Market Commentary Monday, April 25, 2022

April 24, 2022

EXECUTIVE SUMMARY

Newsletter Trades – One Sell for Three Portfolios
1000-Points – Historical Perspective on the Dow Plunge
Powell – 50 Basis Point Hike on the Table for May
Volatility – Nothing Unusual About Equity Market Gyrations; Bonds a Different Story
Econ Outlook – World Bank and IMF Trim Global Growth Estimates; But No Recession in the Forecasts
Econ Stats – Latest U.S. Numbers Still Very Good
Corporate Profits – Q1 Numbers Strong So Far & Handsome Growth in ’21 and ’22 Remains the Projection
Recessions & Stocks – Value Historically Has Performed Nicely, on Average
Sentiment – Major AAII Equity Market Buy Signal
Stock News – Updates on IBM, JNJ, ANTM, VZ, NEM, SNA, OMC, MAN, LRCX, BAC, CMA, BK, FITB, CFG, TFC & SYF

Market Review

As discussed on our April 18 *Sales Alert*, we sold 29 shares of **Mosaic** (MOS – $66.77) at $75.0504 for Buckingham Portfolio on Wednesday, April 20. We also used that sale price to close out the 101 and 52 respective MOS shares trimmed in our hypothetical portfolios, Millennium and PruFolio.

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While a 1000-point plunge for the Dow Jones Industrial Average on Friday sounds far more ominous than saying the widely watched benchmark tumbled 2.82%,…

THE PRUDENT SPECULATOR

CIRCA-1000-POINT PLUMMET IN THE DOW

Rare are huge one-day plunges of more than 2.75% in the Dow Jones Industrial Average, but the popular market gauge skidded 2.82% on April 22, 2022, the 359th worst showing since 1928.

Down < -2.82%

	1920's	1930's	1950's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	2020's	Totals
Years Ending in 0		21	6	3	0	1	1	4	4	3	17	60
Years Ending in 1		37	3	0	1	0	0	1	6	6	0	54
Years Ending in 2		51	0	0	2	0	1	0	7	0	1	62
Years Ending in 3		25	1	0	1	2	0	0	2	0		31
Years Ending in 4		7	0	0	0	2	0	0	0	0		9
Years Ending in 5		0	0	2	0	0	0	0	0	3		5
Years Ending in 6		4	5	0	0	0	2	2	0	1		14
Years Ending in 7		17	1	0	0	0	10	2	2	0		32
Years Ending in 8	3	10	2	0	0	0	3	6	22	6		52
Years Ending in 9	21	5	0	0	0	1	1	0	9	3		40
Totals	24	177	18	5	4	6	18	15	52	22	18	359

From 1.31.28 through 4.22.22. Weeks of index price decreases of greater than or equal to 6.15%. SOURCE: Kovitz using data from Bloomberg

Up > 2.82%

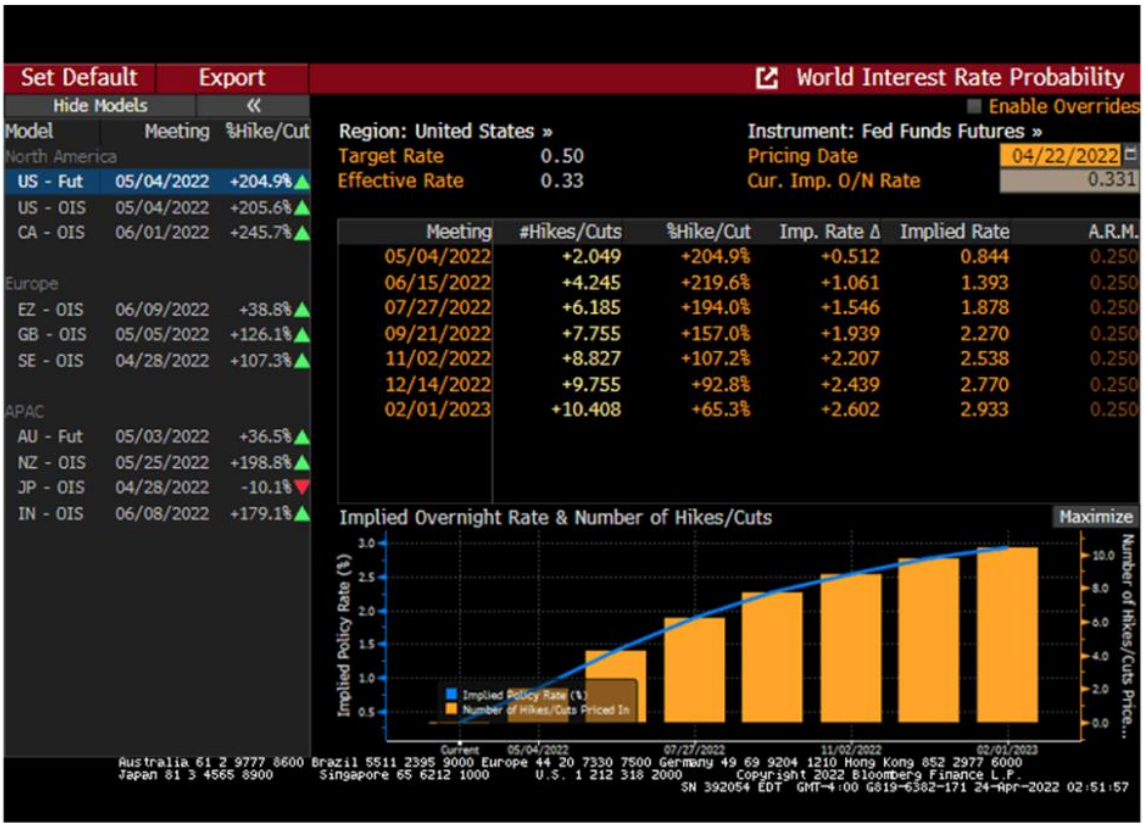
	1920's	1930's	1940's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	2020's	Totals
Years Ending in 0		10	3	1	0	2	1	1	3	2	14	37
Years Ending in 1		26	1	0	0	1	0	3	4	7	0	42
Years Ending in 2		45	0	0	3	0	5	0	13	0	0	66
Years Ending in 3		33	0	0	1	3	0	0	4	0		41
Years Ending in 4		5	0	0	0	9	2	0	0	0		16
Years Ending in 5		1	0	0	0	1	0	0	0	1		3
Years Ending in 6		0	4	0	0	0	0	0	0	0		4
Years Ending in 7		6	0	1	0	0	11	3	0	0		21
Years Ending in 8	3	15	0	0	0	1	3	4	21	2		49
Years Ending in 9	14	4	0	0	0	0	1	1	9	1		30
Totals	17	145	8	2	4	17	23	12	54	13	14	309

From 1.31.28 through 4.22.22. Weeks of index price increases of greater than or equal to 6.15%. SOURCE: Kovitz using data from Bloomberg

…the trading week ended on a very sour note, with the equity markets making a major U-turn mid-day on Thursday, following comments by Jerome H. Powell on a panel discussion hosted by the International Monetary Fund. Regarding raising interest rates, the Fed Chair said, “It is appropriate in my view to be moving a little more quickly. I also think there’s something in the idea of front-end loading those moves.” He concluded, “Fifty basis points will be on the table for the May meeting.”

Of course, though the Fed Funds futures quickly concluded that there will be more than 9 hikes by year end, including two at the May 4 FOMC Meeting, it isn’t as if a less-accommodative Fed is a revelation. After all, a week ago the chart below reflected 1.98 increases in May and 8.60 25-basis-point hikes by the end of 2022.

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



Not surprisingly, we suppose, the *Wall Street Journal's* front-page story on Saturday offered the usual negative language for stocks and positive verbiage for bonds: "Friday's declines, which deepened throughout the session, undid gains from earlier in the week, extending a slide for stock markets. The broad-based S&P 500 fell at least 1% for the third consecutive week, while the tech-focused Nasdaq Composite Index lost at least 2% for a third straight week. Bond yields extended their gains, rising for three consecutive weeks."

THE PRUDENT SPECULATOR

TREASURY YIELDS SOAR TO THE HIGHEST LEVEL SINCE 2018

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 climbed from 2.34% to 2.90% over the first 22 days of April, 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.

Flipping that script, the *WSJ* writers could have said, "Dividend yields extended their gains, while bond prices fell for the third consecutive week," as that is equally correct, though less dramatic! And, given that fund investors have been bailing on bonds, one might think upbeat language for fixed income is a bit misplaced.

THE PRUDENT SPECULATOR

BOND MARKET LOVE AFFAIR ENDING???

Combined Estimated Long-Term Fund Flows and ETF Net Issuance

Millions of dollars

Week Ended	4/13/2022	4/6/2022	3/30/2022	3/23/2022	3/16/2022
Total Equity	-20,490	2,469	12,252	5,069	14,950
Domestic	-15,861	-6,305	11,163	2,325	15,531
World	-4,630	8,773	1,089	2,744	-582
Hybrid	-1,545	-1,118	-1,529	-610	-2,291
Total Bond	-15,318	-3,976	-2,526	-1,530	-11,123
Taxable	-8,567	658	1,183	969	-7,947
Municipal	-6,750	-4,634	-3,709	-2,499	-3,176
Commodities	1,564	575	1,035	1,861	1,597
Total	-35,790	-2,049	9,232	4,789	3,132

Source: Investment Company Institute

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.

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**

To be sure, we are not seeking to minimize the losses suffered in the equity markets, but for those of us who tread in the Value end of the stock spectrum, the carnage in bonds (and impossible-to-value stocks) this year and since last Halloween has been far worse.

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 - 800.258.7786

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.

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
-49.19	-73.40	Meta Materials Inc	MMAT Equity
-34.45	-35.05	Roundhill Ball Metaverse ETF	METV Equity
-39.26	-53.29	AMC Entertainment Holdings Inc	AMC Equity
-6.85	-24.68	GameStop Corp	GME Equity
-42.23	-70.66	Robinhood Markets Inc	HOOD Equity
-31.02	-38.51	VanEck Social Sentiment ETF	BUZZ Equity
-44.54	-56.38	ARK Innovation ETF	ARKK Equity
		MARKET OF STOCKS	
-6.42	-4.70	Dow Jones Industrial Average TR	DJITR Index
-5.79	-4.57	New York Stock Exchange Composite Index	NYA Index
-19.94	-23.52	Russell 2000 Total Return Growth Index	RU20GRTR Index
-6.55	-6.06	Russell 2000 Total Return Value Index	RU20VATR Index
-13.28	-15.03	Russell 2000 Total Return Index	RU20INTR Index
-19.94	-23.06	Russell Midcap Growth Index Total Return	RUMCGRTR Index
-4.13	-1.21	Russell Midcap Value Index Total Return	RUMCVATR Index
-9.79	-9.38	Russell Midcap Index Total Return	RUMCINTR Index
-17.49	-15.60	Russell 3000 Total Return Growth Index	RU30GRTR Index
-3.34	-0.99	Russell 3000 Total Return Value Index	RU30VATR Index
-10.81	-8.71	Russell 3000 Total Return Index	RU30INTR Index
-5.92	-2.63	S&P 500 Equal Weighted USD Total Return In	SPXEWTR Index
-9.99	-6.60	S&P 500 Total Return Index	SPXT Index
		BONDS	
-10.44	-10.82	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index
-9.49	-9.45	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index

As of 04.22.22. Source: Kovitz using data from Bloomberg.

This is especially true when one considers the total return and volatility expectations for equities versus fixed income, with a double-digit percentage decline in such a short amount of time for the latter virtually unprecedented, while stocks have endured a correction of more than 10% every 11 months or so. Happily, equities have also enjoyed far larger rallies in excess of 10% with the same frequency, propelling the asset class to superior long-term returns.

THE PRUDENT SPECULATOR

VOLATILITY IS NORMAL BUT VALUE WINS THE RACE

Selloffs, downturns, pullbacks, corrections and even Bear Markets are events that equity investors always have had to endure on their way to the best long-term performance of any of the financial asset classes.

Advancing Markets

Minimum Rise %	Average Gain	Average # Days	Count	Frequency (in Years)	Last Start	Last End
20.0%	113.4%	995	27	3.4	3/23/2020	1/3/2022
17.5%	68.2%	583	39	2.3	3/23/2020	1/3/2022
15.0%	66.8%	566	45	2.0	3/23/2020	1/3/2022
12.5%	45.0%	340	72	1.3	3/23/2020	1/3/2022
10.0%	35.2%	246	99	0.9	3/8/2022	3/29/2022
7.5%	23.7%	149	158	0.6	3/8/2022	3/29/2022
5.0%	14.8%	73	309	0.3	3/8/2022	3/29/2022

Declining Markets

Minimum Decline %	Average Loss	Average # Days	Count	Frequency (in Years)	Last Start	Last End
-20.0%	-35.4%	286	26	3.5	2/19/2020	3/23/2020
-17.5%	-30.4%	217	38	2.4	2/19/2020	3/23/2020
-15.0%	-28.4%	189	44	2.1	2/19/2020	3/23/2020
-12.5%	-22.6%	137	72	1.3	1/3/2022	3/8/2022
-10.0%	-19.6%	102	98	0.9	1/3/2022	3/8/2022
-7.5%	-15.4%	64	158	0.6	3/29/2022	4/22/2022
-5.0%	-10.9%	36	309	0.3	3/29/2022	4/22/2022

From 02.20.28 through 04.22.22. Price return series. We defined a Declining Market as an instance when stocks dropped the specified percentage or more without a recovery of equal magnitude, and an Advancing Market as in instance when stocks appreciated the specified percentage or more without a decline of equal magnitude. SOURCE: Kovitz using data from Bloomberg, Morningstar and Ibbotson Associates

LONG-TERM RETURNS

	Annualized Return	Standard Deviation
Value Stocks	13.3%	25.9%
Growth Stocks	9.7%	21.3%
Dividend Paying Stocks	10.7%	18.0%
Non-Dividend Paying Stocks	9.2%	29.3%
Long-Term Corporate Bonds	6.0%	7.7%
Long-Term Gov't Bonds	5.4%	8.6%
Intermediate Gov't Bonds	5.0%	4.3%
Treasury Bills	3.3%	0.9%
Inflation	3.0%	1.8%

From 06.30.27 through 02.28.22. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Dividend payers = 30% top of Fama-French dividend payers, 40% of middle Fama-French dividend payers, and 30% bottom of Fama-French dividend payers rebalanced monthly. Non-dividend payers = Fama-French stocks that do not pay a dividend. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

Now, there are no awards for red ink in our portfolios, but we continue to be very comfortable with the valuation metrics for our managed account strategies,…

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	13.4	11.8	1.1	2.4	2.4
ValuePlus	14.6	12.1	1.4	2.4	2.0
Dividend Income	13.1	12.1	0.9	2.3	2.8
Focused Dividend Income	14.6	12.8	1.2	2.5	2.6
Focused ValuePlus	13.2	12.8	1.4	2.4	2.4
Small-Mid Dividend Value	11.2	10.0	0.6	1.6	2.5
Russell 3000	23.5	19.1	2.4	4.0	1.4
Russell 3000 Growth	32.5	25.7	4.0	10.5	0.8
Russell 3000 Value	18.5	15.3	1.8	2.5	2.0
Russell 1000	22.5	18.9	2.6	4.1	1.4
Russell 1000 Growth	30.5	25.1	4.4	11.5	0.8
Russell 1000 Value	18.0	15.3	1.9	2.5	2.0
S&P 500 Index	22.0	18.8	2.7	4.3	1.5
S&P 500 Growth Index	25.7	22.4	4.8	8.2	0.8
S&P 500 Value Index	19.4	16.2	1.9	2.9	2.1
S&P 500 Pure Value Index	12.3	10.8	0.8	1.4	2.4

As of 04.23.22. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Kovitz using data from Bloomberg Finance L.P.

…while we like that Value has outperformed Growth and enjoyed double-digit annual returns, on average, when government bond yields have risen…

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.

…and when the Federal Reserve is tightening monetary policy,…

FED TIGHTENING – VALUE & DIVIDEND PAYERS THE PLACE TO BE

Rates Change and Equities Rise

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

…and following high readings on inflation.

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

THE WALL STREET JOURNAL.

DOW JONES | ★★★★★ WEDNESDAY, APRIL 13, 2022 - VOL. CCLXXIX NO. 85 WSJ.com ★★★★ $5.00

DJIA 34220.36 ▼ 87.72 0.3% NASDAQ 13715.57 ▼ 0.3% STOXX 600 456.65 ▼ 0.4% 10-YR. TREAS. ▲ 15/32, yield 2.724% OIL $106.60 ▲ $6.31 GOLD $1972.30 ▲ $27.80 EURO $1.0829 YEN 125.39

What's News

Business & Finance

U.S. inflation surged to a four-decade high of 8.5% in March from the same month a year earlier, driven by skyrocketing energy costs, rising food prices and strong consumer demand. A1, A4-5

◆ The Biden administration said it would allow high-ethanol content gasoline to be sold in the summer months, in an effort aimed at lowering pump prices and paying political dividends in farm states. A5

◆ U.S. stocks slipped as investors pondered how the Fed will act on inflation, with the S&P 500, Dow and Nasdaq all losing 0.3%. The yield on the 10-year Treasury note set Goff'Dwer at 2.724%. B1, B13

◆ Michael Barr, a former Treasury official, in the White House's leading candidate to serve as the Fed's top banking regulator, according to people with knowledge of the administration's internal deliberations. A3

◆ GM struck a multiyear agreement to source cobalt from Glencore amid the auto industry's rush to secure key battery ingredients for electric vehicles. B1

◆ More factories in and around Shanghai, including two run by an Apple supplier, are halting production due to Covid-19 lockdowns. B1

◆ Boeing said its long-term orders for new commercial jets are expected to shrink because of sanctions targeting Russia. B3

◆ The union representing pilots at Southwest said rising rates of pilot fatigue are a threat to the airline's safety. B3

World-Wide

◆ Putin said peace talks with Kyiv had reached a "dead end," as Russian forces bombarded Ukrainian military positions and residential areas in the country's east and unleashed

Gunman Attacks Riders on New York Subway

WOUNDED: New York City police launched a citywide search after a gunman shot 10 people, none fatally, on a subway train and platform in Brooklyn during rush hour Tuesday morning. A3

Inflation Hits 40-Year High, Reaching 8.5%

Oil and gasoline drive surge in energy costs as price index rises at fastest pace since '81

By Gavan Gallagher

U.S. inflation surged to a four-decade high of 8.5% in March from the same month a year ago, driven by skyrocketing energy costs, rising food prices and strong consumer demand.

The Labor Department said Tuesday that the consumer-price index—which measures what consumers pay for goods and services—rose last month at its fastest annual pace since December 1981, up from the 7.9% annual rate in February. There have been six straight months of inflation above 6%, well above the Federal Reserve's average 2% target.

Russia's invasion of Ukraine drove a March surge in oil and gasoline prices, which hit records in mid-March, and overall energy prices shot up 11% from the prior month.

Prices for groceries also continued to accelerate in March, rising 1.5% from a month earlier, while the cost increases for dining out moderated.

The so-called core price index, which excludes the often-volatile categories of food and energy, increased 6.5% in March from a year earlier—up from February's 6.4% rise, and the sharpest 12-month rise since August 1982.

High inflation cuts against booming growth, as the economy bounces back from Covid-19, powered in part by strong demand, years of low interest rates and government stimulus intended to counter the economic impact of the pandemic and lockdowns. The

Please turn to page A4

Economic Fallout

◆ Grocers thrive as consumers pay more A4

◆ The safe investment set to yield nearly 10% A9

◆ Stocks decline as rate fears mount B1

U.S. consumer-price index, change from a year earlier

Jan. 1982 8.4% March 2022 8.5%

Source: Labor Department

Commodity Market Swings Snarl Real World Business

By Ryan Dezember

A rally in commodities prices more intense than anything seen in the modern trading era is shaking the markets meant to ease the flow of raw materials around the world.

Wild swings in futures markets are complicating business for the people and companies who actually produce and use natural gas, zinc or soybeans, to name a few. They are driving speculators and others from the markets, an exodus that has led in turn to even choppier trading and higher prices. Russia's invasion of Ukraine has added to market disruption, especially in energy and grain sectors. Bouts of inclement weather and supply-chain problems have complicated delivery in some markets.

These market increases have filtered through to higher prices for consumers, adding to pressure on the Federal Reserve to raise interest rates.

U.S. natural-gas prices have jumped 79% in 2022; usually they decline into the mild weather of spring. Oil has fallen about $23 a barrel from a recent high, but the benchmark U.S. price is still up 34% this year.

Appalachian coal, soybean oil, oats, canola, rapeseed oil, natural gas in the Netherlands, wheat in Paris and Chicago, gasoline, diesel, propane, palm oil, copper and tin have all notched new highs in 2022. Soybeans, lean hogs, frozen

Please turn to page A8

Ukraine Hunts for Proof

Putin Says Peace Talks Reach

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.

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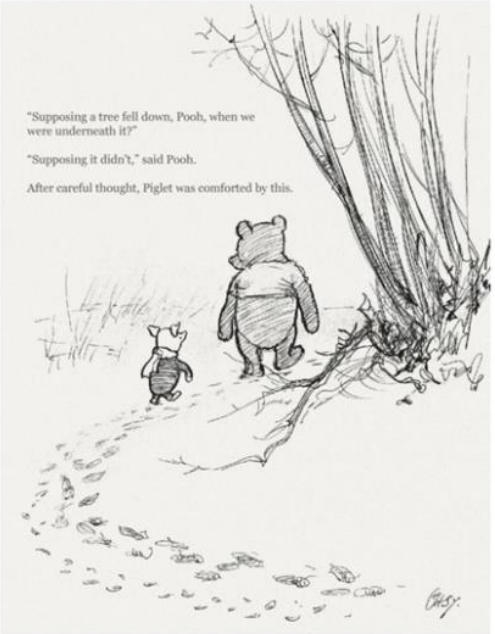
No doubt, the ongoing situation in Ukraine and other events on the geopolitical stage remain potentially significant headwinds,…

THE PRUDENT SPECULATOR

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

Ukraine has joined COVID-19, inflation, supply chain issues, rising interest rates and the Fed as bogeymen spooking investors, but history is filled with plenty of frightening events, yet equities have provided handsome rewards...for those who stick with them.



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%	49114%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	28379%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	25495%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	9925%
Suez Canal Crisis	10/30/1956	10/31/1956	46.37	45.58	-2%	-10%	26%	51%	9272%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	10859%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	7886%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	6037%
MLK Assassination	4/3/1968	4/5/1968	93.47	93.29	0%	8%	8%	16%	4479%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	5562%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	4535%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	6003%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	3960%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	4249%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	3476%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	2538%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	1645%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	1800%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	1251%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	1035%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	938%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	863%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	835%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	745%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	387%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	345%
Clinton Impeachment	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	247%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	218%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	342%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	366%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	291%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	257%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	531%
Price Changes Only - Does Not Include Dividends				**Averages:**	**-7%**	**18%**	**39%**	**66%**	**5875%**

As of 4.22.22. Source: Kovitz using Bloomberg and Ned Davis Research Events & Reaction Dates

…with worries about economies around the world on the rise, as the World Bank stated last week that it is reducing its global growth forecast for 2022 by nearly a full percentage point, to 3.2% from 4.1%, due to the impacts from Russia's invasion of Ukraine. However, talk of a potential recession in the United States does not mesh with the IMF thinking or the latest GDP growth projections from the International Monetary Fund,…

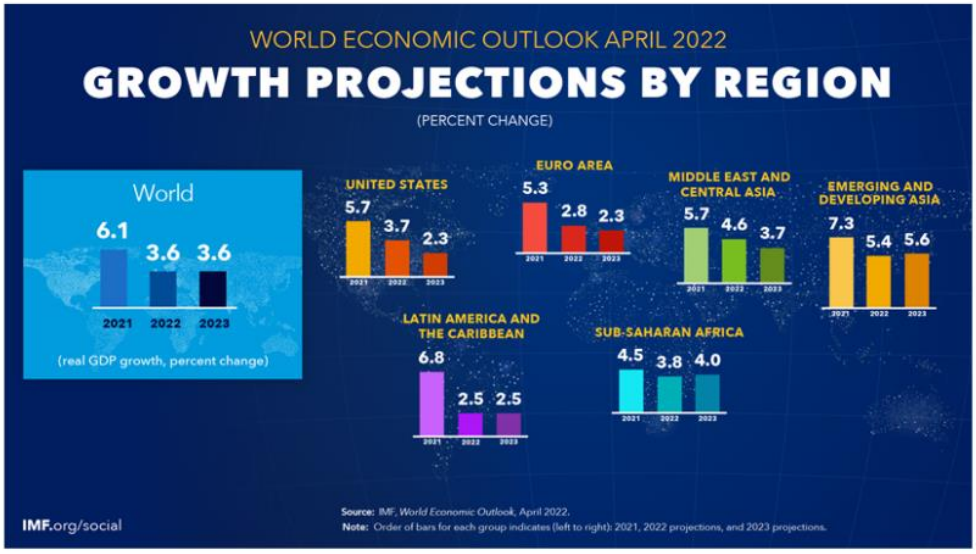
THE PRUDENT SPECULATOR

IMF APRIL WEO – 3.6% GLOBAL & 3.7% U.S. GDP GROWTH IN '22

"The war in Ukraine has triggered a costly humanitarian crisis that demands a peaceful resolution. At the same time, economic damage from the conflict will contribute to a significant slowdown in global growth in 2022 and add to inflation. Fuel and food prices have increased rapidly, hitting vulnerable populations in low-income countries hardest.

Global growth is projected to slow from an estimated 6.1% in 2021 to 3.6% in 2022 and 2023. This is 0.8 and 0.2 percentage points lower for 2022 and 2023 than projected in January.

Beyond 2023, global growth is forecast to decline to about 3.3% over the medium term. War-induced commodity price increases and broadening price pressures have led to 2022 inflation projections of 5.7% in advanced economies and 8.7% in emerging market and developing economies—1.8 and 2.8 percentage points higher than projected last January."



…nor with the forward-looking index of Leading Economic Indicators.

THE PRUDENT SPECULATOR

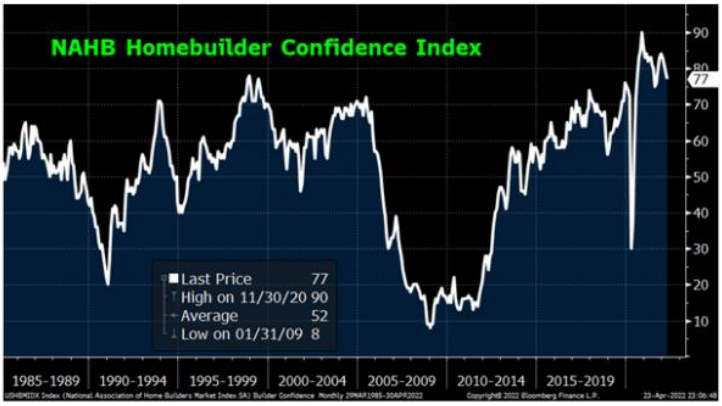
LEI RISES BY 0.3% IN MARCH, 3.0% GDP GROWTH FOR '22 EXPECTED

"The U.S. LEI rose again in March despite headwinds from the war in Ukraine. This broad-based improvement signals economic growth is likely to continue through 2022 despite volatile stock prices and weakening business and consumer expectations. The Conference Board projects 3.0 percent year-over-year U.S. GDP growth in 2022, which is slower than the 5.6 percent pace of 2021, but still well above pre-covid trend. This rate also reflects a 0.5 ppt downgrade incorporated in our base case to include the effects of the war in Ukraine compared to before the war (3.5 percent)."

True, the housing market has cooled,…

THE PRUDENT SPECULATOR

HOUSING MARKET REMAINS HEALTHY



The National Association of Home Builders' monthly confidence index for April was in line with forecasts, dipping to 77, down two points from March, but still well above the long-term average on the 35-year-old gauge. Worker shortages, high prices and rising mortgage rates were constraints, even as ground was broken on new homes last month at a still hefty seasonally adjusted annual rate of 1.79 million units, with building permits holding steady vs. February.

…and some of the economic numbers out last week declined from the month prior…

THE PRUDENT SPECULATOR

WEAKER ECONOMIC STATS

Sales of existing homes fell 2.7% in March to a better-than-expected seasonally adjusted annual rate of 5.77 million, with home prices jumping to $375,300 and unsold inventory at just a 2.0-month supply versus 6 months for a balanced market. The Philly Fed gauge of manufacturing activity pulled back to 17.6 in April, trailing expectations and down from 27.4 in March, but still well above the historical average for the important factory sector measure.

…but the latest "flash" PMI tallies from S&P Global Markit were strong,…

THE PRUDENT SPECULATOR

IHS MARKIT PMI READINGS STILL SOLID IN APRIL

The S&P Global Markit preliminary U.S. PMIs for the factory and services sectors in April came in above average at 59.7 and 54.7, respectively. S&P said, "Latest 'flash' PMI data signalled a strong, but slower increase in business activity across the U.S. economy in April. Although still faster than January's Omicron-induced slowdown, overall growth was dampened by a softer rise in service sector output following pressure on customer spending as prices continued to increase markedly. Manufacturers, on the other hand, indicated a stronger expansion in production on the back of rising demand."

…while the labor situation is extraordinarily robust.

THE PRUDENT SPECULATOR

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

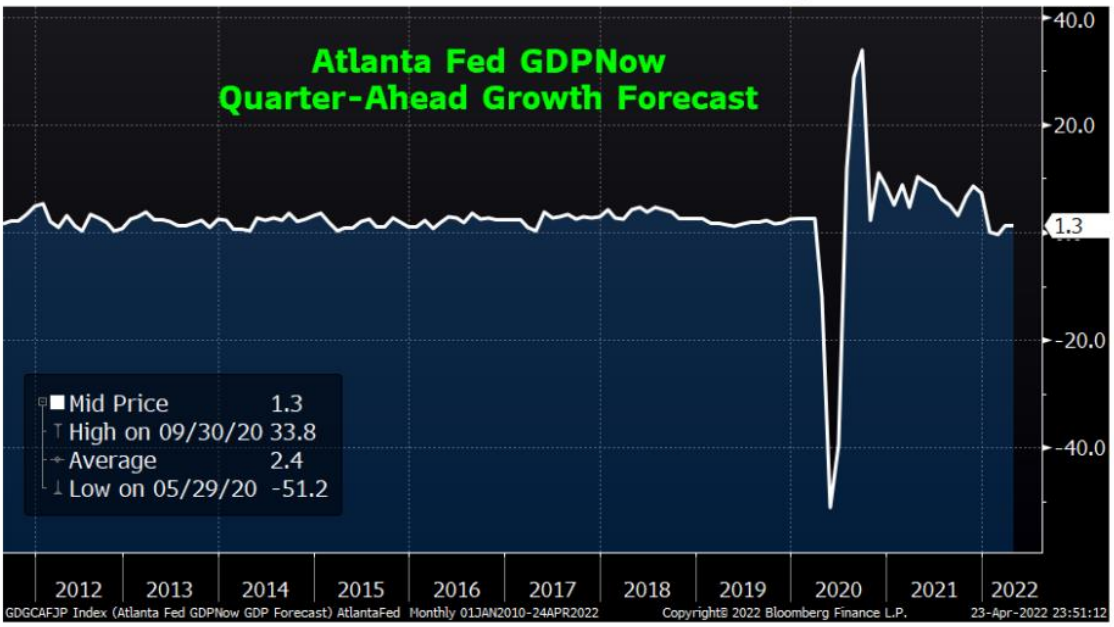
Coming in near the lowest lowest level since 1969 when the work force was much smaller, new filings for unemployment benefits for the period ended April 16 were a seasonally adjusted 184,000, down from a revised 186,000 the week prior. Continuing claims filed through state programs edged down to 1.42 million, the lowest level since 1970 as businesses continue to hold onto workers with labor so difficult to obtain.

And, the outlook for Q1 GDP Growth actually improved last week versus the week prior,…

THE PRUDENT SPECULATOR

Q1 U.S. GDP GROWTH PROJECTION INCHED UP 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 1.3%.



…while earnings reporting season thus far, with a few notable exceptions, has been very good, even if investor reactions to the results have, more often than not, been unfavorable.

THE PRUDENT SPECULATOR

FANTASTIC EPS SO FAR IN Q1 '22 AND '22/'23 ESTIMATES ARE STRONG

Q1 earnings reporting season has been terrific in terms of the results, even as many stocks sold off sharply on the news. An impressive 78.6% of the 98 S&P 500 companies to have announced have beat EPS expectations and 65.3% have exceeded revenue forecasts.

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 4.13.22

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Certainly, anything can happen as we move through 2022, and we respect that there is no assurance that the Federal Reserve will be able to engineer a so-called soft landing that avoids a recession. Even Chair Powell concedes, "I don't think you'll hear anyone at the Fed say that that's straightforward or easy. It's going to be very challenging," but we find it comforting to look at what has happened previously before and after the 15 previous real (inflation-adjusted) U.S. GDP contractions.

THE PRUDENT SPECULATOR

EQUITY RETURNS AND RECESSIONS (PRE AND POST)

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

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

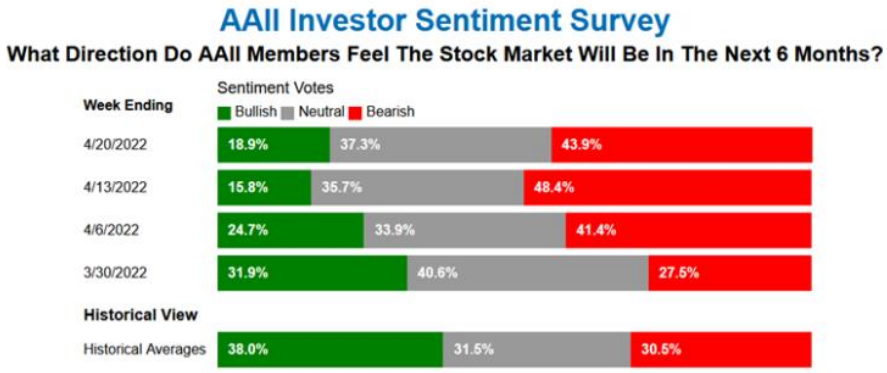
Year Prior S&P 500 TR	Year Prior FF Value TR	Recession Start Date	1 Year S&P 500 TR	1 Year FF Value TR	3 Year S&P 500 TR	3 Year FF Value TR	5 Year S&P 500 TR	5 Year FF Value TR	10 Year S&P 500 TR	10 Year FF Value TR	To Present S&P 500 TR	To Present FF Value TR
51.9%	30.8%	August 1929	-32.6%	-32.0%	-73.5%	-64.9%	-71.1%	-61.4%	-58.0%	-47.7%	313298%	8306935%
18.2%	42.6%	May 1937	-39.3%	-55.8%	-33.2%	-55.1%	-32.5%	-44.3%	53.7%	142.7%	582215%	7759742%
26.3%	54.4%	February 1945	26.0%	42.2%	12.0%	28.5%	64.3%	75.7%	379.2%	468.6%	419618%	3744739%
4.0%	4.6%	November 1948	19.2%	12.4%	101.8%	108.9%	145.2%	130.7%	542.0%	584.7%	340834%	2715765%
3.1%	4.7%	July 1953	31.9%	25.6%	128.9%	118.0%	136.5%	138.2%	308.5%	381.9%	140828%	1139258%
-1.2%	-0.4%	August 1957	10.0%	16.4%	40.2%	55.0%	55.1%	77.9%	188.9%	418.4%	64669%	538778%
-2.4%	-6.4%	April 1960	24.2%	29.0%	41.7%	51.5%	92.4%	131.0%	107.7%	268.9%	48702%	365091%
-8.4%	-20.9%	December 1969	3.9%	8.7%	41.4%	40.3%	-11.3%	-7.3%	77.0%	267.9%	20965%	92789%
-15.2%	-19.4%	November 1973	-23.8%	-14.8%	20.8%	77.1%	23.7%	142.4%	182.3%	719.9%	17712%	80870%
20.6%	31.3%	January 1980	19.5%	12.3%	49.5%	80.4%	102.4%	183.5%	342.4%	480.7%	11105%	23233%
13.0%	22.9%	July 1981	-13.3%	-0.8%	34.0%	78.6%	127.9%	217.1%	343.5%	408.6%	8950%	18258%
6.5%	-6.9%	July 1990	12.7%	9.9%	38.2%	76.0%	83.2%	129.3%	407.4%	424.9%	2200%	3867%
-21.7%	17.0%	March 2001	0.2%	14.6%	1.9%	33.8%	21.4%	83.4%	38.3%	96.0%	455%	546%
5.6%	-2.9%	December 2007	-37.0%	-38.2%	-8.3%	-14.9%	8.6%	0.9%	125.9%	117.4%	289%	229%
8.2%	-9.7%	February 2020	31.3%	38.8%							49%	70%
7.2%	**9.5%**	**Averages**	**2.2%**	**4.6%**	**28.2%**	**43.8%**	**53.3%**	**85.5%**	**217.1%**	**338.1%**	**131459%**	**1652678%**

S&P 500 as of 4.22.22. 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

As always, we are braced for downside volatility, but we see no reason to alter our enthusiasm for the long-term prospects of our broadly diversified portfolios of what we believe to be undervalued stocks. This is especially true, we think, given that so many other investors are pessimistic about the prospects for stocks.

THE PRUDENT SPECULATOR

AAII CONTRARIAN BUY SIGNAL: BULL-BEAR SPREAD = -25.0



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	906	0.26%	0.22%	1.24%	1.11%	3.59%	3.21%	6.94%	6.19%
ABOVE	7.8	62.9	904	0.16%	0.15%	0.52%	0.43%	1.96%	1.70%	4.76%	4.29%
Ten Groupings of 1810 Data Points											
1	-54.0	-15.7	181	0.52%	0.46%	2.16%	1.94%	5.58%	5.05%	10.04%	8.83%
2	-15.5	-7.9	181	0.34%	0.31%	0.99%	0.85%	3.74%	3.36%	7.03%	6.24%
3	-7.9	-1.8	181	0.29%	0.26%	1.43%	1.33%	3.28%	2.89%	7.18%	6.55%
4	-1.7	3.0	193	0.11%	0.08%	1.04%	0.95%	2.94%	2.59%	6.33%	5.81%
5	3.0	7.8	170	0.04%	0.02%	0.55%	0.44%	2.39%	2.14%	4.00%	3.46%
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%	6.00%	5.58%
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 04.21.22. 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 coming in at 18.9% and the number of Bears hitting 43.9% is a major positive. The minus 25.0% Bull-Bear spread is in the very favorable (i.e. highest future returns) 1st decile of the weekly figures going back to 1987.

Despite our long-term optimism, we note that we have a bit more cash than usual in our portfolios due to recent sales, but we hope to soon put some of these dollars to work as opprtunties arise, especially as individual stock price gyrations during earnings season are often exaggerated.

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.

Shares of **International Business Machines** (IBM – $138.25) gained more than 9% last week, following the release of Q1 financial results. The IT services concern earned an adjusted $1.40 per share, in line with the consensus analyst estimate, and revenue grew 6% year-over-year on a constant currency basis, excluding revenue from arrangements with its recently-spun-off Kyndryl. Consulting revenue growth was particularly strong (13%) with Software growing 7%

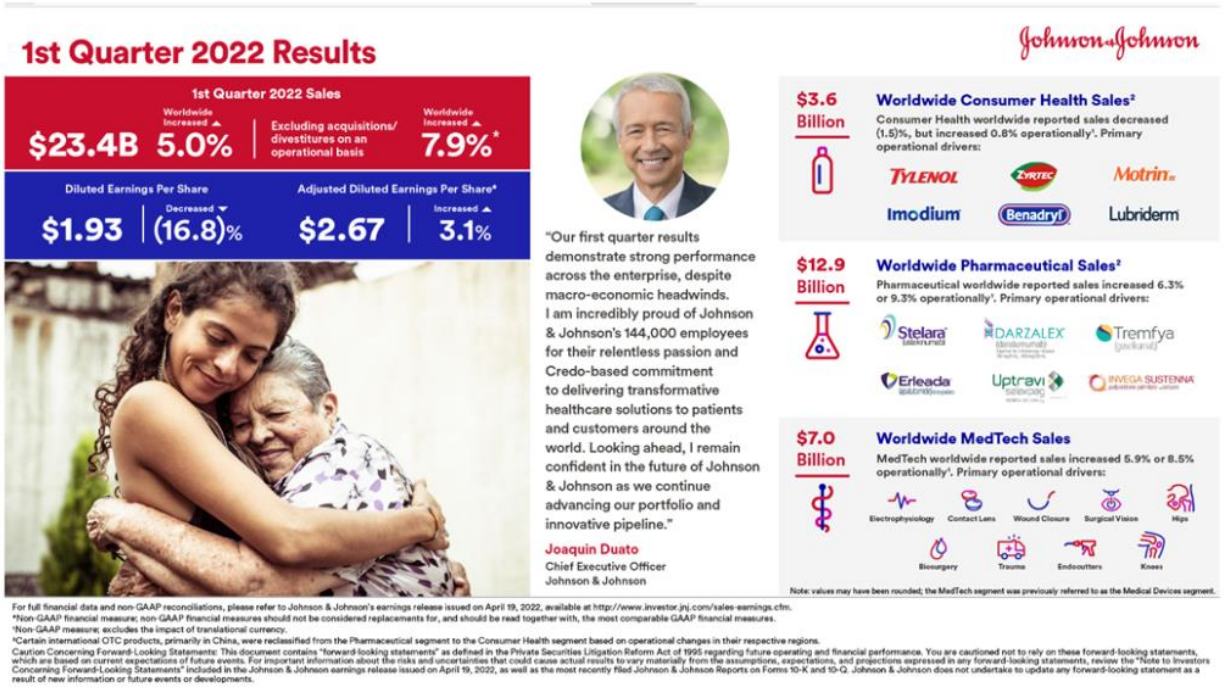
ex-Kyndryl revenue. All in, the performance appears in line with management's guidance of mid-single digit revenue growth going forward.

CEO Arvind Krishna commented, "What we are hearing from clients is clear. Technology has become a fundamental source of competitive advantage. It is at the very center of how businesses scale and is no longer perceived primarily as a way to cut costs. This is especially true in our current environment. Harnessing the power of technologies such as hybrid cloud and AI remains essential as our clients face a number of strategic challenges and opportunities, whether it's competing for talent, supply chain issues, inflation, cybersecurity or geopolitical instability. We continue to see a strong demand environment for both technology and consulting as we help our clients respond to these issues. Over the last 2 years, we have been optimizing our portfolio, expanding our ecosystem and simplifying our go-to-market to capture this demand. This quarter, we again had double-digit revenue growth in consulting, and Software growth reflects solid performance across the portfolio. Our Infrastructure business, as always, reflects product cycle dynamics. Our revenue performance this quarter is a strong indication that our focus, our investments and our actions are paying off."

CFO Jim Kavanaugh also offered, "We are maintaining our guidance at $10 billion to $10.5 billion for 2022. Again, I'll remind everyone that's an all-in free cash flow, consistent with IBM's post-separation baseline and consistent with our mid-term model of a cumulative about $35 million over the next 3 years. That basically is growing north of $2 billion of free cash flow in 2022. We started out the first quarter. We delivered $1.24 billion in free cash flow. That's about 12% attained. And by the way, that's pretty consistent with where we've been. Arguably, prior to the last 3, 4 years, we were in the high single digits. So we're off to a pretty good start."

We are encouraged by the direction the firm is headed but continue to find closing the gap between competitors in the cloud sphere an enormous task. We will be looking to see if Big Blue can maintain its momentum (particularly in consulting) should talent constraints from other major competitors alleviate over time. IBM continues to produce significant cash flow to support a substantial dividend (yield is 4.7%) and trades for less than 14 times estimated next-12-month EPS (a much-lower earnings multiple than major cloud players). At times a contentiously debated stock within our Investment Team as every stock is fighting for its place in our portfolios, our support of IBM is not perpetual should we find a compelling alternative. That said, our Target Price has been boosted to $164.

Johnson & Johnson (JNJ – $181.54) posted adjusted earnings per share of $2.67 in Q1, compared to the analyst consensus estimate of $2.59. The company reported revenue near $23.4 billion, about $0.2 billion behind the consensus estimate. JNJ was negatively impacted by supply chain constraints and labor shortages, which resulted in a 3.4% year-over-year decline in U.S. revenue. Despite the arguably disappointing top line, JNJ shares managed to gain ground in the days following the earnings release to reach a new all-time high on Tuesday, while the dividend was hiked by more than 6%.



CFO Joe Wolk commented, "Johnson & Johnson posted solid performance for the quarter, continuing to invest in the business for the long-term success while overcoming multiple macroeconomic headwinds, including inflationary pressures and higher input costs. These external challenges include limited availability and rising prices of certain commodities; as well as increased costs for labor, energy and transportation. These impacts are pervasive across the enterprise, but most notable in Consumer Health. We expect these pressures will continue to some degree throughout the remainder of 2022. However, mitigation efforts are underway, including cost improvement initiatives, strategic price increases and contract negotiations with external supply partners. We are committed to sustaining supply of the products, medicines and treatments that consumers and patients want and need."

Mr. Wolk continued, "Moving to full year 2022 guidance and key considerations. I'll start with comments on our COVID-19 vaccine and foreign exchange impacts, essentially the only items with updates from our January guidance. As market demand for all COVID-19 vaccines is currently challenged by global supply surplus and vaccine hesitancy in developing markets, we have made the decision to suspend guidance for sales of our COVID-19 vaccine. This will enable investors to focus on the performance of our core businesses, which drive the current and future value for investors. We are maintaining the total adjusted operational earnings per share guidance we provided in January, absorbing, if need be, the modest income impact from the

COVID-19 vaccine… We don't provide quarterly guidance but do understand that you find value in us providing some qualitative considerations as you update your models."

Mr. Wolk elaborated on the outlook by segment, "In Consumer Health, we expect supply constraints to continue throughout the year but not to the same extent in the second half. As a result, we anticipate that the back half performance will improve over the first half. For MedTech, while the first quarter demonstrated faster recovery than we anticipated, our full year expectations remain fairly intact. We anticipate continued market recovery and uptake from recently launched products and are monitoring the ever-changing COVID dynamics, particularly the surging cases in China. Similar to Consumer Health, we expect the second half to be stronger than the first half. As a reminder, with respect to growth rates, the second quarter was the strongest quarter for MedTech in 2021. The expectations for the Pharmaceutical base business remain the same. We anticipate delivering another year of above-market adjusted operational sales growth with relatively consistent growth throughout the remainder of the year."

Management aims to generate EPS between $10.15 and $10.35 per share in 2022, lower than the previous range of $10.40 to $10.60, with lower vaccine sales and currency issues to blame. Overall, sales are expected to come in between $94.8 billion and $95.8 billion. Despite a lot of operational momentum for the health care behemoth, the company faces plenty of litigation (talc, baby formula, opioid), currency headwinds and supply chain challenges. The lawsuits continue to work through the court system, with victories for JNJ here and there; and we think major resolution on any front would send the stock price substantially higher than the current level of just 18 times the next-12-month estimated earnings. We also like the 2.5% dividend yield. Our Target Price has been lifted to $210.

Anthem (ANTM – $502.63) shares dropped in January after rival Humana offered a lower forecast. We wrote in our *Market Commentary* following the plunge that we thought long-term trends remained in ANTM's favor and noted that Humana's own EPS estimates still showed growth above 10% for the next three years. Anthem's Q1 report, which included EPS of $8.25 (vs. $7.73 est.) and revenue of $37.9 billion (vs. $37.5 billion est.), was broadly positive and shares continued their rally, which now exceeds 17% from this year's bottom in January. ANTM benefitted from 7.5% year-over-year membership growth, expanded partnerships and virtual care capabilities and efforts to grow community health options.

CFO John Gallina said, "Outperformance in the first quarter has increased our confidence in our ability to grow adjusted earnings per share of 12% to 15% in 2022 off the adjusted baseline of $25.20, in line with our long-term target. We now expect benefit expense ratio for the full year to be at the midpoint or in the lower half of our initial full year guidance range for this metric. Given the strong start to the year, we now expect to produce adjusted net income per share greater than $28.40, representing growth of at least 12.7% from our adjusted baseline… Importantly, the expanded risk-sharing arrangements with DBG have no impact on our full year margin expectations for the Commercial & Specialty Business. We expect commercial margins to recover as the effects of the pandemic subside. We also anticipate strong earnings growth in our Medicare business. These opportunities, coupled with the expectation of continued strong double-digit growth in our services businesses, Anthem's programmatic approach to M&A and

our opportunistic focus on share repurchases, leave Anthem uniquely well-positioned for growth in the coming years."

Indeed, analysts expect ANTM's EPS growth to pick up over the next few years, from 10% in 2022 to 14% in 2024. We continue to think longer-term demographic trends are in Anthem's favor, even in its Medicare Advantage market, while the metrics remain reasonable, and the balance sheet sports $34 billion of cash and $23 billion of debt. Anthem shares yield 1.0%, but we think there's room for the company to grow the payout. Our Target Price for ANTM has been boosted to $579.

Telecommunications and wireless phone service provider **Verizon Communications** (VZ – $51.91) earned an adjusted $1.35 per share in Q1 2022 (vs. $1.345 est.). VZ had operating revenue of $33.60 billion (vs. $33.59 billion est.). Shares fell 6% on the report, however, after Verizon's quarterly update included a reduction in the full-year adjusted EPS guidance, which is now expected to come in on the low end of the $5.40 to $5.55 range. The consensus estimate is now $5.42.

CFO Matt Ellis stated, "I want to provide some additional detail around our view of the macro environment in which we operate and give context around our guidance for 2022. We saw inflationary pressures building towards the end of the first quarter and expect those to continue given the current environment. The major areas of exposure for us are energy-related costs for our network operations and transportation as well as labor-related costs, including both our direct workforce and third parties. While these items have not had a significant impact on our overall results to date, they represent a meaningful portion of our direct cost structure and have the potential to drive additional expense pressures throughout the rest of the year. We also believe that the inflation we have seen throughout the economy may alter both the consumer and business landscape in which we compete. It is too early to predict how this changed landscape may impact our near-term results or how long it will last, but we are confident that the strategy we have put in place will allow us to achieve our long-term growth plans. There has also been a significant increase in treasury yields recently. But as a reminder, the vast majority of our debt, approximately 75% to 80%, is fixed rate. The team has kept near-term maturities in the next 12 to 24 months at manageable levels, which also helps minimize near-term interest rate exposure. If the present forecast of Fed rate hikes are accurate, we anticipate an incremental cash interest impact for the year above our earlier expectations of $150 million to $200 million."

CEO Hans Vestberg added, "Our first quarter adjusted EPS results of $1.35 proves our ability to execute and deliver profitability. This demonstrates our unique position of having both a focused strategy and strong execution capabilities to meet the needs of our 4 stakeholders in the growing 5G economy. It all starts with our network expansion and execution. As you've heard me say many, many times, mobility, broadband and cloud are the essential pieces of the 21st century's infrastructure. We're already taking advantage of this infrastructure and capitalizing on an addressable market that is growing as consumers and businesses adopt 5G. We saw this growth in our wireless sales, our customer loyalty and the rapid expansion of our fixed wireless business in this quarter. Across the business, our wireless activations were up 11% year-over-year, and we delivered our best Q1 full net add performance since 2018. Additionally, our fixed wireless started to benefit from the launch of C-Band during the quarter, helping to amplify our national

broadband strategy and deliver our highest broadband net adds in over a decade. We continue to deploy C-Band rapidly, enabling more and more of our customers to enjoy our Ultra-Wideband experience, while also accelerating and amplifying our 5G revenue opportunities."

The 5G rollout is underway and we think Verizon continues to benefit from staying out of the costly content wars. The balance sheet includes lots of debt because fixed investments are expensive, but the yield is solid and the company has stable revenue streams. VZ trades with a forward P/E ratio below 10 and a yield of 4.9%, metrics that are very attractive relative to the company's historical norms. While shares are slightly positive this year, we think the reprieve presents an opportunity to add a high-quality, dividend-paying name in portfolios that might benefit from lower volatility. Our Target Price has been pared to $74.

Shares of **Newmont Corp** (NEM – $74.52) offered little respite from the sweeping market decline on Friday, sinking 3% following the release of Q1 financial results. The slide extended the loss on the week to 12%, although the price of the giant precious metals miner is still nicely in the green for the year, outpacing the S&P 500 by some 30 percentage points. Newmont turned in $0.69 of EPS in the quarter, about 4% below the Street consensus estimate, producing 1.34 million attributable ounces of gold at an all-in sustaining cost of $890. The balance sheet remains solid with $4.3 billion of consolidated cash and $7.3 billion of liquidity, while $475 million remains on the share repurchase authorization.

CEO Tom Palmer commented, "As we described in our guidance webcast slide December, we assured that escalation factor in 2022 when we develop our business plan to account for higher inflation expected during this year. During the first quarter, we remain in line with our inflation assumptions, but we are closely monitoring critical commodities and materials, such as natural gas and the ammonium used for the production of explosives and cyanide. And although difficult to predict at this stage, the cost pressures from these new supply chain disruptions may increase our unit cost by another 3% to 5% and toward the high end of our guidance range. We will be closely monitoring this through the second quarter, and we'll provide you with an update during our Q2 earnings call in July."

He added, "On the production front, we are well-positioned to land within our guidance, and are tracking to around 100,000 ounces below our midpoint for gold. We continue to expect both production and unit cost to improve through the second half, with approximately 53% of our production weighted to the back half of the year, driven by Tanami, Ahafo, Cerro Negro and our Canadian operations. And as we have demonstrated since the start of the pandemic, we will continue to be transparent as we can with our updates to the market as we leverage our proven operating model and balanced labor portfolio to overcome these near-term uncontrollable disruptions and deliver on a long-term commitments. At Newmont, we have created a robust and diverse portfolio of operations, along with a pipeline of more than 20 organic projects, with the scale and mine life to deliver long-term results. Newmont will produce more than [60] ounces of gold each year and almost 2 million gold equivalent ounces from copper, silver, lead and zinc. Combined, that is nearly 8 million equivalent ounces per year for at least the next decade, the most of any company in our industry."

We acknowledge the complexities and obstacles inherent in the mining industry but appreciate that the precious yellow has traditionally been an inflation hedge, with shares pulling their weight of late. We continue to like Newmont's scale as the country's largest gold producer, and the income from dividends (the yield is 3.0%). Of course, we will not stay wedded to the stock should we find another more attractive and more undervalued company, but at present our Target Price for NEM resides at $87.

Premium tool manufacturer **Snap-on Inc.** (SNA – $222.38) posted EPS of $4.00 in Q4, 14% better than a year ago and well above the $3.66 expected by analysts. Net sales also grew 7.1% (8.0% on an organic basis ex-currency effects) to $1.1 billion quarter. Commercial & Industrial benefited from higher sales in the Asia Pacific region, while the Tools Group segment saw increased activity in the U.S. franchise business. Repair Systems & Information had improved sales of undercar equipment, better activity with OEM dealerships, and elevated sales of diagnostics and repair information products to independent repair shop owners and managers. Shares rebound 5% in an otherwise dismal market week.

CEO Nick Pinchuk commented, "Auto repair remains quite resilient. I think, we'd say, spending on vehicle maintenance and repair is up and technicians are earning more than ever. They've been working, performing essential tasks, making a nice living. They're undaunted by the turbulence and they are optimistic about the future of their profession, about the outlook of individual transportation, and about the greater need for their skills as the vehicle part changes with new technology and all of that has led to an expansion in the ranks with the automotive repair technician count moving upward at its highest point for, I think, at least three decades. And as shop owners and managers will tell you, there's a need for many more. Vehicle repair is a strong and resilient market. You can hear it in our franchisees' voices. You could feel it in a technician's wallet, and you can see it written across our numbers."

He added, "Demand for new and used cars is high, despite the limited supply, despite the limited supply. Dealership repair, maintenance and warranty is rebounding, and dealers are starting to invest again. New vehicles are being released with a greater variety of drivetrains, with a greater variety of drivetrains than ever, from internal combustion engines, from internal combustion to hybrid to plug-in electric, to full electric, and the range of options is growing, more driver assist, more vehicle automation, increasing vehicle complexity. To tell you, it's all music to our ears. And we've been able to take advantage with our lineup of intelligent diagnostic products, by including the ZEUS, the TRITON and the APOLLO handheld units, with our celebrated Mitchell1 ProDemand repair information, our award-winning Tru-Point Advanced Driver Assist calibration system, and our 3D alignment systems like the new Hofmann Geoliner, all representing new technologies and big data deployed to make work easier right in the shop. Vehicle repair looks more promising than ever, and Snap-on is poised to capitalize."

We continue to think Snap-on is positioned to benefit as the North American vehicle fleet is estimated to be more than 12 years of age on average, with an ever-growing need to improve technician productivity given labor constraints. And as the appetite for new car purchases finally gets met with more supply, we expect service departments at dealerships across the country to increasingly rely on SNA's specialty tools and sophisticated diagnostic solutions. Snap-on is conservatively financed with little debt on the balance sheet and the franchise remains

competitively positioned within its market. The stock offers a solid dividend yield of 2.6%. Shares trade at 14 times NTM projected adjusted EPS. Our Target Price for SNA has been lifted to $293.

Advertising, marketing and corporate communications services firm **Omnicom** (OMC – $79.01) earned $1.39 per share in Q1 (vs. $1.29 est.) and had revenue of $3.41 billion (vs. $3.28 billion est.). The company benefitted from continuing client investments in "marketing, branding, consumer experience, e-commerce and digital transformation efforts" as a result of rapidly evolving digital capabilities and platforms.

CEO John Wren commented, "Overall, we're very pleased with our quarterly results. While we are off to a strong start in 2022, we continue to plan cautiously for the remainder of the year given the ongoing war in the Ukraine, the effects of the pandemic across markets, the continuing disruption of global supply chains and the economic risks posed by higher inflation and oil prices. With that said, given our strong performance in the first quarter, we are increasing our forecast for organic growth to between 6% and 6.5% for the full year 2022, and we anticipate delivering the same strong operating margins for the full year 2022 that we delivered in 2021. I'm confident we'll continue to operate at a high level through this business cycle as our agencies remain an integral partner in growing our clients' businesses."

CFO Phil Angelastro added, "Regarding our uses of cash, we used $147 million of cash to pay dividends to common shareholders and another $14 million for dividends to noncontrolling interest shareholders. Our capital expenditures of $23 million were back to normalized levels. Acquisitions, net of dispositions and other items, were $259 million. As highlighted at the back of this presentation, this included the purchase of TA Digital and is aligned with our stated strategy of pursuing acquisitions in our faster-growing disciplines. And lastly, our stock repurchases during the first quarter were $287 million net. This puts us on the way toward our historical annual range of $500 million to $600 million. This capital allocation mix may vary in emphasis as opportunities present themselves, but our overall approach and philosophy have not changed. As of March 31, our total leverage was 2.5x. In addition to the $4 billion of cash and short-term investments on the balance sheet, we also have a $2 billion U.S. commercial paper program backstopped by our $2.5 billion revolving credit facility."

When asked about client conversations related to inflation, the supply chain and economy, Mr. Wren said, "Our guidance really is based, first, sort of on a bottoms-up review company by company, sector by sector, practice area by practice area. I think just about every client I've spoken to, and I've spoken to quite a few and across the United States and Europe, recognize the uncertainty that's out there. They're not stepping back from their spending or their commitment to the brands at this point, but there is uncertainty… Now it is conservative. You have to remember that there is project work that comes up throughout the year. And the further you get out in a year, the more uncertain it is. You don't know how any of these things are going to end."

We are happy with OMC's quarter and think the company can still achieve more than $7.50 in EPS by 2024 (which would result in a P/E of less than 11 at the current price). Omnicom has relationships with big clients, including Philips, Mercedes, Nike and Diageo, and we think that there will be growing opportunities for OMC to offer its expertise in a world dominated by a

handful of large advertising platforms and their algorithms. OMC also scores well in our proprietary valuation framework, trades for just 12 times NTM earnings and sports a 3.5% dividend yield. Our Target Price has been hiked to $110.

Shares of **ManpowerGroup** (MAN – $92.39) rebounded more than 5% last week after the staffing services provider reported Q1 results that came in ahead of analyst estimates. MAN earned $1.88 per share (vs. $1.59 est.) and had revenue of $5.14 billion (vs. $5.07 billion est). Manpower benefitted from a rebound in the U.S. workforce. As a result of geopolitical conflict in Europe and a generally tight labor market, MAN's flexible staffing services and solutions also proved valuable. MAN also announced plans to dispose of its Russian business, which was not a meaningful part of revenue.

CFO John McGinnis commented, "Our gross margin came in at 17.4%. Underlying staffing margin contributed a 40 basis point increase. The Experis U.S. acquisition added 30 basis points. Permanent recruitment contributed a 90 basis point GP margin improvement as hiring activity continue to be strong across our largest markets… [In Q2 2022,] our guidance continues to assume no material additional COVID-19 or Russia-Ukraine war-related impacts beyond those that exist today. On that basis, we are forecasting underlying earnings per share for the second quarter to be in the range of $2.31 to $2.39, which includes an unfavorable foreign currency impact of $0.19 per share. This does not include the impact of acquisition integration costs of $4 million to $6 million, which will continue to be broken out separately from ongoing operations. Regarding revenues, the stabilized impact of the regulation in Mexico continues to represent a year-over-year revenue loss of about 2% again in the second quarter of 2022. Considering this, our constant currency revenue guidance growth range is between 6% and 10% and at the midpoint represents 8%…We expect our EBITA margin during the second quarter to be up 40 basis points at the midpoint compared to the prior year, with the acquired U.S. Experis business contributing 20 basis points of the improvement."

CFO Jonas Prising added, "Let me share with you more on how the teams are responding to the Ukraine crisis across our business. We are acutely focused on where we can provide the greatest impact and be a part of the solution. As we covered in our last earnings call, we sold our Russia business, which included operations in Ukraine, in January this year as part of our ongoing geographical portfolio strategy. And as a result, even before the invasion, we were no longer employing people in Russia and Ukraine. At this time, our heartfelt sympathy and support goes out to our former colleagues in both Ukraine and Russia as their focus on values have always been centered on providing sustainable work to others and serving clients. We also have a long history of employing Ukrainian talent in Poland, the Czech Republic and other neighboring countries, a strong motivation and foundation to provide humanitarian and employment support during this crisis… Our management teams are managing very well in the current environment, which, outside of some of the industry verticals I discussed, continues to be an environment in which there are very good growth opportunities. Should this change, we will manage risks to economic growth as we always do, proactively and in a manner that continues to position ManpowerGroup for ongoing success. But for now, we are investing additional resources in markets where we continue to see opportunities for profitable growth. And as always, it is our people that drive our success and all we accomplish. We were recently recognized by The Wall Street Journal and the Drucker Institute as one of the top 250 Managed Companies, scoring

especially highly for sustainability. We were also recognized as one of the World's Most Ethical Companies for the 13th year by Ethisphere, a global leader in defining and advancing the standards of ethical business practices."

We thought the environment coming out of the pandemic would be uniquely well suited to Manpower, especially as flexibility and scaling seemed likely to become chief among the list of important criteria for corporate workforces around the world. Unfortunately, geopolitical conflict (including the Russo-Ukrainian War), rising inflation and high-impact supply chain bottlenecks threw a wrench into plans but we are glad to see that MAN's management is working to adapt quickly to the current conditions. Of course, Manpower has managed through many crises throughout its 70-plus-year history and the company's solid financial footing has allowed it to continue to make acquisitions, pay dividends and repurchase shares, noting that over a third of the outstanding stock has been bought back since 2014, while the dividend has been increased 11 consecutive years. We continue to find shares attractive, as earnings are expected to surpass $11 per share by 2024 and the forward P/E ratio is just 10. The next dividend payment, which is paid twice per year, is expected in May and the yield is 2.7%. Our Target Price now stands at $149.

Lam Research (LRCX – $463.13) reported fiscal Q3 2022 results that came up slightly short of analyst expectations, though the share price managed a 1.5% gain last week. The semiconductor capital equipment maker earned an adjusted $7.40 per share (vs. $7.52 est.) with revenue of $4.06 billion (vs. $4.25 billion est.).

Lam CEO Tim Archer explained that the supply-chain constrained environment had a significant impact on LRCX in the quarter, "While we were able to deliver results within our guided ranges, I am disappointed that we're not performing better in a very strong demand environment for our equipment and services. Continued component shortages, along with new challenges that emerged, including COVID-related lockdowns, along with — exacerbated an already stressed supply chain situation. As a result of the larger range of issues, our original expectation for the timing of output recovery proved to be optimistic. While the near-term pace of supply chain recovery is difficult to assess, we are confident that our actions will result in progressive improvement in our performance on a go-forward basis. Our deferred revenue balance exiting the March quarter was over $2 billion as we shipped systems to customers to accelerate tool installation but could not recognize this revenue within the quarter due to the lack of certain critical components."

Mr. Archer continued, "On the demand side, the environment remains very strong. While continued supply-related delays could potentially limit how much wafer fabrication equipment investment can be executed in 2022, our current WFE view is still in the $100 billion range. We see unconstrained demand exceeding $100 billion in 2022, and any unmet demand should flow into next year. Our confidence is rooted in the fact that the powerful secular drivers of WFE spending are unchanged. Greater semiconductor content, rising device complexity, and larger die sizes all contribute to a healthy setup for sustainably strong WFE levels. An example of this can be seen in the smartphone segment, where unit growth may be flattening year-over-year due to inflationary-driven softness in consumer markets, but the average NAND and DRAM content is increasing around 20% year-over-year, driving demand for WFE. In servers, we see overall

growth in both units and content, with server DRAM content per CPU growing in the 20% range from the prior year."

Mr. Archer concluded, "To wrap up, we believe we are making progress on the extraordinary industry supply challenges, but overcoming the breadth of issues that have emerged is taking longer than we initially expected. We are focused on meeting the critical needs of our customers and have committed both the financial resources and workforce required to recover as quickly as possible. With continued strength in the equipment demand environment and progressive improvement in our supply chain, we do expect Lam to post another solid year of revenue and EPS growth."

CFO Doug Bettinger added, "We were active in our buybacks during the March quarter, allocating over $1.2 billion towards share repurchases. The cash was deployed in a combination of open market repurchases as well as an accelerated share repurchase program. The ASR will continue to execute during the June quarter. We paid $211 million in dividends during the March quarter as well. March quarter diluted earnings per share was $7.40. Diluted share count was 140 million shares, which was lower than the December quarter and less than our March quarter expectation due to the increased share repurchase activity."

Analyst supply chain checks and peer analysis suggested that most of the semiconductor market has been working through supply chain challenges, so the underperformance in Q3 did not come out of left field. Indeed, LRCX shares have tumbled from nearly $730 in January to less than $470 as of this writing. That's consistent with the historical boom-then-bust cycle for many constituents of the semiconductor market, but we think the supply chain challenges have done little in the way to hamper demand. Therefore, we believe that we will see a strong resurgence in interest for LRCX shares once the headwinds are blowing less strongly and there's better ability for the company to execute. The valuation remains reasonable, including a forward 12-month P/E ratio that now stands at 13 times, while 17% projected EPS growth for fiscal 2022 and 20% for 2023 compresses the P/E further. Of course, we have previously taken money off the table, so our position size is generally not large in our broadly diversified portfolios, meaning that we are comfortable maintaining this reasonably priced exposure to an industry with what we believe to be very lucrative prospects over the next few years. Our Target Price is now $753.

Bank of America (BAC – $37.56) earned $0.80 per share in Q1 as net interest income, loans and deposits all trended higher both sequentially and year-over-year. The bottom-line figure came in 7.5% above the consensus analyst estimate, although a normalizing capital markets business and a massive release from credit reserves created a tough relative comp vs. Q1 2021. America's largest retail bank generated more digital sales than non-digital for the first time in the period, with sales in the channel doubling the pre-pandemic level. Similar to other major money center banks, BAC's trading division contributed another strong quarter, with management citing profitable operations every day in the reporting period.

CEO Brian Moynihan seemed a bit more upbeat on the health of the economy than peers, stating, "This quarter, our resilience was tested. And once again, we maintained a focus on what we control and grew responsibly and earned our way through the turmoil. So as we talked to you during the quarter, many of you expressed questions about the impact of the macro environment

and changes in our company. So the lingering impact of the pandemic on supply chains and business opportunity, inflation and Fed reduction of monetary… the impacts of Russian-Ukraine war, both on the first order effect and second order effects. We do remain mindful of all these. So could a slowdown in the economy happen? Perhaps. But right now, the size of the economy is bigger than pre-pandemic levels. Consumer spending remains strong, unemployment is low and wages are rising. Company earnings are also generally strong. Credit is widely available. And our customers' usage of their lines of credit is still low, i.e., they have capacity to borrow more."

BAC's consumer base also appears to remain in great shape as evidenced by average consumer deposit balances and spending data. Mr. Moynihan elaborated, "Our data showed continued growth in the average deposit balance across all customer levels, which suggests capacity for strong spending continue. On an aggregated basis, average deposit balances were up 47% from pre-pandemic levels and 15% higher than 2021. And the momentum continued through quarter 1, particularly in the low balance accounts, which grew in February to March, continuing a streak since mid-last year…Bank of America consumers spent at the highest-ever quarter 1 level, which is a double-digit percentage increase over the 2021 level…From our card spend to date, we have seen a strong recovery in travel, entertainment, restaurant spending. By the way, even with the fuel costs up 40% and more from last year, fuel represents about 6% of overall debit and credit card spending and a lot less of overall spending as cards as you can see in the lower left, is 21% of all spending."

With most of the jump in rates coming towards the end of Q1, we expect much more of a benefit to net interest income (NII) as we move through the year. Management anticipates earning $5.4 billion of additional NII over the next 12 months should the structure of forward rates climb by an additional 100 basis points. Of course, the corollary to this, given bond-valuation calculus, is that bank capital could tread water for a short time, thereby slowing capital returns to shareholders, but this would be offset by higher earnings power. As BAC is expected to keep expenses relatively stable over the next year, much of that would-be profit boost would likely fall to the bottom line, adding to the bank's streak of improving operating leverage.

BAC remains a favored holding in many of our diversified portfolios as we continue to appreciate the company's propensity to stretch its technological capability, with increasing digitization of transactions driving continued efficiencies over time. Shares rallied following the earnings announcement last week but gave all the advance back by week's end. They now trade at an attractive forward P/E multiple under 11, given the 15% decline year-to-date. The dividend yield is 2.2% and our Target Price remains $55.

Shares of **Comerica Inc.** (CMA – $80.97) slid 8% last week as the regional bank announced that its adjusted EPS was $1.37 in Q1, in line with the consensus analyst forecast. The figure was a 14% decline from Q4 on a pre-tax, pre-provision basis, mostly a result of lower noninterest income even as expenses were also lower. Net interest income was also modestly lower, a result of pulling balances from the Fed, but ought to result in higher income throughout the year as liquidity was deployed into higher margin assets. Credit remains very strong with net charge-offs representing just 6 basis points of loans in the quarter.

Perhaps the biggest disappointment for some was the election by management to reduce the interest rate sensitivity of its loan book. According to company estimates, a 100-basis-point parallel move higher across maturities would result in a $160 million boost to net interest income, down from about $200 million estimated a quarter ago. Of course, rates are higher than they were 3 months ago, and the move is a result of an effort to produce more consistent returns throughout the business cycle. We remind that CFO James Herzog hinted that the bank would likely leave some potential upside on the table as it sought to avoid the risk of rates declining from any potential shocks to the economy, especially given the rocky nature of economy over the past several years.

Mr. Herzog informed, "There is no change in our expectation for broad-based average loan growth on a year-over-year basis in the mid-single-digit range, excluding the decline in PPP loans. This includes a decline in mortgage banker from the continued normalization of refi volumes and lower national dealer due to a slow rebound as a result of supply chain issues. Including PPP, average loans year-over-year are expected to be stable. This outlook reflects our robust pipeline and positive momentum in many businesses. Relative to the first quarter, we expect average loans to grow 1% to 2% each quarter, with a seasonal pickup in mortgage banker along with growth in nearly every business line. Post the seasonal decline in the first quarter, our base assumption is that deposits are expected to modestly decline for the remainder of the year, with modest growth in wealth management and retail more than offset by a moderate decline in commercial deposits. However, the magnitude may be impacted by the pace of Fed tightening and economic trends as these are major drivers for deposits…Note that rate increases beyond May, and the growth of our securities and swap portfolios present additional upside. Credit quality is expected to remain strong with net charge-offs continuing to trend to the lower end of our normal 20 to 40 basis points. Assuming sustained economic strength and the impacts from supply chain issues, labor constraints and inflation remain manageable, we expect criticized and nonaccrual loans to remain low. As far as noninterest income, there is no change to our outlook."

CEO Curt Farmer added, "In light of the evolving post-COVID environment, we are taking a fresh look at our retail banking approach, corporate facilities and technology platform. These are areas that we are constantly evaluating, but with the pace of change accelerating we are acting with even more urgency. For example, within our retail bank, we continue to focus on transforming the delivery of our services, aligning right resources to best serve our customers and enhancing our small business focus. Also, we are developing additional initiatives around optimizing our facilities for our employees. The goal is to better accommodate flexible work arrangements, reduce our footprint and improve efficiency while maximizing locations that best serve our customers. As far as technology, we are increasingly focused on ways to meet customers and colleagues rapidly increasing desire to utilize digital channels. We believe these initiatives are essential and foundational to continuing to effectively execute our relationship banking strategy as we have for the past 173 years."

We like that the Comerica has one of the most attractive deposit franchises and its growth in Texas and California has helped diversify risk in Michigan, where it remains a dominant player. We like Comerica's longer-term prospects as the company realizes value from its deep, advisor-style relationships with small and midsize business clients. Fee income and wealth management

also help support the bottom line as we await improvement of interest rate spreads. Shares offer a dividend yield of 3.4% and a forward P/E of 10. Our Target Price for CMA is now $107.

Global custody giant **Bank of New York Mellon** (BK – $44.21) announced that it earned an adjusted $0.86 per share in Q1, an 11% reduction from a year ago, as lower fee revenue from accelerated amortization and costs for services related to Russia offset the gains in net interest income and the reduction of money market fee waivers. Assets under custody and/or administration and assets under management ebbed modestly on a sequential basis to $45.5 trillion and $2.3 trillion, respectively. Management bought back 1.9 million common shares for $118 million (roughly $62 per share) but scaled plans to return 100% of earnings back to 75% throughout 2022 given a desire to build regulatory capital. Having served as interim CEO following the departure of Charlie Scharf, Todd Gibbons will retire from a long career with BNY. Robin Vince is slated to take the position at the end of August.

Mr. Gibbons said, "We are in an increasingly uncertain environment, including the war in Ukraine, volatile markets, and persistently higher inflation which will require more meaningful monetary policy adjustments. It is in times like these that our strong, lower risk balance sheet and the resiliency of our business model differentiates us."

He concluded, "We generated a significant amount of capital and returned close to 60% of earnings to our shareholders, primarily through common dividends. Throughout the quarter, we took actions in the investment securities portfolio to temper the immediate impact to capital from higher interest rates. And we expect higher interest rates to be a positive for both fee and net interest revenue going forward."

Shares traded down 6.5% last week and are off about 24% on the year. Management expects net interest revenue growth of 13% in 2022, as higher rates stand to recruit flows into money markets from deposit accounts. As the largest custody bank, BK has been able to use a sticky client base to generate double-digit returns on tangible equity. The stock trades close to book value per share and for 9 times NTM earnings, with a dividend yield of 3.1%. Our Target Price for BK has been trimmed to $69.

Fifth Third Bancorp (FITB – $38.43) reported Q1 adjusted earnings per share of $0.68 that came in shy of analyst consensus ($0.70), with the bottom line hurt by lower fee income and fewer days in the quarter. Excluding the impact of PPP-related income, net interest income grew 1% sequentially to $1.2 billion as net interest margin expanded 4 basis points and average loans grew 3.6% vs. Q4. CEO Greg Carmichael is set to retire from the top slot effective July 5, with current President Tim Spence set to take his place.

In his parting remarks, Mr. Carmichael concluded, "We expect our intentionally asset-sensitive balance sheet to perform extremely relative to peers in this rate environment. With the revenue benefits of higher rates are obvious, we are mindful that there are likely to be elevated risk in the overall U.S. economy if the Fed aggressively tightens monetary policy to curb inflation, combined with the existing supply chain constraints and labor shortages. However, because of our actions and positioning, Fifth Third is as strong as ever and well positioned for long-term outperformance."

CFO James Leonard mentioned that he expects full year NII to increase approximately 13% to 14, which incorporates the runoff impacts (roughly a 4% headwind) from the PPP and Ginnie Mae portfolios. He added, "While we remain confident in the quality of our deposit base, the rapid and aggressive policy response by the Fed to curb inflation, including the potential for 10 rate hikes from March 2022 to March 2023 and aggressive Fed balance sheet reductions, we expect deposit betas of approximately 25% and over the first 200 basis points this cycle compared to the mid-30s last cycle. The ultimate impact to NII of incremental rate hikes will be dependent on the timing and magnitude of interest rate movements, balance sheet management strategies: including securities growth and hedging transactions, and realized deposit betas. We expect adjusted noninterest income to be stable to down 1% in 2022 and compared to our prior expectations of up 3% to 5%. This change is primarily driven by the change in our rate outlook."

We continue to think Fifth Third is a quality regional bank with solid pricing power, attractive market share and a loyal client base. Following a tremendous rally in 2021, shares have cooled some 24% from their 52-week high to trade below the peer median forward P/E ratio (9.8 vs. 10.8). We anticipate commercial loan growth will continue to heat up over the next few quarters. The dividend yield is 3.1% and our Target Price is now $52.

Citizens Financial Group (CFG – $41.84) earned $1.07 in Q1, better than the $0.92 expected by analysts. Net interest income gained a modest 2% vs Q4 as net interest margin expanded 9 basis points to 2.75% and there was 1% growth in average interest earnings assets. Like other regional banks in our coverage, Citizen's experienced an 8% reduction of noninterest income with notable declines in revenue from capital markets and mortgage banking segments. CFG completed the conversion of the 80 branches and online customers it acquired from HSBC in addition to closing the Investors acquisition on April 6.

Overview(1)

1Q22 results reflect our diversified business model

- Underlying net income of $476 million and EPS of $1.07
- Underlying PPNR of $587 million, down 17% from 4Q21 and down 11% from 1Q21 reflects lower fees, partially offset by higher NII
  - NII up 2% QoQ given 9 bps increase in net interest margin and strong loan growth
    - Interest-bearing deposit costs of 10 bps, down 3 bps QoQ
  - Fees of $498 million, down 16% QoQ given lower capital markets fees from prior quarter record
- Average loans up 3% QoQ; Period-end loans up 2%
- Underlying credit provision benefit of $21 million reflects the continuing strong credit performance across retail and commercial
- Underlying ROTCE of 13.0% compares with 14.6% in 4Q21 and 17.6% in 1Q21

Prioritizing major strategic initiatives

- Completed acquisitions of HSBC East Coast branches and national online deposits (the "HSBC transaction") on February 18th and Investors Bancorp on April 6th
- TOP 7 making progress, targeting ~$100 million pre-tax run-rate benefit by YE2022
- Consumer: transformative national expansion strategy and digital transformation; growing Citizens Pay™, driving momentum in wealth, entering NYC Metro and New Jersey Markets
- Commercial: enhancing coverage model, diversifying fee capabilities, expanding into high-growth sectors and supporting the growth of private capital

Credit trends favorable

- Credit remains excellent across retail and commercial; NCOs of 19 bps, up slightly from historically low 4Q21, NPLs to loans of 0.60%, up from 0.55% at 4Q21
- Allowance for credit losses coverage ratio of 1.43%

Strong capital, liquidity and funding

- Strong capital levels with a CET1 ratio of 9.7%(2); compares with 9.9% in 4Q21 and 10.1% in 1Q21
- Period-end LDR ratio of 83% vs. 81% a year ago; average DDA up 11% YoY and down 1% QoQ, 31% of total deposits
- TBV/share of $30.97, down 10.5% QoQ

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See pages 26-27 for notes and important information on Non-GAAP Financial Measures, including "Underlying" results. "Underlying" results exclude the impact of notable items described on page 25.

Highlighting several topics of importance for investors, CEO Bruce Winfield Van Saun commented, "First, and to be clear, we will benefit nicely from the accelerated path to higher rates. Our funding base is vastly improved from where it was entering the last rate up cycle. We have a 7% benefit from a 200 basis point gradual rise in rates, a 10 basis point cost of interest-bearing deposits and an 83% loan-to-deposit ratio. We project roughly $300 million in higher NII given the current curve, which annualizes to much more in 2023. This will more than offset roughly $100 million in lower fee income from the environment. John will take you through this in detail in his remarks. Second, while inflation pressures are real and the possibility of recession in 2023 has increased, we feel our credit risk position is in very good shape. We have maintained a super prime to high prime risk appetite in consumer. And over time, we have migrated our credit exposure in commercial to bigger companies who have better credit profiles. As a result, our overall credit profile has improved over time. Our real life and [Comprehensive Capital Analysis and Review] stress test results demonstrate that our credit profile is slightly better than middle of the super-regional pack, and we have carefully assessed investors credit book and lost history and remain confident in their positioning, which we will further harmonize over time. Lastly, with respect to acquisitions, I would like to highlight that our focus in '22 is on integrating the acquisitions that we made last year and getting each of those off to a strong start, particularly our New York City Metro area initiative."

Including business from HSBC and Investors Bank M&A, Citizens is forecasting 27% to 30% net interest income growth in 2022. CFO John Woods elaborated on the bank's positioning relative to history as we head into the rate upcycle, "Importantly, our expected asset sensitivity reflects how we have completely transformed our funding base since the IPO. We are beginning the current up cycle with a very strong liquidity profile. Our LDR is much lower. Our deposit costs are as low as they've ever been, and our overall funding profile is greatly improved. Our period-end demand deposits are now 32% of the book compared with 27% at the beginning of the last rate cycle. And within our interest-bearing deposits, our consumer CDs are now less than 3% of total deposits compared with about 10% at the start of the last cycle. We are also starting this cycle with a much lower level of floating wholesale funding. This improved deposit profile reflects the significant improvements we've made for our deposit franchise since the IPO with improved and expanded retail and commercial deposit offerings. We have also enhanced data analytics that allow us to attract and retain more stable deposits. With a better starting position and the improvements in our deposit mix and capabilities, we expect our interest-bearing beta to be about 35% over this rate cycle, which is meaningfully lower than the last cycle. Our overall asset sensitivity stands at 7% at the end of the first quarter, this is down modestly from 10% at the end of 4Q, with the decrease primarily driven by the denominator impact of our higher NII outlook, given the benefits from the April 6 forward curve and the evolution in the balance sheet."

We continue to think the moves to acquire mid-Atlantic assets from HSBC and Investors complement and round out CFG's existing territory, while adding stability through additional fee generation. The enhanced scale ought to lift returns on tangible equity, which have averaged over 12% over the past 5 years. Shares trade for less than the peer median multiple of tangible book value (1.5 times) and less than 9 times earnings expected over the next year. The dividend yield is a robust 3.7% and our Target Price has been inched up to $72.

Truist Financial (TFC – $50.89) earned $1.23 per share in Q1, some 20% better than analyst consensus and one of few regional banks that reported results last week to lap its comp from Q1 2020, thanks to a relative benefit from unwinding credit reserves. Looking under the hood, the southeastern regional bank experienced modest declines in net interest (not counting the negative credit provision) and noninterest income, while expenses were a bit higher versus a year ago. However, credit remains strong as nonperforming loans shrank to 21 basis points of total assets, while deposits grew 1% vs. Q4.

Management now expects adjusted revenue growth of 3% to 4% from 2021, with the mix now tilted towards net interest income, given the outlook for higher short-term interest rates. This assumes lower fees primarily in residential mortgage and investment banking. The bank is still targeting positive operating leverage on a GAAP and adjusted basis in 2022.

Turning the page from integration hurdles, CEO Bill Rogers commented, "As we shift our focus from integration to executional excellence, we will maintain our focus on realizing remaining cost savings. Much of that will happen in the second half of '22 as we decommission over 900 business applications and 3 of our 6 data centers. Our decommissioning efforts are complex and significant and we are on track. With our final integration largely complete, our technology teams will shift towards further enhancing client and teammate experience… Strategically, the

completion of our core bank conversion positions us to fully shift our focus on executional excellence, transformation and growth. Our businesses that went through earlier conversions in 2021 such as wealth and mortgage are beginning to see the benefits of this shift, whether in the form of new adviser hiring in wealth or significantly improved client satisfaction scores in mortgage. Financially, the first quarter should be at the bottom for net interest income and net interest margin, and fee performance should improve as market conditions normalize and we capitalize on the significant integrated relationship management and revenue synergy potential we have as a company. In addition, the completion of the integration means merger costs will decrease dramatically through the remainder of 2022 and we'll realize our remaining cost saves as data centers and systems are decommissioned in the back half of the year, all of which help drive positive operating leverage."

He concluded, "I remain highly optimistic about the potential and the opportunity for Truist…Our opportunity and priorities are clear: shift from an integration focus to execution focus, deliver better client experiences, capture the significant IRM and revenue synergy potential we have to shift the millions of hours of development training and effort from the integration to building better lives for our clients. This shift does not require any incremental risk appetite or capital, it only requires execution and focus. At the same time, while we believe the economy is on sound footing in the near term, the headwinds of geopolitical uncertainty, coupled with the inflationary environment and aggressive forecast for the tightening of monetary policy, create a wide range of economic outlooks as we move further into this year and next. Truist is well positioned across all of these environments given our advice-oriented model for our clients, balanced approach to interest rate risk management, conservative credit culture, diverse business mix and strong and improving earnings profile."

We continue to find the marriage of BB&T and SunTrust favorable, given the conservative lending culture and competitive brands that both banks had independently, and the potential for cost savings. Mr. Rogers suggested that "total merger costs will be cut approximately in half in 2022 compared to last year and then fall out of our expense base entirely after this year." We'll be watching for operating leverage to improve as benefits from the merger flow through. In particular, management has guided for expenses and headcount to trend downward going forward, with the opposite expected of loan growth and net interest income. We think TFC trades at an attractive forward P/E ratio near 10, and, although share repurchases are on pause for now, we find the yield of 3.8% very appealing. Our Target Price now resides at $74.

Shares of **Synchrony Financial** (SYF – $37.98) gained sharply after the company reported strong Q1 2022 results but they lost all the increase by the end of the week. The consumer financial services outfit earned $1.77 per share in the quarter, ahead of the $1.54 consensus estimate, a result of lower-than-expected credit losses and charge-offs. The company's net interest margin was 15.8% (vs. 15.7% est.), the efficiency ratio, a measure of SYF's ability to use assets to generate revenue, was 37.2% (38.6% est.), and customer purchase volume was $40.5 billion (vs. $39.8 billion est.).

CEO Brian Doubles commented, "Synchrony delivered strong financial results for the first quarter of 2022, including net earnings of $932 million or $1.77 per diluted share. A return on average assets of 4% and a return on tangible common equity of 34.9%. This financial

performance was driven by the core strengths of our business and the continued execution of our key strategic priorities to drive greater value for our partners, providers and customers. We continue to expand and diversify our portfolio during the first quarter with the addition of renewal of more than 15 partners. We also continue to extend our reach and engage more customers, thanks to the powerful combination of our seamless experiences, attractive value propositions and broad suite of flexible financing options. New accounts grew 10% during the first quarter, reaching $5.5 million, and average active accounts increased 6%."

CFO Brian Wenzel added, "Loans grew 8% year-over-year to $83 billion, including loan receivables of $78.9 billion and held for sale receivables of $4 billion. At the platform level, year-over-year loan growth rates accelerated from the fourth quarter as strong purchase volume and some easing in payment rates contributed to balance growth. Net interest income increased 10% to $3.8 billion, primarily reflecting a 7% increase in interest and fees due to higher average loan receivables."

Mr. Wenzel continued, "As part of our capital plan, the Board has approved a 5% increase in our common dividend, bringing it to $0.23 per share beginning in the third quarter 2022. In addition, our Board has approved an incremental share repurchase authorization of $2.8 billion for the period ending June 2023. Inclusive of the remaining $251 million authorization we had at March 31, this brings our total share repurchase authorization to $3.1 billion."

Turning to the outlook, Mr. Wenzel said, "We've assumed that the pandemic remains well controlled that any rising cases will not have a material impact on the economy or our customers. Our macroeconomic scenarios include a minimum of 5 interest rate increases during 2022, qualitative tightening measures starting in the second quarter, a slowing economy resulting from these actions and continued higher inflationary conditions. While the macroeconomic environment is uncertain, given the dynamics of the portfolio as we see them today, we do not anticipate a material impact on our full year 2022 outlook for loan receivables and credit performance. We expect consumer demand to remain robust, supporting broad-based purchase volume growth across the various industries and markets we serve. As consumer savings begin to decline and payment rate moderates, while on a lag, we would expect purchase volume growth to moderate as the year progresses. Given the strong purchase volume and loan receivables growth we've achieved, we expect ending loan receivables growth of approximately 10% versus the prior year. To the extent that payment rate moderates further, we would anticipate purchase volume to moderate and loan growth to accelerate."

We are fans of the increased share repurchase plan and believe SYF's broad array of credit programs will continue to resonate with consumers on financial terms and in simplicity. For example, SYF's partnership with PayPal includes a just-refreshed co-branded credit card with 3% cashback for PayPal purchases and 2% everywhere else. In addition, the payment method is integrated into the PayPal mobile app and is available for use in digital wallets. While the partnerships are exciting for many reasons, we are mindful, however, that the top five partners represent close to 50% of total revenue. After a strong 2021, SYF shares have declined 18% this year and we continue to view SYF as a higher-risk, higher-return name within our group of Financials. Shares trade at an attractive single digit P/E multiple below 7, with a dividend yield of 2.3%. Our Target Price is now $60.