Market Commentary Monday, August 1, 2022

August 1, 2022

EXECUTIVE SUMMARY

Market Week – Rebound Continues
Sentiment – Be Greedy When Others are Fearful
Patience – Gains During Upswings Have Dwarfed Losses During Downturns
Economy – Contraction in Real but Sizable Growth in Nominal GDP
Inflation – Equities a Strong Hedge Historically Against a High CPI
GDP Outlook – Real Growth in 2022 and 2023 Still the Forecast
Valuations – Stocks Continue to be Reasonably Priced
Stock News – Updates on AAPL, MSFT, GOOG, META, QCOM, INTC, CMCSA, WMT, GM, ADM, WHR, ARE, PHG, NEM, NYCB & INT

Market Review

It never hurts to see some real-time support for our constant admonition that time in the market trumps market timing. Indeed, stocks turned in their second consecutive week of handsome gains, with the Dow Jones Industrial Average rebounding more than 900 points over the past five trading sessions.

THE PRUDENT SPECULATOR

TERRIFIC REBOUND: DOW JONES INDUSTRIAL AVERAGE RALLIES AGAIN

Not so rare are nice one-week rallies of nearly 3% for the Dow Jones Industrial Average, as the popular market gauge regained 2.96% over the last five trading days of July, the 397th best weekly showing since 1928.

Up > 2.96%

	1920's	1930's	1940's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	2020's	Totals
Years Ending in 0		8	5	2	2	6	6	4	7	3	11	54
Years Ending in 1		12	2	2	1	2	3	6	8	8	4	48
Years Ending in 2		18	3	0	3	1	7	3	6	2	4	47
Years Ending in 3		18	1	0	1	6	4	1	3	2		36
Years Ending in 4		6	1	3	0	8	3	3	1	2		27
Years Ending in 5		4	1	1	0	10	2	1	1	3		23
Years Ending in 6		5	4	1	3	2	5	5	1	3		29
Years Ending in 7		6	1	0	2	2	7	5	2	0		25
Years Ending in 8	12	14	1	1	2	5	4	6	9	3		57
Years Ending in 9	13	5	0	1	3	2	4	8	11	4		51
Totals	25	96	19	11	17	44	45	42	49	30	19	397

From 1.31.28 through 7.29.22. Weeks of index price increases of greater than or equal to 2.96%. SOURCE: Kovitz using data from Bloomberg

Down < 2.96%

	1920's	1930's	1950's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	2020's	Totals
Years Ending in 0		14	5	2	4	4	5	7	8	5	6	60
Years Ending in 1		25	5	1	0	3	5	2	7	5	2	55
Years Ending in 2		19	2	0	5	0	2	0	6	1	3	38
Years Ending in 3		11	2	0	2	9	0	0	3	0		27
Years Ending in 4		6	0	0	0	12	2	4	2	2		28
Years Ending in 5		3	0	2	0	4	0	0	2	4		15
Years Ending in 6		3	7	3	4	0	4	0	2	1		24
Years Ending in 7		11	2	3	1	3	5	5	4	0		34
Years Ending in 8	3	10	3	0	0	5	6	7	14	9		57
Years Ending in 9	13	8	1	0	5	1	4	3	7	1		43
Totals	16	110	27	11	21	41	33	28	55	28	11	381

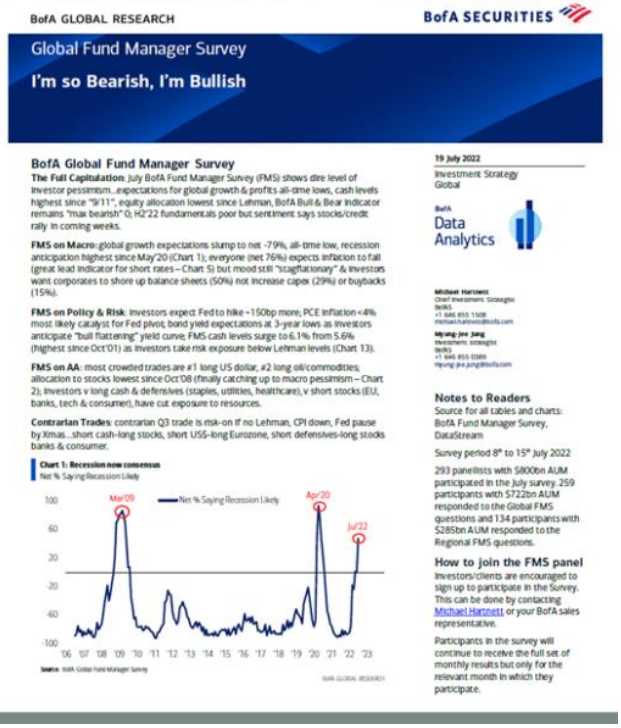
From 1.31.28 through 7.29.22. Weeks of index price decreases of greater than or equal to 2.96%. SOURCE: Kovitz using data from Bloomberg

That advance added to the 826-point surge in the Dow over the last four trading days the week prior, with the big rally coinciding precisely with the release of the latest BofA Global Fund Manager survey the morning of July 19. Incredibly, the supposedly smart money confessed to a "dire" level of pessimism, with expectations for global growth and corporate profits at all-time lows and allocations to equities on par with the time around the Collapse of Lehman Brothers in 2008.

THE PRUDENT SPECULATOR

BE GREEDY WHEN OTHERS (ESPECIALLY PROFESSIONALS) ARE FEARFUL

"The Full Capitulation: July BofA Fund Manager Survey (FMS) shows dire level of investor pessimism...expectations for global growth & profits all-time lows, cash levels highest since 9/11, equity allocation lowest since Lehman." – July 19, 2022



Obviously, anything can happen as we go forward, and we understand that stocks did not bottom during the Great Financial Crisis until March 2009, but we are again witnessing why 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.

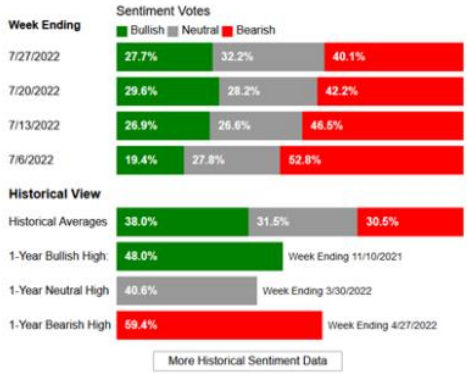
Zigging when zagging would have been the much better move is not just a Wall Street phenomenon, as the folks on Main Street are often even worse with their market timing, with the number of Bulls on the weekly sentiment gauge from the American Association of Individual Investors plunging to its 25th lowest level in history the third week of June,…

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 27.7% is still a major equity market buy signal, even as the tally was 9.5 points higher than five 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 -12.4 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
-13	-33	-25	-24
Neutral	Greedy	Greedy	Greedy

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%	-4.8%	
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%	4.6%		
25 Period Average		-0.6%	0.4%	5.9%	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

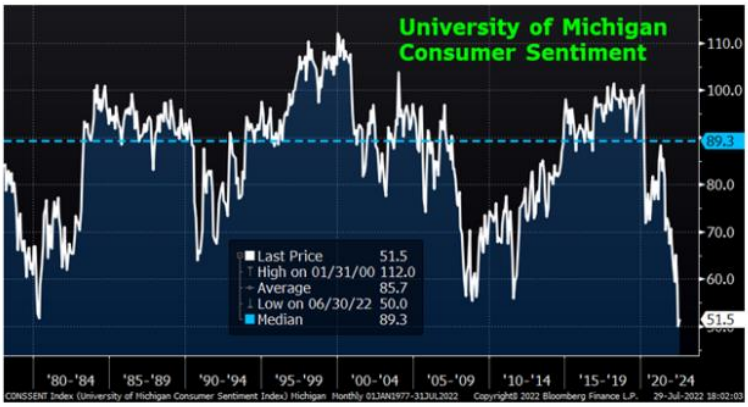
Date	Spread	1W RET	1M RET	3M RET	6M RET
10/18/1990	-54.0	1.5%	4.5%	10.1%	32.1%
3/5/2009	-51.4	10.3%	24.5%	40.3%	52.7%
10/4/1990	-44.0	-5.5%	-0.5%	4.3%	26.2%
9/20/1990	-43.0	-3.7%	-0.5%	6.9%	21.5%
11/15/1990	-43.0	-0.4%	3.6%	18.4%	20.1%
4/28/2022	-43.0	-3.3%	-3.0%	-4.8%	
6/22/2022	-41.1	-0.4%	4.6%		
7 Period Average		-0.2%	4.7%	12.6%	30.5%
All Periods Average		0.2%	0.9%	2.8%	5.9%

Source: American Association of Individual Investors and Bloomberg

…and the Consumer Sentiment gauge from the University of Michigan hitting a record low,…

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.

…right as the S&P 500 was beginning a better-than-12% run up off of the Bear Market lows.

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PERSPECTIVE: 10% UPS AND DOWNS SINCE TPS INCEPTION

S&P 500 Moves (on a Closing Basis) of 10% Without a Comparable Move in the Other Direction

9/12/1978	11/14/1978	-13.55%	BEAR	3/6/1978	9/12/1978	23.12%	BULL
10/5/1979	11/7/1979	-10.25%	BEAR	11/14/1978	10/5/1979	20.30%	BULL
2/13/1980	3/27/1980	-17.07%	BEAR	11/7/1979	2/13/1980	18.59%	BULL
11/28/1980	9/25/1981	-19.75%	BEAR	3/27/1980	11/28/1980	43.07%	BULL
11/30/1981	3/8/1982	-15.05%	BEAR	9/25/1981	11/30/1981	12.04%	BULL
5/7/1982	8/12/1982	-14.27%	BEAR	3/8/1982	5/7/1982	11.30%	BULL
10/10/1983	7/24/1984	-14.38%	BEAR	8/12/1982	10/10/1983	68.57%	BULL
8/25/1987	10/19/1987	-33.24%	BEAR	7/24/1984	8/25/1987	127.82%	BULL
10/21/1987	10/26/1987	-11.89%	BEAR	10/19/1987	10/21/1987	14.92%	BULL
11/2/1987	12/4/1987	-12.45%	BEAR	10/26/1987	11/2/1987	12.33%	BULL
10/9/1989	1/30/1990	-10.23%	BEAR	12/4/1987	10/9/1989	60.68%	BULL
7/16/1990	10/11/1990	-19.92%	BEAR	1/30/1990	7/16/1990	14.23%	BULL
10/7/1997	10/27/1997	-10.80%	BEAR	10/11/1990	10/7/1997	232.74%	BULL
7/17/1998	8/31/1998	-19.34%	BEAR	10/27/1997	7/17/1998	35.32%	BULL
9/23/1998	10/8/1998	-10.00%	BEAR	8/31/1998	9/23/1998	11.37%	BULL
7/16/1999	10/15/1999	-12.08%	BEAR	10/8/1998	7/16/1999	47.88%	BULL
3/24/2000	4/14/2000	-11.19%	BEAR	10/15/1999	3/24/2000	22.45%	BULL
9/1/2000	4/4/2001	-27.45%	BEAR	4/14/2000	9/1/2000	12.10%	BULL
5/21/2001	9/21/2001	-26.43%	BEAR	4/4/2001	5/21/2001	19.00%	BULL
1/4/2002	7/23/2002	-31.97%	BEAR	9/21/2001	1/4/2002	21.40%	BULL
8/22/2002	10/9/2002	-19.31%	BEAR	7/23/2002	8/22/2002	20.68%	BULL
11/27/2002	3/11/2003	-14.71%	BEAR	10/9/2002	11/27/2002	20.87%	BULL
10/9/2007	3/10/2008	-18.64%	BEAR	3/11/2003	10/9/2007	95.47%	BULL
5/19/2008	10/10/2008	-36.97%	BEAR	3/10/2008	5/19/2008	12.04%	BULL
10/13/2008	10/27/2008	-15.39%	BEAR	10/10/2008	10/13/2008	11.58%	BULL
11/4/2008	11/20/2008	-25.19%	BEAR	10/27/2008	11/4/2008	18.47%	BULL
1/6/2009	3/9/2009	-27.62%	BEAR	11/20/2008	1/6/2009	24.22%	BULL
4/23/2010	7/2/2010	-15.99%	BEAR	3/9/2009	4/23/2010	79.93%	BULL
4/29/2011	10/3/2011	-19.39%	BEAR	7/2/2010	4/29/2011	33.35%	BULL
5/21/2015	8/25/2015	-12.35%	BEAR	10/3/2011	5/21/2015	93.85%	BULL
11/3/2015	2/11/2016	-13.31%	BEAR	8/25/2015	11/3/2015	12.97%	BULL
1/26/2018	2/8/2018	-10.16%	BEAR	2/11/2016	1/26/2018	57.07%	BULL
9/20/2018	12/24/2018	-19.78%	BEAR	2/8/2018	9/20/2018	13.55%	BULL
2/19/2020	3/23/2020	-33.92%	BEAR	12/24/2018	2/19/2020	44.02%	BULL
1/3/2022	3/8/2022	-13.05%	BEAR	3/23/2020	1/3/2022	114.38%	BULL
3/29/2022	6/16/2022	-20.83%	BEAR	3/8/2022	3/29/2022	11.05%	BULL
				6/16/2022	7/29/2022	12.64%	BULL
Average Drop		**-18.28%**		**Average Gain**		**40.69%**	

SOURCE: Kovitz using data from Bloomberg

Trading has been rocky this year, to say the least, with many stocks having endured their worst performance since the five-week 2020 Bear Market brought on by the COVID-19 Pandemic. While the S&P 500 quickly rallied out of correction territory in March, the index closed on 6.16.22 below the Bear Market level with a 20.83% decline from the 03.29.22 interim high. Of course, volatility is hardly unusual in the equity markets, and we are now enjoying the 37th 10% or greater rally since the launch of *The Prudent Speculator* more than 45 years ago. Happily, while there also have been 36 setbacks of 10% or greater along the way, the average loss has been dwarfed by the average gain during periods in the green.

To be sure, the current move northward could simply be a bounce in a downtrend, but each of the 27 Bull Market runs of 20% or greater since 1927 has started with a 12% advance. Happily, every Bear Market has eventually been overcome in the fullness of time, so much so that investors who have stuck with stocks through thick and thin generally have superb long-term returns to show for their patience.

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%	44.6%	336	73	1.3	6/16/2022	7/29/2022
10.0%	35.0%	244	100	0.9	6/16/2022	7/29/2022
7.5%	23.7%	149	159	0.6	6/16/2022	7/29/2022
5.0%	14.7%	72	311	0.3	6/16/2022	7/29/2022

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 07.29.22. 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%

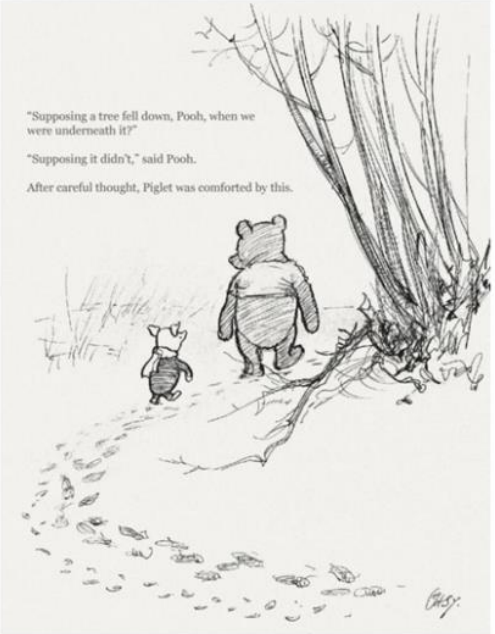
From 06.30.27 through 04.30.22. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the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

Of course, it is not easy to keep the faith along the way, but a look back at history reveals that there have been plenty of hurdles overcome in the past, many of which were far more disconcerting than what investors are facing today.

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.



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%	47484%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	27435%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	24647%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	9593%
Suez Canal Crisis	10/30/1956	10/31/1956	46.37	45.58	-2%	-10%	26%	51%	8962%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	10496%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	7622%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	5833%
MLK Assassination	4/3/1968	4/5/1968	93.47	93.29	0%	8%	8%	16%	4327%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	5375%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	4382%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	5801%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	3825%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	4105%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	3357%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	2451%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	1588%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	1737%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	1206%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	997%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	903%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	832%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	804%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	717%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	371%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	330%
Clinton Impeachment	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	236%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	208%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	328%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	351%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	278%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	245%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	511%
Price Changes Only - Does Not Include Dividends				**Averages:**	**-7%**	**18%**	**39%**	**66%**	**5677%**

As of 7.29.22. Source: Kovitz using Bloomberg and Ned Davis Research Events & Reaction Dates

*****

Now, it isn't as if the last six week have seen the clouds part and the sun come out, as there remain plenty of issues about which to be concerned, but we never can know for sure how fickle market participants will react to the headlines.

THE PRUDENT SPECULATOR

KNOWING THE HEADLINES IN ADVANCE COULD BE HAZARDOUS TO WEALTH

Second quarter results from technology titans Microsoft and Google trailed estimates, yet their stock prices jumped more than 10% over the ensuing three trading sessions as folks found a lot to like beneath the disconcerting headlines.

BUSINESS & FINANCE

THE WALL STREET JOURNAL. Wednesday, July 27, 2022 | B1

Microsoft's Earnings Fall Short

Alphabet Revenue Growth Slowest Since '20

Activist Elliott Has Stake In PayPal

GE Gets Sales Lift From Aviation But Trims Its Cash-Flow Outlook

For example, the Federal Reserve boosted the target for the Federal Funds rate last week by another 75 basis points,…

THE PRUDENT SPECULATOR

FOMC STATEMENT: 7.27.22

Recent indicators of spending and production have softened. Nonetheless, job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher food and energy prices, and broader price pressures.

Russia's war against Ukraine is causing tremendous human and economic hardship. The war and related events are creating additional upward pressure on inflation and are weighing on global economic activity. The Committee is highly attentive to inflation risks.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to raise the target range for the federal funds rate to 2-1/4 to 2-1/2 percent and anticipates that ongoing increases in the target range will be appropriate. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in the Plans for Reducing the Size of the Federal Reserve's Balance Sheet that were issued in May. The Committee is strongly committed to returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

…raising the benchmark borrowing rate to 2.5%, but leading to lower, not higher, long-term government bond yields,…

THE PRUDENT SPECULATOR

BENCHMARK TREASURY YIELD DROPS DESPITE ANOTHER BIG FED RATE HIKE

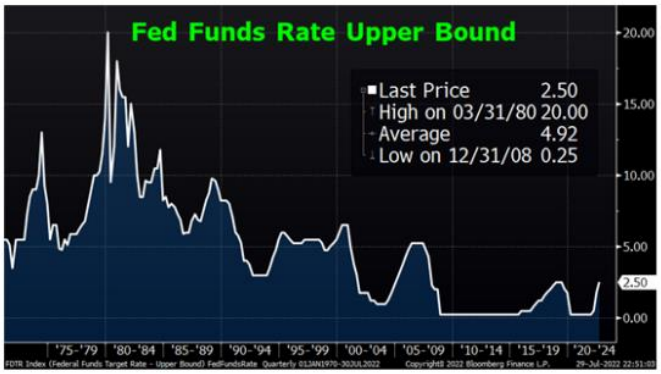
Interesting that the Federal Reserve hiking its target for the Fed Funds rate by 75 basis points for the second consecutive month would be greeted by a flurry of buy orders in the long-term U.S. Treasury market, sending the yield on the 10-Year bond down by 10 basis points in the latest week.

…as traders bet that Jerome H. Powell & Co. will come to the end of the rate-hiking cycle at the end of the year, with the Fed Chair himself stating last week, “At some point it will be appropriate to slow down. We are going to be guided by the data.”

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% in June, down from 2.8% in March, the Federal Reserve lifted its target for the Fed Funds rate by 75 basis points at both the June and July FOMC meetings. Jerome H. Powell & Co. 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.



Those data are far from certain, as evidenced by the debate about whether the U.S. economy is technically in contraction, given that the current 40% recession odds,…

THE PRUDENT SPECULATOR

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

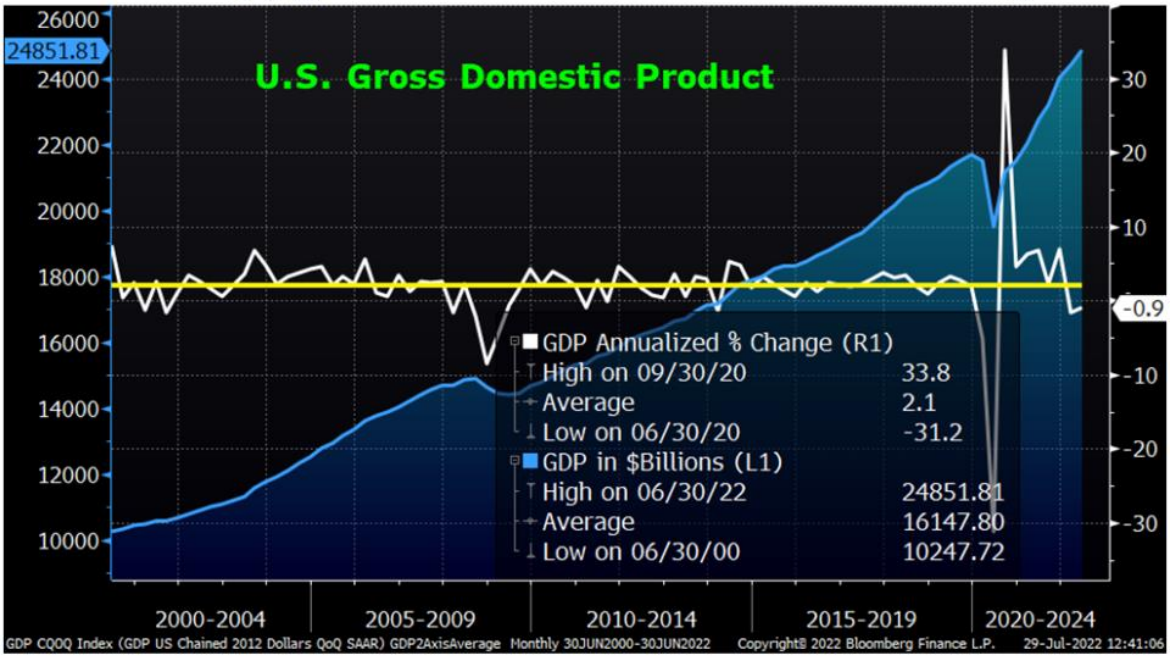
The respective 1.6% and 0.9% contractions in Q1 and Q2 2022 real (inflation-adjusted) GDP mean economists could say that the U.S. economy is in recession, but the odds of an official declaration stand today at 40%, meaning the consensus forecast would be no recession.

…despite Friday's initial estimate for Q2 real (inflation-adjusted) GDP growth coming in at negative 0.9%, the second successive quarter of decline.

THE PRUDENT SPECULATOR

HUGE 9.3% JUMP IN NOMINAL GDP, BUT REAL GDP CONTRACTS BY 0.9%

Second quarter 2022 real (inflation-adjusted) domestic economic growth came in much weaker than expected at a 0.9% contraction on an annualized basis, even as the current-dollar nominal GDP figure of $24.9 trillion soared by 9.3% on an annualized basis to an all-time high.



Interestingly, Chair Powell at Wednesday's *Press Conference* was relatively upbeat in his remarks on the health of the economy,…

THE PRUDENT SPECULATOR

CHAIR POWELL: PRESS CONFERENCE OPENING STATEMENT: 07.27.22

Recent indicators of spending and production have softened. Growth in consumer spending has slowed significantly, in part reflecting lower real disposable income and tighter financial conditions. Activity in the housing sector has weakened, in part reflecting higher mortgage rates. And after a strong increase in the first quarter, business fixed investment also looks to have declined in the second quarter.

Despite these developments, the labor market has remained extremely tight, with the unemployment rate near a 50-year low, job vacancies near historical highs, and wage growth elevated. Over the past three months, employment rose by an average of 375,000 jobs per month, down from the average pace seen earlier in the year but still robust. Improvements in labor market conditions have been widespread, including for workers at the lower end of the wage distribution as well as for African Americans and Hispanics. Labor demand is very strong, while labor supply remains subdued with the labor force participation rate little changed since January. Overall, the continued strength of the labor market suggests that underlying aggregate demand remains solid.

Inflation remains well above our longer-run goal of 2 percent. Over the 12 months ending in May, total PCE prices rose 6.3%; excluding the volatile food and energy categories, core PCE prices rose 4.7%. In June, the 12-month change in the Consumer Price Index came in above expectations at 9.1 percent, and the change in the core CPI was 5.9%. Notwithstanding the recent slowdown in overall economic activity, aggregate demand appears to remain strong, supply constraints have been larger and longer lasting than anticipated, and price pressures are evident across a broad range of goods and services. Although prices for some commodities have turned down recently, the earlier surge in prices of crude oil and other commodities that resulted from Russia's war on Ukraine has boosted prices for gasoline and food, creating additional upward pressure on inflation.

We are highly attentive to inflation risks and determined to take the measures necessary to return inflation to our 2 percent longer-run goal. This process is likely to involve a period of below-trend economic growth and some softening in labor market conditions, but such outcomes are likely necessary to restore price stability and to set the stage for achieving maximum employment and stable prices over the longer-run.

…though he did not choose to mention the fact that nominal (non-inflation-adjusted) GDP growth soared in both Q1 and Q2,…

ECONOMY SHRINKS? - THE HEADLINES DO NOT ALWAYS TELL THE FULL STORY

We understand that the focus on GDP is always on the real (inflation-adjusted) tally, but if one reads the fine print of the report from Uncle Sam, they will see that in current (nominal) dollar terms, the economy grew markedly in Q2, as did personal income, as did disposable personal income, as did personal saving.

"All the News That's Fit to Print"

The New York Times

Late Edition

VOL. CLXXI .... No. 59,499 NEW YORK, FRIDAY, JULY 29, 2022 $3.00

ECONOMY SHRINKS AGAIN, AMPLIFYING FEAR OF RECESSION

G.D.P. Falls for Second Straight Quarter as the Fed Tries to Tame Inflation

By BEN CASSELMAN

Pope Francis at Lac Ste. Anne in Alberta this week. Regarding his use of a wheelchair, he said recently, "That's how it is, that's life."

Tough Choices In a U.S. Deal To Free Griner

By PETER BAKER

Pope Makes His Frailty a Lesson in Compassion

Now 85, He Preaches Care and Dignity for Aging Population

By JASON HOROWITZ

Current-dollar GDP increased 7.8% at an annual rate, or $465.1 billion, in the second quarter to a level of $24.85 trillion. In the first quarter, GDP increased 6.6%, or $383.9 billion.

The **price index for gross domestic purchases** increased 8.2% in the second quarter, compared with an increase of 8.0% in the first quarter. **The PCE price index** increased 7.1%, the same rate as the first quarter. Excluding food and energy prices, the PCE price index increased 4.4%, compared with an increase of 5.2%.

Personal Income

Current-dollar personal income increased $353.8 billion in the second quarter, compared with an increase of $247.2 billion in the first quarter. The increase primarily reflected increases in compensation (led by private wages and salaries), proprietors' income (both nonfarm and farm), personal income receipts on assets, and rental income.

Disposable personal income increased $291.4 billion, or 6.6%, in the second quarter, in contrast to a decrease of $58.8 billion, or 1.3%, in the first quarter. **Real disposable personal income** decreased 0.5%, compared with a decrease of 7.8%. **Personal saving** was $968.4 billion in the second quarter, compared with $1.02 trillion in the first quarter. The **personal saving rate**—personal saving as a percentage of disposable personal income—was 5.2% in the second quarter, compared with 5.6% in the first quarter.

Gross Domestic Product, Second Quarter 2022 (Advance Estimate)

…helping corporate profits, which are tabulated in nominal dollars, to show year-over-year growth.

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 sometimes reacted negatively. 73.3% of the 277 S&P 500 companies to have announced have beat EPS expectations and 60.3% have exceeded revenue forecasts.

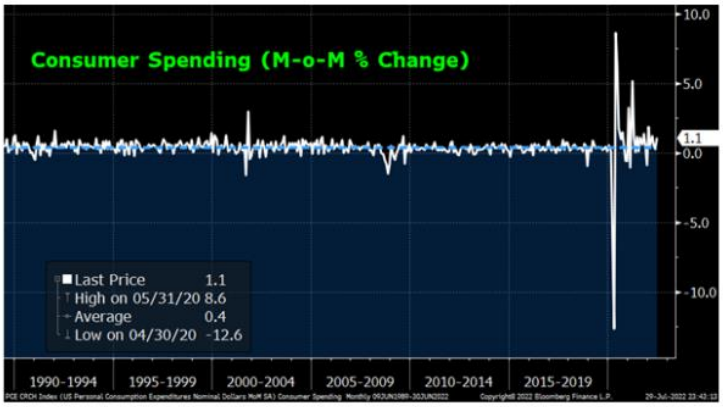
S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2023	$64.38	$246.09
9/30/2023	$62.89	$241.55
6/30/2023	$60.39	$237.19
3/31/2023	$58.43	$229.77
12/31/2022	$59.84	$220.70
9/30/2022	$58.53	$217.59
6/30/2022	$52.97	$211.08
ACTUAL		
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

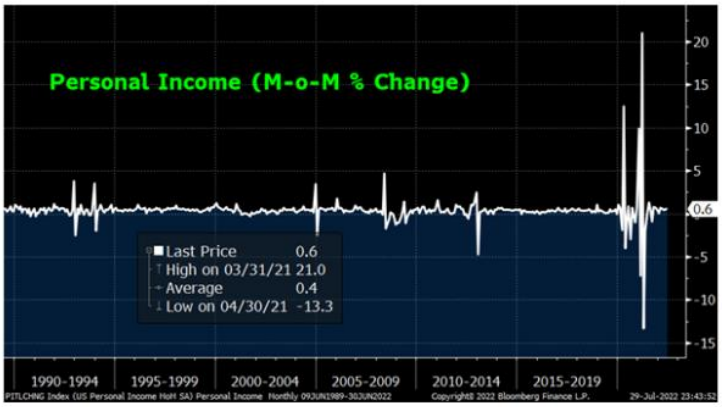
Source: Standard & Poor's. As of 7.21.22

We are a bit puzzled by the seemingly singular focus on real GDP numbers when our bank accounts and stock portfolios are valued in actual dollars and many economic statistics are reported on a nominal basis,…

THE PRUDENT SPECULATOR

CONSUMER SPENDING & PERSONAL INCOMES BOTH RISE





With inflation at the highest level in decades accounting for nearly all the increase, folks continued to hit the stores in June as nominal consumer spending rose 1.1%, beating expectations for a 0.9% gain and climbing from an increase of 0.3% in May. Shoppers did not have to reach too deeply into their wallets as personal income gained 0.6% and the savings rate rose 5.1% in June, though the latter figure represented a 13-year low figure.

…while other numbers are adjusted only for seasonal factors,…

THE PRUDENT SPECULATOR

HOUSING MARKET COOLS CONSIDERABLY

With mortgage rates having jumped and home prices remaining high, pending home sales (contract signed for an existing-home, but the sale has not yet closed) skidded 8.6% in June, well below forecasts of a 1.0% drop, with the largest decline in the Western U.S. Meanwhile, sales of new homes for June plunged 17.4% on a year-over-year basis to 590,000 units, and the count for May was revised lower to 642,000, down from the 696,000 initially reported.

…and historical comparisons of the weekly jobless claims tallies are not adjusted for the change over time in the size of the work force.

THE PRUDENT SPECULATOR

STRONG LABOR MARKET: CONTINUING CLAIMS STILL NEAR 50+ YEAR LOWS

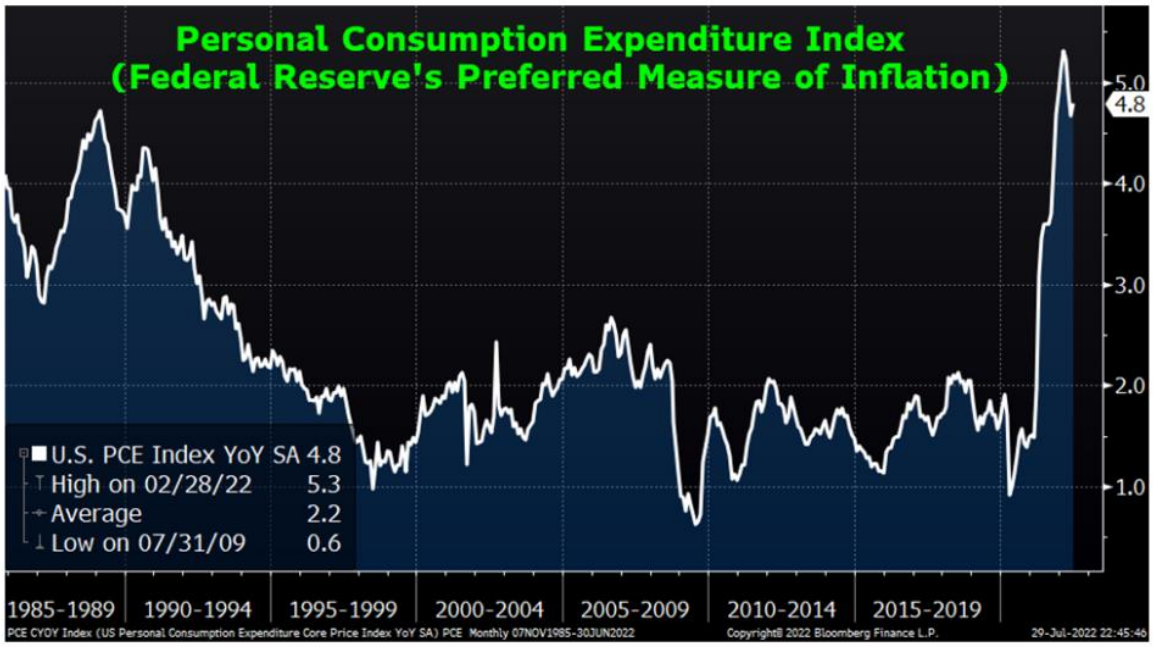
While higher than readings earlier in the year with a 1-handle, yet still coming in near the lowest levels since 1969 when the work force was much smaller, new filings for unemployment benefits for the period ended July 23 were a seasonally adjusted 256,000, down from a revised 261,000 the week prior. Continuing claims filed through state programs inched down by 25,000 to 1.36 million, still near the lowest level since 1969 as businesses continue to hold onto workers with labor so difficult to obtain.

To be sure, we are not arguing that economists should ignore inflation,…

THE PRUDENT SPECULATOR

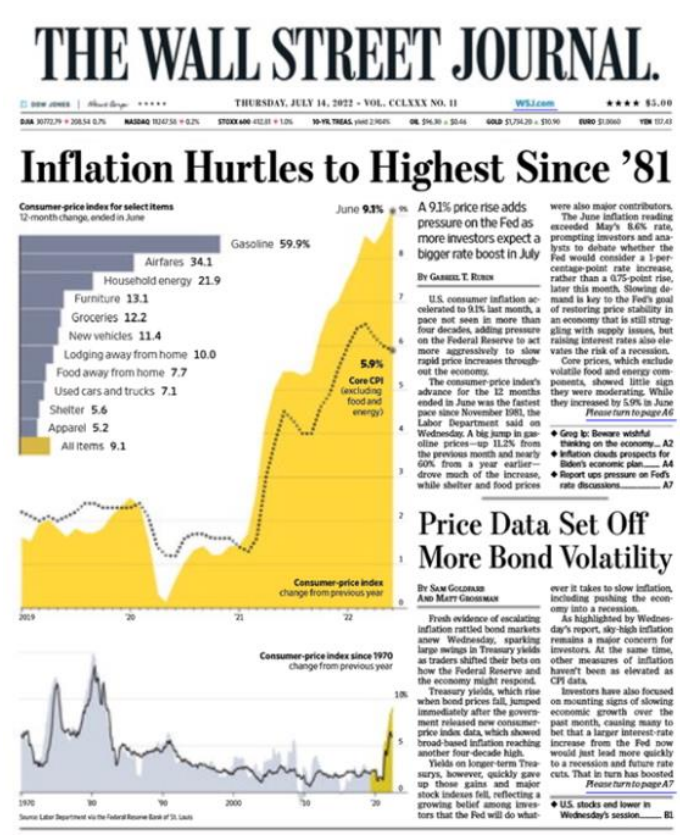
INFLATION NOT TRANSITORY, AND JUNE's CORE PCE TICKED HIGHER

The Federal Reserve's preferred gauge of inflation, the core Personal Consumption Expenditure (PCE), rose in June by 4.8%, above the 2.0% target and higher than Wall Street expectations. The figure was up from May's 4.7% increase, though down from the 40-year high of 5.3% in February, but the number did little to alleviate concerns that the Fed will continue to hike interest rates.



…though we would prefer that they remind investors that equities historically have been a good hedge against high consumer prices.

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

Consumer-price index for select items
12-month change, ended in June

Consumer-price index since 1970
change from previous year

Source: Labor Department via the Federal Reserve Bank of St. Louis

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

Please turn to page A6

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

Please turn to page A7

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.

However, it is interesting, given all the recession hubbub that even on a real basis, the latest projections from the International Monetary Fund are still calling for GDP growth in the U.S. and the World for both 2022 and 2023,…

IMF JULY WEO – 3.2% GLOBAL & 2.3% U.S. GDP GROWTH IN '22

Latest World Economic Outlook Growth Projections

(real GDP, annual percent change)	2021	PROJECTIONS 2022	2023
World Output	6.1	3.2	2.9
Advanced Economies	5.2	2.5	1.4
United States	5.7	2.3	1.0
Euro Area	5.4	2.6	1.2
Germany	2.9	1.2	0.8
France	6.8	2.3	1.0
Italy	6.6	3.0	0.7
Spain	5.1	4.0	2.0
Japan	1.7	1.7	1.7
United Kingdom	7.4	3.2	0.5
Canada	4.5	3.4	1.8
Other Advanced Economies	5.1	2.9	2.7
Emerging Market and Developing Economies	6.8	3.6	3.9
Emerging and Developing Asia	7.3	4.6	5.0
China	8.1	3.3	4.6
India	8.7	7.4	6.1
ASEAN-5	3.4	5.3	5.1
Emerging and Developing Europe	6.7	-1.4	0.9
Russia	4.7	-6.0	-3.5
Latin America and the Caribbean	6.9	3.0	2.0
Brazil	4.6	1.7	1.1
Mexico	4.8	2.4	1.2
Middle East and Central Asia	5.8	4.8	3.5
Saudi Arabia	3.2	7.6	3.7
Sub-Saharan Africa	4.6	3.8	4.0
Nigeria	3.6	3.4	3.2
South Africa	4.9	2.3	1.4
Memorandum			
Emerging Market and Middle-Income Economies	7.0	3.5	3.8
Low-Income Developing Countries	4.5	5.0	5.2

Source: IMF, *World Economic Outlook Update*, July 2022

Note: For India, data and forecasts are presented on a fiscal year basis, with FY 2021/2022 starting in April 2021. For the July 2022 WEO Update, India's growth projections are 7.4 percent in 2022 and 5.3 percent in 2023 based on calendar year.

INTERNATIONAL MONETARY FUND IMF.org

The global economy, still reeling from the pandemic and Russia's invasion of Ukraine, is facing an increasingly gloomy and uncertain outlook. Many of the downside risks flagged in our April World Economic Outlook have begun to materialize.

Higher-than-expected inflation, especially in the United States and major European economies, is triggering a tightening of global financial conditions. China's slowdown has been worse than anticipated amid COVID-19 outbreaks and lockdowns, and there have been further negative spillovers from the war in Ukraine. As a result, global output contracted in the second quarter of this year.

Under our baseline forecast, growth slows from last year's 6.1 percent to 3.2 percent this year and 2.9 percent next year, downgrades of 0.4 and 0.7 percentage points from April. This reflects stalling growth in the world's three largest economies—the United States, China and the euro area—with important consequences for the global outlook.

In the United States, reduced household purchasing power and tighter monetary policy will drive growth down to 2.3 percent this year and 1 percent next year. In China, further lockdowns, and the deepening real estate crisis pushed growth down to 3.3 percent this year—the slowest in more than four decades, excluding the pandemic. And in the euro area, growth is revised down to 2.6 percent this year and 1.2 percent in 2023, reflecting spillovers from the war in Ukraine and tighter monetary policy.

The outlook has darkened significantly since April. The world may soon be teetering on the edge of a global recession, only two years after the last one. Multilateral cooperation will be key in many areas, from climate transition and pandemic preparedness to food security and debt distress. Amid great challenge and strife, strengthening cooperation remains the best way to improve economic prospects and mitigate the risk of geoeconomic fragmentation.

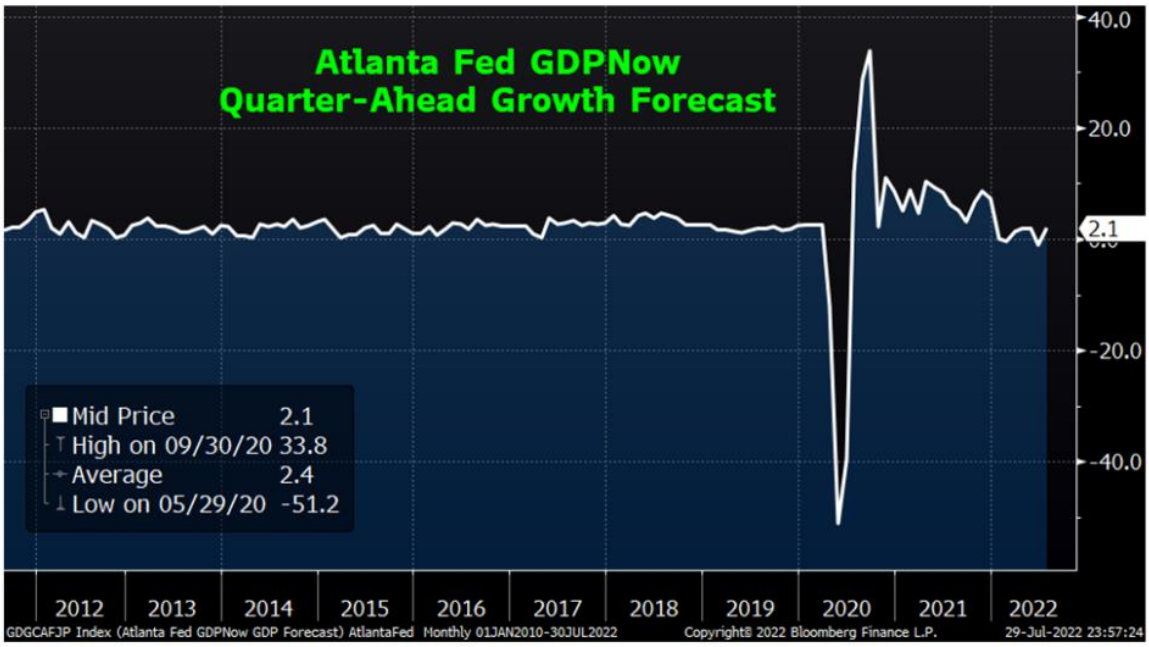
– International Monetary Fund, July 26, 2022

…and the current estimate for real Q3 2022 domestic growth from the Atlanta Fed stands at 2.1%.

THE PRUDENT SPECULATOR

INITIAL Q3 U.S. GDP GROWTH PROJECTION RESIDES AT 2.1%

Q1 and Q2 2022 saw respective 1.6% and 0.9% contractions in real (inflation-adjusted) GDP growth, as the Omicron variant, supply-chain difficulties, the war in Ukraine and inflation impacted the economy, but the Atlanta Fed's current projection for Q3 2022 real GDP growth on an annualized basis stands at 2.1%.



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While we never know which was stock prices will move in the near term, and the equity futures are pointing to a lower opening when trading resumes this week, we remain of the mind 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 (4.90% vs. 2.65% 10-Year) and S&P 500 dividend yield of 1.56%.

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

THE PRUDENT SPECULATOR

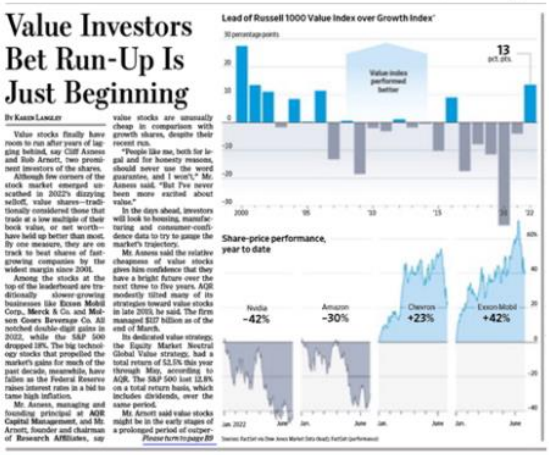
RELATIVE VALUATION FOR VALUE MUCH MORE ATTRACTIVE THAN GROWTH

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 52.1% 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-

Please turn to page B9

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

THE PRUDENT SPECULATOR

MANAGED ACCOUNTS & BENCHMARKS

CURRENT PORTFOLIO AND INDEX VALUATIONS

Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	12.2	11.0	0.9	2.3	2.7
ValuePlus	12.9	11.3	1.2	2.3	2.3
Dividend Income	11.7	11.0	0.8	2.1	3.2
Focused Dividend Income	13.5	12.6	1.1	2.5	2.7
Focused ValuePlus	12.7	12.7	1.3	2.5	2.5
Small-Mid Dividend Value	10.2	9.7	0.5	1.6	2.8
Russell 3000	22.0	18.5	2.3	3.8	1.6
Russell 3000 Growth	32.1	25.1	3.5	9.7	0.9
Russell 3000 Value	16.5	14.5	1.6	2.3	2.2
Russell 1000	21.0	18.3	2.4	4.0	1.6
Russell 1000 Growth	29.9	25.0	3.8	10.4	0.9
Russell 1000 Value	16.0	14.3	1.7	2.4	2.2
S&P 500 Index	20.4	18.2	2.5	4.1	1.6
S&P 500 Growth Index	24.9	22.4	4.5	7.7	0.9
S&P 500 Value Index	17.3	15.3	1.7	2.8	2.2
S&P 500 Pure Value Index	10.6	9.5	0.7	1.4	2.6

As of 07.30.22. 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.

Stock Updates

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

Jason Clark, Chris Quigley and Zack Tart offer updates on more than a few of our stocks that posted quarterly results last week.

Shares of investor favorite **Apple** (AAPL – $162.51) rose by more than 5% last week and continued their rally off the mid-June lows (up some 25%). With mounting concerns over the global consumer, Apple's fiscal Q3 earnings release seemed to surprise more than a few. The iPhone maker said adjusted EPS was $1.20 on revenue of $82.96 billion, versus Wall Street consensus expectations of $1.16 and $82.76 billion, respectively.

Not only did the company beat revenue expectations overall, it also did better for the iPhone and iPad, though it missed fairly badly on the Mac and Wearables-Home-Accessories. Service revenue was a slight miss. The company didn't give revenue guidance for the current quarter, but

said growth overall would accelerate in comparison with the third quarter. Services growth, however, could decelerate.

CEO Time Cook explained, “This quarter’s record results speak to Apple’s constant efforts to innovate, to advance new possibilities, and to enrich the lives of our customers. As always, we are leading with our values, and expressing them in everything we build, from new features that are designed to protect user privacy and security, to tools that will enhance accessibility, part of our longstanding commitment to create products for everyone.”

“Our June quarter results continued to demonstrate our ability to manage our business effectively despite the challenging operating environment. We set a June quarter revenue record and our installed base of active devices reached an all-time high in every geographic segment and product category,” said CFO Luca Maestri. “During the quarter, we generated nearly $23 billion in operating cash flow, returned over $28 billion to our shareholders, and continued to invest in our long-term growth plans.”

Mr. Cook confirmed earlier-in-the-month reports about a spending and hiring slowdown, saying the company would be “deliberate” given the current economic situation. The CEO blamed the Mac sales slowdown on the many closures in China in the ramp-up to the new MacBook Air and MacBook. He also blamed the poor performance by Wearables on factors including macroeconomic headwinds, the sales pause in Russia and supply-chain constraints. While macro headwinds hit parts of Apple’s business, the company seemingly implied that the iPhone had become more immune than other products. When questioned about AR and VR products in the future, he was evasive and focused on the existing AR capabilities in the iPhone and iPad.

Apple has long been known for its tight grip on supply chains, so the continued admission of challenges on that front is a big deal. That said, the iPhone line continues to surprise and has seemingly become more of a need than a want in the eyes of global consumers. Long-time fans of Apple, we still see the shares offering compelling upside potential and continue to have them as a core holding in all of our portfolios outside of our Small-Mid-Dividend strategy. We continue to like the cash rich balance sheet and the flexibility and potential it offers, while also being quite constructive on the deepening entrenched Apple ecosystem. Our Target Price for AAPL is now $187.

Microsoft (MSFT – $280.74) announced earnings of $2.23 per share in fiscal Q4 as revenue for the software titan climbed 12% year-over-year to $51.9 billion. Amazingly, Microsoft Cloud revenue grew 28% year-over to $25 billion, while foreign exchange effects impacted earnings by $0.04 per share and the firm incurred other write-downs and earnings impacts as a result of the war in Ukraine and shutdowns in China. Microsoft returned $12.4 billion to stock holders in the form of share repurchases and dividends in the quarter.

CEO Satya Nadella commented, “In this environment, we are focused on 3 things: first, no company is better positioned than Microsoft to help organizations deliver on their digital imperative so that they can do more with less. From infrastructure and data to business applications and hybrid work, we provide unique differentiated value to our customers. Second, we will invest to take share and build new businesses and categories where we have long-term

structural advantage. Lastly, we will manage through this period with an intense focus on prioritization and executional excellence in our own operations to drive operational leverage."

Microsoft closed on its acquisition of Xandr last month and according to Mr. Nadella, "We now power one of the world's largest marketplaces for premium advertising." He added, "With Microsoft advertising, every media and consumer Internet company now has a trusted platform for their own ad innovation and monetization. Just 2 weeks ago, Netflix chose us as its exclusive technology and sales partner for its first ad-supported subscription offering, a validation of the differentiated value we provide to any publisher looking for a flexible partner willing to build and innovate with them. And with PromoteIQ, we are providing a platform for retailers like Home Depot, Kohl's and Kroger to build their own digital commerce and marketing channels. This quarter, Sephora chose our solution to help build a new advertising revenue stream while maintaining ownership of their own data and customer relationships."

While the above is all well and good, the stock jumped more than 11% since the results were released on the forward guidance offered on the company's earnings call. Microsoft said it expects both revenue and operating income in fiscal 2023 to increase by a double-digit percentage, though currency fluctuations will remain a headwind.

We continue to appreciate the success of Microsoft 365, the subscription-based Office productivity suite, which has turned into a cash machine, driving Productivity and Business Processes segment growth and getting MSFT a foot in the door when it comes to proving the value of Cloud-centric computing. One of the main advantages to host data in the Cloud is that Microsoft performs updates, patches and general security maintenance, taking the load off IT departments and individual users. Even as shares boast a higher P/E multiple than most in our portfolios, the technology leader's dominance allows us to be more comfortable in our continued ownership relative to other opportunities. Our Target Price for MSFT is now $381.

Shares of **Alphabet** (GOOG – $116.32) rebounded more than 10% following the release of its Q2 financial results, where it turned in $1.21 of EPS. The tech titan's Search segment was the primary driver as revenue grew 13% year-over-year, propelling operating profit to $22.8 billion. Cloud turned in another solid quarter of revenue growth, jumping 37% year-over-year to over $6 billion for the first time.

CEO Sundar Pichai commented, "At [Google's developer conference] in May, I talked about 2 key ways we move that mission forward, advancing both knowledge and computing. Those goals are at the heart of what we do. We know that our services are particularly helpful to people and businesses during uncertain moments, whether it's using Search or YouTube to define anything from anywhere or highly efficient tools like Search Ads that help businesses of all sizes reach customers or Google Cloud, which helps companies adapt to hybrid work and find efficiencies. We'll continue to invest in areas like AI, Search and Cloud, and we'll do it responsibly and in a way that is responsive to the current environment. Earlier this month, I announced that we'll be slowing our hiring and sharpening our focus as a company. We are focused on hiring engineering, technical and other critical roles. And we are working to improve productivity and ensure that the great talent we do hire is aligned with our long-term priorities."

Regarding hiring, CFO Ruth Porat added, “We intend to slow the pace of hiring. We expect our actions on hiring to become more apparent in 2023. Our headcount additions in the third quarter will reflect we already have a strong number of commitments, including new graduate hires.”

Ms. Porat also said, “The 2022 revenue growth rates are presented against particularly tough comps as we lapped the recovery in the second quarter of 2021 from the impact of the pandemic in early 2020. Going forward, the very strong revenue performance last year continues to create tough comps that will weigh on year-on-year growth rates of advertising revenues for the remainder of the year. In YouTube and Network, the pullbacks in spend by some advertisers in the second quarter reflects uncertainty about a number of factors that are challenging to disaggregate. Within other revenues in the third quarter, we expect an ongoing headwind from the fee changes and the slowdown in buyer spend that impacted results in the second quarter. Turning to Google Cloud. Customers are transforming their businesses, utilizing GCP’s secure infrastructure with data, analytics and AI capabilities, uncovering real-time insights and leveraging the collaborative tools of Workspace. They are in the early days of this transformation, and we continue to invest in our products, go-to-market capabilities and cloud regions.”

An uncertain macro environment has pushed down the shares of most public advertising businesses in 2022. While a lull in ad spending shouldn’t come as a surprise, we expect GOOG’s search business to continue generating tremendous cash flow. Profitability ought to also improve for the business as a whole as it curtails spending, reducing the number of new hires, and as Cloud approaches profitability. Shares are reasonably priced at 19 times forward earnings estimates, especially given the nearly $100 billion of net cash on the balance sheet, and with EPS expected to reach over $8.00 by 2025. Our Target Price for GOOG is now $180.

Shares of **Meta Platforms** (META – $159.10) were under pressure last week, sliding 6% following the release of Q2 results. The social-media giant earned $2.46 per share (vs. $2.54 est.) in the quarter on $28.8 billion of revenue as year-over-year growth in ad impressions remained flat with Q1 at 15%. Average pricing per ad did decline 15% in the quarter, worse than the 8% decline seen in Q1, which CFO David Wehner said was “driven by a reduction in advertiser demand, the mix shift in ad impressions towards lower monetizing services in regions and foreign currency depreciation.”

Mr. Wehner also mentioned, “We’re in the midst of an economic cycle that is having a broad impact on the digital advertising business. We’re being disciplined on spending while still investing in those areas that will position to drive growth as the economic environment improves.” Susan Li will take over as CFO as Mr. Wehner moves into a Chief Strategy role in November. Management expects total revenue in Q3 to be in the range of $26 billion to $28.5 billion and for full-year expenses total expenses in the range of $85 billion to $88 billion, down from the previous projection of between $87 billion to $92 billion as it reevaluates its priorities.

Company founder and CEO Mark Zuckerberg commented, ”Engagement trends on Facebook have generally been stronger than we anticipated, and strong real growth is continuing to drive engagement across Facebook and Instagram. That said, we seem to have entered an economic downturn that will have a broad impact on the digital advertising business. And it’s always hard

to predict how deep or how long these cycles will be, but I'd say that the situation seems worse than it did a quarter ago. In this environment, we're focused on making the long-term investments that will position us to be stronger coming out of this downturn, including our work on our discovery engine and Reels, our new ads infrastructure and the metaverse. And we're also focused on being rigorous about measuring returns and sizing these investments correctly."

As if challenges from competition and Apple's privacy protocols weren't enough to contend with in the current environment, Meta shareholders now face a slowdown in ad spending as global businesses reevaluate their marketing plans. Of course, while we always reserve the right to reassess our convictions, we think that the massive downturn in the stock price YTD (off more than 52%) more than discounts the bad news. Shares trade significantly below the market multiple on both a trailing and forward basis, the balance sheet is pristine with $40 billion in cash, and the company is still primed to generate 70% more revenue than before the pandemic. The company's transition to the metaverse will likely be measured in years, but we are today willing to remain patient as we think that the core advertising business will provide plenty of future cash flow, given that it still presents a tremendous value proposition for most small-to-medium-sized businesses, while significant potential exists, we think, to monetize Family of Apps properties like WhatsApp and Reels. Our Target Price for META is now $360.

Despite reporting fiscal Q3 top- and bottom-line results that were better than expectations, semiconductor designer **Qualcomm** (QCOM – $145.06) saw its shares fall by more than 5.5% last week as concerns about weakening global mobile phone demand and lowered Q4 guidance took their toll. For the quarter, QCOM reported adjusted EPS of $2.96 on revenue of $10.94 billion, versus the respective consensus estimates of $2.87 and $10.87 billion.

Margins were in line with expectations, and were driven by a combination of macro headwinds and Android weakness offset by strength in higher-tier handsets, especially in China. Handsets grew 59%, or 3% above expectations, to $6.15 billion, driven by high/premium-tier Snapdragon sales, especially in China, despite some softness in mid-tier Androids. Q4 guidance was weaker than expected with revenue at $11.4 billion, vs. the Street's $11.9 billion expectation , and EPS of $3.15, vs. the $3.26 consensus, which includes a $0.20 EPS impact from macro headwinds and lower calendar year 2022 global and 5G handset shipment forecasts.

CEO Cristiano Amon commented, "We are pleased to report strong quarterly results, with record QCT Automotive and IoT revenues in a challenging macroeconomic environment. We are also excited to announce the extension of our patent license agreement with Samsung and the expansion of our strategic partnership to deliver leading premium consumer experiences for Samsung Galaxy devices. Qualcomm is well positioned to be the company bringing advanced connectivity, data processing and intelligence to the edge, enabling cloud-edge convergence."

We were pleased to see QCOM's robust outlook and expect to see continued execution momentum. Shares have slumped more than 23% this year, but we think the prospects for the company are bright, especially as high-quality chips are difficult to find. We were also happy to see a new agreement with Samsung, which expands Qualcomm's chipset market share within Galaxy devices. Samsung also extended the company's licensing agreement until 2030 and into 6G.

The deflating handset demand is a near-term risk, but we believe it is already reflected in expectations (with shares off 25% since early-January highs) and we remain confident in the company's long-term revenue opportunities and diversification strategy beyond handsets. QCOM shares change hands at 11.5 times NTM adjusted EPS and offer a 2.1% dividend yield. Our Target Price has been adjusted to $224.

Shares of **Intel** (INTC – $36.31) remain under pressure, sliding nearly 7% following the release of Q2 financial results. The $0.29 earned in the quarter was almost 60% less than what was expected by the Street as the chipmaker was affected by a slowdown in PC spending from macro headwinds and competition from AMD that affected data-center business.

CEO Pat Gelsinger said, "This quarter's results were below the standards we have set for the company and our shareholders. We must and will do better. The sudden and rapid decline in economic activity was the largest driver, but the shortfall also reflects our own execution issues. We are being responsive to changing business conditions, working closely with our customers while remaining laser-focused on our strategy and long-term opportunities. We are embracing this challenging environment to accelerate our transformation."

CFO David Zinsner added, "We are taking necessary actions to manage through the current environment, including accelerating the deployment of our smart capital strategy, while reiterating our prior full-year adjusted free cash flow guidance and returning gross margins to our target range by the fourth quarter. We remain fully committed to our business strategy, the long-term financial model communicated at our investor meeting and a strong and growing dividend."

We have bemoaned Intel's manufacturing difficulties in recent years, and while he hasn't been at the helm for long, CEO Pat Gelsinger's plans have yet to gain steam. Chip making is capital intensive, and it takes time for the first chips to roll off the production line, while the advancement in the House of Representatives of the $280 billion bill to bolster the U.S. semiconductor industry is a positive for Intel. Although our patience is not unending, we still think it's worth cutting INTC management a little more slack to get the house in order. Given the historical valuation, we have held that the return profile more than compensated for above-average risk for our portfolios, but we continue to debate the stock versus other opportunities given a broader selloff in the semiconductor landscape. The valuation has crept higher as capital spending plans ramp, so shares trade for 16 times forward earnings, but the dividend yield is 4.0%. Our Target Price has been trimmed to $57.

Comcast (CMCSA – $37.52) announced that it earned $1.01 per share (vs. the $0.91 est.), but investors zeroed in on the 28,000 net loss in cable customers, sending shares of the telecom giant 13% lower over the two days following the release. CEO Brian Roberts attributed the result to a reversal of some pandemic trends that boosted broadband demand as society spent more time in their homes, a slowdown in moves across the firm's geographic footprint and higher competition from fixed wireless. NBC Universal was a bright spot as studio revenue grew 33% year-over-year from strong theatrical performance and content licensing. Streaming platform Peacock has also grown to 13 million paid subscribers. but lower ad revenue and a change in sports programming license agreements contributed to a 3.5% revenue reduction on a constant currency

basis for the Sky segment. Comcast bought back $3 billion worth of stock in the quarter, bringing the total to $6 billion year-to-date.

Mr. Roberts added, "Notwithstanding these industry and mostly macro-related factors, we remain extremely confident. We have spent decades investing and innovating to build a business that is well positioned to succeed in the environment we're seeing. And we certainly expect a return to residential broadband subscriber additions. How do we plan to do that? Well, we're working hard to expand our footprint, taking advantage of growth in housing and businesses in our current markets, accelerating edge outs into new areas. And we are playing offense when it comes to government subsidies."

Not dissimilar from other names in the communications sector, economic headwinds and the threat of lower ad spending have pressured the stock price, which has been hit by more than 40% since the high set last September. But the latest and likely more critical issue for many is the drop in cable customers and the threat of fixed wireless. While notable, we think the negativity is overdone, agreeing in spirit with Mr. Roberts when he said, "We are in a unique environment with some headwinds, but move activity should return to some level of normalcy, mobile substitution will eventually stabilize. And we believe fixed wireless has inherent performance and capacity limitations that sharply limit the number of people on a network using a given amount of spectrum, which should provide a natural cap on their overall industry penetration."

We doubt cable (particularly broadband) will be easily displaced in a dramatic way for many years, and find shares very attractively priced with the expectation that Comcast will continue to generate lots of cash flow. We also think the firm will increasingly return this cash to shareholders as it has strengthened the balance sheet through refinances while rates were at record lows that pushed the average maturity of its debt to about 18 years. CMCSA trades for just 10 times forward EPS estimates, well below the historical average, and with a 2.9% dividend yield. Our Target Price is $63.

Shares of **Walmart** (WMT – $132.05) ended the trading week virtually unchanged, despite falling more than 7% on Tuesday after the global retail giant warned that its fiscal Q2 and full-year fiscal 2023 results will come in below previous expectations. The company said consumer spending was focused more on lower-margin "need" items and the strength in the U.S. dollar impacted its international operations. "The increasing levels of food and fuel inflation are affecting how customers spend, and while we've made good progress clearing hardline categories, apparel in Walmart U.S. is requiring more markdown dollars. We're now anticipating more pressure on general merchandise in the back half; however, we're encouraged by the start we're seeing on school supplies in Walmart U.S.," said CEO Doug McMillon.

Management said that consolidated net sales growth for the second quarter and full year is expected to be about 7.5% and 4.5%, respectively. Excluding divestitures, consolidated net sales growth for the full year is expected to be about 5.5%. Net sales include a headwind from currency of about $1 billion in the second quarter. Based on current exchange rates, the company expects a $1.8 billion headwind in the second half of the year. The company maintains its expectations for Walmart U.S. comp sales growth, excluding fuel, of about 3% in the back half of the year. Operating income for the second-quarter and full-year is expected to decline 13% to

14% and 11% to 13%, respectively. Excluding divestitures, operating income for the full year is expected to decline 10% to 12%. Adjusted earnings per share for the second quarter and full year is expected to decline around 8% to 9% and 11% to 13%, respectively. Excluding divestitures, adjusted earnings per share for the full year is expected to decline 10% to 12%.

With inflationary pressures taking a toll on numerous Walmart customers, we shouldn't be that surprised that the company has been feeling gross margin pressures in its general merchandise business (particularly in apparel) that will most likely continue through the balance of the year. That said, while trailing inflation reports haven't shown it yet, we have seen gasoline prices at the pump fall for weeks on end, while food and commodity costs have begun to to abate (Wingstop noted that chicken wing prices have recently fallen 20%), which would seem to suggest that the Federal Reserve's job of slowing demand with some relief in certain supply chain areas could be working. All that said, as long-term investors, we continue to like the direction Walmart has been going over the past few years and believe its expanding omnichannel presence, value proposition and defensive characteristics continue to warrant the stock a place in our portfolios. Our Target Price for WMT is now $159.

General Motors (GM – $36.26) earned $1.14 in Q2, shy of the $1.31 expected by the Street, as the automaker continues to work through supply-chain challenges. Management says demand remains strong, however, with dealers selling vehicles about as fast as CEO Mary Barra & Co. can make them. Indeed, dealer inventory sits at around 250,000 units, while turning about every 10 to 15 days, in line with the respective 10 and 15 days of GM's component stock on hand for full-size SUVs and pickup trucks. In North America, the company continues to build vehicles ahead without certain components, which has affected near-term margins, but GM expects all of these 90,000 vehicles to be sold during Q3 and Q4.

Regarding Cruise, the firm's autonomous vehicle project, Ms. Barra stated, "Without question, the Cruise team's launch of fully driverless commercial operations in San Francisco in June was historic. The next steps for Cruise in the second half include working with regulators to increase their hours of operation and service area, expanding their fleet of Bolt AVs and testing the Cruise Origin. And as always, we are committed to safety as Cruise expands."

GM also continues to move ahead on its path to build out its electric offering, making the first deliveries of the Cadillac Lyriq early in July. It will debut the Chevy Silverado EV in spring of 2023, and has taken steps to secure supplies to meet battery demand, inking binding agreements with LG Chem, POSCO Chemical and Livent to supply metals and other battery components.

GM CEO Paul Jacobson added, "We're making significant progress on several fronts, including Cruise commercialization and our battery supply chain. Just yesterday, the Department of Energy announced a conditional commitment to Ultium Cells LLC, our 50-50 joint venture to manufacture battery cells, for a $2.5 billion loan to help fund the construction of our battery cell manufacturing facilities in Ohio, Tennessee and Michigan, supporting our goal of the secure battery materials and technology supply chain here in North America."

We continue to find the company's move away from sedans and towards trucks and SUVs as an important catalyst that helps supply huge amounts of cash flow needed to execute its

“Transformation Roadmap,” which includes launching more than 30 EVs in the very near term. And GM is making tremendous progress on that front, expecting to produce 400,000 EVs in North America through 2023. Shares rallied more than 4% last week, despite the earnings miss, but they still change hands at only 5 times expected NTM adjusted EPS. Our Target Price for GM is now $71.

After a strong start to 2022, followed by weakness over the last few months, shares of agricultural concern **Archer Daniels Midland** (ADM – $82.77) shot up more than 12% last week on the back of a fantastic Q2 earnings report. For the three-month period, ADM said it generated revenue of $27.3 billion, versus the consensus analyst estimate of $24.9 billion. Adjusted EPS of $2.15 came in 25% above forecasts.

All three of the company’s business segments topped expectations, although the outperformance was particularly noteworthy in Ag Services where investors seemingly thought profits had peaked in Q1 (instead they were up 58% quarter over quarter). Despite sequentially lower synthetic soybean crush margins, crushing profits were up 9% from the prior quarter. Starches and Sweeteners revenue and margins were also stronger than expected.

CEO Juan Luciano commented, “Our second quarter adjusted earnings per share of $2.15 reflect our team’s strong execution, delivering nutrition to billions of people around the globe. In addition, our productivity initiatives are improving our capabilities and mitigating the impact of inflation, while our innovation projects are powering profitable growth, as we leverage our unique portfolio and globally integrated network to meet demand driven by the three enduring global trends of food security, health and well-being, and sustainability.”

He continued, “Looking forward, we expect the combination of our strategic actions and continued good demand for our products to propel very strong earnings in the second half of 2022, with strong cash flows enabling us to accelerate approximately $1 billion in share repurchases into the back half of the year. Beyond that, we will continue to execute the growth plan we laid out at our Global Investor Day, while maintaining our focus on balanced capital allocation and optimizing ROIC.”

Often subject to volatile swings in commodity markets, we acknowledge that the wind may not always be at ADM’s back. For the time being, however, we appreciate the tightness that broadly characterizes global ag markets and expect this to persist throughout 2022, and potentially beyond. We also appreciate investments to develop proprietary formulations of product in the Nutrition segment, which could serve to stabilize results over time. ADM trades for less than 14 times NTM estimated EPS, while the dividend yield is 1.9%. Our Target Price has been boosted to $100.

Shares of **Whirlpool** (WHR – $172.87) gained back 3% last week. The appliance maker reported Q2 results that showed bottom-line results well above estimates, but top-line revenue a bit softer. Given the hit to shares this year going into the release, one might have expected a bit more of a jump, but WHR also adjusted full-year expectations lower. For the second quarter, adjusted EPS were $5.97, almost 14% above the consensus expectation of $5.24. Revenue for the period of $5.1 billion came in 2.7% below expectations. The quarter saw solid margins in North America

helped by price increases, but dampened by input costs and weaker unit volume. Latin America and Asia saw better performance than many were expecting, while emerging markets and Europe struggled.

CEO Marc Bitzer stated, "We delivered 9% ongoing EBIT margins globally and 14% in North America – this is further proof of our more profitable and agile business model. Moreover, long-term fundamentals of demand remain strong and we continue to progress our portfolio transformation to position ourselves to drive long-term value."

For full-year adjusted EPS guidance, management lowered its prior range of $24.00 to $26.00 down to a range of $22.00 to $24.00. While still a very robust number, especially considering where the stock is currently changing hands, there are no shortage of skeptics. With the North America business softening and competition ramping up, while higher mortgage rates are slowing home buying and building, one could argue for the near-term pause in enthusiasm, if it weren't for our belief that there is still a larger replacement cycle occurring and that long-term demand fundamentals not just in North America, but across the globe are intact. Furthermore, in our humble opinion, shares are trading way too low for a company that could be delivering even $19.00 or $20.00 per share of adjusted earnings over the next four quarters (noting the consensus estimate during that time is $22.99), with the NTM P/E ratio at just 7.5.

Near-term supply constraints and raw material cost issues are nothing new for Whirlpool as the company has navigated similar bumps in the road before, while consistently generating solid free cash flow. We also see non-North American markets driving long-term growth as the rest of the world progresses technologically and emerging markets incorporate modern conveniences into daily living. Management continues to share our optimism as evidenced by continuing to be on track to return $1.5 billion to shareholders this year. WHR shares offer a current dividend yield of 4.1% and our Target Price stands at $285.

Over the first two quarters of 2022, shares of **Alexandria Real Estate** (ARE – $165.78) were pummeled, falling more than 33%. Given the REIT's medical office and laboratory client base, plus solid occupancy rates, we saw the move lower as very much overdone, even as interest rates moved up rapidly. With a recent dip in rates and a solid Q2 financial report, shares rallied more than 10% last week. ARE reported adjusted FFO of $2.10 per share for the quarter, versus the consensus expectation of $2.06.

Beyond rising interest rates and slowing economic activity, investor concerns include the fact that industry-wide lab space leasing is slowing and the supply pipeline is large, however, Alexandria's trends remain strong. The company is well positioned on a lot of fronts and its consistent execution keeps us constructive on ARE.

Executive Chairman and Founder Joel Marcus shared, "In a very challenging macroeconomic environment for sure, we are very blessed and thankful to have a truly one-of-a-kind public company, which has a uniquely visionary mission to create and grow life science ecosystems and clusters that ignite and accelerate leading innovators to advance human health by curing disease, saving lives, and vastly improving nutrition, our mission for sure."

He added. “We’ve experienced very powerful continuing rental rate increases and leasing activity. It’s important to remember, 87% of our leasing comes from our existing tenants. We have uniquely crafted our own demand driver, and our more than 1,000 tenants and 92% of the first half of 2022 leasing comes from this tenant base. 2.3 million square feet were signed in the second quarter, a third all-time high, with cash all-time high of 34%, rental rate increase highest ever, and a 45% GAAP rental rate, truly epic and historic. And then keep in mind, 50% of our annual rental revenue is from investment grade or big cap companies, public companies, and 80% of our tenants are not private or development stage biotech companies.”

Management expects occupancy levels to stay in the 95% to 96% range looking to the rest of 2022, and they raised full year estimates for per share funds from operations for 2022 to $8.41 based on cost savings and solid recent results. The consensus analyst estimates for 2023, 2024 and 2025 are a respective $9.05, $9.79 and $10.47, so there is handsome growth potential, even as we see ARE’s base of tenants as defensive, with strong long-term demand for biomedical research. Shares yield a respectable 2.8%, and we have adjusted our Target Price to $240.

Shares of **Koninklijke Philips** (PHG – $20.74) skidded more than 6% last week on the release of Q2 results, where the health care technology company earned 0.14 euros per share, which was well below expectations. The result was less than half the 0.40 euros of profit in the 2021 period as prolonged COVID lockdowns, the Respironics recall and a much-more-robust 2021 quarter impacted the year-over-year comparison. Sales declines were broad-based affecting each of PHG’s three business segments, with Diagnosis & Treatment, Connected Care and Personal Health sales declining 4%, 13% and 5%, respectively.

Looking to the remainder of 2022, CFO Abhijit Bhattacharya explained, “The first half of 2022 was obviously very challenging. Our sales declined 5%, on the back of 9% growth in the first half of 2021. Although this is in line with our guidance for the first half of the year of a mid-single-digit decline, we had to weather additional headwinds from the China lockdown and the Russia-Ukraine war. Our teams are fully focused on everyday execution, delivering on the customer demand and addressing the supply chain risks. We are seeing component supplies gradually improving although issues do pop up, and have taken action to strengthen our supply chain resilience. This gives us the confidence that we will resume growth from the third quarter onwards, which is expected to result in a 6% to 9% comparable sales growth in the second half of the year, on the back of a 9% decline last year. We further expect to deliver 1% to 3% growth in the full year, which includes approximately EUR 500 million impact from the lower sales in China, Russia and the supply shortage compared to our January guidance after mitigation as well as significant cost inflation. Across our businesses, we have also stepped up actions on productivity and pricing, which together with the sales growth are expected to drive improved profitability in the second half of the year. For the full year 2022, we expect to deliver around 10% adjusted EBITA margin.”

Litigation from the Respironics recall remains a wildcard, but with 90% of the recalls expected to completed in 2022, we are encouraged by all the testing Philips has done to ensure a positive outcome. Roy Jakobs, an executive in the Connected Care segment gave an update, “As a reminder, we are undertaking hundreds of tests, working with 5 certified testing labs and numerous external experts. At this stage in the test and research program, we observed that the

instance is rare and the chemical characterization of foam degradation is complex. The results to date for the DreamStation 1 devices show the following: very low prevalence of significant visible foam degradation in the over 63,000 devices inspected. Ozone cleaning materially increases foam degradation. Volatile organic compound emissions were within ISO limits when not exposed to Ozone. And foam degradation does not contribute to appreciable elevated levels of respiratory particles, which were within ISO limits. And even when significant visible particles are formed, they are likely to accumulate and stick inside the device. Further biocompatibility testing and assessment of degraded PE-PUR foam is still ongoing to fully assess potential patient risk. Due to extended throughput times, we hope to come back to you on this assessment in the coming months."

Philips says it is in cooperation with the DOJ on behalf of the FDA and will provide updates as appropriate according to the confidential nature of the discussions. It is dealing with civil complaints in multiple jurisdictions but said that is unable to quantify the liability of these claims at present.

Management guidance is to be taken with a grain of salt following several modifications to the downside in recent years. And we are careful not to overlook or downplay the issues at hand (supply chain tightness, recall, COVID impacts, etc.), but we continue to think these risks are "in" the current price as shares trade at levels not seen since 2012. Following a decade-long shift to concentrate on healthcare technology, Philips' diagnostics and imaging business is one in which there are few major players with high barriers to entry (and where it is estimated that three companies, including PHG, hold a 70% global market share). Demonstrating its market leadership, Philips also says that it holds #1 or #2 position in categories that generate 70% of revenue. The dividend yield is 3.7% and we have adjusted our Target Price to $41.

Shares of **Newmont Corp** (NEM – $45.28) sank more than 11% last week following the release of the precious metal miner's Q2 financial results on Monday. Management cited "cost pressures, including the impact from Russia's invasion of Ukraine, an increasingly competitive labor market and the highest global inflation rates are well as seen in nearly 40 years," as the culprits for a near 40% drop in earnings versus the prior year to $0.48 per share. Surprisingly, precious yellow metal prices also haven't cooperated and are down year-to-date even as inflation has surged higher. Newmont has been punished far more than the underlying metal, however, with the stock now down more than 25% on the year, but the company says it continues to improve productivity and reduce labor risk through the implementation of autonomous equipment at some of its mining locations.

Given the current environment, Newmont says it anticipates an additional 7% of cost escalation this year, on top of the 5% that was already baked into its full-year outlook provided last December. Around a third of the increase is related to labor costs, with the remaining two-thirds is a result of increase in prices for global commodities, raw materials fuel and energy.

CEO Tom Palmer elaborated, "We're observing escalation in the range of 20% to 30% for certain items, such as cyanide and explosives, which is being driven by the increase in the price of natural gas and the availability of ammonia as well as an increase in the price of steel that is being used in our grinding media and spare parts. We are seeing contracted services rates that are

more than 10% higher than December last year, driven primarily by strong competition for specialized labor, higher levels of post-pandemic resulting in high demand and the pass-through of higher commodity prices and transportation costs. As an example, diesel prices have increased by more than $50 per barrel, adding approximately $20 per ounce to our all-in sustaining costs compared to our original guidance."

As painful as the decline has been, Newmont says its pipeline of more than 20 organic projects is sufficient to support production of more than 6 million ounces of gold and almost 2 million gold equivalent ounces from copper, silver, lead and zinc every year for at least the next decade. Current gold prices around $1,760 per ounce are below the firm's $1,800 target which underlies the Board's thinking around dividend projections, but we continue to like Newmont's scale as the country's largest gold producer. And, the balance sheet remains robust with $7.3 billion in liquidity and a net debt-to-EBITDA ratio of 0.3x, preserving Newmont's financial flexibility with no debt due until 2029. We have repeatedly acknowledged the complexities and obstacles inherent in the mining industry but still like to have some modest exposure to gold, especially given the income (the present yield is nearly 5%) offered by the miner versus owning the precious yellow itself. Our Target Price is now $78.

After falling 38% from mid-October 2021 to mid-June 2022, shares of **New York Community Bancorp** (NYCB – $10.62) have rebounded markedly, gaining 22% off of the lows as the regional bank continues to sharply execute on its transformation. The company reported a strong Q2, described in more detail within the CEO comments below, including stable non-interest operating expenses, as well as strength in deposits, loan growth and NIM. Adjusted EPS for the most recent quarter came in at $0.35, versus the consensus estimate of $0.32.

CEO Thomas R. Cangemi explained, "We are extremely pleased with the company's operating performance during the current second quarter. By almost any measure, results exceeded expectations, despite market volatility and higher interest rates. We reported record net income available to common stockholders, another quarter of record deposit growth, near-record loan growth, record originations, a higher net interest margin, and stable operating expenses, while asset quality remained stellar. This resulted in strong year-over-year diluted earnings per share growth."

He continued, "One of the main highlights during the quarter was our deposit growth. Total deposits increased $3.3 billion during the second quarter, up 35% on an annualized basis compared to $2.9 billion of deposit growth during the first quarter and now total more than $41 billion. So far during the first half of 2022, loan-related deposits have risen $921 million compared to $475 million during all of 2021, evidencing the Company's strategy to emphasize deposits at the expense of wholesale borrowings. All told, since re-focusing on this source of funding in January of last year, loan-related deposits have increased $1.4 billion, up about 40%."

He added, "We also saw continued growth in our loan portfolio, as total loans rose $1.8 billion or 15% on an annualized basis compared to the first quarter of the year. This marks the third consecutive quarter of double-digit loan growth and our growth in the second quarter was the second-best quarter on record compared only to the fourth quarter of last year. Loan originations of $5.3 billion also set a new record for the company during the current second quarter. This was

up almost 50% compared to the first quarter of the year and over 70% higher than what was originated during the second quarter of last year. While the loan portfolio has grown significantly, we have not compromised our standards, continuing to underwrite all of our loans based on our conservative criteria. This is reflected in our strong asset quality metrics, as non-performing assets declined 20% to $56 million, representing only nine basis points of total assets, and remain among the best in the industry."

He concluded, "Finally, on the Flagstar merger front, we feel very good where we stand right now. Over the past 15 months, both sides have diligently worked together to get us into a strong position to close the deal quickly once all regulatory approvals are received in order to hit the ground running."

Shares trade at 78% of book value, and offer a robust (and we think stable) dividend yield of 6.4%. Our Target Price for NYCB now resides at $17.

Shares of **World Fuel Services** (INT – $27.72) were launched 19% higher on Friday after the global energy management company posted Q2 EPS of $0.41, more than 40% higher than the consensus estimate. CEO Michael J. Kasbar commented, "We generated solid results in the second quarter, demonstrating the strength and diversification of our business model, despite significant volatility experienced in the global energy markets. While we were impacted by severe backwardation throughout most of the quarter in aviation, our marine segment delivered record gross profit driven by market volatility that led to exceptionally high bunker fuel prices and a constrained credit environment. Our land segment also performed very well, reflecting the success of our Flyers acquisition and overall strong performance across our entire land business, including World Kinect. Our highly-talented global team once again demonstrated our ability to navigate an exceedingly complex macro environment, while remaining a valued partner to our customers and suppliers with a growing suite of renewable and digital solutions in support of their decarbonization journey."

CFO Ira Burns added, "So, I'm not sure I could think of a quarter historically, which better demonstrated the resiliency of our business and the value of the diversity of our business model in this past quarter. Simply put, we delivered solid results even though our aviation business continues to be significantly impacted by severe market pricing backwardation throughout most of the second quarter given the principally contract-oriented nature of our aviation business. However, these volatile market pricing dynamics drove our spot-oriented marine business through record results and our land segment, which on the back of the recent Flyers Energy acquisition has become a larger and more ratable piece of our broader business delivered very strong results as well."

Admittedly, World Fuel is not the most exciting business in our portfolio, but we like the exposure to a unique segment of the energy value chain. As a sort of grocery store for major users of energy (airlines, cruise operators, etc.), margins tend to be thin, but we think INT blocks and tackles extraordinarily well in an important role providing service to a segment of the economy that is on the mend. Despite the pop in price, shares still look inexpensive at just 12 times the forward EPS estimate. Our Target Price has been elevated to $38.