Market Commentary Monday, May 16, 2022

May 16, 2022

EXECUTIVE SUMMARY

Zweig Wisdom – Business Values Change Over Time, Not All the Time
Week in Review – Stocks Head South Again; Assets that Deliver Something to Somebody Losing Less
Bear Market – Many Stocks Down More than 20%; S&P 500 Off 19.92% at Worst Level Last Week
Valuations – Equities are Reasonably Priced
Econ Outlook – Inflation Remains High; Real GDP Growth Still Likely
Earnings & Dividends – Profits and Payouts Likely to Rise this Year and Next
Sentiment – Buy Signals from *CNNMoney* and AAII
Perspective – The Only Problem with Market Timing
Stock News – Updates on DIS, TPR, TSN, DINO, RCL, SIEGY, ALIZY & HMC

Market Review

It seems like an appropriate time to remind readers that one of your Editor's favorite books on investing is Jason Zweig's *Your Money and Your Brain*, which deals with the science of neuroeconomics. As the dust jacket states, "Neuroeconomics is a fascinating new discipline that combines psychology, neuroscience, and economics to better understand financial decision making."

While there is plenty of good stuff in his tome, I especially like a passage starting on Page 31 under the subheading, "Stocks have prices; business have values." Mr. Zweig writes: "In the short run, a stock's price will change whenever someone wants to buy or sell it and whenever something happens that seems like news…In the long run a stock has no life of its own; it is only an exchangeable piece of an underlying business. If that business becomes more profitable over the long term, it will become more valuable, and the price of its stock will go up in turn. It's not uncommon for a stock's price to change as often as a thousand times in a single trading day, but in the world of real commerce, the value of a business hardly changes at all on any given day. Business values change over time, not all the time. Stocks are like weather, altering almost continuously and without warning; businesses are like climate, changing more gradually and predictably. In the short run, it's the weather that gets our notice and appears to determine the environment, but in the long run it's the climate that really counts."

THE PRUDENT SPECULATOR

VOLATILITY IS NORMAL BUT VALUE WINS THE RACE

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

Advancing Markets

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

Declining Markets

Minimum Decline %	Average Loss	Average # Days	Count	Frequency (in Years)	Last Start	Last End
-20.0%	-35.4%	286	26	3.5	2/19/2020	3/23/2020
-17.5%	-30.1%	215	39	2.4	1/3/2022	5/12/2022
-15.0%	-28.2%	188	45	2.1	1/3/2022	5/12/2022
-12.5%	-22.7%	138	72	1.3	1/3/2022	5/12/2022
-10.0%	-19.5%	101	99	0.9	3/29/2022	5/12/2022
-7.5%	-15.4%	65	158	0.6	3/29/2022	5/12/2022
-5.0%	-10.9%	37	309	0.3	3/29/2022	5/12/2022

From 02.20.28 through 05.12.22. 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

Given that the equity markets headed south again last week, the weather certainly has turned stormy this year, with the skies darkening the most over Growth stocks and a deluge pummeling many profitless and very-expensively priced stocks.

THE PRUDENT SPECULATOR

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

November 2, 2021

the Prudent Speculator

Established in March 1977 - 20 Enterprise, Suite 200 - Aliso Viejo, California 92656 - 800.258.7786

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

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

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

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

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

— Ayn Rand

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!"

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
-42.28	-69.79	Meta Materials Inc	MMAT Equity
-40.78	-41.32	Roundhill Ball Metaverse ETF	METV Equity
-56.58	-66.61	AMC Entertainment Holdings Inc	AMC Equity
-33.69	-46.38	GameStop Corp	GME Equity
-39.81	-69.43	Robinhood Markets Inc	HOOD Equity
-38.22	-44.93	VanEck Social Sentiment ETF	BUZZ Equity
-53.91	-63.75	ARK Innovation ETF	ARKK Equity
MARKET OF STOCKS			
-10.81	-9.18	Dow Jones Industrial Average TR	DJITR Index
-10.34	-9.19	New York Stock Exchange Composite Index	NYA Index
-26.96	-30.22	Russell 2000 Total Return Growth Index	RU20GRTR Index
-12.62	-12.16	Russell 2000 Total Return Value Index	RU20VATR Index
-19.83	-21.45	Russell 2000 Total Return Index	RU20INTR Index
-26.90	-29.74	Russell Midcap Growth Index Total Return	RUMCGRTR Index
-9.18	-6.41	Russell Midcap Value Index Total Return	RUMCVATR Index
-15.52	-15.13	Russell Midcap Index Total Return	RUMCINTR Index
-23.81	-22.06	Russell 3000 Total Return Growth Index	RU30GRTR Index
-7.80	-5.56	Russell 3000 Total Return Value Index	RU30VATR Index
-16.25	-14.28	Russell 3000 Total Return Index	RU30INTR Index
-10.77	-7.65	S&P 500 Equal Weighted USD Total Return In	SPXEWTR Index
-15.12	-11.93	S&P 500 Total Return Index	SPXT Index
BONDS			
-12.16	-12.54	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index
-9.71	-9.68	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index

As of 05.13.22. Source: Kovitz using data from Bloomberg.

Interestingly, last week's equity market struggles arguably could be attributed to gale force winds hitting most cryptocurrencies after something far beyond a Category 5 hurricane wiped out billions of dollars of value from Luna and supposedly stable Terra, which per Coindesk.com are two native tokens of the Terra network, a blockchain-based project developed by Terra Labs in South Korea.

2022 BERKSHIRE ANNUAL MEETING

CNBC

Warren Buffett gives his most expansive explanation for why he doesn't believe in bitcoin

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"Whether it goes up or down in the next year, or five or 10 years, I don't know. But the one thing I'm pretty sure of is that it doesn't produce anything," Buffett said. "It's got a magic to it and people have attached magic to lots of things."

"If you said ... for a 1% interest in all the farmland in the United States, pay our group $25 billion, I'll write you a check this afternoon," Buffett said. "[For] $25 billion I now own 1% of the farmland. [If] you offer me 1% of all the apartment houses in the country and you want another $25 billion, I'll write you a check, it's very simple. Now if you told me you own all of the bitcoin in the world and you offered it to me for $25 I wouldn't take it because what would I do with it? I'd have to sell it back to you one way or another. It isn't going to do anything. The apartments are going to produce rent and the farms are going to produce food."

"Assets, to have value, have to deliver something to somebody. And there's only one currency that's accepted. You can come up with all kinds of things — we can put up Berkshire coins... but in the end, this is money," he said, holding up a $20 bill. "And there's no reason in the world why the United States government ... is going to let Berkshire money replace theirs."

Both Buffett and Charlie Munger have made hostile comments toward bitcoin in the past. Most famously, Buffett said bitcoin is "probably rat poison squared." Munger doubled down on that sentiment Saturday.

"In my life, I try and avoid things that are stupid and evil and make me look bad in comparison to somebody else – and bitcoin does all three," Munger said. "In the first place, it's stupid because it's still likely to go to zero. It's evil because it undermines the Federal Reserve System ... and third, it makes us look foolish compared to the Communist leader in China. He was smart enough to ban bitcoin in China."

The New York Times

Cryptocurrencies Melt Down in a 'Perfect Storm' of Fear and Panic

A steep sell-off that gained momentum this week starkly illustrated the risks of the experimental and unregulated digital currencies.

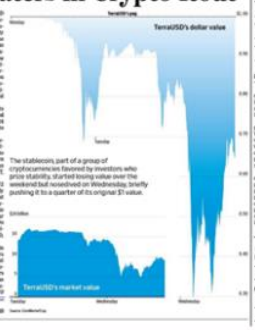
By David Yaffe-Bellany, Erin Griffith and Ephrat Livni
May 12, 2022

SAN FRANCISCO — The price of Bitcoin plunged to its lowest point since 2020. Coinbase, the large cryptocurrency exchange, tanked in value. A cryptocurrency that promoted itself as a stable means of exchange collapsed. And more than $300 billion was wiped out by a crash in cryptocurrency prices since Monday.

BUSINESS & FINANCE

THE WALL STREET JOURNAL. Thursday, May 12, 2022

TerraUSD Craters in Crypto Rout



The stablecoin, part of a group of cryptocurrencies favored by investors who prize stability, started losing value over the weekend but nosedived on Wednesday, briefly pushing it to a quarter of its original $1 value.

Instacart Readies Public Listing

SEC Eyes Musk's Twitter File Lag

We have little knowledge of the workings of the crypto markets, and we will leave the vehement arguments against investing therein to the pair of legendary value investors in Omaha. Still, as we very much concur with Warren Buffett, who states, "Assets, to have value, have to deliver something to somebody," we are not unhappy to see a change in the business climate toward a focus on the bottom line and away from a seemingly care-free fixation on attempting to grow the top line at any cost.

THE PRUDENT SPECULATOR

MORE SANITY IN TECH-LAND A POSITIVE FOR THE LONG RUN

The New York Times

Fear and Loathing Return to Tech Start-Ups

Workers are dumping their stock, companies are cutting costs, and layoffs abound as troubling economic forces hit tech start-ups.

Filippo Fontana

By Erin Griffith

Erin Griffith, who covers start-ups and venture capital, has reported from the San Francisco Bay Area since 2018.

May 11, 2022

Start-up workers came into 2022 expecting another year of cash-gushing initial public offerings. Then the stock market tanked, Russia invaded Ukraine, inflation ballooned, and interest rates rose. Instead of going public, start-ups began cutting costs and laying off employees.

People started dumping their start-up stock, too.

The number of people and groups trying to unload their start-up shares doubled in the first three months of the year from late last year, said Phil Haslett, a founder of EquityZen, which helps private companies and their employees sell their stock. The share prices of some billion-dollar start-ups, known as "unicorns," have plunged by 22 percent to 44 percent in recent months, he said.

"It's the first sustained pullback in the market that people have seen in legitimately 10 years," he said.

That's a sign of how the start-up world's easy-money ebullience of the last decade has faded. Each day, warnings of a coming downturn ricochet across social media between headlines about another round of start-up job cuts. And what was once seen as a sure path to immense riches — owning start-up stock — is now viewed as a liability.

The turn has been swift. In the first three months of the year, venture funding in the United States fell 8 percent from a year earlier, to $71 billion, according to PitchBook, which tracks funding. At least 55 tech companies have announced layoffs or shut down since the beginning of the year, compared with 25 this time last year, according to Layoffs.fyi, which monitors layoffs. And I.P.O.s, the main way start-ups cash out, plummeted 80 percent from a year ago as of May 4, according to Renaissance Capital, which follows I.P.O.s.

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That does not mean that a few babies won't be thrown out with the bath water, as even Value strategies took time to regain their footing following the bursting of the Tech Bubble in 2000,…

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

…and more than a few stocks are in a Bear Market today,…

THE PRUDENT SPECULATOR

MARKET OF STOCKS – CORRECTION FOR VALUE; MAJOR BEAR FOR GROWTH

The average member of the Russell 3000 and NASDAQ Composite Indexes has tumbled into a Bear Market (down 20% or more), but the Value benchmarks have held up remarkably well, especially relative to Growth.

2022 Bear Market

Start	End	Perf	Instrument	Start	End	Perf	Instrument
1/4/2022	5/12/2022	-23.72%	Russell 3000 Average Stock	11/22/2021	5/12/2022	-25.73%	NASDAQ Composite Average Stock
1/5/2022	5/12/2022	-15.49%	Dow Jones Industrial Average	11/22/2021	5/12/2022	-34.15%	S&P 500 Pure Growth Index
11/22/2021	5/12/2022	-31.48%	NASDAQ Composite Index	4/21/2022	5/12/2022	-9.70%	S&P 500 Pure Value Index
1/4/2022	5/12/2022	-20.81%	Russell 1000 Index	9/1/2021	5/12/2022	-34.13%	S&P 500 Communication Services
11/8/2021	5/12/2022	-30.82%	Russell 2000 Index	11/22/2021	5/12/2022	-35.00%	S&P 500 Consumer Discretionary
1/4/2022	5/12/2022	-21.09%	Russell 3000 Index	4/21/2022	5/12/2022	-6.91%	S&P 500 Consumer Staples Secto
1/4/2022	5/12/2022	-19.92%	S&P 500 INDEX	5/6/2022	5/9/2022	-8.33%	S&P 500 Energy Sector GICS Lev
11/22/2021	5/12/2022	-29.39%	Russell 1000 Growth Index	1/13/2022	5/12/2022	-22.38%	S&P 500 Financials Sector GICS
1/5/2022	5/12/2022	-12.87%	Russell 1000 Value Index	4/8/2022	5/11/2022	-12.20%	S&P 500 Health Care Sector GIC
11/8/2021	5/12/2022	-39.59%	Russell 2000 Growth Index	1/5/2022	5/12/2022	-16.45%	S&P 500 Industrials Sector GIC
11/8/2021	5/12/2022	-21.86%	Russell 2000 Value Index	12/28/2021	5/12/2022	-27.95%	S&P 500 Information Technology
11/22/2021	5/12/2022	-29.82%	Russell 3000 Growth Index	1/5/2022	5/12/2022	-12.08%	S&P 500 Materials Sector GICS
1/5/2022	5/12/2022	-13.21%	Russell 3000 Value Index	12/31/2021	5/11/2022	-20.20%	S&P 500 Real Estate Sector GIC
12/28/2021	5/12/2022	-28.53%	S&P 500 Growth Index	4/8/2022	5/12/2022	-8.84%	S&P 500 Utilities Sector GICS
1/5/2022	5/12/2022	-11.84%	S&P 500 Value Index				

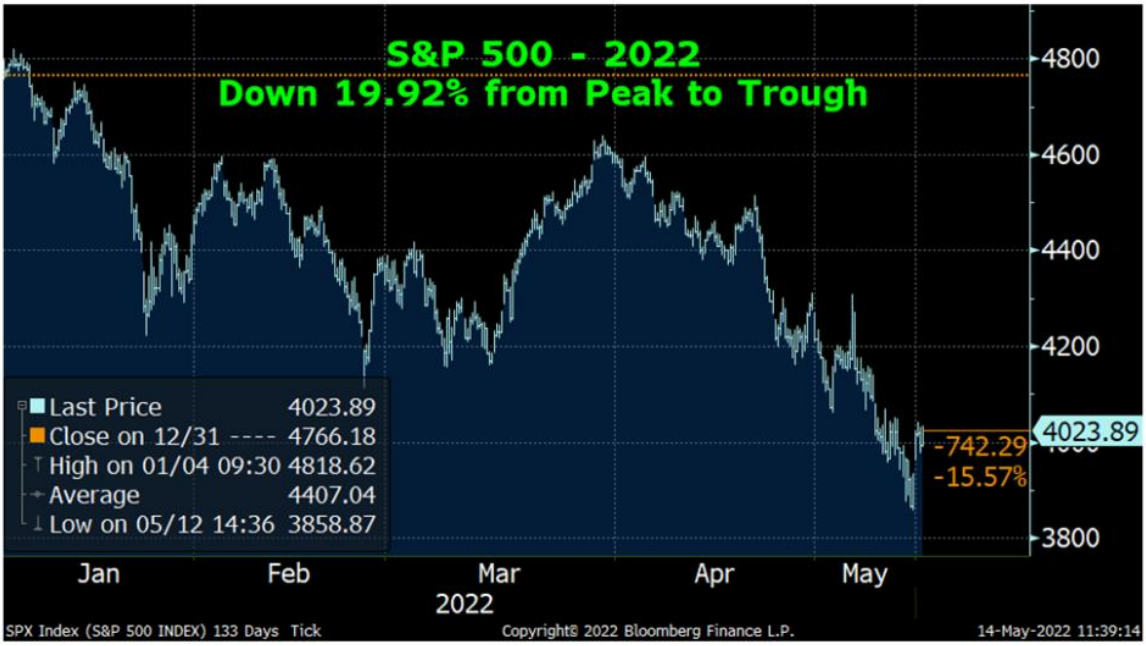
Source Kovitz using data from Bloomberg

…with the widely followed S&P 500 coming within a hair of the Bear this past Thursday,…

THE PRUDENT SPECULATOR

MISSED AN OFFICIAL S&P 500 BEAR MARKET BY A WHISKER

While the "official" arbiters of Bear Markets will argue the plunge from the January 3 close to the May 12 close was "only" 18.06%, they forget that stocks trade when the markets are open, as the drop from the 2022 intraday high on January 4 to the intraday low on May 12 was a close-enough 19.92%



…but we continue to think that equities in general today are reasonably priced,…

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 (4.97% vs. 2.92% 10-Year) and S&P 500 dividend yield of 1.56%.

…and our portfolios of what we believe to be undervalued stocks are very attractively valued.

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	12.5	11.2	0.9	2.3	2.5
ValuePlus	13.4	11.5	1.3	2.3	2.2
Dividend Income	12.0	11.3	0.8	2.1	3.0
Focused Dividend Income	13.4	12.1	1.1	2.4	2.7
Focused ValuePlus	12.6	12.6	1.3	2.5	2.5
Small-Mid Dividend Value	10.1	9.4	0.6	1.6	2.7
Russell 3000	21.3	17.9	2.2	3.7	1.6
Russell 3000 Growth	29.3	24.1	3.6	9.3	0.9
Russell 3000 Value	17.0	14.4	1.7	2.4	2.2
Russell 1000	20.5	17.8	2.4	3.9	1.6
Russell 1000 Growth	27.7	23.6	4.0	10.2	0.9
Russell 1000 Value	16.5	14.5	1.7	2.4	2.2
S&P 500 Index	20.1	17.7	2.5	4.0	1.6
S&P 500 Growth Index	23.3	21.0	4.4	7.3	0.9
S&P 500 Value Index	17.9	15.4	1.8	2.8	2.2
S&P 500 Pure Value Index	11.4	10.2	0.7	1.4	2.4

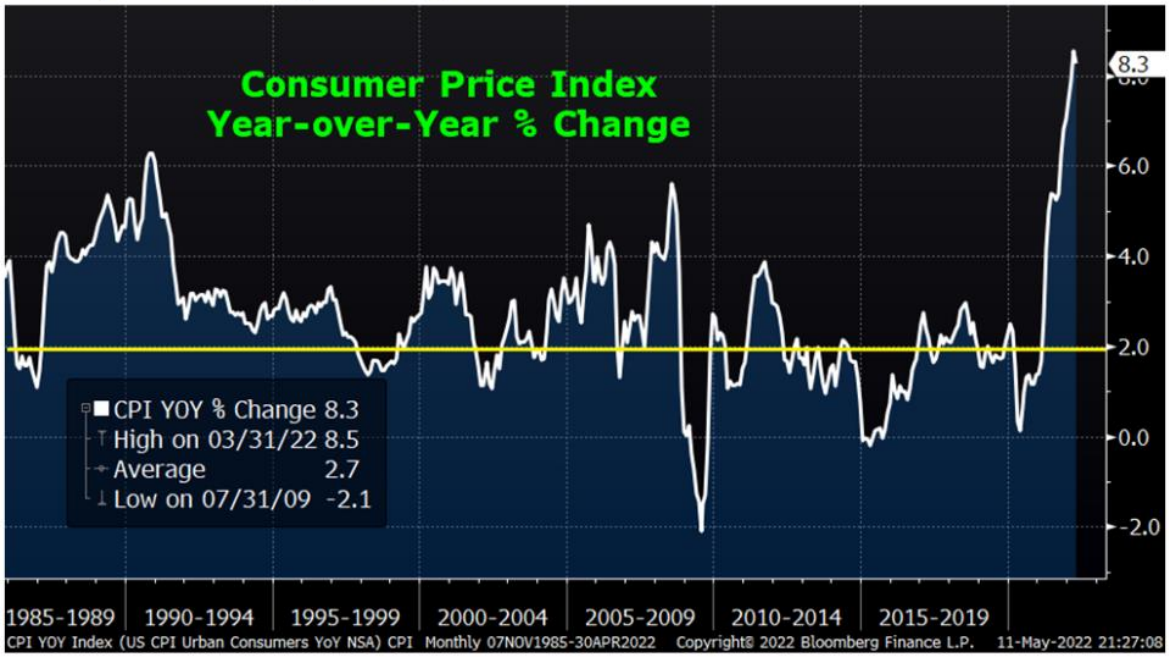
As of 05.14.22. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Kovitz using data from Bloomberg Finance L.P.

To be sure, we realize that market pundits continue to fret about inflation,…

THE PRUDENT SPECULATOR

INFLATION AT THE CONSUMER LEVEL INCHES LOWER FROM 41-YEAR PEAK

Inflation in the U.S. soared in April, with the Consumer Price Index jumping by 8.3% on a year-over-year basis, though the core rate, which excludes food and energy, rose by "only" 6.2%, with apparel and used vehicle prices falling during the month.



…even as history suggests that equities on average have been a very good hedge against elevated numbers for the Consumer Price Index,…

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

THE WALL STREET JOURNAL.

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

DJIA 34220.36 ▼ 87.72 0.3% NASDAQ 13571.57 ▼ 0.3% STOXX 600 456.65 ▼ 0.4% 10-YR. TREAS. ▲ 15/32, yield 2.724% OIL $106.60 ▲ $6.31 GOLD $1,972.30 ▲ $27.80 EURO $1.0829 YEN 125.39

What's News

Business & Finance

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

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

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

◆ Michael Barr, a former Treasury official, is the White House's leading candidate to serve as the Fed's top banking regulator, according to people with knowledge of the administration's internal deliberations. A2

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

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

◆ Boeing said its long-term orders for new commercial jets are expected to shrink because of sanctions targeting Russia. B2

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

World-Wide

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

Gunman Attacks Riders on New York Subway

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

Inflation Hits 40-Year High, Reaching 8.5%

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

By Gavan Gallagher

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

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

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

Prices for groceries also continued to accelerate in March, rising 1.0% from a month earlier, while the cost increases for dining out moderated.

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

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

Please turn to page A4

Economic Fallout

◆ Grocers thrive as consumers pay more A4

◆ The safe investment set to yield nearly 10% A9

◆ Stocks decline as rate fears mount B1

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

Source: Labor Department

Commodity Market Swings Snarl Real World Business

By Ryan Dezember

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

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

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

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

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

Please turn to page A8

Ukraine Hunts for Proof

Putin Says Peace Talks Reach

Inflation Rate >= 8.0% and Ensuing Value/Growth Returns Since 1927						
Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	4.2%	2.4%	10.4%	6.0%	25.2%	15.1%
Geometric Average	3.6%	1.8%	8.9%	4.6%	22.3%	12.8%
Median	3.9%	1.7%	6.8%	4.7%	17.8%	12.8%
Max	50.6%	33.2%	82.1%	61.2%	133.3%	64.2%
Min	-19.2%	-27.8%	-26.3%	-36.0%	-20.9%	-30.8%
Count	110	110	110	110	110	110

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

Inflation Rate <8.0% and Ensuing Value/Growth Returns Since 1927						
Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	4.2%	3.1%	8.1%	6.2%	16.4%	12.4%
Geometric Average	3.1%	2.5%	6.1%	4.8%	12.2%	9.5%
Median	4.0%	3.5%	8.0%	6.3%	16.5%	13.1%
Max	201.1%	131.7%	245.2%	135.6%	358.2%	213.8%
Min	-43.5%	-40.4%	-56.3%	-47.0%	-71.5%	-64.8%
Count	1022	1022	1019	1019	1013	1013

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

Inflation Rate >= 8.0% and Ensuing Value/Growth Returns Since 1957						
Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	4.1%	2.9%	8.9%	6.4%	22.5%	17.0%
Geometric Average	3.6%	2.2%	7.8%	4.6%	21.3%	14.4%
Median	4.7%	2.7%	6.9%	6.4%	22.0%	21.1%
Max	39.8%	33.2%	63.2%	61.2%	60.2%	63.4%
Min	-16.4%	-27.8%	-26.3%	-36.0%	-20.9%	-30.8%
Count	63	63	63	63	63	63

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

Inflation Rate < 8.0% and Ensuing Value/Growth Returns Since 1957						
Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	3.8%	3.0%	7.7%	6.0%	15.7%	12.0%
Geometric Average	3.3%	2.5%	6.7%	5.0%	13.6%	10.1%
Median	4.0%	3.4%	8.0%	6.2%	17.2%	13.0%
Max	37.7%	32.0%	68.3%	49.7%	106.5%	92.6%
Min	-39.5%	-34.9%	-54.2%	-41.8%	-52.2%	-48.0%
Count	711	711	708	708	702	702

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

…with even the supposedly awful 1966-1981 period, in which inflation averaged 7.0% per annum, a terrific absolute and relative return environment for Value stocks.

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 wap 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 multi-trillions 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 metamorphoses 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%

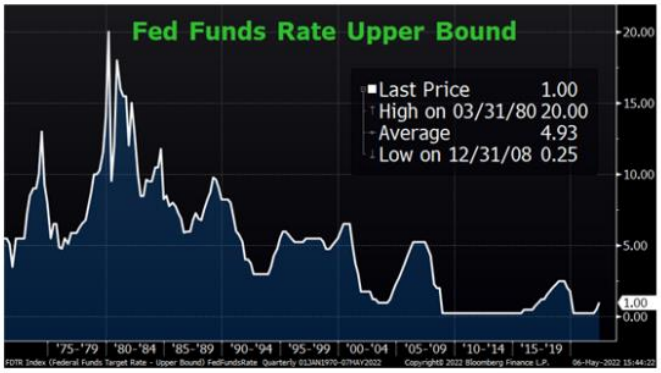
Source: Morningstar

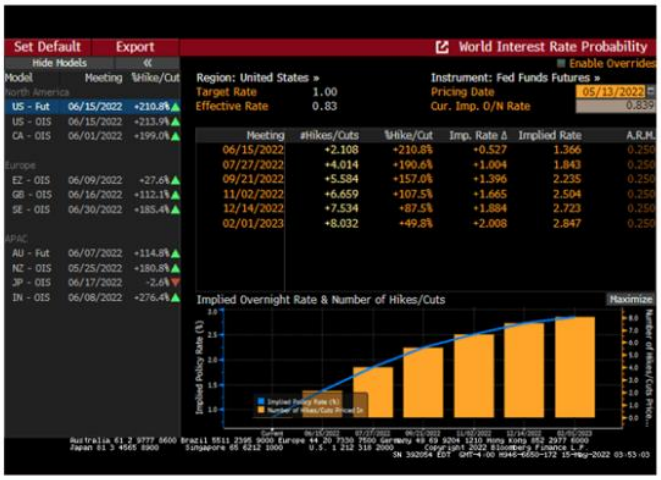
Of course, all eyes these days are on the Federal Reserve, with the worry that Jerome H. Powell & Co. will continue to hike interest rates,…

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 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 175 to 200 basis points (1.75% to 2.0%) of increases by year end, though the resulting rate (2.75% to 3.0%) would still be well below the historical upper bound average of 4.93%.





…and push the economy into recession, which, again historically speaking, would not been a reason to sell stocks, especially those of the inexpensive variety.

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

We concede that the latest sentiment numbers from Main Street were discouraging,…

THE PRUDENT SPECULATOR

MAIN STREET PESSIMISTIC

The NFIB Small Business Index for April was unchanged at 93.2, the lowest in 24-months and below the historical norm. Owners remain very concerned about inflation, supplies and labor. Meanwhile, the University of Michigan gauge of consumer sentiment this month slumped to a much-weaker-than-expected 59.1, hitting its lowest level in more than 10 years and "Consumers' assessment of their current financial situation relative to a year ago is at its lowest reading since 2013, with 36% of consumers attributing their negative assessment to inflation."

…but the labor market remains very robust,…

THE PRUDENT SPECULATOR

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

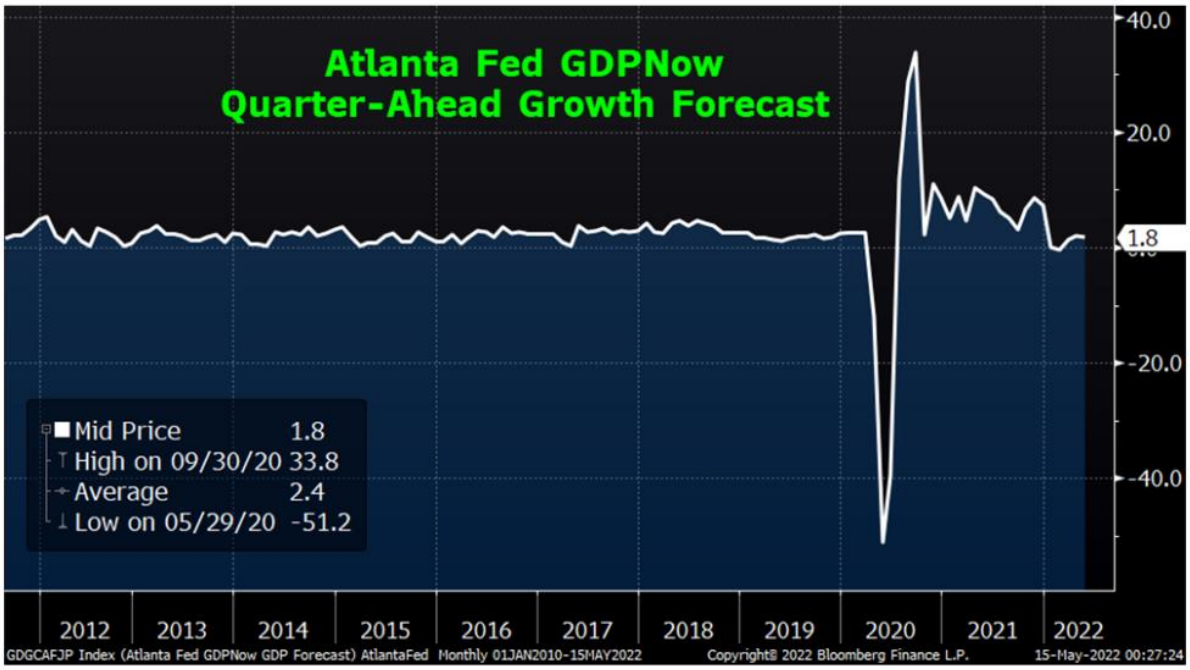
While higher than recent readings with a 1-handle, yet still coming in near the lowest levels since 1969 when the work force was much smaller, new filings for unemployment benefits for the period ended May 7 were a seasonally adjusted 203,000, up from a revised 202,000 the week prior. Continuing claims filed through state programs edged down to 1.34 million, the lowest level since 1970 as businesses continue to hold onto workers with labor so difficult to obtain.

…the outlook for Q2 GDP still calls for modest growth,…

THE PRUDENT SPECULATOR

Q2 U.S. GDP GROWTH PROJECTION DIPPED 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 1.8%.

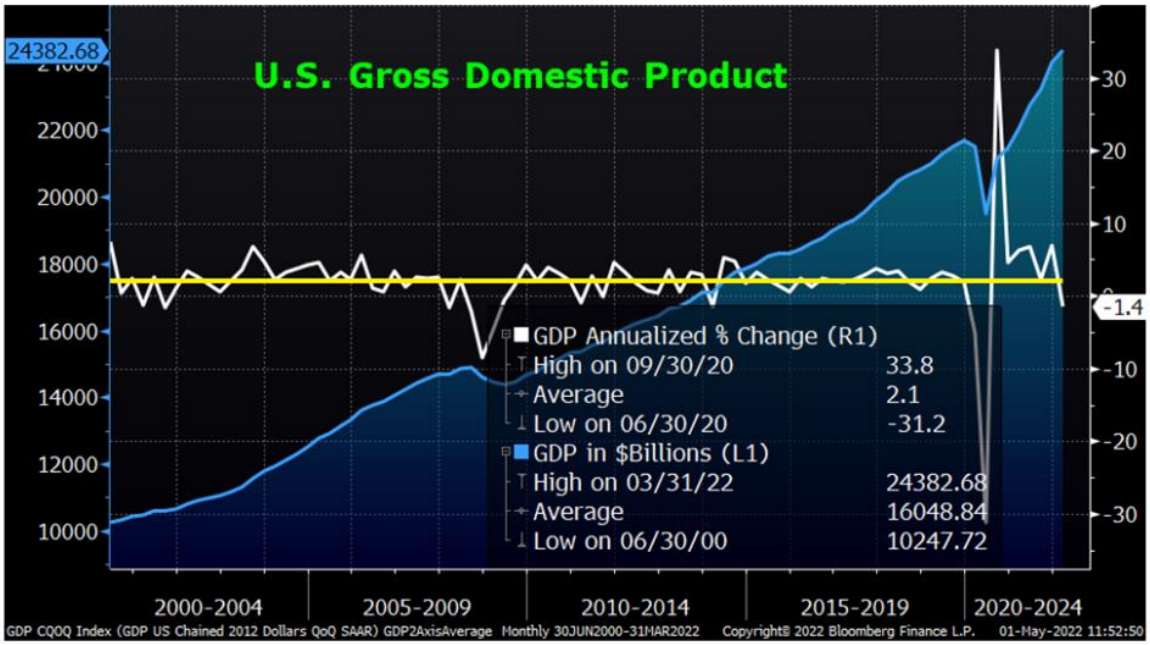


…and even the real (inflation-adjusted) economic contraction in Q1 saw a significant increase in nominal output,…

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.

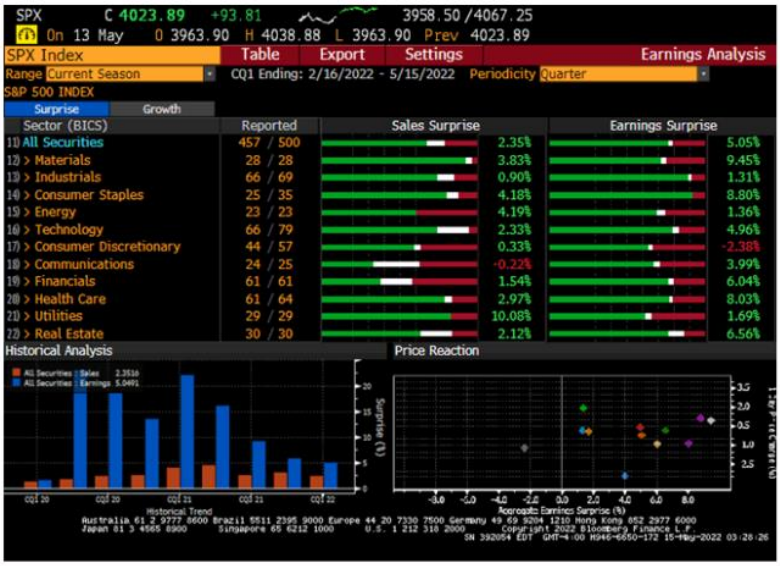


…with profit reports for the quarter from Corporate America beating expectations by a comfortable margin,…

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 76.3% of the 457 S&P 500 companies to have announced have beat EPS expectations and an impressive 67.1% have exceeded revenue forecasts.



S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2023	$65.35	$248.07
9/30/2023	$63.49	$243.09
6/30/2023	$60.80	$238.60
3/31/2023	$58.43	$232.91
12/31/2022	$60.37	$224.39
9/30/2022	$59.00	$220.75
6/30/2022	$55.11	$213.77
3/31/2022	$49.91	$210.71
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 5.12.22

…providing cash flow for our companies to invest in their businesses, buy back stock and maintain/increase their dividend payouts.

THE PRUDENT SPECULATOR

DIVIDENDS HAVE GROWN OVER TIME

Dividends are never guaranteed, but Corporate America has a history of raising payouts. Believe it or not, per share dividends for the S&P 500 inched up in 2020, despite the pandemic and associated economic turmoil, while *TPS* picks Manpower, Cardinal Health, Micron Tech and Honda Motor all hiked their payouts in the past week.

COUNT OF S&P 500 DIVIDEND ACTIONS	INCREASES	INITIATIONS	DECREASES	SUSPENSIONS
2022 (as of 5.11.22)	174	5	5	0
2021	353	19	4	1
2020	287	11	27	42
2019	355	6	7	0
2018	374	6	3	0
2017	351	5	9	2
2016	344	7	19	2
2015	344	7	16	3
2014	375	8	8	0
2013	366	15	12	0
2012	333	15	11	1
2011	320	22	5	0
2010	243	13	4	1
2009	151	6	68	10
2008	236	5	40	22

Source: Standard & Poor's.

S&P 500 DIVIDENDS PER SHARE	
2023 (Est.)	$69.51
2022 (Est.)	$64.60
2021	$60.54
2020	$58.95
2019	$58.69
2018	$53.86
2017	$50.47
2016	$46.73
2015	$43.49
2014	$39.44
2013	$34.99
2012	$31.25
2011	$26.43
2010	$22.73
2009	$22.41

Source: Bloomberg. As of 05.13.22

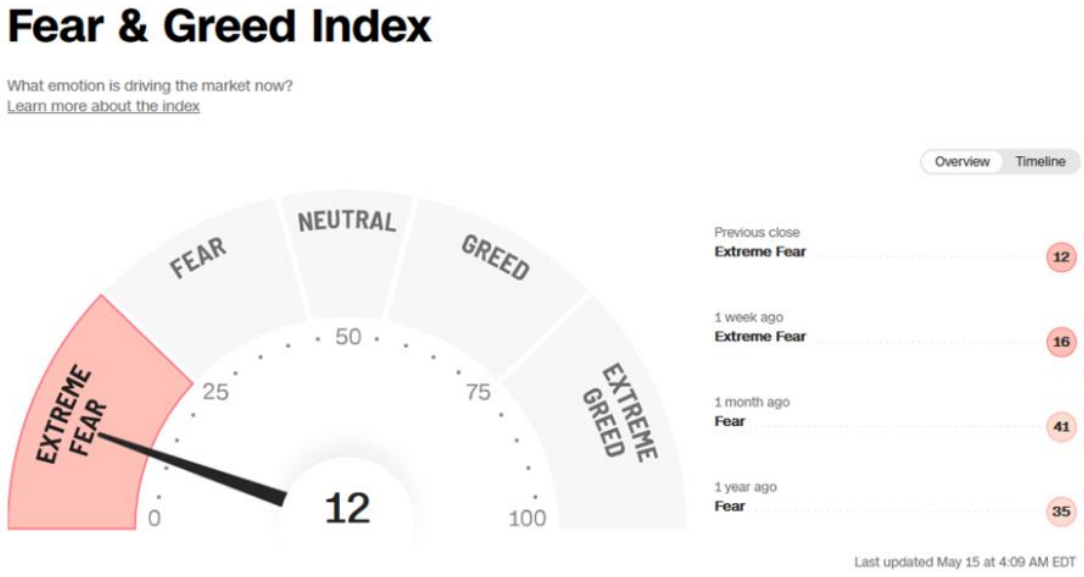
*****

We respect that it is tough for many to keep the faith these days,…

THE PRUDENT SPECULATOR

FEAR & GREED INDEX…BE GREEDY WHEN OTHERS ARE FEARFUL

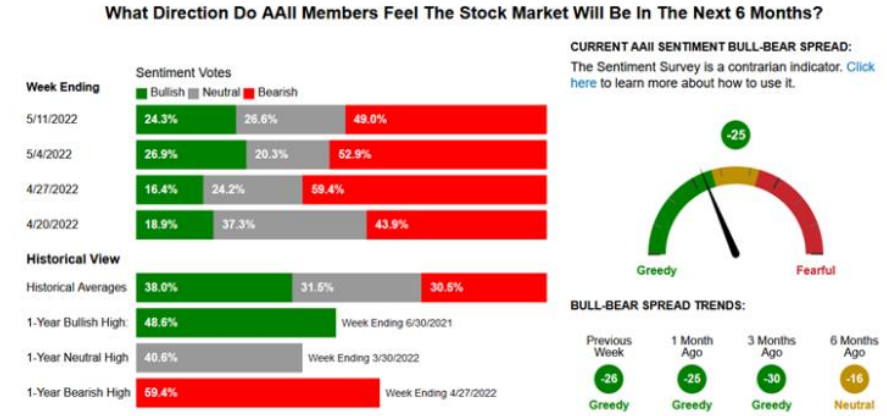
With many stocks well into Bear Market territory, folks are very scared. The *CNNMoney* Fear & Greed Index is deep into the Extreme Fear zone. Only Market Volatility is Neutral of the seven Fear & Greed Indicators, with Stock Price Strength and Stock Price Breadth the most pessimistic of the other six measures.



…which historically has been a positive from a contrarian perspective,…

THE PRUDENT SPECULATOR

AAII CONTRARIAN BUY SIGNAL: BULL-BEAR SPREAD = -24.7



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 = 7.74											
BELOW	-54.0	7.7	907	0.25%	0.21%	1.21%	1.07%	3.55%	3.16%	6.92%	6.18%
ABOVE	7.8	62.9	906	0.17%	0.15%	0.53%	0.44%	1.97%	1.72%	4.72%	4.24%
Ten Groupings of 1813 Data Points											
1	-54.0	-15.7	182	0.43%	0.37%	2.06%	1.83%	5.47%	4.94%	9.94%	8.74%
2	-15.7	-8.0	181	0.36%	0.32%	1.02%	0.88%	3.57%	3.19%	6.84%	6.07%
3	-8.0	-1.8	181	0.31%	0.27%	1.45%	1.35%	3.41%	3.03%	7.43%	6.79%
4	-1.8	3.0	195	0.11%	0.07%	1.00%	0.90%	2.91%	2.55%	6.24%	5.73%
5	3.0	7.7	167	0.02%	-0.01%	0.44%	0.34%	2.33%	2.08%	4.00%	3.45%
6	7.7	12.0	189	0.11%	0.09%	0.54%	0.43%	1.83%	1.60%	5.36%	4.98%
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%	4.37%	3.77%
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 05.12.22. 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 24.3% and the number of Bears residing at 49.0% is a major positive. The minus 24.7% Bull-Bear spread is in the very favorable (i.e. highest future returns) 1st decile of the weekly figures going back to 1987.

…even as the financial press is not exactly the friend to the skittish equity investor.

MIXED MESSAGES FROM THE HEADLINE WRITERS

Meetless
The gentle art of avoiding pointless meetings B5

EXCHANGE

Ready to Yield
The upside to this year's bond-market beatdown B5

BUSINESS | FINANCE | TECHNOLOGY | MANAGEMENT THE WALL STREET JOURNAL. Saturday/Sunday, May 7 - 8, 2022 | B1

DJIA 32899.37 ▼ 98.60 0.3% NASDAQ 12344.66 ▼ 1.4% STOXX 600 429.91 ▼ 1.9% 10-YR. TREAS. ▼ 14/32, yield 3.124% OIL $109.77 ▲ $1.51 GOLD $1,881.20 ▲ $7.20 EURO $1.0548 YEN 130.54

Stocks End Tumultuous Week With Declines

By Gunjan Banerji And Will Hoffer

Stocks ended a wild week with modest declines, extending a selloff that has dragged the S&P 500 to its longest weekly losing streak in more than a decade.

The major indexes have swung wildly in recent sessions as investors have tried to gauge the impact of the Federal Reserve's plan to raise interest rates on the economy. Many investors find themselves caught between competing hopes: that rate increases will be significant enough to tame rapidly rising inflation, but not so large that they will derail economic growth.

Those worries, alongside rapidly rising yields in the government-bond market, have hit shares of technology and growth stocks especially hard as investors re-evaluate the once-highflying group.

THE WALL STREET JOURNAL. Saturday/Sunday, May 7 - 8, 2022 | B11

MARKETS

Treasury Yields Extend Recent Gains

Bond investors parse Labor Department data that sent mixed signals about inflation

By Sam Goldfarb

Yields on medium and long-term U.S. Treasurys extended recent gains Friday after new data presented a mixed picture of the labor market.

Yields, which rise when bond prices fall, climbed in the overnight session but fell just before the release of the nonfarm labor report. They then bounced around after the data was reported before rebounding to surpass overnight highs.

Friday's climb extended the previous day's surge, which caught many investors off guard. Just a day earlier, Federal Reserve Chairman Jerome Powell had lifted both stock and bond prices by saying Fed officials weren't actively considering a future interest-rate increase of three-quarters of a percentage point.

The yield on the benchmark 10-year U.S. Treasury note settled at 3.124%, up from 3.066% Thursday to its highest close since November 2018 and near its highest level in more than a decade.

The move came after the Labor Department said the economy added 428,000 jobs in April, above analysts' expectations for a 400,000 increase. Average hourly earnings rose just 0.3%, below estimates of a 0.4% gain. Earnings in March, however, were revised higher so that the year-over-year increase in April matched expectations for a 5.5% gain.

Bond investors have been parsing measures of worker pay because rising wages are seen as a crucial long-term driver of overall inflation. Rapidly rising consumer prices have driven bond yields sharply higher this year by lifting expectations for how high the Fed will raise interest rates over the next year in an effort to control inflation.

Investors "are not really convinced of anything at the moment," said Jim Vogel, interest-rates strategist at FHN Financial.

Investors, he said, initially seized on some aspects of the jobs report that justified lower yields, such as the monthly increase in earnings. Then they found other aspects that justified higher yields, including a decline in the labor-force participation rate, which some could see as adding to inflation pressures.

Treasury yields are largely determined by the average short-term interest rate that investors expect over the life of a bond, as investors demand an equal or greater return to what they think they could get by just reinvesting in overnight lending markets.

As it stands, interest-rate derivatives show that investors expect the Fed's benchmark rate to rise to nearly 3.5% next year from its current target range between 0.75% and 1%.

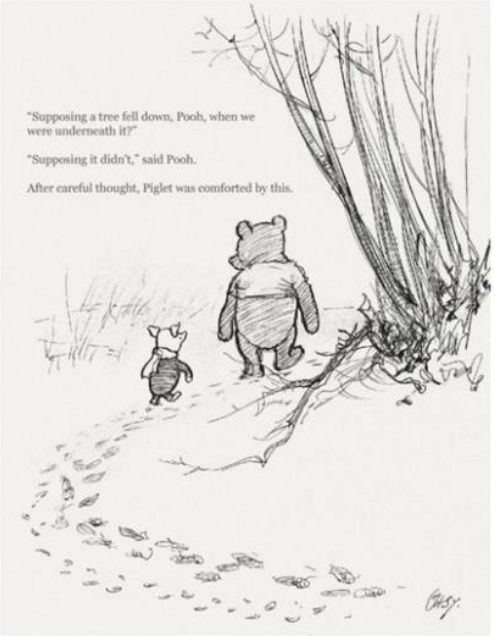
We understand that stocks historically have been far more volatile than bonds, so focusing on the losses (*Stocks End Tumultuous Week With Declines*) during the downturns makes perfect sense, but we are puzzled by the upbeat language (*Treasury Yields Extend Recent Gains*) utilized by the financial press of late in discussing the carnage in fixed income. Hopefully, folks understand that the reason bond yields have risen is that prices have plummeted (long-term Treasuries are off more than 20% this year), lest they be fooled by a rewrite of the equity headline, *Stock Yields End Week with Gains.*

Clearly, there are plenty of issues about which to be concerned, but in the fullness of time stocks have managed to overcome every prior hurdle,…

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%	46258%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	26726%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	24010%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	9344%
Suez Canal Crisis	10/30/1956	10/31/1956	46.37	45.58	-2%	-10%	26%	51%	8728%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	10223%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	7423%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	5681%
MLK Assassination	4/3/1968	4/5/1968	93.47	93.29	0%	8%	8%	16%	4213%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	5234%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	4266%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	5649%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	3724%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	3997%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	3268%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	2385%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	1544%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	1690%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	1173%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	969%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	877%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	808%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	780%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	696%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	359%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	319%
Clinton Impeachment	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	227%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	200%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	317%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	339%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	269%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	236%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	495%
Price Changes Only - Does Not Include Dividends				**Averages:**	**-7%**	**18%**	**39%**	**66%**	**5528%**

As of 5.13.22. Source: Kovitz using Bloomberg and Ned Davis Research Events & Reaction Dates

…so, while there are no guarantees that the past is prologue, we continue to believe that time in the market trumps market timing.

THE PRUDENT SPECULATOR

THE ONLY PROBLEM WITH MARKET TIMING IS GETTING THE TIMING RIGHT

Per data analytics firm DALBAR, equity fund investors had awful relative returns in 2021, gaining only 18.4% on average, compared to a 28.7% return for the S&P 500, for a whopping 1003 basis point (10.3%) difference in performance. The longer-term historical numbers are even worse for bonds as Fixed Income fund investors had an annual return 500 basis points lower than the U.S. Aggregate Bond index over the past three decades.

Individual Investor Returns vs. Broad Benchmarks

	Stocks			Bonds			Inflation
Time Period	Average Equity Investor Return	S&P 500 Return	Difference	Average Bond Investor Return	U.S. Aggregate Bond Index Return	Difference	U.S. Consumer Price Index
1 Year	18.4%	28.7%	-10.3%	-1.6%	-1.5%	-0.1%	7.0%
3 Years	21.6%	26.1%	-4.5%	1.7%	4.8%	-3.1%	3.5%
5 Years	14.8%	18.5%	-3.7%	0.8%	3.6%	-2.8%	2.9%
10 Years	13.4%	16.6%	-3.2%	0.4%	2.9%	-2.5%	2.2%
20 Years	8.1%	9.5%	-1.4%	0.4%	4.3%	-3.9%	2.3%
30 Years	7.1%	10.7%	-3.6%	0.3%	5.3%	-5.0%	3.4%

From 12.31.1984 through 12.31.2021. Annualized returns. SOURCE: Kovitz using data from DALBAR and Bloomberg Finance L.P.

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.

Shares of **Disney** (DIS – $107.33) sank at the start of trading following the Tuesday evening release of financial results, but recovered ground throughout the day and rallied with the market to end the week. The House of Mouse earned $1.08 per share (vs. the $1.17 est.) in fiscal Q2, but forked out $1 billion to terminate license agreements in order to move video content to its streaming platforms. Parks & Experiences sustained its rebound from a year ago, generating $1.8 billion of operating income, although management cautioned that park closures in Hong Kong and Shanghai would affect fiscal Q3. Disney+ added a terrific (relative to peers) 7.9 million subscribers in the period, pushing the total to more than 205 million.

CEO Bob Chapek stated, “We’ve had a very strong start to the fiscal year, with a significant rise in earnings per share, record revenue and operating income at our domestic parks and resorts, the launch of a new franchise with Encanto, and a significant increase in total subscriptions across our streaming portfolio to 196.4 million, including 11.8 million Disney+ subscribers added in the first quarter. This marks the final year of The Walt Disney Company’s first century, and performance like this coupled with our unmatched collection of assets and platforms, creative capabilities, and unique place in the culture give me great confidence we will continue to define entertainment for the next 100 years.”

He added, “What sets Disney apart is our ability to reach people with our uniquely engaging content across an array of touch points to make our portfolio of businesses and brands a bigger part of their lives. This enables us to not only create new franchises like Encanto, but to also build on existing IP across our lines of business. One example of this is our Toy Story franchise, which was created almost 3 decades ago with the release of the first film in 1995 and which is now brought to life across distribution platforms, geographies, businesses and time. In our parks, we’ve built a portfolio of 4 immersive Toy Story lands with more than 20 attractions and live character interactions available around the world as well as 2 themed hotels. The franchise is the cornerstone of Disney+ with all 4 feature-length films as well as the original short series, Forky Asks a Question, exclusively available on the service. And nearly 30 years after the film debuted, Toy Story is still a key consumer products franchise, generating over $1 billion in annual retail sales. And in just a few weeks, Pixar’s Lightyear will tell the origin story of everyone’s favorite space ranger when it hits theaters on June 17. Of course, Toy Story is just one of our many franchises, but it illustrates our unparalleled ability to bring stories to life in more ways for more people in more places. In fact, our franchise library and capabilities will continue to set us apart even further as we bring our IP to life through next-generation storytelling that is more integrated and connected across consumer touch points. As we look to our second century, that’s our mission: to transform entertainment by combining extraordinary storytelling with innovative technology to create an even larger, more connected and magical Disney universe for families and fans around the world.”

Evidence that even the strongest franchises aren’t immune from wild swings in their share prices, DIS has experienced two drawdowns of 40% or more in just the past three years. Not surprisingly, while we liked the prospects for the entertainment giant at higher prices, we are even more enthusiastic at the current level. No doubt caught up in the hit to all things streaming of late, we appreciate the longevity of Disney’s content compared to peers in the film space and continue to note its ability to promote the brand through experiences. While earnings will likely be depressed as management continues to invest in its direct-to-consumer offerings, DIS trades at 22 times the NTM EPS estimate. Our Target Price is now $176.

Illustrating the inefficiencies of the market, shares of **Tapestry** (TPR – $31.51) leapt 15% on Thursday, buoyed by strong results in fiscal Q3, and added another 3% on Friday, but ended the trading week up less than 4%. The luxury fashion and accessory designer earned $0.51 per share in the period as sales grew 13% year-over-year to $1.44 billion on a strong performance in the digital channel. Coach continues to generate the bulk of profits, but all brands experienced double-digit growth in the quarter, while management expects Stuart Weitzman to reach profitability later in the year. Given anticipated impacts from trade duties and higher freight

expense, the company reduced its full-year EPS guidance to $3.25, even as it expects to generate record revenue.

CEO Joanne Crevoiserat stated, “Our brands are at the heart of our company. They occupy distinctive positions in the attractive and resilient accessories market. Each has a rich heritage and substantial potential for growth. This is evidenced by the strengthening brand heat we’re seeing through meaningful new customer acquisitions as well as growth with existing customers across our portfolio. We are focused on building lasting relationships with our customers to increase lifetime value through continuous innovation in both our product and the experiences we offer throughout the purchase journey. The opportunities for our brands are enhanced by our platform, which has been transformed to power them to move at the speed of the consumer. We are leaning into our digital leadership, meeting consumers where they want to shop and providing exceptional experiences when they get there. We’re also leveraging our rich consumer data and sophisticated analytics to establish and enrich our customer connections, augmenting our creative processes with a deep understanding of our customers, while bringing faster and more consistent execution to bear. The benefits of investments in digital and data analytics are highlighted by our results over the last 2 years, and we’re still in early innings in terms of unlocking this potential. Our platform also affords the benefits of scale, shared learnings and talent mobility. These advantages are increasingly important in today’s rapidly evolving landscape and allow us to have a greater positive impact on our customers, our people and the world at large.”

CFO Scott Roe added, “We ended the quarter in a strong position with $1.07 billion in cash and investments and total borrowings of $1.59 billion. Inventory at quarter end was 30% above prior year, primarily due to in-transits, which remained elevated in light of continuing industry-wide supply chain and logistics challenges. To this point, on-hand inventory was up low single digits. As a reminder, we have adjusted the timing of our buys and recognition of elongated lead times supported by investments in core styles. Overall, we’re pleased with the makeup of our current inventory, which supports our future growth expectations…Based on our strong results year-to-date, significant free cash flow generation, robust balance sheet and outlook for growth, we’re now on track to return approximately $1.9 billion to shareholders in fiscal 2022, an increase from the prior outlook of over $1.5 billion. We’ve raised our share buyback expectations for the fiscal year and now anticipate the repurchase of $1.6 billion in common stock, which includes $1.25 billion bought back through Q3. Our shareholder return plans continue to assume approximately $270 million through our dividend program. In addition, our Board of Directors have approved a new $1.5 billion share repurchase program, which we expect to begin utilizing in fiscal 2023, highlighting our confidence in the company’s trajectory for growth. These capital deployment plans underscore our commitment to our shareholders and our confidence in the momentum of our business. Overall, our capital allocation priorities remain unchanged. First, we’re investing in the business to drive long-term profitable growth; and second, we’re returning capital to shareholders through dividends and share repurchases.”

Fashion and accessory markets remain intensely competitive and consumer preference can be fickle. While Coach continues to pull the lion’s share of the weight, we like the potential of Tapestry’s other brands. Even as Ms. Crevoiserat & Co. continue to produce solid results, shares have not avoided the market turmoil (sliding 22% YTD), but management efforts to repurchase

stock ought to be all the more accretive at current levels. Indeed, the board tacked on another $1.5 billion to the share repurchase authorization, which is expected to be put to work in fiscal 2023. TPR trades for about 8 times NTM EPS and with a dividend yield of 3.2%. Our Target Price has been bumped up to $62.

Tyson Foods (TSN – $90.00) announced fiscal Q2 EPS of $2.29, a figure 19% better than the analyst consensus estimate. The meat producer continues to build processing plants and is making investments in its workforce to lower turnover and improve absenteeism. Tyson expects the investments to yield a boost in volume, which should outpace market growth over the next several years. Like many producers, inflation resulted in a 15% year-over-year increase in cost of goods sold, a cost TSN has been able to pass on in large part to its customers. Halfway through the fiscal year, TSN expects the full-year revenue to come in between $52 billion and $54 billion with a 1% to 2% increase in total volume.

CEO Donnie King commented, "We delivered double-digit sales and earnings growth driven by strong market fundamentals, acceleration of our productivity actions and improving operational execution across our segments. Our diverse protein portfolio, omnichannel capabilities, leading brands and value-added products all contributed to our results. Strong performance in our Beef segment, continued recovery in Prepared Foods and an improvement in Chicken supported improved sales and earnings…Overall, consumer demand for protein has remained strong, and we are taking deliberate actions by segment to improve our volumes to better meet customer needs, including investing in new capacity, brands, product innovation and our team member experience."

TSN repurchased $175 million worth of shares in Q2. Management indicated that there hasn't been a lot of flack from rising prices, from customers or consumers. While the ability to raise prices isn't infinite, we suspect Tyson will be able to pass off a reasonable portion of input cost increases in the near term. We continue to appreciate that Tyson is focused on streamlining its operations given persistently tight supply conditions. Longer term, we continue to think protein consumption will increase around the globe, especially in emerging economies as residents see quality-of-life improvements. The stock trades for an inexpensive 11.5 times NTM EPS estimates and maintains a 2.0% dividend yield. Our Target Price for TSN has been hiked to $119.

Shares of **HF Sinclair** (DINO – $46.86) jumped nearly 10% last week after the refiner roared back from a loss in Q4, earning $0.99 per share (vs. the $0.16 est.) in the latest quarter, adjusted for acquisition integration costs and an inventory adjustment benefit. Crude throughput this quarter was meaningfully higher than in Q4 at an average of 525,000 barrels, which pushed gross margin per barrel up 59% year-over-year to $12.69 and brought a 20% reduction in refining operating expenses per barrel. The renewable diesel unit (RDU) in Cheyenne was fully operational this quarter, having been completed in Q4, with the unit in Artesia ready to go for Q2.

CEO Michael Jennings commented, "The first quarter was transformational as we closed on the acquisition of the Sinclair companies, marking the new HF Sinclair, and made our first sales of renewable diesel from Cheyenne. Our combined, integrated platform delivered strong financial

results led by the performance of our refining and lubricants segments. With the closing of the acquisitions of the Puget Sound refinery and Sinclair and our Renewables business approaching full operation, we are pleased to announce the first milestone in our capital return plan, an increased regular dividend of $0.40 per share. As we head into summer driving season, refining fundamentals are very favorable due to strong gasoline and diesel demand, coupled with low product inventories. We remain fully committed to our capital allocation strategy of returning $1 billion in cash to shareholders over the next twelve months."

The last year or so of transformation behind the company, we're excited to watch the next few quarters play out for DINO. With the integration of Sinclair and Puget Sound refinery under its belt, and the addition of three fossil fuel refineries (two from Sinclair), HF Sinclair has significantly more crude throughput capacity as well as access to an expanded pipeline network via its investment in Holly Energy Partners. Given end market demand that management says is strong and industry supply still low from the pandemic, throughput guidance for Q2 was bumped up to between 615,000 and 645,000 barrels per day. The firm has affirmed its commitment to return $1 billion back to shareholders (both dividends and share buybacks) and a long-term goal of returning 50% of net income. In response to favorable business conditions, shares have run more than 40% year-to-date, but trade for a single-digit multiple of NTM EPS estimates. The reinstated dividend puts the yield at 3.4% as our Target Price has been raised to $62.

No stranger to big moves over the past 2 years, shares of **Royal Caribbean** (RCL – $61.63) sank more than 20% over the past two weeks. The cruise operator reported that it lost $4.57 per share in Q1, modestly higher than the Street estimate, although ticket revenue climbed 6% vs. Q4 to $651.9 million. Cancellation of calls to the St. Petersburg port and hesitancy of passengers to sail in the Baltic Sea seemed to weigh, but visits to Russia represent just 2% of overall capacity. RCL had its best booking weekend ever in April, but rising costs (food, fuel, wages, etc.) raise the hurdle to resume profitability in the back half of 2022.

CEO Jason Liberty is optimistic, stating, "During the first quarter, we managed through the challenges brought on by the Omicron variant that resulted in the cancellation of 57 sailings in Q1. We moderated our load factors in January and February and softened demand for future voyages. We have now sailed through these operational and short-term demand challenges caused by the variants. Over the past 60 days, demand has materially surpassed both pre-Omicron and 2019 levels. Load factors improved throughout the first quarter and we finished the month of March at a load factor of 68%. We expect our load factors to continue to build, averaging between 75% and 80% in the second quarter, and reaching triple digits by the end of the year."

He added, "After several weeks of softer trends, booking volumes improved and are now above 2019 levels. However, the impact from the slowdown during a key booking period is definitely weighing on our load factors for our European sailings. While there are some headwinds in Europe, our North American-based itineraries, which account for over 70% of our capacity this year, have been trending much better with recent bookings more than 40% ahead of 2019 levels. We are also seeing an increased volume of close-in bookings as consumers seem to be making their vacation decisions closer to their sailing date. This contributed to better-than-expected load

factors in March despite the impact of the Omicron variant earlier this year. We continue to build on the demand environment for the rest of this year and into 2023."

Our position is relatively unchanged since we penned our note last month. We think the bottom line is primed to improve considerably as things return to normal and that the populous will continue to value experiences well into the future. Cruising remains a compelling value for many, but we are mindful of relatively large debt-service costs impacting EPS. There is still plenty to think about in regard to our long-time interest in Royal Caribbean, and we continue to weigh our stake in RCL against the sea of names battered in the latest volatility. For the time being, our Target Price stands at $93.

German industrial conglomerate **Siemens AG** (SIEGY – $60.47) earned an adjusted 0.64 euros per share in fiscal Q2 (vs. 1.04 euro est.). Revenue came in around 17.0 billion euros (vs. a 16.72 billion euro est.). Siemens' large EPS miss was attributable to purchase price adjustments and divestments, including a complete exit from the company's 170-year run in Russia. The Russian business accounted for around 1% of revenue and consisted mainly of work related to high-speed trainsets. SIEGY shares traded higher by 2.6% on Friday, roughly equivalent to the S&P 500, even though they dipped in overnight trading. Substantial demand for 'green' investments and infrastructure projects resulted in a book-to-bill ratio of 1.23x and the backlog now stands at 94 billion euros.

CEO Roland Busch commented, "The macroeconomic environment remains very volatile. The war is amplifying cost inflation and constraints on supply chains where the situation remains very dynamic. During the second quarter, the pandemic impacted productivity in some areas in the U.S. and Europe. Moreover, recent Omicron outbreaks in China and the following lockdowns in Shanghai and Shenzhen, among others, pose a risk for the third quarter. Missing deliveries from Shanghai have a knock-on effect across China and outside due to supply chain disruptions and logistics congestions. We support our employees in the lockdown areas with care packages and insure health and safety. Our factories in the Shanghai area work either closed-loop production or are in the progress of ramping up. The situation changes every day, and we expect that we will not be able to fully recover production in the third quarter. We continue to work relentlessly with our supplier network and our own factories to optimize deliveries and master these challenges. Our focus is on mitigating impact on our customers as much as possible."

On the topic of the outlook, CFO Dr. Ralf Thomas said, "We confirm our financial targets for fiscal '22 for the Siemens Group. They are based on continuing growth in global GDP and our expectation that the challenges to our businesses from COVID-19 and supply chain constraints will not worsen in the remainder of fiscal '22. Under these conditions, we expect our Industrial business to continue its profitable growth. For the Siemens Group, we expect rates growth of 6% to 8% in comparable revenue and a book-to-bill ratio above 1. Digital Industry raised its growth assumptions now expecting to achieve comparable revenue growth of 9% to 12%. Profit margin of 19% to 21% is unchanged, including an expected reduction of up to 2 percentage points from fast ramp-up of the strategic transition to Software-as-a-Service in parts of its large software business."

Dr. Thomas continued, “Smart Infrastructure expects comparable revenue growth in the range of 6% to 9%, up by 100 basis points. The profit margin is unchanged at 12% to 13%. Mobility, which previously expected fiscal ’22 comparable revenue growth of 5% to 8%, now expects revenue on the prior year level. Profit margin is expected to be 10% to 10.5% with the expected gain from the sale of Yunex Traffic being sufficient to balance impacts related to the sanctions imposed on Russia. We continue to expect the profitable growth of our industrial business to drive an increase in basic EPS pre-PPA to a range of EUR 8.70 to EUR 9.10, up from EUR 8.32 in fiscal ’21. Net income in fiscal ’21 included a positive contribution from divestments and other portfolio related gains, totaling EUR 1.5 billion. We assume a similar positive contribution in fiscal ’22 from portfolio-related results net of burdens related to Russia. Portfolio-related results include the sales of Yunex Traffic, the mail and parcel handling business of Siemens Logistics and our stake in Valeo Siemens e-automotive.”

The Russia exit was the cloud over what we thought were generally good results. The War has most European leaders moving at a faster pace towards renewables, especially as governments look to pivot away from Russian energy supplies. We think this effect will help SIEGY, although there might be near-term challenges in the supply chain and Siemens could find itself in the middle of political spats given its customer base. We like that SIEGY is quickly (for a conglomerate) adapting to changing customer needs and continues to put technological innovation on the top of its priority list. On the earnings front in dollar terms, analysts expect SIEGY’s EPS for its U.S.-traded shares to grow from $4.30 in 2022 to $5.20 by 2024, putting the P/E around 14 in the near term and below 12 for 2024. Given the potential ahead, we think that SIEGY remains attractively priced. With a net dividend yield of 2.9%, our Target Price now stands at $101.

Multinational financial services titan **Allianz SE** (ALIZY – $20.79) posted GAAP+ EPS of $0.15 Q1 2022, much lower than the $0.52 estimate. The Property-Casualty segment saw a high number of natural disasters, while outflows at bond manager PIMCO soared as rate hikes caused changes to investor allocations. The costs from the Structured Alpha hedge fund debacle resulted in 1.6 billion euros of charges.

Via press release, CEO Oliver Baete said, “The results of this quarter demonstrate that our business can withstand significant geopolitical and economic pressures. This is matched by the strength of our people. Allianz has taken clear business decisions in response to the Russian invasion of Ukraine. Also, we worked hard to achieve fair settlements with investors in the Structured Alpha funds in the U.S. and move toward a final resolution.”

CFO Giulio Terzariol said, “As a summary, good underlying performance, clearly hit coming from the Structured Alpha situation. And then on the capital deployment, we have concluded as of end of April, the first part of the EUR 1 billion of buyback. And clearly, we are now continuing with the second part of the EUR 0.5 billion buyback. So from that point of view, we are continuing clearly in our capital deployment philosophy.”

Allianz expects operating profit for 2022 of 13.4 billion euros, plus or minus 1 billion euros. The Structured Alpha lawsuits seem to be nearing a conclusion and we think the company’s balance sheet remains sound. Management is working hard to improve operating ratios, minimize losses

and grow the insurance business, while battling rising rates and high inflation. Shares continue to look attractive, trading for less than 10 times ‘22 estimated earnings, while boasting a net dividend yield of 3.8%. Our Target Price for ALIZY has been trimmed to $31.

Honda Motor (HMC – $25.63) reported that it earned $0.63 per share in fiscal Q4, down from $1.17 a year ago. The result was impacted by higher costs and a strengthening dollar, which rallied some 18% relative to the yen over the past year, even as sales were 10.5% higher year-over year. In Honda’s home currency, operating income from motorcycles grew 9.5% while margin contracted 7 basis points. The automobile segment generated 26.7% higher operating income year-over-year on 30 basis points of margin expansion.

Looking ahead, management projects roughly $3.21 of earnings per share in fiscal 2023, which includes higher expected operating costs and R&D expenses. The company states that it expects group car sales to rise to 4.2 million units for the fiscal year started in April, from 4.1 million units sold in the previous fiscal year. The company estimates group motorcycle sales to increase to 18.6 million units from 17.0 million units

Foreign exchange has been a headwind, but ought to make exports from its home base more attractive. And we remember back some seven years ago when the opposite was true, and the firm’s executives were considering moving the production bases overseas. While Honda lacks a serious competitive entrant in the higher margin pickup space and is lagging in the Electric Vehicle race versus peers, we still expect healthy demand for its ICE vehicles, particularly for those hesitant to buy into an electric future. But the firm says it is committed to the transition, with plans to launch 30 EVs globally by 2030. We also like that Honda boasts a balance sheet full of cash, along with a generous net dividend yield (3.4%) and inexpensive P/E multiple below 8. Our Target Price is now $37.