Market Commentary Monday, May 30, 2022

May 30, 2022

EXECUTIVE SUMMARY

Week in Review – Sensational Rebound
Sentiment – Lots of Pessimism
Media – Often Not the Friend of the Long-Term-Oriented Investor
Perspective – Handsome Rallies Have Eventually Always Followed Big Declines
Valuations – Stocks Reasonably Priced
Bank Exec Speak – Economy Strong and Consumer Spending Healthy
Econ Stats – Mixed Numbers but GDP Growth in Q2 and 2022 Still Likely
Fed – Inflation Moderates a Tad in April; Maybe Only 7 and not 8 More Rates Hikes This Year
Dividends – 15 Undervalued High-Yielding TPS Recommendations
Stock News – Updates on AVGO, ALB, CHNG, MDT, BIG, JWN & ENS

Market Review

If we needed any more proof that most investors do not come close to beating the market averages,…

THE PRUDENT SPECULATOR

TIME IN THE MARKET TRUMPS MARKET TIMING

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 1030 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.

…it was provided last week when the equities markets enjoyed a sensational rebound,…

THE ONLY PROBLEM WITH MARKET TIMING: S&P 500 UNEXPECTEDLY SOARS

Rare are huge one-week rallies of more than 6% in the S&P 500, but the popular market gauge rebounded mightily by 6.58% from May 20, 2022 to May 27, 2022, the 54th best weekly showing since 1928.

Up > 6.58%

	1920's	1930's	1940's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	2020's	Totals
Years Ending in 0		0	0	0	0	0	0	0	1	0	3	4
Years Ending in 1		3	0	0	0	0	0	0	1	1	0	5
Years Ending in 2		9	0	0	0	0	2	0	0	0	1	12
Years Ending in 3		10	0	0	0	0	0	0	1	0		11
Years Ending in 4		2	0	0	0	2	1	0	0	0		5
Years Ending in 5		0	0	0	0	0	0	0	0	0		0
Years Ending in 6		0	0	0	0	0	0	0	0	0		0
Years Ending in 7		0	0	0	0	0	0	0	0	0		0
Years Ending in 8	1	6	1	0	0	0	0	1	2	0		11
Years Ending in 9	2	1	0	0	0	0	0	0	3	0		6
Totals	3	31	1	0	0	2	3	1	8	1	4	54

From 1.31.28 through 5.27.22. Days of index price increases of greater than or equal to 6.58%. SOURCE: Kovitz using data from Bloomberg

Down < 6.58%

	1920's	1930's	1950's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	2020's	Totals
Years Ending in 0		3	2	1	0	0	0	0	1	0	3	10
Years Ending in 1		5	0	0	0	0	0	0	2	1	0	8
Years Ending in 2		9	0	0	1	0	0	0	2	0	0	12
Years Ending in 3		3	0	0	0	0	0	0	0	0		3
Years Ending in 4		2	0	0	0	3	0	0	0	0		5
Years Ending in 5		0	0	0	0	0	0	0	0	0		0
Years Ending in 6		0	0	0	0	0	1	0	0	0		1
Years Ending in 7		6	0	0	0	0	3	0	0	0		9
Years Ending in 8	1	3	0	0	0	0	0	0	4	1		9
Years Ending in 9	4	3	0	0	0	0	1	1	2	0		11
Totals	5	34	2	1	1	3	5	1	11	2	3	68

From 1.31.28 through 5.27.22. Months of index price decreases of greater than or equal to 6.58%. SOURCE: Kovitz using data from Bloomberg

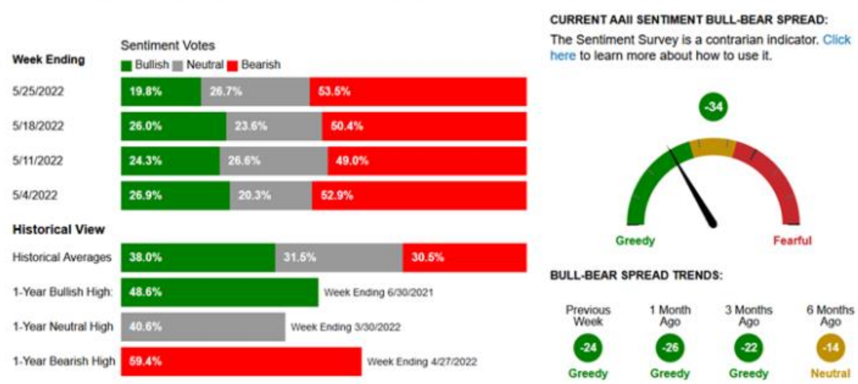
…with many folks likely sitting on the sidelines, judging by the latest AAII Bull-Bear Sentiment Survey.

THE PRUDENT SPECULATOR

MAJOR CONTRARIAN BUY SIGNAL: AAII SENTIMENT EXTREMELY PESSIMISTIC

The gauge is widely viewed with a contrarian eye, so the AAII Sentiment Survey Bull-Bear spread plunging to minus 33.7% in the latest week, with only 19.8% saying they were Bullish was a major equity market buy signal. There have been only 34 less optimistic Bull tallies in the 35-year history of the gauge and the ensuing six-month return during those periods for the Russell 3000 Index averaged a whopping 15.5%, well above the 5.9% average for all periods.

What Direction Do AAII Members Feel The Stock Market Will Be In The Next 6 Months?



AAII Bulls & Russell 3000 Forward TR

Date	Bulls	1W RET	1M RET	3M RET	6M RET
11/15/1990	12.0	-0.4%	3.6%	18.4%	20.1%
10/6/1988	13.0	0.7%	1.1%	3.2%	9.9%
3/9/1989	13.0	1.7%	1.3%	12.2%	19.9%
9/20/1990	13.0	-3.7%	-0.5%	6.9%	21.5%
10/18/1990	13.0	1.5%	4.5%	10.1%	32.1%
9/3/1992	14.0	0.5%	-1.5%	5.2%	10.7%
2/1/1990	15.0	1.7%	1.9%	1.9%	8.8%
10/4/1990	15.0	-5.5%	-0.5%	4.3%	26.2%
4/14/2022	15.8	-0.2%	-8.8%		
7/21/1988	16.0	-0.3%	-1.9%	6.1%	8.2%
9/13/1990	16.0	-2.3%	-6.4%	4.1%	20.5%
11/22/1990	16.0	0.4%	5.5%	18.1%	23.0%
12/20/1990	16.0	-0.3%	0.6%	13.7%	17.2%
4/28/2022	16.4	-3.3%			
4/14/2005	16.5	0.0%	-0.4%	7.2%	4.2%
9/8/1988	17.0	0.9%	4.3%	3.8%	12.0%
11/24/1988	17.0	1.5%	3.5%	8.4%	21.1%
12/8/1988	17.0	-0.7%	2.1%	7.9%	21.0%
5/26/2016	17.8	1.0%	-2.2%	4.8%	8.2%
1/14/2016	17.9	-2.8%	-3.3%	9.3%	14.4%
9/1/1988	18.0	2.6%	5.2%	5.1%	12.4%
3/30/1989	18.0	1.1%	5.9%	9.7%	20.7%
8/16/1990	18.0	-8.0%	-4.6%	-4.4%	13.3%
7/1/1993	18.0	-0.1%	0.0%	4.3%	5.8%
4/21/2022	18.9	-2.5%	-11.2%		
3/5/2009	18.9	10.3%	24.5%	40.3%	52.7%
5/12/1988	19.0	-0.5%	6.7%	4.4%	7.0%
8/18/1988	19.0	-0.6%	3.6%	2.1%	14.6%
12/1/1988	19.0	1.3%	2.3%	6.9%	20.7%
2/8/1990	19.0	0.6%	2.6%	3.0%	1.9%
2/17/2022	19.2	-2.0%	0.7%	-7.2%	
2/11/2016	19.2	5.1%	11.5%	14.4%	22.2%
4/11/2013	19.3	-3.4%	2.7%	5.9%	9.1%
5/19/2016	19.3	2.7%	2.1%	8.2%	9.4%
1/10/2008	19.6	-6.1%	-5.4%	-3.1%	-9.8%
5/26/2022	19.8				
35 Period Average		-0.3%	1.5%	7.4%	15.5%
All Periods Average		0.2%	0.9%	2.8%	5.9%

Source: American Association of Indivdual Investors and Bloomberg

Of course, it is not easy to stay the course through thick and thin, despite nine decades of evidence that shows stocks to be very rewarding over the long-term,…

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%	14.7%	72	310	0.3	5/19/2022	5/27/2022

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	5/19/2022
-15.0%	-28.2%	188	45	2.1	1/3/2022	5/19/2022
-12.5%	-22.7%	138	72	1.3	1/3/2022	5/19/2022
-10.0%	-19.5%	101	99	0.9	3/29/2022	5/19/2022
-7.5%	-15.4%	65	158	0.6	3/29/2022	5/19/2022
-5.0%	-10.9%	37	309	0.3	3/29/2022	5/19/2022

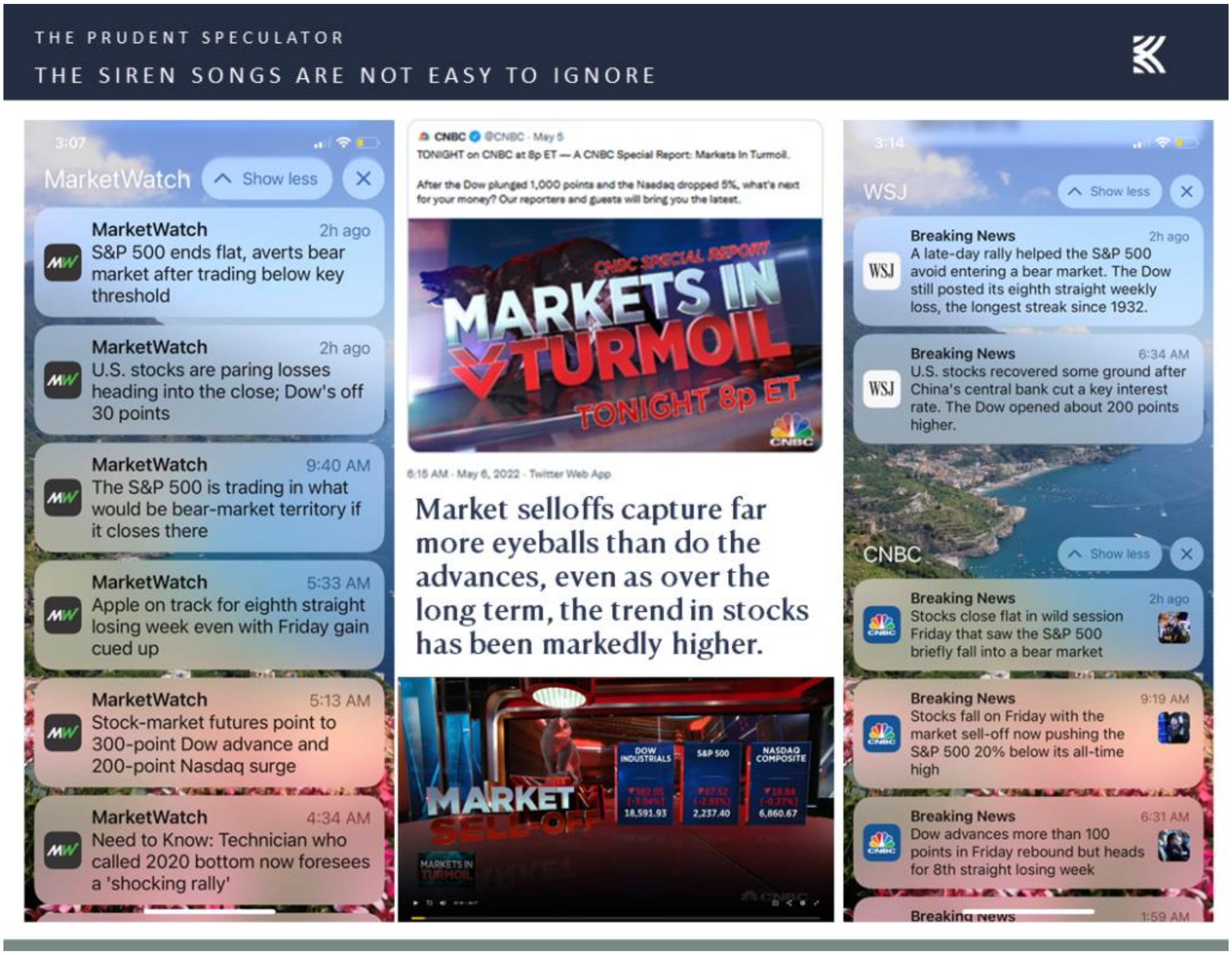
From 02.20.28 through 05.27.22. S&P 500 Price return series. We defined a Declining Market as an instance when stocks dropped the specified percentage or more without a recovery of equal magnitude, and an Advancing Market as in instance when stocks appreciated the specified percentage or more without 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

…as the senses are constantly bombard with sensationalized disconcerting headlines,…



…with the supposed experts not able to provide much help in explaining short-term moves,…

…and the financial press focused on attracting eyeballs with scary headlines rather than providing full context for those whose time horizon is not measured in days, weeks or months.

THE REST OF THE STORY: MEDIA NO FRIEND OF THE LONG-TERM INVESTOR

No doubt, apocalyptic headlines attract plenty of eyeballs, with a feature in a prominent publication drawing a parallel to the awful Bear Market of '73–'74 and advising folks to sell into any rallies. Given that the S&P 500 was off more this year than it was in '73 and that returns from '75–'84, especially for Small-Caps and Value Stocks, were out of this world, pushing returns for those two groups for the full 12 years to 18%+ PER ANNUM, selling would seem to be the wrong advice for those with strong stomachs and long-term time horizons. As Paul Harvey would say, "Now you know...the rest of the story. Good day!"

THE WALL STREET JOURNAL. Monday, May 23, 2022 | B9

BUSINESS & FINANCE

STREETWISE | By James Mackintosh

Conditions Are Ripe For Deep Bear Market

With the S&P 500 briefly on Friday down 20% from its January peak, it is very tempting to start trying to call the end of the selloff. The problem is that only one of the conditions for a rally is in place, that everyone's scared. That worked beautifully for timing the start of the 2020 rebound, but this time around may not be enough.

The other requirements are that investors start to see a way through the challenges, and that policy makers start to help. Without those, the risk is a series of bear-market rallies that don't last, hurting dip buyers and further damaging investor confidence.

That confidence is already weak. Surveys of sentiment show fund managers (surveyed by Bank of America), private investors (the American Association of Individual Investors) and financial newsletters (Investors Intelligence) are already at March 2020 levels of caution about stocks. Options that protect against market falls haven't been so popular since back then, either. And consumer sentiment, as measured by the University of Michigan, is actually worse than it was then.

In 2020, that was enough, because central bankers and politicians were frightened, too. When they stepped in it helped investors see that, with government support, companies could make it through.

This time, central bankers are scared not by falling markets or the economic outlook, but by inflation. Sure, if something major breaks in the financial system, they will refocus on finance, and a recession may prompt them to rethink rate rises. But for now, inflation means that falling stock prices are seen merely as a side effect of tighter monetary policy, not a reason to invoke the "Fed put" and rescue investors.

There is nothing magical about a fall of 20%, the usual definition of a bear market. But it does crop up a lot: In the past 40 years, the S&P 500 has bottomed out with a 20%-or-so peak-to-trough decline four times, in 1990, 1998, 2011 and 2018. Another four times it had far-bigger losses, as true panic took hold.

The common factor in the 20% drops was the Federal Reserve. Each time, the market bottomed out when the central bank eased monetary policy, with the stock market's fall perhaps helping push the Fed to take the threats more seriously then it otherwise might.

My concern is that this time could be more like 1973-1974. Just as then, the primary concern of the country is inflation, thanks to a war-related oil-price shock. Just as then, the inflationary shock took hold when the Fed had rates far too low given the scale of political stimulus for the economy. Just as then, favored stocks—the Nifty Fifty, now the FANGS and associated acronyms—had soared in prior years.

Most important, in 1974 the Fed kept raising rates even as a recession took hold because it was running to catch up with inflation. The result was a horrible bear market interspersed with soul-destroying temporary rallies, two of 10%, two of 8% and two of 7%, each snuffed out. It took 20 months before the low was reached—not coincidentally, when the Fed finally began to get serious about cutting rates.

So far, this time has been nothing like as bad for stocks, not least because the economy isn't in recession. If inflation comes down, the Fed won't need to raise rates as much as it has indicated, which would be a big boon for the stocks that have suffered the most.

I'm still hopeful that the economy will prove resilient, although it will be a long time before we know enough to make it a good bet. In really simple terms, though, after stocks more than doubled in two years, a market fall of *more* than 20% seems entirely plausible.

The Rest of the Story				
Total Returns (%)				
Year	Large Cap Stocks	Small Cap Stocks	Value Stocks	Growth Stocks
1973	-14.69	-30.90	-15.72	-33.77
1974	-26.47	-19.95	-21.07	-30.81
'73 - '74	-37.27	-44.69	-33.47	-54.17
1975	37.23	52.82	57.19	47.70
1976	23.93	57.38	52.28	27.77
1977	-7.16	25.38	12.33	4.85
1978	6.57	23.46	12.85	12.48
1979	18.61	43.46	31.52	32.80
1980	32.50	39.88	19.13	44.19
1981	-4.92	13.88	15.79	-9.23
1982	21.55	28.01	34.09	20.50
1983	22.56	39.67	37.94	17.09
1984	6.27	-6.67	12.32	-7.32
'75 - '84	298.05	1319.67	1043.37	405.85
10 Years Annualized	14.81	30.38	27.59	17.60
'73 - '84	149.69	685.28	660.69	131.84
12 Years Annualized	7.92	18.74	18.42	7.26

Source: Kovitz Using Data from Morningstar

By no means are we suggesting that the recent "unofficial" Bear Market is over,…

THE PRUDENT SPECULATOR

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

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

2022 Bear Market

Start	End	Perf	Instrument	Start	End	Perf	Instrument
1/4/2022	5/20/2022	-22.32%	Russell 3000 Average Stock	11/22/2021	5/20/2022	-23.85%	NASDAQ Composite Average Stock
1/5/2022	5/20/2022	-17.09%	Dow Jones Industrial Average	11/22/2021	5/12/2022	-34.15%	S&P 500 Pure Growth Index
11/22/2021	5/20/2022	-31.93%	NASDAQ Composite Index	4/21/2022	5/20/2022	-11.85%	S&P 500 Pure Value Index
1/4/2022	5/20/2022	-21.63%	Russell 1000 Index	9/1/2021	5/20/2022	-34.64%	S&P 500 Communication Services
11/8/2021	5/12/2022	-30.82%	Russell 2000 Index	11/22/2021	5/20/2022	-37.17%	S&P 500 Consumer Discretionary
1/4/2022	5/20/2022	-21.79%	Russell 3000 Index	4/21/2022	5/20/2022	-15.11%	S&P 500 Consumer Staples Secto
1/4/2022	5/20/2022	-20.93%	S&P 500 INDEX	5/17/2022	5/19/2022	-5.37%	S&P 500 Energy Sector GICS Lev
11/22/2021	5/20/2022	-30.43%	Russell 1000 Growth Index	1/13/2022	5/20/2022	-22.86%	S&P 500 Financials Sector GICS
1/5/2022	5/20/2022	-13.39%	Russell 1000 Value Index	4/8/2022	5/12/2022	-12.74%	S&P 500 Health Care Sector GIC
11/8/2021	5/12/2022	-39.59%	Russell 2000 Growth Index	1/5/2022	5/20/2022	-18.55%	S&P 500 Industrials Sector GIC
11/8/2021	5/12/2022	-21.86%	Russell 2000 Value Index	12/28/2021	5/20/2022	-28.82%	S&P 500 Information Technology
11/22/2021	5/20/2022	-30.70%	Russell 3000 Growth Index	1/5/2022	3/8/2022	-14.26%	S&P 500 Materials Sector GICS
1/5/2022	5/20/2022	-13.65%	Russell 3000 Value Index	12/31/2021	5/12/2022	-20.80%	S&P 500 Real Estate Sector GIC
12/28/2021	5/20/2022	-29.57%	S&P 500 Growth Index	4/8/2022	5/2/2022	-9.81%	S&P 500 Utilities Sector GICS
1/5/2022	5/20/2022	-12.75%	S&P 500 Value Index				

Source Kovitz using data from Bloomberg

…but history shows that every correction has been followed in the fullness of time by a rally of even greater magnitude.

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	5/19/2022	-15.78%	BEAR	3/8/2022	3/29/2022	11.05%	BULL
Average Drop		-18.14%		**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 5.19.22 with a 15.78% 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.

We have to be braced for addition downside, but we continue to sleep well at night with the knowledge that Value strategies have performed well, relatively speaking, since Halloween,…

THE PRUDENT SPECULATOR

MARKET OF STOCKS – DOWNSIDE IN 2022 FAR GREATER FOR GROWTH

November 2, 2021

the Prudent Speculator

Established in March 1977 · 10 Enterprise, Suite 300 · 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

"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

Russell 3000 Value Index

Advancing Markets

Minimum Rise %	Average Gain	Average # Days	Count	Frequency (in Years)	Last Start	Last End
20.0%	80.4%	865	7	2.9	3/23/2020	1/12/2022
15.0%	49.6%	447	14	1.7	3/23/2020	1/12/2022
10.0%	31.4%	252	26	0.9	6/26/2020	1/12/2022
7.5%	21.7%	147	47	0.6	3/8/2022	3/29/2022
5.0%	13.6%	69	96	0.3	5/19/2022	5/27/2022

Declining Markets

Minimum Decline %	Average Loss	Average # Days	Count	Frequency (in Years)	Last Start	Last End
-20.0%	-32.1%	212	7	2.9	1/17/2020	3/23/2020
-15.0%	-25.1%	172	14	1.7	1/17/2020	3/23/2020
-10.0%	-18.5%	83	27	0.9	1/12/2022	5/19/2022
-7.5%	-14.1%	54	48	0.5	3/29/2022	5/19/2022
-5.0%	-10.1%	30	96	0.3	3/29/2022	5/19/2022

From 10.19.95 through 05.27.22. 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.

Total Returns Matrix

YTD	Since 10.31.21	Name	Symbol
-28.05	-62.34	Meta Materials Inc	MMAT Equity
-39.99	-40.54	Roundhill Ball Metaverse ETF	METV Equity
-46.95	-59.20	AMC Entertainment Holdings Inc	AMC Equity
-7.53	-25.23	GameStop Corp	GME Equity
-41.55	-70.32	Robinhood Markets Inc	HOOD Equity
-35.24	-42.27	VanEck Social Sentiment ETF	BUZZ Equity
-51.99	-62.25	ARK Innovation ETF	ARKK Equity
MARKET OF STOCKS			
-7.85	-6.16	Dow Jones Industrial Average TR	DJITR Index
-6.18	-4.97	New York Stock Exchange Composite Index	NYA Index
-23.67	-27.07	Russell 2000 Total Return Growth Index	RU20GRTR Index
-7.28	-6.79	Russell 2000 Total Return Value Index	RU20VATR Index
-15.51	-17.23	Russell 2000 Total Return Index	RU20INTR Index
-24.17	-27.12	Russell Midcap Growth Index Total Return	RUMCGRTR Index
-4.97	-2.07	Russell Midcap Value Index Total Return	RUMCVATR Index
-11.84	-11.44	Russell Midcap Index Total Return	RUMCINTR Index
-21.58	-19.78	Russell 3000 Total Return Growth Index	RU30GRTR Index
-3.94	-1.60	Russell 3000 Total Return Value Index	RU30VATR Index
-13.25	-11.21	Russell 3000 Total Return Index	RU30INTR Index
-7.16	-3.92	S&P 500 Equal Weighted USD Total Return In	SPXEWTR Index
-12.21	-8.92	S&P 500 Total Return Index	SPXT Index
BONDS			
-10.51	-10.90	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index
-8.47	-8.43	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index

As of 05.27.22. Source: Kovitz using data from Bloomberg.

…and that the big pullback in the overall market has led to a much more reasonable valuation for the S&P 500,…

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 (4.81% vs. 2.74% 10-Year) and S&P 500 dividend yield of 1.52%.

…and very attractive price metrics for our broadly diversified portfolios of what we believe to be undervalued stocks.

CURRENT PORTFOLIO AND INDEX VALUATIONS

Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	12.7	11.3	1.0	2.3	2.5
ValuePlus	13.5	11.5	1.3	2.3	2.2
Dividend Income	12.3	11.4	0.8	2.2	3.0
Focused Dividend Income	14.0	12.6	1.1	2.5	2.6
Focused ValuePlus	12.8	12.7	1.3	2.6	2.4
Small-Mid Dividend Value	10.6	9.6	0.6	1.6	2.6
Russell 3000	21.4	18.0	2.2	3.7	1.5
Russell 3000 Growth	29.0	24.0	3.6	9.3	0.9
Russell 3000 Value	17.3	14.7	1.7	2.4	2.1
Russell 1000	20.7	17.9	2.4	3.9	1.6
Russell 1000 Growth	27.5	23.5	3.9	10.1	0.9
Russell 1000 Value	16.9	14.8	1.8	2.5	2.1
S&P 500 Index	20.3	17.9	2.5	4.0	1.6
S&P 500 Growth Index	23.2	21.0	4.3	7.3	0.9
S&P 500 Value Index	18.2	15.8	1.8	2.9	2.1
S&P 500 Pure Value Index	11.7	10.4	0.7	1.5	2.4

As of 05.27.22. 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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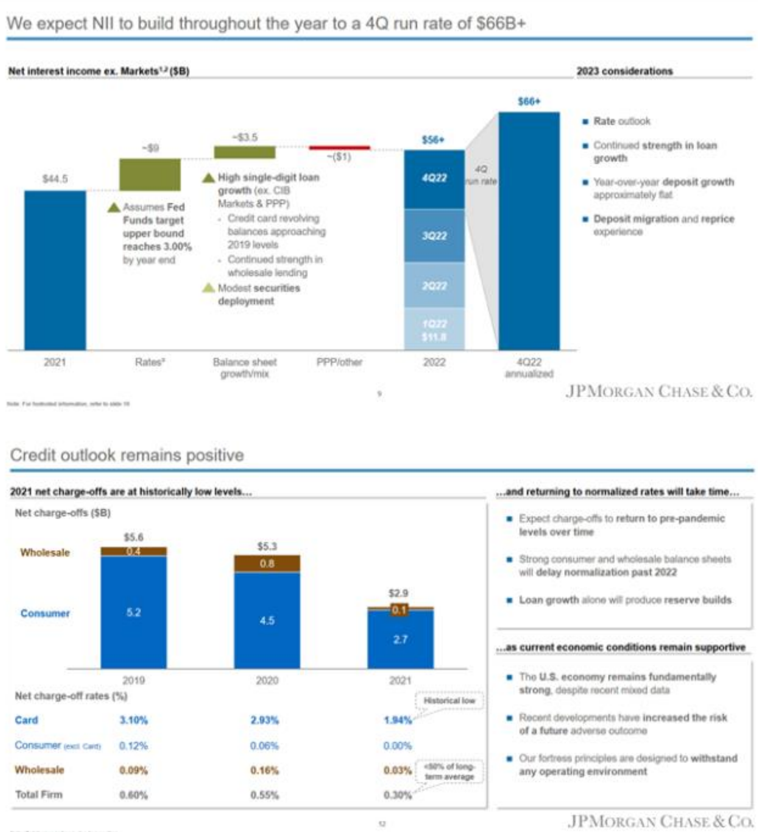
No doubt, comments on the economy and the health of the consumer from the leaders of the nation’s largest banks played a part in the big equity market rebound last week.

THE PRUDENT SPECULATOR

JPM – UPBEAT INVESTOR DAY



We have a strong U.S. economy, fueled by monetary and fiscal stimulation that you've never seen before. So it's different than a strong economy. And the consumer is in very good shape even today, which means if we go in a recession, it may be different than prior recessions. But that strong economy being met by two countervailing forces, both of which you've never seen before, okay? High inflation QT. And obviously, the Fed's going to try to meet it. We don't know the outcome. That's your guess, but we can have a good scenario all the way to a best scenario. And the war in Ukraine, the humanitarian crisis, the impact of global economy, rolling into global oil markets, wheat markets, commodity markets, et cetera, wars have unpredictable outcomes. We are prepared for that. We have to be because our job is to serve our clients through thick and thin through good times and bad times.

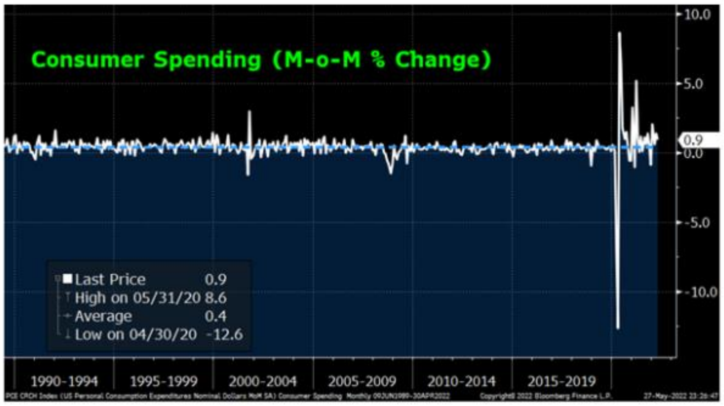
- Jamie Dimon, JPMorgan CEO

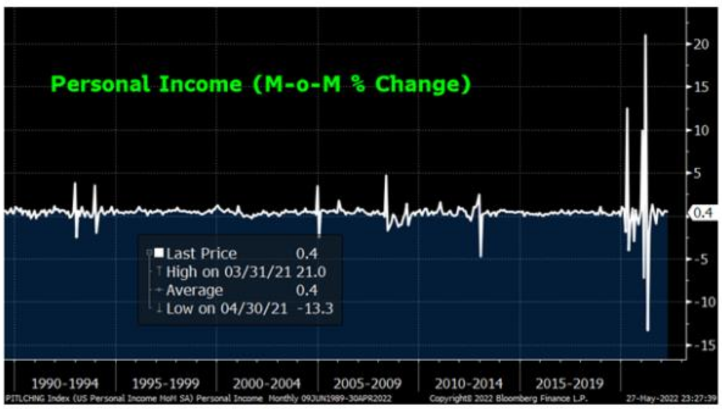
At the **JPMorgan Chase** (JPM – $131.27) *Investor Day*, CFO Jeremy Barnum said, “Big picture, the near-term credit outlook, especially for the U.S. consumer, remains strong,” adding to CEO Jamie Dimon’s confidence that the company is well positioned no matter what comes its way. Mr. Dimon concluded, “Our fortress balance sheet, and by that, I mean not just the balance sheet, but margins, earnings, growth, management, quick response, conservative accounting, all these things put us in a position to deal with all that.”

Meanwhile **Bank of America** (BAC – $37.02) CEO Brian Moynihan called attention to consumer deposit balances that remain a multiple of pre-pandemic levels, across wealth cohorts. He added, “Consumers continue to spend to keep up with inflation even as the Fed straddles competing goals of reigning in prices and not derailing the economy.”

THE PRUDENT SPECULATOR

CONSUMER SPENDING VERY RESILIENT IN APRIL





With inflation accounting for only a small part of the gain, money was shelled out for hotels, restaurants and new cars in April, with consumer spending rising 0.9%, beating expectations and gaining from an increase of 0.5% in March. Shoppers did have to reach into their wallets somewhat as personal income gained 0.4% for the month, down from a 0.5% increase in March, with the savings rate coming in at a 14-year low of 4.4%, below the 5.0% level of the month prior.

Via an interview with *CNBC*, Mr. Moynihan's relative positivity showed in remarks about recession odds being "overquoted." He asserted, "The probability [of a recession] is rising, the fear is going up, but the reality is that no one is really saying there will be a recession."

THE PRUDENT SPECULATOR

PLENTY OF DOOM & GLOOM TALK, BUT ODDS OF RECESSION DON'T MATCH

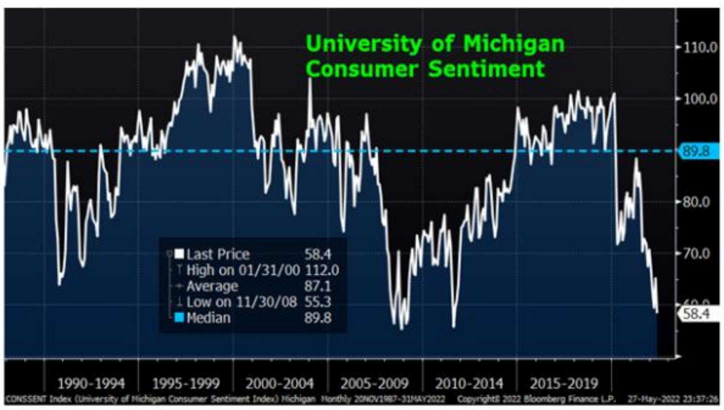
Certainly, the 1.5% contraction in Q1 2022 real (inflation-adjusted) GDP puts the economy half-way to the declaration of a recession, but the odds of such an event happening today stand at just 30%, a figure that is not much higher than the historical average probability.

For her part, **Citigroup** (C – $53.62) CEO Jane Fraser chimed in regarding recession in Europe. She explained, "There are three 'R' words right now – Russia, recession, and rates. Europe is right in the middle of storms from supply chains, the energy crisis, and its proximity to atrocities that are happening in Ukraine. In the U.S., it is much more about rates because there's resiliency in the economy. Consumers are sitting on $3.4 trillion of deposits… so there's some buffer there."

To be sure, the latest batch of economic statistics had its disappointments,…

THE PRUDENT SPECULATOR

WEAKER ECONOMIC NUMBERS

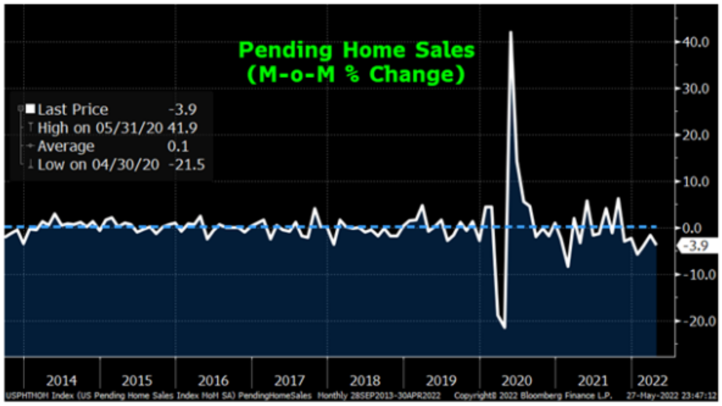


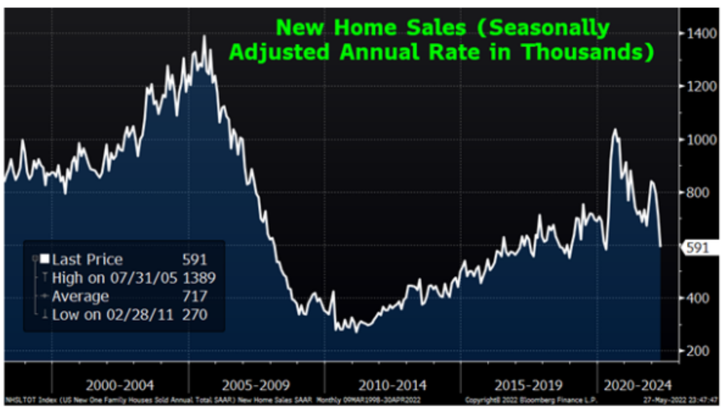
The headline number for durable goods orders in April rebounded 0.4%, compared to a 0.6% rise the month prior, despite higher inflation, labor shortages and supply issues. Excluding volatile transportation orders, the gain was 0.3%, which was the same percentage increase for orders excluding defense. On the other hand, consumers became more pessimistic in April, with Univ. of Michigan sentiment falling to a 10-year low of 58.4.

…with hikes in interest rates not helping the housing market.

THE PRUDENT SPECULATOR

HIGHER PRICES AND INTEREST RATES COOLING THE HOT HOUSING MARKET





With mortgage rates rising as government bond yields have soared, housing affordability is a major issue and pending home sales (contract signed for the purchase of an existing home) sank a weaker-than-expected 3.9% in April, the sixth straight monthly decline. Meanwhile, sales of new homes for April skidded 16.6% to 591,000 units, below the historical average and the lowest since the pandemic as the median sales price soared to a record $450,600.

Still, the reads on the state of the manufacturing and services sectors were not bad, with S&P Global stating, “Business confidence across the private sector remained upbeat, with firms recording a stronger degree of optimism in the outlook for output over the coming year in May.”

THE PRUDENT SPECULATOR

IHS MARKIT PMI READINGS STILL SOLID IN MAY

The S&P Global Markit preliminary U.S. PMIs for the factory and services sectors in May came in at 57.5 and 53.5, respectively. S&P commented, "Business confidence across the private sector remained upbeat, with firms recording a stronger degree of optimism in the outlook for output over the coming year in May. Firms were buoyed by ongoing sales growth and investment in local supply chains which it is hoped will ease bottlenecks. However, although higher than April, the degree of positive sentiment was below levels seen earlier in the year amid concerns regarding inflation and customer spending patterns."

Also, the strength of the labor market has continued to persist,…

THE PRUDENT SPECULATOR

JOBLESS FILINGS AND CONTINUING CLAIMS NEAR 50+ YEAR LOWS

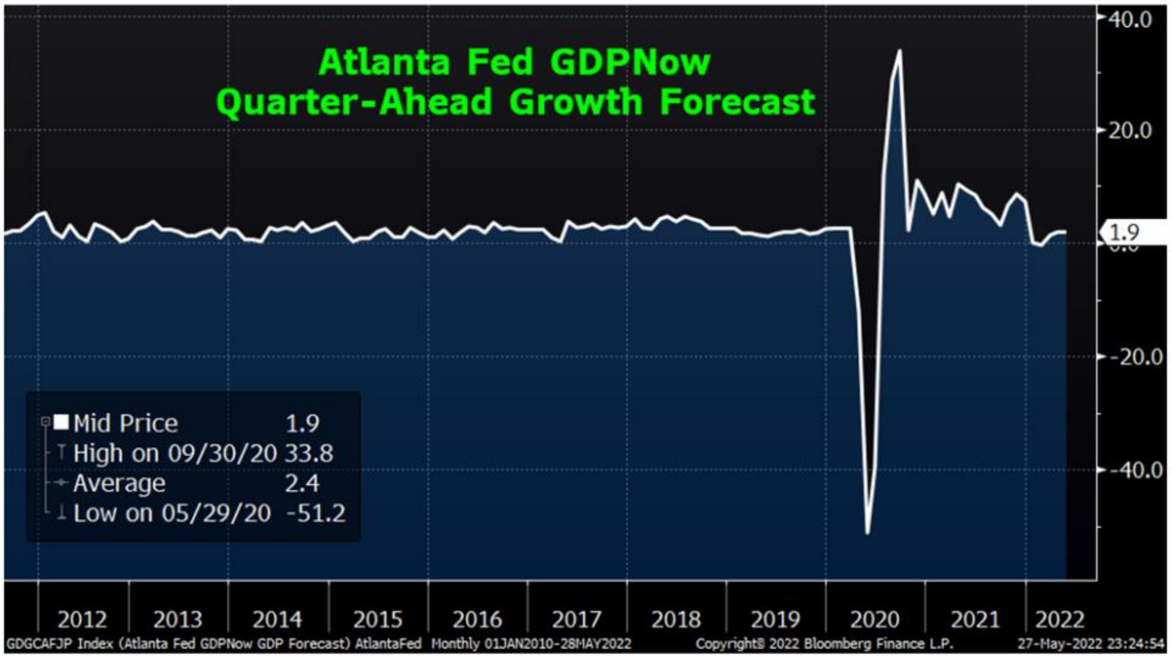
While higher than recent readings with a 1-handle, yet still coming in near the lowest levels since 1969 when the work force was much smaller, new filings for unemployment benefits for the period ended May 21 were a seasonally adjusted 210,000, down from a revised 218,000 the week prior. Continuing claims filed through state programs edged up to 1.35 million, near the lowest level since 1969 as businesses continue to hold onto workers with labor so difficult to obtain.

…with real U.S. GDP growth (i.e. no recession) still the expectation for the current quarter,…

THE PRUDENT SPECULATOR

Q2 U.S. GDP GROWTH PROJECTION FELL LAST WEEK

While Q1 2022 saw a 1.5% 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 1.9%.

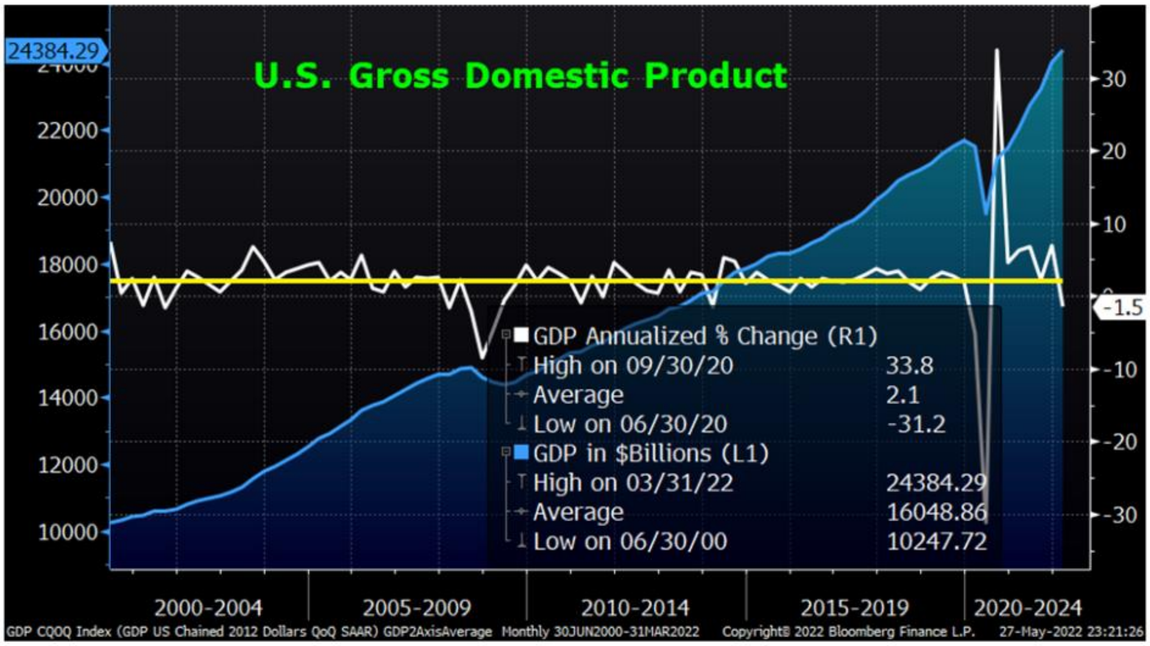


…while we can't forget that the economy in Q1 showed substantial nominal (actual) growth,…

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 1.5% 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.

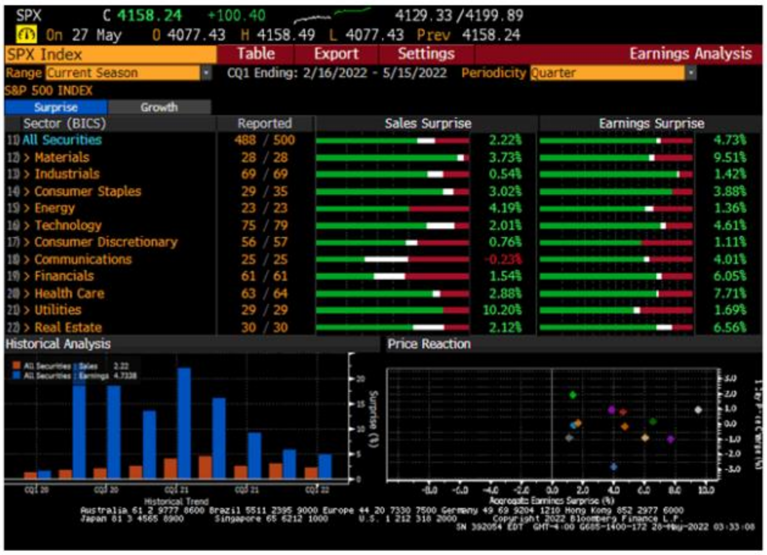


…which helped fuel significant improvement in corporate profits.

THE PRUDENT SPECULATOR

VERY GOOD EPS IN Q1 '22 AND '22/'23 ESTIMATES REMAIN STRONG

Q1 earnings reporting season generally has been terrific in terms of the results, even as many stocks sold off sharply on the news. 76.2% of the 488 S&P 500 companies to have announced have beat EPS expectations and an impressive 66.3% have exceeded revenue forecasts.



S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2023	$65.20	$247.47
9/30/2023	$63.44	$242.74
6/30/2023	$60.54	$238.33
3/31/2023	$58.29	$232.75
12/31/2022	$60.47	$224.11
9/30/2022	$59.03	$220.37
6/30/2022	$54.96	$213.36
3/31/2022	$49.65	$210.45
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 5.26.22

True, EPS forecasts for the S&P 500 have come down in recent weeks, but the outlook for Corporate America bottom-line growth does not mesh with the carnage seen in the equity markets this year. Wall Street analysts have been wrong before, of course, but we would argue that many stocks already have discounted a significant and lasting profit contraction, while we offer the reminder that even if an economic recession were to occur, such an event is no reason for a long-term-oriented investor to abandon equities.

THE PRUDENT SPECULATOR

EQUITY RETURNS AND RECESSIONS (PRE AND POST)

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

U.S. Recession Commencement (per NBER) & Equity Returns

S&P 500 and Fama/French Value Performance

Year Prior S&P 500 TR	Year Prior FF Value TR	Recession Start Date	1 Year S&P 500 TR	1 Year FF Value TR	3 Year S&P 500 TR	3 Year FF Value TR	5 Year S&P 500 TR	5 Year FF Value TR	10 Year S&P 500 TR	10 Year FF Value TR	To Present S&P 500 TR	To Present FF Value TR
51.9%	30.8%	August 1929	-32.6%	-32.0%	-73.5%	-64.9%	-71.1%	-61.4%	-58.0%	-47.7%	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

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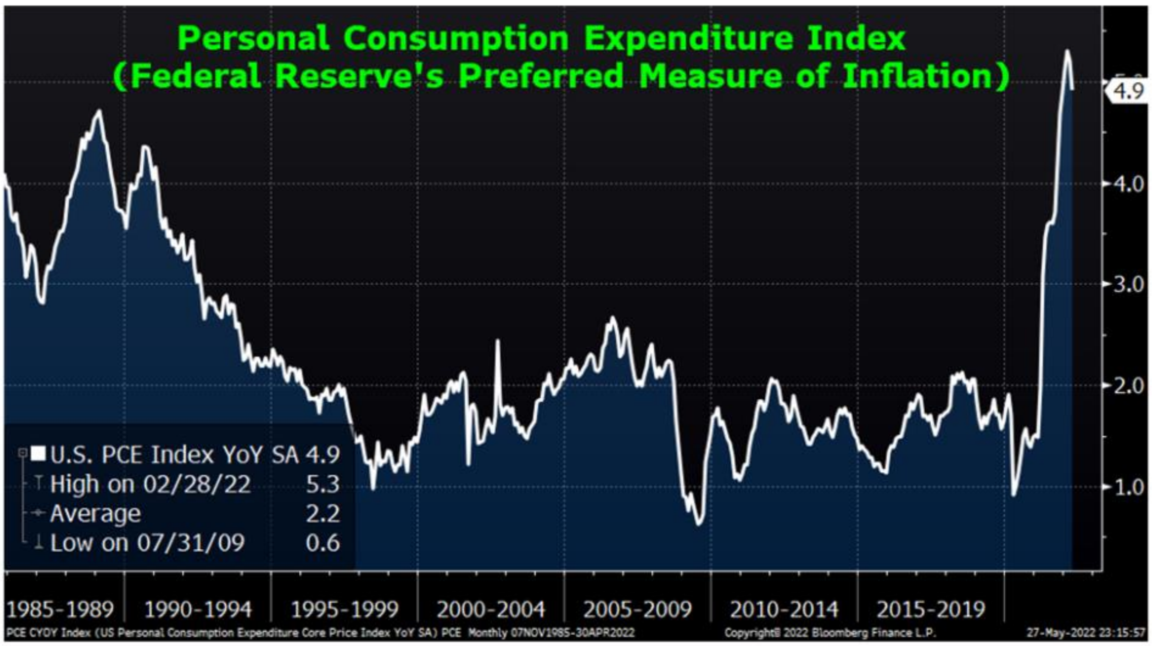
And speaking of what the markets have discounted, the equity market gains witnessed on Friday came about in part when the latest read on inflation was still very elevated…but was not worse than expected,…

THE PRUDENT SPECULATOR

INFLATION NOT TRANSITORY, BUT THE APRIL INCREASE LESS THAN MARCH

The Federal Reserve's preferred gauge of inflation, the core Personal Consumption Expenditure (PCE), rose in April by 4.9%, above the 2.0% target. The figure was below March's 5.2% increase, suggesting to some that inflation may have peaked and leading to a small reduction in the expected number of interest rate hikes this year from Jerome H. Powell & Co.

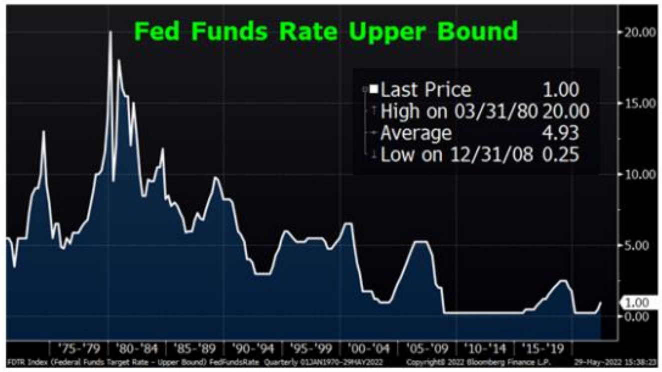


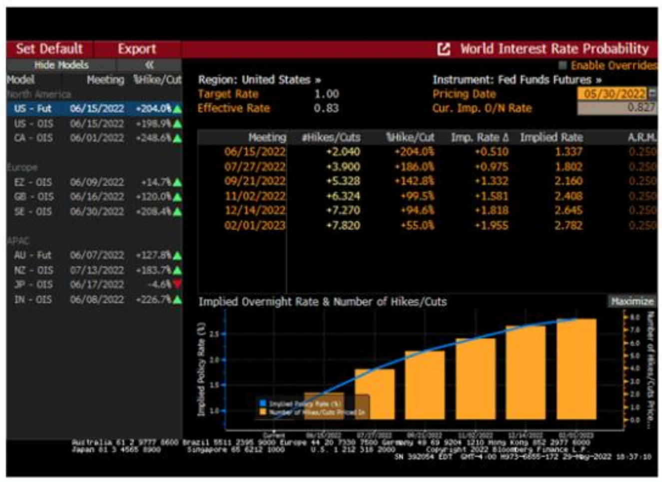
…which led the Fed Funds futures market to maintain a slightly lower target for additional rate hikes this year of closer to 7, down from recent levels near 8,…

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





…with the modest reduction in interest rate expectations of late adding to the appeal of dividend-paying stocks.

Market Swing Boosts Big-Dividend Stocks

By Karen Langley And Gunjan Banerji

Cash is king right now. The latest evidence: the market's embrace of dividend-paying stocks over another longtime favorite, firms that do buybacks.

Investors are rushing to companies promising regular payouts to shareholders, a sign of Wall Street's hunger for cash in hand as the Federal Reserve raises interest rates and major stock indexes struggle.

The S&P 500 fell 0.8% Tuesday while the Nasdaq Composite dropped 2.3% as a selloff in technology stocks intensified. Coming after major indexes rallied Monday, the declines were another example of the whipsaw trading confounding Wall Street in recent months.

That has investors turning to companies such as AT&T Inc. and cigarette-maker Altria Group Inc. as the broader market endures one of its most volatile stretches of the past decade. Worries about rising interest rates, sky-high inflation and slowing growth turned the stock market upside down, leading many investors to ditch the highflying companies that dominated over the past decade—firms that often pay no dividend or only a small one.

Corporate executives who opted to buy back shares and pay out fat dividends were often rewarded by stockholders

Please turn to page A2

◆ Nasdaq and S&P 500 fall, Dow posts gain B1

4%+ Yielding TPS Stocks

Symbol	Common Stock	05.27.22 Price	Target Price	Sector	P/E	Div Yld
NYCB	New York Community Bank	$9.91	$16.17	Banks	8.0	6.9%
AXAHY	AXA SA	$26.12	$39.17	Insurance	8.0	5.5%
MDC	M.D.C. Holdings	$38.31	$77.10	Consumer Durables	4.6	5.2%
VZ	Verizon Communications	$51.40	$74.13	Telecom Services	9.4	5.0%
DOC	Physicians Realty Trust	$18.57	$22.01	Real Estate	17.9	5.0%
BASFY	BASF SE	$13.68	$26.33	Materials	6.8	4.9%
FL	Foot Locker	$33.29	$64.30	Retailing	4.5	4.8%
KSS	Kohl's Corp	$41.87	$71.76	Retailing	6.5	4.8%
IBM	Int'l Bus Mach	$139.27	$163.83	Software & Services	14.5	4.7%
PRU	Prudential Finl	$106.27	$142.27	Insurance	7.4	4.5%
GILD	Gilead Sciences	$64.80	$83.81	Pharma, Biotech	8.8	4.5%
BIG	Big Lots	$26.94	$57.39	Retailing	11.7	4.5%
LEG	Leggett & Platt	$39.81	$60.16	Consumer Durables	14.2	4.4%
PNW	Pinnacle West Capital	$78.72	$89.90	Utilities	14.8	4.3%
TTE	Total S.A.	$58.83	$95.85	Energy	6.5	4.1%

interest, taxes, depreciation and amortization. FCF Yield = Free Cash Flow Yield

Dividend Stocks Gain From Swing

Continued from Page One

in the 20 years leading up to the Covid-19 pandemic. Lately, there has been a divergence.

Since the start of 2020, companies that pay high levels of dividends have continued outperforming those with lower payouts, while shares of companies putting the most money into stock repurchases have lagged behind those with the lowest buybacks, according to Credit Suisse analysts.

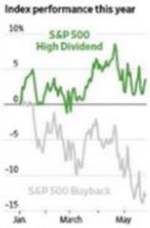
"If I have a choice between you buying more of your stock or you giving me cash...I'd rather have the cash," said Max Wasserman, founder of Miramar Capital, who oversees shares of dividend-paying companies including United Parcel Service Inc., which boosted its return to investors this year.

The shift shows the premium that investors are paying for steady cash payouts rather than the promise of future profits. That preference has only intensified as the Fed embarks on an ambitious campaign to raise interest rates to rein in inflation. High inflation and rising interest rates eat away at the value of companies' future earnings while increasing the attractiveness of cash today.

An exchange-traded fund that aims to invest in companies throwing off lots of cash, the Pacer US Cash Cows 100 ETF, has risen around 1% this year, while major indexes have posted double-digit declines.

Many of the stocks with the highest dividend yields in the S&P 500 have been soaring past the broader market. Shares of AT&T have risen 14% this year, while shares of Altria Group have gained 12% and shares of pipeline operator Oneok Inc. have added 8.5%. All three stocks have dividend

Index performance this year



Source: FactSet

yields higher than 5%, according to FactSet. The benchmark index is down 17% in 2022 and has been teetering on the edge of bear-market territory.

Companies in the S&P 500 paid out a record $137.6 billion in dividends in the first quarter, according to S&P Dow Jones Indices, and senior index analyst Howard Silverblatt expects a new record to be set in the current quarter.

The S&P 500 High Dividend index is up 3.6% in 2022, while the S&P 500 Buyback index has declined 13%.

Dividend stocks haven't always been star performers. In recent years, many investors piled into companies with lofty valuations, many of which offered big payouts in the future rather than right now.

This year, many of those bets have staged a U-turn and weighed on the broader market. Investors said that the free cash offered by dividend-paying companies is more valuable to them right now because interest rates are higher.

John Augustine, chief investment officer at Huntington Private Bank, said his firm's equity strategies have all been adding dividend-paying stocks in recent months, to the point where each has a higher dividend yield than its benchmark.

"We don't know what the Fed is going to do next year, so I want the cash now," Mr. Augustine said.

Cash is king right now. The latest evidence: the market's embrace of dividend-paying stocks over another longtime favorite, firms that do buybacks.

Investors are rushing to companies promising regular payouts to shareholders, a sign of Wall Street's hunger for cash in hand as the Federal Reserve raises interest rates and major stock indexes struggle.

Stock Updates

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

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

Broadcom (AVGO – $583.28) said it reached an agreement to buy VMWare for approximately $61 billion in a cash and stock deal. Michael Dell, founder of Dell Computer, owns 40% of VMWare, an infrastructure software provider with products to address a range of IT problems, including cost and operational inefficiencies, business continuity, software lifecycle management, and desktop management. The deal is expected to close in fiscal 2023 and will triple the size of Broadcom's software division. AVGO shares initially sank on rumors of the transaction, trading below $520 on Monday and Tuesday, but once the actual deal was announced, the stock shot higher, ending the full trading week more than 7% higher and some $60 above the low-water mark.

Hock Tan, CEO of Broadcom, commented, "Building upon our proven track record of successful M&A, this transaction combines our leading semiconductor and infrastructure software businesses with an iconic pioneer and innovator in enterprise software as we reimagine what we can deliver to customers as a leading infrastructure technology company. We look forward to VMware's talented team joining Broadcom, further cultivating a shared culture of innovation and driving even greater value for our combined stakeholders, including both sets of shareholders."

Raghu Raghuram, Chief Executive Officer of VMware, said, "VMware has been reshaping the IT landscape for the past 24 years, helping our customers become digital businesses. We stand for innovation and unwavering support of our customers and their most important business operations and now we are extending our commitment to exceptional service and innovation by becoming the new software platform for Broadcom. Combining our assets and talented team with Broadcom's existing enterprise software portfolio, all housed under the VMware brand, creates a remarkable enterprise software player. Collectively, we will deliver even more choice, value and innovation to customers, enabling them to thrive in this increasingly complex multi-cloud era."

Given Mr. Tan's ruthless pursuit of business with the potential to earn returns on capital above 15%, we think VMWare could be a great fit with some operational optimization of the variety for which AVGO excels, even as some of VMWare's valuation metrics look expensive. Nevertheless, Broadcom indicated that it would maintain its generous dividend policy (the yield is now 2.8%) and management unveiled a $10 billion addition to the existing $3 billion share repurchase authorization.

Broadcom also announced fiscal Q2 results, posting better-than-expected EPS of $9.07 ($8.73 est.) on revenue of $8.10 billion, versus the $7.91 billion consensus forecast. Mr. Tan explained, "Broadcom's second quarter revenue accelerated sequentially, and was driven by strength in networking and server storage. We expect this momentum to continue into the third quarter."

Broadcom CFO Kirsten Spears added, "Consolidated revenue grew 23% year-over-year to a record $8.1 billion and operating profit increased 30%. We generated $4.2 billion in free cash flow and are expecting free cash flow to remain strong in the third quarter. Consistent with our commitment to return excess cash to shareholders, we returned $4.5 billion to shareholders in the quarter including $1.7 billion of cash dividends and $2.8 billion of share repurchases."

Looking to fiscal Q3, management's top-and bottom-line guidance was better than consensus analyst projections, no doubt fueling the handsome rebound in AVGO shares on Friday. Our Target Price for Broadcom now stands at $738 and we are keen to see the benefits from the acquisition.

North Carolina based lithium producer **Albemarle** Corp (ALB – $270.92) raised its 2022 guidance for the second time this month last week. Management now expects EPS between $12.30 and $15.00 for the current year, up from the $9.25 to $12.25 range provided in early May, with the shares popping nearly 15% last week on the news.

THE PRUDENT SPECULATOR

ALB – BIG BUMP IN FY 2022 TOP- AND BOTTOM-LINE GUIDANCE

Improved Guidance Reflects Successful Lithium Contract Renegotiations

As of May 23, 2022	FY 2021	May FY 2022 Guidance	Revised FY 2022 Guidance	2022 Revised Guidance vs FY 2021[2]
Net Sales	$3.3B	$5.2B – $5.6B	$5.8B – $6.2B	+75 to 90%
Adj. EBITDA	$871M[1]	$1.7B – $2.0B	$2.2B – $2.5B	+160 to 195%
Adj. EBITDA Margin	26.2%[1]	33 – 36%	38 – 40%	+1,300 to 1,500bps
Adj. Diluted EPS	$4.04[1]	$9.25 – $12.25	$12.30 – $15.00	+200 to 275%
Net Cash from Operations	$344M	$500M – $800M	$550M – $850M	+60 to 145%
Capital Expenditures	$954M	$1.3B – $1.5B	$1.3B – $1.5B	

Other Inputs for 2022: Depreciation and Amortization $310M - $340M; Adjusted effective tax rate 25%; Corporate costs $115M - $120M; Interest and financing expenses $110M - $130M; Weighted-average common shares outstanding – diluted 117.7M.

5 MAKING THE WORLD SAFE AND SUSTAINABLE

[1]Non-GAAP measure. See Appendix for definition and reconciliations of historical measures to most directly comparable GAAP measure. [2]Excluding FY2021 FCS net sales of $86M and adjusted EBITDA of $28M.

ALBEMARLE

ALB is banking on strong lithium prices to persist given all the demand from electric vehicle development. At a recent industry conference, CEO Kent Masters stated, “You’ve heard us talk for the last couple of years that we are negotiating some of the historical fixed price contracts to be more indexed to reference prices, indexed to the market, and we were able to negotiate a couple more contracts since our earnings call over the first quarter, and that led to this upgrade and guidance. So we’re now showing about 70% to 80% of our business is battery grade. And of that business, 60% is indexed to variable price indices. And some of the — those are — they tend to be longer-term contracts, let’s call them, 5 years as a good benchmark. And then they are referenced to indices, common indices that are public, typically fast markets or benchmark minerals type indices, and they would adjust sometimes some contracts are different, but on average, it’s quarterly. They adjust quarterly. And in some of those contracts, we have floors and ceilings, but there are contracts that are open in both upside and downside.”

Shares have performed very well this year (up nearly 16%), especially considering the disastrous returns for stocks of many EV producers, not to mention the downturn in the overall U.S. equity market. 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 and appreciate the carmaker-agnostic exposure we are gaining in our broadly diversified portfolios. Our Target Price for ALB has powered ahead to $334.

Technology-focused health concern **Change Healthcare** (CHNG – $23.80) announced that it earned an adjusted $0.39 per share in fiscal Q4. The figure was shy of the Street estimate of $0.42, even as Change generated $920.1 million of revenue, 7.6% above the total in fiscal Q4 2021. The firm continues to pursue its tie-up with OptumInsight, a subsidiary of national health insurer UnitedHealth, despite litigation by the Department of Justice in opposition of the deal.

On the merger front, Change and Optum each waived their right to terminate the merger agreement until the earlier of (i) the tenth business day following a final order issued by the U.S. District Court for the District of Columbia with respect to the complaint filed by the DOJ that prohibits the consummation of the Merger and (ii) December 31, 2022. As the press release states, "OptumInsight has committed to pay a $650 million fee to Change in the event the Merger doesn't complete because of the decision issued by the U.S. District Court in Washington D.C. which is is scheduled to begin on August 1, 2022. Additionally, Change has received permission to declare and pay a one-time special dividend of up to $2.00 in cash per share, which the firm expects to pay at or about the time of closing the merger."

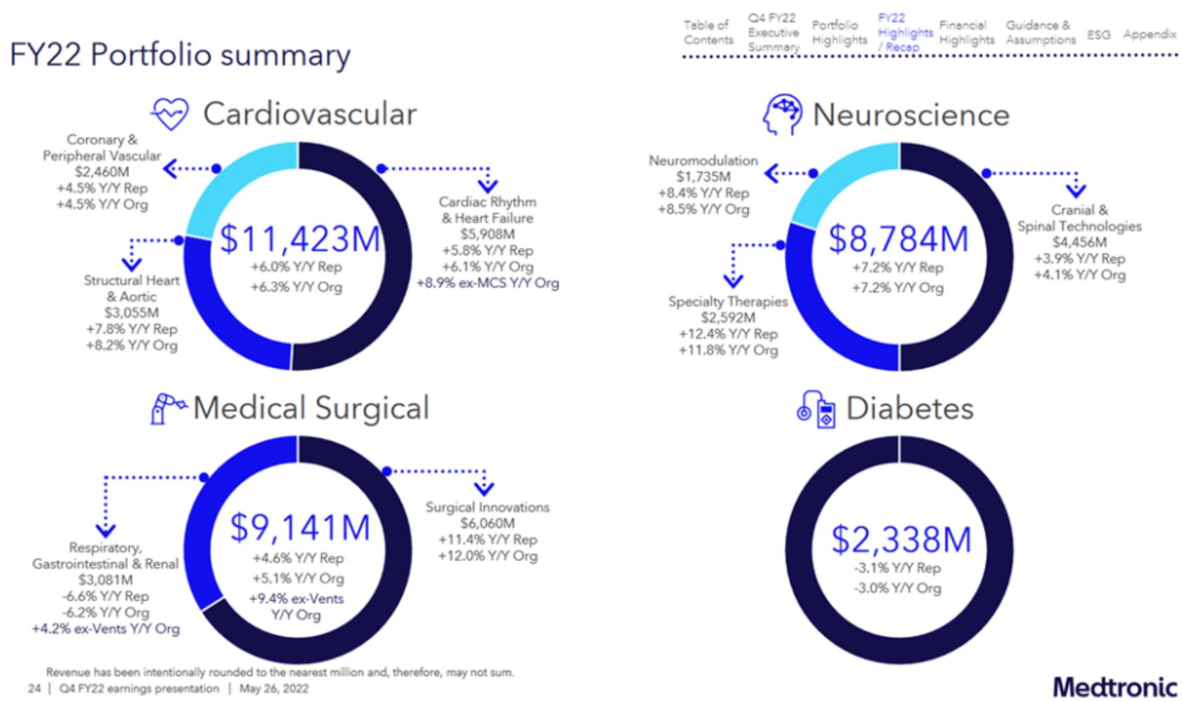
CEO Neil de Crescenzo commented on CHNG's performance in the past year, "In calendar year 2021, our Technology-Enabled Services segment handled approximately 1 million COVID patient access calls, about 200,000 nurse triage calls, sent about 6.5 million automated COVID patient reminders and processed about 8 million COVID testing claims. As in prior quarters, we continue to focus on margin expansion in this segment through automation and AI, constantly increasing our efficiency and driving stronger performance for our customers. As an example, our AI coding offering has processed 36 million charts since late 2019, with over 80% of our volume now being handled by our AI systems with over 95% coding accuracy. Of direct benefit to our customers, this AI capability has reduced unspecified diagnosis codes by over 45% and reduced medical necessity denials by more than 50%. One large globally-renowned health system replaced their in-house coding with change health care, resulting in reduced unbilled inventory, improved overall coding quality, and significant annual savings. Our AI-driven workflow systems have contributed to Change Healthcare increasing our clients' net collection rate by as much as 3%, worth millions of dollars annually to many clients and accelerating time to value for our customers by a full month. Our tech-forward approach to patient access and RCM services is being validated in the market by our growing bookings, expanding pipeline and positive trends in both deal size and win rates."

He added, "In closing, we continue to execute on our strategic, operational and financial objectives. Through continued innovation, we are providing greater value by leveraging technology insights to reduce administrative waste, streamline and accelerate payments and enhance consumer engagement to drive better experiences and outcomes throughout the patient journey. We remain confident that Change Healthcare's platform, which provides best-in-class connectivity, transaction management, insights and integrated experiences will continue to play a central role in helping our customers through the continuing transformation of health care."

Obviously, with the stock trading well below the $25.75-in-cash merger price plus $2.00 dividend, the market continues to bet that antitrust issues will not be overcome and that the deal will fall apart. We respect that this is a very real possibility, but we like the long-term prospects of CHNG on a stand-alone basis, and maintain that the stock may actually revalue much higher in time should the merger be scuttled. We appreciate that the services Change provides are essential in today's health care market, allowing providers to navigate the complexity of insurance reimbursement, ensuring accurate and timely payment while enhancing daily workflows. Our Target Price for CHNG is $28.

I was not a great week for shares of **Medtronic PLC** (MDT – $99.08) as they dipped more than 3% in price thanks mostly to the announcement of EPS of $1.52 for fiscal Q4, a $0.02 increase over the prior-year quarter, on revenue of $8.09 billion. Procedure volumes for the medical device maker returned to pre-pandemic levels by the end of the fiscal quarter, while supply chain issues in China caused problems in some of the business lines. Management expects these challenges to continue for the next couple of quarters, despite ongoing efforts to mitigate the impacts, with lowered forward guidance the primary cause of the stock price decline.

MDT CEO Geoff Martha stated, "The recent stress of these global supply chain issues has further illuminated the need for the enhancements. We have a new global structure in place that consolidates operations and supply chain functions, which were previously fragmented throughout the organization. Now this is a big move for us. And there's still a lot of work to be done, but I am confident we will come out of this with a more resilient end-to-end global supply chain that we believe will be a competitive advantage in our industry. While some of our Q4 challenges will persist in the near term, we expect strong improvement in the back half of our fiscal year, and we remain focused on delivering our long-term strategies. We have made significant changes over the past 2 years to position the company for accelerated and sustained innovation-driven growth. Our pipeline is robust and continues to advance with a number of upcoming catalysts and fast-growing MedTech markets. We're committed to creating strong returns for our shareholders, and we're making progress with our enhanced portfolio management and our capital allocation processes. We're investing in future growth drivers, while at the same time returning capital primarily through our meaningful and growing dividend, which we just increased again today by 8%."



CFO Karen Parkhill offered the company's outlook and thoughts on the dividend, "We are an S&P Dividend Aristocrat, having increased our dividend for 45 years now, and our dividend is an important component of the total return we generate for our shareholders. This past year, we paid $3.4 billion in dividends and we're supplementing that through opportunistic share repurchase, particularly in periods where we see share price dislocation. In fact, we repurchased over 2.5 billion of our stock in fiscal '22, including 1.4 billion in the fourth quarter… We expect organic revenue growth in fiscal '23 of 4% to 5%. While the impact of currency is fluid, if recent exchange rates hold, foreign currency would have a negative impact on full year revenue of $1 billion to $1.1 billion. By segment, we expect Cardiovascular to grow 5.5% to 6.5%; Medical Surgical to grow 3.5% to 4.5%; Neuroscience to grow 5% to 6%; and Diabetes to decline 6% to 7%, all on an organic basis. While we are hopeful that we can receive approval for 780G and Guardian 4 Sensor in the United States, we've elected not to include it in our guidance… We expect non-GAAP diluted EPS in the range of $5.53 to $5.65 in fiscal '23, which includes an unfavorable impact of $0.20 to $0.25 from currency at recent rates, for the first quarter, we expect EPS of $1.10 to $1.14, including an FX headwind of about $0.05 at current rates."

Medtronic shares are only slightly negative this year, much better than the broad-based S&P 500, and about 1% ahead of the S&P 500 Health Care index. Concerning the warning letter MDT received last year, EVP and President of Cardiovascular Sean Salmon said, "With regard to the warning letter progression, we did conservatively leave that out of the guidance, I think that's prudent. But the most important thing we have to do is to improve and sustainably improve the quality system, which was outlined in those items that were in the 43 and the subsequent warning letter." It seems that MDT is working through its challenges and surgery volumes have generally recovered, despite a hiccup here and there. We suspect near-term performance will likely be impacted by supply chain difficulties and hospital staffing issues, but we doubt the trials and tribulations will diminish Medtronic's competitive position in the med-tech space. With domestic demographic trends in its favor, we find shares of high-quality MDT attractive with a P/E ratio near 18. The dividend yield is 2.7% and our Target Price is $140.

Discount retailer **Big Lots** (BIG – $26.94) saw its shares continue to be sold off last week, with the year-to-date decline now 40%, following the release of its fiscal Q1 2023 financial results. Big Lots sharply missed bottom-line expectations as the company said inflation and the removal of government stimulus deterred lower income shoppers from non-necessity items, especially bigger-ticket, better-margin items like home furnishings. Same store sales fell 17% versus the year-ago period. BIG said revenue for the quarter came in at $1.38 billion, approximately 6% below expectations. The retailer recorded an adjusted EPS of -$0.39, while the consensus forecast was $0.99. Gross margins fell from 40.2% to 36.7% (while the average estimate was 39.4%). Inventory value also spiked as more higher-priced non-necessity items were passed over this quarter.

CEO Bruce Thorn explained, "Our business has grown significantly over the past two years as we benefitted not only from home-related spending but from the positive growth fueled by our Operation North Star initiatives. We have greatly improved our customer shopping experience, evidenced by an all-time high Net Promoter Score of 85% in Q1. E-commerce remains a standout, and now accounts for over 7% of our sales, with same-day deliveries growing 20% over last year. Our Broyhill and Real Living private label brands reached close to 30% of our sales, positioning us well to pursue consumer trade-down opportunities ahead. These accomplishments helped get 3-year comparable sales growth off to a solid start in February and March, but trends materially slowed in April, resulting in a need to increase markdowns. We believe the slowdown was caused by the spending pressure our consumers felt from higher gas prices and broader inflation, which is affecting discretionary purchases across the retail industry. As a result, we missed our sales plan by approximately $100 million, the vast majority in April, while supply chain impacts across gross margin and SG&A continued to be significant headwinds."

Mr. Thorn continued, "We have reacted quickly to the changes in consumer demand by increasing value offerings to our customers, resulting in a significant acceleration to three-year comparable sales growth in the mid-teens in May. We expect the environment to remain challenging and we remain highly focused on managing the business prudently, which includes aggressively right-sizing our inventories over the course of Q2. We are focused on opening price points that drive traffic and improving gross margin rates through capitalizing on significant close-out opportunities, more targeted pricing and promotions, minimizing supply chain charges, and reducing shrink. We are also accelerating SG&A cost reductions to generate over $70 million in additional savings this year. Further, we are strengthening our balance sheet by temporarily scaling back capital expenditures associated with new store openings and remodels."

He concluded, “I am thankful to our talented team of 35,000 associates, who remain committed to our noble purpose of helping our customers Live BIG and Save LOTS, as they manage through increasingly tighter budgets buffeted by inflation. Continuing to delight our customers, regardless of economic conditions, is key to unlocking the full potential of Operation North Star, which we continue to believe will drive long-term sales potential of $8 to $10 billion with a 6% to 8% operating margin.”

BIG has a lot on its plate as its core customer is forced to deal with inflation, it continues to struggle with supply chain issues, and the company works to widen its footprint and transform. While our patience isn’t indefinite, we think that shoppers will continue to seek out its stores as finding a solid bargain is more valuable than ever. No doubt, the quarter was ugly and we have cut our Target Price to $57, even as we still think that there is substantial long-term earnings power. Given the plunge in the stock price of late, we are happy that management refrained from buying back any shares in the latest quarter, though we would like to see some of the $159 million remaining on its repurchase authorization utilized soon, as this amount represents more than 20% of the current BIG market cap. The dividend yield is also quite attractive at 4.5%.

High-end department store **Nordstrom** (JWN – $26.56) lost $0.05 per share in fiscal Q1 2023 (vs. -$0.06 est.) on sales of $3.47 billion, compared to the estimate of $3.27 billion. JWN has strung together two quarters of market-beating results, with the 25% rebound last week pushing the YTD gain near 10%.

CEO Erik Nordstrom said, “This quarter, we saw customers shopping for long anticipated in-person occasions such as social events, travel and return to office. Beyond occasions, customers also reevaluated and refreshed their wardrobes. We are encouraged by this opportunity because it favors the core categories of our business and the core capabilities of our service model. We were well positioned to serve this demand and deliver an excellent customer experience, powered by our unique product offering, interconnected model and strong commitment to customer service. Our integrated digital and physical assets continue to allow us to be nimble and enable us to quickly adapt to the channel shift in the quarter as customers increasingly choose to shop in-store. We were staffed, well stocked and ready to serve customers as store traffic increased. And our dedicated employees delivered an experience that was clearly reflected in our store level customer satisfaction scores.”

CFO Anne Bramann commented, “We continued to strengthen our financial position, ending the first quarter with $1.3 billion in available liquidity, including $484 million in cash and the full $800 million available on our revolving line of credit. This month, we entered into a new $800 million revolving credit agreement, replacing the previous agreement that was scheduled to expire in September 2023. The new agreement is another milestone in improving our capital structure post-pandemic, providing additional flexibility as we go forward.”

Ms. Bramann offered the outlook, “We continue to be encouraged by the momentum in our business as customers update their wardrobe and prepare for long-awaited occasions. To date, we haven’t seen an adverse impact on customer spending from inflationary pressures, which we suspect is due to the higher income profile of our customer base. We continue to see macro-related cost pressure in labor and fulfillment, which we factored into our guidance, along with offsetting benefits from our supply chain optimization initiatives. At the same time, we continue to consider macroeconomic headwinds, including the potential of more pronounced inflation impacts and supply chain disruption, both to our customer as well as to our margins. Taking all these factors into consideration, we are updating our 2022 guidance to reflect our first quarter top line performance, which exceeded our expectations, while holding assumptions for the second quarter and the rest of the year, consistent with our previous guidance."

Ms. Bramann closed, "For fiscal year 2022, we now expect revenue growth of 6% to 8% versus 2021. We continue to expect adjusted EBIT margin of approximately 5.6% to 6% for the full year. Our forecast assumes that year-over-year improvement in both gross profit margin and SG&A leverage will be significant contributors to 2022 adjusted EBIT margin. Improvements in both gross profit margin and SG&A will be driven by leverage on higher sales, especially in the first half of the year, and benefits from our strategic initiatives, which will build throughout the year. All said, we expect similar levels of adjusted EBIT margin improvement between the first and second halves of the year compared to 2021. Our effective tax rate is expected to be approximately 27% for the fiscal year. We now expect adjusted EPS of $3.20 to $3.50. Our outlook excludes the impact of any share repurchases. I'd also like to provide some additional detail on our forecast for the second quarter. We anticipate that second quarter revenue growth will be approximately half that of the first quarter. Our projections include the impact of 1 week of our Anniversary Sale shifting into the second quarter, which adds approximately 200 basis points of revenue growth to the quarter…We are very pleased to see the momentum in our business and customers reengaging with our core categories. We made the right investments to prepare for this shift, and we are well prepared to serve our customers in the moments that matter most to them. We are very excited about the momentum in our business and our plans to deliver shareholder value over the long-term."

JWN's digital sales dropped to 39% of revenue, compared to 46% a year ago, indicating that customers are returning to retail stores. The Nordstrom Rack segment revenue was slightly better than expected and we are glad to see indications that people are shopping in those stores again. JWN and retail stocks in general have been volatile lately, swinging in both directions as investors parse the impacts of inflation, supply chain bottlenecks and geopolitical conflicts. After some serious missteps, we think that JWN is now on the right track and we appreciate that the company has the ability to return capital to shareholder. On that note, JWN resumed its quarterly dividend in mid-March, indicating it will pay $0.19 per share (roughly half the pre-pandemic rate), which is a much higher payment than we had anticipated. The road ahead may yet be bumpy and our Target Price of $46 incorporates that thinking.

Shares of **EnerSys** (ENS – $70.77) rebounded more than 12% last week following the release of fiscal Q4 financial results from the maker of power storage systems. EnerSys earned an adjusted $1.20 per share (at the top end of management guidance and above the $1.15 Street est.) as revenue grew 11% year-over-year to $907 million, which also beat the Street forecast ($876 million). Management continues to adjust prices (outpacing costs in Q4) and expects to keep pace with inflation and any detrimental affects from foreign exchange. For fiscal Q1 2023, the company expects gross margins in the range of 21% to 23% to support between $1.10 and $1.20 of earnings per share.

CEO David Shaffer commented, "The March quarter marked a strong finish to a challenging year. Demand across all segments continued to surge, with fourth quarter net sales of $907 million eclipsing $900 million for the first time in our company's history and our backlog growing to $1.3 billion, breaking new records for the third consecutive quarter. Our pricing actions are continuing to catch up with our significant cost increases, driving a 19% sequential increase in adjusted diluted EPS despite ongoing and mounting supply chain headwinds, labor shortages, and historic inflation levels. While pricing has not yet caught up with the persisting inflation endured this fiscal year, we are pleased with the trajectory our teams are making to recapture our underlying financial potential. For reference, the inflation and supply chain disruptions created nearly $3 per share of sequential pressure in fiscal 2022. Approximately two-thirds of this pressure was offset in the fiscal year as we continue to chase these pressures with price and mix."

He added, "We achieved several key milestones in fiscal 2022, including the launch and UL safety listing of our high-performance NexSys® lithium iON batteries which feature an integrated Battery Management System (BMS) that performs auto-diagnosis, voltage limitation, and communication of performance data. We also exceeded our capacity goal for our Thin Plate Pure Lead (TPPL) batteries. Customer demand for this proprietary technology across all of our business segments continues to outpace our ability to supply. We expect to benefit further from the strength of this demand as we make progress toward increasing capacity by an additional $200 million in fiscal 2023. I am also pleased to note we made significant progress on our ESG goals, including several sustainability and environment updates that culminated in the publication of our first comprehensive sustainability report in April 2022. The report highlights the critical role our power and energy solutions play in building a resilient, low-carbon future and are a key component to decarbonization globally."

We think EnerSys sits at a cross section of megatrends, such as 5G, the electrification of mobility and grid modernization, which offer a terrific runway for growth, and we like that the company continues to pursue new applications and technology. Even as supply chain bottlenecks and cost headwinds are very real, we are still of mind that the latest obstacles are temporary. We like that management is aggressively working to raise prices and note that gross margin recovery back to around the typical level of 25% ought to significantly improve the bottom line. As the company states, "Current margin headwinds to become tailwinds when costs normalize, onshoring initiatives take hold and pricing actions catch up from multi-quarter lags." After a 10% dip year-to-date, shares trade for just under 14 times forward earnings estimates, while the EnerSys P/E denominator is expected to more than double by 2025. The dividend yield is modest at 1.0%, but we think that significant capital gains potential exists, given that our Target Price is now $126.