Market Commentary Monday, July 25, 2022

July 25, 2022

EXECUTIVE SUMMARY

Fear – Two Decade High in Cash Levels
Market Week – Lousy Friday, But Nice Rebound for the Five Days
Economy – Weaker-than-Expected Numbers
Pessimism – S&P Global PMI's Disappoint but Bank Execs Not So Negative
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
Inflation – Equities a Strong Hedge Historically Against a High CPI
Valuations – Value Stocks Attractively Priced
Patience – Stocks are Volatile, but Long-Term Investors Have Been Rewarded
Stock News – Updates on SYF, GS, IBM, JNJ, LMT, MAN, OMC, ELV, CMA, STX, COF & VZ

Market Review

We realize that attention spans are very short these days, while memories often become fuzzy, but we remain perplexed by the level of pessimism that has permeated the investment world, with *Reuter's* proclaiming on Tuesday morning, "Funds in 'full capitulation' as they slash stock allocation, Bank of America poll says."

The news service wrote, "BofA which polled investors overseeing $800 billion in assets said equity allocations had slumped to levels last seen in the 2008 global financial crisis, which was triggered by the collapse of the U.S. investment bank Lehman Brothers…They raised the share of uninvested cash in portfolios to above 6%, the highest in more than two decades, BofA said, adding the survey showed a 'dire level of investor pessimism.'"

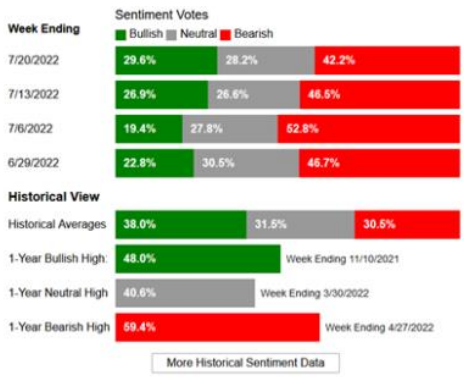
Right on cue, it would seem, given that extreme Bearish readings on investment sentiment have often presaged significant market rallies,…

THE PRUDENT SPECULATOR

MAJOR CONTRARIAN BUY SIGNAL: AAII SENTIMENT EXTREMELY PESSIMISTIC

The gauge is widely viewed with a contrarian eye, so the number of AAII Sentiment Survey Bulls coming in at 29.6% is still a major equity market buy signal, even as the tally was 11.4 points higher than four week's prior, when the weekly gauge reflected the 25th fewest total of optimists in its 35-year history. Interestingly, AAII itself understands that its measure is presently showing that it remains time to be greedy when others are fearful, with a -12.6 Bull-Bear Spread.

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



CURRENT AAII SENTIMENT BULL-BEAR SPREAD:

The Sentiment Survey is a contrarian indicator. Above-average market returns have often followed unusually low levels of optimism, while below-average market returns have often followed unusually high levels of optimism. Click here to learn more.

BULL-BEAR SPREAD TRENDS:

Previous Week	1 Month Ago	3 Months Ago	6 Months Ago
-20	-24	-26	-11
Greedy	Greedy	Greedy	Neutral

AAII Bulls & Russell 3000 Forward TR

Date	Bulls	1W RET	1M RET	3M RET	6M RET
11/15/1990	12.0	-0.4%	3.6%	18.4%	20.1%
10/6/1988	13.0	0.7%	1.1%	3.2%	9.9%
3/9/1989	13.0	1.7%	1.3%	12.2%	19.9%
9/20/1990	13.0	-3.7%	-0.5%	6.9%	21.5%
10/18/1990	13.0	1.5%	4.5%	10.1%	32.1%
9/3/1992	14.0	0.5%	-1.5%	5.2%	10.7%
2/1/1990	15.0	1.7%	1.9%	1.9%	8.8%
10/4/1990	15.0	-5.5%	-0.5%	4.3%	26.2%
4/14/2022	15.8	-0.2%	-8.8%	-14.0%	
7/21/1988	16.0	-0.3%	-1.9%	6.1%	8.2%
9/13/1990	16.0	-2.3%	-6.4%	4.1%	20.5%
11/22/1990	16.0	0.4%	5.5%	18.1%	23.0%
12/20/1990	16.0	-0.3%	0.6%	13.7%	17.2%
4/28/2022	16.4	-3.3%	-3.0%		
4/14/2005	16.5	0.0%	-0.4%	7.2%	4.2%
9/8/1988	17.0	0.9%	4.3%	3.8%	12.0%
11/24/1988	17.0	1.5%	3.5%	8.4%	21.1%
12/8/1988	17.0	-0.7%	2.1%	7.9%	21.0%
5/26/2016	17.8	1.0%	-2.2%	4.8%	8.2%
1/14/2016	17.9	-2.8%	-3.3%	9.3%	14.4%
9/1/1988	18.0	2.6%	5.2%	5.1%	12.4%
3/30/1989	18.0	1.1%	5.9%	9.7%	20.7%
8/16/1990	18.0	-8.0%	-4.6%	-4.4%	13.3%
7/1/1993	18.0	-0.1%	0.0%	4.3%	5.8%
6/22/2022	18.2	-0.4%			
25 Period Average		-0.6%	0.3%	6.4%	16.0%
All Periods Average		0.2%	0.9%	2.8%	5.9%

Source: American Association of Individual Investors and Bloomberg

AAII Bull-Bear Spread & Russell 3000 Forward TR

Date	Spread	1W RET	1M RET	3M RET	6M RET
10/18/1990	-54.0	1.5%	4.5%	10.1%	32.1%
3/5/2009	-51.4	10.3%	24.5%	40.3%	52.7%
10/4/1990	-44.0	-5.5%	-0.5%	4.3%	26.2%
9/20/1990	-43.0	-3.7%	-0.5%	6.9%	21.5%
11/15/1990	-43.0	-0.4%	3.6%	18.4%	20.1%
4/28/2022	-43.0	-3.3%	-3.0%		
6/22/2022	-41.1	-0.4%			
7 Period Average		-0.2%	4.8%	16.0%	30.5%
All Periods Average		0.2%	0.9%	2.8%	5.9%

Source: American Association of Individual Investors and Bloomberg

…stocks soared on Tuesday, propelling the full week to a nice gain,…

THE PRUDENT SPECULATOR

MARKET OF STOCKS – INDEXES CAN HAVE WIDE DISPERSION IN RETURNS

You know it has been a tough year when the S&P 500 rallies better than 2.5% for the week but is still down more than 16% on the year 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.

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	MARKET OF STOCKS	2.00	-11.24	-6.60	24.50	22.85	79.72	25.10	64.97	Dow Jones Industrial Average	DJITR Index
1.01	-10.21		2.38	-12.64	-7.92	23.83	23.26	78.15	21.45	40.82	New York Stock Exchange Composite	NYA Index
-39.18	-20.81		3.33	-24.03	-18.81	9.87	12.21	75.60	48.06	94.41	Nasdaq Composite Index	CCMP Index
-22.43	-9.23		3.82	-24.81	-25.89	-0.54	2.97	60.95	11.73	32.08	Russell 2000 Growth	RU20GRTR Index
22.83	14.02		3.36	-13.09	-7.06	43.53	48.72	109.49	28.61	32.19	Russell 2000 Value	RU20VATR Index
-3.02	2.49		3.59	-18.96	-16.85	19.74	24.03	85.22	21.41	34.16	Russell 2000	RU20INTR Index
-11.75	-20.15		4.56	-26.06	-24.69	-0.92	1.90	64.31	18.67	60.75	Russell Midcap Growth Index Total Return	RUMCGRTR Index
19.18	2.33		3.23	-12.64	-5.18	33.78	36.88	104.49	26.72	39.30	Russell Midcap Value Index Total Return	RUMCVATR Index
8.25	-5.62		3.69	-17.42	-12.43	20.62	23.65	91.15	26.37	51.87	Russell Midcap Index Total Return	RUMCINTR Index
-22.42	-19.63		3.18	-23.36	-16.66	11.96	14.81	79.65	45.77	95.88	Russell 3000 Growth	RU30GRTR Index
8.04	-4.33		2.39	-10.32	-3.76	33.17	32.23	86.14	25.30	43.54	Russell 3000 Value	RU30VATR Index
-7.46	-11.46		2.79	-17.18	-10.51	21.98	23.15	84.02	36.92	70.22	Russell 3000	RU30INTR Index
9.64	-0.39		3.24	-12.89	-5.09	34.58	35.71	103.49	37.26	64.39	S&P 500 Equal Weighted	SPXEWTR Index
-9.10	-11.89		2.57	-16.17	-7.95	24.31	24.63	83.61	39.50	75.21	S&P 500	SPXT Index
-22.08	-12.73		3.44	-22.40	-13.42	16.96	19.01	83.04	46.43	95.37	S&P 500 Growth	SPTRSGX Index
6.08	-11.71		1.73	-9.22	-2.19	32.46	29.87	80.12	28.33	50.62	S&P 500 Value	SPTRSVX Index
3.18	1.57		1.55	-13.08	-15.19	-14.54	-13.91	-6.86	-8.34	-3.14	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index
11.63	8.44		1.17	-8.74	-9.57	-9.14	-10.02	-4.40	-1.12	5.65	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index

As of 07.22.22. Source Kovitz using data from Bloomberg

…even as recession worries remained front and center.

THE PRUDENT SPECULATOR

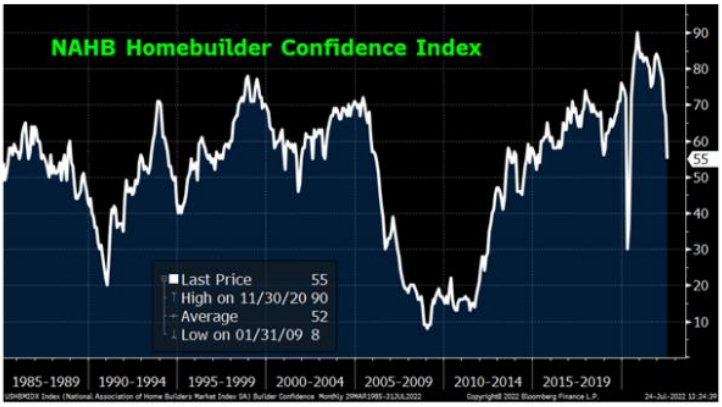
PLENTY OF DOOM & GLOOM TALK, ODDS OF RECESSION NOW 40%

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%.

No doubt, the economic data out last week did not allay concerns about the strength of the economy, with housing numbers coming in below expectations,…

THE PRUDENT SPECULATOR

HOUSING MARKET SLOWING DOWN, BUT STILL REASONABLY HEALTHY



The National Association of Home Builders' monthly confidence index for July came in well below forecasts, skidding to 55, down 12 points from June, but still above the long-term average on the 35-year-old gauge. High prices and rising mortgage rates did not help, and ground was broken on fewer new homes last month, though the seasonally adjusted annual rate of 1.56 million units was still healthy, with building permits holding steady as compared to June.

…and the number of first-time filings for unemployment benefits ticking higher,…

THE PRUDENT SPECULATOR

JOBLESS FILINGS AND CONTINUING CLAIMS UP, BUT NEAR 50+ YEAR LOWS

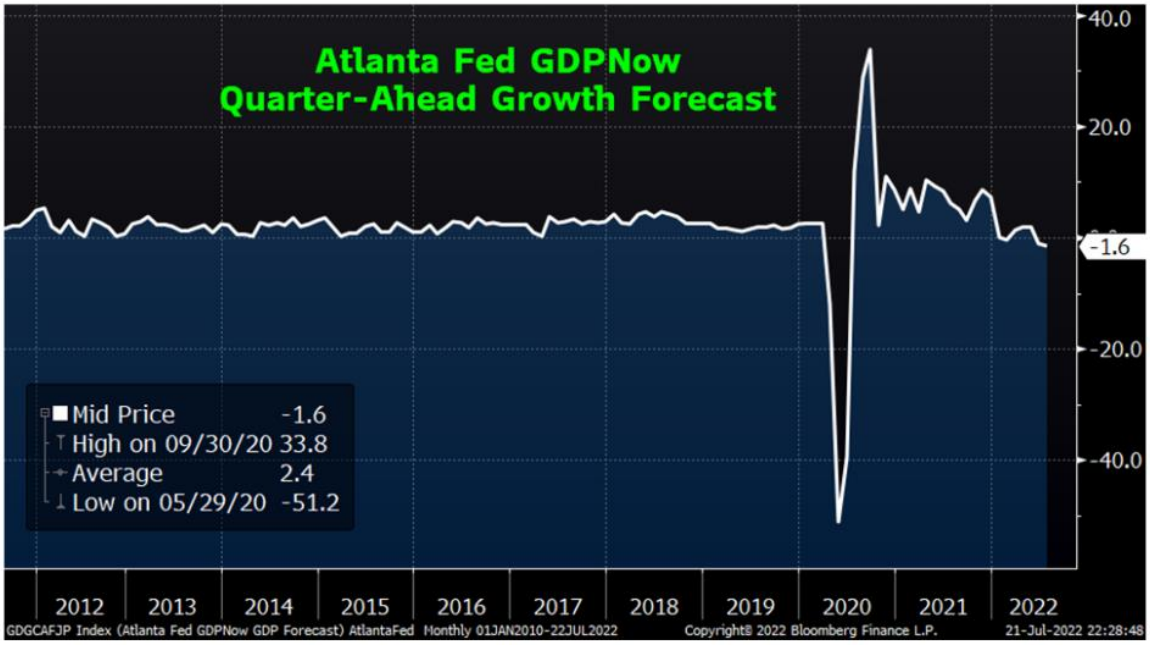
While higher than readings earlier in the year with a 1-handle, yet still coming in near the lowest levels since 1969 when the work force was much smaller, new filings for unemployment benefits for the period ended July 16 were a seasonally adjusted 251,000, up from a revised 244,000 the week prior. Continuing claims filed through state programs inched up to 1.38 million, but still near the lowest level since 1969 as businesses continue to hold onto workers with labor so difficult to obtain.

…with the latest projection from the Atlanta Fed suggesting real (inflation-adjusted) GDP will show a decline in Q2.

THE PRUDENT SPECULATOR

Q2 U.S. GDP GROWTH PROJECTION HAS WEAKENED

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 1.6% contraction.



That estimate was made before Friday's very disappointing release from S&P Global Markit of its Services PMI that showed that important sector of the economy in contraction,…

THE PRUDENT SPECULATOR

S&P GLOBAL MARKIT PMI READINGS SHRINK IN JULY

The S&P Global Markit preliminary U.S. PMIs for the factory and services sectors in July came in at 52.3 and 47.0, the latter well below expectations. S&P Global commented, "The preliminary PMI data for July point to a worrying deterioration in the economy. Excluding pandemic lockdown months, output is falling at a rate not seen since 2009 amid the global financial crisis, with the survey data indicative of GDP falling at an annualized rate of approximately 1%. Manufacturing has stalled and the service sector's rebound from the pandemic has gone into reverse, as the tailwind of pent-up demand has been overcome by the rising cost of living, higher interest rates and growing gloom about the economic outlook."

…though it is important to understand that those indexes are based on what respondents say in a survey collected from a representative panel of around 800 companies based in the U.S. manufacturing and service sectors. Given that consumers are feeling far more pessimistic than would seemingly be justified by the current economic climate, we might argue that corporate sentiment may also be excessively weighted to the downside.

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.

This does not mean that the data should be dismissed, especially as the well-regarded Leading Economic Index also came in below estimates last week,…

THE PRUDENT SPECULATOR

LEI DROPS BY 0.8% IN JUNE…BUT REAL GDP FORECASTS STILL POSITIVE

"The Conference Board Leading Economic Index® (LEI) for the U.S. decreased by 0.8% in June 2022 to 117.1 (2016=100), after declining by 0.6% in May. The LEI was down by 1.8% over the first half of 2022, a reversal from its 3.3% growth over the second half of 2021…Amid high inflation and rapidly tightening monetary policy, The Conference Board expects economic growth will continue to cool throughout 2022. A U.S. recession around the end of this year and early next is now likely. Accordingly, we've downgraded our forecast of 2022 annual Real GDP growth to 1.7% year-over-year (from 2.3%), while 2023 growth was downgraded to 0.5% YOY (from 1.8%)."

…but recent commentary from bank executives argued that a recession is not a foregone conclusion. **Truist Financial** (TFC – $48.14) CEO William H. Rogers, Jr. said last week, "Going down the categories of that question, our clients still see a lot of good demand. I may be a little bit clouded by the fact the last two markets I was in were South Florida and Nashville, and you know they're blowing and going in virtually every direction, but our clients continue to see, continue to see good demand…So I think just — we're bankers, so we should be conservative. That's the world we live in and we try to manage for all outcomes, but sitting here today, looking at the hood of the car, demand looks pretty good and our business looks pretty good, and our clients are extremely healthy."

To be sure, banks are braced for an economic downturn, but the week prior, **Morgan Stanley** (MS – $82.43) CEO James Gorman explained, "It's a challenging market, but I think it is important to say that it's not 2008 complicated," and Citigroup (C – $51.91) CEO Jane Fraser declared, "Nothing in the data that I see signals that the U.S. is on the cusp of recession. While a recession could indeed take place, it is highly unlikely to be as severe as others we have seen."

Even **JPMorgan Chase** (JPM – $114.76) indicated that there were no clear signs of a recession yet, with retail banking customers still spending money on discretionary purchases like travel

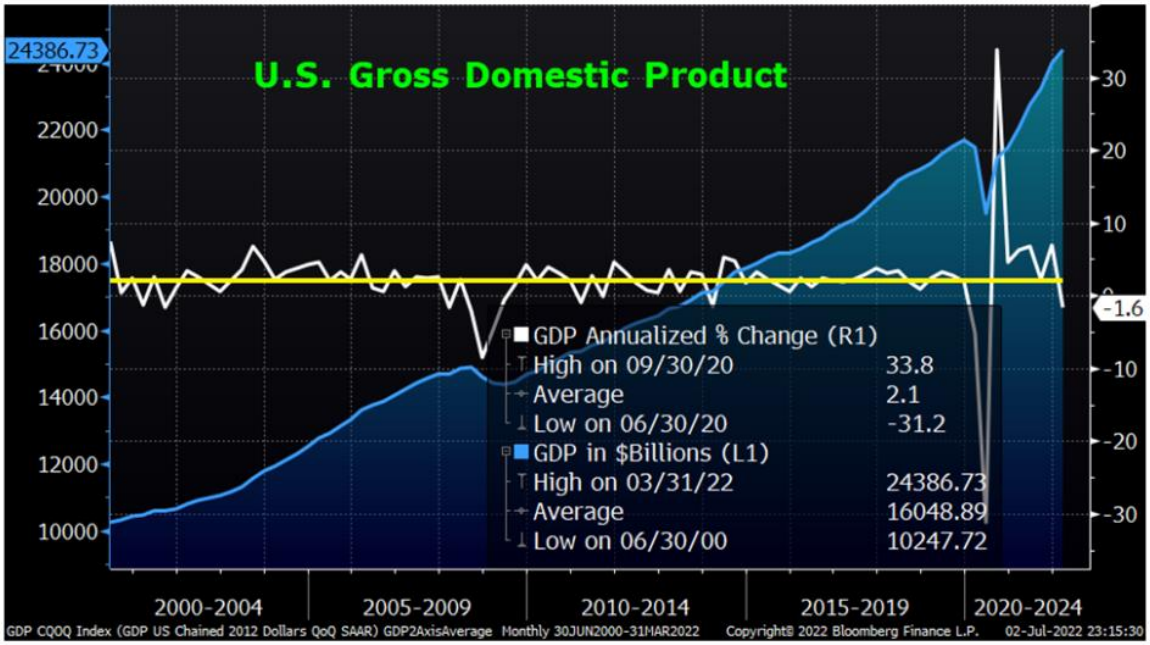
and restaurants. JPM CFO Jeremy Barnum added, “We’ve looked a lot very carefully into our actual data. There is essentially no evidence of actual weakness.”

We might conclude that bank execs NOT seeing the proverbial glass as mostly empty has a lot to do with the fact that nominal growth (i.e. actual, non-inflation adjusted) is likely to remain robust in Q2, just as it was in Q1,…

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.



…with the relatively healthy economy continuing to support a solid business environment.

THE PRUDENT SPECULATOR

DECENT EPS IN Q2 '22 AND '22/'23 ESTIMATES REMAIN SOLID

Q2 earnings reporting season has been pretty good thus far, even as outlooks generally have been muted and stock prices have often reacted negatively. 72.1% of the 104 S&P 500 companies to have announced have beat EPS expectations and an 55.8% have exceeded revenue forecasts.

S&P 500 Earnings Per Share

Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2023	$64.38	$246.09
9/30/2023	$62.89	$241.55
6/30/2023	$60.39	$237.19
3/31/2023	$58.43	$229.77
12/31/2022	$59.84	$220.70
9/30/2022	$58.53	$217.59
6/30/2022	$52.97	$211.08
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 7.21.22

Of course, we understand that should Q2 show a second successive quarter of negative real GDP growth, we would technically be in recession already, so we continue to think that long-term-oriented equity investors should keep in mind what the historical data show about contractions and stock returns,…

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

…especially as the media seemingly is compelled to focus on doom and gloom, despite plenty of evidence that argues otherwise, including forward return numbers for stocks around a yield-curve inversion,…

THE PRUDENT SPECULATOR

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

With the 2.75% yield on the 10-Year U.S. Treasury now 22 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.

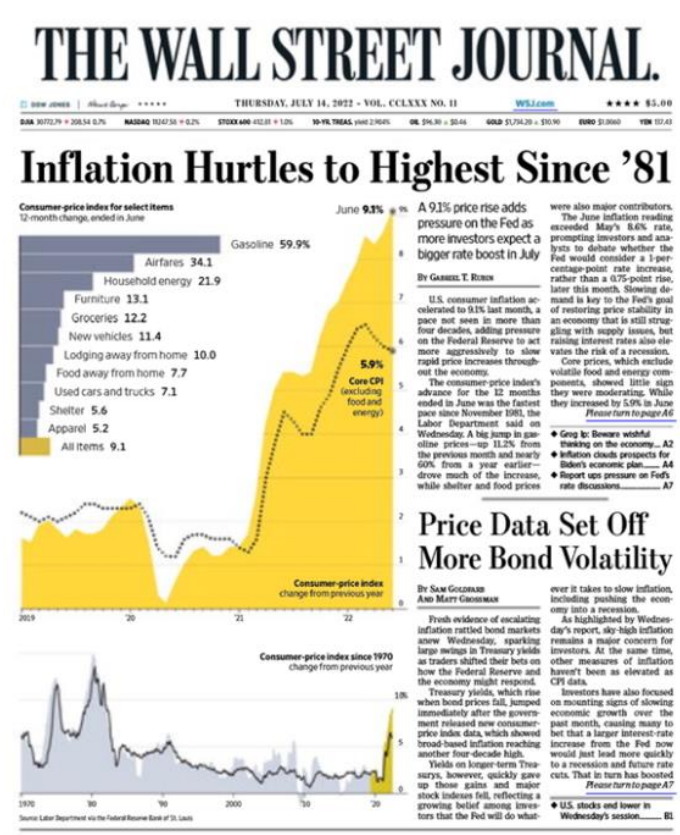
S&P 500 Total Return Post 10-Year/2-Year Yield-Curve Inversion

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%	12350%
9/12/1980	1.8%	53.9%	86.8%	290.6%	9175%
1/14/1982	34.4%	71.2%	184.6%	440.2%	9317%
12/13/1988	32.1%	54.1%	97.7%	452.3%	2843%
3/8/1990	14.2%	47.1%	65.3%	411.5%	2191%
6/9/1998	19.6%	17.5%	-6.4%	43.3%	460%
2/2/2000	-3.1%	-36.7%	-8.6%	-6.2%	335%
1/31/2006	14.5%	-31.3%	11.7%	87.4%	336%
8/23/2019	21.6%				47%
S&P Total Return	**16.0%**	**27.7%**	**66.8%**	**251.8%**	**4117%**

As of 7.22.22. Source: Kovitz using data from Bloomberg and the St. Louis Federal Reserve

…and high inflation readings.

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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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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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

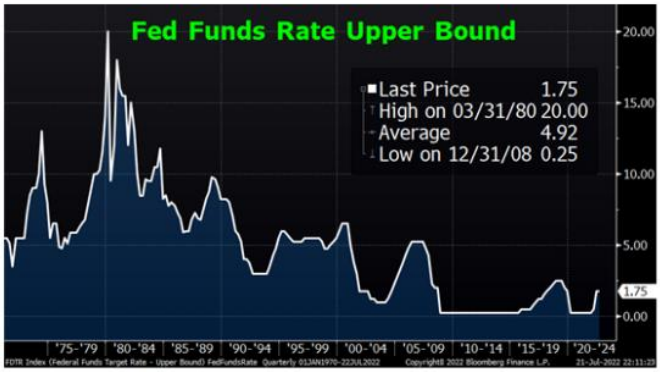
Source: Kovitz using data from Ibbotson Associates 03.31.57 - 04.30.22.

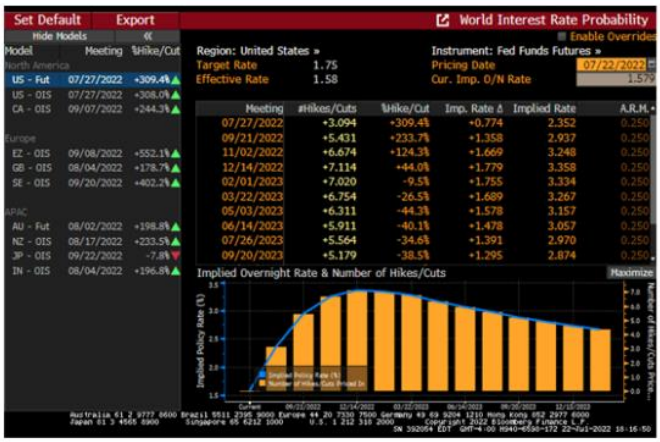
Certainly, we are braced for additional downside volatility, with this week having a mountain of earnings announcements and a big Fed meeting,…

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 a bit less hawkish in terms of the number of hikes expected over the balance of the year, with the expectation that rates will be cut starting in February 2023.





…but we continue to think that equities in general are attractively priced, despite the increase this year 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 (5.02% vs. 2.75% 10-Year) and S&P 500 dividend yield of 1.62%.

…and that Value stocks, in particular, are very inexpensive,…

THE PRUDENT SPECULATOR

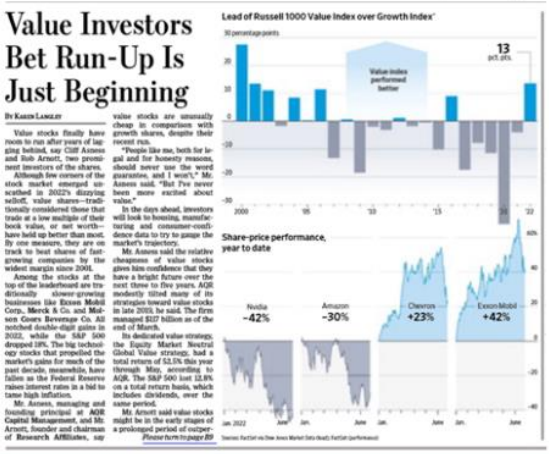
RELATIVE VALUATION FOR VALUE MUCH MORE ATTRACTIVE THAN GROWTH

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 $127 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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…with our portfolios of what we believe to be undervalued stocks boasting very appealing valuation metrics.

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	12.0	10.7	0.9	2.2	2.8
ValuePlus	12.7	11.0	1.2	2.3	2.4
Dividend Income	11.7	10.7	0.8	2.1	3.3
Focused Dividend Income	13.4	12.2	1.1	2.4	2.7
Focused ValuePlus	12.4	12.3	1.3	2.5	2.6
Small-Mid Dividend Value	9.9	9.3	0.5	1.5	2.9
Russell 3000	21.7	17.9	2.2	3.7	1.6
Russell 3000 Growth	31.1	24.2	3.4	9.4	0.9
Russell 3000 Value	16.5	14.1	1.6	2.2	2.3
Russell 1000	20.7	17.7	2.4	3.8	1.6
Russell 1000 Growth	28.9	24.0	3.7	10.0	0.9
Russell 1000 Value	16.0	13.9	1.7	2.3	2.2
S&P 500 Index	20.1	17.5	2.5	4.0	1.6
S&P 500 Growth Index	24.0	21.6	4.4	7.5	0.9
S&P 500 Value Index	17.4	14.8	1.7	2.7	2.3
S&P 500 Pure Value Index	10.7	9.3	0.7	1.3	2.7

As of 07.22.22. 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.

We know that we will always have to put up with market gyrations to achieve impressive long-term returns,…

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.

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%	23.6%	149	159	0.6	6/16/2022	7/21/2022
5.0%	14.7%	72	311	0.3	6/16/2022	7/21/2022

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 07.21.22. 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

…while we long ago learned that the only problem with market timing is getting the timing right.

THE PRUDENT SPECULATOR

TIME IN THE MARKET TRUMPS MARKET TIMING

Per data analytics firm DALBAR, equity fund investors had awful relative returns in 2021, gaining only 18.4% on average, compared to a 28.7% return for the S&P 500, for a whopping 1030 basis point (10.3%) difference in performance. The longer-term historical numbers are even worse for bonds as Fixed Income fund investors had an annual return 500 basis points lower than the U.S. Aggregate Bond index over the past three decades.

Individual Investor Returns vs. Broad Benchmarks

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

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

It is also reassuring that the odds have long been in favor of the patient equity holder!

THE PRUDENT SPECULATOR

SAFETY OF PRINCIPAL: THE LONGER THE HOLD, THE LOWER THE RISK

Given that the most folks are investing for long-term objectives, we remain puzzled that so many continue to think about risk in terms of volatility of one-month returns. After all, while there is no assurance that past is prologue, the odds of losing money in Value Stocks or Dividend Payers is far lower over three-, five- and 10-year periods.

PATIENCE IS VIRTUOUS

VALUE STOCKS

	Count >0%	Count <=0%	Percent >0%
1 Month	719	419	63.2%
3 Months	770	366	67.8%
6 Months	805	328	71.1%
1 Year	825	302	73.2%
2 Year	930	185	83.4%
3 Year	964	139	87.4%
5 Year	966	113	89.5%
7 Year	1019	36	96.6%
10 Year	985	34	96.7%
15 Year	959	0	100.0%
20 Year	899	0	100.0%

DIVIDEND PAYERS

	Count >0%	Count <=0%	Percent >0%
1 Month	721	417	63.4%
3 Months	791	345	69.6%
6 Months	821	312	72.5%
1 Year	858	269	76.1%
2 Year	952	163	85.4%
3 Year	945	158	85.7%
5 Year	993	86	92.0%
7 Year	1013	42	96.0%
10 Year	984	35	96.6%
15 Year	959	0	100.0%
20 Year	899	0	100.0%

From 07.31.27 through 04.30.22. Value stocks represented by 50% small value and 50% large value returns rebalanced monthly. Dividend payers represented by 30% top of dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

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 a dozen of our stocks that posted quarterly results last week.

Synchrony Financial (SYF – $32.68) earned $1.60 per share in Q2, down from $2.12 a year ago, as card paydowns affected the consumer oriented financial concern. But receivables have bounced back year-to-date as management expects balances to grow north of 10% this year. Higher interest rates have also driven net interest margin up to 15.6% in the quarter, yet credit remains in check with 3.15% of charge offs expected for the full year. Although consumers with a Vantage credit score below 650 make up 24% of the receivable book, Synchrony's allowances for loan losses still represent over 10% of the book. And with a Tier 1 Common Equity ratio over 15%, the Board saw fit to approve a 4% increase in the dividend.

CEO Brian Doubles commented, "We have one of the largest active account bases in the U.S. with more than 65 million active accounts. And yet, our typical customer has less than 2 of our products on average. As we continue to expand our distribution channels and more effectively leverage our various marketplaces and networks, Synchrony can connect our partners with more customers and drive still greater lifetime value expansion…Our customers finance everyday purchases like gas, groceries and routine medical expenses as well as more episodic needs, like buying a new mattress or replacing a refrigerator. They drive great value from our general purpose and dual and co-brand cards, coupled with the best-in-class rewards they can earn on their spend. About half of our out-of-partner spend is comprised of nondiscretionary spend like bill pay, discount store, drugstore, health care, grocery and auto and gas."

Mr. Doubles concluded, "Very few consumer financing providers in the market today have Synchrony's unique combination of broad customer base and wide range of partners and providers, diverse product suite and deep distribution channels, innovative technology capabilities and robust funding capital and liquidity. Synchrony's core strengths enable us to consistently and efficiently connect our customers and our partners and provide continuity through high-quality outcomes including the right financing product at the right time with attractive value propositions and a best-in-class experience for our customers."

Synchrony continues to operate at a high level despite losing the GAP portfolio to Barclay's. We like that management repurchased $700 million of shares in the quarter, a substantial portion of the $15.7 billion market cap, especially as the P/E ratio is in the mid-single digits. Shares offer a 2.8% dividend yield and our Target Price is $56.

Goldman Sachs (GS – $323.93) announced last Monday that it earned $7.73 per share in Q2, well above the Street's target, but significantly below the $15.02 posted in the year-ago period. Capital market activity continued to wane across the sector, driving investment banking revenue 41% lower versus a year ago. Trading was a bright spot, particularly of fixed income, commodities and currencies, which generated 50% higher revenue year-over-year ($3.6 billion). We note that Goldman cleared the Fed's stress-test hurdle and while the bank was given the highest stress capital buffer (a level intended to reduce risk but also a drag on returns), it was the only one of the 30-odd banks to see its buffer decline year-over-year.

Goldman CEO Dave Solomon stated, "We see inflation deeply entrenched in the economy, and what's unusual about this particular period is that both demand and supply are being affected by exogenous events, namely the pandemic and the war in Ukraine. In my dialogue with CEOs operating big global businesses, they tell me that they continue to see persistent inflation in their supply chains. Our economists, meanwhile, say there are signs that inflation will move lower in the second half of the year. The answer is uncertain, and we will all be watching it very closely. Given all of this, we are seeing shifts in monetary policy, and those shifts will continue to tighten economic conditions. I expect there's going to be more volatility and there's going to be more uncertainty. And in light of the current environment, we will manage all our resources cautiously and dynamically. Our risk management culture and capabilities should help us navigate this environment for our clients and for the firm. That said, there is nothing about this environment that changes our strategy, and we are committed to our medium-term targets. We have a strong client franchise, and we remain focused on providing differentiated service. We benefit from the

diversity of our businesses and our global footprint. In light of the environment, we are certainly taking deliberate action on capital and expenses but we will also continue to invest to strengthen and grow our firm."

On the deal environment, Mr. Solomon added, "With respect to capital markets activity, I think I told you at the beginning of the year in our January call on January 15 that I did not expect us to see the level of capital markets activity we saw in 2021 anytime soon. And I wouldn't call that as normal. So when you talk about capital markets activity going back to what we saw in the past couple of years. I don't think we're going back to that anytime soon. But I do think if you look at capital markets activity, kind of average levels over the last 7 years, take a period 5 years, 7 years and look at average levels, I'd be very surprised if we don't get back to some average level of capital markets activity sometime over the course of the next few quarters. And history would just tell you that, that doesn't mean that it might not take a little bit longer this time if things get increasingly uncertain, but generally speaking, one of the things that affects capital markets activity is people have to reset their mind around valuations. They have to reset their mind around capital costs. And that happens relatively quickly because people have plans. They have commitments. They have to invest. And as soon as they get their minds around that, they adjust, which takes a few quarters, they get back into the market that's available to them. And so I'd be very surprised if we don't see, as we head into 2023, some sort of a normalization of capital markets activity."

Shares have marched over 15% higher since the latest bottom mid-July but remain lower on the year by the same amount. With Goldman earning a double-digit percentage return on tangible equity, we think plenty of bad news is already priced into the stock, as it trades for a single-digit multiple of the consensus 2022 EPS estimate and just above tangible book per share. After a blockbuster 2021, we mentioned three months ago that this year would likely be one of normalization for parts of the business, but we wouldn't rule out $40 of EPS for 2023. We continue to find the stock attractive, liking the healthy balance sheet and ongoing sound strategic repositioning. The build-out of its traditional banking and investment management businesses should serve shareholders well in the long run as management attempts to evolve the trading and deal making titan into a more well-rounded financial firm with more stable consumer and commercial businesses. After a recent 25% bump to the dividend, shares now offer a yield over 3% and our Target Price is $462.

Shares of **International Business Machines** (IBM – $128.25) lost more than 8% last week after the company released Q2 2022 results. The IT services concern earned an adjusted $2.31 per share, compared with the $2.29 consensus analyst estimate, and sales grew 16% year-over-year, excluding revenue from arrangements with its recently-spun-off Kyndryl. IBM attributed the growth to strong performance in software and consulting, even as the impact of a strong dollar took 6%, or $900 million, off the company's Q2 revenue print.

CEO Arvind Krishna commented, "Technology plays an important role in today's business environment. In fact, nearly every client I speak to believes that technology serves as a fundamental source of competitive advantage. It serves as both a deflationary force and a force multiplier and is especially critical as clients face challenges on multiple fronts from supply chain bottlenecks to demographic shifts. Given its ability to boost innovation, productivity,

resilience and help organizations scale, IT has become a high priority in our company's budget. As such, there is every reason to believe technology spending in the B2B space will continue to surpass GDP growth. With this demand backdrop, we are executing our hybrid cloud and AI strategy. We have made changes to our portfolio and focused investments in our offerings, technical talent, our ecosystem and go-to-market model. Demand for our solutions remains strong. We continue to have double-digit performance in IBM Consulting, broad-based trend in software. And with the z16 platform launch, our infrastructure business had a good quarter. By integrating technology and expertise from IBM and our partners, our clients will continue to see our hybrid cloud and AI solutions as a crucial source of business opportunity and growth."

CFO Jim Kavanaugh added, "Looking at the third quarter, we expect all in constant currency revenue growth in the high single-digit range and about a 2-point year-to-year improvement in operating pretax margin. I want to mention 2 specific items on the third quarter. First, at current spot rates, currency translation has increased to about an 8-point headwind to revenue growth, impacting our reported revenue, profit and cash. Second, we haven't had a zSystems product introduction in our large transactional second quarter in about 20 years. This unique timing, coupled with the strong start to the cycle, will result in a larger second to third quarter impact than typical seasonality. So to be clear, we expect a strong year-to-year growth in zSystems. In closing, these are interesting times, and we see technology as a way to help our enterprise clients capture today's opportunities and navigate challenges. We feel good about the strategy we are executing and the fundamentals of our business."

IBM cut its free cash flow guidance from a range between $10.0 billion and $10.5 billion to approximately $10 billion, disappointing analysts and traders, especially given the stock's significant outperformance of other IT sector members this year. Management explained the whack was due to exogenous factors, including currency headwinds and an exit from Russia. IBM's forward P/E ratio has climbed near its 5-year high of 14 times, but analysts expect the company to earn nearly $12 per share in 2025, indicating that there's more room for the stock to run before it might be considered fairly valued. Of course, every stock is fighting for a position in our portfolios and this year's drop has resulted in new discounts across our opportunity set, while IBM shares have held up very well to date. Our Target Price for IBM, which yields 5.1%, is now $161.

Johnson & Johnson (JNJ – $172.12) posted adjusted earnings per share of $2.59 in Q2, compared to the analyst consensus estimate of $2.55. The company reported revenue near $24.0 billion, in line with the consensus estimate. Worldwide, operational sales growth increased 8%, a figure reduced 5% by currency headwinds. Pharmaceutical sales continue to make up more than half of JNJ's revenue, led by Stelara (treats psoriasis and psoriatic arthritis) and Darzalex (anti-cancer monoclonal antibody medication). Despite the frequent press coverage, JNJ's COVID vaccine brought in just $544 million in Q2, or less than 3% of total revenue.

CFO Joe Wolk commented, "Increased costs in labor, energy and transportation] pressures will continue to impact margins in the third and fourth quarters and into 2023. As such, we continue to pursue mitigation efforts, including cost-improvement initiatives, strategic price increases and contract negotiations with external supply partners… In the first half of the year, we increased R&D investment by approximately 9% compared to the first half of 2021. The dividend priority

[CEO Joaquin Duato] referenced translated to us distributing $6 billion to shareholders so far this year. We also continue to vigorously evaluate acquisition opportunities that would enhance the current portfolio, build upon our capabilities and enable us to play in higher-growth markets while yielding solid financial returns."

Mr. Wolk continued, "While it's much too early to comment on 2023, we do think it is helpful to point out what the currency impact may be if current assumptions for our estimate holds. Of the current $0.65 unfavorable impact I just referenced, about $0.30 to $0.35 will carry over into 2023's EPS. Certainly, there's a long way to go before we finalize next year's outlook but wanted to give you a sense of how to think about the foreign currency impact. Back to the current year. In terms of 2022 quarterly phasing considerations for your models, we continue to estimate that the back half will improve over the first half with a slight bias for higher growth in Q4 over Q3. In Consumer Health, we have seen quarter-over-quarter reduction in supply disruptions that we anticipate will continue. We also expect to see the benefit of recent strategic price increases in the back half of the year."

Mr. Wolk closed, "Johnson & Johnson has continued to post solid results as our teams navigate a challenging external environment. Our financial performance reinforces our confidence in our ability to grow and deliver near- and long-term value. That is only possible because of our employees around the world, who we'd like to thank for remaining focused on delivering our innovative health care solutions and results for all of our Credo stakeholders."

Management aims to generate EPS between $10.00 and $10.10 per share in 2022, lower than the previous range of $10.15 to $10.35. Overall, sales are expected to come in between $93.3 billion and $94.3 billion. Currency headwinds look likely to take a significant bite out of JNJ earnings in the near future, as the strong dollar takes its toll on JNJ's income outside the United States (approximately 50% of revenue). The litigation on several fronts (talc, baby formula, opioid) continues on, with resolution probably a long way off. High-quality JNJ shares trade at just 17 times forward earnings with a 2.6% dividend yield. Our Target Price is now $206.

Excluding non-cash adjustments related to the transfer of pension liabilities to a third-party, **Lockheed Martin** (LMT – 394.74) earned $6.32 per share in Q2. The result for the giant defense contractor was just shy of analyst projections and EPS from the same quarter a year ago as supply chain and labor impacts affected 3 out of 4 business areas, even as higher margins offset revenue declines.

Management is cautious about how well the company will be able to make up lost production from recent quarters in the years to come, but was optimistic about demand for defense products in general given heightening global conflict. CEO Jim Taiclet offered, "The DoD is in the midst of changing gears and so are our allies, right? So at the beginning of 2022, the [Biden] administration was still in the midst of a relatively benign global security environment at least relative to now. The U.S. has largely withdrawn from its military operations after 2 decades of heavy presence in the Middle East. China's increasing activism in the Western Pacific, while recognized, was perceived as kind of a potential concern, a watch item for the future, if you will. Europe was totally at peace, and Russian forces remained within their borders at that point in time. But if you fast-forward to today, the U.S. and its allies are actively responding to Russia's

invasion of Ukraine. The Pacific is on higher alert because of the statements and actions of China recently, not to mention North Korea. The value of deterrence has never been greater really at this point now. And that shift happened over literally 3 or 4 months. What that requires is the Department of Defense to shift gears, okay? And I can tell you the clutch isn't engaged yet. And the clutch engaged means there are contracts in place. There's a demand signal out there that's clear."

Regarding the F-35 program, Lockheed reached an agreement in principle to modify Lots 15-17. Mr. Taiclet added, "The agreement supports our long-term objective to produce 156 aircraft a year. However, COVID impacts experienced by the F-35 enterprise have required us to modify our near-term production plan. Deliveries over the next 2 years are expected to remain in the 147 to 153 range of aircraft, similar to our 2022 plan before we then achieve our 156 aircraft delivery target in 2025. We continue to anticipate annual deliveries of 156 jets beyond 2025 for the foreseeable future. I'd like to thank the entire team for the dedication and professionalism shown throughout this process. And we look forward to delivering these unmatched fifth-generation aircraft for our U.S. Air Force, Navy and Marines, our partner countries and our international customers."

Shares ended the trading week a bit below where they started, but they still are nicely higher on the year. Lockheed is set to generate some $6 billion of free cash flow in 2022, much of which will likely go toward dividends and share repurchases. We caution that patience is required for conversion of backlog into contracts as long-lead times are a hallmark of the defense business. Nevertheless, various geopolitical tensions at play have elevated much of the globe's appetite for defense spending with many starting to open their wallet for Lockheed's products. Shares trade for a reasonable earnings multiple on a forward basis of 14 and offer a 2.8% dividend yield. Our Target Price is now $498.

Shares of **ManpowerGroup** (MAN – $75.70) gyrated wildly after the staffing services company reported Q2 results, ending the week down 1%, though they are down around 22% this year. MAN earned $2.29 per share (vs. $2.32 est.) and had revenue of $5.07 billion (vs. $5.28 billion est.). In constant currency, Manpower's revenue increased 6% year-over-year, spurred by a strong labor market, which in management's view was noticeably disconnected from the "clouds weighing on the outlook of the global economy." Supply chain challenges continue to impact certain sectors, but specialty markets have remained strong.

CEO Jonas Prising commented, "Labor markets are healthy, talent shortages are high and demand for our services and solutions remains strong. Having said that, the combination of the continued war in Ukraine, increasing energy and food prices driving higher inflation rates and continued supply chain issues creates a more uncertain economic outlook. This will likely create economic headwinds that may eventually spill into labor markets to a greater degree than what we have seen so far. Should that be the case, we're confident in our ability, as we have in the past, to manage changes in the market environment and adapting quickly, leveraging our diversified business mix and experienced leadership to position our company for continued success."

CFO John McGinnis added, "Our guidance continues to assume no material additional COVID-19 or Russia-Ukraine war-related impacts, including energy-related disruptions in Europe beyond those that exist today. On that basis, we are forecasting underlying earnings per share for the third quarter to be in the range of $2.19 to $2.27, which includes an unfavorable foreign currency impact of $0.29 per share…Our constant currency revenue guidance growth range is between 4% and 8%, and at the midpoint represents 6%… This represents a stable to slightly improving trend from the second quarter revenue growth on the same basis. The third quarter revenue trend incorporates solid revenue growth across our industry verticals in our major markets with the exception of automotive, which we expect to continue to be sluggish predominantly in France and Germany, and, to a lesser degree, construction in France. Our third quarter guidance assumes a stable economic environment throughout the full quarter and assumes the important September post-holiday period in Europe experiences no material trend change in demand…As usual, our guidance does not incorporate restructuring charges or additional share repurchases, and we estimate our weighted average shares to be 52.8 million."

A strong labor market has seemingly done little to help Manpower this year, at least if its share price trim roughly matching its MidCap peers is any indication. Manpower is geared towards the European market, where it generates two thirds of its revenue, and that region has struggled lately amid soaring inflation, the war in Ukraine that has destabilized the EU in some ways, a searing heatwave and political turmoil. The Wall of Worry is not new for Manpower, which has managed through many crises throughout its 70-plus-year history. MAN's solid financial footing has allowed it to continue making acquisitions, paying dividends and repurchasing shares. Manpower spent $100 million to buy back 1.14 million shares in Q2, while the existing program still has an additional 3.5 million shares authorized. We continue to find the stock attractive, especially after this year's pullback, as earnings are expected to approach $10 per share in 2024, up from $7.24 in 2021. The next dividend payment, which is paid twice per year, is expected in December and the yield is 3.6%. Our Target Price now stands at $142.

Advertising, marketing and corporate communications services firm **Omnicom** (OMC – $68.96) earned $1.68 per share in Q2 (vs. $1.58 est.) and had revenue of $3.57 billion (vs. $3.46 billion est.). Shares rebounded more than 6% last week as Omnicom said it benefitted from expanded e-commerce and retail media capabilities, collaborations with Amazon, Instacart, Kroger and Walmart, and leveraging of the company's multifaceted marketing platform.

CEO John Wren commented, "Overall, we are very pleased with our progress on our key strategic initiatives and our first half financial results. Our notable new partnerships and continued investments in high-growth areas position us extremely well to service our clients now and in the future. While we remain confident in our strategies and execution, we're retaining a healthy level of caution due to the existing macro factors, including the ongoing war in the Ukraine, the effects of the pandemic across markets, the continuing disruption of global supply chains and the economic risks posed by higher inflation and rising interest rates. Even with this backdrop, we are continuing to see strong demand for our services, and based on our first half results, are increasing our organic revenue growth forecast to between 6.5% to 7% for the full year 2022. We also continue to anticipate delivering the same strong operating margin of 15.4% in 2022 that we delivered in 2021."

CFO Phil Angelastro added, “Regarding our uses of cash, we used $294 million of cash to pay dividends to common shareholders and another $38 million for dividends to noncontrolling interest shareholders. Our capital expenditures of $43 million were at normal levels. Acquisitions net of dispositions and other items were $289 million. And lastly, our net stock repurchases during the first quarter were $393 million, including another $100 million in the second quarter. As we said on our call in April for the full year 2022, we expect we will spend at our historical annual range of around $500 million to $600 million.”

When asked about macroeconomic pressures, Mr. Wren said, “This has probably been my 1, 2, 3, fourth — at least fourth, but we haven’t gotten through the recession yet. I’ve been through 3 others. And the way I’d categorize the portfolio today is it’s more fit for purpose than at any time in my career. You’re absolutely right in pointing out, we’ve spent a lot of time cleaning up the portfolio. And in the last 18 months have been adding to those areas, which are the highest growth. And the way I referred to it is fit for purpose. So I’m pleased where we stand, the management changes that we’ve made. And across the board, there’s always little things to do, but there are fewer things to get correct in — at any other point in my career. And so we’re very pleased. We continue to invest organically in things that we believe will add to our revenue next year and beyond…We’re constantly looking at our major expenses, which are matching staff to revenue and our management throughout the company is very, very aware and very capable of doing that. And the second biggest expense is real estate, which improves every single year for us.”

We are happy with OMC’s quarter and think the company can still achieve more than $7.00 in EPS by 2024 (which would result in a P/E of less than 10 at the current price). Omnicom has relationships with big clients, including Philips, Mercedes, Nike and Diageo, and we think that there will be growing opportunities for OMC to offer its expertise in a world dominated by a handful of large advertising platforms and their algorithms. OMC continues to score well against its peer group in our proprietary valuation framework and the stock sports a 4.0% dividend yield. Our Target Price has been fine-tuned to $105.

Formerly known as Anthem, **Elevance Health** (ELV – $459.60) posted another strong quarter, producing EPS of $8.04 in Q2, a figure that came in slightly above the Street’s target and one that was 14% higher year-over-year as U.S. medical membership grew 6% (2.7 million net new members) over the same period to 47.1 million members. The managed health care provider experienced an uptick in medical utilization that affected margins but won a Medicaid contract in North Carolina. Management boosted its EPS outlook for the second time this year to $28.70 per share, 14% better than its guidance at the start 2022.

CEO Gail Boudreaux said, “In the second quarter, we closed the acquisition of Integra Managed Care, a Medicaid plan in New York focused on patients in need of long-term support services to help them live in their homes and communities. We’re excited to welcome the Integra team to the Elevance Health family. Their commitment to patients with complex and chronic needs is well aligned with our focus on serving the needs of the people who need us most. In Medicare Advantage, personalized health solutions are resonating with seniors, notably dual eligible members with complex and chronic needs and our supplemental benefits, which emphasize social drivers of health, supporting members with in-home support, transportation needs, healthy

groceries, assisted devices and more, continue to gain traction. We remain on track to produce double-digit organic growth in our individual MA business, led by growth in duals, and are excited about our plans for 2023."

Somehow, all the good news was greeted with sell orders, with the stock price sinking 6% last week, as traders (can't call them investors) were disappointed that the company's beat on the medical-loss ratio was not impressive enough. Not sure how exceeding expectations on the top- and bottom-line and issuing better guidance is a bad thing, but such is the so-called whisper-number game. We saw the results as a positive and bumped up our Target Price to $594.

Most recognizable to many is that Elevance is the exclusive licensee of the Blue Cross Blue Shield brand in 14 states. While varying political agendas stand to alter regulations that might affect the health care industry, we believe ELV's scale significantly strengthens its competitive position as evidenced by its 17%+ return on equity. We also appreciate that longer term, demographic trends appear in the company's favor as a major player in the Medicare Advantage market. While shares have outperformed by a wide margin on the year, they trade below the market multiple.

Comerica Inc. (CMA – $78.00) announced last week that it earned $1.92 per share in Q2, some 9% ahead of the consensus forecast and up 40% over what the regional bank posted in Q1. Management had guided three months ago for higher income throughout the year as liquidity was deployed into higher margin assets earlier in the year, reflecting the higher interest rate environment. And the decision to reduce the rate sensitivity of its loan book over recent quarters appears timely as longer-term yields receded modestly throughout the most recent period. Meanwhile, deposit costs remain at a record low of 5 basis points. The company continues to push forward on its modernization initiatives to transform the delivery of its retail banking model and enhance its technology suite.

CFO James Herzog commented, "Loan growth was very robust, increasing $1.8 billion, driven by favorable environmental factors as well as our relationship-focused approach. As of quarter end, loan commitments were up $2 billion or 4%, and the line utilization rate held steady at about 46%. National Dealer Services loans increased over $400 million. This included a $200 million increase in floor plan loans to $840 million. However, these balances remain well below our typical run rate of about $4 billion. We expect it will take some time for inventory levels to rebuild as supply issues are resolved and pent-up demand is satisfied. General middle-market average loans were up over 3% and large corporate grew 7%. Borrowing needs are being driven by higher material prices and inventory levels as well as M&A and, to a lesser extent, CapEx. We continue to have great success in our equity fund services business, where we provide capital call and subscription lines to venture capital and private equity firms."

CEO Curt Farmer added, "Many business lines continue to show good momentum, with very strong loan growth and increases in commitments in our pipeline. Our unique expertise in many areas as well as our geographic footprint offers significant opportunities. Credit quality remains excellent, a testament to our strong credit culture. Our expense discipline was evident as we continue to invest to provide a high-caliber customer and colleague experience. Our balance sheet structure has quickly produced benefits from rising rates, and we expect to continue to

appropriately add hedges with the goal of providing a more consistent earnings performance through the cycles."

We like that the Comerica has one of the most attractive deposit franchises and its growth in Texas and California has helped diversify risk in Michigan, where it remains a dominant player. We like Comerica's longer-term prospects as the company realizes value from its deep, advisor-style relationships with small and midsize business clients. Fee income and wealth management also help support the bottom line as we await further improvement of interest rate spreads. Shares offer a dividend yield of 3.5%. Our Target Price for CMA has been bumped up to $109.

Shares of **Seagate Technology PLC** (STX – $76.83) plunged after the storage maker reported fiscal Q4 results that trailed analyst estimates, while soft Q1 guidance and production cuts sent the stock and that of its peers further into negative territory for the year. In Q4, STX earned $1.59 per share (vs. $1.91 est.) and had revenue of $2.63 billion (vs. $2.80 billion est.). Management explained the shortfall was the result of COVID lockdowns in Asia, non-HDD component shortages and global inflation. Next quarter, STX expects adjusted EPS around $1.40 (vs. $2.27 est.) and revenue of $2.50 billion (vs. $3.01 billion est.).

CEO Dave Mosley said, "Despite the ongoing impacts of COVID lockdowns and supply challenges, mass capacity revenue was flat quarter-over-quarter, due in part the strong cloud customer adoption of our 20-plus terabyte nearline drives. U.S. cloud data center demand remains strong. However, persistent non-HDD component shortages have led to inventory imbalances, precluding new data center build-outs from being completed. These, along with other supply disruptions have led to a buildup in inventory levels across a broad spectrum of customers, a trend that continued through the end of the quarter. As macro uncertainties and inflationary pressures intensify, we expect customers will increasingly focus on reducing their inventory levels while maintaining the ability to address end market demand. At the same time, our Asia-based cloud customers are dealing with the impacts of COVID restrictive measures, which have had far-reaching effects across all of the end markets that we serve in the region. In the via markets, recall that many of the major projects driving demand are in the Asia region, particularly in China, where lockdowns are impacting our near-term revenue. While the situation remains fluid, we are confident that mass capacity demand growth will resume once lockdowns ease and inventory levels normalize. Within the legacy markets, demand rapidly deteriorated at the end of the quarter as lockdowns and surging inflation severely impacted consumer spending for PCs and external drives."

Mr. Mosley ended his comments on an optimistic note, "Seagate has broad exposure to the strong secular tailwinds driving demand for mass capacity storage. These trends remain intact, which lends confidence that growth will resume the supply constraints and COVID lockdown impacts ease. Seagate is fundamentally a stronger company today and is exceptionally well positioned to endure the current market environment. We have the right product portfolio, deep customer relationships and operational agility to optimize profits and fuel growth."

When pressed by an analyst about the market in the upcoming quarter, Mr. Mosley said, "If I look at where we were 2 quarters ago, predictability of the cloud, 20-terabyte transition…I think it's been fairly predictable through the end of last quarter. We do see, in particular, in China and

some of CSPs, some inventory overages. So what we're doing to try to compensate for that, is to not make sure we don't pack into it, not building too many 16s and 18s, if you will, and heading up the transitions to the 20s there. So it's more of a looking forward where I see issues. It's not really with U.S. CSPs. I mean everyone is having the same supply chain issues out in the world, but some people are navigating it differently. And I think there's a good market demand out for mass capacity and especially in the cloud businesses. I do think there are some temporary issues that people are getting through given their supply chain points or COVID lockdowns or things like that."

Fiscal Q1 guidance coming in well below analyst estimates is sure to disappoint many and led to a rash of analyst downgrades. We suspect EPS and sales targets will get whacked as well, while Q2 and beyond will get less bullish estimates as well. Prior to the announcement, analysts were expecting EPS growth between 6% and 10% for the next three fiscal years, ahead of the 1% to 4% range for expected sales (the gap likely due to STX's aggressive share buyback program). Shares are down by more than 30% this year, even as the valuation is exceptionally reasonable, and the longer-term dynamics of the storage business remain robust. Of course, storage has historically been a very volatile industry, with booms, busts and M&A volume. Yet, in the recent past, STX and its competitors have moved towards a storage commodity model with more stable revenue and growing earnings power driven by volume. COVID impacts seem likely to upset the supply chain a while longer, but we are content with our present positioning. The company remains very profitable and the dividend yield is now 3.6%. Our Target Price is now $119.

Capital One Financial (COF – $108.93) earned $4.96 per share in Q2, down from $5.62 in Q1, and $7.62 in Q2 2021. Elevated marketing spend, which was 9% over the Q1 amount, weighed on results even as period-end loans grew 6% and net interest margin expanded 5 basis points. The giant credit-card issuer built its loan loss allowance in the quarter across all business lines, given loan growth and a worsening economic outlook, with a balance that now equates to 2% of total loans.

CEO Richard Fairbank commented, "We continued to drive attractive and resilient growth in the second quarter, and we're staying focused on the most resilient businesses and opportunities. The choices we're making today put us in a strong position to continue to deliver long-term value as the sweeping digital transformation of banking continues."

The company continues to go after what it deems "heavy spender" customers, despite higher up-front costs. Mr. Fairbank added, "The long-term economics are compelling. And as our heavy spender franchise has grown significantly in recent years, its impact has quietly and gradually changed several Domestic Card metrics and financial results. Heavy spender credit losses are low, which lowers overall domestic card loss rates, all other things being equal. Naturally high heavy spender payment behaviors are a key driver of our long-term trend of increasing domestic card payment rates, and high payment rates go hand-in-hand with strong credit performance. Heavy spender attrition is very low, and that's been a factor in our strong domestic card loan growth. Heavy spenders have a particularly large impact on increasing purchase volume and have been a major driver of strong domestic card purchase volume growth that has generally exceeded loan growth over time. This spend velocity has driven increases in net interchange revenue in absolute terms and as a percentage of total revenue. And these interchange fee

revenues — revenue annuities are strong and sustained over very long-term customer relationships."

We acknowledge that marketing spend tends to trend above that of peers, but the strategy fits in with the lender's growth playbook. Of course, COF has been on a decade-long path to attract higher-spending customers, with Capital One Cafes (*Grab Your Coffee – Find Your Zen*) one of the latest initiatives. We continue to think highly of Capital One's tech-enabled infrastructure and capability and expect increased spending in the coming years to push loan balances modestly higher. The stock price is volatile, but we think a forward multiple of earnings near 6 presents a compelling opportunity for long-term oriented owners. The dividend yield is 2.2%. Our Target Price for COF is now $180.

Telecommunications and wireless phone service provider **Verizon Communications** (VZ – $44.45) earned an adjusted $1.31 per share in Q2 2022 (vs. $1.327 est.). For the second consecutive quarter, management lowered its full-year outlook, this time to between $5.10 and $5.25, down from the $5.40 to $5.55 range from three months ago. The company said the inflationary environment and intensified competition had impacted consumer wireless volumes, leading it to take pricing action.

CFO Matthew Ellis explained, "We reported postpaid phone net adds of 12,000 in the second quarter as strong Business results more than offset softer Consumer performance. Business delivered 227,000 postpaid phone net adds in the quarter. We continue to see strong demand across all lines of the Business group as phone gross adds were up nearly 30% from the same period a year ago, and we expect this strong performance to continue. On the Consumer side, postpaid phone net losses were 215,000 in the quarter and stemmed from 2 main drivers. First, churn increased by 10 basis points compared to the same period last year. Higher involuntary churn contributed roughly half of the increase due to the expiration of state consumer protection policies and less stimulus funding. This was coupled with an 11% decline in phone gross adds from the prior year, driven by the competitive offerings in the marketplace."

In response to a recent comment from AT&T management about some customers postponing bill payments, Mr. Ellis said, "We haven't seen any noticeable change in the payment patterns from customers, continues to be very good, very much in line with what we were seeing pre-COVID, in fact, slightly better than that time period. And when you look at the quality of the business we're writing, the FICO scores in our DPP portfolio has never been higher. So at this point in time, we're continuing to see the type of strong payment patterns that you would expect from the high-quality customer base that we have."

We concede that the benefits from Verizon's historically higher-quality network are increasingly marginal as competitors consolidate and invest more into their own service. Nevertheless, we continue to favor the company's brand positioning and think the gap between Verizon and others imposes significant execution risk on the competition despite the latest pressure. A 14% slide in the price year-to-date makes VZ especially attractive at 8 times 2022 EPS estimates with a 5.8% dividend yield. Our Target Price now resides at $72.

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