Market Commentary Monday, May 9, 2022

May 9, 2022

EXECUTIVE SUMMARY

Newsletter Trades – 7 Buys for Three Portfolios
Week in Review – Value in the Green; Growth in the Red
Volatility – Sizable Up and Down Days for the Dow on a Daily Basis, But Minimal Movement for the Week
Fed Meeting – 50 Basis Point Hike in the Fed Funds Rate
Econ Outlook – Numbers Still Suggesting Solid Growth for 2022
Real vs. Nominal – Inflation-Adjusted Q1 GDP Contracts; Actual GDP Soars; Significant Corporate Profit Growth Still the Forecast
Valuations – Stocks Remain Attractive
Sentiment – Buy Signals from *CNBC* and AAII
Tech Bubble – Today Looking a Lot Like 2000
Stock News – Updates on LEG, MOS, NTR, ZBH, CMI, REG, MRNA, LITE, KLIC, ALB, CAH, WRK, GT, NLOK & EOG

Market Review

As discussed in the May edition of *The Prudent Speculator*, we bought 87 shares of **General Motors** (GM – $39.58) at $40.11 for Buckingham Portfolio on Thursday, May 5.

In our hypothetical portfolios, we added the following, also on Thursday, May 5.

Millennium Portfolio
115 **Comcast** (CMCSA – $40.00) at $41.13
99 **Cohu** (COHU – $28.31) at $28.77
769 **New York Community Bancorp** (NYCB – $9.25) at $9.54

PruFolio
71 **Bristol–Myers** (BMY – $76.67) at $76.39
151 **TotalEnergies SE** (TTE – $53.74) at $52.49
375 **World Fuel Services** (INT – $23.50) at $23.27

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Last week, we were again reminded that it is a market of stocks and not simply a stock market, with inexpensively priced companies generally appreciating and their more expensive peers generally retreating, continuing the trend of Value outperformance that has been in play since last Halloween,…

THE PRUDENT SPECULATOR

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

November 2, 2021

the Prudent Speculator

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

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

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

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

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

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

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

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

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

John Buckingham

Editor, Principal, Portfolio Manager
Kovitz

Celebrating more than 40 Years of Patience, Selection and Diversification

Total Returns Matrix

YTD	Since 10.31.21	Name	Symbol
-52.44	-75.11	Meta Materials Inc	MMAT Equity
-39.06	-39.62	Roundhill Ball Metaverse ETF	METV Equity
-49.41	-61.10	AMC Entertainment Holdings Inc	AMC Equity
-22.70	-37.50	GameStop Corp	GME Equity
-43.02	-71.06	Robinhood Markets Inc	HOOD Equity
-34.53	-41.64	VanEck Social Sentiment ETF	BUZZ Equity
-51.76	-62.06	ARK Innovation ETF	ARKK Equity
MARKET OF STOCKS			
-8.92	-7.25	Dow Jones Industrial Average TR	DJITR Index
-8.61	-7.43	New York Stock Exchange Composite Index	NYA Index
-25.39	-28.71	Russell 2000 Total Return Growth Index	RU20GRTR Index
-10.07	**-9.60**	**Russell 2000 Total Return Value Index**	**RU20VATR Index**
-17.77	-19.44	Russell 2000 Total Return Index	RU20INTR Index
-25.29	-28.20	Russell Midcap Growth Index Total Return	RUMCGRTR Index
-7.43	**-4.61**	**Russell Midcap Value Index Total Return**	**RUMCVATR Index**
-13.83	-13.43	Russell Midcap Index Total Return	RUMCINTR Index
-21.57	-19.77	Russell 3000 Total Return Growth Index	RU30GRTR Index
-6.01	**-3.73**	**Russell 3000 Total Return Value Index**	**RU30VATR Index**
-14.23	-12.21	Russell 3000 Total Return Index	RU30INTR Index
-9.08	-5.90	S&P 500 Equal Weighted USD Total Return In	SPXEWTR Index
-13.07	-9.81	S&P 500 Total Return Index	SPXT Index
BONDS			
-12.42	-12.80	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index
-10.51	-10.48	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index

As of 05.06.22. Source: Kovitz using data from Bloomberg.

…and since 1927,…

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%	-22.7%	138	72	1.3	1/3/2022	5/6/2022
-10.0%	-19.5%	101	99	0.9	3/29/2022	5/6/2022
-7.5%	-15.4%	64	158	0.6	3/29/2022	5/6/2022
-5.0%	-10.9%	36	309	0.3	3/29/2022	5/6/2022

From 02.20.28 through 05.06.22. 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	9.8%	21.3%
Dividend Paying Stocks	10.7%	18.0%
Non-Dividend Paying Stocks	9.2%	29.3%
Long-Term Corporate Bonds	5.9%	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 03.31.22. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Dividend payers = 30% top of Fama-French dividend payers, 40% of middle Fama-French dividend payers, and 30% bottom of Fama-French dividend payers rebalanced monthly. Non-dividend payers = Fama-French stocks that do not pay a dividend. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

…though not without plenty of hiccups along the way.

THE PRUDENT SPECULATOR

PERSPECTIVE: 10% UPS AND DOWNS SINCE TPS INCEPTION

S&P 500 Moves (on a Closing Basis) of 10% Without a Comparable Move in the Other Direction

9/12/1978	11/14/1978	-13.55%	BEAR	3/6/1978	9/12/1978	23.12%	BULL
10/5/1979	11/7/1979	-10.25%	BEAR	11/14/1978	10/5/1979	20.30%	BULL
2/13/1980	3/27/1980	-17.07%	BEAR	11/7/1979	2/13/1980	18.59%	BULL
11/28/1980	9/25/1981	-19.75%	BEAR	3/27/1980	11/28/1980	43.07%	BULL
11/30/1981	3/8/1982	-15.05%	BEAR	9/25/1981	11/30/1981	12.04%	BULL
5/7/1982	8/12/1982	-14.27%	BEAR	3/8/1982	5/7/1982	11.30%	BULL
10/10/1983	7/24/1984	-14.38%	BEAR	8/12/1982	10/10/1983	68.57%	BULL
8/25/1987	10/19/1987	-33.24%	BEAR	7/24/1984	8/25/1987	127.82%	BULL
10/21/1987	10/26/1987	-11.89%	BEAR	10/19/1987	10/21/1987	14.92%	BULL
11/2/1987	12/4/1987	-12.45%	BEAR	10/26/1987	11/2/1987	12.33%	BULL
10/9/1989	1/30/1990	-10.23%	BEAR	12/4/1987	10/9/1989	60.68%	BULL
7/16/1990	10/11/1990	-19.92%	BEAR	1/30/1990	7/16/1990	14.23%	BULL
10/7/1997	10/27/1997	-10.80%	BEAR	10/11/1990	10/7/1997	232.74%	BULL
7/17/1998	8/31/1998	-19.34%	BEAR	10/27/1997	7/17/1998	35.32%	BULL
9/23/1998	10/8/1998	-10.00%	BEAR	8/31/1998	9/23/1998	11.37%	BULL
7/16/1999	10/15/1999	-12.08%	BEAR	10/8/1998	7/16/1999	47.88%	BULL
3/24/2000	4/14/2000	-11.19%	BEAR	10/15/1999	3/24/2000	22.45%	BULL
9/1/2000	4/4/2001	-27.45%	BEAR	4/14/2000	9/1/2000	12.10%	BULL
5/21/2001	9/21/2001	-26.43%	BEAR	4/4/2001	5/21/2001	19.00%	BULL
1/4/2002	7/23/2002	-31.97%	BEAR	9/21/2001	1/4/2002	21.40%	BULL
8/22/2002	10/9/2002	-19.31%	BEAR	7/23/2002	8/22/2002	20.68%	BULL
11/27/2002	3/11/2003	-14.71%	BEAR	10/9/2002	11/27/2002	20.87%	BULL
10/9/2007	3/10/2008	-18.64%	BEAR	3/11/2003	10/9/2007	95.47%	BULL
5/19/2008	10/10/2008	-36.97%	BEAR	3/10/2008	5/19/2008	12.04%	BULL
10/13/2008	10/27/2008	-15.39%	BEAR	10/10/2008	10/13/2008	11.58%	BULL
11/4/2008	11/20/2008	-25.19%	BEAR	10/27/2008	11/4/2008	18.47%	BULL
1/6/2009	3/9/2009	-27.62%	BEAR	11/20/2008	1/6/2009	24.22%	BULL
4/23/2010	7/2/2010	-15.99%	BEAR	3/9/2009	4/23/2010	79.93%	BULL
4/29/2011	10/3/2011	-19.39%	BEAR	7/2/2010	4/29/2011	33.35%	BULL
5/21/2015	8/25/2015	-12.35%	BEAR	10/3/2011	5/21/2015	93.85%	BULL
11/3/2015	2/11/2016	-13.31%	BEAR	8/25/2015	11/3/2015	12.97%	BULL
1/26/2018	2/8/2018	-10.16%	BEAR	2/11/2016	1/26/2018	57.07%	BULL
9/20/2018	12/24/2018	-19.78%	BEAR	2/8/2018	9/20/2018	13.55%	BULL
2/19/2020	3/23/2020	-33.92%	BEAR	12/24/2018	2/19/2020	44.02%	BULL
1/3/2022	3/8/2022	-13.05%	BEAR	3/23/2020	1/3/2022	114.38%	BULL
3/29/2022	5/6/2022	-10.97%	BEAR	3/8/2022	3/29/2022	11.05%	BULL
Average Drop		**-18.00%**		**Average Gain**		**41.47%**	

SOURCE: Kovitz using data from Bloomberg

Trading has been rocky of late, to say the least, with many stocks enduring their worst performance since the five-week 2020 Bear Market brought on by the COVID-19 Pandemic. While the S&P 500 quickly rallied out of correction territory in March, the index closed on 5.6.22 with a 10.97% decline from the 03.29.22 interim high. Of course, a 10% setback is not unusual, given that we have now had 36 of them since the launch of *The Prudent Speculator* more than 45 years ago. Happily, there have also been 36 advances of 10% or greater, with the average gain during those periods in the green dwarfing the average loss.

Certainly, there was plenty of volatility last week, with the media doing its usual wonderful job of providing intelligent sounding reasons for why the Dow Jones Industrial Average would soar 932 points one day and plunge 1063 points the next,…

THE PRUDENT SPECULATOR

FINDING NEW REASONS DAILY TO RATIONALIZE THE ROLLER-COASTER RIDE

The New York Times	THE WALL STREET JOURNAL.
May 5, 2022	May 6, 2022

The New York Times — May 5, 2022

The Federal Reserve ramped up its attack on rapid inflation on Wednesday, approving its biggest interest rate increase since 2000, detailing a plan to shrink its massive bond holdings and signaling that it will continue working to cool the economy as it tries to tamp down the fastest price increases in four decades.

Yet investors found a reason for relief. While the Fed raised interest rates half a percentage point and its chair, Jerome H. Powell, said similarly large increases would be "on the table" at the Fed's upcoming meetings, he shot down the idea that policymakers were considering an even larger move, as some investors had feared.

That reassurance helped to send stock indexes soaring. The S&P 500 rose 3 percent, the biggest jump since May 2020.

Many on Wall Street have been nervously eyeing the Fed's path as it tries to beat back inflation, worried that officials might slow demand so much that the economy will tip into a painful recession. While the Fed is withdrawing monetary help at the fastest pace in decades, Mr. Powell's comments showed that the central bank was trying to chart a brisk course, but not a drastic one.

The Wall Street Journal — May 6, 2022

The stock market took its biggest U-turn since the early days of the pandemic Thursday, with the Dow Jones Industrial Average posting its largest decline this year just 24 hours after its largest gain since 2020.

The reversal wiped out the euphoria that reigned on Wall Street Wednesday in the wake of Federal Reserve Chairman Jerome Powell's comment that the Fed wasn't "actively considering" raising interest rates by 0.75 percentage point at a future meeting. With inflation at its highest level since the early 1980s, markets had been anticipating such an increase and the prospect of a slower rise in rates set off a furious buying spree in the late afternoon.

The optimism behind that rally was long gone Thursday, when selling was widespread, though most intense for technology shares, which have fallen on hard times in 2022 after years of leading the market advance.

"The market yesterday was a relief rally," said Seema Shah, chief strategist at Principal Global Investors. By Thursday, she said, the realities of a more challenging environment for stocks were starting to settle in, including higher rates, difficult earnings comparisons and a stronger U.S. dollar, which weighs on overseas earnings at multinational firms.

…even as those who looked only at the weekly change for the popular index might wonder what all the fuss was about.

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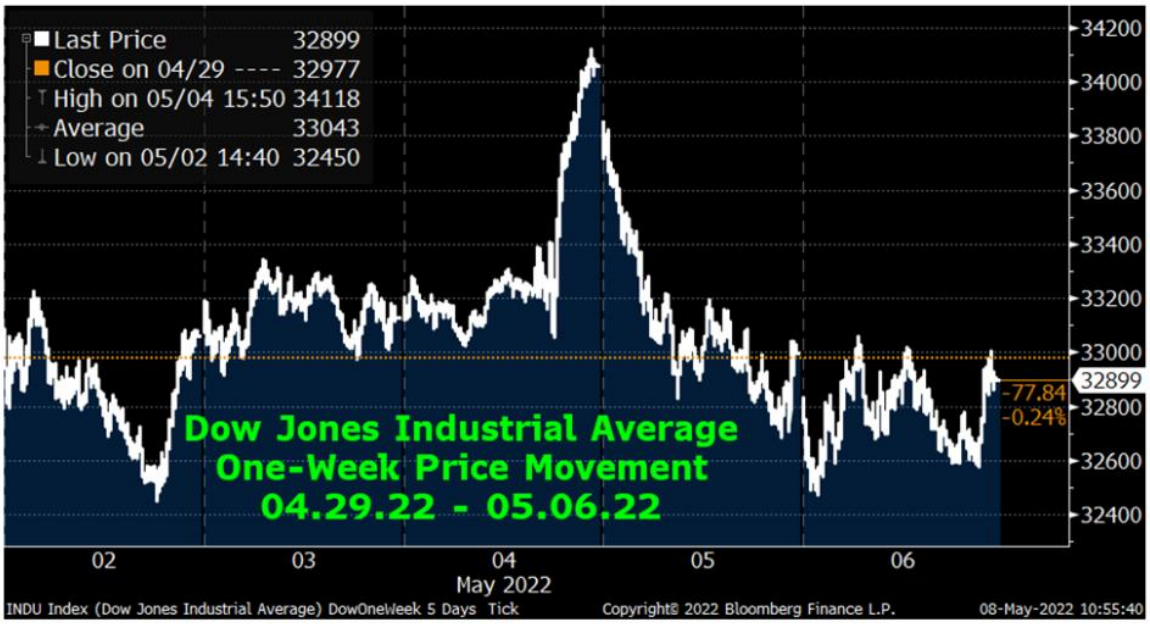
DOW JONES INDUSTRIAL AVERAGE ROLLER COASTER RIDE

Volatility always depends on the measuring stick. Those paying constant attention watched the Dow Jones Industrial Average swing violently, enjoying a massive gain on Wednesday of 932 points followed by a plunge of 1063 points on Thursday. Of course, when all was said and done for the five trading days, the Dow ended with a very modest 78-point (0.24%) decline, so volatility on a weekly basis was somewhat muted.

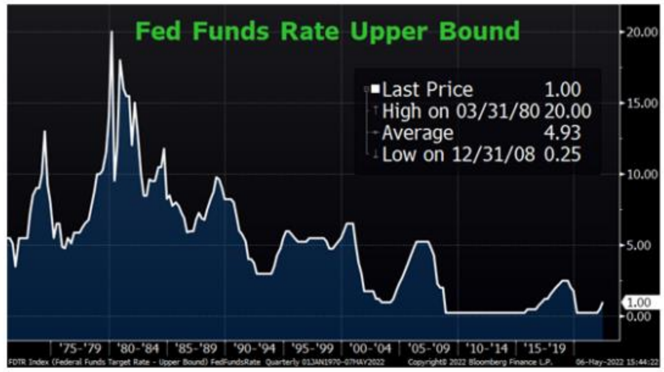


To be sure, it was an eventful week, with the Federal Reserve hiking interest rates by 50 basis points on Wednesday, which ignited an equity market rally that day evidently because Jerome Powell & Co. did not raise the Fed Funds rate by 75 basis points. Never mind that the 50-basis-point move was widely expected and nothing really changed in the outlook for additional increases for the rest of the year.

THE PRUDENT SPECULATOR

FED LIFTOFF HAS BEGUN – INTEREST RATES STILL HISTORICALLY VERY LOW

For the first time since 2000, the Federal Reserve hiked its target for the Fed Funds rate last week by 50 basis points (0.5%) and suggested that similar-sized increases are "on the table" for upcoming FOMC Meetings in June and July. The move was well telegraphed, but given stubbornly high inflation readings, the Fed Funds futures are suggesting that there will be another 200 basis points (2.0%) of increases by year end, though the resulting 300-basis-point rate (3.0%) would still be well below the historical upper bound average of 4.93%.



At his Press Conference that followed the decision on rates, Chair Powell gave a relatively upbeat economic outlook:

After expanding at a robust 5-1/2 percent pace last year, overall economic activity edged down in the first quarter. Underlying momentum remains strong, however, as the decline largely reflected swings in inventories and net exports, two volatile categories whose movements last quarter likely carry little signal for future growth. Indeed, household spending and business fixed investment continued to expand briskly.

The labor market has continued to strengthen and is extremely tight. Over the first three months of the year, employment rose by nearly 1.7 million jobs. In March, the unemployment rate hit a post-pandemic and near five-decade low of 3.6 percent. Improvements in labor market conditions have been widespread, including for workers at the lower end of the wage distribution as well as for African Americans and Hispanics. Labor demand is very strong, and while labor force participation has increased somewhat, labor supply remains subdued. Employers are having difficulties filling job openings, and wages are rising at the fastest pace in many years.

THE PRUDENT SPECULATOR

RECORD JOB OPENINGS AND VERY LOW UNEMPLOYMENT FILINGS

The April employment report saw a robust and better-than-expected 428,000 new payrolls created, but businesses continue to have difficulty finding qualified employees as the number of job openings in March came in higher than forecast at an all-time high of 11.5 million. Looking at more current data, first-time filings for jobless benefits rose by 19,000 to 200,000 in the week ending April 29, worse than expected, but still near a pandemic low.

Two days later, the all-important monthly jobs report was released, which echoed the Chair's labor market assessment, with more payrolls created than expected,…

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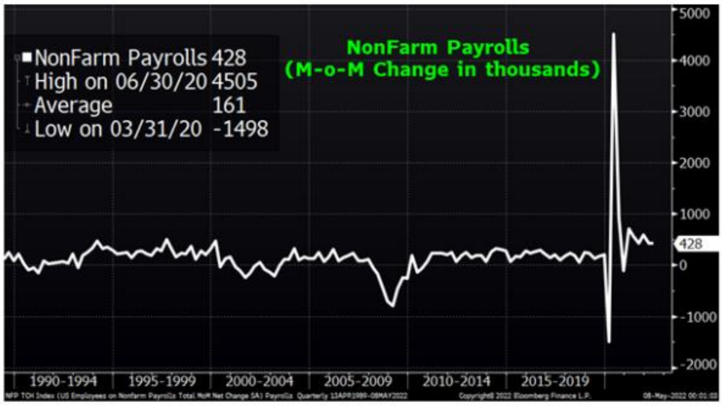
VERY HEALTHY JOBS PICTURE



Economists were looking for a gain of 400,000 payrolls, so the increase of 428,000 in April was above expectations, but the February and March tallies were revised lower by a combined 39,000 jobs, though this was the 12th straight month of job gains above 400,000. With strong demand for labor, wages continued to rise as employers struggled to fill positions and the impact of the coronavirus pandemic continued to recede.

…and the unemployment rate remaining near a five-decade low.

THE PRUDENT SPECULATOR

PANDEMIC LOW JOBLESS RATE & NEAR PANDEMIC HIGH PARTICIPATION RATE

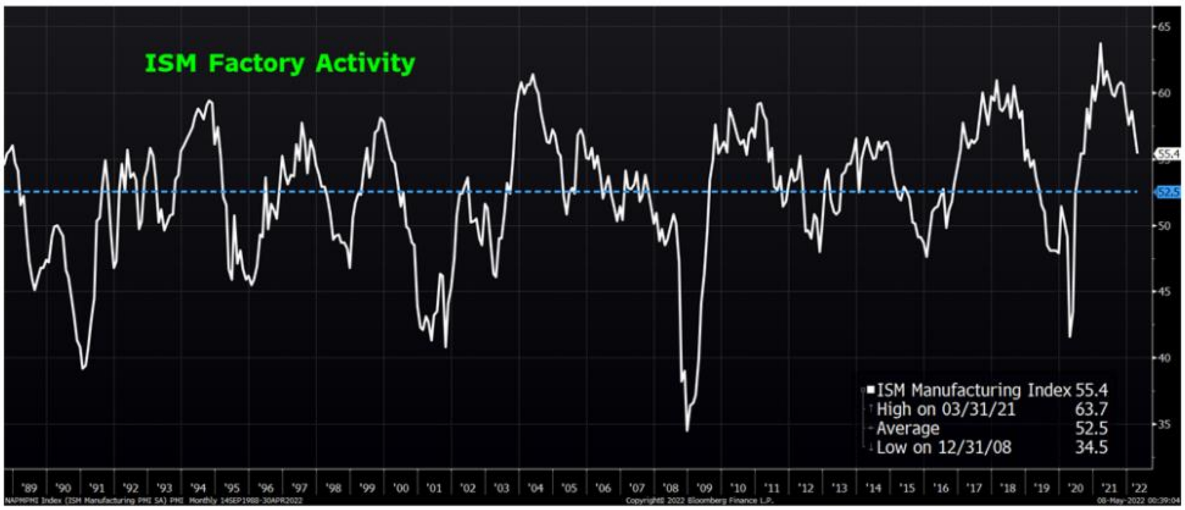
Despite more jobs created than expected, the unemployment rate for April held steady at 3.6%, the same as March, but down from 3.8% in February, even as 363,000 fewer folks were in the labor force, shrinking the denominator in the jobless percentage calculation. The so-called participation rate pulled back, declining to 62.2% in April, off 0.2 points from March, but near the highest level since the beginning of the pandemic.

Despite the robust labor market, we understand that there is plenty of concern about the health of the economy as we move forward, but even the weaker-than-expected numbers out last week from the Institute for Supply Management on the state of the manufacturing sector correlated to a 2.3% expansion in real (inflation-adjusted) GDP,…

THE PRUDENT SPECULATOR

ISM MANUFACTURING RETREATS: 2.3% ANNUALIZED GDP GROWTH

The latest data point on the health of the manufacturing sector came in below expectations at 55.4 in April, down from a reading of 57.1 in March, but still residing at a level well above average for the 30-plus-year history of the gauge. The Institute for Supply Management stated, "The past relationship between the Manufacturing PMI and the overall economy... corresponds to a 2.3% increase in real gross domestic product (GDP) on an annualized basis."



…with the read on the services sector correlating to 2.5% real GDP growth.

THE PRUDENT SPECULATOR

ISM NON-MANUFACTURING FALLS: 2.5% ANNUALIZED GDP GROWTH

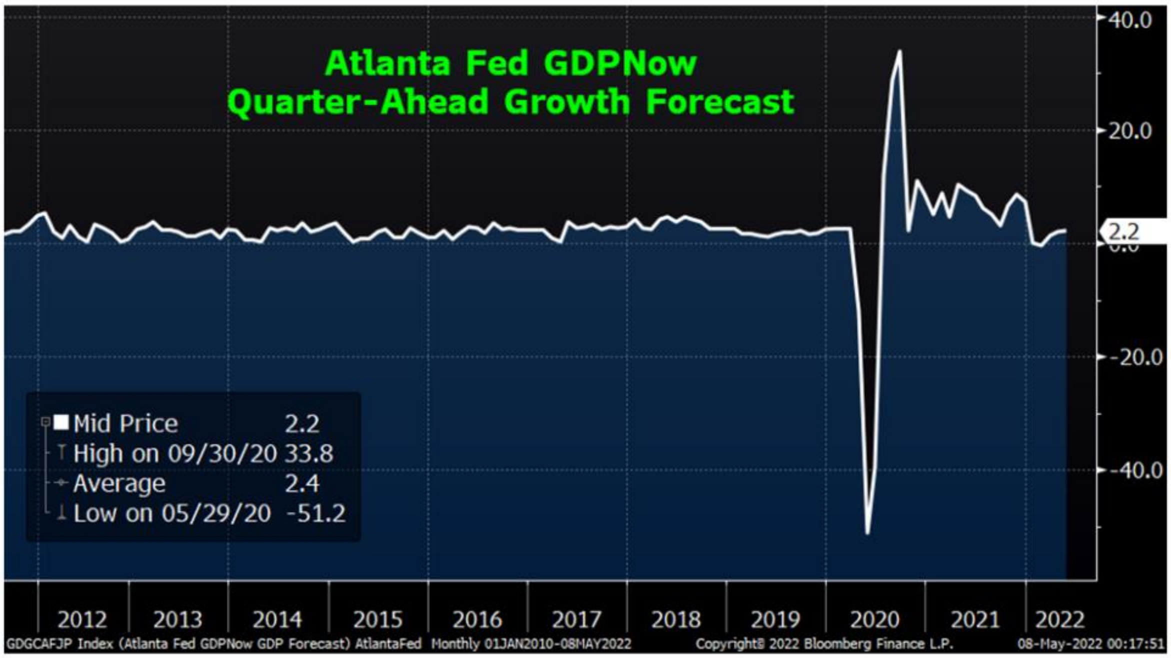
Soaring inflation and supply chain issues didn't help matters as the latest read on the health of the service sector dipped to 57.1 in April. The figure was below expectations, but still well above average, suggesting a still-healthy non-manufacturing economy. The Institute for Supply Management stated, "The past relationship between the Services PMI and the overall economy...corresponds to a 2.5% increase in real gross domestic product (GDP) on an annualized basis."

Also, it was interesting to see that the most recent projection from the Atlanta Fed for second-quarter growth edged up last week to 2.2% on an annualized basis.

THE PRUDENT SPECULATOR

Q2 U.S. GDP GROWTH PROJECTION ROSE LAST WEEK

While Q1 2022 saw a 1.4% contraction in real (inflation-adjusted) GDP growth, as the Omicron variant, supply-chain difficulties, the war in Ukraine and inflation impacted the economy, the Atlanta Fed's current projection for Q2 2022 real GDP growth on an annualized basis stands at 2.2%.



Obviously, 2.2% to 2.5% real GDP growth would be a long way from a recession that many pundits are now projecting, but it is also nice to know that equities, especially Value stocks, have performed admirably before and after periods of negative real economic growth.

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%	303088%	8521082%
18.2%	42.6%	May 1937	-39.3%	-55.8%	-33.2%	-55.1%	-32.5%	-44.3%	53.7%	142.7%	563244%	7959783%
26.3%	54.4%	February 1945	26.0%	42.2%	12.0%	28.5%	64.3%	75.7%	379.2%	468.6%	405944%	3841277%
4.0%	4.6%	November 1948	19.2%	12.4%	101.8%	108.9%	145.2%	130.7%	542.0%	584.7%	329726%	2785777%
3.1%	4.7%	July 1953	31.9%	25.6%	128.9%	118.0%	136.5%	138.2%	308.5%	381.9%	136236%	1168629%
-1.2%	-0.4%	August 1957	10.0%	16.4%	40.2%	55.0%	55.1%	77.9%	188.9%	418.4%	62559%	552669%
-2.4%	-6.4%	April 1960	24.2%	29.0%	41.7%	51.5%	92.4%	131.0%	107.7%	268.9%	47112%	374505%
-8.4%	-20.9%	December 1969	3.9%	8.7%	41.4%	40.3%	-11.3%	-7.3%	77.0%	267.9%	20279%	95184%
-15.2%	-19.4%	November 1973	-23.8%	-14.8%	20.8%	77.1%	23.7%	142.4%	182.3%	719.9%	17132%	82958%
20.6%	31.3%	January 1980	19.5%	12.3%	49.5%	80.4%	102.4%	183.5%	342.4%	480.7%	10740%	23835%
13.0%	22.9%	July 1981	-13.3%	-0.8%	34.0%	78.6%	127.9%	217.1%	343.5%	408.6%	8655%	18731%
6.5%	-6.9%	July 1990	12.7%	9.9%	38.2%	76.0%	83.2%	129.3%	407.4%	424.9%	2125%	3969%
-21.7%	17.0%	March 2001	0.2%	14.6%	1.9%	33.8%	21.4%	83.4%	38.3%	96.0%	436%	562%
5.6%	-2.9%	December 2007	-37.0%	-38.2%	-8.3%	-14.9%	8.6%	0.9%	125.9%	117.4%	277%	238%
8.2%	-9.7%	February 2020	31.3%	38.8%							45%	75%
7.2%	**9.5%**	**Averages**	**2.2%**	**4.6%**	**28.2%**	**43.8%**	**53.3%**	**85.5%**	**217.1%**	**338.1%**	**127173%**	**1695285%**

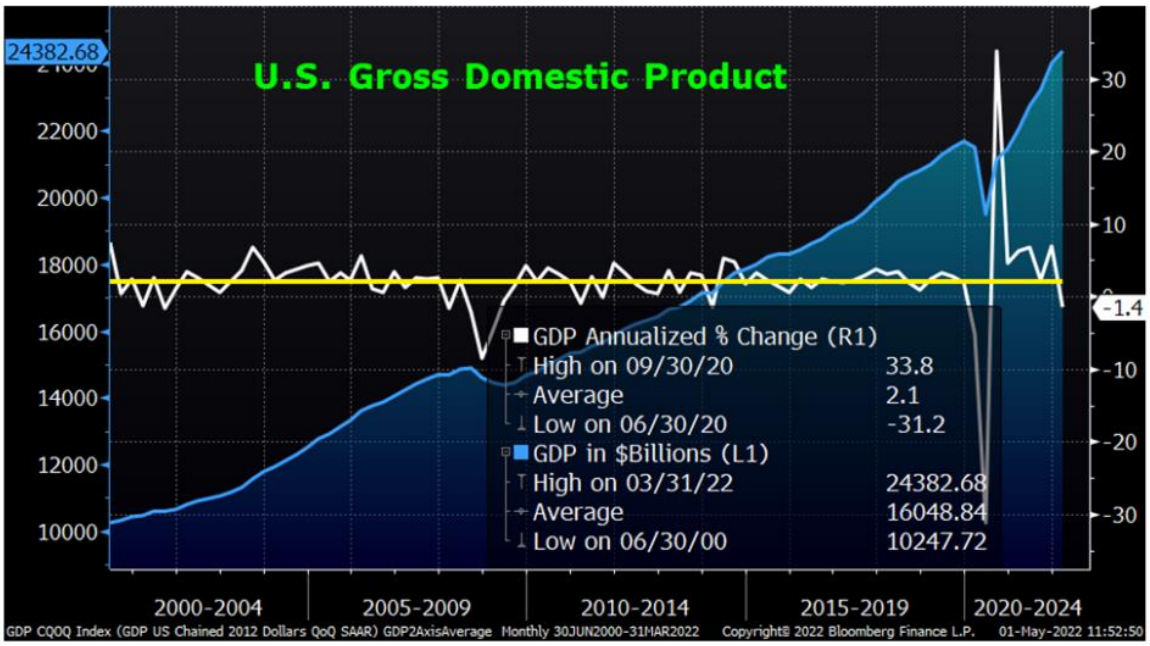
S&P 500 as of 4.29.22. FF Value as of 3.31.22. Source: Kovitz Investment Group using data from Bloomberg, Professors Eugene F. Fama & Kenneth R. French and the National Bureau of Economic Research

Further, it is important to understand that stock prices and company sales and earnings are not reported in inflation-adjusted dollars and the supposedly dismal initial estimate for real Q1 U.S. GDP growth of negative 1.4% that was released the week before last including a positive actual growth tally. Indeed, output soared 6.5% on a nominal basis to an all-time high,…

THE PRUDENT SPECULATOR

HUGE 6.5% JUMP IN NOMINAL GDP, BUT REAL GDP CONTRACTS BY 1.4%

First quarter 2022 real (inflation-adjusted) domestic economic growth came in much weaker than expected at a 1.4% contraction on an annualized basis, even as the current-dollar nominal GDP figure of $24.4 trillion soared by 6.5% on an annualized basis to an all-time high.



…though we respect that inflation (high levels of which historically have been a positive for Value stocks, on average) accounted for all the improvement and then some.

THE PRUDENT SPECULATOR

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

Inflation Rate >= 8.0% and Ensuing Value/Growth Returns Since 1927

Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	4.2%	2.4%	10.4%	6.0%	25.2%	15.1%
Geometric Average	3.6%	1.8%	8.9%	4.6%	22.3%	12.8%
Median	3.9%	1.7%	6.8%	4.7%	17.8%	12.8%
Max	50.6%	33.2%	82.1%	61.2%	133.3%	64.2%
Min	-19.2%	-27.8%	-26.3%	-36.0%	-20.9%	-30.8%
Count	110	110	110	110	110	110

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

Inflation Rate <8.0% and Ensuing Value/Growth Returns Since 1927

Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	4.2%	3.1%	8.1%	6.2%	16.4%	12.4%
Geometric Average	3.1%	2.5%	6.1%	4.8%	12.2%	9.5%
Median	4.0%	3.5%	8.0%	6.3%	16.5%	13.1%
Max	201.1%	131.7%	245.2%	135.6%	358.2%	213.8%
Min	-43.5%	-40.4%	-56.3%	-47.0%	-71.5%	-64.8%
Count	1022	1022	1019	1019	1013	1013

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

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

Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	4.1%	2.9%	8.9%	6.4%	22.5%	17.0%
Geometric Average	3.6%	2.2%	7.8%	4.6%	21.3%	14.4%
Median	4.7%	2.7%	6.9%	6.4%	22.0%	21.1%
Max	39.8%	33.2%	63.2%	61.2%	60.2%	63.4%
Min	-16.4%	-27.8%	-26.3%	-36.0%	-20.9%	-30.8%
Count	63	63	63	63	63	63

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

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

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

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

So, with corporate profits also likely to show healthy growth this year and next,

THE PRUDENT SPECULATOR

FANTASTIC EPS 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. A superb 77.7% of the 436 S&P 500 companies to have announced have beat EPS expectations and an impressive 66.9% have exceeded revenue forecasts.

Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2023	$65.26	$248.11
9/30/2023	$63.59	$243.31
6/30/2023	$60.88	$238.85
3/31/2023	$58.38	$233.29
12/31/2022	$60.46	$225.06
9/30/2022	$59.13	$221.33
6/30/2022	$55.32	$214.22
3/31/2022	$50.15	$210.95
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 5.5.22

…and valuations for the overall market still very reasonable,…

THE PRUDENT SPECULATOR

INTEREST RATES STILL SUPPORTIVE OF STOCKS

The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. Though many dismiss the Fed Model, investing is always a choice of this or that, and we like today's rich (and rising) earnings yield (4.82% vs. 3.13% 10-Year) and S&P 500 dividend yield of 1.51%.

…despite the spike in interest rates,…

THE PRUDENT SPECULATOR

REWARD FREE RISK – GERMAN BUNDS

On 8.11.21, Germany issued €5 billion of 10-year bonds with a coupon of 0% in a deal that attracted plenty of "interest" at a price of €104.56. That is not a typo! In order to receive €100 back in 10 years and NO interest along the way, "investors" gladly paid €104.56, locking in a sizable loss if held to maturity. Hoping to lose roughly 0.46% per annum, they must be thrilled with the 30 times expected annual return (the bonds have lost more than 13%) over the past nine months!

…we can't help but like the long-term prospects of our broadly diversified portfolios of what we believe to be undervalued stocks.

THE PRUDENT SPECULATOR

MANAGED ACCOUNT STRATEGIES & BENCHMARKS

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	12.9	11.6	1.0	2.3	2.4
ValuePlus	13.8	11.9	1.3	2.4	2.1
Dividend Income	12.2	11.6	0.9	2.2	2.9
Focused Dividend Income	13.7	12.4	1.1	2.4	2.7
Focused ValuePlus	12.9	13.0	1.3	2.6	2.4
Small-Mid Dividend Value	10.4	9.6	0.6	1.6	2.6
Russell 3000	22.0	18.3	2.3	3.8	1.5
Russell 3000 Growth	30.4	24.7	3.7	9.7	0.9
Russell 3000 Value	17.5	14.7	1.7	2.4	2.1
Russell 1000	21.2	18.2	2.4	3.9	1.5
Russell 1000 Growth	28.6	24.2	4.1	10.5	0.9
Russell 1000 Value	17.0	14.8	1.8	2.5	2.1
S&P 500 Index	20.8	18.1	2.6	4.1	1.5
S&P 500 Growth Index	24.1	21.6	4.5	7.6	0.9
S&P 500 Value Index	18.4	15.7	1.8	2.9	2.1
S&P 500 Pure Value Index	11.8	10.5	0.7	1.5	2.4

As of 05.07.22. 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.

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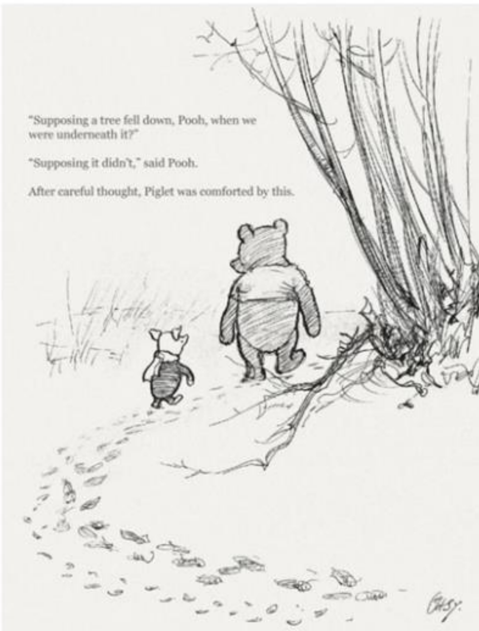
Our long-term optimism notwithstanding, we respect that there are plenty of issues about which to be concerned these days,…

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.



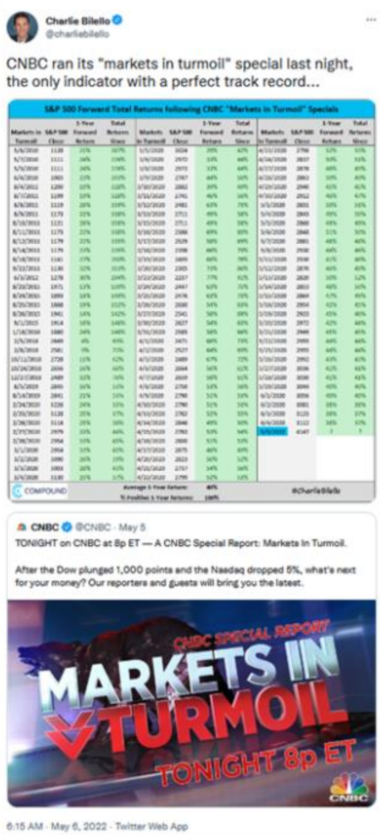
Event	Reaction Dates		S&P Start Value	S&P End Value	Event Gain/Loss	12 Months Later	36 Months Later	60 Months Later	Event End thru Present
Pearl Harbor	12/6/1941	12/10/1941	9.32	8.68	-7%	8%	51%	76%	47404%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	27389%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	24605%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	9577%
Suez Canal Crisis	10/30/1956	10/31/1956	46.37	45.58	-2%	-10%	26%	51%	8946%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	10478%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	7609%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	5823%
MLK Assassination	4/3/1968	4/5/1968	93.47	93.29	0%	8%	8%	16%	4320%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	5366%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	4374%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	5791%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	3819%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	4098%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	3351%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	2447%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	1585%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	1734%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	1204%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	995%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	901%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	830%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	802%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	716%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	370%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	330%
Clinton Impeachment	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	235%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	207%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	327%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	350%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	278%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	244%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	509%
Price Changes Only - Does Not Include Dividends				**Averages:**	**-7%**	**18%**	**39%**	**66%**	**5667%**

As of 5.6.22. Source: Kovitz using Bloomberg and Ned Davis Research Events & Reaction Dates

…and financial television has decided that the *Markets are in Turmoil*,…

THE PRUDENT SPECULATOR

THE MEDIA IS NOT THE FRIEND OF THE LONG-TERM-ORIENTED INVESTOR



Contrarian investors appreciate Warren Buffett's admontion, "Be greedy when others are fearful," but the good folks at *CNBC Television,* in a quest for higher ratings, don't make it easy for viewers to remember that the secret to success in stocks is not to get scared out of them.

CNBC *Markets in Turmoil* Special Reports & Subsequent Russell 3000 Value Index Total Return

Markets in Turmoil Episode	12 Months Later	Event thru Present	*Markets in Turmoil* Episode	12 Months Later	Event thru Present	*Markets in Turmoil* Episode	12 Months Later	Event thru Present
5/6/2010	20%	252%	3/4/2020	17%	30%	4/20/2020	51%	56%
5/7/2010	22%	258%	3/5/2020	24%	35%	4/21/2020	56%	60%
5/9/2010	22%	258%	3/6/2020	27%	38%	4/22/2020	53%	57%
6/4/2010	24%	275%	3/8/2020	28%	38%	4/23/2020	54%	57%
8/4/2011	17%	234%	3/9/2020	41%	51%	4/24/2020	52%	55%
8/7/2011	18%	235%	3/10/2020	37%	45%	4/27/2020	49%	51%
8/8/2011	28%	262%	3/11/2020	45%	53%	4/28/2020	48%	50%
8/9/2011	22%	244%	3/12/2020	63%	71%	4/29/2020	46%	46%
8/10/2011	28%	261%	3/13/2020	49%	56%	4/30/2020	48%	50%
8/11/2011	22%	243%	3/14/2020	49%	56%	5/1/2020	52%	55%
8/12/2011	22%	243%	3/15/2020	50%	56%	5/4/2020	54%	55%
8/14/2011	21%	243%	3/16/2020	69%	78%	5/5/2020	54%	54%
8/18/2011	26%	252%	3/17/2020	60%	68%	5/6/2020	58%	57%
9/22/2011	34%	262%	3/18/2020	71%	81%	5/7/2020	57%	55%
6/3/2012	37%	213%	3/19/2020	69%	79%	5/8/2020	53%	51%
8/23/2015	13%	91%	3/20/2020	77%	87%	5/11/2020	52%	52%
8/24/2015	17%	100%	3/23/2020	81%	95%	5/12/2020	53%	56%
8/25/2015	19%	103%	3/24/2020	65%	78%	5/13/2020	59%	60%
8/26/2015	15%	96%	3/25/2020	63%	74%	5/14/2020	59%	58%
9/1/2015	16%	98%	3/26/2020	56%	63%	5/15/2020	59%	58%
1/18/2016	30%	104%	3/27/2020	61%	68%	5/18/2020	50%	51%
2/5/2018	2%	43%	3/30/2020	56%	64%	5/19/2020	52%	53%
2/8/2018	4%	47%	3/31/2020	58%	67%	5/20/2020	50%	51%
10/11/2018	7%	41%	4/1/2020	68%	75%	5/21/2020	51%	51%
10/24/2018	12%	45%	4/2/2020	64%	71%	5/22/2020	51%	51%
12/27/2018	27%	54%	4/3/2020	67%	74%	5/25/2020	51%	51%
8/5/2019	-1%	37%	4/6/2020	58%	63%	5/26/2020	48%	47%
8/14/2019	3%	39%	4/7/2020	57%	63%	5/27/2020	45%	44%
2/24/2020	15%	24%	4/8/2020	51%	56%	5/28/2020	46%	45%
2/25/2020	16%	28%	4/9/2020	48%	52%	5/29/2020	46%	45%
2/26/2020	16%	30%	4/10/2020	48%	52%	6/1/2020	46%	44%
2/27/2020	21%	35%	4/13/2020	50%	55%	6/2/2020	45%	43%
2/28/2020	23%	37%	4/14/2020	48%	52%	6/3/2020	41%	39%
3/1/2020	26%	37%	4/15/2020	54%	58%	6/4/2020	41%	39%
3/2/2020	21%	32%	4/16/2020	55%	58%	5/5/2022		
3/3/2020	24%	35%	4/17/2020	49%	52%	**Averages:**	**41%**	**84%**

As of 5.6.22. Source: Kovitz using Bloomberg and dates from Charlie Bilello

…which has often been a contrarian buy signal for stocks,…

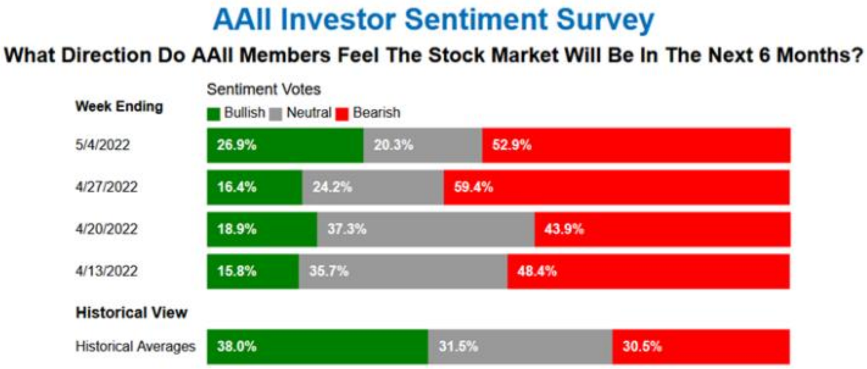
Tonight, fear and uncertainty grip the world markets, and everything is spiraling out of control. What can you do to keep your money safe?

***CNBC* March 23, 2020**

…even as Wall Street is the only place where they hold a sale and few people show up.

THE PRUDENT SPECULATOR

AAII CONTRARIAN BUY SIGNAL: BULL-BEAR SPREAD = -26.0



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 = 7.75										
BELOW	-54.0	7.7	906	0.25%	0.21%	1.22%	1.08%	3.56%	3.18%	6.93%	6.18%
ABOVE	7.8	62.9	906	0.17%	0.15%	0.53%	0.44%	1.97%	1.72%	4.74%	4.27%
	Ten Groupings of 1812 Data Points										
1	-54.0	-15.7	182	0.47%	0.41%	2.13%	1.90%	5.44%	4.91%	9.94%	8.74%
2	-15.7	-8.0	181	0.35%	0.32%	0.99%	0.86%	3.69%	3.32%	6.91%	6.14%
3	-7.9	-1.8	181	0.30%	0.26%	1.40%	1.30%	3.31%	2.92%	7.30%	6.65%
4	-1.8	3.0	194	0.11%	0.08%	1.05%	0.96%	2.98%	2.63%	6.34%	5.82%
5	3.0	7.7	168	0.02%	0.00%	0.46%	0.35%	2.33%	2.08%	3.99%	3.44%
6	7.8	12.0	188	0.11%	0.09%	0.53%	0.41%	1.83%	1.59%	5.38%	5.00%
7	12.0	16.3	174	0.19%	0.17%	0.54%	0.45%	2.28%	2.02%	4.91%	4.37%
8	16.3	22.0	193	0.18%	0.17%	0.82%	0.75%	2.22%	1.96%	6.04%	5.62%
9	22.0	29.0	169	0.09%	0.07%	0.37%	0.29%	1.97%	1.69%	4.48%	3.90%
10	29.1	62.9	182	0.27%	0.25%	0.34%	0.27%	1.55%	1.33%	2.78%	2.34%

From 07.31.87 through 05.05.22. 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 26.9% and the number of Bears residing at 52.9% is a major positive. The minus 26.0% Bull-Bear spread is in the very favorable (i.e. highest future returns) 1st decile of the weekly figures going back to 1987.

Clearly, the carnage in “meme” stocks, SPACs and more than a few profitless companies is weighing on investor psyches, but we are not unhappy to see rationality return to the equity markets. Mark Twain said history never repeats itself, but it does often rhyme, and what we have been witnessing looks a lot like the Bursting of the Tech Bubble back in 2000, which ushered in a period of massive Value outperformance.

THE PRUDENT SPECULATOR

WHY VALUE TODAY?: WOULD NOT BE AWFUL IF NOW IS LIKE MARCH 2000

Despite enduring significant volatility along the way, not to mention suffering through a miserable 2002, 2008 and 2011, Value strategies performed admirably, with the S&P 500 Pure Value index the easy winner, following the bursting of the Tech Bubble in March 2000.

Total Returns Matrix Post March 31, 2000

Name	1-Year	3-Year	5-Year	7-Year	10-Year	15-Year	20-Year	Symbol
Dow Jones Industrial Average TR	-8.21	-22.70	6.14	30.81	25.09	132.79	224.39	DJITR Index
Russell 3000 Total Return Growth Index	-42.52	-58.70	-43.96	-31.70	-33.57	37.77	119.25	RU30GRTR Index
Russell 3000 Total Return Value Index	**1.48**	**-17.20**	**33.14**	**76.71**	**41.17**	**167.78**	**190.12**	**RU30VATR Index**
Russell 3000 Total Return Index	-22.26	-40.39	-11.79	12.17	-0.73	97.19	161.01	RU30INTR Index
S&P 500 Growth Total Return Index	-38.19	-50.50	-34.68	-23.23	-25.53	54.87	143.54	SPTRSGX Index
S&P 500 Value Total Return Index	**-1.07**	**-30.12**	**10.04**	**46.09**	**15.97**	**114.98**	**154.67**	**SPTRSVX Index**
S&P 500 Total Return Index	-21.68	-40.93	-14.84	6.40	-6.35	84.03	154.83	SPXT Index
S&P 500 Pure Growth Total Return Index	-31.60	-54.66	-26.15	-10.93	-8.12	119.03	177.90	SPTRXPG Index
S&P 500 Pure Value Total Return Index	**23.92**	**3.59**	**103.40**	**183.68**	**140.69**	**438.00**	**352.33**	**SPTRXPV Index**

Source Kovitz using data from Bloomberg. Forward returns starting 03.31.00

True, the indiscriminate selling in the Nasdaq these days has bled over to our reasonably priced Info Tech and Communication Services holdings like **Apple** (AAPL – $157.28), **Alphabet** (GOOG – $2313.20), **Microsoft** (MSFT – $274.73) and **Meta Platforms** (FB – $203.77), but all four are profitable companies with terrific balance sheets and price tags that are not rich.

We realize that the ebbing tide has lowered most boats, and we are braced for more downside volatility, but we will close this missive as we began. It really is a market of stocks and not a stock market, with numerous factors today making Value an even better place than usual for equity exposure.

THE PRUDENT SPECULATOR

FEAR OVER FACTS – BE CAREFUL WHAT YOU READ

In yet another example of fear over facts, *The Wall Street Journal* offered an *Opinion* piece warning of dire consequences for equities from inflation. Of course, the column ignored total return (includes dividends and their reinvestment) when looking at the Dow Jones Industrial Average from 1965 to 1981 and failed to mention that Value investors enjoyed superb nominal AND real returns during the period!

THE WALL STREET JOURNAL. Monday, May 2, 2022 | A17

OPINION

The Bitter Fruit of Inflation: Dow 29500

By Arthur Laffer
And Stephen Moore

The recent report showing negative economic growth for the first quarter of the year is a painful reminder of the damage that inflation can do. The current 8.5% inflation rate is the highest in 40 years. But few policy makers or Federal Reserve governors seem to have learned the lessons from the last bout of surging prices—how it started, the economic wreckage it caused, and how we got out of it. We wince when we hear investment gurus arguing that because inflation often means rising consumer demand, it is good for the economy and stock market.

The debacle of the 1970s reveals how disastrous surging prices can be for the economy and markets.

Really? Let's rewind to 1974, the early stages of that long stretch of inflation. That year one of us, Mr. Laffer, wrote on these pages what became a controversial and influential article with the headline "The Bitter Fruits of Devaluation." Inflation is, of course, a form of currency devaluation.

Two years earlier the Nixon administration had intentionally devalued the dollar in the mistaken belief that a cheaper dollar would spur growth and employment while reducing the U.S. trade deficit. The Laffer article warned that this policy would wreak economic havoc and cause a stock-market train wreck. That's precisely what happened.

Those who suffered the most were middle-class workers hit by rising prices, especially for energy, surging way ahead of wage increases. Between 1972 and 1981—under Presidents Nixon, Gerald Ford and Jimmy Carter—hourly earnings for workers went from $4 to almost $7, a roughly 70% gain. But after accounting for inflation, workers were getting poorer because the purchasing power of wages *fell* by roughly 12%. Is it any wonder that Ford and Mr. Carter were voted out of office? That's exactly what workers are facing today with wages up 5.6% over the past year but consumer prices up 8.5%. Then as now, the White House and the Fed said the inflation would be temporary and blamed it on global factors beyond their control.

What about the stock market and Americans' wealth? Mr. Laffer's warning of a bear market turned out to be spot on. As the nearby chart shows, the Dow Jones Industrial Average briefly climbed above 1000 in the mid-'60s and then bottomed out at 777 in the summer of 1982—a 22% reduction in stock values in nominal terms.

But investors, like workers, care about their *real* return. Adjusted for inflation, the industrial average (and the S&P 500) fell during that period by more than 70%—the worst 15-year stock performance since the crash of 1929. President Ronald Reagan and Fed Chairman Paul Volcker had to sweat the 13% inflation out of the system through a return to a stable-dollar regime along with supply-side tax cuts that encouraged the production of more goods and services. A bull market ensued, with the Dow Jones Industrial Average rising to more than 30000 between 1982 and 2022. Over that 40-year period inflation averaged a benign 3%—until the arrival of President Biden and the Modern Monetary Theory crowd.

So what are the lessons from the 1970s economic tsunami? First, inflation is a double whammy on Americans' salaries and lifetime savings. The demand-siders are wrong. Their argument is that Mr. Biden's multitrillions of government spending and welfare programs are putting more money into people's pockets that is translating into higher consumer demand, which means higher corporate profits.

This argument isn't panning out. In the past 12 months workers have seen the purchasing power of their paychecks decline by 3%—a faster pace than at any time in at least a decade. For shareholders, those frothy profits that companies have been reporting may be illusory. Over the past year stock markets have fallen slightly in nominal terms, but when adjusted for inflation the values are down more than 10%.

The 1970s collapse in worker incomes and the stock market wasn't due only to galloping inflation. The decade also was an era of increasing regulation, a vast expansion of the welfare state, wage and price controls—which made inflation worse—and rising global tariffs. Because the capital-gains tax isn't indexed for inflation, many shareholders paid taxes on purely inflationary gains—a real tax rate of more than 100%.

With Mr. Biden in the White House, doesn't this constellation of policies sound familiar? This month, even with the economy contracting by 1.4% in the first quarter, the Biden White House's budget requested $2.5 trillion in tax increases, including a tax on trillions of dollars in unrealized capital gains. The White House and Speaker Nancy Pelosi are still peddling their $5 trillion Build Back Better bill. Imagine how much higher inflation would be today had Sens. Joe Manchin and Kyrsten Sinema not saved the day by blocking that bill.

Every business cycle is unique, and comparing one era to another often yields incorrect conclusions. We don't think it is too late for a sharp policy reversal to prevent a recession and market contraction.

Here is our current warning of bitter fruit: If Mr. Biden doesn't change course and the bear market cycle from the late '60s through the early '80s returns, the Dow Jones Industrial Average would fall from its recent peak of 36800 to less than 29500 in 2038. Adjusting for inflation the index would drop even further.

Still think a little inflation—which often metastasizes into a lot of inflation—is good for investors?

Mr. Laffer is chairman of Laffer Associates. Mr. Moore is a co-founder of the Committee to Unleash Prosperity and an economist with the Heritage Foundation. Mr. Laffer was a member of Reagan's Economic Policy Advisory Board and Mr. Moore served in the Office of Management and Budget under Reagan.

The Real Value of Stocks
Nominal and Inflation-Adjusted Dow Jones Industrial Average

Source: S&P, Bloomberg, Bureau of Labor Statistics

Annualized Returns December 1965 - December 1981	
Inflation	7.0%
IA SBBI US 1 Yr Treasury TR	7.1%
IA SBBI US 30 Day TBill TR	6.8%
IA SBBI US LT Govt Bonds TR	2.5%
IA SBBI US IT Govt Bonds TR	5.8%
IA SBBI US LT Corp Bonds TR	2.9%
FF Growth Stocks TR	7.4%
S&P 500 TR	6.0%
Dow Jones Industrials TR	3.9%
FF Value Stocks TR	13.4%

Source: Morningstar

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 more than a few of our stocks that had news out worthy of mention last week.

Leggett & Platt (LEG – $37.25) generated a record top and bottom line in Q1, turning in $0.66 of EPS on $1.32 billion of sales. The results (particularly the bottom line) were also meaningfully higher than Street consensus, as higher pricing for the diversified manufacturer helped sales grow by 19% year-over-year, contributing to 8% growth of operating profit, even as operating margin contracted a modest 70 basis points from lower unit volume. The acquisition of Kayfoam in Europe aided growth, along with a recovery in office furniture, while reduced automotive volume hampered the Engineered Materials segment. Also notable was action taken to capitalize on strong overall demand in the steel market by selling some excess production capacity into the market, which helped offset some weakness in demand for the inner spring and mattress business.

CEO Mitch Dolloff commented, “We delivered another quarter of record sales and EPS, as well as improved cash from operations. Our employees around the world once again successfully managed an incredibly dynamic operating environment. Our full year guidance remains unchanged as we balance strong first quarter results, which were in line with our expectations, with continuing macro market uncertainties, including supply chain constraints, inflation, tighter monetary policy, the invasion of Ukraine, and COVID lockdowns in China. The hard work and dedication of our employees have positioned us well, both competitively and financially, to capitalize on long-term opportunities in our various end markets. Our enduring fundamentals give us confidence in our ability to continue creating long-term value for our shareholders.”

Management expects 2022 sales and earnings to fall in a range of $5.3 billion to $5.6 billion and $2.70 to $3.00 per share, respectively. This guidance reflects roughly flat volume overall with the Bedding Products segment flat to down mid-single digits, Specialized Products up mid- to high-single digits, and Furniture, Flooring & Textile Products roughly flat. These estimates also incorporate persisting inflationary impacts, primarily from raw material-related price increases, higher metal margins and volume in Automotive, partially offset by increased transportation and labor costs.

We wrote six months ago that we anticipated inflation and supply chain headwinds would be with LEG for some time. Even as that continues to hold true today, we think the firm’s ability to pass along pricing and keep margins elevated speaks to its competitive strength and diversity in manufacturing. A 30% slide over the past year leaves shares depressed, trading for a P/E roughly a quarter below the norm and at about 13 times forward earnings estimates. A return to the office for pockets of the economy ought to aid furniture and specialized products segments. The Dividend King (more than 50 consecutive years of hikes in the payout) offers a 4.5% yield and our Target Price has been lifted to $61.

Shares of our crop nutrient holdings **Mosaic** (MOS – $64.05) and **Nutrien** (NTR – $103.79) have each taken a breather from their meteoric climb in the last few weeks, so our advice to consider trimming larger positions over the last month or so generally has been beneficial. Nevertheless, both companies continued to line their coffers in Q1, with Florida-based Mosaic earning $2.41 per share (vs $2.43 est.) on $3.9 billion of revenue (71% growth year-over-year), while Nutrien out of Canada earned $2.70 per share (vs. $2.75 est.) on $7.7 billion of revenue (64% growth year-over-year). Still-elevated prices more than offset lower volumes which were affected by rail disruptions and weather that impacted some planting in Q1. Both companies continue to bring additional capacity online to meet prevailing demand and optimize for logistical bottlenecks.

Mosaic CEO Joc O’Rourke stated, “Mosaic’s first quarter results show the strength of our business, which is able to meet customer needs while also delivering value for our shareholders. Looking forward, we expect higher annual production across our global platform in both potash and phosphates, as a result of the completed ramp up of Esterhazy K3, a higher run-rate at Colonsay, and a recovery of phosphate output from our North American operations. We take our responsibility of helping the world grow the food it needs very seriously and are working to mitigate some of the impact of reduced global supply by efficiently maximizing output."

Mosaic bought back $422 million of stock during the first quarter and continues to expect to return a majority of 2022 free cash flow (up to 75%) to shareholders through a combination of repurchases and dividends. In the first quarter, those two represented 99% of free cash flow.

Nutrien raised full-year 2022 adjusted EBITDA guidance and adjusted net earnings per share guidance to $14.5 billion to $16.5 billion and $16.20 to $18.70 per share (more than 2.5 times that earned in 2021), respectively. Adjusted net earnings per share guidance includes plans to allocate a minimum of $2 billion to share repurchases in 2022 on a balanced cadence throughout the year. Management repurchased approximately 9 million shares year-to-date as of April 29, 2022, for a total of approximately $740 million (about $82 per share).

Crop nutrient markets remain tight given sanctions on Russia (and Belarus), who is a leading producer/exporter of nitrogen and potash, while China (another leading crop nutrient exporter) has banned fertilizer exports. Volatile natural gas prices (a knock-on effect of Russian sanctions), which are an input to nitrogen fertilizer add to the mix. We expect these conditions to persist as far as the eye can see, but we are cautious not to overstay our welcome, noting that unknowable weather patterns contribute to the cyclicality of the fertilizer business. Moreover, with fertilizers representing as much as 15% or so of cash costs for many U.S. farmers, we recall a quote from Mr. O'Rourke nearly a year ago, "Grower demand for fertilizer is relatively price inelastic, whether that be in developed or emerging markets. Accepting that, changes to demand would then be driven by acreage and by yield expectations. However, growers will look at the return on investment of fertilizer applications and particularly, if prices of crops are elevated. Or conversely, if they're down, they will adjust their rates higher or lower in order to maximize their yield potential."

Our respective Target Prices for MOS and NTR have been hiked to $87 and $126.

Adjusted for the spinoff of its spine and dental business, which took place in March, **Zimmer Biomet's** (ZBH – $120.33) core earnings of $1.61 per share grew by about 4% year-over-year. While not ordinarily anything to write home about, the result was 12% higher than what Wall Street analysts had expected. Hampered by on and off surges of COVID cases over the past two years, the medical device maker has also dealt with hospital staffing shortages. Total revenue grew 5.8% year-over-year, supported by strong performance in the U.S. for the knees segment, which grew 11.7%. China continues to weigh on results, given lockdowns in Shanghai, although the geography represents a low-single digit percentage of firm revenue. Not dissimilar from the market overall, it was a volatile week for shares, having gained ground Tuesday morning following the release, but giving it all back over the balance of the week.

Like most businesses operating in the real economy, Zimmer continues to battle inflationary pressure through higher commodity input, labor and energy costs. But, management seemed optimistic that the trajectory had reached an inflection point in Q1, particularly in March, and narrowed and edged its full-year adjusted EPS guidance higher to between $6.65 to $6.85.

CEO Bryan Hanson commented, "When I think about the quarter itself, whether it be COVID or staffing, or a combination of the 2, it was pretty tough in January. It gets better, obviously, in February and that was really, really good in March. Actually, March was a month that we had growth over 2019. So, a true growth over pre-pandemic levels, and we're seeing that continue into April."

Zimmer has been hard at work to replenish its product suite with cutting edge technology like its ZBEdge ecosystem, a suite of integrated digital and robotic technologies, and seems to have built momentum for its ROSA Robotics equipment. We also look forward to learning of progress for the recently launched AI-based solution in partnership with Apple called WalkAI. Enduring several false starts in exiting the pandemic's throes, we remain patient in holding our shares of the knee and hip king. Our Target Price has been adjusted to $171.

Shares of **Cummins Inc.** (CMI – $201.72) gained more than 6% last week even as the industrial workhorse reported $2.92 of EPS (vs. $3.57 est.) in Q1. Sales grew 5% year-over-year on the back of strong demand in North America, offset by slowdowns in China that affected International business. Cummins indefinitely suspended operations in Russia and incurred costs from inventory write-downs, reserves on accounts receivable and an impairment of its joint venture associated with the region, which affected EBITDA margins by 430 basis points. Management was able to redirect capacity and product toward higher-demand markets in the quarter, including oil and gas in North America with engine orders expected to nearly double in 2022 (albeit off a small base). Even as its New Power segment continues to produce financial losses, the segment had strategic wins in Q1, including a contract to build a solar powered PEM electrolyzer for Florida Power & Light and a partnership with Swedish truck and bus manufacturer to deliver 20 fuel cell electric trucks by the end of 2023.

CEO Tom Linebarger offered guidance for 2022, "We have raised our forecast for total company revenues from — for 2022 to be up 8% compared to our prior guidance of up 6%. This guidance reflects a stronger outlook in North America and a weaker outlook in China as well as the indefinite suspension of our operations in Russia. We are forecasting higher demand in global oil and gas and power generation markets and expect aftermarket revenues to increase compared with last year… we are increasing our revenue outlook for the year with year-over-year growth expected in most major regions, except China. We are maintaining our full year 2022 EBITDA guidance of approximately 15.5%, excluding the impacts of our indefinite suspension of operations in Russia and the costs associated with preparing for the expected separation of our Filtration business. We expect to deliver this strong profitability despite the supply chain constraints and rising inflationary costs that we are experiencing."

Ironically, some of the same issues affecting Cummins (i.e. higher freight and logistics expenses, rising material costs and other issues contributing to supply chain challenges) also support demand for future business, particularly given high utilization rates for long-haul trucking. No doubt, the 22% slide over the last 12 months has been disappointing for owners of the century-plus old engine maker, but we expect pent-up demand will bear fruit on the other side of the current geopolitical turmoil. We also appreciate that management continues to promote returning 50% of operating cash flow to shareholders. CMI trades for 11 times NTM EPS estimates and sports a 2.9% dividend yield. Our Target Price is now $320.

Shares of **Regency Centers** (REG – $68.58) were roughly flat last week, rising on the release of Q1 financial results before getting caught in the market's undertow on Thursday. The retail-focused REIT generated $1.03 per share of funds from operations (FFO), including a slight benefit from the collection of revenue reserved during the pandemic and conversion of cash basis tenants to accrual basis accounting. The result compares to FFO of $0.90 per share for the same period in 2021, as same store properties were 94.7% leased at the end of the quarter (the same as Q4). Management shed two properties for $137.7 million, including one in San Diego for $125 million, and purchased $41 million of different properties, including Island Village on Bainbridge Island, Washington. Another $88.5 million was spent subsequent to quarter end to buy out a 75% interest in four properties within a Joint Venture. Management raised 2022 FFO guidance to a range of $3.84 to $3.90 per diluted share.

CEO Lisa Palmer stated, "We've had a great start to the year. Our operating trends are healthy, our investment pipelines are active and our balance sheet is strong. With this even further strengthening our core business and accretion from our transaction activity, our outlook for 2022 has improved from a quarter ago. Our centers continue to benefit from positive structural tailwinds, including the strength of first-ring suburban trade areas, the greater amount of time that people are spending near their homes as hybrid work becomes more permanent and the growing emphasis among retailers on the importance of brick-and-mortar locations as a key component to last-mile distribution. This vibrancy in the retail environment is evidenced by strong tenant sales and continued robust leasing activity, and we're successfully pushing rents higher as we continue to make progress getting our portfolio back to historical high occupancy levels. We do see and acknowledge the risks of inflation and continued supply chain challenges and labor shortages on our business. But so far, we and importantly, our tenants have largely been able to mitigate the impacts."

Seemingly moving on from COVID, REG shares have recovered from their pandemic lows and then some. We continue to like that some 80% of the company's properties feature a grocery anchor and are predominately located in and around major metropolitan areas, particularly since the merger with Equity One in 2017. Of course, rising interest rates will likely generate a bit of turbulence for the entire sector, but Regency's focus on quality ought to prevent cap rates for its properties from getting out of control. We continue to evaluate REG against other names in the space amidst the latest volatility, even as the dividend is a robust 3.6%. Our Target Price has edged lower to $81.

Vaccine-maker **Moderna** (MRNA – $134.40) reported Q1 2022 results that exceeded analyst expectations, sending the volatile share price northward by more than 5% on Wednesday before the overall market drop on Thursday and Friday more than erased those gains. MRNA earned $8.58 per share (vs. $4.98 est.) in the quarter and had revenue of $6.1 billion (vs. $4.7 billion est.). COVID-19 vaccine revenue was $5.93 billon, 17% better than the analyst consensus estimate.

CEO Stephane Bancel said, "We ended Q1 with a cash balance of $19.3 billion. For our share buyback program, we continue to retire shares in Q1 like we already did in Q4…For 2022, we are reiterating $21 billion in signed advanced purchase agreements. We have previously shared market share increases seen in the OECD countries with Spikevax when supply was no longer limited and when real-world publications highlighted differentiating data amongst the market vaccine. I'm happy to share that our market share has increased or still consistent across OECD countries."

Mr. Bancel continued, "While a subset of our team is focused on delivering on the $21 billion signed APAs for fiscal year 2022, another subset of our team is focused on preparing the next wave of product launches. With our flu vaccine candidate, mRNA-1010, plans to start a Phase III study in Q2 in the Southern Hemisphere, Moderna will have very soon 4 vaccine candidates in Phase III. An Omicron containing bivalent COVID booster, a flu booster, an RSV booster and the CMV vaccine. Starting with our Omicron containing bivalent COVID booster, mRNA-1273.214, we could see up to 3 respiratory vaccine launches from the fall of 2022 over the next 2 to 3 years. We believe each of these 4 vaccine candidates in Phase III could have multibillion-dollar annual peak sales. And because they all use the exact same mRNA technology as our approved vaccine, Spikevax, we believe this pro-vaccine candidate in late-stage clinical trials have a high probability of success. In addition to our 4 late-stage vaccine, we continue to expand the applications of mRNA technology beyond vaccines. We should have important proof-of-concept data in patients in 2 of our therapeutic modalities later this year. Propionic acidemia and methylmalonic acidemia in our rare genetic business portfolio, and the personalized cancer vaccine"

CFO David Meline added, "As the COVID-19 pandemic evolves into an endemic phase, we forecast our manufacturing unit costs to increase. This is driven by a move to smaller dose presentations and the cost for adjusting our production and supply chain infrastructure, including future purchase commitments. We continue to expect our full year 2022 reported cost of sales in the low to mid-20% range, which incorporates all the expected adjustments that we've identified for the 2022 calendar year. The cost of sales for Spikevax beyond 2022 will be further impacted by geographic customer mix, the pricing effects of the private market as it develops as well as our initiatives to optimize and improve efficiency."

While there is no indication that Moderna might start paying dividends, the company's completed an initial $1 billion share repurchase program and launched a new $3 billion program in February. MRNA has repurchased 7 million shares thus far, more than offsetting the 2 million shares it issued for equity compensation. In our short holding period, MRNA has been a bumpy ride and we continue to like our position, especially given the cash on the books and product growth potential.

We like paying essentially very little for the pipeline and we note that the FDA on March 29 authorized a fourth COVID-19 vaccine dose (second booster shot) for older and immunocompromised individuals. MRNA's Chief Medical Officer, Dr. Paul Burton, explained that several studies supported certain groups are expected to benefit from annual boosters, "There are many health, age-related and environmental occupational risk factors that lead to populations being at higher risk for COVID-19. First, age greater than 50 years. We know that hospitalization and mortality rates begin to increase steeply for those with COVID-19 who are over the age of 50. And then turning to people over the age of 18 that have other health risk factors, such as people with kidney disease, cancer, autoimmune disease and HIV patients, other health factors that either result in immunocompromise or place people at higher physiological risk for severe disease, if indeed, they are infected with SARS-CoV-2. Finally, environmental or occupational risk factors, such as health care workers, first responders, those in high-density housing or living conditions such as college students, military personnel or the incarcerated. We believe it is people in these broad categories who could benefit most from annual boosting for COVID-19." Our Target Price for MRNA is $285.

Lumentum (LITE – $89.01), a leading manufacturer of optical products and lasers, reported a solid fiscal Q3 2022, sending shares higher by nearly 9%. In the third quarter, LITE earned $1.19 per share (vs. $1.13 est.) on revenue of $395 million (vs. $390 million est.). Lumentum expects fiscal Q4 revenue between $405 million and $430 million, the midpoint of which is well above the consensus estimate of $406 million. The EPS range between $1.25 and $1.40 also beat the $1.22 consensus.

CEO Alan Lowe said, "We are in an excellent position to grow revenue in Q4 and in fiscal '23, and we believe we will see continued revenue growth beyond 2023. Long-term tailwinds are driving our markets and demand for our differentiated products is already strong and growing. Unrelenting growth in data generation and consumption is driving the cloud and networking markets we address. Our customers are just beginning multiyear infrastructure upgrades that require our leading-edge photonics. Use cases for our high-performance lasers for 3D sensing and LiDAR are expanding beyond mobile handsets. And in Q3, we announced a new reference design in building automation. New automotive customers are turning to our lasers for LiDAR, and we are engaged with more customers on extended reality applications. Demand for our commercial lasers also continues to grow as industrial and microelectronic factories and semiconductor fabs expand and upgrade their capabilities and increasingly utilize the leading-edge lasers we supply. Near term, telecom customer demand is outpacing the supply of third-party components, most notably semiconductors that we need to build many of our products. Our supply chain team is making excellent progress to alleviate component shortages, which we expect will drive strong sequential growth in telecom revenues in the fourth quarter. We expect this telecom growth combined with the increased output from our recently commissioned datacom capacity will more than offset normal 3D sensing seasonality in Q4."

Mr. Lowe continued, "Our Q4 revenue outlook would result in a new company high for a fourth quarter. Though component supply is increasing, demand is growing even faster. We expect more than a $100 million revenue impact as a result of the gap between demand and supply in Q4. This is up significantly when compared with an approximate $65 million gap we saw in the third quarter. While we expect these supply shortages to continue to improve with the diligent work of our team and our suppliers, given the accelerating demand environment, we will likely see customer demand outpacing third-party material supply into calendar 2023."

In November, LITE announced the acquisition of NeoPhotonics and management said that the integration is on schedule and two key closing hurdles have been cleared. The remaining sign-off is by antitrust authorities in China. Integration planning is underway, and the transaction is expected to close in the second half of 2022.

The supply-demand imbalance is unsurprising given the current state of global supply chains and we think LITE has the opportunity to boost margins as a result of strong demand and growing revenue. With three fiscal quarters in the books, 2022 is shaping up to record about $5.90 of EPS, which analysts expect to grow to nearly $7 in 2023 and nearly $8 in 2024. We think the forward P/E near 14 is a bargain, with both the "P" and the "E" likely to rise over time. The company also boasts a strong balance sheet with more than $2.6 billion of cash and $1.9 billion of total debt (0.45% avg. coupon maturing in December 2026). Our Target Price for LITE has been boosted to $148.

Shares of **Kulicke & Soffa** (KLIC – $51.54) enjoyed a terrific week, rebounding 11% thanks to much-better-than-expected fiscal Q2 results. The chipmaking equipment concern earned $1.86 per share (vs. $1.47 est.) and had revenue of $384 million (vs. $380 million est.) in the quarter. The solid numbers were helped by the automotive, semiconductor and advanced display markets.

CEO Fusen Chen commented, "Our near term ability to develop, qualify and recognize revenue on our growing portfolio of solutions will help solidify our long-term strategy and position within this key market… Within our business, product mix is evolving, which is reducing our reliance on industry capacity expansion and better align our business with the technology and the secular growth opportunity in many of our end markets."

Mr. Chen continued, "In summary, our progress on new growth initiatives and the customer engagement remains on track. We are expanding position across several new markets while also actively participating in a fundamental transition within our core market. With growth, long-term development engagement with industry leaders, we have developed several high competitive systems and our position to win new qualification across the advanced packaging, automotive and advanced display portfolio over the coming quarters. Our ability to succeed near term can provide significant upside to our long-term outlook and the target. We look forward to demonstrating this progress over the coming quarters."

CFO Lester Wong added, "For the June quarter, we expect demand to remain stable and anticipate approximately $365 million of revenue, plus or minus $20 million, which includes a risk adjustment that considers our current view on COVID-related closures, ongoing global logistic difficulties and industry supply chain challenges. We anticipate gross margins to remain strong at 49%, plus or minus 50 basis points due to product mix and absence of the onetime true-up. Non-GAAP operating expenses is anticipated to be approximately $74 million plus or minus 2% and non-GAAP EPS to be $1.53 plus or minus 10%. We are very focused on supporting this ongoing period of industry expansion and are extremely focused to drive new engagements, qualification and ultimately ramp production of our new advanced packaging, automotive and advanced display solutions. Execution on our development and qualification goals throughout fiscal 2022 can potentially drive upside to the long-term targets shared during our Investor Day. This continues to be a very exciting period in the company's history. Over the past few years, our core business and growth prospects have fundamentally improved and we are aggressively executing on the multifaceted growth strategy outlined last September."

KLIC said M&A possibilities are always on option, but for now the priorities are to pay a healthy dividend and "aggressively" repurchase shares. Mr. Wong said, "We do believe that the stock is undervalued currently and definitely undervalued considering all the exciting growth factors that [Mr. Chen] talked about." We understand that KLIC operates in a volatile sector, and we were pleased to hear that Mr. Chen believes supply chain challenges are unlikely to significantly impact the company's outlook and the industry's just-in-time approach is likely to be replaced by inventory management, which should result in wafer capacity growth. KLIC's inexpensive price multiples can expand substantially (the forward P/E is near 9) and we think that any stability in the business will be reflected in wider multiples. The balance sheet is also solid (including roughly $650 million of net cash). Our Target Price has been boosted to $90 and shares yield 1.3%.

Shares of **Albemarle** (ALB – $242.41) powered higher after the lithium and other specialty chemicals company reported Q1 results that blew away analyst expectations. ALB earned $2.38 per share, versus the $1.72 analyst consensus, and had revenue north of $1.1 billion (vs. $1.05 billion est). After getting rocked in mid-February and touching $172 in mid-March,the stock price has soared anew as investors seemed to realize (again) that EVs generally need lithium batteries.

CEO Kent Masters commented, "We have meaningfully increased our 2022 outlook, primarily to reflect continued strength in our lithium business. I'll discuss our lithium outlook in greater detail in just a minute. For the total company, we now expect 2022 net sales to be in the range of $5.2 billion to $5.6 billion, up about 60% to 70% versus prior year. Adjusted EBITDA is expected to be between $1.7 billion and $2 billion, reflecting a year-over-year improvement of 120% at the midpoint of the range. This implies a total company EBITDA margin in the range of 33% to 36%. And together, this translates to updated 2022 adjusted diluted EPS guidance in the range of $9.25 to $12.25 compared to $4.04 in 2021. Additionally, we are maintaining our CapEx guidance range of $1.3 billion to $1.5 billion as we drive our lithium investments forward to meet increased customer demand. You may have noticed that we widened the range of our outlook to prudently reflect greater volatility in pricing for sales and inflation for cost of goods sold against the backdrop of a turbulent macro environment."

Supply chain disruption continues, especially off the coast of eastern China, while raw materials and freight inflation weighed on margins. We continue to think that ALB will see long-term benefits from a major positive catalyst in lithium batteries as electric vehicle adoption increases and the world's leading car companies race to get desirable EVs to market. We struggle to find any major global car producer that said it would offer anything other than EVs past 2030 to 2035. We continue to hold tight to our current position for a revised Target Price of $317 and appreciate the carmaker-agnostic exposure we are gaining in our broadly diversified portfolios. ALB shares yield 0.7%.

Shares of **Cardinal Health** (CAH – $58.27) had a roller-coaster ride last week before closing up 21 cents, with the big news the release of fiscal Q3 2022 results. Revenue of $44.84 billion was better than the consensus analyst estimate of $43.25 billion. However, adjusted EPS for the three-month period came in shy of expectations ($1.45 versus $1.50).

CAH continues to struggle maintaining its margins amid inflation in labor and transportation costs as well as constrained supply chains. During the quarter, Pharmaceutical segment revenue rose 17% year over year, with healthy pharmaceutical volumes, though profits fell 5% on higher operating costs for labor and previously scheduled technological upgrades. Medical segment declines in revenue (7% year over year) and profit (66%) led Cardinal to increase expected segment profit declines to 45% to 55% for the full fiscal year. The company plans to pass through some price increases and continues to exit unprofitable markets, which should support margins in the coming quarters. All things considered, Cardinal now believes it's full-year adjusted EPS will come in between $5.15 to $5.25.

CEO Michael Kaufman commented, "While we're taking action to drive performance across all our businesses, particularly the Medical segment, our third quarter results reflect continued inflationary impacts and global supply chain constraints. We have updated our outlook for Medical to reflect the challenging environment, and reiterated our outlook for the Pharmaceutical segment in fiscal year 2022. Going forward, we remain confident in our ability to drive sustainable, long-term growth."

Cardinal, along with pharmaceutical distribution peers, finalized the previously announced national opioid settlement agreement, which became effective on April 2, 2022. The company states, "46 of 49 eligible states, Washington DC, all eligible territories, and greater than 98 percent of litigating political subdivisions are participating in the National Settlement. This comprehensive agreement will settle the vast majority of the opioid lawsuits filed by state and local governmental entities. Under the National Settlement, CAH will pay participating states and subdivisions up to $6.0 billion, the majority of which will be paid over 18 years. The settlement also includes injunctive relief terms related to distributors' controlled substance anti-diversion programs, which are designed in part to provide increased transparency within the supply chain. As part of the injunctive relief terms, the distributors will engage a third-party vendor to act as a clearinghouse for data aggregation and reporting. Additionally, in May 2022, Cardinal Health, along with pharmaceutical distribution peers, reached an agreement with the State of Washington to resolve the opioid-related claims of the state and its participating subdivisions. Under this agreement, we will pay up to approximately $160 million, which is consistent with the amount that would have been allocated to Washington under the National Settlement, plus certain attorneys' fees and costs. The payments will be made on timelines and terms consistent with the National Settlement. This agreement is subject to certain contingencies, including the rate of subdivision participation."

"These settlements are an important step forward for our company," said Mr. Kaufmann. "This is a significant milestone towards achieving broad resolution of governmental opioid claims and delivering meaningful relief to communities across the United States."

As a distributor, we acknowledge that Cardinal is at the brunt of the ever-present crunch to the global supply chain, which has eaten into already razor-thin margins. But the past year (or two) has demonstrated the value of a well-functioning distribution system for pharmaceutical and health supplies. Shares remain inexpensive, trading at less the 11 times NTM EPS estimates while the firm continues to generate strong free cash flow, which we believe is supported by demographic trends in the U.S. as the population ages and requires greater health care usage. The dividend yield is 3.4%, while our Target Price is now $80.

WestRock (WRK – $53.40) earned an adjusted $1.17 (vs. $1.02 est.) per share in fiscal Q2, more than double the year-ago tally, on a record $5.4 billion of sales, up 21% year over year.

Corrugated packaging benefitted from strong pricing, but labor issues, inflation and productivity declines impacted margins. The paper business continues to benefit from pricing realization and higher volumes, partially offset by energy, freight and other costs. Poor winter weather and a ransomware attack a year ago created favorable comps for the latest quarter.

CFO Alexander Pease elaborated on the drivers of Westrock's performance, "Our diverse portfolio enables us to deliver higher value solutions to our customers, capturing stronger price with enhanced product mix…We experienced significant improvement in COVID-related absenteeism, as the quarter progressed, but still see continuing risks in logistics and other input costs. We successfully executed significant planned maintenance downtime during the quarter. And looking ahead, we expect significantly less planned downtime through the remainder of the year. In addition, as mentioned, COVID-related absenteeism negatively impacted converting operations in January and February. However, we experienced significant improvement as the quarter progressed…Per day, North American box shipments were slightly softer year-over-year, mainly due to labor issues early in the quarter. However, as we exited the quarter, our run rate significantly improved, and we're currently selling everything we can produce. When looking at our end markets, we're seeing a shift due to reopening as the pandemic eases. Our pure-play e-commerce volumes are softer year-over-year but are being more than offset by expanding omnichannel retail volume. We are also seeing shifting buying patterns with pizza volumes declining as people return to restaurants but growth in areas like bakery."

Management has stated goals to reduce the net leverage target of 1.75x to 2.25x EBITDA and maintain free cash flow of over $1.3 billion in fiscal 2022. The company also said it has nearly completed its current share repurchase authorization, buying back approximately $700 million of stock over the last 12 months. The board issued a new authorization in its place for an additional 25 million of shares, approximately 10% of the current float.

Despite lingering supply chain challenges and a few others more idiosyncratic, we continue to view Westrock as a beneficiary of tailwinds from e-commerce (via shipping boxes), even as more folks opt to leave the house. Of course, we are interested to watch how far the paper/packing industry can go with increasing its prices while supply remains tight. Shares now trade at 9 times the NTM earnings estimate. Our Target Price presently resides at $73 and the dividend yield is 1.9%.

No stranger to large daily fluctuations, shares of **Goodyear Tire & Rubber** (GT – $12.31) ended up on the short sale restriction last last Friday after plummeting as much as 10% at one point during trading. The drop came even as the $0.37 of Q1 EPS was 77% higher than the Street consensus. Revenue for the consolidated company (including Cooper Tire) grew 25% year-over-year on substantial price increases and overweight exposure to replacement vs. OEM tires, although inflation pressures internationally (especially in Asia) affected operating margin. Indeed, operating profits only grew 6% to $303 million.

CEO Gary Kramer elaborated on the tale of two geographies for the tiremaker, "I think the work that we've done and the market dynamics in North America and, in fact, in Latin America as well. So, the Americas in aggregate have been early on have allowed us to recapture more of the raw material and other costs that we've been experiencing. Helpful that we are more heavily weighted towards the replacement market, for sure, because that's the market where we have a better opportunity to recover those costs in more of a real-time way, where OE is obviously more lagged. We do have — Europe, I would say that there has still been some pretty good progress. And I think we feel good about the fact that the European market is recovering. I think a number of the programs we put in place in Europe make us feel much better about where our business is in Europe right now. And we do have raw material index agreements in place there with our OE customers. So, I think the outlook for the benefit of pricing in Europe and being able to catch up on those costs, I think we're feeling reasonably good about although not as far along as we were in — as we are in the Americas. Asia, I think is — it is the toughest market. And I think that's why in our prepared remarks, we sort of acknowledged that this is a market that is: a, it's heavily reliant on OE, particularly in China. And b, the OE contracts that we have there, which are increasingly not with — increasingly weighted toward Chinese and Asian OEs do not yet have raw material index agreements embedded in them. That's something that I think we will see more of as the market matures, but we don't have those automatic mechanisms yet. And it's obviously some real challenging macro elements over there right now. So, it's not the best environment to be trying to negotiate those changes. So, I think we're — while we feel good about that business long term, I think it is a much more difficult environment to try to keep up with cost pressure. And that is — I mean there's been some element of that historically, but we're really feeling it right now."

On costs, CFO Darren Wells mentioned ,"The year-on-year effect of other inflationary cost pressures is expected to persist, driven by energy, transportation and labor costs. We see these cost pressures peaking in Q2 and Q3 and moderating in Q4 as we anniversary higher costs that began late in '21…At today's spot rates, the increase in raw material costs during the second half would be similar to the first half." But he also acknowledged, "It's difficult to tell what the near-term direction of raw materials may be, given disruptions we're seeing in key markets, including potential reduced demand in China."

Were it not for the Cooper acquisition, Goodyear's margins would likely have fared much worse in the current environment given historic operating margins in the low-double-digit range compared to mid-to-high single digits for Cooper, and a higher percentage of sales in the U.S. compared to its new parent. And given raging costs and supply chain bottlenecks, the capital-intensive tire business isn't exactly the best one to be in at the moment. Still, we aren't quite ready to jump off the roller coaster just yet as the stock has been cut in half since late last year, and our exposure is modest, while meaningful upside exists should the wind blow in GT's favor. However, our Target Price has been pared to $24.

NortonLifeLock (NLOK – $24.70) saw its shares end the week modestly lower after reporting fiscal Q4 2022 results. The cyber security company earned $0.46 per share (vs. $0.45 est.) and had $716 of revenue (vs. $710 million est.). For Q1, NortonLifeLock expects adjusted revenue between $705 million and $715 million, which should result in EPS between $0.42 and $0.44. The company said its tenth straight quarter of top-line growth was propelled by an expansion into the international market, which now includes more than 150 countries, and an increased marketing effort to grow its direct client base.

Mr. Pilette said, “Product innovation, diversified go-to-market channels, a multi-brand strategy and customer insight and satisfaction are key priorities and critical components of our strategy to maximize our growth moving forward and scale up the best cybersafety platform for people everywhere. Cyberattacks have only elevated and evolved to become an unfortunate part of everyday reality. Consumers need more than just device security, there will be more touch points into identity, privacy and other trust-based adjacencies. Our mission is to build easy-to-use technologies and solutions that help save guard consumers. So looking ahead, we are well positioned to drive the transformation of consumer cybersafety and pursue our long-term objectives. While we recognize that geopolitical events or macro level headwinds, can create bumps along our journey, we know that consumers will continue to need comprehensive protection of their digital lives.”

On the topic of the pending Avast merger, CEO Vincent Pilette said, “Our anticipated closing of the merger remains at mid to late calendar 2022. We are actively engaged in the phase 2 review process with the U.K. market authorities and continue to strongly believe that this transaction can only benefit consumers across the globe in a very competitive and dynamic market. In the meantime, we will continue to move our business forward. We’re still very eager to come together with Avast to accelerate the transformation of consumer cybersafety and power digital freedom for everyone.”

CFO Natalie Derse offered details on the outlook, “With the ongoing macro environment and the significant strengthening of the dollar in recent weeks, we anticipate increasing currency headwinds. But I want to emphasize that the underlying health of our business remains strong… For the full fiscal year 2023, we expect bookings growth to be in similar ranges of mid-single digits in constant currency. Considering the ongoing CMA discussions and timing of the Avast merger, we will not be providing an annual P&L guidance at this time. We hope to provide more details when we close this merger.”

We haven’t heard much about the phase 2 review in the U.K. since we wrote about it in March, though it still seems possible that the Avast deal gets torpedoed. We have no complaints about the standalone business, though, as state-sponsored cyberattacks have been vicious and frequent lately, especially between Russia and Ukraine. Indeed, it also appears that attacks on Russian cyber assets have ramped up, which was previously a no-go for a lot of organizations. The impacts of these attacks are felt by everyone, and we think NLOK’s software should be highly attractive to all types of users. As is our custom, we aren’t baking the Avast results into our model yet, but we are positive on the deal. Our Target Price for NLOK remains at $35.

One of a handful of companies to gain meaningful ground last week, shares of **EOG Resources** (EOG – $132.22) jumped over 13% as the energy sector superstar announced that it earned $4.00 per share in Q1. The results were 29% better than the Q4 figure, and 10% higher than analyst expectations. The Permian-based producer declared another special dividend of $1.80 per share, on top of the regular $0.75 common dividend, with respective payable dates of June 30 and July 29. To add an element of stability to shareholder returns of capital, management also committed to returning a minimum of 60% annual free cash flow.

CEO Ezra Yacob stated, "The pandemic-driven volatility in the oil and gas market is stabilizing. However, the macro environment continues to evolve with the war in Ukraine and other geopolitical events. We have proven to ourselves over the last several years that our business is resilient through the cycle, including unprecedented shocks to the industry. Credit for EOG's resilience for the steady improvement in our ability to generate free cash flow in any environment and the ability to make this free cash flow commitment to our shareholders goes to our employees, who embraced our premium return hurdle rate 6 years ago, which requires that all investments earn a minimum of 30% direct after-tax rate of return using a $40 flat oil and $2.50 flat natural gas price."

Noted for its premium drilling strategy, Mr. Yacob added, "Last year, we doubled the minimum return to 60%. Both the premium and now double premium hurdle rates have positioned the company to have an outstanding year in 2022. In spite of the ongoing inflationary and supply chain issues facing our industry, our employees outperformed during the first quarter and are positioned to deliver on our annual capital and volumes plan. We have decades of low-cost, high-return inventory that support the consistent financial performance that our shareholders have come to expect and that drives long-term value. Our inventory spans multiple assets across oil, combo and dry natural gas basins throughout the country, which enables us to pursue the highest netbacks by diversifying both our investment and sales market options. We also continue to explore. 1.5 years ago, we announced Dorado, a premium dry natural gas play, where we've captured 21 Tcf of resource potential net to EOG…Our organic exploration program has grown our premium inventory by more than 3.5x since the premium metric was introduced in 2016. So our exploration program isn't focused on adding more. We are looking for better inventory. New players, like Dorado, and the potential we see in our current exploration pipeline gives us confidence we will continue to grow and improve our double premium inventory in the future as we have done in the past."

EOG has some of the lowest-cost Permian assets of the U.S. oil and gas producers. We note that while capital constraints are en vogue today, EOG has historically been one of a handful of shareholder-friendly oil and gas producers. In addition to over $6.00 of cumulative income paid per share since last May, we've benefited handsomely from the 70% rally for the stock price over the past year. Despite the run, shares still trade for just 8.5 times NTM EPS, which is expected to fade modestly over the next few years. Our Target Price has been hiked to $147, but our EOG position size is elevated so we wouldn't rule out a partial sale in the near-term.