Market Commentary Monday, June 13, 2022

June 12, 2022

EXECUTIVE SUMMARY

Newsletter Trades – 6 Buys for 3 Accounts
Volatility – Stocks Head South Again in Latest Trading Week; Value Continues to Outperform
Inflation – Stocks Historically a Good Hedge
Fed – Value Has Performed Best in Tightening Regimes
Interest Rates – Rising Bond Yields Historically OK for Stocks & Not So Good for Bonds
Recession – Not the Current Forecast; But Value Has Performed Well on Average Pre- and Post-Economic Contractions
Sentiment – Be Greedy When Others are Fearful
Ben Graham Conference – 13 Undervalued *TPS* Selections
Stock News – Updates on TGT, KSS, INTC, DPSGY & NTR

Market Review

As discussed in the June edition of *The Prudent Speculator*, we bought the following for Buckingham Portfolio on Monday, June 6:

27 **ManpowerGroup** (MAN – $82.85) at $88.3231
24 **Target** (TGT – $149.67) at $160.17

In our hypothetical accounts, we added the following, also on Monday, June 6:

Millennium Portfolio
97 **Meta Platforms** (META – $175.57) at $193.99
137 **Moderna** (MRNA – $127.12) at $137.99

PruFolio
56 **Digital Realty** (DLR – $131.36) at $134.50
159 **Pinnacle West Capital** (PNW – $73.73) at $77.71

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It certainly was a bad week for the equity markets,…

THE PRUDENT SPECULATOR

UGLY TRADING WEEK: S&P 500 PLUMMETS ANEW

Rare are huge one-week plunges of more than 5% for the S&P 500, but the popular market gauge skidded 5.05% for the five trading days ended June 10, 2022, the 121st worst weekly showing since 1928.

Down < -5.05%

	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		7	2	1	0	1	1	0	2	1	4	19
Years Ending in 1		7	2	0	0	0	0	0	2	2	0	13
Years Ending in 2		11	0	0	3	0	0	0	2	0	2	18
Years Ending in 3		11	1	0	0	0	0	0	0	0		12
Years Ending in 4		2	0	0	0	6	0	0	0	0		8
Years Ending in 5		0	0	0	0	0	0	0	0	1		1
Years Ending in 6		1	1	0	0	0	1	0	0	1		4
Years Ending in 7		6	0	0	0	0	4	0	0	0		10
Years Ending in 8	1	6	1	0	0	1	0	1	6	3		19
Years Ending in 9	7	5	0	0	0	1	1	1	2	0		17
Totals	8	56	7	1	3	9	7	2	14	8	6	121
From 1.31.28 through 6.10.22. Months of index price decreases of greater than or equal to 5.05%. SOURCE: Kovitz using data from Bloomberg												

Up > 5.05%

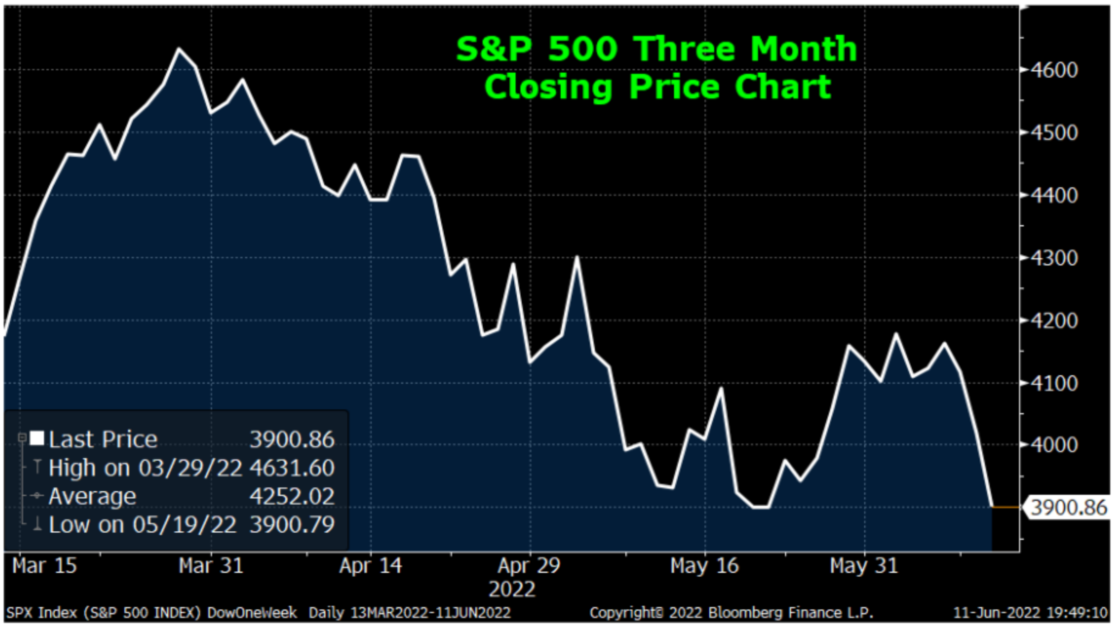
	1920's	1930's	1940's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	2020's	Totals
Years Ending in 0		1	1	0	0	2	1	0	3	1	3	12
Years Ending in 1		6	0	0	0	1	1	1	1	4	0	14
Years Ending in 2		13	1	0	1	0	3	0	2	0	2	22
Years Ending in 3		12	0	0	1	0	0	0	1	0		14
Years Ending in 4		4	0	0	0	4	1	0	0	0		9
Years Ending in 5		1	0	0	0	2	0	0	0	0		3
Years Ending in 6		1	1	0	0	0	0	0	0	0		2
Years Ending in 7		1	0	0	0	0	2	1	0	0		4
Years Ending in 8	1	7	1	0	0	0	1	1	2	0		13
Years Ending in 9	4	1	0	0	0	0	0	1	6	0		12
Totals	5	47	4	0	2	9	9	4	15	5	5	105
From 1.31.28 through 6.10.22. Days of index price increases of greater than or equal to 5.05%. SOURCE: Kovitz using data from Bloomberg												

…with about the only consolation being that the waterfall selloff in the final minutes of trading on Friday did not push the S&P 500 below the May 19 closing low.

THE PRUDENT SPECULATOR

S&P 500 – REVISITING THE MAY 19 & MAY 20 CLOSING LOW OF 3901

The latest trading week ended on a very sour note, with stocks closing on their lows and the S&P 500 index shedding 2.91% on Friday, June 10. It is interesting that the popular index finished the week at 3900.86, given that the May 19 close was 3900.79 and the May 20 close was 3901.36. No guarantees that 3901 will hold, of course, but some might argue that the level marks a double- or triple-bottom.



Despite suffering big losses as well, Value stocks again held up better than their Growth counterparts, continuing the significant outperformance seen this year, over the last 12 months and the last two years.

THE PRUDENT SPECULATOR

MARKET OF STOCKS – INDEXES CAN HAVE WIDE DISPERSION IN RETURNS

With tremendous volatility witnessed of late as traders react and overreact to developments around the War in Ukraine, comments from the Federal Reserve, economic statistics and corporate profit announcements, we like that the Value indexes have held up far better than Growth. The divergence in returns is not unlike what was seen following the Bursting of the Tech Bubble.

Total Returns Matrix

2000	2001		Last Week	YTD	Last 12 Months	Since 10.31.20	Last 2 Years	Since 3.23.20	Last 3 Years	Last 5 Years	Name	Symbol
-4.85	-5.44	M	-4.56	-12.78	-7.15	22.32	20.96	76.59	28.37	64.75	Dow Jones Industrial Average	DJITR Index
1.01	-10.21	A	-4.40	-11.06	-7.16	26.07	27.02	81.36	26.95	45.99	New York Stock Exchange Composite	NYA Index
-39.18	-20.81	R	-5.59	-27.25	-18.52	5.22	14.89	68.16	48.81	91.72	Nasdaq Composite Index	CCMP Index
-22.43	-9.23	K	-4.84	-27.59	-29.93	-4.22	3.46	55.00	10.46	30.36	Russell 2000 Growth	RU20GRTR Index
22.83	**14.02**	E	**-3.98**	**-11.10**	**-12.05**	**46.83**	**49.62**	**114.31**	**32.14**	**35.07**	**Russell 2000 Value**	**RU20VATR Index**
-3.02	2.49	T	-4.37	-19.39	-21.22	19.10	25.47	84.23	22.66	35.00	Russell 2000	RU20INTR Index
-11.75	-20.15		-5.38	-28.86	-23.85	-4.67	3.31	58.10	18.21	57.53	Russell Midcap Growth Index Total Return	RUMCGRTR Index
19.18	**2.33**		**-4.99**	**-10.89**	**-5.57**	**36.45**	**39.14**	**108.58**	**32.29**	**44.36**	**Russell Midcap Value Index Total Return**	**RUMCVATR Index**
8.25	-5.62	O	-5.11	-17.32	-12.18	20.76	26.50	91.39	30.04	54.72	Russell Midcap Index Total Return	RUMCINTR Index
-22.42	-19.63	F	-5.67	-26.67	-14.70	7.13	16.61	71.90	45.34	92.64	Russell 3000 Growth	RU30GRTR Index
8.04	**-4.33**		**-4.40**	**-9.34**	**-4.60**	**34.62**	**32.80**	**88.17**	**30.15**	**46.34**	**Russell 3000 Value**	**RU30VATR Index**
-7.46	-11.46	S	-5.01	-18.49	-9.73	20.05	25.00	81.11	39.45	70.60	Russell 3000	RU30INTR Index
9.64	-0.39	T	-5.02	-13.07	-5.77	34.30	35.52	103.07	40.98	67.19	S&P 500 Equal Weighted	SPXEWTR Index
-9.10	-11.89	O	-5.04	-17.60	-6.65	22.19	26.04	80.49	42.07	75.48	S&P 500	SPXT Index
-22.08	-12.73	C	-5.79	-26.08	-11.17	11.42	19.62	74.37	44.40	91.17	S&P 500 Growth	SPTRSGX Index
6.08	**-11.71**		**-4.34**	**-8.12**	**-2.64**	**34.07**	**30.39**	**82.31**	**34.71**	**53.75**	**S&P 500 Value**	**SPTRSVX Index**
3.18	1.57	K	-2.26	-13.62	-15.93	-15.06	-12.80	-7.43	-7.84	-2.39	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index
11.63	8.44	S	-1.52	-10.65	-10.56	-11.05	-10.52	-6.40	-2.02	3.96	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index

As of 06.10.22. Source Kovitz using data from Bloomberg

Certainly, there is little about which to crow, given that we are now mired in the 36th correction (a 10% or greater decline) since the launch of *The Prudent Speculator* more than 45 years ago,…

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.

…even as we know that volatility is something which investors must always endure on their way to obtaining sizable long-term rewards.

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%	14.7%	73	310	0.3	5/19/2022	6/2/2022

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%	36	310	0.3	6/2/2022	6/10/2022

From 02.20.28 through 06.10.22. 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	13.2%	25.9%
Growth Stocks	9.6%	21.4%
Dividend Paying Stocks	10.7%	18.0%
Non-Dividend Paying Stocks	9.0%	29.3%
Long-Term Gov't Bonds	5.3%	8.6%
Intermediate Gov't Bonds	4.9%	4.4%
Treasury Bills	3.2%	0.9%
Inflation	3.0%	1.8%

From 06.30.27 through 04.30.22. 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

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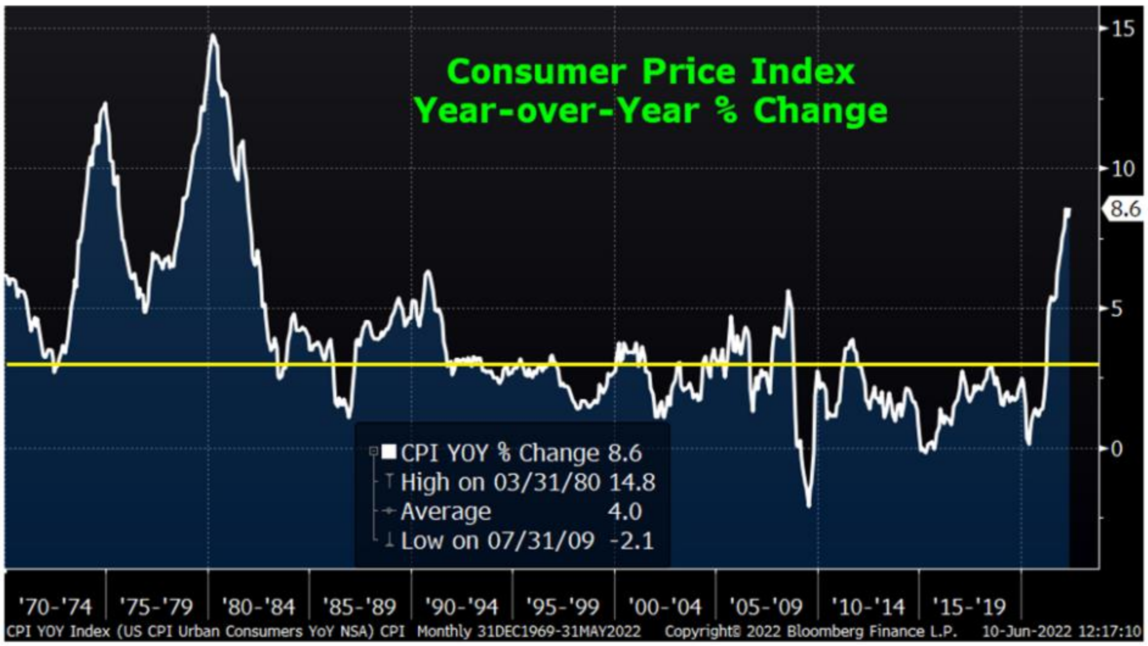
Of course, we understand that the Consumer Price Index in the U.S. came in hotter than expected last month,…

THE PRUDENT SPECULATOR

INFLATION AT THE CONSUMER LEVEL CLIMBS TO A 41-YEAR PEAK

Inflation in the U.S. soared in May, with the Consumer Price Index jumping by 8.6% on a year-over-year basis, though the core rate, which excludes food and energy, rose by “only” 6.0%, with airline fares and home furnishings seeing a modest easing of price pressures.



…though stocks historically have been a good hedge against high CPI readings,…

THE PRUDENT SPECULATOR

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

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

Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	4.2%	2.4%	10.4%	6.0%	25.1%	15.1%
Geometric Average	3.6%	1.8%	8.9%	4.6%	22.2%	12.8%
Median	3.8%	1.7%	6.7%	4.7%	17.7%	12.8%
Max	50.9%	32.9%	82.7%	60.8%	134.0%	64.2%
Min	-19.2%	-27.6%	-26.4%	-35.9%	-20.9%	-30.6%
Count	110	110	110	110	110	110

Source: Kovitz using data from Ibbotson Associates 06.30.27 - 4.30.22.

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%	6.1%	16.4%	12.3%
Geometric Average	3.1%	2.4%	6.2%	4.8%	12.3%	9.4%
Median	4.0%	3.5%	8.0%	6.2%	16.6%	12.8%
Max	200.5%	136.1%	244.7%	140.3%	357.8%	221.9%
Min	-43.1%	-40.4%	-56.1%	-47.0%	-71.3%	-64.8%
Count	1027	1027	1024	1024	1018	1018

Source: Kovitz using data from Ibbotson Associates 06.30.27 - 4.30.22.

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	4.0%	2.9%	8.8%	6.4%	22.4%	17.0%
Geometric Average	3.5%	2.2%	7.7%	4.6%	21.1%	14.4%
Median	4.7%	2.6%	6.9%	6.3%	21.7%	21.2%
Max	39.6%	32.9%	63.0%	60.8%	60.2%	63.4%
Min	-16.5%	-27.6%	-26.4%	-35.9%	-20.9%	-30.6%
Count	63	63	63	63	63	63

Source: Kovitz using data from Ibbotson Associates 03.31.57 - 04.30.22.

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%	2.9%	7.7%	5.8%	15.7%	11.8%
Geometric Average	3.3%	2.4%	6.7%	4.9%	13.7%	9.9%
Median	4.1%	3.3%	8.1%	6.1%	17.2%	12.7%
Max	37.8%	32.5%	68.5%	49.8%	105.8%	93.6%
Min	-39.5%	-34.9%	-54.2%	-41.7%	-52.2%	-48.0%
Count	716	716	713	713	707	707

Source: Kovitz using data from Ibbotson Associates 03.31.57 - 04.30.22.

…with Value having performed very well during the supposedly awful 1965 – 1981 period in which inflation averaged 7% per annum.

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

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

OPINION

The Bitter Fruit of Inflation: Dow 29500

By Arthur Laffer
And Stephen Moore

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

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

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

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

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

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

But investors, like workers, care about their *real* return. Adjusted for inflation, the industrial average (and the S&P 500) fell during that period by more than 70%—the worst 15-year stock performance since the crash of 1929. President Ronald Reagan and Fed Chairman Paul Volcker had to sweat the 11% inflation out of the system through a return to a stable-dollar regime along with supply-side tax cuts that encouraged the production of more goods and services. A bull market ensued, with the Dow Jones Industrial Average rising to more than 30000 between 1982 and 2022. Over that 40-year period inflation averaged a benign 3%—until the arrival of President Biden and the Modern Monetary Theory crowd.

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

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

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

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

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

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

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

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

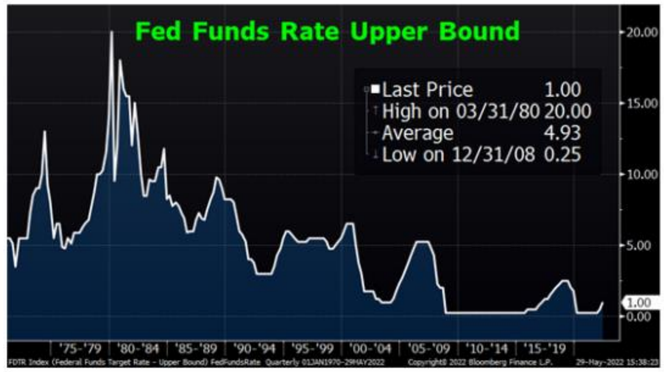
Annualized Returns December 1965 - December 1981	
Inflation	7.0%
IA SBBI US 1 Yr Treasury TR	7.1%
IA SBBI US 30 Day TBill TR	6.8%
IA SBBI US LT Govt Bonds TR	2.5%
IA SBBI US IT Govt Bonds TR	5.8%
IA SBBI US LT Corp Bonds TR	2.9%
FF Growth Stocks TR	7.4%
S&P 500 TR	6.0%
Dow Jones Industrials TR	3.9%
FF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

To be sure, the inflationary shock has folks worried that Jerome H. Powell & Co. will hike the target for the Fed Funds rate numerous times over the balance of the year,…

THE PRUDENT SPECULATOR

FED LIFTOFF HAS BEGUN – INTEREST RATES STILL HISTORICALLY VERY LOW

For the first time since 2000, the Federal Reserve hiked its target for the Fed Funds rate 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 250 or so basis points (2.50%) of increases by year end, though the resulting rate (3.50%) would still be well below the historical upper bound average of 4.93%.



…though history suggests Federal Reserve monetary tightening, on average, provides ammunition in support of Value stocks,…

THE PRUDENT SPECULATOR

FED TIGHTENING – VALUE & DIVIDEND PAYERS THE PLACE TO BE

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

…with rising interest rates generally a reason to hold tight to equities,…

THE PRUDENT SPECULATOR

RISING INTEREST RATES ARE NOT GOOD FOR ~~STOCKS~~ BONDS, ON AVERAGE

Rising Long-Term Government Rates - Annual Returns Review

Name	Value Stocks	Growth Stocks	Dividend Payers	Non-Dividend Payers	Long-Term Corp Bonds	Long-Term Government Bonds	Intermediate-Term Govt Bonds	U.S. Treasury Bills
Arithmetic Average	17.8%	12.5%	11.2%	15.7%	1.0%	-1.0%	2.2%	3.7%
Geometric Average	13.5%	9.4%	9.1%	10.1%	0.8%	-1.1%	2.1%	3.7%
Median	17.0%	12.2%	14.3%	10.9%	1.3%	-0.2%	1.8%	3.3%
Max	126.6%	93.1%	69.8%	88.2%	14.6%	9.2%	9.7%	14.7%
Min	-54.0%	-42.2%	-47.4%	-50.9%	-8.1%	-14.9%	-5.1%	0.0%
Count	46	46	46	46	46	46	46	46

Source: Kovitz using data from Ibbotson Associates SBBI. From 1930 to 2020.

Falling Long-Term Government Rates - Annual Returns Review

Name	Value Stocks	Growth Stocks	Dividend Payers	Non-Dividend Payers	Long-Term Corp Bonds	Long-Term Government Bonds	Intermediate-Term Govt Bonds	U.S. Treasury Bills
Arithmetic Average	15.7%	12.7%	14.3%	11.5%	12.3%	13.4%	8.5%	2.9%
Geometric Average	12.9%	10.5%	12.6%	7.6%	12.0%	13.1%	8.4%	2.9%
Median	16.4%	13.8%	14.9%	12.3%	10.8%	10.7%	7.8%	2.1%
Max	71.1%	48.3%	53.5%	90.5%	42.6%	40.4%	29.1%	10.5%
Min	-43.6%	-37.0%	-34.8%	-48.6%	2.6%	2.8%	1.4%	0.0%
Count	45	45	45	45	45	45	45	45

Source: Kovitz using data from Ibbotson Associates SBBI. From 1930 to 2020.

…and to rethink supposedly safer fixed income exposure.

THE PRUDENT SPECULATOR

REWARD FREE RISK – GERMAN BUNDS

On 8.11.21, Germany issued €5 billion of 10-year bonds with a coupon of 0% in a deal that attracted plenty of "interest" at a price of €104.56. That is not a typo! In order to receive €100 back in 10 years and NO interest along the way, "investors" gladly paid €104.56, locking in a sizable loss if held to maturity. Hoping to lose roughly 0.46% per annum, they must be thrilled with the 36 times expected annual return (the bonds have lost more than 16%) over the past 10 months!

*****

No doubt, folks have grown more worried that a less accommodative Fed will lead to an economic recession, with the odds of a contraction rising,…

THE PRUDENT SPECULATOR

PLENTY OF DOOM & GLOOM TALK, BUT ODDS OF RECESSION NOW 31.5%

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 stand today at 31.5%, a figure that is elevated but the historical average probability has been 21.1%.

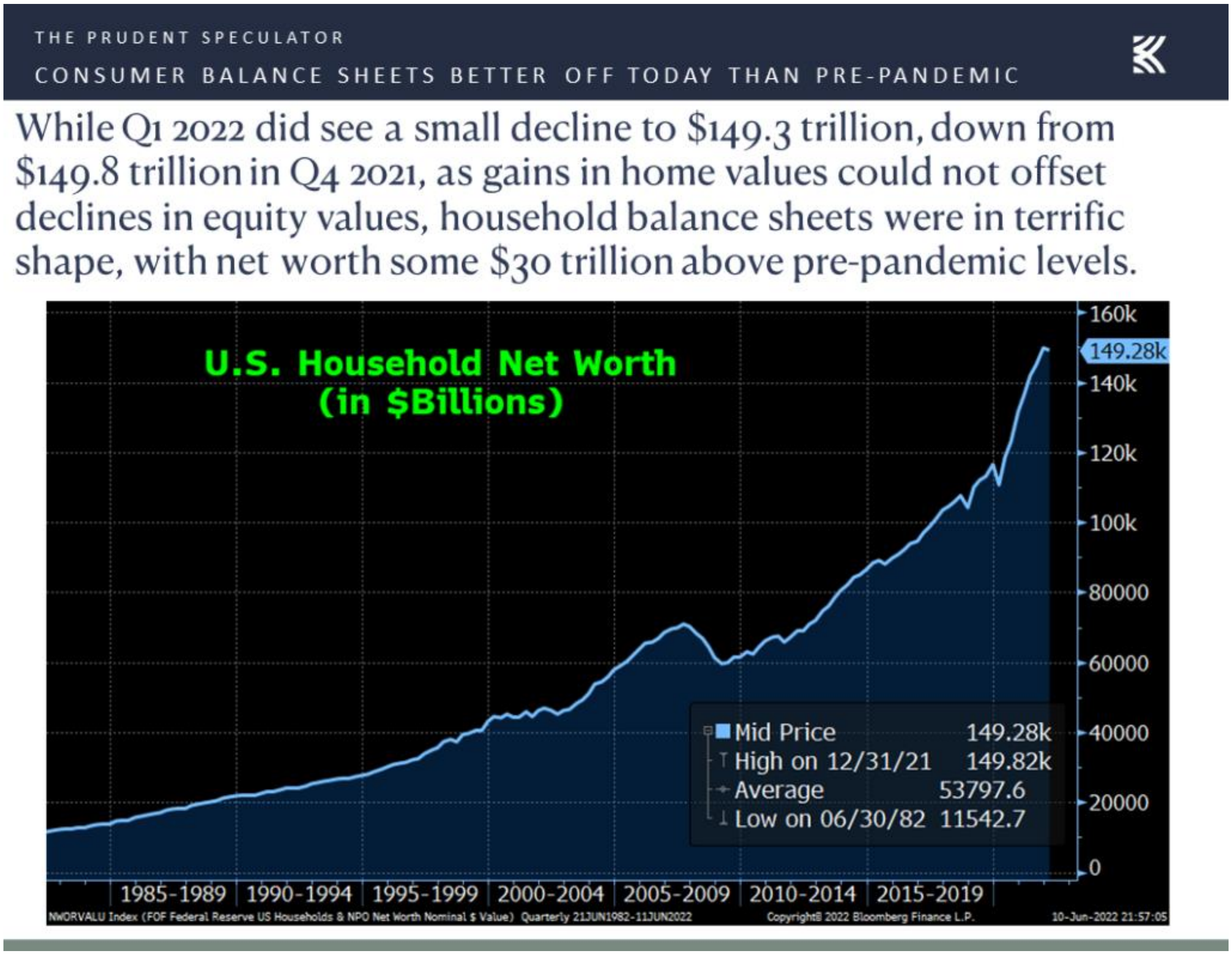
…despite Janet L. Yellen stating last week, “There’s nothing to suggest a recession is in the works.” The U.S. Treasury Secretary conceded that the global economy faces an array of serious threats and that gas prices are unlikely to fall in the near term, but she believes that the U.S. economy remains strong despite rising prices and that a solid labor market,…

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 June 4 were a seasonally adjusted 229,000, up from a revised 202,000 the week prior. Continuing claims filed through state programs held steady at 1.31 million, the lowest level since 1969 as businesses continue to hold onto workers with labor so difficult to obtain.

…and robust household finances should be able to continue to propel consumer spending.



Obviously, anything can happen as we go forward, but a recession in the U.S. or the Globe this year or next was not the in the forecasts released last week by both the World Bank,…

THE PRUDENT SPECULATOR

THE WORLD BANK: 2.5% U.S. & 2.9% WORLD GDP GROWTH NOW PROJECTED

The World Bank
Global Economic Prospects June 2022

TABLE 1.1 Real GDP[1]

	2019	2020	2021e	2022f	2023f	2024f	Percentage point differences from January 2022 projections: 2022f	2023f
World	**2.6**	**-3.3**	**5.7**	**2.9**	**3.0**	**3.0**	**-1.2**	**-0.2**
Advanced economies	**1.7**	**-4.6**	**5.1**	**2.6**	**2.2**	**1.9**	**-1.2**	**-0.1**
United States	2.3	-3.4	5.7	2.5	2.4	2.0	-1.2	-0.2
Euro area	1.6	-6.4	5.4	2.5	1.9	1.9	-1.7	-0.2
Japan	-0.2	-4.6	1.7	1.7	1.3	0.6	-1.2	0.1
Emerging market and developing economies	**3.8**	**-1.6**	**6.6**	**3.4**	**4.2**	**4.4**	**-1.2**	**-0.2**
East Asia and Pacific	5.8	1.2	7.2	4.4	5.2	5.1	-0.7	0.0
China	6.0	2.2	8.1	4.3	5.2	5.1	-0.8	-0.1
Indonesia	5.0	-2.1	3.7	5.1	5.3	5.3	-0.1	0.2
Thailand	2.2	-6.2	1.6	2.9	4.3	3.9	-1.0	0.0
Europe and Central Asia	2.7	-1.9	6.5	-2.9	1.5	3.3	-5.9	-1.4
Russian Federation	2.2	-2.7	4.7	-8.9	-2.0	2.2	-11.3	-3.8
Turkey	0.9	1.8	11.0	2.3	3.2	4.0	0.3	0.2
Poland	4.7	-2.2	5.9	3.9	3.6	3.7	-0.8	0.2
Latin America and the Caribbean	0.8	-6.4	6.7	2.5	1.9	2.4	-0.1	-0.8
Brazil	1.2	-3.9	4.6	1.5	0.8	2.0	0.1	-1.9
Mexico	-0.2	-8.2	4.8	1.7	1.9	2.0	-1.3	-0.3
Argentina	-2.0	-9.9	10.3	4.5	2.5	2.5	1.9	0.4
Middle East and North Africa	0.9	-3.7	3.4	5.3	3.6	3.2	0.9	0.2
Saudi Arabia	0.3	-4.1	3.2	7.0	3.8	3.0	2.1	1.5
Iran, Islamic Rep.[3]	-6.8	3.4	4.1	3.7	2.7	2.3	1.3	0.5
Egypt, Arab Rep.[2]	5.6	3.6	3.3	6.1	4.8	5.0	0.6	-0.7
South Asia	4.1	-4.5	7.6	6.8	5.8	6.5	-0.8	-0.2
India[3]	3.7	-6.6	8.7	7.5	7.1	6.5	-1.2	0.3
Pakistan[2]	3.1	-0.9	5.7	4.3	4.0	4.2	0.9	0.0
Bangladesh[2]	7.9	3.4	6.9	6.4	6.7	6.9	0.0	-0.2
Sub-Saharan Africa	2.6	-2.0	4.2	3.7	3.8	4.0	0.1	0.0
Nigeria	2.2	-1.8	3.6	3.4	3.2	3.2	0.9	0.4
South Africa	0.1	-6.4	4.9	2.1	1.5	1.8	0.0	0.0
Angola	-0.7	-5.2	0.7	3.1	3.3	3.2	0.0	0.5
Memorandum items:								
Real GDP[1]								
High-income countries	1.7	-4.6	5.1	2.7	2.2	2.0	-1.1	-0.2
Middle-income countries	4.0	-1.3	6.8	3.3	4.2	4.5	-1.3	-0.3
Low-income countries	4.8	1.9	3.9	4.1	5.3	5.7	-0.8	-0.6
EMDEs excl. Russian Federation and Ukraine	3.9	-1.5	6.7	4.2	4.5	4.5	-0.5	0.0
EMDEs excl. China	2.5	-4.0	5.6	2.7	3.4	4.0	-1.5	-0.4
Commodity-exporting EMDEs	1.8	-3.8	4.8	1.2	2.6	3.2	-2.1	-0.5
Commodity-exporting EMDEs excl. Russian Federation and Ukraine	1.8	-4.0	4.8	3.7	3.3	3.4	0.3	-0.1
Commodity-importing EMDEs	4.9	-0.4	7.5	4.4	4.9	5.0	-0.8	-0.1
Commodity-importing EMDEs excl. China	3.2	-4.2	6.6	4.6	4.5	4.9	-0.7	-0.1
EM7	4.5	-0.5	7.3	3.3	4.3	4.7	-1.5	-0.4

Following more than two years of pandemic, spillovers from the Russian Federation's invasion of Ukraine are set to sharply hasten the deceleration of global economic activity, which is now expected to slow to 2.9 percent in 2022...Despite the negative shock to global activity in 2022, there is essentially no rebound projected next year: global growth is forecast to edge up only slightly to a still-subdued 3 percent in 2023, as many headwinds—in particular, high commodity prices and continued monetary tightening—are expected to persist.

— The World Bank, June 2022

…and the Organisation for Economic Co-operation and Development.

THE PRUDENT SPECULATOR

OECD – GLOBAL ECONOMY STILL GROWING, BUT MUCH MORE SLOWLY

Prior to the war, the world economy was on track for a strong, albeit uneven, recovery from COVID-19. The conflict in Ukraine and the supply-chain disruptions exacerbated by shutdowns in China due to the zero-COVID policy are dealing a serious blow to the recovery. Global GDP growth is now projected to slow sharply this year, to around 3%, and remain at a similar pace in 2023. This is well below the pace of recovery projected last December. — *OECD, June 2022*

Table 1.1. **Global growth is projected to be subdued**

	Average 2013-2019	2020	2021	2022	2023	2021 Q4	2022 Q4	2023 Q4
				Per cent				
Real GDP growth[1]								
World[2]	3.3	-3.4	5.8	3.0	2.8	4.3	1.9	3.0
G20[2]	3.5	-3.0	6.2	2.9	2.8	4.3	1.9	2.9
OECD[2]	2.2	-4.6	5.5	2.7	1.6	4.8	1.5	1.6
United States	2.4	-3.4	5.7	2.5	1.2	5.5	1.2	0.7
Euro area	1.9	-6.5	5.3	2.6	1.6	4.6	1.2	1.8
Japan	0.8	-4.5	1.7	1.7	1.8	0.3	2.5	0.9
Non-OECD[2]	4.3	-2.3	6.1	3.3	3.8	3.8	2.3	4.2
China	6.8	2.2	8.1	4.4	4.9	3.9	4.9	4.5
India[3]	6.8	-6.6	8.7	6.9	6.2			
Brazil	-0.4	-4.2	5.0	0.6	1.2			
OECD unemployment rate[4]	6.5	7.1	6.2	5.2	5.3	5.5	5.3	5.3
Inflation[1]								
G20[2,5]	3.0	2.8	3.8	7.6	6.3	5.0	7.8	5.8
OECD[6,7]	1.7	1.5	3.7	8.5	6.0	5.2	8.9	5.2
United States[8]	1.4	1.2	3.9	5.9	3.5	5.5	5.1	2.8
Euro area[8]	0.9	0.3	2.6	7.0	4.6	4.6	6.8	3.9
Japan[9]	0.9	0.0	-0.2	1.9	1.9	0.5	2.4	1.6
OECD fiscal balance[10]	-3.2	-10.4	-7.4	-5.0	-3.8			
World real trade growth[1]	3.4	-8.1	10.0	4.9	3.9	8.5	2.6	4.1

United States: Demand, output and prices

United States	2018	2019	2020	2021	2022	2023
	Current prices USD billion	Percentage changes, volume (2012 prices)				
GDP at market prices	20 527.2	2.3	-3.4	5.7	2.5	1.2
Private consumption	13 913.5	2.2	-3.8	7.9	3.1	1.1
Government consumption	2 869.4	2.0	2.0	1.0	-0.1	1.8
Gross fixed capital formation	4 281.7	3.1	-1.5	6.1	2.8	2.6
Final domestic demand	21 064.6	2.4	-2.5	6.5	2.6	1.5
Stockbuilding[1]	58.7	0.1	-0.5	0.3	1.0	0.0
Total domestic demand	21 123.3	2.4	-3.0	6.9	3.5	1.5
Exports of goods and services	2 533.5	-0.1	-13.6	4.5	3.6	3.9
Imports of goods and services	3 129.7	1.2	-8.9	14.0	9.6	3.2
Net exports[1]	- 596.2	-0.2	-0.3	-1.4	-1.0	-0.1
Memorandum items						
GDP deflator	_	1.8	1.2	4.2	6.4	3.6
Personal consumption expenditures deflator	_	1.5	1.2	3.9	5.9	3.5
Core personal consumption expenditures deflator[2]	_	1.7	1.4	3.3	4.7	3.1
Unemployment rate (% of labour force)	_	3.7	8.1	5.4	3.6	3.8
Household saving ratio, net (% of disposable income)	_	7.6	16.6	12.3	6.4	7.0
General government financial balance (% of GDP)	_	-6.4	-15.4	-11.8	-6.7	-5.3
General government gross debt (% of GDP)	_	108.6	134.1	127.6	126.1	126.8
Current account balance (% of GDP)	_	-2.2	-2.9	-3.6	-4.2	-4.3

1. Contributions to changes in real GDP, actual amount in the first column.
2. Deflator for private consumption excluding food and energy.
Source: OECD Economic Outlook 111 database.

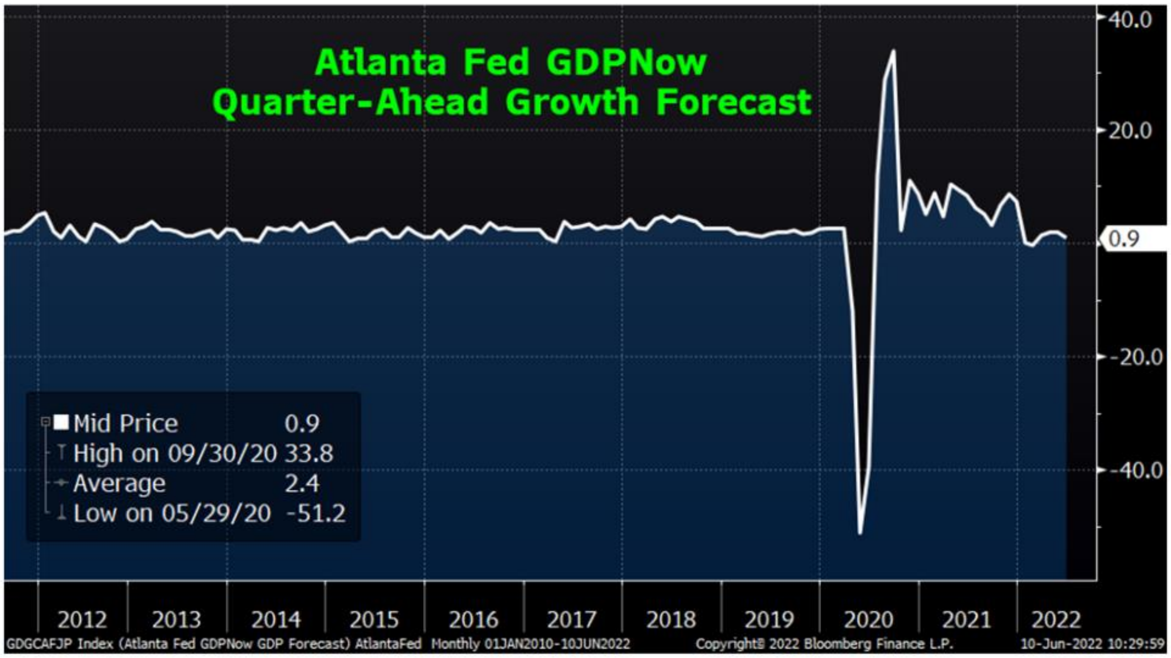
Europe would seem to be in the most danger of recession, but Christine Lagarde, President of the European Central Bank, said last week, "Russia's unjustified aggression towards Ukraine continues to weigh on the economy in Europe and beyond. It is disrupting trade, is leading to shortages of materials and is contributing to high energy and commodity prices. These factors will continue to weigh on confidence and dampen growth, especially in the near term. However, the conditions are in place for the economy to continue to grow on account of the ongoing reopening of the economy, a strong labour market, fiscal support and savings built up during the pandemic. Once current headwinds abate, economic activity is expected to pick up again. This outlook is broadly reflected in the Eurosystem staff projections, which foresee annual real GDP growth at 2.8 per cent in 2022, 2.1 per cent in 2023 and 2.1 per cent in 2024. Compared with the March projections, the outlook has been revised down significantly for 2022 and 2023, while for 2024 it has been revised up."

To be sure, the near-term economic outlook is suspect,…

THE PRUDENT SPECULATOR

Q2 U.S. GDP GROWTH PROJECTION DECLINED 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 0.9%.



…but we take comfort in the historical recession and equity return figures should the predictions presented above turn out to be inaccurate.

THE PRUDENT SPECULATOR

EQUITY RETURNS AND RECESSIONS (PRE AND POST) – FAMA FRENCH VALUE

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%	30.6%	August 1929	-32.6%	-32.0%	-73.5%	-65.1%	-71.1%	-61.7%	-58.0%	-48.4%	303020%	7691191%
18.2%	42.0%	May 1937	-39.3%	-55.8%	-33.2%	-55.0%	-32.5%	-44.7%	53.7%	140.3%	563117%	7280957%
26.3%	56.8%	February 1945	26.0%	42.0%	12.0%	28.6%	64.3%	75.6%	379.2%	469.5%	405852%	3545492%
4.0%	4.8%	November 1948	19.2%	12.2%	101.8%	109.3%	145.2%	130.8%	542.0%	586.7%	329652%	2567450%
3.1%	4.7%	July 1953	31.9%	25.4%	128.9%	118.2%	136.5%	138.6%	308.5%	385.1%	136206%	1075797%
-1.2%	-0.3%	August 1957	10.0%	16.6%	40.2%	55.8%	55.1%	79.0%	188.9%	421.8%	62545%	508225%
-2.4%	-6.3%	April 1960	24.2%	29.5%	41.7%	51.9%	92.4%	130.9%	107.7%	270.1%	47101%	343527%
-8.4%	-20.9%	December 1969	3.9%	8.7%	41.4%	39.8%	-11.3%	-7.6%	77.0%	264.4%	20274%	86989%
-15.2%	-19.4%	November 1973	-23.8%	-14.8%	20.8%	77.2%	23.7%	142.2%	182.3%	716.8%	17128%	76043%
20.6%	30.5%	January 1980	19.5%	12.5%	49.5%	81.1%	102.4%	183.6%	342.4%	480.0%	10738%	21990%
13.0%	23.2%	July 1981	-13.3%	-0.7%	34.0%	78.2%	127.9%	199.8%	343.5%	405.4%	8653%	17224%
6.5%	-7.2%	July 1990	12.7%	10.0%	38.2%	75.2%	83.2%	125.3%	407.4%	436.7%	2124%	3670%
-21.7%	22.3%	March 2001	0.2%	13.1%	1.9%	34.3%	21.4%	83.7%	38.3%	85.6%	436%	492%
5.6%	-8.0%	December 2007	-37.0%	-36.5%	-8.3%	-7.8%	8.6%	4.2%	125.8%	116.4%	277%	214%
8.2%	-9.6%	February 2020	31.3%	39.0%							45%	65%
7.2%	**9.5%**	**Averages**	**2.2%**	**4.6%**	**28.2%**	**44.4%**	**53.3%**	**84.3%**	**217.0%**	**337.9%**	**127144%**	**1547955%**

Through 4.29.22.TR = Total Return. FF Value = Value Weighted Book to Market Portfolios - Blend of Small Value and Big Value.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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We do find it fascinating, and exciting from a contrarian perspective, to see the record-high level of pessimism currently being shown by consumers,…

RECORD LOW CONSUMER SENTIMENT, AND THAT COULD BE A GOOD THING

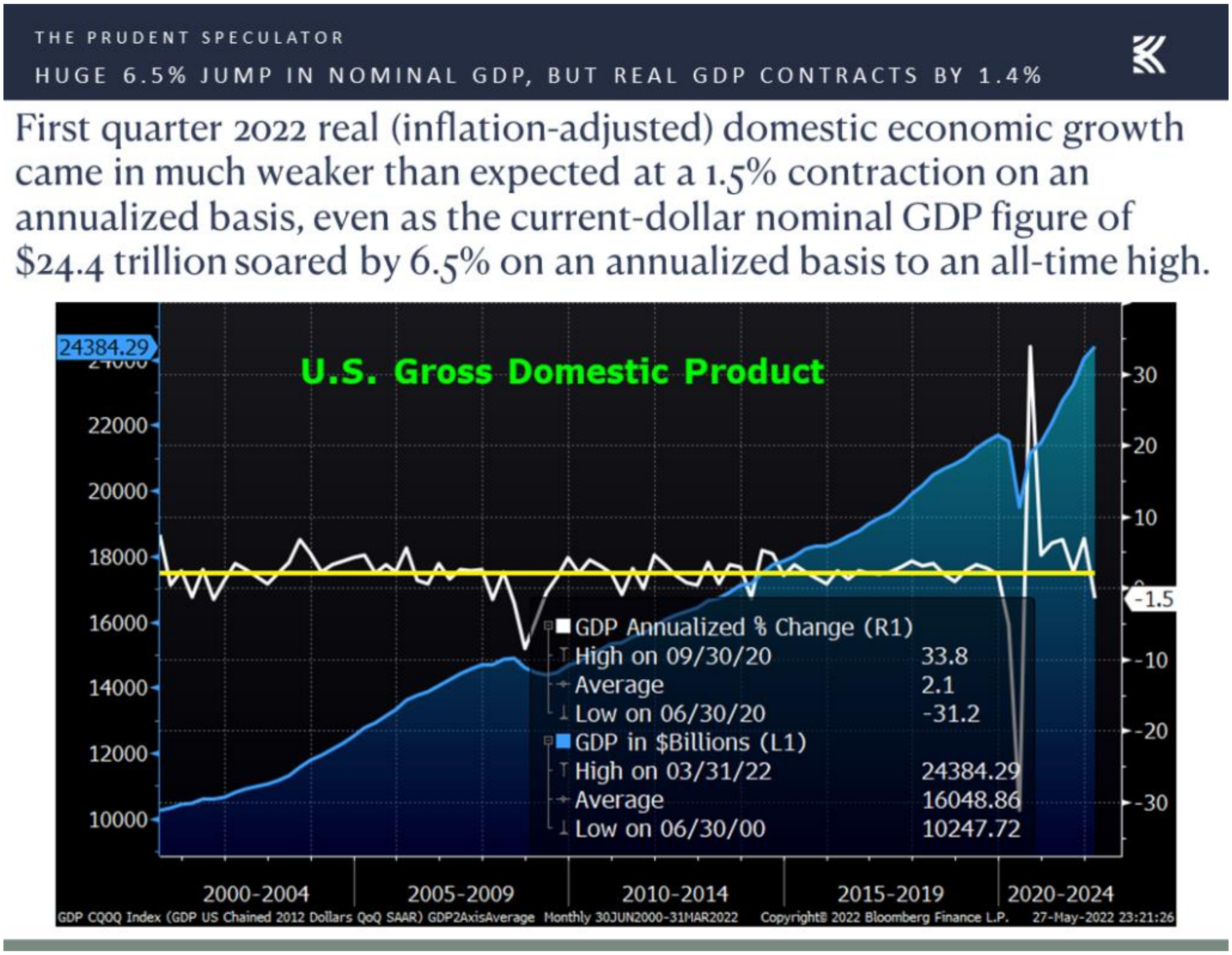
University of Michigan Consumer Sentiment
Cyclical Lows & Subsequent Equity Returns

Cyclical Low	U of M Sent.	1 Year SPX TR	1 Year Value TR	3 Year SPX TR	3 Year Value TR	5 Year SPX TR	5 Year Value TR	10 Year SPX TR	10 Year Value TR
May-80	51.7	25.2%	34.5%	70.8%	128.6%	118.2%	227.7%	395.6%	537.8%
Mar-82	62.0	44.3%	54.5%	86.5%	129.5%	224.0%	276.0%	431.0%	503.6%
Nov-87	83.1	23.3%	32.0%	55.7%	31.1%	121.8%	124.2%	455.1%	545.8%
Oct-90	63.9	33.4%	41.2%	68.6%	129.6%	121.4%	191.0%	490.0%	619.1%
Sep-01	81.8	-20.5%	-13.6%	12.6%	40.7%	40.0%	98.9%	32.0%	48.6%
Mar-03	77.6	35.1%	67.5%	61.0%	129.0%	71.0%	116.0%	126.8%	176.2%
Nov-08	55.3	25.4%	22.3%	48.6%	34.0%	124.8%	135.2%	280.7%	246.4%
Aug-11	55.8	18.0%	34.8%	75.4%	54.8%	98.3%	102.0%	353.7%	230.4%
Jun-22	50.2								
		23.0%	**34.1%**	**59.9%**	**84.7%**	**114.9%**	**158.9%**	**320.6%**	**363.5%**

Through 4.29.22. TR = Total Return. SPX = S&P 500. Value = Value Weighted Book to Market Portfolios - Blend of Small Value and Big Value.
Source: Kovitz Investment Group using data from Bloomberg, Professors Eugene F. Fama & Kenneth R. French and the Univ. of Michigan

Incredibly, the latest read on the Univ. of Michigan's Consumer Sentiment gauge was the most pessimistic in its history...worse than when inflation was in the double-digits in the early '80's...and after the Crash of '87...and after the Gulf War Meltdown of '90... and after 9/11...and at the end of the Tech Wreck... and during the Great Financial Crisis...and after the downgrade of the U.S. credit rating. Believe it or not, the prior 8 cyclical lows, on average, proved to be great times for long-term-oriented investors to be adding to their (Value) equity exposure.

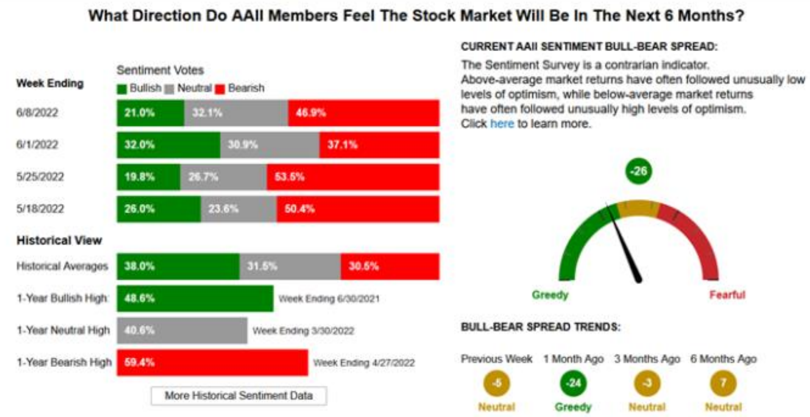
…especially given the all-time-high nominal U.S. GDP turned in last quarter and the likelihood that both nominal and real GDP will rise this quarter.



We also note that investors are not feeling optimistic, which is another positive from a contrarian perspective,…

THE PRUDENT SPECULATOR

MAJOR AAII CONTRARIAN BUY SIGNAL: BULL-BEAR SPREAD = -25.9



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 = 7.62										
BELOW	-54.0	7.6	909	0.24%	0.21%	1.16%	1.03%	3.50%	3.11%	6.84%	6.09%
ABOVE	7.7	62.9	908	0.17%	0.15%	0.54%	0.45%	1.98%	1.73%	4.72%	4.24%
	Ten Groupings of 1816 Data Points										
1	-54.0	-16.0	182	0.49%	0.43%	1.97%	1.74%	5.39%	4.86%	9.89%	8.70%
2	-15.9	-8.0	184	0.32%	0.29%	0.96%	0.82%	3.47%	3.08%	6.72%	5.94%
3	-8.0	-1.9	179	0.26%	0.23%	1.41%	1.31%	3.37%	2.98%	7.47%	6.82%
4	-1.9	3.0	198	0.13%	0.10%	1.03%	0.94%	2.94%	2.58%	6.05%	5.52%
5	3.0	7.6	165	0.00%	-0.03%	0.38%	0.27%	2.21%	1.95%	3.81%	3.27%
6	7.6	12.0	191	0.13%	0.11%	0.60%	0.49%	1.95%	1.71%	5.42%	5.02%
7	12.0	16.2	173	0.19%	0.17%	0.54%	0.44%	2.31%	2.06%	4.93%	4.39%
8	16.3	22.0	194	0.18%	0.17%	0.82%	0.75%	2.19%	1.92%	6.01%	5.60%
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 06.09.22. 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 21.0% and the number of Bears residing at 46.9% is a major positive. The minus 25.9% Bull-Bear spread is in a most favorable (i.e. highest future returns) 1st decile of the weekly figures going back to 1987.

…with it always puzzling why folks would be much more excited about future equity market prospects the week prior when stock prices were 5% higher, especially with corporate profits still expected to show solid growth,…

THE PRUDENT SPECULATOR

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

Q1 earnings reporting season generally was terrific in terms of the results, even as many stocks sold off sharply on the news. And, while analysts are sometimes overly optimistic in their forecasts, EPS estimates for 2022, 2023 and 2024 call for significant growth versus 2021.

S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2023	$65.36	$247.86
9/30/2023	$63.53	$243.12
6/30/2023	$60.56	$238.78
3/31/2023	$58.41	$233.26
12/31/2022	$60.62	$224.23
9/30/2022	$59.19	$220.34
6/30/2022	$55.04	$213.17
3/31/2022	$49.38	$210.18
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 6.9.22

…and valuations remaining very reasonable.

THE PRUDENT SPECULATOR

INTEREST RATES STILL SUPPORTIVE OF STOCKS

The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. Though many dismiss the Fed Model, investing is always a choice of this or that, and we like today's rich (and rising) earnings yield (5.13% vs. 3.16% 10-Year) and S&P 500 dividend yield of 1.64%.

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Not surprisingly, we remain optimistic about the long-term prospects of 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	12.2	10.8	0.9	2.2	2.6
ValuePlus	13.0	11.0	1.2	2.2	2.3
Dividend Income	11.8	11.0	0.8	2.1	3.1
Focused Dividend Income	13.5	12.1	1.1	2.4	2.7
Focused ValuePlus	12.3	12.2	1.3	2.5	2.5
Small-Mid Dividend Value	10.1	9.3	0.5	1.5	2.8
Russell 3000	20.7	17.3	2.2	3.6	1.6
Russell 3000 Growth	28.1	23.2	3.4	9.0	0.9
Russell 3000 Value	16.7	14.1	1.6	2.3	2.2
Russell 1000	19.9	17.2	2.3	3.7	1.6
Russell 1000 Growth	26.6	22.7	3.8	9.8	0.9
Russell 1000 Value	16.2	14.1	1.7	2.4	2.2
S&P 500 Index	19.5	17.1	2.4	3.9	1.6
S&P 500 Growth Index	22.3	20.2	4.2	7.1	0.9
S&P 500 Value Index	17.5	15.0	1.7	2.8	2.3
S&P 500 Pure Value Index	11.2	9.8	0.7	1.4	2.6

As of 06.11.22. 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.

…even as we must be braced for additional near-term downside, noting that the equity futures on Sunday evening were suggesting that the Bear Market (down 20%) thresholds for the S&P 500 of 3837 (closing basis) and 3855 (intraday basis) were both in danger of being breached when trading resumes this week.

Keeping the long-term faith is the thrust of the virtual presentation your Editor will be making this morning as part of the *Ben Graham IX Annual Conference*, where the baker's dozen of stocks below will be highlighted,…

“People who are comfortable with their investments will, on average, achieve better results than those who are motivated by ever-changing headlines, chatter and promises.”

— Warren Buffett

Sample TPS Selections

Symbol	Common Stock	06.10.22 Price	Target Price	Sector	P/E	P/S	P/TBV	ROCE	EV/ EBITDA	FCF Yld	Debt/ TE (%)	Div Yld	Mkt Cap
CFG	Citizens Financial	$36.59	$72.17	Banks	7.3	nmf	1.4	9.9	nmf	nmf	nmf	4.2%	18,401
DPSGY	Deutsche Post AG	$36.99	$78.14	Transportation	11.8	0.5	6.2	27.4	4.9	13.3	249%	3.7%	45,473
FL	Foot Locker	$29.77	$63.00	Retailing	4.0	0.3	1.4	26.9	5.6	-0.4	139%	5.3%	2,837
HPE	Hewlett Packard Enter	$14.23	$21.38	Technology Hardware	8.3	0.7	13.7	20.0	7.6	8.5	661%	3.4%	18,483
IP	International Paper	$45.00	$69.06	Materials	11.4	0.8	3.0	21.2	7.0	8.4	104%	4.1%	16,712
MAN	ManpowerGroup	$82.85	$149.60	Commercial & Pro Services	10.3	0.2	16.6	16.8	6.0	11.2	308%	3.3%	4,406
OMC	Omnicom Group	$67.99	$106.04	Media & Entertainment	10.3	1.0	nmf	37.9	7.4	8.1	nmf	4.1%	13,921
PFE	Pfizer	$49.97	$71.91	Pharma, Biotech	9.7	3.0	nmf	33.1	10.0	11.3	1487%	3.2%	282,840
PRU	Prudential Financial	$98.39	$142.27	Insurance	6.9	nmf	0.9	9.4	nmf	nmf	nmf	4.9%	37,027
TSN	Tyson Foods	$84.14	$119.24	Food, Beverage & Tobacco	8.3	0.6	14.7	23.2	5.6	8.8	400%	2.2%	30,468
TTE	TotalEnergies SE	$57.72	$103.21	Energy	6.5	0.8	1.7	15.6	4.4	12.4	50%	4.0%	150,271
QCOM	Qualcomm	$133.20	$230.75	Semiconductors	12.2	3.8	31.0	107.5	10.6	4.8	254%	2.3%	149,027
WHR	Whirlpool	$164.35	$306.65	Consumer Durable	6.5	0.4	67.4	37.8	5.0	10.9	3963%	4.2%	9,321

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.

Target (TGT – $149.67) announced updated guidance last week for Q2 and the rest of 2022, which management expects will be impacted by plans to clear excess inventory and add capacity for storage and distribution. The retailer’s plans include the addition of incremental holding capacity near U.S. ports and 5 distribution centers over the next two fiscal years. The release also noted shifting consumer purchase trends from discretionary items like home furnishings that were popularly throughout the pandemic to food, beverage and other essentials, along with beauty products.

CEO Brian Cornell said, "Target's business continues to generate healthy increases in traffic and sales, despite sustained volatility in the macro environment, including shifting consumer buying patterns and rapidly changing operating conditions. Since we reported our first quarter results, we have continued to monitor external conditions and have determined the necessary actions to remain nimble in the current environment. The additional steps we are announcing today will ensure that we deliver for our guests while driving further growth. While these decisions will result in additional costs in the second quarter, we're confident this rapid response will pay off for our business and our shareholders over time, resulting in improved profitability in the second half of the year and beyond."

Though the stock had already been severely punished when Q1 earnings were announced, shares skidded another 7% last week. Target is hardly the only major big-box retailer to identify inventory challenges of late, which have been exacerbated by the tardy onset of warmer weather. Management now expects an operating margin for Q2 of 2%, which is much lower than the 5.6% goal suggested on the firm's quarterly conference call last month, but the measure is anticipated to breach 5% in the second half of 2022.

Trims to some of our positions last year at $197 and $253 in January and July appear well timed, and given the recent carnage, we have taken action to bring up many underweight portfolios to a full weighting. We think the considerable appeal Target holds for consumers remains intact even as shifting consumer sentiment and supply issues weigh in the near term. Illustrative of management's confidence in the future, Target announced a 20% hike in the quarterly dividend last week, pushing the yield up to 2.9%. Our Target Price for TGT is now $253.

The M&A saga continues for **Kohl's** (KSS – $45.75). The drama began in January this year as activist investors began touting interest in the omnichannel specialty retailer. The latest twist involves a prospective deal announced this past Monday with Vitamin Shoppe operator Franchise Group. The potential buyer has offered $60.00 per share and has entered exclusive negotiations with Kohl's for a 3-week period. The current arrangement is non-binding but is intended to allow Franchise Group, which has reportedly secured $2 billion of financing from Apollo Global, time to perform due diligence.

Lots of pessimism for a deal apparently persists with the current price tag for shares now well below a 5-handle, even as management publicized their own valuation estimate for the firm of at least $70 after engaging with **Goldman Sachs** (GS – $287.02) to shop the retailer. Indeed, an offer of that amount was reportedly on the table as recently as April, as a trio including private equity and activist hedge funds had expressed interest, albeit followed by complaints about the availability of information for due diligence purposes. And Street analysts even warned last week that a deal would likely take months to close (which would, in reality, be record time, and hardly a concern), although a KSS sale has theoretically been a possibility now going on five months.

While we feel at this point that a transaction is more likely than not, we reiterate our position from two weeks ago: Acknowledging that Kohl's has many battles to work through – activist investor pressure, management changes, inflation and deteriorating consumer dynamics – we think that investors with a longer-term view might find that the company has multiple opportunities to realize shareholder value, whether it continues as a stand-alone or through a corporate action. It has been difficult to handicap which buyout stories are credible (or material) and which are not, so we have generally excluded them from our long-term expectations, though that may change at any time as new information becomes available. We consider Kohl's to be substantially discounted from its intrinsic value, as is evident by our $70 Target Price. KSS yields 4.4%.

Shares of **Intel** (INTC -$39.18) sank nearly 10% last week after CFO Dave Zisner's comments at the *Bank of America Securities 2022 Global Technology Conference* added to investor worries. The chip maker's finance chief said, "I think on the macro side, clearly, [demand is] weaker. And we, like everyone else, will be impacted by the macro events that are unfolding here more recently. That's clearly going to impact us, as it will virtually everybody else in not only the semiconductor industry but globally in terms of corporations. For us, the other thing was we had three kinds of headwinds coming into the quarter, which we talked about. One was the match set issue where customers could not get enough components to build product. That was we expected to impact demand. The second was inventory. We expected customers to reduce their inventory levels, which would impact their demand on us. And then there was the China, Shanghai closure and we expected that to open up in early May. And it takes time to get back to normal but get back to normal on a relatively quick fashion. I think in all three cases, the circumstances at this point are much worse than what we had anticipated coming into the quarter."

Looking further out, Mr. Zisner explained, "I think when you look at it over the long-term though, semiconductor industries have cycles to them. Every company within the semiconductor industry has a slightly different cycle to them, and that's how we're used to managing through those things…I feel really good about our opportunity to hit the model within the time frame we talked about. I feel good about the growth rate moving to this 10% to 12% by '25 to '26. Margins to be back towards the higher end of our range of 54% to 58%. We expect to have good cash flow once we've made the necessary investments over the next three years. One of the more positive things that has also happened over the last four or five months is our capital offset, the smart capital strategy that we talked about at Investor Day is actually going pretty well…We're going to go through some choppiness for sure in the near term as everyone else will as well. And what we've got to do is kind of keeps our heads down and drive the business, execute to the plan and things will have a good outcome for us."

The sour mood seemed to catch some analysts by surprise, which we find surprising given INTC's recent comments have indicated the company is definitely not out of the restructuring woods. Plus, we have not been shy to bemoan Intel's manufacturing difficulties in recent years, while CEO Pat Gelsinger's turnaround plans to have yet to gain steam. Chip making is capital-intensive and it takes time for the first chips to roll off the production line. We think it's worth cutting INTC management a little more slack to get the house in order. Intel's business risk is certainly above-average for our portfolios, but we think its return profile more than compensates for that above-average risk. We continue to like the valuation (11.5 times forward earnings and 3.7% dividend yield), the direction and potential. Our Target Price is now $64.

Judging by the stock price chart alone, one would be forgiven for having mistaken shares of **Deutsche Post AG** (DPSGY – $36.99) for one of many high-flying growth names that have seemingly encountered gravity in 2022. Incredibly, shares have shed more than 40% of their value, even as the German letter and parcel carrier is primed to produce EUR 8 billion of operating profit this year. Such a result would eclipse the banner performance in 2021 by a hair. While careful not to dismiss challenges to the global economy from tight labor, roaring energy costs and others, management was rather upbeat at the firm's annual shareholder meeting last month as it expects larger and heavier B2B shipments and continued strong E-Commerce growth and cross-border optimization to boost results.

CEO Frank Appel then claimed, "At the beginning of this week, we announced the figures for our first quarter, which was better than the first quarter of the past year, even though that was a record as well. And we also confirmed our guidance at the beginning of the week. We believe that our targets are still attainable, and we believe that we can maintain the high level of profits that we've already achieved. Possibly, we can even go beyond that. But we always need to look ahead."

He added, "We want to push ahead with digitization. We will continue to focus on our core business. And this strategy was launched at the right time, and it proved to be the right strategy. So let me just shed some light on some of the aspects of our strategy, which are of particular importance. First of all, this strategy and our financial power make it possible for us to keep on investing. And that's important because there's still a crisis and it may become even harder to deal with it, but we have the financial power to keep on investing in our business."

Of course, some level of normalization is likely in the near term (for example, Express segment profits in 2021 were more than what was generated by the whole firm before the pandemic), especially as the European Central Bank is now on course for rate hikes in 2022 and many worry that Europe is headed for recession. We contend, however, that the latest pessimism is overdone with shares trading for a massive discount to their long-term average forward P/E ratio. The American Deposit Receipt offers a net dividend yield of 3.7% and our Target Price is $76.

Even as shares have skidded from their April high, the outlook for **Nutrien** (NTR – $86.46) has brightened further as the Russian invasion of Ukraine continues to impact the supply of fertilizer around the globe. The Canadian producer of crop nutrients announced last week that it aims to boost production to 118 million tonnes by 2025 to fill a massive supply gap and as countries reevaluate global trade patterns to solidify the reliability of their supply sources. As we have previously noted, Russia and neighboring Belarus are the second and third largest producers of potash after Canada, and Nutrien CEO Ken Seitz has suggested that the former two countries were expected to account for 60% of the world's supply of the nutrient over the next five years.

This decision to boost production is certainly a major one and will leave Nutrien needing to replenish its own nutrient sources. Management says it is currently looking for ways to produce more nitrogen through green- and brownfield expansions. CFO Pedro Farah suggested the payoff for these moves makes sense if the market is supportive of current prices for one to one-and-a-half years.

Given the constructive environment, management announced at the firm's *Investor Day* last week that it would buy back an additional $2 billion of stock in 2022, on top of the $2 billion in repurchases announced in February. These actions bring projected capital to be returned to shareholders close to $5 billion including dividends.

We acknowledge that commodity prices often swing wildly. Nevertheless, we have also believed for some time that long-term trends in agriculture are favorable, irrespective of global conflict, and we continue to doubt that the confluence of global events will resolve in the near term. Nutrien raised its EBITDA guidance to between $14.5 billion and $16.5 billion, more than double the year-ago period. The dividend yield is 2.2% and our Target Price now stands at $130.