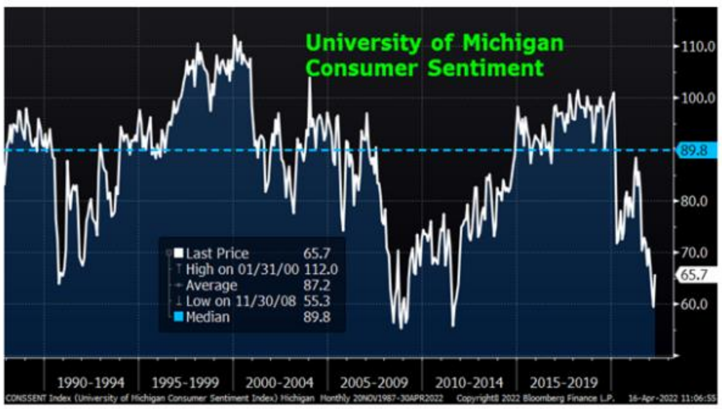
While February's gain was revised up to 0.8% from the 0.3% advance initially reported, retail sales for March rose just 0.5%, trailing estimates for a 0.6% rise, with higher prices at the pump eating into cash that might have been used for shopping online and auto sales falling.



…and the health of the consumer in question,…

THE PRUDENT SPECULATOR

MAIN STREET PESSIMISTIC, BUT CONSUMER SENTIMENT IMPROVED



The NFIB Small Business Index for March slipped 2.5 points to 93.2, a 23-month low, below the historical norm. Owners remain very concerned about inflation, supplies and labor. Meanwhile, the University of Michigan gauge of consumer sentiment this month jumped to a much-better-than-expected 65.7, rebounding from the lowest reading since August 2011, as "Consumers still anticipate that the national unemployment rate will inch downward...and retail gas prices have fallen since the March peak, and that fact was immediately recognized by consumers."

…but the latest reads on the manufacturing sector blew away overly pessimistic forecasts,…

THE PRUDENT SPECULATOR

TERRIFIC AND MUCH IMPROVED FACTORY ACTIVITY READINGS

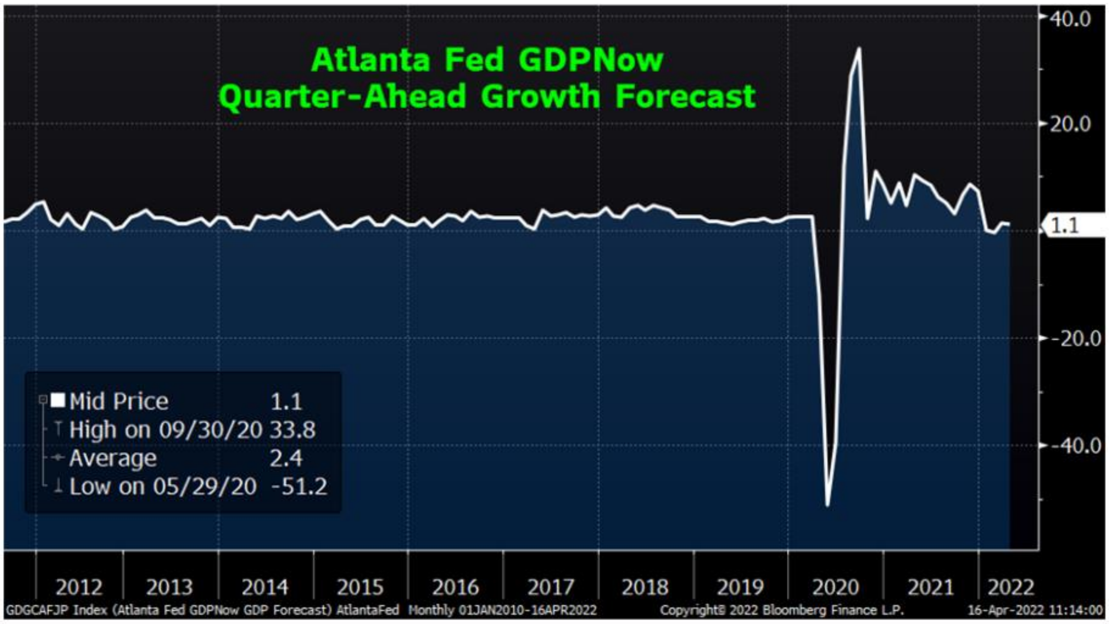
The Empire State gauge of manufacturing activity in the New York area soared in April to a much-stronger-than-expected 24.6, nearly 25 points above forecasts and well above average for the sentiment gauge. Meanwhile, industrial production jumped 0.9% in March, easily beating projections of a 0.4% advance, and February's reading was boosted to a 0.9% gain, with the full first quarter factory activity seeing growth of 8.1% on an annual basis.

…and the projection for Q1 U.S. GDP growth from the Atlanta Fed held steady for the week.

THE PRUDENT SPECULATOR

Q1 U.S. GDP GROWTH PROJECTION HELD STEADY 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%.



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Certainly, developments on the geopolitical front are a major wildcard and the equity futures are down again as this missive goes to press, so we know that anything can happen market-wise and economically speaking. Still, we take comfort in the fact that a supposedly ominous event like the recent inversion of the yield curve actually has led on average to very good returns historically for stocks on the go-forward basis,…

THE PRUDENT SPECULATOR

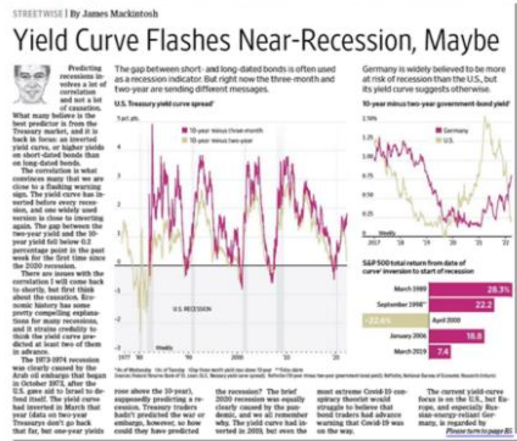
YIELD CURVE INVERSION…HAS BEEN GOOD FOR STOCKS

With the 2.83% yield on the 10-Year U.S. Treasury now 37 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%	13521%
9/12/1980	1.8%	53.9%	86.8%	290.6%	10047%
1/14/1982	34.4%	71.2%	184.6%	440.2%	10203%
12/13/1988	32.1%	54.1%	97.7%	452.3%	3119%
3/8/1990	14.2%	47.1%	65.3%	411.5%	2406%
6/9/1998	19.6%	17.5%	-6.4%	43.3%	513%
2/2/2000	-3.1%	-36.7%	-8.6%	-6.2%	376%
1/31/2006	14.5%	-31.3%	11.7%	87.4%	377%
8/23/2019	21.6%				61%
S&P Total Return	**16.0%**	**27.7%**	**66.8%**	**251.8%**	**4514%**

As of 4.14.22. 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 Treasurys 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

Please turn to page B5

…while even the 15 previous recessions hardly have been fatal for equities.

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%	322121%	8306935%
18.2%	42.6%	May 1937	-39.3%	-55.8%	-33.2%	-55.1%	-32.5%	-44.3%	53.7%	142.7%	598607%	7759742%
26.3%	54.4%	February 1945	26.0%	42.2%	12.0%	28.5%	64.3%	75.7%	379.2%	468.6%	431433%	3744739%
4.0%	4.6%	November 1948	19.2%	12.4%	101.8%	108.9%	145.2%	130.7%	542.0%	584.7%	350431%	2715765%
3.1%	4.7%	July 1953	31.9%	25.6%	128.9%	118.0%	136.5%	138.2%	308.5%	381.9%	144795%	1139258%
-1.2%	-0.4%	August 1957	10.0%	16.4%	40.2%	55.0%	55.1%	77.9%	188.9%	418.4%	66493%	538778%
-2.4%	-6.4%	April 1960	24.2%	29.0%	41.7%	51.5%	92.4%	131.0%	107.7%	268.9%	50075%	365091%
-8.4%	-20.9%	December 1969	3.9%	8.7%	41.4%	40.3%	-11.3%	-7.3%	77.0%	267.9%	21558%	92789%
-15.2%	-19.4%	November 1973	-23.8%	-14.8%	20.8%	77.1%	23.7%	142.4%	182.3%	719.9%	18214%	80870%
20.6%	31.3%	January 1980	19.5%	12.3%	49.5%	80.4%	102.4%	183.5%	342.4%	480.7%	11421%	23233%
13.0%	22.9%	July 1981	-13.3%	-0.8%	34.0%	78.6%	127.9%	217.1%	343.5%	408.6%	9205%	18258%
6.5%	-6.9%	July 1990	12.7%	9.9%	38.2%	76.0%	83.2%	129.3%	407.4%	424.9%	2265%	3867%
-21.7%	17.0%	March 2001	0.2%	14.6%	1.9%	33.8%	21.4%	83.4%	38.3%	96.0%	470%	546%
5.6%	-2.9%	December 2007	-37.0%	-38.2%	-8.3%	-14.9%	8.6%	0.9%	125.9%	117.4%	300%	229%
8.2%	-9.7%	February 2020	31.3%	38.8%							54%	70%
7.2%	**9.5%**	**Averages**	**2.2%**	**4.6%**	**28.2%**	**43.8%**	**53.3%**	**85.5%**	**217.1%**	**338.1%**	**135163%**	**1652678%**

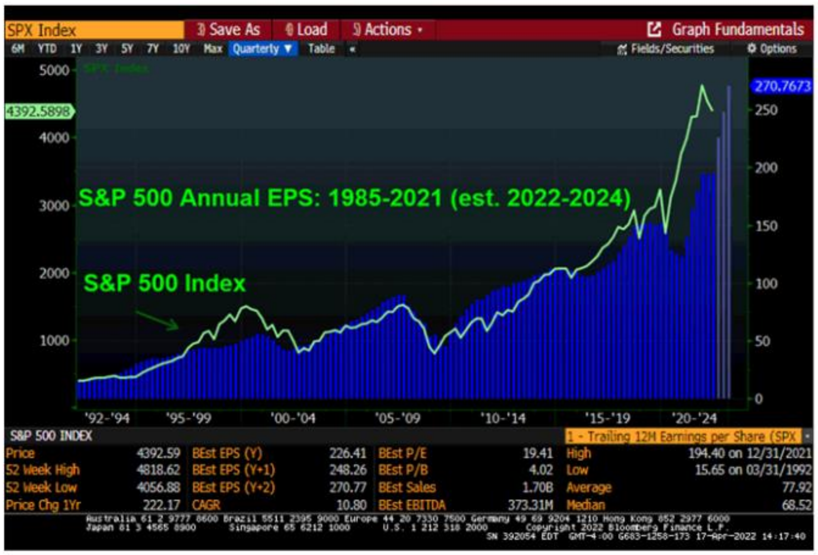
S&P 500 as of 4.14.22. FF Value as of 1.31.22. Source: Kovitz Investment Group using data from Bloomberg, Professors Eugene F. Fama & Kenneth R. French and the National Bureau of Economic Research

Of course, all of the talk of an economic slowdown or even recession does not mesh with the current forecasts for excellent corporate profit growth,…

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	$65.82	$249.33
9/30/2023	$64.15	$244.20
6/30/2023	$61.49	$239.11
3/31/2023	$57.87	$233.41
12/31/2022	$60.69	$226.29
9/30/2022	$59.06	$222.33
6/30/2022	$55.79	$215.29
3/31/2022	$50.75	$211.55
ACTUAL		
12/31/2021	$56.73	$208.21
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 4.14.22

…so we remain very comfortable with the metrics associated with our broadly diversified portfolios of what we believe to be undervalued stocks,…

CURRENT PORTFOLIO AND INDEX VALUATIONS

Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	13.5	12.1	1.1	2.4	2.3
ValuePlus	14.6	12.4	1.4	2.5	2.0
Dividend Income	13.1	12.3	0.9	2.2	2.8
Focused Dividend Income	14.4	12.9	1.2	2.4	2.6
Focused ValuePlus	13.2	13.1	1.4	2.5	2.4
Small-Mid Dividend Value	11.1	10.0	0.6	1.6	2.5
Russell 3000	24.1	19.8	2.5	4.1	1.4
Russell 3000 Growth	33.8	26.7	4.2	10.9	0.8
Russell 3000 Value	18.8	15.8	1.8	2.5	2.0
Russell 1000	23.2	19.6	2.7	4.2	1.4
Russell 1000 Growth	31.8	26.2	4.6	11.9	0.8
Russell 1000 Value	18.3	15.7	1.9	2.6	2.0
S&P 500 Index	22.6	19.4	2.8	4.4	1.4
S&P 500 Growth Index	26.8	23.3	5.0	8.5	0.8
S&P 500 Value Index	19.7	16.7	2.0	3.0	2.0
S&P 500 Pure Value Index	12.6	11.2	0.8	1.4	2.3

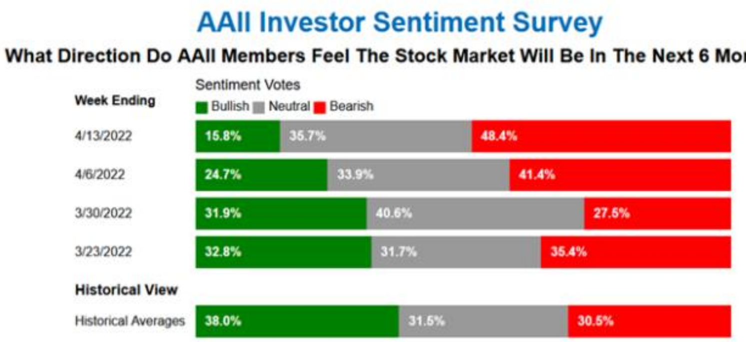
As of 04.15.22. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Kovitz using data from Bloomberg Finance L.P.

…especially as the good folks at the American Association of Individual Investors just gave us a superb buy signal this past Thursday.

THE PRUDENT SPECULATOR

MAJOR CONTRARIAN BUY SIGNAL: AAII SENTIMENT EXTREMELY BEARISH

The gauge is widely viewed with a contrarian eye, so the AAII Sentiment Survey Bull-Bear spread plunging to -32.6% in the latest week, with only 15.8% saying they were Bullish was a major equity market buy signal. There have been only 24 less optimistic Bull-Bear tallies in the 35-year history of the gauge and the ensuing six-month return during those periods for the Russell 3000 Index averaged a whopping 13.7%, well above the 6.0% average for all periods. Even more interesting, there have been only 8 periods with fewer Bulls, with the ensuing six-month return a stellar 18.7%.



AAII Bull-Bear Spread & Russell 3000 Forward TR

Date	Spread	1W RET	1M RET	3M RET	6M RET
10/18/1990	-54.0	1.5%	4.5%	10.1%	32.1%
3/5/2009	-51.4	10.3%	24.5%	40.3%	52.7%
10/4/1990	-44.0	-5.5%	-0.5%	4.3%	26.2%
9/20/1990	-43.0	-3.7%	-0.5%	6.9%	21.5%
11/15/1990	-43.0	-0.4%	3.6%	18.4%	20.1%
8/16/1990	-41.0	-8.0%	-4.6%	-4.4%	13.3%
1/10/2008	-39.3	-6.1%	-5.4%	-3.1%	-9.8%
3/13/2008	-38.7	0.7%	1.5%	5.0%	-3.0%
8/30/1990	-38.0	0.5%	-4.4%	1.4%	19.1%
2/20/2003	-36.8	0.2%	4.6%	10.9%	22.3%
7/8/2010	-36.1	2.4%	5.0%	9.9%	21.4%
10/15/1992	-36.0	1.4%	4.4%	9.4%	12.4%
4/11/2013	-35.2	-3.4%	2.7%	5.9%	9.1%
2/19/2009	-35.1	-3.4%	1.0%	18.1%	31.0%
9/13/1990	-35.0	-2.3%	-6.4%	4.1%	20.5%
10/25/1990	-35.0	-1.1%	2.4%	10.4%	27.1%
12/20/1990	-34.0	-0.3%	0.6%	13.7%	17.2%
7/20/2006	-34.0	1.0%	4.4%	10.1%	15.9%
1/24/2008	-33.9	2.2%	0.6%	3.5%	-5.3%
11/5/2009	-33.3	1.8%	3.9%	0.9%	11.9%
7/17/2008	-33.1	-0.6%	3.4%	-25.9%	-32.3%
2/1/1990	-33.0	1.7%	1.9%	1.9%	8.8%
7/10/2008	-33.0	0.8%	3.8%	-28.2%	-28.7%
11/20/2008	-32.8	18.6%	19.7%	4.8%	24.5%
4/14/2022	-32.6				
24 Period Average		0.3%	2.9%	5.4%	13.7%
All Periods Average		0.2%	0.9%	2.9%	6.0%

Source: American Association of Individual Investors and Bloomberg

AAII Bulls & Russell 3000 Forward TR

Date	Bulls	1W RET	1M RET	3M RET	6M RET
11/15/1990	12.0	-0.4%	3.6%	18.4%	20.1%
10/6/1988	13.0	0.7%	1.1%	3.2%	9.9%
3/9/1989	13.0	1.7%	1.3%	12.2%	19.9%
9/20/1990	13.0	-3.7%	-0.5%	6.9%	21.5%
10/18/1990	13.0	1.5%	4.5%	10.1%	32.1%
9/3/1992	14.0	0.5%	-1.5%	5.2%	10.7%
2/1/1990	15.0	1.7%	1.9%	1.9%	8.8%
10/4/1990	15.0	-5.5%	-0.5%	4.3%	26.2%
4/1/2022	15.8				
8 Period Average		-0.4%	1.2%	7.8%	18.7%
All Periods Average		0.2%	0.9%	2.8%	6.0%

Source: American Association of Individual Investors and Bloomberg

Stock Updates

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

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

Shares of **JPMorgan Chase** (JPM – $126.12) skidded about 4% following the release of Q1 financial results that came in shy of analyst expectations. America's largest bank earned $2.63 per share (vs. $2.72 est.), a substantial swing compared to EPS of $4.50 in the year-ago period, but it is worth noting that $4 billion of loan loss reserves were released (to the benefit of EPS) in Q1 2021. This time around, JPM added $902 million (subtracting $0.23 from EPS) to its reserves in the latest quarter, reflecting its view of a higher probability of downside risks due to high inflation and the war in Ukraine, and for Russia-associated exposures.

CEO Jamie Dimon commented, “JPMorgan Chase generated a healthy $30 billion of revenue, $8.3 billion of earnings and an ROTCE of 16% in the first quarter after adding $902 million in credit reserves largely due to higher probabilities of downside risks. Lending strength continued with average firmwide loans up 5% while credit losses are still at historically low levels. We remain optimistic on the economy, at least for the short term – consumer and business balance sheets as well as consumer spending remain at healthy levels – but see significant geopolitical and economic challenges ahead due to high inflation, supply chain issues and the war in Ukraine”

When probed about the bank’s higher probability of anticipated risks, CEO Jamie Dimon remarked, “I give you a million different reasons why because of inflation and just about deposits. And we’ve never been through QT like this. So this is a new thing for the world and I think is more substantially important than other people think because the huge change of flows of funds is going to create as people change their investment portfolio. So we’re going to be fine because we’re going to certainly help our customers and gain share. So what does it do for JPMorgan Chase? JPMorgan Chase, we’ll be fine. We got plenty of capital, plenty all great margins. We already have the returns we want and all things like that. So I just — I would just be cautious. I think what you should expect is volatile markets. Again, that’s okay for us. And the Fed — we think the Fed needs to do, they need to do to try to manage this economy and try to get to a soft landing, if possible.”

JPM remains a favored holding in many of our diversified portfolios, and management was upbeat regarding loan demand for the year ahead, even as several previously noted risks sit on the horizon. We continue to like the multiple levers available to generate fee revenue in varying environments, and we maintain our fondness for Mr. Dimon, who is willing to take a long-term view, spending on enhancing various capabilities, even if there is limited near-term payoff. Shares trade for less than 11 times the consensus EPS estimate for FY 2022 (nearly 60% of the market multiple) and the dividend yield is 3.2%. Our Target Price for JPM is presently $184.

Goldman Sachs (GS – $321.64) announced on Thursday that it earned $10.76 per share in Q1, well below the $18.60 in the year-ago period, but roughly even with Q4. Following the 7% overshoot last quarter, Street analysts went with the under this go round as estimates were some 20% below the actual print. Shares popped in early trading but faded throughout the day, ending up flat on the week. After a blockbuster 2021, this year is likely one of normalization for parts of the business, but as with other major diversified financial giants, lagging performance from one segment has generally been offset by the stronger performance of another. Goldman’s equity underwriting came to a virtual stand-still in Q1, but the $7.9 billion generated by the firm’s trading business more than offset the miss. In addition, net interest income has grown each quarter since bottoming in Q2 2020.

Goldman CEO Dave Solomon stated, “There’s no question the first quarter was extremely volatile. Russia invaded Ukraine, inflation rose across the globe, and we saw an accelerating trend towards deglobalization. In recent decades, we’ve grown used to low inflation, low interest rates and the free flow of people and goods across national borders. I believe we’re in through a period that won’t be — that won’t be the case and the consequences for financial markets will be meaningful. Although much remains uncertain, I’m proud that Goldman Sachs effectively supported its clients in this type of environment. This is a testament to the progress we've made to our strategy around clients. At a time of great volatility, it was clear, our clients needed to help managing their risk, and they turned to us for our expertise in navigating this changing landscape. The recent turbulence is nothing to change our firm's client-oriented strategy. In fact, it makes it all the more imperative. We are building a more resilient, diversified franchise that can generate solid returns even in more uncertain markets. In February, I laid out our revised medium-term return targets. I'm very proud that even with the headwinds we faced, our results this quarter meet those objectives. We are also well positioned to achieve the targets we laid out for our growth initiatives across asset management, wealth management, transaction banking and consumer. In some areas, we have accelerated our progress with the acquisitions, including GreenSky, which closed in late March; and NNIP, which closed earlier this week. I'm thrilled to be welcoming these great businesses to Goldman Sachs."

Mr. Solomon added, "While it is encouraging to see a newfound unity among the Western democracies, the trend towards deglobalization is clearly gaining momentum. The consequences of that shift are likely to be significant and long lasting, and I believe it will take some time to fully appreciate all the second and third order ramifications. Beyond geopolitics, I'm keeping a close eye on several other trends. While U.S. unemployment levels are low and wages are increasing, inflation is the highest it's been in decades. We're seeing new stress on supply chain and commodity prices and U.S. households are facing rising gas prices as well as higher prices for food and housing. We've also seen an increased risk of stagflation and mixed signals on consumer confidence. These cross currents will certainly create ongoing complexity in the economic outlook, but whatever the future holds, I believe Goldman Sachs is well positioned. We continue to make progress on our growth strategy and our commitments to clients a strong — our commitment to clients is stronger than ever."

Shares have shed nearly a quarter of their value since the 52-week high was set last November. With Goldman earning over 15% on tangible equity, we find the stock cheap, trading for a single-digit multiple of the consensus 2022 EPS estimate and just above tangible book per share. And even though projections have fallen somewhat in recent months, we wouldn't rule out $40 of EPS for 2022, which would make the stock even more attractive. We continue to like the healthy balance sheet and ongoing sound strategic repositioning. The build-out of its traditional banking and investment management businesses should serve shareholders well in the long run as management attempts to evolve the trading and deal-making titan into a more well-rounded financial firm with more stable consumer and commercial businesses. The dividend yield is 2.5% and our Target Price is now $462.

Morgan Stanley (MS – $84.76) posted Q1 EPS of $2.06, a 7% decline from the same period a year ago, but more than 50% higher than the prepandemic number. The bank was just shy of its return on tangible equity goal of 20% as investment banking fees ebbed. Fed by market volatility, the trading department led the way in the quarter, earning over $6 billion. Wealth management income bounced back from Q4 despite a pullback in equities and fixed income.

CEO James Gorman commented, "Heading into 2022, we anticipated, as everybody did, a more volatile market, and obviously, we saw that in the first quarter. The year started with rising inflationary pressures, accelerated expectations for tightening of monetary policy and most notably and sadly, the invasion of Ukraine. This backdrop injected significant uncertainty into the markets and further tested resiliency of our franchise. Against this quickly evolving market environment, our diversified business model again generated high returns. The firm produced revenues of $14.8 billion and an ROTCE of 20%. I'm pleased to report that our first quarter results continued to exemplify Morgan Stanley's strength and affirm our long-term strategy."

He added, "Finally, a brief word on the Russian invasion of Ukraine. In managing a global business, particularly a markets-based global business, we must always remain vigilant about the potential for shocks or unexpected events. Obviously, the invasion of Ukraine is one such event. First of all and most importantly, our hearts go out to the Ukrainians and all those who have been impacted. As it relates to the business, apart from the volatility it's created, there's been very limited financial impact to Morgan Stanley. A few years ago, we decided to give up our banking license and we significantly scaled back operations in Russia."

We continue to like the diversifying acquisitions of Eaton Vance and E*Trade, which we believe give MS greater scale in tech, a deeper product and service base, and self-directed investors to complement advisor-assisted wealth-management clients. In the near term, we think capital market activities will resume throughout the year, while MS is likely to benefit from higher rates in a meaningful way and we see the opportunity for the firm to take larger wallet share in wealth management. Shares trade for 11 times EPS estimates and offer a dividend yield of 3.3%. Our Target Price remains $120.

Probably the bank in our portfolios with the largest exposure to Russia, **Citigroup** (C – $50.93) shares have shed 16% since the war in Ukraine began. Nevertheless, a strong trading performance and solid credit drove a significant Q1 EPS beat versus the consensus analyst estimate ($2.02 vs $1.63), with higher net interest income in the Services and Personal Banking and Wealth Management segments helping the cause. The ongoing transformation efforts lifted core expenses by 10%, while the bank continues to expect negative operating leverage for 2022. Management says it has reduced exposure to Russia and capped losses at between $4 billion to $5 billion in the worst case.

C – RUSSIA PROBLEMS MORE THAN "IN" THE STOCK PRICE IN OUR VIEW

Update on Russia

Russia Exposure

($ in B)	4Q21	1Q22	Δ vs 4Q21
Loans	$2.9	$2.3	($0.6)
AFS Securities	1.5	0.9	(0.6)
Derivatives MTM (less CVA)	0.3	0.0	(0.3)
Off-Balance Sheet Unfunded Commitments	0.7	0.5	(0.2)
Country Risk Exposure	**5.4**	**3.7**	**(1.7)**
Deposits and Cash Equivalents	1.0	2.6	1.6
Reverse Repo Assets	1.8	0.6	(1.2)
3rd Party Cross-Border Exposure-offshore	1.6	0.9	(0.7)
Additional Domestic Russia-3rd Party	**4.4**	**4.1**	**(0.3)**
Russia Exposure	**9.8**	**7.8**	**(2.0)**
Net Investment	1.0	0.7	(0.3)
Intercompany Liabilities	0.5	0.3	(0.2)
CTA Balance	1.1	1.0	(0.1)

- **$1.9B** in total reserve build this quarter for Citi's Russia exposure
  - **$1.0B** is related to direct exposures included within the $7.8B exposure
  - **$0.9B** for broader impacts

Overview

- In April 2021, announced our intent to exit our consumer business in Russia as part of the 13 Asia & EMEA exits
- In March 2022, decided to expand the scope of that exit to include Commercial Banking. Will continue to support our ICG clients, especially MNCs
  - 85% of our ICG Large Corporate Clients are local subsidiaries of MNCs which are headquartered outside of Russia, primarily in the US and Europe
- Actively reduced our total Russia exposure from $9.8B as of December 31, 2021 to $7.8B as of March 31, 2022
- Separately, our net investment in the Russia bank entity decreased from ~$1B to ~$700MM
- Composition of Citi's Russia exposure changed as credit exposure was paid down, and cash was deposited with the Russia Central Bank due to loan pay downs
- We believe the potential loss in a range of severe stress scenarios has declined to approximately $2.5B to $3B as a result of proactive de-risking

6 Note: MNCs: multi-national corporations. CTA: Currency Translation Adjustment. All information for 1Q22 is preliminary.

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CEO Jane Fraser commented, "We've been on the front foot since the potential for war first emerged, and we intend to remain so. The Russian invasion of Ukraine and the sanctions it triggered unleashed an enormous supply shock on the world, further fueling inflation and placing global growth under considerable pressure. Back recently from seeing clients in Europe and the Middle East, it is security, yet energy, food, defense, cyber or operational resilience that has risen to the top of their strategic dialogue. The macro-outlook for the rest of the year can only be described as complex and uncertain. And while my job is to prepare for all outcomes, our view is that strong nominal income growth and continuing momentum in the labor market will help support near-term growth in the U.S. economy in the face of inflationary pressures. But we expect material regional differences in the impact with economic growth in the individual consumer and businesses in Europe hit hardest. With central banks responding to inflation, we're entering a period of higher rates and a flatter U.S. yield curve. Energy and commodities are at the center of the storm globally, but we don't believe we're at the start of a new long super cycle, and we do expect prices to fall to more normal levels. So with that as a backdrop, I think the firm performed reasonably well this quarter."

Certainly a bank holding with plenty of hurdles to overcome, we continue to think that strategic action plans laid out and thus far taken under Ms. Fraser offer reasons for optimism. Reframing its global scale/connectivity as a competitive advantage versus a source of complexity should help improve the turnaround sentiment over time. Of course, our time horizon is far longer than most, so we are willing to remain patient, as long as we see continued progress, especially as we think that there is significant appreciation available from the stock. The shares trade at a deep discount to competitors, changing hands at just 55% of its book value, and for less than 8 times NTM adjusted EPS projections, while the dividend yield is now 4.0%. Our Target Price for C is currently $98.

Shares of **PNC Financial** (PNC – $175.00) continued to slide last week following the release of Q1 financial results. The nation's second largest regional bank earned $3.29 per share (vs $2.77 est.), with $0.50 coming from a negative credit loss provision. In early-April, management had guided for lower fee income relative to Q4, but the pullback in mortgage and capital market activity ended up being greater than anticipated. Net interest income ebbed modestly on a sequential basis although period-end loans grew by 2%. Management still expects higher interest rates to support 10% to 12% growth of net interest income for the full year and to make up lost fee revenue in Q1 throughout the remainder of the year, particularly in capital markets activity.

Regarding the impact on deposits from Fed action, CEO Bill Demchak commented, "So I mean there are 2 opposing forces, right? So when the Fed shrinks its balance sheet, which it will — even they let it run off, they're saying whatever that number is $90 million in the month or quarter, I don't ever remember. But it will pull deposits from the system. At the same time, when there is loan growth, it puts deposits back into the system. And the reason for that, if you think about it, is just leverage on the capital. I assume everybody holds 10% on a loan. They borrow from us, they deposit somewhere else. It collectively builds deposits into the system. Collectively, we think that's going to cause — will cause deposit growth to slow, but we actually think deposit growth is still going to be positive for the system. And for us, — so again, Fed balance sheet shrinks, but at the same time, we're going to see loan demand, we expect to see loan demand, we have seen loan demand at a pace that would generate deposits. So we're not particularly worried about that. Now what will happen, of course, is as the Fed gets rates substantially higher, [deposit] betas are going to have to do a big catch-up move because all of a sudden, it's going to matter. Interest rates are going to get back to a place where people start paying attention again. Now I don't know what that level is. I don't know that we've ever come off of a base of 0 and trying to play catch up. The last time we thought about that, the Fed reversed course pretty quickly. So we're going to have to see how that plays out, but I think deposits in the system will still be there. We just won't see the same growth we have over the last couple of years."

As we noted earlier in the month, we weren't all that shocked for fee income to take a hit, 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 at large, management's sentiment around loan demand from the threat of still higher rates echoes that of the industry at large. PNC's capital position remains robust with shareholders getting a 20% boost in the dividend earlier in April (the yield is 3.4%). After buying a bit more than usual in Q1, management also expects to maintain its quarterly pace of share repurchases throughout 2022. Shares trade for a forward P/E of 11.4, following a 13% pullback year-to-date. Our Target Price for PNC has been trimmed to $238.

BlackRock (BLK – $688.17) earned $9.52 per share in Q1, a 23% jump year-over-year, but down some 8% from Q4. Clients added $114 billion of long-term inflows to offset a 4% AUM decline from market volatility, bringing the figure back to under $10 trillion. The ETF and asset management giant's operating margin compressed a modest 24 basis points even as expenses were slightly lower versus Q4.

Earlier in the week, BlackRock announced that it had made a minority investment (alongside Fidelity and others) in Circle, a global Internet payment firm and the sole issuer of USD coin, a dollar-based fully reserved stablecoin. Circle is the second-largest stablecoin, but controls more cash than the leader, of which Blackrock already manages a portion.

CEO Larry Fink stated, "BlackRock is increasingly the partner of choice globally as clients look to build deeper and more comprehensive relationships. We announced another significant client mandate during the quarter that exemplifies our One BlackRock approach – bringing together investment expertise, operational excellence and world-class technology. I am incredibly excited by the opportunities ahead of us and believe BlackRock is well-positioned to continue generating durable, differentiated organic growth and delivering value for all of our stakeholders. As the world continues to face geopolitical and economic uncertainty, our investments over the years to build BlackRock's all-weather platform position us well to advise our clients and help them pursue their long-term financial goals."

After a 25% slide in price year-to-date, shares trade for 17 times earnings, well below the 3-, 5- and 10-year average in the 20 range. The firm announced an 18% increase in the quarterly dividend in January to $4.88 per share and repurchased $500 million worth of common shares in the first quarter, with management planning to buy back at least another $375 million throughout the year. We continue to appreciate BLK's scale, competitive ETF franchise and diversified product base across asset classes. Analysts project BLK's EPS to climb to over $50 by 2025 and the dividend yield is 2.8%. Our Target Price now resides at $979.

Delta Air Lines (DAL – $42.36) reported Q1 2022 results that met analyst expectations, but shares rebounded more than 9% in the wake after CEO Ed Bastian said that he saw a "strong rebound in demand as omicron faded" along with a return to profitability in March. DAL reported an adjusted loss of $1.23 per share in Q1, compared with the analyst consensus estimated loss of $1.26. The airline's adjusted revenue was $8.16 billion, compared with the $8.12 billion consensus.

Mr. Bastian said, "We generated $200 million of free cash flow in the quarter and a 10% operating margin in the month of March. Our revenue recovery in the March quarter reached 79% of 2019 levels, 5 points ahead of the midpoint of our initial guidance… Domestic consumer revenues are exceeding 2019 levels. And the recovery in business travel, revenue has accelerated as offices reopen and business travelers rebuild face-to-face relationships. Demand for long-haul international is growing as travel restrictions lift, led by the transatlantic. To date, we have not seen an impact to travel demand from the conflict in Ukraine, but we, of course, are monitoring this closely…As we prepare for the peak summer season, we continue to be very focused on operational readiness. With 4,000 new members joining the Delta team already this year, we feel good about our staffing and our ability to meet demand as we continue to restore the airline."

Mr. Bastian continued, “We are successfully recapturing a significant portion of the run-up in fuel. This is occurring almost in real time, given the strong demand environment as well as Delta’s growing brand preference, our premium product focus and measured approach to capacity. While we are confident in summer demand and the capacity plans that we have in place, given macro uncertainty, we will remain nimble on capacity for the second half of the year and continue to prioritize sustained profitability…Our mission of connecting the world has never been more important than it is today, and I’m as confident as ever that we’ll achieve our ambition for a leading consumer brand to transcend the industry and deliver financial outcomes that create significant and resilient long-term value for all of our stakeholders. It’s been an encouraging period of recovery, and it’s exciting to see our customers returning to the skies.”

CFO Dan Janki offered the outlook, “We expect the June quarter nonfuel CASM to be up 17% compared to 2019. The 2-point increase from the March quarter is driven by higher selling-related costs, unexpected; 45% sequential increase in revenue; and our anticipated step-up in maintenance costs on a similar level of capacity restoration…On fuel for the June quarter, we expect an adjusted fuel price per gallon of $3.20 to $3.35. This includes a $0.20 benefit from the refinery, and these are based on the forward curves as of last Friday. Our Monroe refinery provides a unique benefit, acting as a partial hedge to elevated cracks. This is especially true with New York Harbor jet cracks, where our production at Monroe provides 100% offset. Based on our June quarter outlook for revenue and costs, we expect operating margins to be between 12% and 14%…With the expectations for solid profitability and further build in our air traffic liability, we expect to generate another quarter of positive free cash flow after investing $1.2 billion in the business and expect to end the June quarter with adjusted net debt of approximately $20 billion.”

We think the trajectory for Delta will continue to be uncertain in the next few quarters because of regional COVID outbreaks and differences in regional or national health policies, such as Shanghai locking down completely. On the upside, we believe we are far from the COVID environment that beset the travel industry early in the pandemic, and the approach now works towards keeping the virus’s prevalence at reasonable levels, rather than containment at all costs. The update in approach should benefit Delta and the rest of the travel industry, and result in growing earnings and an improving balance sheet. Delta does not hedge its fuel, but it does own a refinery and we were pleased (if a bit surprised) to learn the operations could reduce the cost of fuel by $0.20 per gallon. The forward P/E for the carrier is presently 10, which should drop below 6 for 2024 if the impact of the pandemic recedes and folks spend their piles of accumulated cash traveling the world. Our Target Price for DAL has been bumped up to $67.