Market Commentary Monday, July 18, 2022

July 18, 2022

EXECUTIVE SUMMARY

Sentiment – Conditions Not as Bad As People Seem to Think
Market Week – Friday Rally, but Red Five Days
Inflation – Equities Historically a Good Hedge
Recession – Odds Rising, but Stocks Historically Have Performed OK in Economic Contractions
Yield Curve Inversion – Historically a One-Year Buy Signal, on Average for the S&P 500
Economy – Better-than-Expected Retail Sales
Corporate Profits – Solid EPS Growth Still the Forecast
Valuations – Value Stocks Attractively Priced
Dividends – Two Dozen High-Yielding *TPS* Stocks
Stock News – Updates on GBX, BASFY, COHU, DAL, BLK, BK, PNC, C, MS & JPM

Market Review

While we often fault the media for sensational eyeball-grabbing headlines and unbalanced reporting, every now and again we come across a story that seems to make a lot of sense. A recent feature in *The New York Times* offered perspective on the question, "Is the World Really Falling Apart, or Does it Just Feel that Way?" This is particularly timely given the all-time-low consumer sentiment reading in June (there was a slight improvement for the preliminary July figure) from the University of Michigan.

THE PRUDENT SPECULATOR

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	50.0								
		23.0%	34.1%	59.9%	84.7%	114.9%	158.9%	320.6%	363.5%

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

The latest read on the Univ. of Michigan's Consumer Sentiment gauge was better than expected, rebounding a tad from the most pessimistic in its history the month prior. Incredibly, folks are more downcast 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.

To be sure, the Michigan numbers go back only to 1978 and we are not suggesting that there is nothing about which to be concerned, while conditions could deteriorate, but if we are truly objective, it is easy to see that history has been filled with many even more disconcerting periods than what we are presently facing.

THE PRUDENT SPECULATOR

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

No doubt, there is plenty about which to worry today, including the war in Ukraine, supply-chain disruptions, inventory management woes, corporate-profit question marks, higher inflation readings and the increased risk of recession, not to mention comments and actions from the Federal Reserve, but history is filled with plenty of frightening events, yet equities have provided handsome rewards…for those who stick with them.

"Supposing a tree fell down, Pooh, when we were underneath it?"

"Supposing it didn't," said Pooh.

After careful thought, Piglet was comforted by this.

Event	Reaction Dates		S&P Start Value	S&P End Value	Event Gain/Loss	12 Months Later	36 Months Later	60 Months Later	Event End thru Present
Pearl Harbor	12/6/1941	12/10/1941	9.32	8.68	-7%	8%	51%	76%	44406%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	25654%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	23047%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	8966%
Suez Canal Crisis	10/30/1956	10/31/1956	46.37	45.58	-2%	-10%	26%	51%	8376%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	9811%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	7122%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	5450%
MLK Assassination	4/3/1968	4/5/1968	93.47	93.29	0%	8%	8%	16%	4041%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	5021%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	4092%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	5420%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	3572%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	3833%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	3134%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	2286%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	1478%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	1618%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	1122%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	926%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	838%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	771%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	745%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	665%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	341%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	303%
Clinton Impeachment	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	214%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	188%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	300%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	322%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	254%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	223%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	471%
Price Changes Only - Does Not Include Dividends				**Averages:**	**-7%**	**18%**	**39%**	**66%**	**5303%**

As of 7.15.22. Source: Kovitz using Bloomberg and Ned Davis Research Events & Reaction Dates

Of course, the media does deserve some of the blame for the sour mood of the country. As the *Times* article stated:

And thanks to the internet, with news consumption far greater than it once was, even those who live far from crises now live in a digital world of constant, dire updates. A major story, like a mass shooting or the war in Ukraine, can feel ever-present in our lives.

If your social media feeds and home screens serve up a steady stream of calamities, they can feed an overwhelming — if sometimes misplaced — sense of threat, as if the world itself were caving in.

However, with the understanding that the *Times* piece was on the front page, not the business page, and was likely written in response to President Biden's low approval ratings, we agree that the extreme pessimism pervasive today is overdone. Again, we are not arguing that everything is rosy, as there are plenty of very real issues facing the nation and investors, but we believe that the equity markets have discounted a lot of bad news that may not materialize with the punishment inflicted on many a stock not fitting the crime.

PERSPECTIVE: BY MOST MEASURES, PEOPLE ARE BETTER OFF THAN EVER

The New York Times

By Max Fisher

July 12, 2022

THE INTERPRETER

Is the World Really Falling Apart, or Does It Just Feel That Way?

By most measures — with one glaring exception — people around the world are better off than ever. So why doesn't it feel that way, especially to Americans?

Has the world entered a time of unusual turbulence, or does it just feel that way?

Scanning the headlines, it's easy to conclude that something has broken. The pandemic. Accelerating crises from climate change. Global grain shortage. Russia's war on Ukraine. Political and economic meltdown in Sri Lanka. A former prime minister's assassination in Japan. And, in the United States: inflation, mass shootings, a reckoning over Jan. 6 and collapsing abortion rights.

That sense of chaos can be difficult to square with longer-term data showing that, on many metrics, the world is generally becoming better off.

War is rarer today, by some measures, than it has been for most of the past 50 years — and, when it does occur, is significantly less deadly. Genocides and mass atrocities are less common all the time, too. Life expectancy, literacy and standards of living have all risen to historic highs.

Also steadily declining in recent decades: hunger, child mortality, and extreme poverty, liberating hundreds of millions from what are, by sheer numbers, among the pre-eminent threats facing humanity.

When people express that they're feeling as if the world is falling apart, they are not talking about long-view metrics like life expectancy. Rather, they tend to sense that humanity is besieged by upheaval and emergencies to a degree that it has not been before.

But there is an argument, albeit one that would only comfort an economist, that today's crises are both rarer and less severe than those of even the recent past.

Consider the mid-1990s, a time that Americans tend to remember as one of global stability and optimism. If today were really a time of exceptional turmoil, then surely that world would look better in comparison?

In reality, the opposite is true. The mid-1990s saw genocides in Rwanda and Bosnia. Years of war in Europe amid Yugoslavia's collapse. Devastating famines in Sudan, Somalia and North Korea. Civil wars in over a dozen countries. Crackdowns and coups too numerous to mention.

Such events were in fact more common in the 1990s than today. Prior decades were, in most ways, even worse.

After all, while the major market averages enjoyed a big rally on Friday, the five trading days just ended were again in the red, adding to the significant losses thus far in 2022 and pushing the YTD return for the average stock in the Russell 3000 index (R3K) to -21.2%.

MARKET OF STOCKS – INDEXES CAN HAVE WIDE DISPERSION IN RETURNS

While the S&P 500 is off *only* 18.3% year-to-date, the Russell 2000 SmallCap index ended the latest week below the Bear Market (down 20% on a closing basis) threshold as traders continue to fret about the war in Ukraine, inflation, comments from the Federal Reserve, economic statistics and weaker-than-expected guidance on corporate profits. While there are no awards for the sizable losses on Value this year, inexpensive stocks have held up better than Growth, not unlike the Bursting of the Tech Bubble in 2000.

Total Returns Matrix

MARKET OF STOCKS

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	-0.16	-12.97	-8.82	22.06	21.08	76.20	21.87	61.38	Dow Jones Industrial Average	DJITR Index
1.01	-10.21	-1.29	-14.67	-10.28	20.95	22.13	74.00	17.54	37.90	New York Stock Exchange Composite	NYA Index
-39.18	-20.81	-1.57	-26.49	-20.66	6.32	10.19	69.93	42.35	90.39	Nasdaq Composite Index	CCMP Index
-22.43	-9.23	-1.97	-27.57	-27.30	-4.20	0.05	55.04	6.72	27.87	Russell 2000 Growth	RU20GRTR Index
22.83	**14.02**	**-0.81**	**-15.92**	**-11.02**	**38.86**	**44.96**	**102.67**	**22.78**	**28.53**	**Russell 2000 Value**	**RU20VATR Index**
-3.02	2.49	-1.40	-21.76	-19.40	15.59	20.70	78.80	15.94	30.16	Russell 2000	RU20INTR Index
-11.75	-20.15	-2.22	-29.29	-26.08	-5.24	0.13	57.15	12.57	54.41	Russell Midcap Growth Index Total Return	RUMCGRTR Index
19.18	**2.33**	**-0.81**	**-15.37**	**-8.32**	**29.60**	**34.35**	**98.10**	**21.42**	**35.76**	**Russell Midcap Value Index Total Return**	**RUMCVATR Index**
8.25	-5.62	-1.31	-20.37	-14.84	16.32	21.41	84.34	20.67	47.24	Russell Midcap Index Total Return	RUMCINTR Index
-22.42	-19.63	-1.33	-25.72	-18.19	8.52	13.20	74.12	40.07	91.54	Russell 3000 Growth	RU30GRTR Index
8.04	**-4.33**	**-0.83**	**-12.42**	**-6.41**	**30.06**	**31.00**	**81.78**	**21.15**	**40.54**	**Russell 3000 Value**	**RU30VATR Index**
-7.46	-11.46	-1.08	-19.43	-12.54	18.67	21.71	79.03	31.97	66.54	Russell 3000	RU30INTR Index
9.64	-0.39	-0.83	-15.63	-8.05	30.35	33.30	97.11	31.56	60.18	S&P 500 Equal Weighted	SPXEWTR Index
-9.10	-11.89	-0.91	-18.27	-10.09	21.20	23.39	79.02	34.72	71.79	S&P 500	SPXT Index
-22.08	-12.73	-1.39	-24.99	-15.58	13.07	17.04	76.95	40.20	90.60	S&P 500 Growth	SPTRSGX Index
6.08	**-11.71**	**-0.45**	**-10.77**	**-4.44**	**30.20**	**29.28**	**77.04**	**24.95**	**48.22**	**S&P 500 Value**	**SPTRSVX Index**
3.18	1.57	0.09	-14.41	-16.31	-15.84	-14.43	-8.28	-9.45	-3.42	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index
11.63	8.44	0.89	-9.80	-10.41	-10.19	-10.65	-5.50	-1.92	5.01	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index

As of 07.15.22. Source Kovitz using data from Bloomberg

Now, volatility is something with which investors have always had to contend, and the magnitude of this decline is hardly unusual. Indeed, the average stock plummeted 40.5% during the R3K's six-week peak-to-trough 02.19.20 to 03.23.20, 24.6% from 09.20.18 to 12.24.18 and 23.6% from 06.23.15 to 02.11.16, while setbacks at the index level have happened with far more frequency than many might think.

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%	72	311	0.3	6/16/2022	6/24/2022

Declining Markets

Minimum Decline %	Average Loss	Average # Days	Count	Frequency (in Years)	Last Start	Last End
-20.0%	-35.0%	281	27	3.4	1/3/2022	6/16/2022
-17.5%	-30.2%	216	39	2.4	1/3/2022	6/16/2022
-15.0%	-28.3%	188	45	2.1	1/3/2022	6/16/2022
-12.5%	-22.8%	138	72	1.3	1/3/2022	6/16/2022
-10.0%	-19.6%	102	99	0.9	3/29/2022	6/16/2022
-7.5%	-15.5%	65	158	0.6	3/29/2022	6/16/2022
-5.0%	-10.9%	36	310	0.3	6/2/2022	6/16/2022

From 02.20.28 through 06.24.22. 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%

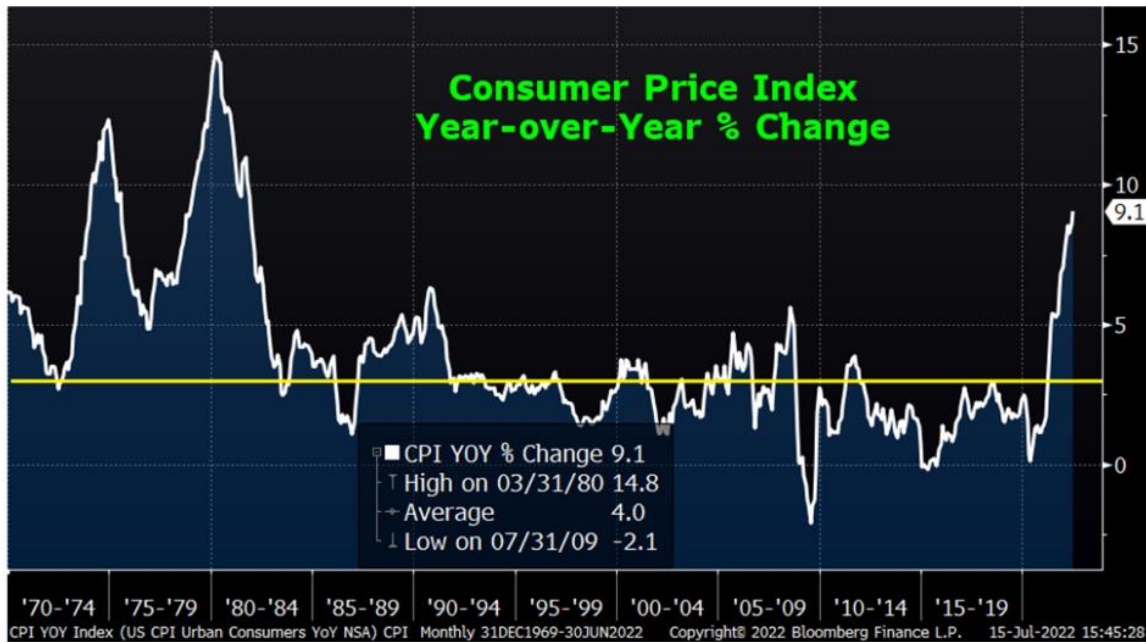
From 06.30.27 through 04.30.22. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the 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

What is interesting this time around is that inflation is a major catalyst for the downturn,…

THE PRUDENT SPECULATOR

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

Inflation in the U.S. soared in June, with the Consumer Price Index jumping by 9.1% on a year-over-year basis, though the core rate, which excludes food and energy, rose by “only” 5.9%, with airline fares seeing an easing of price pressures and physicians’ services rising only 0.1%.



…even as decades of market history shows that equities have been a terrific hedge, on average, against a high consumer price index.

EQUITY RETURNS AND 9%+ INFLATION – VALUE STOCKS THE PLACE TO BE

THE WALL STREET JOURNAL.

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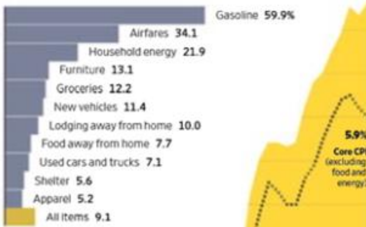
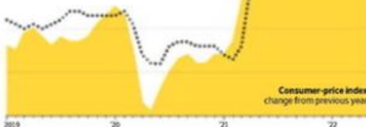
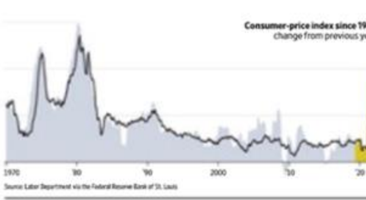
Inflation Hurtles to Highest Since '81







A 9.1% price rise adds pressure on the Fed as more investors expect a bigger rate boost in July

By Gabriel T. Rubin

U.S. consumer inflation accelerated to 9.1% last month, a pace not seen in more than four decades, adding pressure on the Federal Reserve to act more aggressively to slow rapid price increases throughout the economy.

The consumer-price index's advance for the 12 months ended in June was the fastest pace since November 1981, the Labor Department said on Wednesday. A big jump in gasoline prices—up 11.2% from the previous month and nearly 60% from a year earlier—drove much of the increase, while shelter and food prices were also major contributors.

The June inflation reading exceeded May's 8.6% rate, prompting investors and analysts to debate whether the Fed would consider a 1-percentage-point rate increase, rather than a 0.75-point rise, later this month. Slowing demand is key to the Fed's goal of restoring price stability in an economy that is still struggling with supply issues, but raising interest rates also elevates the risk of a recession.

Core prices, which exclude volatile food and energy components, showed little sign they were moderating. While they increased by 5.9% in June

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- Greg Ip: Beware wishful thinking on the economy... A2
- Inflation clouds prospects for Biden's economic plan...... A4
- Report ups pressure on Fed's rate discussions.............. A7

Price Data Set Off More Bond Volatility

By Sam Goldfarb And Matt Grossman

Fresh evidence of escalating inflation rattled bond markets anew Wednesday, sparking large swings in Treasury yields as traders shifted their bets on how the Federal Reserve and the economy might respond.

Treasury yields, which rise when bond prices fall, jumped immediately after the government released new consumer-price index data, which showed broad-based inflation reaching another four-decade high.

Yields on longer-term Treasurys, however, quickly gave up those gains and major stock indexes fell, reflecting a growing belief among investors that the Fed will do whatever it takes to slow inflation, including pushing the economy into a recession.

As highlighted by Wednesday's report, sky-high inflation remains a major concern for investors. At the same time, other measures of inflation haven't been as elevated as CPI data.

Investors have also focused on mounting signs of slowing economic growth over the past month, causing many to bet that a larger interest-rate increase from the Fed now would just lead more quickly to a recession and future rate cuts. That in turn has boosted

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- U.S. stocks end lower in Wednesday's session........ B1

Inflation Rate >= 9.0% 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	4.3%	2.7%	10.7%	6.4%	27.2%	16.3%
Geometric Average	3.7%	2.0%	9.0%	4.9%	24.1%	13.9%
Median	3.8%	2.1%	6.8%	4.6%	18.0%	12.3%
Max	50.9%	32.9%	82.7%	60.8%	134.0%	64.2%
Min	-19.2%	-27.6%	-26.4%	-35.9%	-20.9%	-22.2%
Count	95	95	95	95	95	95

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

Inflation Rate <9.0% 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%	4.7%	12.3%	9.3%
Median	4.0%	3.4%	7.9%	6.2%	16.6%	12.9%
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	1042	1042	1039	1039	1033	1033

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

Inflation Rate >= 9.0% 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	3.9%	3.4%	8.7%	7.2%	22.9%	18.0%
Geometric Average	3.3%	2.5%	7.6%	5.3%	21.8%	15.5%
Median	4.7%	3.1%	7.0%	6.4%	20.7%	21.5%
Max	39.6%	32.9%	63.0%	60.8%	60.2%	63.4%
Min	-16.5%	-27.6%	-26.4%	-35.9%	-8.8%	-22.2%
Count	55	55	55	55	55	55

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

Inflation Rate < 9.0% 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%	2.8%	7.7%	5.8%	15.8%	11.8%
Geometric Average	3.3%	2.4%	6.7%	4.8%	13.7%	9.9%
Median	4.1%	3.3%	8.1%	6.0%	17.3%	13.0%
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	724	724	721	721	715	715

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

True, this time (and all times, for that matter) is different, as traders are fretting that a hawkish Federal Reserve will be forced to raise interest rates considerably higher,…

THE PRUDENT SPECULATOR

FED FIGHTING INFLATION – INTEREST RATES STILL HISTORICALLY VERY LOW

Although the estimate for GDP growth this year was pared to 1.7%, down from 2.8% in December, the Federal Reserve lifted its target for the Fed Funds rate by 75 basis points at the June FOMC meeting. Jerome H. Powell & Co. now project that the Fed Funds rate will likely end the year at 3.5%, though this still would be below the historical average. The Fed Funds futures are currently of a similar mind in terms of the number of hikes expected over the balance of the year, with the expectation that rates will be cut starting in March 2023.

…and that this will lead to a recession,…

THE PRUDENT SPECULATOR

PLENTY OF DOOM & GLOOM TALK, ODDS OF RECESSION NOW 40%

Certainly, the 1.6% contraction in Q1 2022 real (inflation-adjusted) GDP puts the economy half-way to the declaration of a recession, and the odds of such an event happening stand today at 40%, a figure that is well above the historical average probability, which has been 21.2%.

…even as the historical evidence argues that such an event, on average, is not a reason to be selling stocks,…

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

…while the supposedly dreaded harbinger of recession, an inverted yield curve, has led to better-than-average one-year forward returns for the S&P 500.

THE PRUDENT SPECULATOR

YIELD CURVE INVERSION…HAS BEEN GOOD, ON AVERAGE, FOR STOCKS

With the 2.93% yield on the 10-Year U.S. Treasury now 21 basis below the yield on the 2-Year, we wonder if the financial press will remember that not all inversions lead to a recession and if they will note that such an event historically has been very good, on average, for stock returns.

S&P 500 Total Return Post 10-Year/2-Year Yield-Curve Inversion

Inversion Date	1 Year S&P 500 TR	3 Year S&P 500 TR	5 Year S&P 500 TR	10 Year S&P 500 TR	To Present S&P 500 TR
8/18/1978	9.2%	45.5%	103.4%	295.0%	11926%
9/12/1980	1.8%	53.9%	86.8%	290.6%	8858%
1/14/1982	34.4%	71.2%	184.6%	440.2%	8996%
12/13/1988	32.1%	54.1%	97.7%	452.3%	2742%
3/8/1990	14.2%	47.1%	65.3%	411.5%	2113%
6/9/1998	19.6%	17.5%	-6.4%	43.3%	441%
2/2/2000	-3.1%	-36.7%	-8.6%	-6.2%	320%
1/31/2006	14.5%	-31.3%	11.7%	87.4%	321%
8/23/2019	21.6%				42%
S&P Total Return	**16.0%**	**27.7%**	**66.8%**	**251.8%**	**3973%**

As of 7.15.22. Source: Kovitz using data from Bloomberg and the St. Louis Federal Reserve

STREETWISE | By James Mackintosh

Yield Curve Flashes Near-Recession, Maybe

Predicting recessions involves a lot of correlation and not a lot of causation. What many believe is the best predictor is from the Treasury market, and it is back in focus: an inverted yield curve, or higher yields on short-dated bonds than on long-dated bonds.

The correlation is what convinces many that we are close to a flashing warning sign. The yield curve has inverted before every recession, and one widely used version is close to inverting again. The gap between the two-year yield and the 10-year yield fell below 0.2 percentage point in the past week for the first time since the 2020 recession.

There are issues with the correlation I will come back to shortly, but first think about the causation. Economic history has some pretty compelling explanations for many recessions, and it strains credulity to think the yield curve predicted at least two of them in advance.

The 1973-1974 recession was clearly caused by the Arab oil embargo that began in October 1973, after the U.S. gave aid to Israel to defend itself. The yield curve had inverted in March that year (data on two-year Treasurys don't go back that far, but one-year yields rose above the 10-year), supposedly predicting a recession. Treasury traders hadn't predicted the war or embargo, however, so how could they have predicted the recession? The brief 2020 recession was equally clearly caused by the pandemic, and we all remember why. The yield curve had inverted in 2019, but even the most extreme Covid-19 conspiracy theorist would struggle to believe that bond traders had advance warning that Covid-19 was on the way.

The current yield-curve focus is on the U.S., but Europe, and especially Russian-energy-reliant Germany, is regarded by

Please turn to page B5

The gap between short- and long-dated bonds is often used as a recession indicator. But right now the three-month and two-year are sending different messages.

U.S. Treasury yield curve spread

10-year minus three-month

10-year minus two-year

U.S. RECESSION

Germany is widely believed to be more at risk of recession than the U.S., but its yield curve suggests otherwise.

10-year minus two-year government-bond yield

Germany

U.S.

S&P 500 total return from date of curve inversion to start of recession

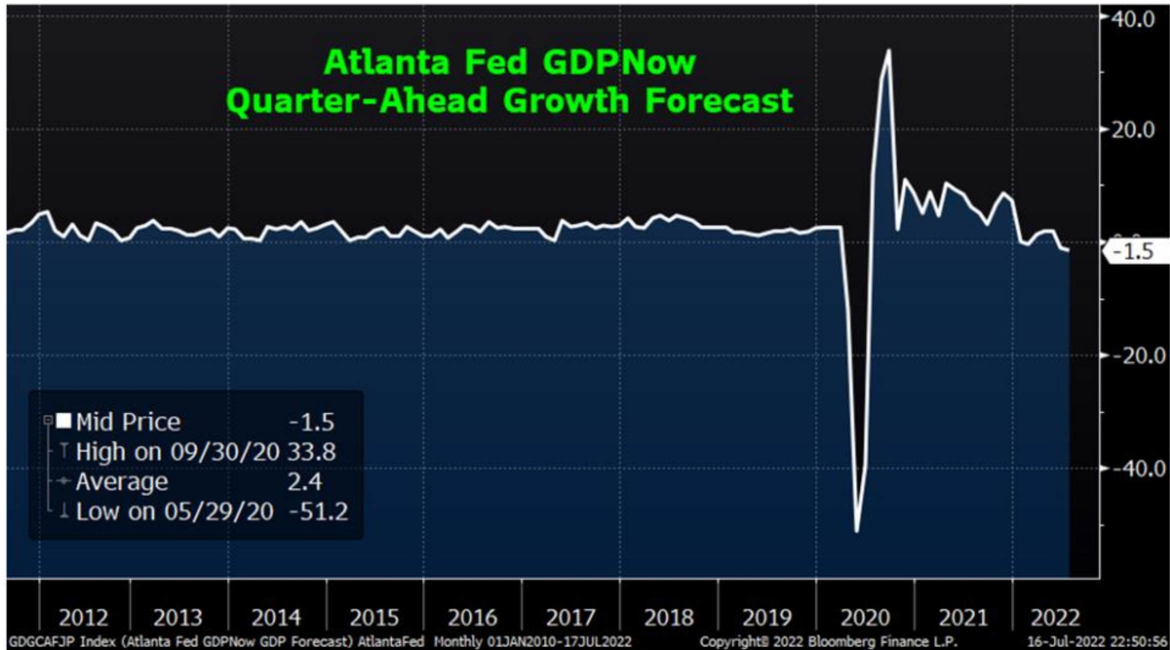
Date	Return
March 1989	28.3%
September 1998	22.2
April 2000	-22.6%
January 2006	18.8
March 2019	7.4

Certainly, we realize that it is going to be extremely difficult for real (inflation-adjusted) GDP growth to be positive for the second quarter,…

THE PRUDENT SPECULATOR

Q2 U.S. GDP GROWTH PROJECTION WORSENED LAST WEEK

Q1 2022 saw a 1.6% contraction in real (inflation-adjusted) GDP growth, as the Omicron variant, supply-chain difficulties, the war in Ukraine and inflation impacted the economy, and the Atlanta Fed's current projection for Q2 2022 real GDP growth on an annualized basis stands at a 1.5% contraction.

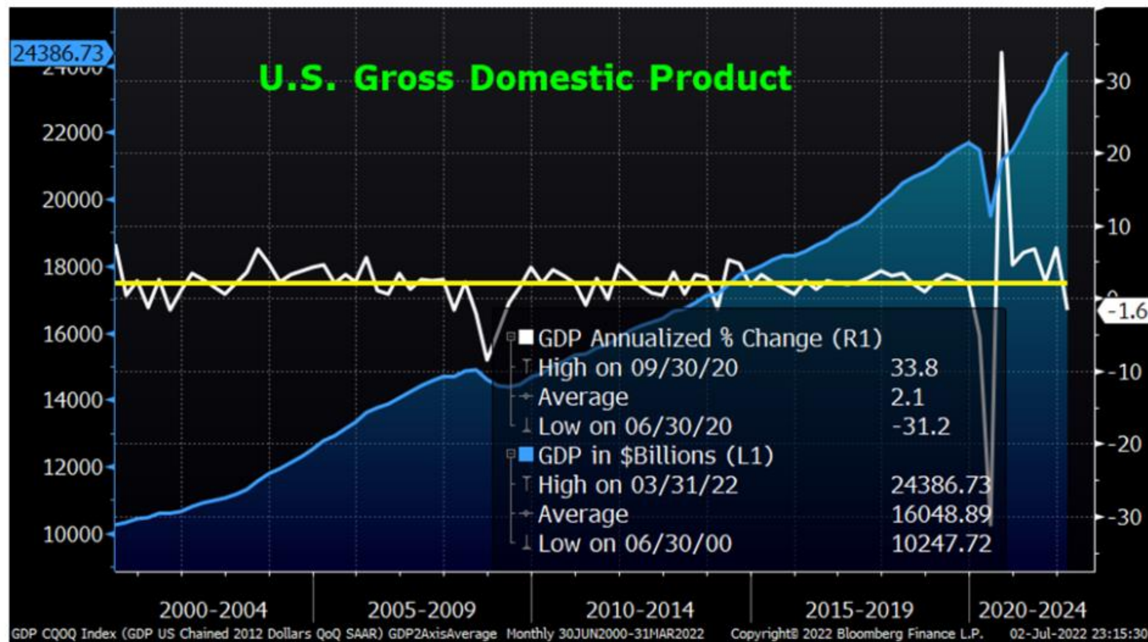


…but nominal growth will likely be superb, just as it was in the first quarter.

THE PRUDENT SPECULATOR

HUGE 10.6% JUMP IN NOMINAL GDP, BUT REAL GDP CONTRACTS BY 1.6%

First quarter 2022 real (inflation-adjusted) domestic economic growth came in much weaker than expected at a 1.6% contraction on an annualized basis, even as the current-dollar nominal GDP figure of $24.4 trillion soared by 10.6% on an annualized basis to an all-time high.



Obviously, the focus for the equity markets is always on the future, with a big hike in the Fed Funds rate at the upcoming July FOMC meeting seemingly assured. Such were the comments last week from Federal Reserve Governor Christopher Waller, “With the CPI data in hand, I support another 75 basis-point increase,” though he was quick to add that he does think that the U.S. is presently in a recession or that the Fed’s tightening will end the expansion. Mr. Waller believes that the labor market is “very strong” and that the Fed’s “medium-term view of a soft landing is very plausible.”

THE PRUDENT SPECULATOR

JOBLESS FILINGS AND CONTINUING CLAIMS NEAR 50+ YEAR LOWS

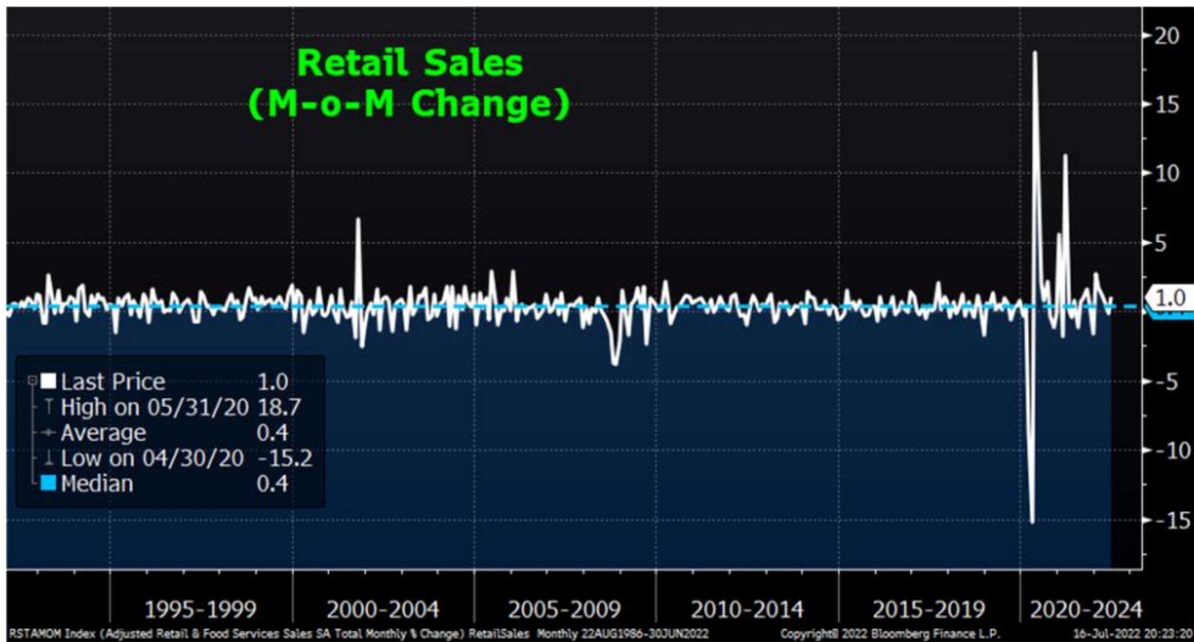
While higher than recent readings with a 1-handle, yet still coming in near the lowest levels since 1969 when the work force was much smaller, new filings for unemployment benefits for the period ended July 9 were a seasonally adjusted 244,000, up from a revised 235,000 the week prior. Continuing claims filed through state programs inched up to 1.33 million, still near the lowest level since 1969 as businesses continue to hold onto workers with labor so difficult to obtain.

There are plenty of question marks about the health of the economy, but even those who are not sanguine on the prospects are mostly of the mind that any recession would be relatively shallow. Such opinion would seem to be supported by the resiliency of the consumer, evidence of which was on display in last week's important better-than-expected retail sales tally,…

THE PRUDENT SPECULATOR

INFLATION STILL WEIGHING, BUT RETAIL SALES SURPRISE TO THE UPSIDE

May's decline was revised higher to a 0.1% dip, up from the 0.3% drop initially reported, and retail sales for June rose 1.0%, topping estimates for a 0.9% advance, while retail sales excluding vehicles also came in with a 1.0% improvement, as did bar and restaurant sales.



…even as other arguably less-critical stats trailed forecasts.

THE PRUDENT SPECULATOR

WEAKER THAN EXPECTED ECONOMIC NUMBERS

The NFIB Small Business Index for June skidded to 89.5, the lowest since January 2013 and below the historical norm. Owners remain very concerned about inflation and finding qualified workers. NFIB said, "As inflation continues to dominate business decisions, small business owners' expectations for better business conditions have reached a new low." Meanwhile, industrial production fell 0.2% in June, trailing projections of a flat reading and falling from the June tally of no change, with capacity utilization of 80.0% coming in below expectations.

The strength of the economy on a nominal basis is a big reason why corporate profit estimates (also reported in nominal dollars) have remained robust,…

Q2 AND 2022 AND 2023 EARNINGS GROWTH STILL THE ESTIMATE

Q2 earnings reporting season is now underway, with mixed results thus far along with a modest reduction to EPS expectations for 2022 and 2023. Of course, solid earnings growth is still in the latest forecasts tabulated by both Bloomberg and Standard & Poor's.

S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2023	$64.64	$246.46
9/30/2023	$62.96	$241.93
6/30/2023	$60.25	$237.96
3/31/2023	$58.61	$232.42
12/31/2022	$60.11	$223.17
9/30/2022	$58.99	$219.79
6/30/2022	$54.71	$212.82
ACTUAL		
3/31/2022	$49.36	$210.16
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 7.14.22

…supporting our view that equities in general continue to be attractively priced, despite the increase in interest rates,…

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 (5.15% vs. 2.92% 10-Year) and S&P 500 dividend yield of 1.66%.

…and adding to the appeal, we think, of Value stocks, in particular.

THE PRUDENT SPECULATOR

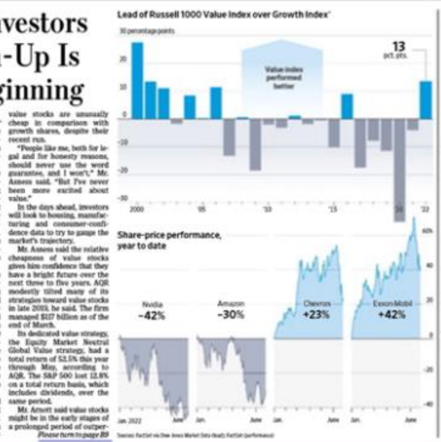
RELATIVE VALUATION FOR VALUE MUCH MORE ATTRACTIVE THAN GROWTH

Investors measure whether stocks are cheap or expensive using a variety of valuation metrics. A common way is to compare a company's stock price with its expected earnings so investors can see what they are paying for a share of profits. One such measure shows value stocks still look unusually cheap.

At the end of May, the Russell 1000 Value index traded at 14.3 times its projected earnings over the next 12 months, according to BofA Global Research. The Russell 1000 Growth index, meanwhile, traded at 22.5 times forward earnings.

That put the value benchmark's price-to-earnings ratio at 63% of the growth index's ratio, below the average since the end of 1978 of 71%, the bank's analysis shows. At the end of November, the value index was trading at only 53% of the valuation of the growth index.

- Wall Street Journal, June 27, 2022



Value Investors Bet Run-Up Is Just Beginning

By Karen Langley

Value stocks finally have room to run after years of lagging behind, say Cliff Asness and Rob Arnott, two prominent investors of the shares.

Although few corners of the stock market emerged unscathed in 2022's dizzying selloff, value shares—traditionally considered those that trade at a low multiple of their book value, or net worth—have held up better than most. By one measure, they are on track to beat shares of fast-growing companies by the widest margin since 2001.

Among the stocks at the top of the leaderboard are traditionally slower-growing businesses like Exxon Mobil Corp., Merck & Co. and Molson Coors Beverage Co. All notched double-digit gains in 2022, while the S&P 500 dropped 18%. The big technology stocks that propelled the market's gains for much of the past decade, meanwhile, have fallen as the Federal Reserve raises interest rates in a bid to tame high inflation.

Mr. Asness, managing and founding principal at AQR Capital Management, and Mr. Arnott, founder and chairman of Research Affiliates, say value stocks are unusually cheap in comparison with growth shares, despite their recent run.

"People like me, both for legal and for honesty reasons, should never use the word guarantee, and I won't," Mr. Asness said. "But I've never been more excited about value."

In the days ahead, investors will look to housing, manufacturing and consumer-confidence data to try to gauge the market's trajectory.

Mr. Asness said the relative cheapness of value stocks gives him confidence that they have a bright future over the next three to five years. AQR modestly tilted many of its strategies toward value stocks in late 2019, he said. The firm managed $117 billion as of the end of March.

Its dedicated value strategy, the Equity Market Neutral Global Value strategy, had a total return of 52.5% this year through May, according to AQR. The S&P 500 lost 12.8% on a total return basis, which includes dividends, over the same period.

Mr. Arnott said value stocks might be in the early stages of a prolonged period of outper-

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All that said, we remain braced for more downside volatility, especially as we move more deeply into Q2 earnings reporting season, but we continue to like the very inexpensive valuation metrics for our portfolios,…

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	11.2	10.0	0.9	2.1	2.9
ValuePlus	11.9	10.3	1.1	2.1	2.5
Dividend Income	11.1	10.1	0.8	1.9	3.4
Focused Dividend Income	12.8	11.5	1.0	2.4	2.8
Focused ValuePlus	11.8	11.7	1.2	2.5	2.7
Small-Mid Dividend Value	9.2	8.6	0.5	1.4	3.1
Russell 3000	20.5	16.8	2.1	3.4	1.7
Russell 3000 Growth	29.2	22.6	3.2	8.8	1.0
Russell 3000 Value	15.6	13.3	1.6	2.1	2.4
Russell 1000	19.6	16.7	2.2	3.6	1.7
Russell 1000 Growth	27.1	22.4	3.5	9.4	1.0
Russell 1000 Value	15.2	13.2	1.6	2.2	2.4
S&P 500 Index	19.0	16.6	2.3	3.8	1.7
S&P 500 Growth Index	22.3	20.0	4.2	7.0	1.0
S&P 500 Value Index	16.7	14.2	1.7	2.6	2.4
S&P 500 Pure Value Index	10.3	8.9	0.6	1.3	2.8

As of 07.15.22. 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.

…and we like the dividend income offered by many of our undervalued names.

THE PRUDENT SPECULATOR

DIVIDENDS HAVE GROWN OVER TIME – TPS HIGHER YIELDERS

Dividend Payouts Hit Quarterly Record

By Hannah Miao

Dividend payouts set another record in the second quarter, a reassuring sign to investors who have flocked to steady, income-generating stocks during the market downturn this year.

The companies in the S&P 500 paid out a record $140.6 billion in dividends in the most recent quarter, according to S&P Dow Jones Indices. That is up from $137.6 billion in the first three months of the year and $123.4 billion in the same quarter last year.

Annual dividend payouts have notched new highs every year for a decade, excluding a slight decrease in 2020. Howard Silverblatt, senior index analyst at S&P Dow Jones Indices, expects dividends to set records in the current quarter and for the year as well.

Payments this year are projected to grow at a faster pace than usual, as companies have logged strong sales and are passing on a slice of the elevated profits to shareholders, according to Mr. Silverblatt. He estimates dividend payments will jump more than 10% in 2022 from last year's record $511.2 billion, which would mark the first double-digit increase since 2014.

Levi Strauss is among the major companies that have increased their dividends recently.

Dividend Payouts Increase

Continued from page B1

Retailer Target recently boosted its quarterly dividend.

Dividends are never guaranteed, but Corporate America has a history of raising payouts, and we think the income investors receive in periods of market turbulence should help folks worry less about price fluctuations.

Higher Yielding Undervalued TPS Stocks

Symbol	Common Stock	07.15.22 Price	Target Price	Div Yld	Sector
KSS	Kohl's Corp	$28.23	$60.72	7.1%	Retailing
FL	Foot Locker	$25.55	$58.60	6.3%	Retailing
MDC	M.D.C. Holdings	$35.48	$70.91	5.6%	Consumer Durables
PRU	Prudential Fin'l	$92.33	$142.27	5.2%	Insurance
VZ	Verizon	$51.02	$74.13	5.0%	Telecom Services
PNW	Pinnacle West	$70.74	$89.90	4.8%	Utilities
TTE	Total S.A.	$47.93	$98.83	4.7%	Energy
IBM	Int'l Bus Machines	$139.92	$163.83	4.7%	Software & Services
MMM	3M Co.	$130.13	$216.73	4.6%	Capital Goods
KEY	KeyCorp	$17.52	$29.19	4.5%	Banks
IP	Int'l Paper	$41.92	$67.96	4.4%	Materials
WHR	Whirlpool	$159.38	$295.45	4.4%	Consumer Durables
OMC	Omnicom Group	$64.99	$106.04	4.3%	Media & Entertainment
CFG	Citizens Financial	$36.80	$72.17	4.2%	Banks
DLR	Digital Realty	$120.98	$174.20	4.0%	Real Estate
NEM	Newmont Corp	$54.73	$86.89	4.0%	Materials
MS	Morgan Stanley	$78.05	$120.13	4.0%	Diversified Financials
CIVI	Civitas Resources	$48.06	$88.24	3.8%	Energy
HPE	Hewlett Packard Ent	$13.27	$21.38	3.6%	Technology Hardware
STX	Seagate Tech	$77.58	$124.71	3.6%	Technology Hardware
CAH	Cardinal Health	$55.21	$80.57	3.6%	Health Care Equip/Srvcs
MAN	Manpower	$76.48	$144.89	3.6%	Commercial & Pro Srvcs
JPM	JPMorgan Chase	$112.95	$183.86	3.5%	Banks

As of 7.15.22.

S&P 500 DIVIDENDS PER SHARE

Year	Dividends
2023 (Est.)	$70.08
2022 (Est.)	$65.16
2021	$60.54
2020	$58.95
2019	$58.69
2018	$53.86
2017	$50.47
2016	$46.73
2015	$43.49
2014	$39.44
2013	$34.99
2012	$31.25
2011	$26.43
2010	$22.73
2009	$22.41

Source: Bloomberg. As of 07.15.22

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.

Railcar manufacturer **Greenbrier Cos** (GBX – $29.37) earned $0.09 per share in fiscal Q3 that ended May 31, far below the $0.51 expected by the Street. Despite the miss, revenue has nearly doubled over the past year to over $650 million and efforts to pass along higher materials costs in the manufacturing division have boosted gross profits in absolute terms, all the while margin dilutive on a percentage basis versus the prior year quarter. Demand in North America appears strong, with Chief Commercial Officer Brian Comstock stating, "We haven't seen any appreciable slowdown at this stage," even as the company has seen deliveries stall in Europe, a result of the war in Ukraine.

To keep up with manufacturing demand, Greenbrier hired 1,500 employees in the period, which also elevated expenses. The quarter was a return to normalcy for the leasing division, which was without the major gain on sale that was a highlight in Q2, but still operated at a nearly 50% profit margin. The Maintenance segment has also continued to improve sequentially in each quarter of the fiscal year, with gross margin reaching 10.4% in the most recent period, up from 1.2% in Q1.

Mr. Comstock added, "With deliveries of 5,200 units in the quarter, our book-to-bill ratio was nearly 1. We maintain our market-leading position in North America. At the end of calendar Q1, orders for Greenbrier comprised 48% of the total North American industry backlog. Our diversified backlog currently stands at nearly 31,000 units with a total value of $3.6 billion…For Europe, now that things are settled in, and there's a bit of normalcy as much as there can be in Europe, we're starting to see customers come back to the table and we have begun to secure orders again. So, it started to stabilize a little bit over there as well."

Management increased its guidance for car deliveries from their prior 18,500 level to 19,500 units. This includes approximately 1,500 units from Greenbrier-Maxion in Brazil, but not deliveries to the lease fleet, for which approximately 1,700 units are also expected to be built.

Shares lost 10% last week on the news, as the big bottom-line miss was disappointing, but we have long noted that results in any given quarter can be quite erratic, owing to significant operating leverage in the manufacturing business. And as in Q2, where management took advantage of strong pricing in the lease market to capture gains on certain assets, this unpredictability can work in our favor from time to time. We continue to appreciate the energy efficient nature of rail relative to other methods of transport. And even as the industry has dealt with its set of obstacles affecting service, these ought to soon be in the rear view mirror. With shares off more than a third year-to-date, we find the pessimism overdone as earnings are expected to improve considerably into 2023. The dividend yield is an attractive 3.7% and our Target Price has been, though trimmed, resides at $54.

BASF SE (BASFY – $10.42) released preliminary second quarter results last week. In euro terms, the chemical maker had adjusted EBIT around 2.3 billion (before special items), compared with the analyst consensus estimate of 2.0 billion. Sales increased 16% year-over-year and the company's guidance remains unchanged. Despite the good Q2 results, shares slumped more than 4% for the week. The chemical maker will report its half-year report on July 27, which will include management commentary and perhaps an updated outlook.

BASF's share price is down heavily this year, while the company's projected EPS is not far behind the 2021 high-water mark. Concern about inflation, specifically high energy prices in Europe and the prospect of energy rationing in Europe this winter, are taking their toll on Q4 earnings projections (0.13 euros per share vs. 0.29 euros per share last year). We know that traders don't care much about the long term, but we think the global chemical market is resilient and expect that BASF's global revenue stream will reduce region-specific challenges. Our Target Price is $21 and BASFY yields around 6% after taxes.

Through a press release on July 11, semiconductor equipment firm **Cohu** (COHU – $27.27) pre-released Q2 results. The company expects revenue to come in between $216 million and $218

million, while the backlog stands at $342 million. COHU repurchased 504,102 shares in the quarter for $14 million and the company's cash position at the end of Q2 is expected to come in around $368 million.

In general, we thought the report was positive and shares finished the week up better than 3%. COHU's market cap around $1.3 billion puts it in small-cap territory, and we expect to see more growth in the coming years. The company's 10 times forward P/E ratio and 1.0x forward price-to-cash-flow ratio put the stock in Value territory, especially for a Tech sector company. The final Q2 report will be released on July 28. Our Target Price for COHU is $52.

The roller coaster ride continued for **Delta Air Lines** (DAL – $30.09) after the company reported Q2 2022 results that trailed analyst expectations. DAL posted adjusted EPS of $1.44 per share in Q2, compared with the analyst consensus estimate of $1.64. The airline's adjusted revenue was $12.31 billion, compared with the $12.33 billion consensus. The revenue figure was near Q2-2019's $12.54 billion haul, indicating that there is strong demand for flights.

CEO Ed Bastian said, "Rebuilding Delta's operation during an unprecedented surge in customer demand has been a remarkable feat, and I'm grateful to our people for everything they do on a daily basis. While the demand and revenue landscape is the best we've seen, the operational environment for the entire industry remains uniquely challenged. I'd like to sincerely apologize to those who have been impacted by cancellations, delays and long wait times over the last 2 months. This quarter's operational performance has not been up to our industry-leading standards, and restoring operational excellence is our top priority. Steps we've taken include the strategic direction to hold capacity at the June month level for the remainder of this year as well as additional investments to restore operational integrity, including earlier boarding procedures and operational buffers. We are pleased with the progress and July is off to a very good start with a 99.2% completion factor through the first 11 days of the month, which is exactly on par with the same holiday period in 2019."

Mr. Bastian continued, "Our revenues are far more diversified with much larger contributions from our premium product offerings and high-margin loyalty business as well as our growing MRO and cargo businesses. And our balance sheet and access to capital are much stronger as proven during the pandemic. We've recently made major customer enhancements that will strengthen our brand for years to come, including recent openings this quarter of world-class airport facilities at LAX and New York's LaGuardia Airport, 2 largest markets for travel in the country as well as new Delta Sky Clubs in key markets. We spent over a decade building our reputation as the most reliable airline globally, but we're not only determined to deliver that same standard of excellence but are investing to bring it to an even higher level. In the face of the pandemic, financially, we've been profitable over the last 12 months, with margins this summer beginning to approach 2019 levels despite meaningfully lower capacity and a doubling in fuel prices. In my opinion, a pretty remarkable turn in performance. With our results in the first half of the year, we remain confident in our 2024 targets for earnings per share of over $7, more than $4 billion in free cash flow and a return to investment-grade metrics."

CFO Dan Janki offered the outlook, "For the full year, we now expect nonfuel unit costs to be approximately 8 points higher than we initially guided. The level of capacity restoration accounts

for the majority of this increase, as we are largely carrying the full cost of the airline with only 85% of our flying restored. As a result, we are not fully utilizing our assets. For example, third quarter aircraft utilization is about 10% lower than 2019. And while we have over 95% of the employees needed to fully restore capacity, we have thousands in some phase of hiring and training process… Second quarter fuel expense increased nearly 60% sequentially on higher prices and volume, with an adjusted fuel price per gallon of $3.82. The refinery continues to provide a hedge to historically high cracks, accounting contributing $269 million of operating income during the quarter. This resulted in a $0.31 benefit to our adjusted fuel price per gallon. For the September quarter, we expect the adjusted fuel per gallon between $3.45 to $3.60. Including a $0.27 per gallon contribution from the refinery based on the forward curves as of last Friday, we expect fuel efficiency to be about 5% better than 2019. Based on our September quarter outlook for revenue and costs, we expect operating margins to be between 11% and 13%." Q3 revenue is expected to grow between 1% and 5%.

Delta has many things going for it, including cheap debt, a young and fuel-efficient fleet and consumers still flush with cash. Those positives are partly offset by headwinds including rising costs (though fuel prices have declined over the last four weeks), a chronic labor shortage and inconsistent global COVID policies. While much of the U.S. has returned to a semblance of normalcy, Delta's global network is still impacted by varying international rules. Perhaps none of that is unusual in the airline business, but it does make near-term prognostications difficult. Fortunately, our focus remains years out instead of months, and we think DAL is well-positioned to benefit from folks returning to the skies. After two years of steep losses, analysts expect DAL to return to profitability in 2022 and the bottom line could exceed the record $7.31 in EPS set in 2019 as soon as 2024. The forward P/E for the carrier is presently below 6, which drops near 4 if 2024 estimates work out. Our Target Price for DAL is $63.

BlackRock (BLK – $600.37) earned $7.36 per share in Q2, behind the $7.90 consensus estimate. The asset management titan saw $175 billion of inflows in the first half of 2022, an achievement the firm attributed to "the most comprehensive range of investment management and technology solutions in the industry." The company's assets under management totaled $1.7 billion, while the inflows helped offset double-digit financial market declines.

CEO Larry Fink stated, "The first half of 2022 brought on a combination of macro financial and economic challenges that investors haven't seen in decades. Rising energy prices disrupted supply chains in hawkish pivots of central banks to confront inflation has sparked the real assessment of growth, profitability and risk across financial markets. Central Banks are trying to rein in supply-driven inflation running at multi-decade highs without triggering a deep recession. Demand in the economy now is about the same as it was in pre-COVID. But as pandemic restrictions have lifted, we're seeing that it's easier to restart demand than it is to restart supply. Countries and companies were already reevaluating their interdependencies following supply chain disruptions during the pandemic. And the Russian invasion Ukraine has only intensified the prioritization of supply chain resiliency, and security over cost of these supply chains and efficiencies of these supply chains. In the United States, the Fed's effort to fight inflation through faster rate hikes helped push the U.S. dollar to a 20-year high in the quarter, impacting consumers companies, portfolios in the United States and around the world. U.S. companies with international businesses, including BlackRock, are facing foreign exchange headwinds impacting

the value of their overseas earnings. Markets are reflecting investor anxiety as investors evaluate the potential impact of these pressures. 2022 ranks as a worst start in 50 years for both stocks and bonds."

Mr. Fink commented on the firm's stance with crypto assets, "BlackRock has been studying the ecosystem, particularly in areas that are relevant to our clients, including StablePoint, crypto acids, tokenization, blockchains, last quarter, we announced our minority investment in Circle, a global Internet payment company, an issuer of U.S. decon. A stable coin that is 1 of the fastest-growing digital assets in the world. As part of our relationship, we became their primary manager of their U.S. DC cash reserves with assets invested entirely in short-term U.S. treasuries. The digital asset space is a developing area that has attracted increased attention from investors and policymakers, and we are encouraged by the discussion of the debate that is occurring about the creation and implementation of an appropriate regulatory approach and framework. The crypto asset market has witnessed a steep downturn in valuations over recent months, but we are still seeing more interest from institutional clients about how to efficiently access these assets, using our technology and product capability. This is a space that we are continuing to explore to help our clients who want to learn more and to help them who wanted to participate in these assets and to do it in a transparent and an efficient way."

BLK shares have fallen by a third this year, as lower fees are expected to stem from the broader investable market downturn. To the extent that there's a second-half rally, we would expect to see BLK's earnings climb quickly. Shares trade for 17 times earnings, well below the 3-, 5- and 10-year average in the 20 range. The firm is maintaining its $4.88 quarterly dividend, which translates to a 3.3% yield, and BLK repurchased $500 million worth of common shares in the second quarter, with management planning to buy back at least another $375 million in each of the next two quarters. We continue to appreciate BLK's scale, competitive ETF franchise and diversified product base across asset classes. Our Target Price now resides at $943.

Shares of **Bank of New York Mellon** (BK – $43.41) rebounded more than 3% last week, with all of that gain and then some coming on Friday after the global custody giant announced slightly better-than-expected Q2 financial results. Adjusted EPS came in at $1.15, versus the consensus estimate of $1.12. Revenue of $4.3 billion in Q2 was almost 2% higher than forecasts.

BNY benefitted from rising interest rates as net interest margin expanded to 0.89% from 0.76% in the prior quarter. For the full year, the company now looks for net interest income to rise in the low-20% range, which is up meaningfully from its previous expectation of 13% growth. Waivers on money market fees were down 69% sequentially, and we wouldn't be surprised to see the waivers eliminated in the near future as short term rates continue to push up with the series of Fed rate hikes. That said, volatile equity and fixed income markets weighed on fee revenue during the quarter, which is now expected to be flat versus a previous expectation of a 4% to 5% increase.

CEO Todd Gibbons, who was leading his final quarterly earnings call, stated, "Our second quarter results once again demonstrated the strength and resilience of our business model, and we are pleased that our Board of Directors approved an increase of the quarterly cash dividend on our common shares by 9% to $0.37 per share." Mr. Gibbons added, "It has been an honor

serving BNY Mellon over the last 36 years and I retire at the end of August confident that the company is in great hands."

CEO-elect Robin Vince commented on the financial results, "Reported revenue of $4.3 billion was up 7% year-over-year. Our results reflect the benefit of higher interest rates, the strength of our diversified platform, and our exceptional client franchise. We continued to see good sales momentum across most of our businesses, and healthy client volumes tempered the impact of lower market values."

As the largest custody bank, BK has been able to use a sticky client base to generate double-digit returns on tangible equity (hitting 19% in Q2). The stock trades below book value and for less than 10 times NTM earnings estimates, with a dividend yield of 3.4%. Our Target Price for BK sits at $67.

Despite a sizable rebound for Financial stocks on Friday, shares of **PNC Financial** (PNC – $153.42) fell almost 5% last week, even as the bank reported Q2 adjusted EPS of $3.42, 9% better than the consensus estimate. The beat for the quarter was driven by lower credit costs and stronger fees, partially offset by weaker spread income. Fee income for the period came in around $2.1 billion as mortgages were largely in line with expectations and capital markets outperformed. There was no real update to guidance, although it seems net interest income growth expectations are increasing, while fee growth expectations are decreasing. Loan growth continues to be better than most analysts expected.

Regarding the impact on deposits from Fed action, CEO Bill Demchak commented, "PNC had a very strong second quarter. Loan growth exceeded our expectations, both net interest income and net interest margin increased meaningfully, fees rebounded and expenses remained well controlled. We're gaining traction across our expanded footprint and are confident that our capital levels and strong credit quality position us for continued success."

Concerning recession fears, Mr. Demchak said during the bank's conference call that he sees the seemingly high level of worry and the potential hit to bank earnings as being overblown. "I am personally confused about all the concern that sits out there on banking reserves and the coming recession and the impacts on profitability of banks." While he does believe there could be a mild downturn potentially mid-2023, he said he expects that it will hurt a little bit, but he does not think a severe recession or anything like the sudden drop-off in economic activity the U.S. endured early in 2020 amid the initial coronavirus outbreaks is likely. "I don't think there's any cliff involved," he concluded.

We like PNC's latest acquisitions, which give the company expanded access to 29 of the top 30 Metropolitan Statistical Areas across the country. Management says that there continues to be momentum for new product sales. With shares down 23% this year, and trading below 10 times NTM adjusted EPS expectations, we see PNC offering good long-term upside potential from current levels. Additionally, the dividend yield is 3.9%. Our Target Price stands at $235.

Shares of long-time laggard **Citigroup** (C – $49.98) jumped more than 13% Friday, after the global financial concern reported Q2 results that positively surprised investors. Citi posted

adjusted EPS almost 29% higher than the consensus analyst estimate ($2.19 vs $1.70). A particular bright spot in the quarter was treasury and trade solutions, a darling within Citi's institutional clients group business. Q2 revenue for the division, which helps global companies manage their treasuries, payments and commerce needs, jumped 33% year over year to $3 billion, partly due to higher interest rates, but even more so because of an uptick in client activity in the form of higher loans, higher deposits and an increase in cross-border transactions.

CEO Jane Fraser commented, "While the world has changed since our Investor Day in March, our strategy has not and we are executing it with discipline and urgency. Treasury and Trade Solutions fired on all cylinders as clients took advantage of our global network, leading to the best quarter this business has had in a decade. Trading volatility continued to create strong corporate client activity for us, driving revenue growth of 25% in Markets. While economic sentiment clearly impacted Investment Banking and Wealth Management, we continue to invest in these businesses and we like where they are headed. In U.S. Personal Banking, the positive drivers we saw in our two credit cards businesses over the last few quarters converted into solid revenue growth this quarter, most notably a 10% growth in Branded Cards."

"In a challenging macro and geopolitical environment, our team delivered solid results and we are in a strong position to weather uncertain times, given our liquidity, credit quality and reserve levels. I am particularly pleased with our capital strength. We ended the quarter with a Common Equity Tier 1 ratio of 11.9%, having built capital due to a higher regulatory requirement. We intend to generate significant capital for our investors, given our earnings power and the upcoming divestitures," Ms. Fraser concluded.

We were pleased to see some much-needed progress, but realize that Citi still has plenty of hurdles to overcome. We continue to think that strategic action plans laid out and thus far taken under Ms. Fraser offer reasons for optimism. Reframing its global scale/connectivity as a competitive advantage versus a source of complexity should help improve the turnaround sentiment over time. Of course, our time horizon is far longer than most, so we are willing to remain patient, as long as we see continued progress, especially as we think that there is significant appreciation available from the stock. C shares trade at a deep discount to competitors, changing hands at just 54% of its book value, and for less than 8 times NTM adjusted EPS projections, while the dividend yield is now 4.1%. Our Target Price for C is currently $97.

Shares of **Morgan Stanley** (MS – $78.05) rallied on Friday to end the week with a gain, despite falling sharply earlier in the week on the heels of a lackluster Q2 financial report. MS turned in adjusted Q2 EPS of $1.44, a greater-than-8% miss of the consensus analyst forecast for the period. The quarter was negatively impacted by a 55% year-over-year drop in Investment banking revenue, reflecting lower completed deal volumes, as well as a sharp drop in equity and fixed income underwriting. MS also said it was taking a $200 million charge related to regulatory investigations regarding employees' use of unapproved personal devices and the firm's record-keeping requirements used during official business (which seemingly was exacerbated by all the work from home that occurred during the pandemic). Additionally, Wealth Management results were hit by volatile investment markets during the quarter, but the company

did benefit during Q2 from increased trading revenue. Equity trading rose by 5% while fixed income trading increased by 49%.

CEO James Gorman commented, "Overall the Firm delivered a solid quarter in what was a more volatile market environment than we have seen for some time. Strong results in Equity and Fixed Income helped partially counter weaker investment banking activity. We continue to attract positive flows across our Wealth Management business, and Investment Management continues to benefit from its diversification. Finally, we finished the quarter in a strong capital position to ensure we move forward with confidence."

While the quarter reversed recent positive operating-result momentum, we continue to like the diversifying acquisitions of Eaton Vance and E*Trade, which we believe give MS greater scale in tech, a deeper product and service base, and self-directed investors to complement advisor-assisted wealth-management clients. In the near term, we think headwinds in investment banking will continue, while the company is likely to benefit from higher interest rates in a meaningful way and we see the opportunity for the firm to take larger wallet share in wealth management. Shares trade for less than 11 times NTM EPS estimates and offer a dividend yield of 4.0%, after the company just announced an 11% increase in the payout following the government stress tests. Our Target Price for MS is $120.

Shares of **JPMorgan Chase** (JPM – $112.95) rallied 4.5% Friday, but still ended down on the week, following the company's weaker-than-expected Q2 financial results. JPM reported adjusted EPS of $2.76, more than 4% below the consensus analyst estimate of $2.88. A shortfall in earnings wasn't the only reason investors showed frustration with the financial behemoth. The bank also said it was temporarily pausing share buybacks. The pause is needed to quickly meet higher capital requirements and "allow us maximum flexibility to best serve our customers, clients and community through a broad range of economic environments," CEO Jamie Dimon said. JPM also added $428 million to the pile of money it set aside for potentially sour loans, reflecting "a modest deterioration in the economic outlook." That marks a reversal from last year, when the firm's results were aided by a $3 billion reserve release.

Investment-banking fees declined 54%, as dramatic market moves in the quarter stymied dealmaking. That division was also hurt by $257 million of markdowns on held-for-sale positions in the bank's so-called bridge book, according to the earnings statement. Trading revenue jumped 15% to $7.8 billion. Net interest income, a key source of revenue, rose 19% in the second quarter on higher interest rates and loan growth. Mr. Dimon asserted, "JPMorgan Chase performed well in the second quarter as we earned $8.6 billion in net income on revenue of $30.7 billion and an ROTCE of 17%, with growth across the lines of business, while maintaining credit discipline and a fortress balance sheet."

Mr. Dimon, whose words are often market moving, added:

In our global economy, we are dealing with two conflicting factors, operating on different timetables. The U.S. economy continues to grow and both the job market and consumer spending, and their ability to spend, remain healthy. But geopolitical tension, high inflation, waning consumer confidence, the uncertainty about how high rates have to go and the never-

before-seen quantitative tightening and their effects on global liquidity, combined with the war in Ukraine and its harmful effect on global energy and food prices are very likely to have negative consequences on the global economy sometime down the road. We are prepared for whatever happens and will continue to serve clients even in the toughest of times.

In the first half of 2022, we extended credit and raised $1.4 trillion in capital for large and small businesses, governments and U.S. consumers. We continue to invest in strengthening the firm by adding products, people and technology to better serve our customers, as well as expand into new markets. We will continue to use our capital to invest in and grow our market-leading businesses to support our clients, customers and communities and pay a sustainable dividend.

As a result of the recent stress tests and the already scheduled GSIB increase, we will build capital and continue to effectively and actively manage our RWA. In order to quickly meet the higher requirements, we have temporarily suspended share buybacks which will allow us maximum flexibility to best serve our customers, clients and community through a broad range of economic environments.

Despite the modestly disappointing results, the company remains a favored holding in many of our diversified portfolios. We continue to like the multiple levers available to generate fee revenue in varying environments, and we maintain our fondness for Mr. Dimon, who is willing to take a long-term view, investing in enhancing various capabilities, such as wealth management, even if there is limited near-term payoff. Shares trade at 9.5 times the consensus EPS estimate and sport a dividend yield of 3.5%. Our Target Price for JPM is now $184.

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