Market Commentary Monday, August 8, 2022

August 8, 2022

EXECUTIVE SUMMARY

Newsletter Trades – 8 Buys for 3 Portfolios
Economy – Favorable ISM Data
Jobs – Big Increase in July Payrolls
Corporate Profits – Healthy EPS Comparisons
Inflation – Equities a Strong Hedge Historically Against a High CPI
Fed – 75 Basis Point Hike in September on the Table
Interest Rates – High Bond Yields Good for Value
Valuations – Inexpensive Metrics & Higher Dividend Yields for Our Portfolios
Stock News – Updates on MOS, ZBH, CAT, CMI, GILD, PRU, CVS, AXAHY, MRNA, ALB, CIVI, KLIC, APD, WRK, NLOK, EOG & GT

Market Review

As discussed in the August edition of *The Prudent Speculator*, we bought the following on Thursday, August 4, for Buckingham Portfolio:

6 **Lam Research** (LRCX – $519.97) at $527.7155
60 **Truist Financial** (TFC – $50.10) at $49.6464

In our hypothetical accounts, we added the following, also on August 4.

Millennium Portfolio
6 **General Dynamics** (GD – $228.76) at $231.32
190 **Kimco Realty** (KIM – $21.41) at $21.34
65 **Timken** (TKR – $64.34) at $64.18

PruFolio

225 **International Paper** (IP – $41.79) at $42.45
328 **Juniper Networks** (JNPR – $28.04) at $28.28
1,022 **Volkswagen AG** (VWAGY – $19.70) at $19.95

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After a couple of good weeks to end July, the first week of August saw the average stock more or less tread water, with the Value indexes modestly in the red for the five trading days. While short-term market movements are always difficult to rationalize, we might argue that Value stocks, which are often more economically sensitive, should have outperformed Growth last

week, given the much-better-than-expected read on the health of the all-important services sector,…

THE PRUDENT SPECULATOR

ISM NON-MANUFACTURING RISES: 2.4% ANNUALIZED GDP GROWTH

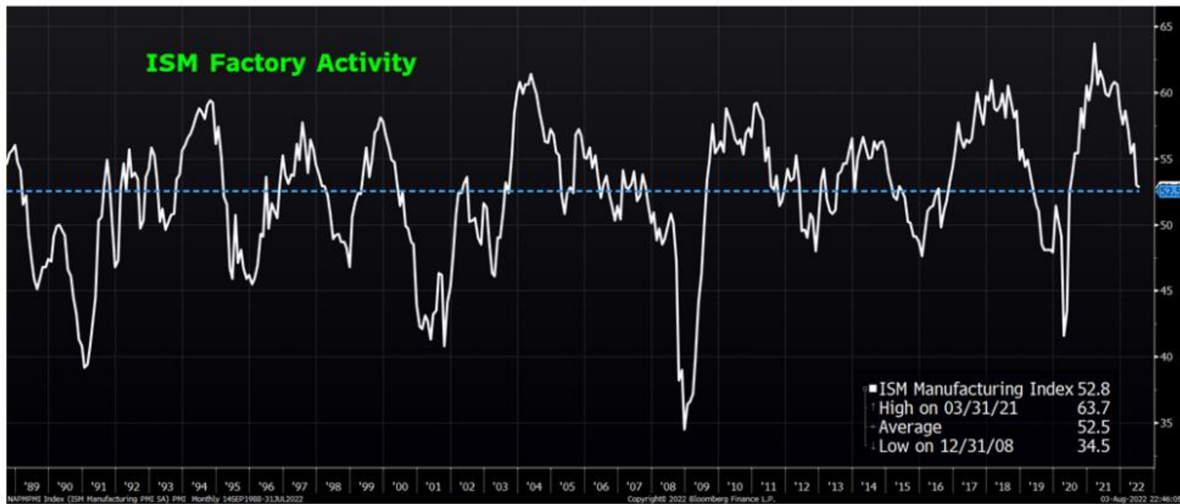
Soaring inflation easing somewhat, the latest read on the health of the service sector bounced up to 56.7 in July. The figure was better than expected, up from June's tally and above average, suggesting a still-healthy non-manufacturing economy. The Institute for Supply Management stated, "The past relationship between the Services PMI and the overall economy...corresponds to a 2.4% increase in real gross domestic product (GDP) on an annualized basis."

…and a still-solid measure for the outlook for the factory sector.

THE PRUDENT SPECULATOR

ISM MANUFACTURING FALLS: 1.4% ANNUALIZED GDP GROWTH SUGGESTED

The latest data point on the health of the manufacturing sector came in above expectations at 52.8 in July, down from a reading of 53.0 in June, but still above the average for the 30-plus-year history of the gauge. The Institute for Supply Management stated, "The past relationship between the Manufacturing PMI and the overall economy... corresponds to a 1.4% increase in real gross domestic product (GDP) on an annualized basis."



Of course, we realize that traders remain concerned about the chance of recession,…

THE PRUDENT SPECULATOR

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

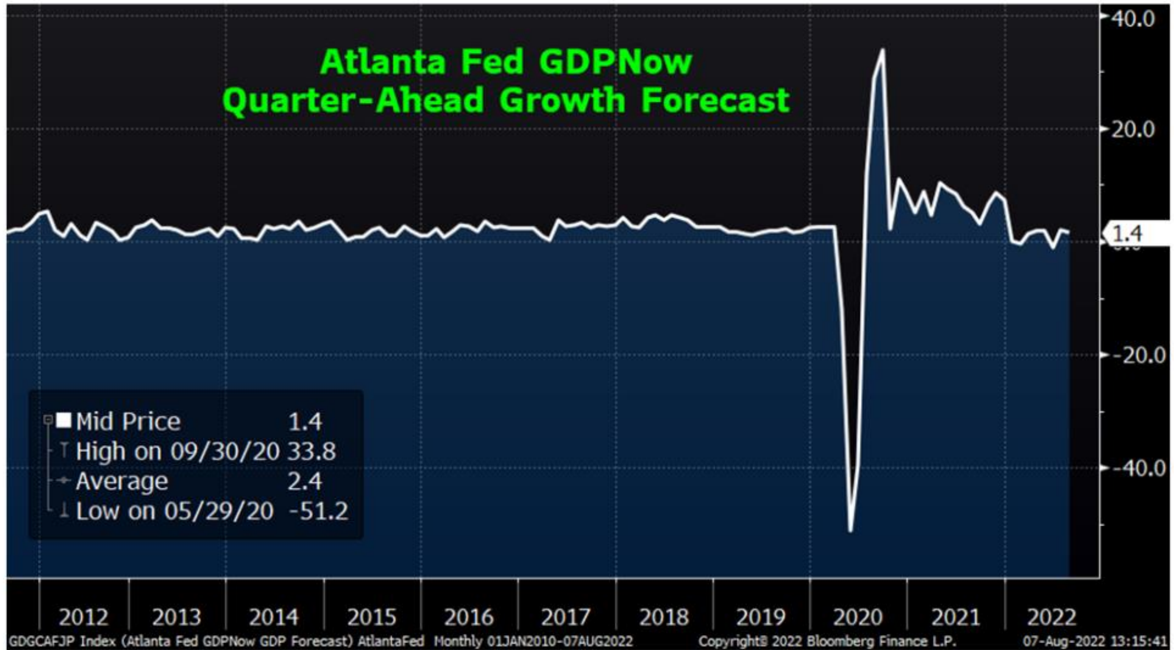
The respective 1.6% and 0.9% contractions in Q1 and Q2 2022 real (inflation-adjusted) GDP means economists could say that the U.S. economy is in recession, but the odds of an official declaration stand today at 40%, meaning the consensus forecast would be no recession.

…but the latest projection for Q3 GDP growth from the AtlantaFed was positive,…

THE PRUDENT SPECULATOR

PRE-JOBS-REPORT Q3 U.S. GDP GROWTH PROJECTION RESIDED AT 1.4%

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 projection for Q3 2022 real GDP growth on an annualized basis as of August 4 stood at 1.4%.



…and it did not include the stellar July labor report that was out on Friday.

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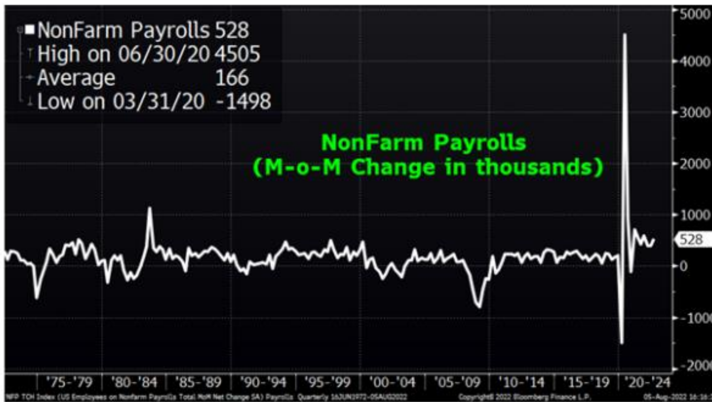
VERY HEALTHY JOBS PICTURE

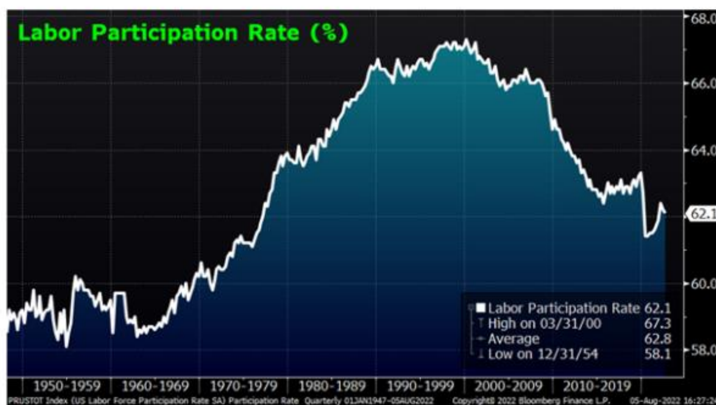


Economists were looking for a gain of 258,000 payrolls, so the increase of 528,000 in July was well above expectations, and the May and June tallies were revised up by a combined 28,000 jobs. July marked the 15th straight month of job gains above 350,000. With strong demand for labor, wages continued to rise, a bit faster than in the month prior, as employers struggled to fill positions and the impact of the coronavirus pandemic continued to recede.

We aren’t sure how an economy with an extremely low unemployment rate,…

THE PRUDENT SPECULATOR

PANDEMIC LOW JOBLESS RATE & NEAR PANDEMIC HIGH PARTICIPATION RATE



With many more jobs created than expected, the unemployment rate for July edged lower to 3.5%, down from 3.6% in June, with the gains led by growth in leisure and hospitality, professional and business services, and health care. The so-called participation rate inched down 0.1 points in July to 62.1%, still near the highest level since the beginning of the pandemic, but well below levels witnessed over the past four decades.

…and plenty of jobs waiting to be filled should be a headwind for equities,…

THE PRUDENT SPECULATOR

HIGH JOB OPENINGS AND LOW UNEMPLOYMENT FILINGS

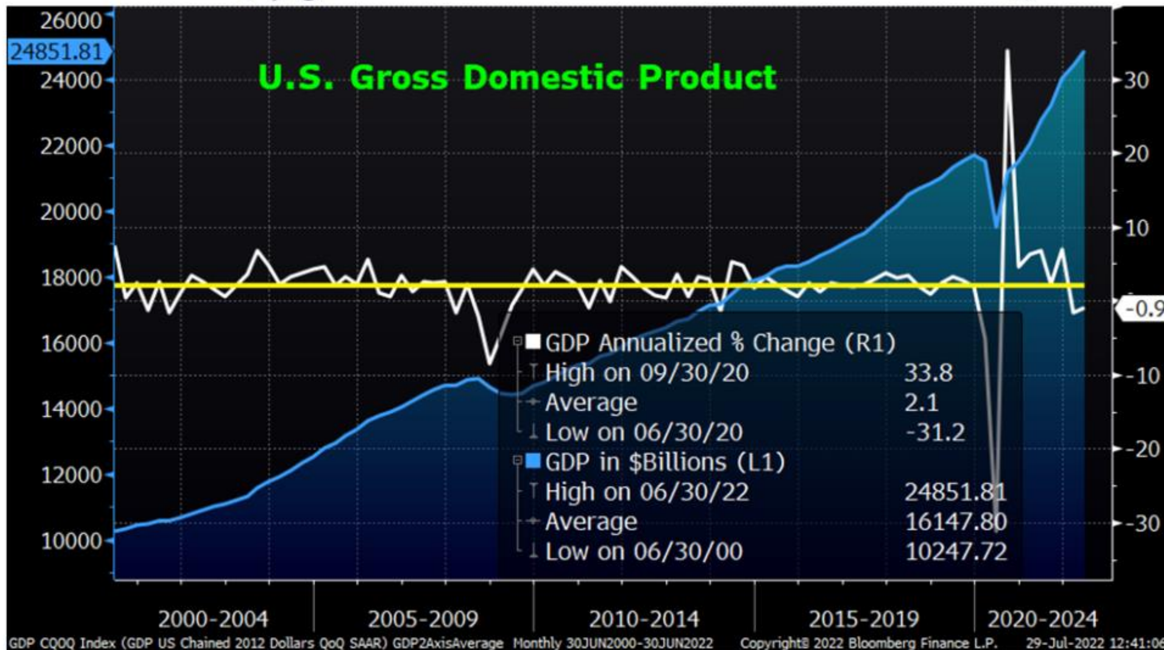
With the "Great Resignation" continuing as 4.2 million people quit their jobs in June, the labor market remains healthy, even as the number of job openings cooled to 10.7 million, the lowest since last fall, but more than double the average since the year 2000. Looking at more current data, first-time filings for jobless benefits inched up by 6,000 to 260,000 in the week ending July 30, in line with expectations but still well below the historical average.

…especially given that the first two quarters of nominal (actual dollar) GDP growth in 2022 were robust. Yes, real (inflation-adjusted) GDP contracted in Q1 and Q2,…

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.



…but we cannot forget that stock prices and corporate profits are measured in nominal dollars,…

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. 74.7% of the 432 S&P 500 companies to have announced have beat EPS expectations and 63.5% have exceeded revenue forecasts.

SPX C 4145.19 -6.75 4100.62 / 4176.35
On 05 Aug O 4115.87 H 4151.58 L 4107.31 Prev 4145.19
SPX Index | Table | Export | Settings | Earnings Analysis
Range Current Season | CQ2 Ending: 5/16/2022 - 8/15/2022 | Periodicity Quarter
S&P 500 INDEX
Surprise | Growth

Sector (BICS)	Reported	Sales Surprise	Earnings Surprise
11) All Securities	432 / 498	2.89%	4.33%
12) > Materials	26 / 28	1.24%	2.98%
13) > Industrials	64 / 69	0.38%	4.50%
14) > Consumer Staples	23 / 35	3.96%	4.63%
15) > Energy	22 / 23	9.72%	10.08%
16) > Technology	63 / 78	-0.05%	1.16%
17) > Consumer Discretionary	41 / 55	2.71%	5.17%
18) > Communications	21 / 25	-0.42%	-5.92%
19) > Financials	59 / 61	1.14%	6.97%
20) > Health Care	55 / 64	2.60%	7.42%
21) > Utilities	28 / 29	17.17%	8.34%
22) > Real Estate	30 / 31	3.18%	1.18%

S&P 500 Earnings Per Share

Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2023	$63.20	$241.59
9/30/2023	$61.37	$236.67
6/30/2023	$59.58	$231.84
3/31/2023	$57.44	$224.95
12/31/2022	$58.28	$216.87
9/30/2022	$56.54	$215.32
6/30/2022	$52.69	$210.80
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 8.4.22

…with equities historically a very good hedge against rising consumer prices.

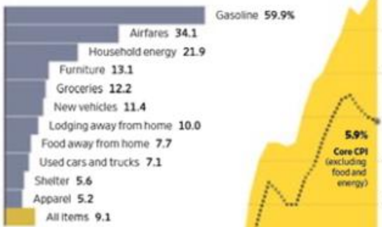
THE PRUDENT SPECULATOR

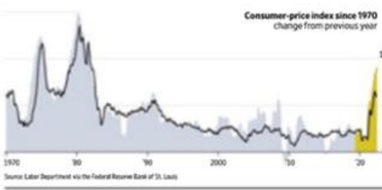
EQUITY RETURNS AND 9%+ INFLATION – VALUE STOCKS THE PLACE TO BE

THE WALL STREET JOURNAL.

THURSDAY, JULY 14, 2022 - VOL. CCLXXX NO. 11 WSJ.com ★★★★ $5.00

Inflation Hurtles to Highest Since '81





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

By Gabriel T. Rubin

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

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

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

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

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

Price Data Set Off More Bond Volatility

By Sam Goldfarb And Matt Grossman

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

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

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

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

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

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

Inflation Rate >= 9.0% and Ensuing Value/Growth Returns Since 1927

Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	4.3%	2.7%	10.7%	6.4%	27.2%	16.3%
Geometric Average	3.7%	2.0%	9.0%	4.9%	24.1%	13.9%
Median	3.8%	2.1%	6.8%	4.6%	18.0%	12.3%
Max	50.9%	32.9%	82.7%	60.8%	134.0%	64.2%
Min	-19.2%	-27.6%	-26.4%	-35.9%	-20.9%	-22.2%
Count	95	95	95	95	95	95

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

Inflation Rate <9.0% and Ensuing Value/Growth Returns Since 1927

Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	4.2%	3.1%	8.1%	6.1%	16.4%	12.3%
Geometric Average	3.1%	2.4%	6.2%	4.7%	12.3%	9.3%
Median	4.0%	3.4%	7.9%	6.2%	16.6%	12.9%
Max	200.5%	136.1%	244.7%	140.3%	357.8%	221.9%
Min	-43.1%	-40.4%	-56.1%	-47.0%	-71.3%	-64.8%
Count	1042	1042	1039	1039	1033	1033

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

Inflation Rate >= 9.0% and Ensuing Value/Growth Returns Since 1957

Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	3.9%	3.4%	8.7%	7.2%	22.9%	18.0%
Geometric Average	3.3%	2.5%	7.6%	5.3%	21.8%	15.5%
Median	4.7%	3.1%	7.0%	6.4%	20.7%	21.5%
Max	39.6%	32.9%	63.0%	60.8%	60.2%	63.4%
Min	-16.5%	-27.6%	-26.4%	-35.9%	-8.8%	-22.2%
Count	55	55	55	55	55	55

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

Inflation Rate < 9.0% and Ensuing Value/Growth Returns Since 1957

Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	3.8%	2.8%	7.7%	5.8%	15.8%	11.8%
Geometric Average	3.3%	2.4%	6.7%	4.8%	13.7%	9.9%
Median	4.1%	3.3%	8.1%	6.0%	17.3%	13.0%
Max	37.8%	32.5%	68.5%	49.8%	105.8%	93.6%
Min	-39.5%	-34.9%	-54.2%	-41.7%	-52.2%	-48.0%
Count	724	724	721	721	715	715

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

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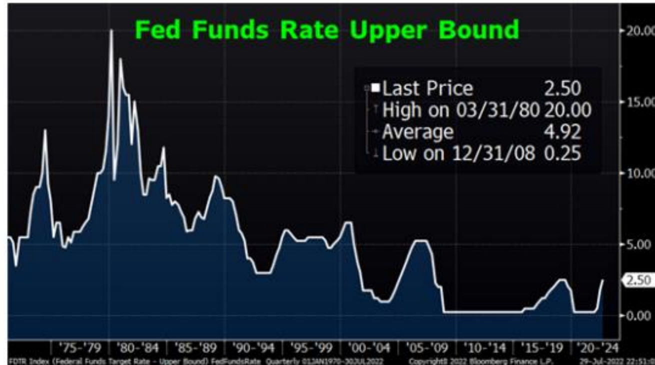
To be sure, Friday's very-strong payrolls number puts more pressure on Jerome H. Powell & Co. to hike interest rates, with Federal Reserve Governor Michelle Bowman stating this weekend that 75-basis-point increases "should be on the table until we see inflation declining in a consistent, meaningful and lasting way."

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 more hawkish in terms of the number of hikes expected over the balance of the year, even as they expect that rates will be cut starting in May 2023.



Model	Meeting	%Hike/Cut
North America		
US - Fut	09/21/2022	+276.1%
US - OIS	09/21/2022	+266.4%
CA - OIS	09/07/2022	+265.5%
Europe		
EZ - OIS	09/08/2022	+189.8%
GB - OIS	09/15/2022	+195.3%
SE - OIS	09/20/2022	+484.7%
APAC		
AU - Fut	09/06/2022	+157.5%
NZ - OIS	08/17/2022	+195.8%
JP - OIS	09/22/2022	-21.8%
IN - OIS	09/30/2022	+118.1%

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
09/21/2022	+2.761	+276.1%	+0.690	3.031	0.250
11/02/2022	+4.175	+141.4%	+1.044	3.385	0.250
12/14/2022	+4.885	+71.0%	+1.221	3.563	0.250
02/01/2023	+5.148	+26.3%	+1.287	3.628	0.250
03/22/2023	+5.195	+4.7%	+1.299	3.640	0.250
05/03/2023	+4.963	-23.3%	+1.241	3.582	0.250
06/14/2023	+4.567	-39.5%	+1.142	3.483	0.250
07/26/2023	+4.185	-38.2%	+1.046	3.388	0.250
09/20/2023	+3.740	-44.5%	+0.935	3.276	0.250
11/01/2023	+3.352	-38.8%	+0.838	3.179	0.250

Not surprisingly, the stronger economic data was not a positive for fixed income,…

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BENCHMARK TREASURY YIELD SOARS ON THE STRONG LABOR REPORT

Given the big July payrolls number, the odds of a quicker pace of interest rate hikes from the Federal Reserve have risen, leading government bond market players to dump U.S. Treasuries on Friday and sending the yield on the benchmark 10-year bond up 18 basis points for the full week.

…which is in keeping with the historical performance data, an analysis of which also shows that Value stocks fare even better. on average, when long-term government bond yields rise than when they fall.

THE PRUDENT SPECULATOR

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

Rising Long-Term Government Rates - Annual Returns Review

Name	Value Stocks	Growth Stocks	Dividend Payers	Non-Dividend Payers	Long-Term Corp Bonds	Long-Term Government Bonds	Intermediate-Term Govt Bonds	U.S. Treasury Bills
Arithmetic Average	18.2%	12.5%	11.6%	15.7%	0.9%	-1.1%	2.0%	3.6%
Geometric Average	14.0%	9.5%	9.5%	10.3%	0.8%	-1.2%	2.0%	3.6%
Median	18.2%	12.9%	14.3%	11.4%	1.1%	-0.3%	1.8%	3.1%
Max	126.6%	93.1%	69.8%	88.2%	14.6%	9.2%	9.7%	14.7%
Min	-54.0%	-42.2%	-47.4%	-50.9%	-8.1%	-14.9%	-5.1%	0.0%
Count	47	47	47	47	47	47	47	47

Source: Kovitz using data from Ibbotson Associates SBBI. From 1930 to 2021.

Falling Long-Term Government Rates - Annual Returns Review

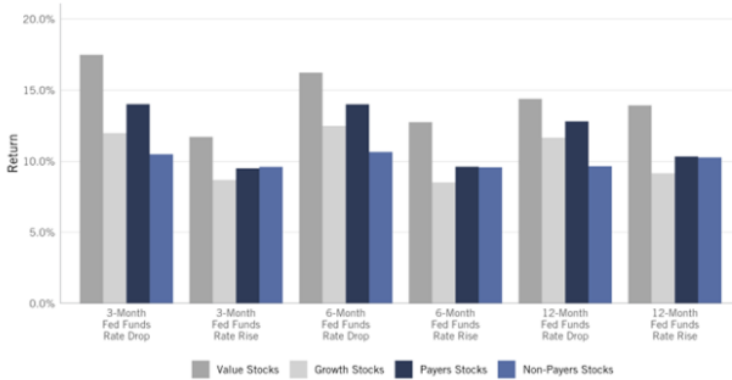
Name	Value Stocks	Growth Stocks	Dividend Payers	Non-Dividend Payers	Long-Term Corp Bonds	Long-Term Government Bonds	Intermediate-Term Govt Bonds	U.S. Treasury Bills
Arithmetic Average	15.7%	12.7%	14.3%	11.5%	12.3%	13.4%	8.5%	2.9%
Geometric Average	12.9%	10.5%	12.6%	7.6%	12.0%	13.1%	8.4%	2.9%
Median	16.4%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

Source: Kovitz using data from Ibbotson Associates SBBI. From 1930 to 2021.

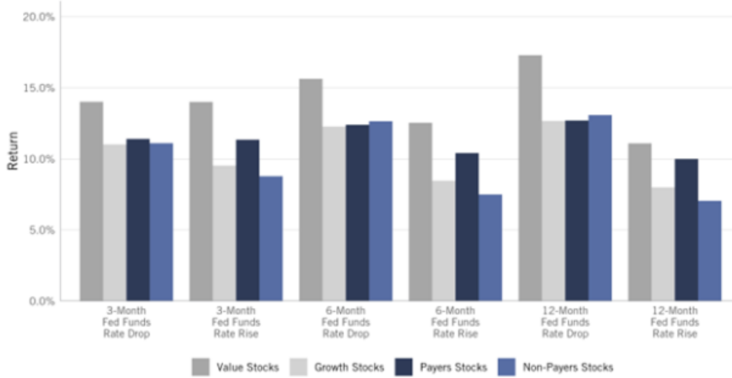
There are no assurances that the past is prologue, while geopolitical events like the Pelosi trip to Taiwan are always a wildcard, but we also like that Value has been the place to be over the last seven decades both concurrent with and subsequent to Fed rate hikes,…

THE PRUDENT SPECULATOR

FED FUNDS RATE Δ EQUITY RETURNS



From 07.31.54 through 04.30.22. Concurrent annualized 12-month returns. SOURCE: Kovitz using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French



From 07.31.54 through 04.30.22. Subsequent annualized 12-month returns. SOURCE: Kovitz using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French

Many think the Federal Reserve hiking the Fed Funds rate will prove to be a big headwind for equities, but seven decades of returns data show that stocks in general have performed admirably on average, both concurrent with and subsequent to increases (as well as decreases) in the Fed Funds rate over 3-, 6-, and 12-month time spans, with Value Stocks leading the charge no matter the direction.

…while Fed Tightening cycles have not been reason to dump stocks, be they Value or Growth or Dividend or Non-Dividend Payers.

Rates Change and Equities Rise

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

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True, we do not discriminate in our stock buying and holding, but as value investors, we are as focused as anyone on the various valuation metrics of the stocks that we own and recommend. However, we would never want to be boxed into an arbitrary definition of Value based simply on a financial metric like price to book value or even a P/E ratio.

After all, many might not categorize stocks like **Johnson & Johnson** (JNJ – $171.11), **Walt Disney** (DIS – $106.63) or even **Meta Platforms** (META – $167.11) as value given that they trade for elevated multiples of book value. But they are members of the Russell 1000 Value index and current recommendations in *The Prudent Speculator*.

In our view, there is much more to choosing an attractively priced stock with handsome appreciation potential than a few valuation metrics. Indeed, we have long argued that growth is a component of the assessment of the investment merits of any company. In fact, the three-to-five-year target prices highlighted on these missives always consider forward-looking expectations for sales and earnings, not to mention brand strength, competitive position, product breadth and depth, and management prowess.

No doubt, there is a whole lot of art that goes into the science of Value investing, but we would not have it any other way, especially as three of our largest holdings, **Alphabet** (GOOG – $118.22), **Apple** (AAPL – $165.35) and **Microsoft** (MSFT – $282.91), are major constituents of the Russell 1000 Growth Index.

Despite our eclectic approach to stock selection, the financial metrics associated with our holdings very much confirm that at the overall portfolio level we will always reside on the Value end of the spectrum.

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	11.7	11.0	0.9	2.3	2.7
ValuePlus	12.8	11.3	1.2	2.4	2.3
Dividend Income	11.2	11.1	0.8	2.3	3.2
Focused Dividend Income	13.4	12.6	1.1	2.5	2.7
Focused ValuePlus	12.7	12.8	1.3	2.7	2.5
Small-Mid Dividend Value	9.6	9.7	0.5	1.7	3.0
Russell 3000	21.8	18.6	2.2	3.8	1.5
Russell 3000 Growth	32.1	25.7	3.5	9.9	0.9
Russell 3000 Value	16.3	14.4	1.6	2.3	2.2
Russell 1000	20.9	18.4	2.4	4.0	1.5
Russell 1000 Growth	29.9	25.5	3.8	10.6	0.9
Russell 1000 Value	15.8	14.2	1.7	2.4	2.2
S&P 500 Index	20.3	18.2	2.5	4.1	1.6
S&P 500 Growth Index	25.1	22.8	4.6	7.8	0.9
S&P 500 Value Index	17.0	15.2	1.7	2.8	2.2
S&P 500 Pure Value Index	10.3	9.4	0.6	1.4	2.7

As of 08.06.22. 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.

Fertilizer producer **Mosaic Cos** (MOS – $52.22) earned $3.64 per share in Q2, more than three times the EPS in the same quarter last year. Tightness continues to characterize global fertilizer markets, supporting sky-high prices and bumper profits for producers. Phosphates was the only of Mosaic's three business segments to see volume slides (albeit modestly) from Q1, even as prices were higher. The company said it expects tight grain and oilseed markets to persist through the remainder of 2022 and into 2023 as the war in Ukraine, high temperatures in North America and Europe, and developing drought conditions in parts of South America highlight the risk for reduced yields globally.

CEO Joc O'Rourke said, "Given the outlook for our business and the free cash flow we expect to generate, capital allocation remains a key focus for us. First, we continue to invest in our business. For 2022, total capital expenditures remain unchanged at $1.3 billion. We remain open to modest, high-returning projects and small bolt-on acquisitions, especially in Brazil, but we are not interested in large-scale greenfield projects. Second, we're committed to ensuring a strong balance sheet and plan to retire $550 million of long-term debt in the second half of 2022, after which, we see no need to further deleverage. The third pillar of our strategy is returning capital to shareholders. Year-to-date, we returned $1.1 billion to shareholders through buybacks and dividends. And we expect that pace to continue, if not accelerate, as the year progresses. In total, we expect to return essentially 100% of our free cash flow after the commitments to the business and the balance sheet we've discussed."

Indeed, management has reduced the share count by over 9% over the past year, and is approaching the end of the current repurchase authorization with $555 million remaining. And, the Board authorized an additional $2 billion for repurchases following the exhaustion of the current program. The current amount remaining combined with the $2 billion newly authorized represent nearly 14% of the market cap. Mr. O'Rourke also mentioned that the regular common dividend would be reevaluated at year end, and likely raised, as share count reduction has also reduced the absolute expenditure on total dividends and as debt service payments have also dropped.

It is hard for us to expect the tightness that characterizes global ag markets to alleviate overnight, but we acknowledge that both fertilizer and crop prices can be extremely volatile in either direction. As shares have fallen about 20% from their annual high in mid-April, we are pleased with our decision to trim our MOS position earlier in the year, but with the forward P/E ratio at just 4 times the 2022 EPS estimate, we like management's decision to buy shares hand over fist. Comfortable with our exposure at present, our Target Price now resides at $87.

Adjusted for the spinoff of its spine and dental business, which took place in March, **Zimmer Biomet's** (ZBH – $113.26) core earnings of $1.82 per share in Q2 beat analyst estimates by 10%, while the $1.78 billion revenue figure topped forecasts by nearly 4%. The medical equipment maker attributed the solid results to a stronger-than-anticipated COVID recovery and growing procedure volume. Foreign currency adjustments, supply chain constraints and inflation are headwinds management expects to stick around, but new product innovation and procedure momentum should help ZBH overcome those challenges.

CEO Bryan Hanson commented on the product pipeline, "In addition to the strength of our existing product portfolio, our new product pipeline is just as exciting. We have additional product launches planned for the second half of 2022, especially across our Knee and set portfolios. In Knee, our soon-to-be launched Persona cementless form factor will complement our current form factor and provide additional momentum for cementless conversions, particularly as we get into 2023. And in our S.E.T. businesses, I'm very excited about our identity shoulder system launch. This is going to be a much more customizable shoulder for a more personalized feel for the patient that should optimize movement in the shoulder. We're also continuing to reshape our business and accelerate ZB's transformation. We've made significant progress in streamlining and modernizing our operating model, but we've also really focused on making ZB a best and preferred place to work as well as a trusted partner, which are two of our strategic pillars for the company."

CFO Suky Upadhyay gave the outlook, "Constant currency revenue growth is now expected to be 4% to 6% versus '21. With an expected foreign currency headwind of 500 basis points. This means that reported revenue growth is expected to be in the range of negative 1% to positive 1% versus 2021. We're raising adjusted operating margin by 25 basis points to the range of 26.75% to 27.75%. Adjusted tax rate guidance remains in the range of 16% to 16.5%. Adjusted diluted earnings per share is now expected to be higher at $6.70 to $6.90. And free cash flow is now expected to improve to $800 million to $900 million…We expect to see typical seasonality in the back half of the year, which would suggest stronger revenue dollars in Q4 than in Q3. Additionally, we expect Q4 revenue growth to be higher than Q3 growth, in part due to the easier fourth quarter comp related to China VBP headwinds we observed in the fourth quarter of 2021. Operating margins are expected to follow a similar trend as revenue…while there are macro challenges and headwinds, our team is navigating these challenges and executing well. We are raising our '22 financial guidance due to better-than-expected COVID recovery, the strength of our execution and our confidence in ZBH's underlying business fundamentals."

The expected currency headwinds are a bit of a downer and are difficult to avoid, especially since currency hedging techniques are inconsistent and expensive. Importantly, management expects underlying revenue to climb, as should earnings and margins. Wall Street analysts and our proprietary valuation model concur. We appreciate ZBH's hard work to rework its product suite with cutting edge technology like its ZBEdge ecosystem, a suite of integrated digital and robotic technologies, and the momentum built for its ROSA Robotics equipment. We continue to like Zimmer's global revenue stream (even if gets knocked in the near term by accounting rules) and expect to see benefits from the company's new product lines. Our Target Price has been adjusted to $169.

We were perplexed to watch shares of **Caterpillar** (CAT – $185.39) slide more than 6% last week even as the construction equipment titan said it produced the highest sales in a quarter since 2018 and a company-record $3.18 of earnings per share, besting the $3.03 Wall Street had predicted. Reduced volume and unfavorable product mix pushed operating profit margins slightly lower than management expected. Higher selling prices more than offset manufacturing cost increases, though supply chain constraints (and component shortages) caused production delays, keeping the company from fully meeting customer demand.

CEO Jim Umbleby said, “We expect volume and price realization to improve in the second half of the year, which should lead to sales growth in the remaining quarters of the year, both sequentially and year-over-year. We also expect adjusted operating profit margins will improve both sequentially and year-over-year in the second half of 2022 as our price realization will more than offset manufacturing cost increases. Despite ongoing inflation and supply chain challenges, we continue to expect to achieve our Investor Day adjusted operating profit margin and [Machinery, Energy & Transporation] free cash flow targets for the full year.”

We continue to think CAT’s dominance in the U.S is intact, and despite hurdles (COVID shutdowns and property development woes) in China, runways for growth still exist in emerging economies such as China, India, Africa and the Middle East. Moreover, an increase in U.S. infrastructure spending ought to extend elevated demand into next year and beyond, with the Street projecting EPS to breach $17.00 by 2025.

A shift toward leaner operations and digital solutions was evident in Q2, allowing CAT to repurchase shares and raise the quarterly dividend by 8% to $1.20 per share, pushing the yield to 2.6%. Shares look attractive to us with the forward P/E multiple falling in half over the past 18 months to reside below 14. One of our core Industrial holdings, our current Target Price for CAT now stands at $273.

Cummins (CMI – $220.02) bounced back from a weak Q1, beating Wall Street estimates in Q2 by earning $4.94 per share (vs. $4.35 consensus) and growing the top line by 8% year-over-year to $6.59 billion, a company record. New CEO Jennifer Rumsey took the helm from Tom Linebarger back in July as just the seventh Chief since the company’s founding in 1919. On the latest quarter, Ms. Rumsey commented, “Demand for our products remained strong across all of our key markets and regions, with the notable exception of China, resulting in record revenues in the second quarter.”

Improved pricing, higher volumes and higher aftermarket demand drove revenue in North America 15% higher versus last year, particularly within medium-duty trucks, where Cummins took market share, growing four times the industry as a whole. Revenue growth in India to a record level offset the sharp, 43% revenue decline in China as the latter continues to implement COVID-19 shutdowns, bringing overall international revenue down by 2% year-over-year.

Ms. Rumsey added, “Based on our current forecast, we are maintaining full year 2022 revenue guidance of up 8% versus last year. This guidance reflects stronger performance in North America and a weaker market outlook in China as well as the indefinite suspension of our operations in Russia. We are forecasting higher demand in global oil and gas and power generation markets and expect aftermarket revenues to increase compared with 2021. In China, the industrial workhorse is “now projecting total revenue, including joint ventures, to decrease 20% to 25% in 2022, an update to our previous guidance of down 10%.”

In the U.S., demand for new oil and gas engines is expected to increase by 120%, an update from Cummins’ previous guidance of up 95%, while non-residential construction is expected to improve revenue from power generation markets by 5%.

We mentioned three months ago that some of the same issues affecting Cummins (i.e. higher freight and logistics expenses, rising material costs and other factors contributing to supply chain challenges) also support demand for future business, particularly given high utilization rates for long-haul trucking. Shares have rallied over 7% from that point, but still trade below 5- and 10-year average forward P/E multiples at less than 13 times the 2022 EPS estimate. We continue to like Cummins' position as a leading maker of critical components in the industrial supply chain, while it continues to invest in new (and renewable) technologies. We also appreciate that management continues to promote returning 50% of operating cash flow to shareholders. The dividend yield is an attractive 2.9% and our Target Price is now $308.

Biotech concern **Gilead Sciences** (GILD – $61.09) earned $1.58 in Q2 (vs. $1.51 est.) on strong sales growth of HIV drug Biktarvy (28% year-over-year). Excluding Veklury (remdesivir), total product sales grew 7% year-over-year, bringing overall sales to $6.3 billion. The oncology segment had a record quarter, generating over $0.5 billion of sales for the first time with a strong contribution from Yescarta and Trodelvy, for which 2 of 7 studies scheduled for 2022 are underway. Management expects between $24.5 billion and $25.0 billion in total product sales for all of 2022, compared to $23.8 billion and $24.3 billion previously, with about $2.5 billion of that amount from Veklury.

CEO Daniel O'Day commented, "This was a record quarter for our oncology business…Yescarta was approved by the FDA for second-line relapsed or refractory large B-cell lymphoma in April. This increased awareness and go demand not only for Yescarta's second-line patients but also for those in later lines of treatment. Yescarta is a potentially curative therapy, and Kite has uniquely and effectively scaled manufacturing to meet the needs of patients through the benefit."

He added, "Turning to our clinical progress. Our NDA submission has been accepted by the FDA for lenacapavir for heavily treatment-experienced people living with HIV, and we are now expecting the decision in late December. If approved, lenacapavir will be the first approved capsid inhibitor and the first therapy with a 6-month dosing schedule for HIV treatment. Moving to Trodelvy. We are in discussions with the FDA regarding a potential regulatory pathway for late-stage hormone-receptor-positive HER2-negative patients, and we will update you as things progress. We have also begun screening patients in a ASCENT-03 and ASCENT-04 evaluating Trodelvy in the first-line metastatic triple-negative breast cancer patients. We dosed the first patient in our new Phase II study evaluating Trodelvy in non-small cell lung cancer, EVOKE-02. And earlier this month, we dosed the first patient in a new Trodelvy combination arm in our ongoing magrolimab triple-negative breast cancer study."

The biggest wildcard (with arguably the largest upside) remains the future of Gilead's oncology portfolio, with over $40 billion of purchases over the past 5 years slow in bearing fruit. But strong performers in Yescarta and Trodelvy (from the acquisitions of Kite Pharma in 2017 and Immunomedics in 2020, respectively) remain promising with the former drug expected to top $1 billion in sales this year and the latter doing so by 2024. Robust cash flow generation ought to afford additional spending for R&D and/or additional bolt-on acquisitions, while supporting the generous dividend (the yield is 4.8%). Our relatively small position in the stock remains up for

grabs versus other potential opportunities presented in the latest market volatility, though we do like the single-digit P/E multiple. For the time being, our Target Price has been adjusted to $85.

Prudential Financial (PRU – $96.51) said it earned an adjusted $1.74 per share in Q2. The result came in well below the $2.35 expected by the Street, although assumption changes for the insurance business had an outsized negative impact and muddied the accounting. PGIM assets under management were also 17% lower versus a year ago to $1.257 trillion, reflecting the impact of market declines from higher interest rates and credit spreads for fixed income, as well as equity market volatility.

CEO Chuck Lowry said, "Our second quarter results reflect macroeconomic trends, including rising interest rates, widening credit spreads, and equity market declines, as well as the strengthening of our Individual Life reserves through our annual review of assumptions. We also continued to make significant strategic progress transforming our businesses to be less market sensitive and more nimble, while making additional investments to support our long-term, sustainable growth. We completed the sales of our Full-Service business and a significant portion of our traditional variable annuities, which reduced our market sensitivity by 20%. We are increasing our presence in Africa through a programmatic acquisition in a key growth market. We also continued to expand our products and solutions and are expecting to reach our $750 million cost savings program target one year ahead of schedule."

He added, "Our actions are supported by the strength of our rock-solid balance sheet, which gives us the financial flexibility to navigate through the current macroeconomic environment, while continuing to invest in our businesses and return capital to shareholders. Our strategy continues to position us well for the future and to be a leader in expanding access to insurance, investing, and retirement security around the world. We remain confident that we are on the right path to drive long-term sustainable growth and create value for all of our stakeholders."

We like that Prudential is finding new avenues for growth like its partnership with Mercado Libre, the largest e-commerce platform in Latin America with approximately 200 million users, offering another pipeline to deliver life insurance and accident and health products. The insurer is a year ahead on its $750 million cost-savings target and expects to generate about $1.5 billion of operating income for the year. Well off their pandemic bottom of around $40, shares have pulled back more than 10% year-to-date to now trade below 10 times the 2022 EPS estimate with a rich dividend yield of 5.0%. Our Target Price for PRU is presently $138.

CVS Health (CVS – $102.26) saw its shares rise 7% last week after reporting Q2 results that beat consensus analyst estimates on both the top- and bottom-lines. The health care and pharmacy retails services provider said adjusted EPS came in at $2.40 (versus the $2.17 est.). CVS generated revenue of $80.64 billion (versus the $76.48 billion est.). Revenue growth for the quarter hit 11% vs Q2 of 2021.

The Retail business experienced strong performance with continued growth in same-store prescriptions and front-end sales. Part of this boost is likely coming from store optimizations, where CVS is retaining an impressive 70% of scripts. The Health Care Benefits segment is also

performing well, with trends largely stable across its broader book of business. Another bright spot is specialty pharmacy with revenue up 21% year-over-year.

The company also announced that it had generated $9 billion in operating cash flow so far this year and paid down $1.5 billion of additional long-term debt. Since CVS closed on its acquisition of Aetna (November 2018), the company has repaid a net $22.5 billion of long-term debt.

CEO Karen Lynch commented, “Despite a challenging economic environment, our differentiated business model helped drive strong results this quarter, with significant revenue growth across all of our business segments. The continued success of our foundational businesses accelerated our strategy to expand access to health services and help consumers navigate to the best site of care. We remain a trusted community health destination for millions of individuals with health products and services that engage customers in all aspects of their health wherever and whenever they need it.”

Management raised full-year 2022 guidance for a number of measures. Adjusted EPS is now forecast to be between $8.40 and $8.60 (prior was $8.20 to $8.40), while cash flow from operations is now likely to come in between $12.5 billion and $13.5 billion (versus the prior $12 billion to $13 billion).

Although the competitive landscape isn’t getting any less challenging and there seemingly is always a regulatory cloud in the operational sky, we think there is plenty of runway ahead to improve access to care using CVS’s integrated health care delivery model. We also appreciate that scale benefits from the Aetna acquisition are starting to show through. While shares have had a solid total return over the last year, we continue to find them attractive as they trade for less than 12 times NTM adjusted earnings estimates and yield 2.2%. Our Target Price for CVS has been raised to $139.

French insurance company **AXA SA** (AXAHY – $24.08) posted net income of 4.1 billion euros for the first half of 2022, 21% ahead of analyst estimates. The pre-tax earnings figure for the company’s Property & Casualty unit and Life & Savings both beat expectations, while the Health Care and Asset Management also reported earnings above analyst estimates, though they make up a relatively small portion of total revenue. Shares rose nicely on the news but remain down about 19% this year.

CEO Thomas Buberl commented, “The results that we show today is another proof that this new model is really delivering strong and a consistent performance over time. Because 11% underlying earnings per share growth is really a great achievement in a time where we certainly have seen a lot of movements around us. When we saw each other last time for the full year results versus today, we are in a different world. In addition to that, we have also materialized what we have said around our capital management strategy by announcing a EUR 1 billion share buyback. This is very much in line with what we said around how are we interpreting and living financial discipline, but it’s also a very clear sign into the operational performance of AXA and also into the very strong balance sheet.”

Mr. Buberl continued, "When we saw inflation coming, we reacted immediately. We always try and price our contracts above inflation. And in many of our areas, and in particular in the commercial business, we have achieved to do so, 5% P&C commercial lines business pricing in the first half of the year across the entire portfolio, thereof 9% at AXA XL. We started immediately to reduce our cost after the war broke out. And you've seen that we managed the first fruit of it, minus 2% on the noncommission expenses. And as I mentioned earlier, we confirm today the strength of our reserves even in an inflationary environment. It is important that AXA doesn't only remain solid and resilient as a business, but also reliable as an actor in society." Mr. Buberl reiterated his expectation of earnings growth on the high end of the 3% to 7% historical range.

AXA shares remain depressed this year, after posting a very large 43% total return in 2021. As the company streamlines and benefits from a better revenue mix, we expect a continued strong balance sheet and earnings growth above the GDP pace. Management was asked about exposure to Russia and Ukraine, CFO Alban de Mailly Nesle said, "The EUR 0.3 billion [exposure] covers the various lines of business that are affected by the conflict or the consequence of the conflict. What I mean by this, it's aviation with the planes that were grounded by the Russian government. We have shares on policy covered for 300 planes. So we obviously don't insure 100% of those planes, but we have shares on those 300 planes. The second line of business, which is affected is what we call crisis management policies. And obviously, there are some damages in Ukraine that were covered by those policies. And third one is marine. It's a bit like aviation. There are some vessels that have been retained in the Ukrainian harbors. And there is a risk. What I want to say on all this is that at this stage, we have extremely few claims. It's a provision that we have set aside with scenarios on what could happen… So we have done a number of scenarios: more optimistic, average, more pessimistic. We have probability weighted them, and that's how we came to the EUR 300 million, EUR 315 million precisely. Obviously, that will develop. We will monitor this. It can go up, it can go down, and we will update this regularly. But I think given where we are, it will take some time before we have the final, final view on this. But at this stage, we are comfortable with the EUR 300 million that we have set aside."

With the company hitting its operational stride and sporting an inexpensive valuation, including a forward P/E ratio under 8, we like AXAHY and its 5.5% net dividend yield. Our Target Price is now $37.

Moderna (MRNA – $186.84) saw its shares soar nearly 14% last week after the vaccine maker reported Q2 2022 results that blew away analyst expectations. The company earned $5.26 per share (vs. $4.54 est.) in the quarter and had revenue of $4.75 billion (vs. $4.02 billion est.). COVID-19 vaccine revenue was $4.53 billon, 19% better than the analyst consensus estimate.

CEO Stephane Bancel commented, "In 2022, we set out to execute on 5 key priorities: First, to execute on delivering vaccine against $21 billion of signed advanced purchase agreement. With half of the year behind us and the signed deals for the fall of 2022 and our strong manufacturing team, we are on target. We have continued the momentum in our late-stage clinical trials with our Phase III trials now in flu, RSV and CMV, and I thank our team for delivering on such aggressive timelines. We are on track to share data from proof-of-concept studies from 2

therapeutic applications of our technology with data for our PA and PCV trial in second half. We have continued to make progress with new development candidates in vaccine and therapeutics. Some have already been announced and more will come in the second half of the year. And finally, the recent announcement of our inhaled LNP with our partner Vertex, we've expanded our mRNA platform to target preliminary disease."

Mr. Bancel continued, "As we grow, we are committed to doing the right things in the right way for patients and our stakeholders. As a company led by a founding team, we are thinking in 5-, 10-, 20-year increments… Moderna's mission to deliver on the promise of mRNA science to create a new generation of transformative medicine for patients has always been our North Star. Despite the challenges in the financial market with concern on inflation and ensuing increase in interest rates and the cost of capital, Moderna is in a very fortunate position. We have a unique mRNA platform, enabling the generation at unprecedented speed of innovative medicine. We have a strong team of 3,400 mission-driven employees. We have $18 billion of cash on our balance sheet and with a strong commercial momentum. We have no intention of slowing down our growth. We are putting our head down and doing the work. I have never been as excited about the future of Moderna. Now is not the time to slow down, patients are waiting for innovative medicine."

CFO David Meline added, "We continue to have signed advanced purchase agreements for expected delivery in 2022 in the amount of approximately $21 billion. This includes expected sales from the recently announced new agreement with the U.S. government… We anticipate that for sales in the second half of 2022, sales will be greater in the fourth quarter than the third quarter driven by the timing of anticipated approval of our updated COVID-19 vaccines and the related manufacturing ramp-up of the new products…For R&D and SG&A, we continue to expect full year expenses to be approximately $4 billion, driven by our maturing development portfolio and the global scaleup of the company… Finally, regarding capital expenditures, we continue to plan for capital expenditures in the range of $0.6 billion to $0.8 billion as we further build out our manufacturing and general company infrastructure globally."

MRNA repurchased 9 million shares in Q2, bringing the total bought back to 18 million since the inception of the buyback program in 2021. Moderna finished the quarter with $18.1 billion of cash on hand, lower than last quarter's $19.3 billion figure due mostly to the $1.3 billion spent on share repurchases.

MRNA's Chief Medical Officer Dr. Paul Burton offered real-world support for the COVID vaccines, stating, "As the COVID-19 pandemic continues and the SARS-CoV-2 virus keeps undergoing significant evolutionary change, the subject top of mind for many people is boosting, when to get boosted and what to get boosted with… Data from an innovative, decentralized, pragmatic, real-world study we have recently conducted within the Moderna community, a collaborative platform with Evidation of over 100,000 participants here in the United States. The study is called disCOVEries, and it enrolled approximately 850 of these people into a real-world assessment of antibody levels, following primary vaccination and boosting with either Moderna-Moderna-Moderna, that's the MMM group, or Pfizer-Pfizer-Pfizer, that's the PPP group. Importantly, the study population has an average age of 44. Approximately 60% of the participants are female, and it's ethnically very diverse. Participants were enrolled into the study,

consented and received a home self-administered microneedle blood collection kit from your buyer. Across an array of SARS-CoV-2 variance of concern, higher and more durable antibody levels shown here on a logarithmic Y-axis scale were observed in those individuals primed and boosted with the Moderna vaccine in red relative to the Pfizer vaccine in blue from 8 weeks through 32 weeks following their first booster. Many of the comparisons were highly statistically significantly different. It's true, even for antibody levels against the Omicron BA.1 variant of concern, where an approximately 12-week duration advantage is seen in Moderna prime and boosted individuals compared to those receiving the Pfizer vaccine. So taken together, these data demonstrate the strong performance of the Moderna vaccine in a real-world clinical boosting setting, which could be explained by higher enduring antibody levels against a wide variety of variants of concern."

We continue to believe our position in MRNA is equal parts Health Care and Technology, with the company able to leverage its mRNA technology and massive cash war chest to tackle other viruses and illnesses. Even though the share price has soared recently, the stock is still off more than 25% this year, but it has rallied mightily from the $113 low on June 13. While MRNA shares trade for just 7 times estimated 2022 earnings, the company will need to see other successes to replace declining COVID-vaccine revenue in the future. Of course, with COVID variants still part of the current landscape, we think there is plenty of business still to be had from new booster shots. Our Target Price for MRNA has been hiked to $276.

North Carolina based lithium producer **Albemarle** (ALB – $237.99) raised its 2022 guidance for the second time in three months last week. Management now expects EPS between $19.25 and $22.25 for the current year, a massive increase from the $12.30 to $15.00 range provided on May 23. In Q2, Albemarle earned $3.45 per share (vs. $3.05 est.) and had revenue of $1.48 billion (vs. $1.43 billion est.). Management attributed the solid quarter and improved outlook to strong demand in the lithium and bromine businesses, posting both volume and pricing growth. Strong sales and margin expansion partially offset inflationary pressures and foreign currency exchange rate headwinds.

CFO Scott Tozier commented, "Our Lithium business' full year 2022 EBITDA is expected to be up more than 500% year-over-year, up from the previous outlook for growth of approximately 300%. The improved outlook reflects renegotiations of pricing on legacy fixed-price contracts and continued strong market pricing flowing through our indexed referenced variable price contracts. We now expect our average realized selling price to be up more than 225% to 250% year-over-year. This is the result of our successful efforts to renegotiate legacy contracts and implement more index referenced variable price contracts as well as a significant increase in index prices. From the beginning of the year to today, indices are up 60% to 130%. And note that our outlook assumes Albemarle's expected Q3 realized selling price remains constant into the fourth quarter. There's no change to our lithium volume outlook for the year. We continue to expect year-over-year volume growth in the range of 20% to 30% as we bring on new conversion assets plus some additional tolling."

Mr. Tozier continued, "For Bromine, we are also raising our full year 2022 EBITDA expectations with year-over-year improvement in the range of 25% to 30% compared to the prior outlook of 15% to 20%. This revised guidance reflects continued strong demand and pricing

from end markets such as fire safety solutions and oilfield services plus other macro trends such as digitalization and electrification. We expect higher volumes of 5% to 10% following our successful execution of growth projects last year."

CEO Kent Masters added, "We expect to achieve significant growth milestones this year, thanks to strong end market demand as well as actions that we've taken to invest in profitable growth for lithium and bromine. Those investments are now paying off as we ramp up volumetric growth. To maintain our financial flexibility to fund growth through cash and our balance sheet. And to leverage our operating model to manage cost and execute our growth projects."

Lithium demand growth shows no signs of slowing, and the good results put ALB shares back in positive territory for the year. Albemarle seems to be constrained only by its ability to get lithium out of the ground, while providing a stable supply chain for battery manufacturers. We continue to think that ALB will see long-term benefits from a major positive catalyst in lithium batteries as electric vehicle adoption increases and the world's leading car companies race to get desirable EVs to market (a manufacturer-agnostic play). We struggle to find any major global car producer that said it would offer anything other than EVs past 2030 to 2035. Our Target Price for ALB has powered ahead to $358.

Civitas Resources (CIVI – $57.34) earned $4.63 in Q2 (vs. $4.25 est.) as the oil and natural gas concern delivered 175,000 equivalent barrels of oil (BOE) per day. CIVI produced $722.2 million and $436.6 million of operating and free cash flow, respectively, in the quarter, dropping lease and operating expense per BOE from $4.25 to $3.89. Management raised production guidance to account for outperformance year-to-date and the small acquisition that closed in early July, adding about 1,000 BOE per day to 2022. The board declared a nearly 30% increase in the quarterly dividend to $1.7625 per share payable in September, comprised of base dividend ($0.4625 per share) and a variable dividend ($1.30 per share).

CEO Christopher Doyle said, "We have been and will continue to be strong believers in the value of consolidation, but only as those opportunities enhance, extend or optimize our business around those 4 pillars. Scale for scale's sake is not what we're about. We want to be better, not just bigger…We're a young company. We've come together over the past 18 months, and there is certainly more work to be done. But the pride that the team feels after integrating 5 companies is well earned, and that challenge can't be overstated. I am confident in saying we are in the early innings of optimizing this business, and I look forward to sharing our continued progress and execution in the quarters to come."

We continue to like that CIVI boasts industry-low lease operating and per barrel expenses with production that roughly consists of 40% oil and the remainder a combination of gas and natural gas liquids. Management has a propensity for deals, but the timing seems to have been very good thus far, given the spike in energy prices, even as there is elevated risk in integrating the acquisitions. CIVI adds some diversity to our other energy holdings with exposure to the Rockies. Shares have fallen nearly a third since the peak in early June to trade for just 4 times EPS projected for 2022. Our Target Price has been raised to $90.

Shares of **Kulicke & Soffa** (KLIC – $50.48) rose 5% last week after the semiconductor capital equipment maker reported fiscal Q3 results that beat analyst expectations. KLIC earned $1.99 per share (vs. $1.60 est.) and had revenue of $372 million (vs. $367 million est.). Not surprisingly, regional lockdowns caused logistical challenges for Kulicke, but the company was able to make up for it by leveraging partnerships with top customers in advanced packaging, growing the advanced display market and expanding KLIC's SMT (surface mount) electronic assembly system capabilities. KLIC expects a 47% gross margin next quarter, plus or minus 50 bps, and $0.93 of EPS (+/- 10%).

CEO Fusen Chen commented, "Our progress on new growth initiatives and customer engagements remains on track and provides upside to our long-term financial targets. Efforts to expand our served market while directly participating in fundamental technology changes, remains a high priority throughout the organization. As stated earlier, there are additional macro and industry risks we did not previously anticipate and expect to provide greater detail to our outlook over the coming quarters. Our ability to succeed in development and customer engagements near term will enhance our visibility into fiscal 2023, while providing upside potential to our existing long-term financial targets. We look forward to demonstrating this progress over the coming quarters."

CFO Lester Wong added, "As the industry recovers and we expand our served available market beyond fiscal 2023 we expect to exceed our recent fiscal 2021 and 2022 performance. It remains a very exciting time for the company as we have significantly broadened our market access and remain intimately involved with fundamental technology changes across the semiconductor, advanced display, electronics assembly and automotive markets. Our core business evolved in a very positive way over the prior 2 years increasing our resilience to industry cyclicality significantly. Near term, the entire organization remains extremely focused on executing our multi-faceted growth strategy and maintaining our emerging, leadership positions within these high-growth, technology-driven opportunities."

Mr. Wong continued, "Over the near term, expanding customer engagements, winning qualifications, and recognizing revenue are top priorities for the team. Our ability to execute on these priorities over the coming quarters is critical to enhancing our longer-term visibility and financial outlook. While there are some near term challenges due to the macro-economic environment, we strongly believe we are well positioned to take advantage of major technology changes which will start to pay dividends in the second half of fiscal 2023 and beyond."

KLIC spent $61.9 million on share repurchases in the June quarter and has $300 million remaining on the existing buyback plan. In addition, management indicated its willingness to grow the dividend (present quarterly payment is $0.17 per share, resulting in a 1.3% yield) and return capital to shareholders. Kulicke shares are down 16% this year and the valuation remains very reasonable, including a 2022 P/E ratio of 7 and 2023 P/E ratio of 12. The company has just $36 million of long-term debt (lease obligations) and $745 million of cash on its balance sheet, which should give it ample ability to navigate a choppy operating environment. Our Target Price has been bumped up to $88.

Industrial gas company **Air Products** (APD – $262.64) earned an adjusted $2.62 per share in fiscal Q3, which was 13% above the same period last year. EBITDA was up 8% to $1.0 billion, but energy pass-throughs compressed margins by another quarter to 33.9% of revenue. Management expects the company's return on equity to improve into the low teens as it deploys liquidity into additional projects. It also affirmed full-year fiscal 2022 adjusted EPS guidance of $10.20 to $10.40, up 14% at the midpoint over prior-year adjusted EPS.

CEO Seifolla Ghasemi commented, "Our strategy for the company is fundamentally based on doing two things at the same time, 2 pillars. Number one, is to operate our base industrial gas business in the most efficient way and continue to invest and grow that business, something that we have been doing, and we will continue to do. The second pillar of our strategy is to focus on zero and low-carbon hydrogen projects that produce the hydrogen energy of the future. Air Products today is the leader in the production of gray hydrogen worldwide. Our strategy is to have a natural extension of that leadership position and to be the leader in the production of green hydrogen, based on renewable resources, and blue hydrogen, which is the production of hydrogen from hydrocarbons combined with CO2 capture. That is our growth strategy for the future. We are very much committed to this strategy. These 2 pillars are part of the same thing. They fit together. They align with our core competencies as a company and they give us the potential to grow significantly."

We continue to favor the industry in which APD operates as we expect the global energy transition and demand for alternative fuels to offer a tremendous runway for growth. We appreciate that APD's customers tend to pay up for reliability of often indispensable inputs and to pursue long-term contracts to assure uninterrupted and timely supply: a combination of factors that contributes to onsite investments with customers and provides the company with stable cash flows, which we think is evidenced by the long track record of dividend payments. We note that the company has now increased its dividend for 40 consecutive years with the most recent bump of 8% last February, pushing the yield up to 2.5%. Our Target Price is $357.

Despite reporting record quarterly revenue and top- and bottom-line beats, **WestRock** (WRK – $40.19) shares fell more than 5% last week after reporting fiscal Q3 financial results as investors were seemingly luke-warm on the paper and packaging firm announcing that it would acquire the rest of Grupo Gondi. Shares have now fallen more than 25% since early May. For the recently completed quarter, WRK said adjusted EPS came in at $1.54, versus the consensus analyst estimate of $1.49. Revenue of $5.52 billion slightly outpaced the average analyst forecast. Quarterly sales increased 15% year-over-year and adjusted EBITDA was up 24% year-over-year. Westrock's price and mix were strong in all segments (more than offsetting cost inflation).

"I'm pleased to report that WestRock generated more than $1 billion in Consolidated Adjusted EBITDA in the quarter, a record for our company, and continued to deliver on our transformation initiatives," said CEO David B. Sewell. "Wee also announced our intent to acquire the remaining interest in Grupo Gondi, our joint venture in Mexico, which will position us to grow in the attractive Latin America market. While the economic outlook remains uncertain, WestRock's broad portfolio and geographic reach uniquely position us to manage through economic cycles and maximize shareholder value."

Details on the Grupo Gondi deal include: WestRock said it has entered into an agreement to acquire the remaining 67.7% interest in Grupo Gondi for $970 million, plus the assumption of debt. WestRock already owns 32.3% of Grupo Gondi. The acquisition cost implies a total enterprise value of $1.763 billion. Grupo Gondi's calendar year 2022 EBITDA is estimated by WestRock to be in the range of $200 million to $210 million. The company anticipates realizing $60 million in annual synergies by year three following the closing. WRK expects to achieve a ROIC greater than 10% by year three and remain within its targeted leverage range of 1.75x – 2.25x post closing. The transaction is expected to be completed by the end of 2022. Grupo Gondi produced 800,000 tons of paperboard last year and is currently ramping up a new containerboard machine at its Monterrey mill that will take its capacity to 1.1 million tons of paperboard annually, which includes roughly 157,000 tons of coated recycled board. The company has roughly a 24% share of the Mexican containerboard market that is roughly 3.3 million tons. Grupo Gondi is the #2 player in Mexico for containerboard, but its market share is comparable to the #1 player Bio-Pappel.

Despite lingering supply chain challenges and a few others more idiosyncratic, we continue to view Westrock as a beneficiary of long-term tailwinds from e-commerce (via shipping boxes). We are pleased to see the continued progress the firm has made following the institution of new operational initiatives. Of course, we are interested to watch how far the paper/packaging industry can go with increasing its prices while supply remains tight. Shares now trade at 9 times the NTM earnings estimate. Our Target Price presently resides at $72 and the dividend yield is 2.5%.

NortonLifeLock (NLOK – $24.21) saw its shares plunge 9% after the IT security services provider reported a decline in its subscriber base in fiscal Q1 2023. NLOK earned $0.45 per share, ahead of the $0.43 analyst consensus estimate, and had revenue of $708 million, $2 million behind the consensus.

CEO Vincent Pilette explained the drop in subscribers, "The direct business, [the analyst] mentioned the sequential slight decline, and you're right on that. The metrics are very healthy. Retention rates have been very strong across all cohorts. We said a year ago, we would improve the first year retention rate, and we have by a few points. Over the last 24 months, we've increased overall retention by a little more than 70 basis points. And so you see continued operational initiatives, whether it's on how the product is being downloaded, how it's being used, how the value is demonstrated to the customers that improve customer satisfaction and then overall retention. So focus on that healthy set of customers. The gap, or disappointment, if you want, for the quarter is really related to the macro level headwinds that we saw with lower traffic or global traffic on that cyber safety website, if you want. Conversion rates still holding well, but it's about the traffic. It was volatile. There were pockets of weaknesses, other pocket of areas where we continue to invest because we're here for the long term. And as we navigate through the volatile environment, we know we provide a product that will be needed in an area that has structural growth." Certainly, average revenue per user is solid and user retention is high, but a declining subscriber base is a concern in any environment.

With the Avast union on schedule to close in October 2022, Mr. Pilette said, "With the merger with Avast, together, we are well positioned to drive the transformation of consumer cyber safety

and pursue our long-term objective while being financially resilient in any environment that comes ahead of us."

CFO Natalie Derse offered details on the outlook, "Based on the continued strengthening of the U.S. dollar quarter-to-date, we anticipate an even larger currency headwind. But I want to emphasize that the underlying health of our business remains strong. For Q2, we expect non-GAAP revenue in the range of $695 million to $705 million, which translates to mid-single-digit rate of growth year-over-year in constant currency and reflects a projected FX headwind of 4-plus points of growth or approximately $30 million. We expect Q2 non-GAAP EPS to be in the range of $0.44 to $0.46 per share, which reflects $0.03 of headwind year-over-year… For fiscal year 2023, we continue to expect bookings growth to be in similar ranges of mid-single digits in constant currency. Considering the close timing of the Avast merger, we will not be providing an annual guidance at this time. We plan to provide more details on our overall financial model when we close the transaction."

The UK's CMA (Competition and Markets Authority) launched a Phase 2 investigation into the merger in March and Gov.UK reported, "The CMA has now provisionally concluded that the deal does not raise competition concerns in the UK. The CMA's investigation has found that the supply of cyber safety software to consumers is rapidly evolving. Providers of both paid-for and free services are continually developing and improving their products over time to meet different and changing customer needs." That news sent shares up before they retreated on the disappointing subscriber numbers. We thought Q1 wasn't bad enough to warrant a 9% whack, as cyber security, unfortunately, remains a fast-growing industry and NLOK trades for a forward P/E ratio of 13. Our Target Price is now $34.

Despite rallying more than 7% on Friday following an upbeat quarterly earnings report, shares of oil and gas company **EOG Resources** (EOG – $107.01) ended the week down more than 3% as crude prices retreated. Adjusted EPS for the second quarter trailed the consensus analyst estimate ($2.74 vs. $2.90) on revenue of $7.41 billion (with the average forecast of $6.35 billion).

It is worth noting that the cost of settling hedges in periods after Q2 of 2022 were not stripped out of earnings. If these losses were added back, EPS would have been closer to $4.51 (instead of $2.74). Excluding a working capital impact of $304 million, cash flow of $2.3 billion was below consensus of $2.7 billion but the numbers were also distorted by the $1.3 billion cash cost of settling the hedges.

CEO Ezra Yacob commented, "EOG delivered another quarter of outstanding operating execution. Our second quarter performance is attributable to the dedication and persistence of our employees and the power of our high-quality inventory across our multi-basin portfolio. We are adding reserves at lower finding costs and in turn lowering the overall cost base of the company. The Delaware Basin remains the largest area of activity in the company and is delivering exceptional returns. The Eagle Ford also continues to deliver top-tier results while operating at a steady pace. Our emerging South Texas Dorado dry gas play and Powder River Basin Mowry and Niobrara combo plays are contributing to EOG's success today while laying the groundwork for years of future high-return investment. And our robust exploration pipeline of potential new plays promises to further raise the bar on our performance."

He continued, “Our performance this year proves that we have emerged from the downturn better than ever. The company is positioned to deliver significant value to shareholders with our low cost structure and increased exposure to oil and natural gas prices with the recent reductions in our hedge position. This is supported by an industry-leading balance sheet and a regular dividend that allow EOG to deliver significant value through the cycle…We are well positioned to carry this momentum into 2023. We have offset a significant portion of inflation this year and are working on plans to identify further cost savings next year. We continue to advance new technology and innovative projects to further lower our environmental footprint, such as an EOG-developed continuous leak detection system that is being deployed at our Delaware Basin facilities. Throughout the year and as we begin to plan for 2023 we remain focused on disciplined capital allocation. Our long-term vision is to be among the lowest cost, highest return and lowest emissions producers, playing a significant role in the long-term future of energy.”

EOG has some of the lowest-cost Permian assets of the U.S. oil and gas producers. While capital constraints are en vogue today, EOG has historically been one of a handful of shareholder-friendly oil and gas producers. Since the beginning of 2022, EOG has paid three “regular” quarterly dividends of $0.75 each, adding special dividends of $1.00 and $1.80. Management announced another special dividend of $1.50 in mid-September. If we don’t forecast a special dividend before the year is out (we think there will be one), and just the remaining $0.75 quarterly dividend to pay in October, EOG will have doled out $7.30 per share in dividends during 2022. Shares still trade for just 6.4 times NTM EPS. Our Target Price has been lifted to $159.

Shares of **Goodyear Tire** (GT – $13.23) rebounded more than 5% on Friday, recovering a small sliver of the ground they have lost this year. The tire maker earned $0.46 (vs. $0.41 estimated) as the Americas segment was the standout, growing sales and operating profit 8% and 36%, respectively, vs. Q1. Performance internationally suffered, with operating profit declining 12% in the EMEA regions and 32% in Asia. Goodyear reached a tentative agreement on a new labor contract with the United Steelworkers covering legacy U.S. Goodyear plants after the most recent agreement expired on July 29 and is awaiting ratification by the UAW.

CEO Richard Kramer elected not to address the company’s performance in the EMEA geographies, but said of China that “the impact of [disruption from stay-at-home orders in the region were] in line with expectations, we’re also pleased with the pace of recovery in our business, including our plants being back up to capacity and signs consumer confidence is beginning to turn a corner. These trends are encouraging as is the resiliency of our team on the ground. This region’s revenue increased about 11% in our legacy Goodyear business driven by share gains in India and industry strengths in markets outside of China.”

Mr. Kramer added, “The second half of the year suggests uncertainties in our environment similar to what we’ve been experiencing. However, I am confident in our plans and our teams to deliver against our objectives just as we did through the first 6 months of the year. Our focus is on execution and our sights are set on the mid and long-term opportunities, the changes in mobility will present our industry, including the goal of Goodyear solidifying its industry leadership position.”

If true, we are glad that Kramer and company are focused on execution and long-term opportunities. But if the second half of the year plays out like the first half, we will be highly disappointed. Of course, management cannot help but adapt to the macroeconomic conditions they are dealt with, but our patience has been sorely tested over our multi-year holding period. We'll be looking for operating margins to continue higher in Q3, particularly as the company enters the first period with a full, comparable quarter from the prior year since the Cooper Tire merger. With much to prove to regain investor interest, GT trades for just 5 times NTM earnings, and analysts expect EPS to grow in 2023 and 2024. Our Target Price is $22.

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