Market Commentary Monday, August 22, 2022

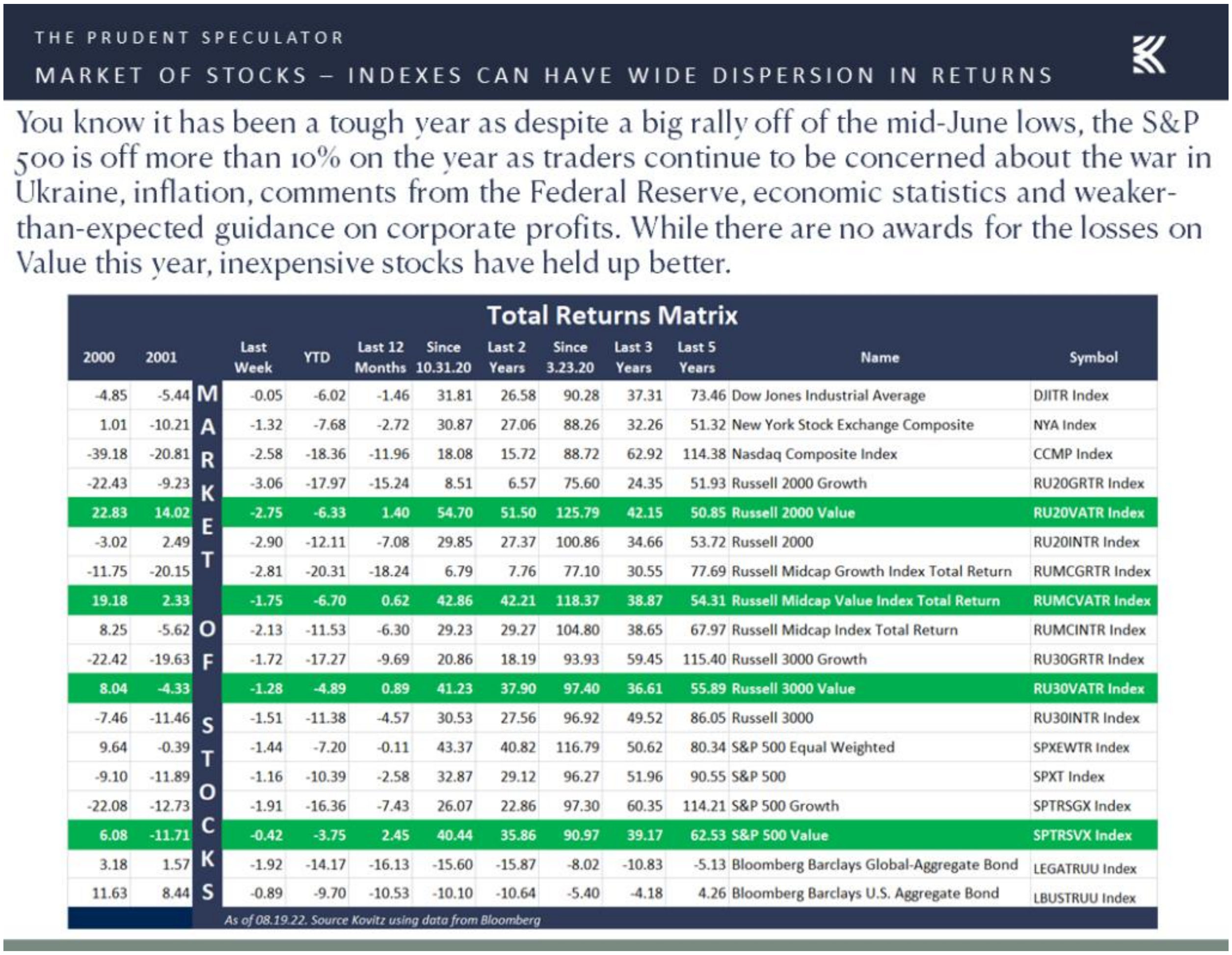
August 22, 2022

EXECUTIVE SUMMARY

Market Week – Lousy Ending
Sentiment – AAII Still Very Pessimistic, But Most Optimistic in 2022
Fed – More Rate Hikes Likely
Econ – LEI Negative; Retail Sales Surprise to the Upside; Housing Weakens
GDP – Strong Nominal Growth Supportive of Corporate Profits
Valuations – Inexpensive Metrics & Higher Dividend Yields for Our Portfolios
Stock News – Updates on WMT, TGT, LOW, KSS, TPR, FL, CSCO, LITE, DE, GM & MMM

Market Review

After a sizable rally the week prior, the latest trading week ended on a down note, with the major equity market averages closing in the red for the five days.



THE PRUDENT SPECULATOR

MARKET OF STOCKS – INDEXES CAN HAVE WIDE DISPERSION IN RETURNS

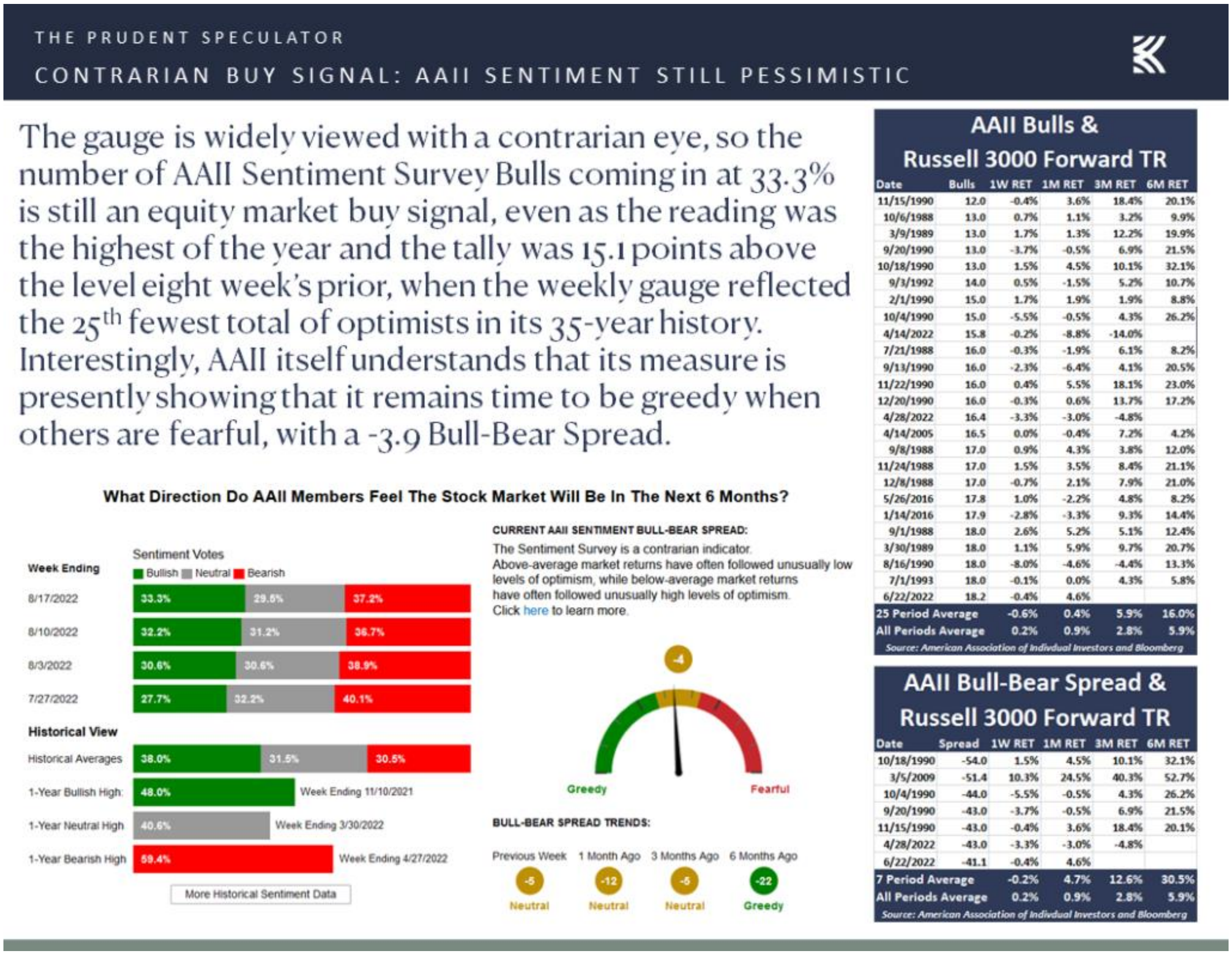
You know it has been a tough year as despite a big rally off of the mid-June lows, the S&P 500 is off more than 10% on the year as traders continue to be concerned about the war in Ukraine, inflation, comments from the Federal Reserve, economic statistics and weaker-than-expected guidance on corporate profits. While there are no awards for the losses on Value this year, inexpensive stocks have held up better.

Total Returns Matrix

2000	2001		Last Week	YTD	Last 12 Months	Since 10.31.20	Last 2 Years	Since 3.23.20	Last 3 Years	Last 5 Years	Name	Symbol
-4.85	-5.44	MARKET OF STOCKS	-0.05	-6.02	-1.46	31.81	26.58	90.28	37.31	73.46	Dow Jones Industrial Average	DJITR Index
1.01	-10.21		-1.32	-7.68	-2.72	30.87	27.06	88.26	32.26	51.32	New York Stock Exchange Composite	NYA Index
-39.18	-20.81		-2.58	-18.36	-11.96	18.08	15.72	88.72	62.92	114.38	Nasdaq Composite Index	CCMP Index
-22.43	-9.23		-3.06	-17.97	-15.24	8.51	6.57	75.60	24.35	51.93	Russell 2000 Growth	RU20GRTR Index
22.83	**14.02**		**-2.75**	**-6.33**	**1.40**	**54.70**	**51.50**	**125.79**	**42.15**	**50.85**	**Russell 2000 Value**	**RU20VATR Index**
-3.02	2.49		-2.90	-12.11	-7.08	29.85	27.37	100.86	34.66	53.72	Russell 2000	RU20INTR Index
-11.75	-20.15		-2.81	-20.31	-18.24	6.79	7.76	77.10	30.55	77.69	Russell Midcap Growth Index Total Return	RUMCGRTR Index
19.18	**2.33**		**-1.75**	**-6.70**	**0.62**	**42.86**	**42.21**	**118.37**	**38.87**	**54.31**	**Russell Midcap Value Index Total Return**	**RUMCVATR Index**
8.25	-5.62		-2.13	-11.53	-6.30	29.23	29.27	104.80	38.65	67.97	Russell Midcap Index Total Return	RUMCINTR Index
-22.42	-19.63		-1.72	-17.27	-9.69	20.86	18.19	93.93	59.45	115.40	Russell 3000 Growth	RU30GRTR Index
8.04	**-4.33**		**-1.28**	**-4.89**	**0.89**	**41.23**	**37.90**	**97.40**	**36.61**	**55.89**	**Russell 3000 Value**	**RU30VATR Index**
-7.46	-11.46		-1.51	-11.38	-4.57	30.53	27.56	96.92	49.52	86.05	Russell 3000	RU30INTR Index
9.64	-0.39		-1.44	-7.20	-0.11	43.37	40.82	116.79	50.62	80.34	S&P 500 Equal Weighted	SPXEWTR Index
-9.10	-11.89		-1.16	-10.39	-2.58	32.87	29.12	96.27	51.96	90.55	S&P 500	SPXT Index
-22.08	-12.73		-1.91	-16.36	-7.43	26.07	22.86	97.30	60.35	114.21	S&P 500 Growth	SPTRSGX Index
6.08	**-11.71**		**-0.42**	**-3.75**	**2.45**	**40.44**	**35.86**	**90.97**	**39.17**	**62.53**	**S&P 500 Value**	**SPTRSVX Index**
3.18	1.57		-1.92	-14.17	-16.13	-15.60	-15.87	-8.02	-10.83	-5.13	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index
11.63	8.44		-0.89	-9.70	-10.53	-10.10	-10.64	-5.40	-4.18	4.26	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index

As of 08.19.22. Source Kovitz using data from Bloomberg

We might argue that the big selloff on Friday was due to the American Association of Individual Investors proclaiming on Thursday, “Optimism among individual investors about the short-term direction of the stock market is at its highest level of the year,” though the AAII Sentiment gauge is still issuing a buy signal,…



THE PRUDENT SPECULATOR

CONTRARIAN BUY SIGNAL: AAII SENTIMENT STILL PESSIMISTIC

The gauge is widely viewed with a contrarian eye, so the number of AAII Sentiment Survey Bulls coming in at 33.3% is still an equity market buy signal, even as the reading was the highest of the year and the tally was 15.1 points above the level eight 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 -3.9 Bull-Bear Spread.

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

Week Ending
Sentiment Votes
🟩 Bullish ▨ Neutral 🟥 Bearish
8/17/2022
33.3%
29.5%
37.2%
8/10/2022
32.2%
31.2%
36.7%
8/3/2022
30.6%
30.6%
38.9%
7/27/2022
27.7%
32.2%
40.1%
Historical View
Historical Averages
38.0%
31.5%
30.5%
1-Year Bullish High:
48.0%
Week Ending 11/10/2021
1-Year Neutral High
40.6%
Week Ending 3/30/2022
1-Year Bearish High
59.4%
Week Ending 4/27/2022
More Historical Sentiment Data

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.

-4
Greedy
Fearful

BULL-BEAR SPREAD TRENDS:

Previous Week
-5
Neutral
1 Month Ago
-12
Neutral
3 Months Ago
-5
Neutral
6 Months Ago
-22
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%

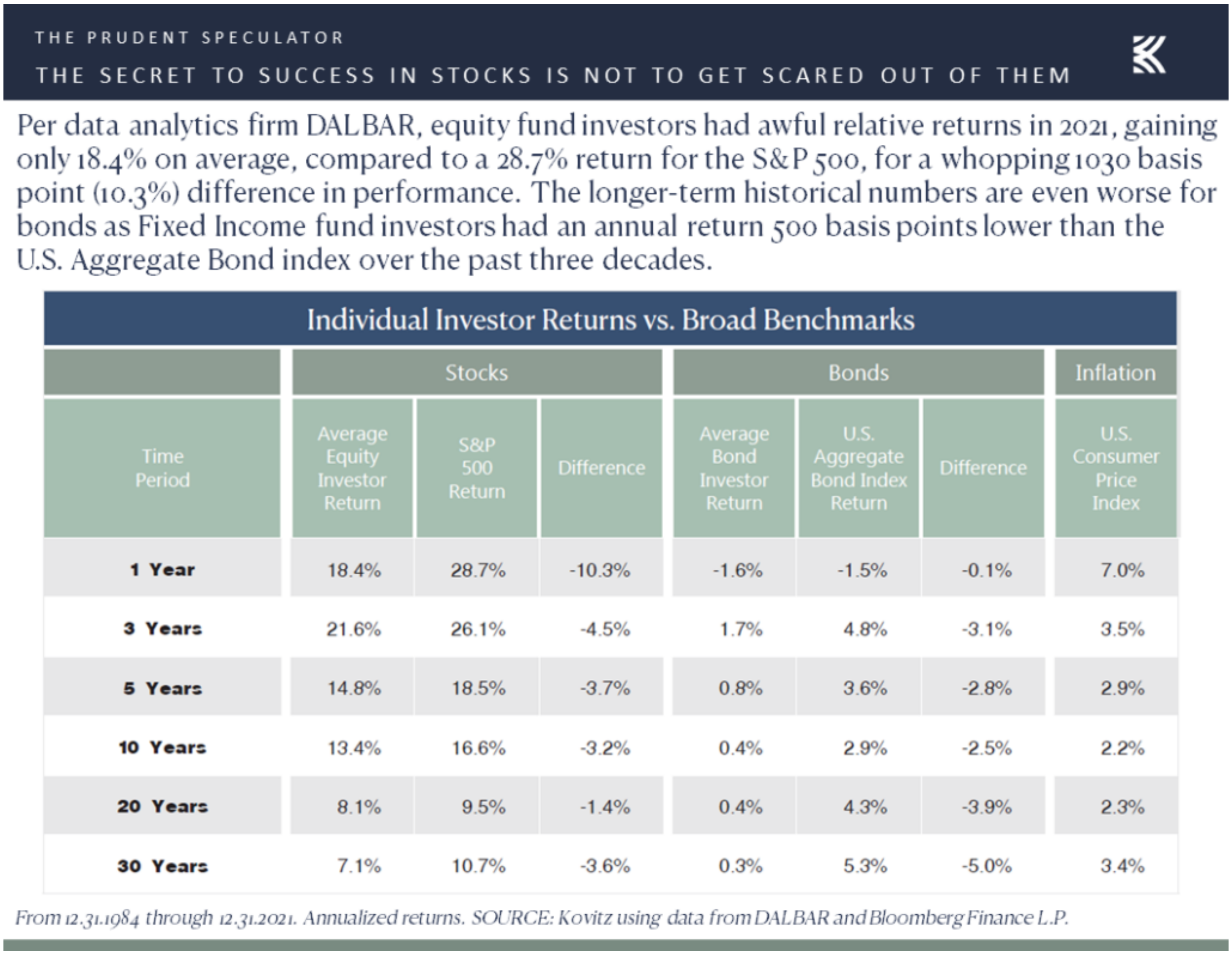
Source: American Association of Individual Investors and Bloomberg

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

…as it is a contrarian indicator that for three-and-one-half decades has essentially confirmed that the only problem with market timing is getting the timing right.



THE PRUDENT SPECULATOR

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

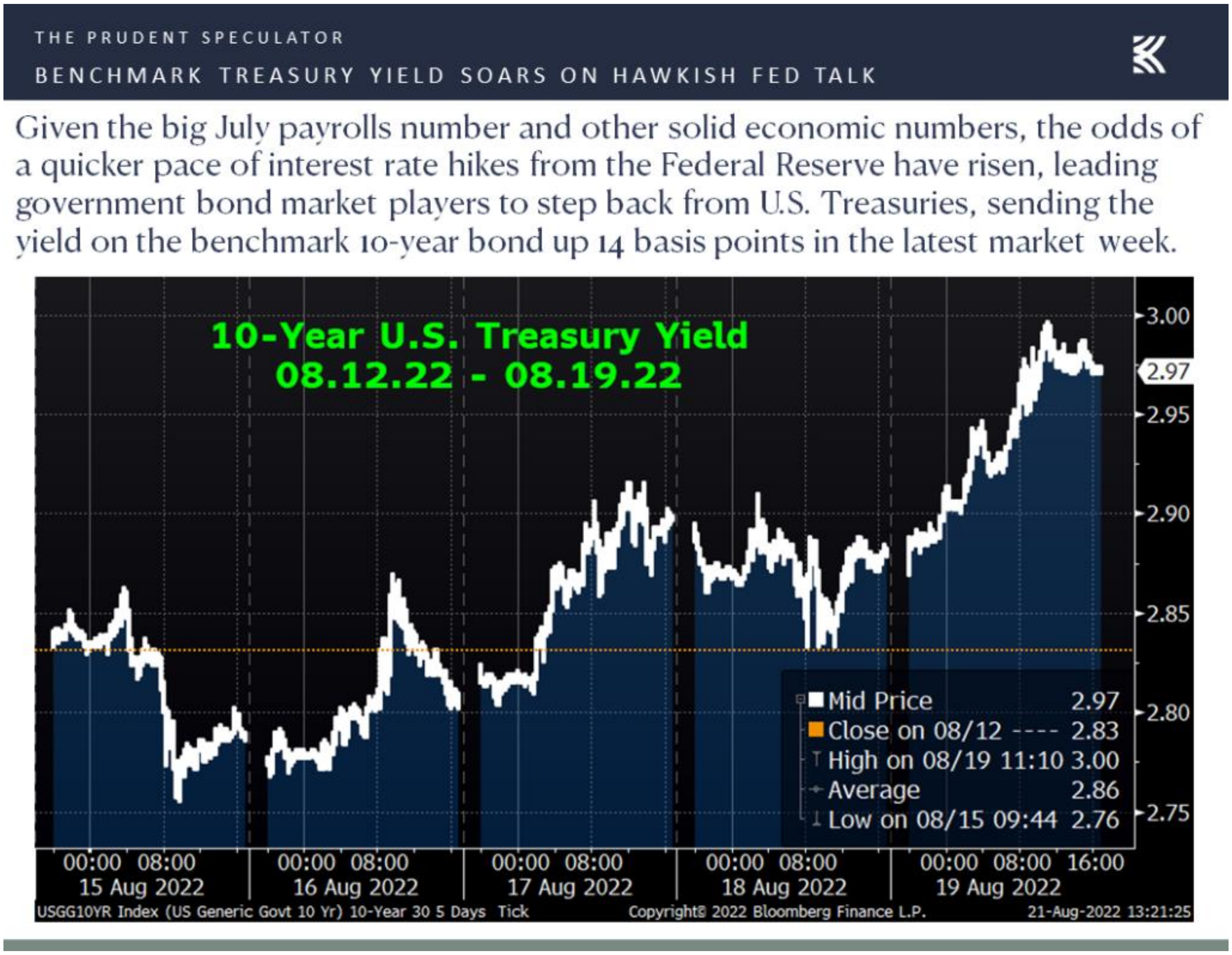
Per data analytics firm DALBAR, equity fund investors had awful relative returns in 2021, gaining only 18.4% on average, compared to a 28.7% return for the S&P 500, for a whopping 1030 basis point (10.3%) difference in performance. The longer-term historical numbers are even worse for bonds as Fixed 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.

While it was options-expiration Friday and stocks had staged a handsome two-month advance so some backing and filling was probably overdue, we might also say that the ugly end to the week was due in part to a jump in interest rates,…



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BENCHMARK TREASURY YIELD SOARS ON HAWKISH FED TALK

Given the big July payrolls number and other solid economic numbers, the odds of a quicker pace of interest rate hikes from the Federal Reserve have risen, leading government bond market players to step back from U.S. Treasuries, sending the yield on the benchmark 10-year bond up 14 basis points in the latest market week.

10-Year U.S. Treasury Yield
08.12.22 - 08.19.22
3.00
2.97
2.95
2.90
2.85
2.80
2.75
Mid Price 2.97
Close on 08/12 ---- 2.83
High on 08/19 11:10 3.00
Average 2.86
Low on 08/15 09:44 2.76
00:00 08:00
15 Aug 2022
00:00 08:00
16 Aug 2022
00:00 08:00
17 Aug 2022
00:00 08:00
18 Aug 2022
00:00 08:00 16:00
19 Aug 2022
USGG10YR Index (US Generic Govt 10 Yr) 10-Year 30 5 Days Tick
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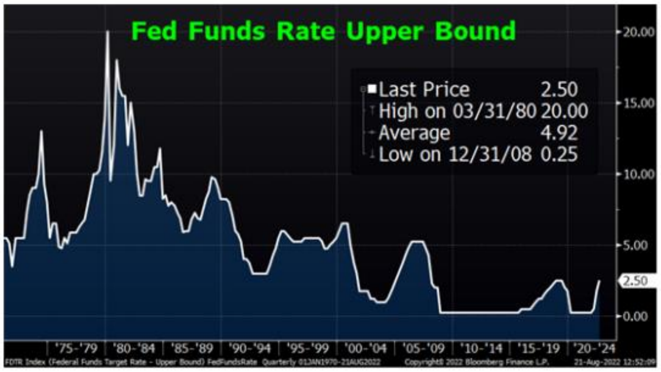
…with James Bullard talking tough on inflation. The Federal Reserve Bank of St. Louis President said on Thursday, "We should continue to move expeditiously to a level of the policy rate that will put significant downward pressure on inflation. I don't really see why you want to drag out interest rate increases into next year…I would lean toward the 75 basis points at this point. Again, I think we've got relatively good reads on the economy, and we've got very high inflation, so I think it would make sense to continue to get the policy rate higher and into restrictive territory."

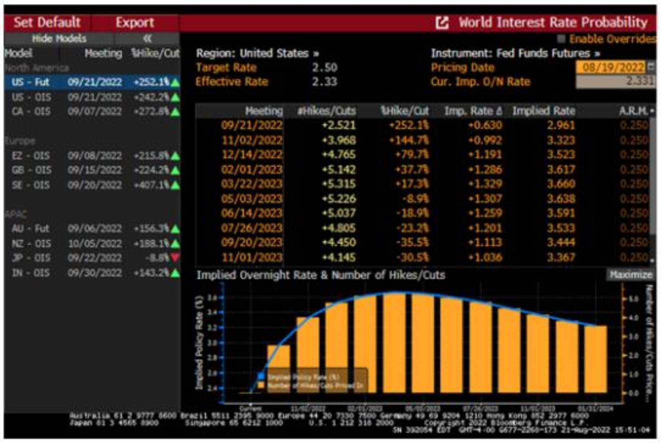
THE PRUDENT SPECULATOR

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 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.



FDTR Index (Federal Funds Target Rate - Upper Bound) FedFundsRate Quarterly 01JAN1970-21AUG2022 Copyright© 2022 Bloomberg Finance L.P. 21-Aug-2022 12:52:09


Set Default
Export
World Interest Rate Probability
Hide Models
«
Enable Overrides
Maximize
Implied Policy Rate (%)
Number of Hikes/Cuts Price...
Implied Policy Rate (%)
Number of Hikes/Cuts Priced In
Current
11/02/2022
02/01/2023
05/03/2023
07/26/2023
11/01/2023
01/31/2024

Model	Meeting	%Hike/Cut
North America		
US - Fut	09/21/2022	+252.1% ▲
US - OIS	09/21/2022	+242.2% ▲
CA - OIS	09/07/2022	+272.8% ▲
Europe		
EZ - OIS	09/08/2022	+215.8% ▲
GB - OIS	09/15/2022	+224.2% ▲
SE - OIS	09/20/2022	+407.1% ▲
APAC		
AU - Fut	09/06/2022	+156.3% ▲
NZ - OIS	10/05/2022	+188.1% ▲
JP - OIS	09/22/2022	-8.8% ▼
IN - OIS	09/30/2022	+143.2% ▲

Region: United States »
Target Rate 2.50
Effective Rate 2.33

Instrument: Fed Funds Futures »
Pricing Date 08/19/2022
Cur. Imp. O/N Rate 2.331

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
09/21/2022	+2.521	+252.1%	+0.630	2.961	0.250
11/02/2022	+3.968	+144.7%	+0.992	3.323	0.250
12/14/2022	+4.765	+79.7%	+1.191	3.523	0.250
02/01/2023	+5.142	+37.7%	+1.286	3.617	0.250
03/22/2023	+5.315	+17.3%	+1.329	3.660	0.250
05/03/2023	+5.226	-8.9%	+1.307	3.638	0.250
06/14/2023	+5.037	-18.9%	+1.259	3.591	0.250
07/26/2023	+4.805	-23.2%	+1.201	3.533	0.250
09/20/2023	+4.450	-35.5%	+1.113	3.444	0.250
11/01/2023	+4.145	-30.5%	+1.036	3.367	0.250

Implied Overnight Rate & Number of Hikes/Cuts

Australia 61 2 9777 8600 Brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
Japan 81 3 4565 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2022 Bloomberg Finance L.P.
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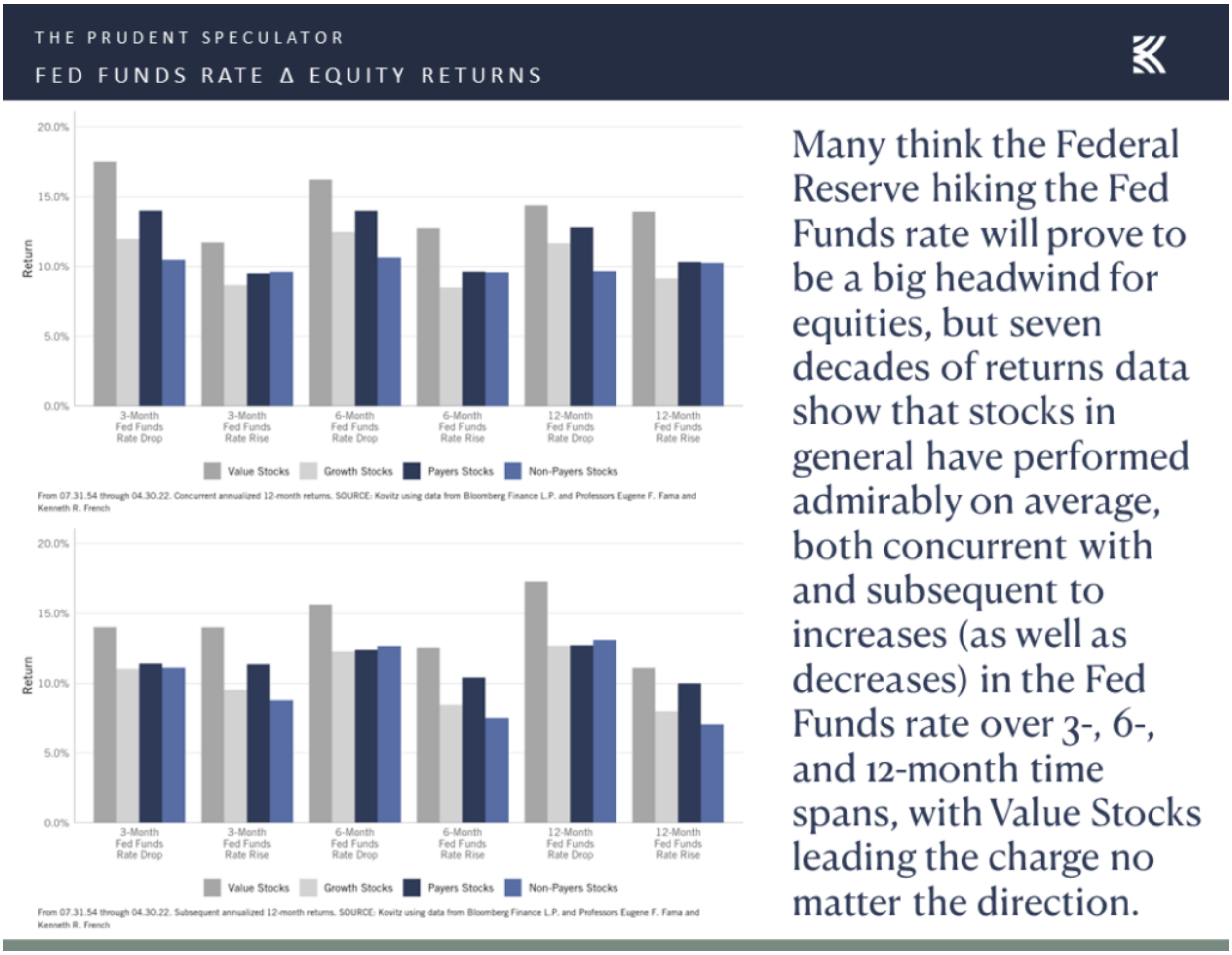
Of course, nothing much changed last week in terms of market expectations for the timing and pace of interest rate hikes, while seven decades of market history show that stocks (especially Value) have performed fine both while and after the Federal Reserve has raised the Fed Funds rate.



THE PRUDENT SPECULATOR

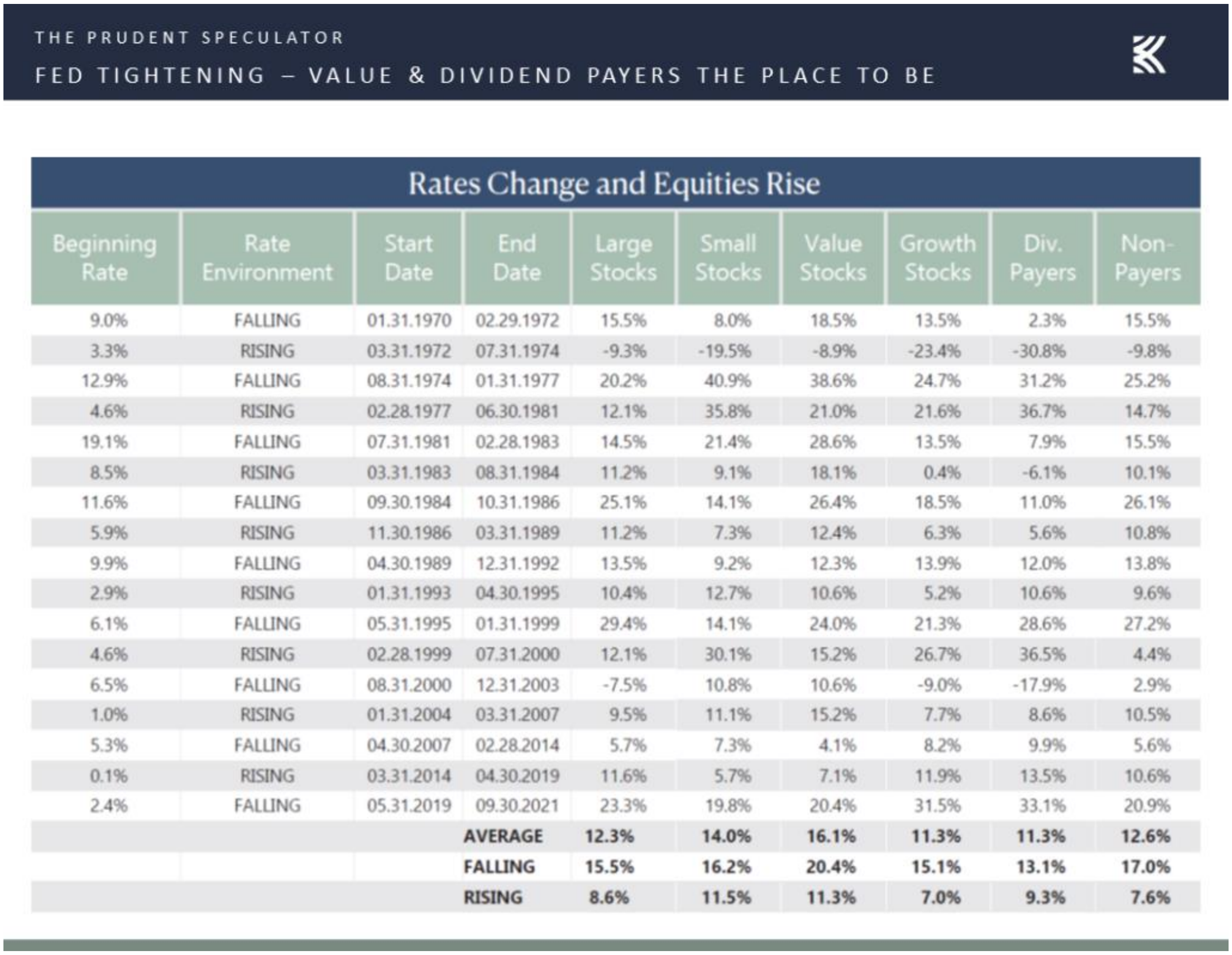
FED FUNDS RATE Δ EQUITY RETURNS

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.

Indeed, Value, on average, has performed well, when the Fed is tightening monetary policy,…



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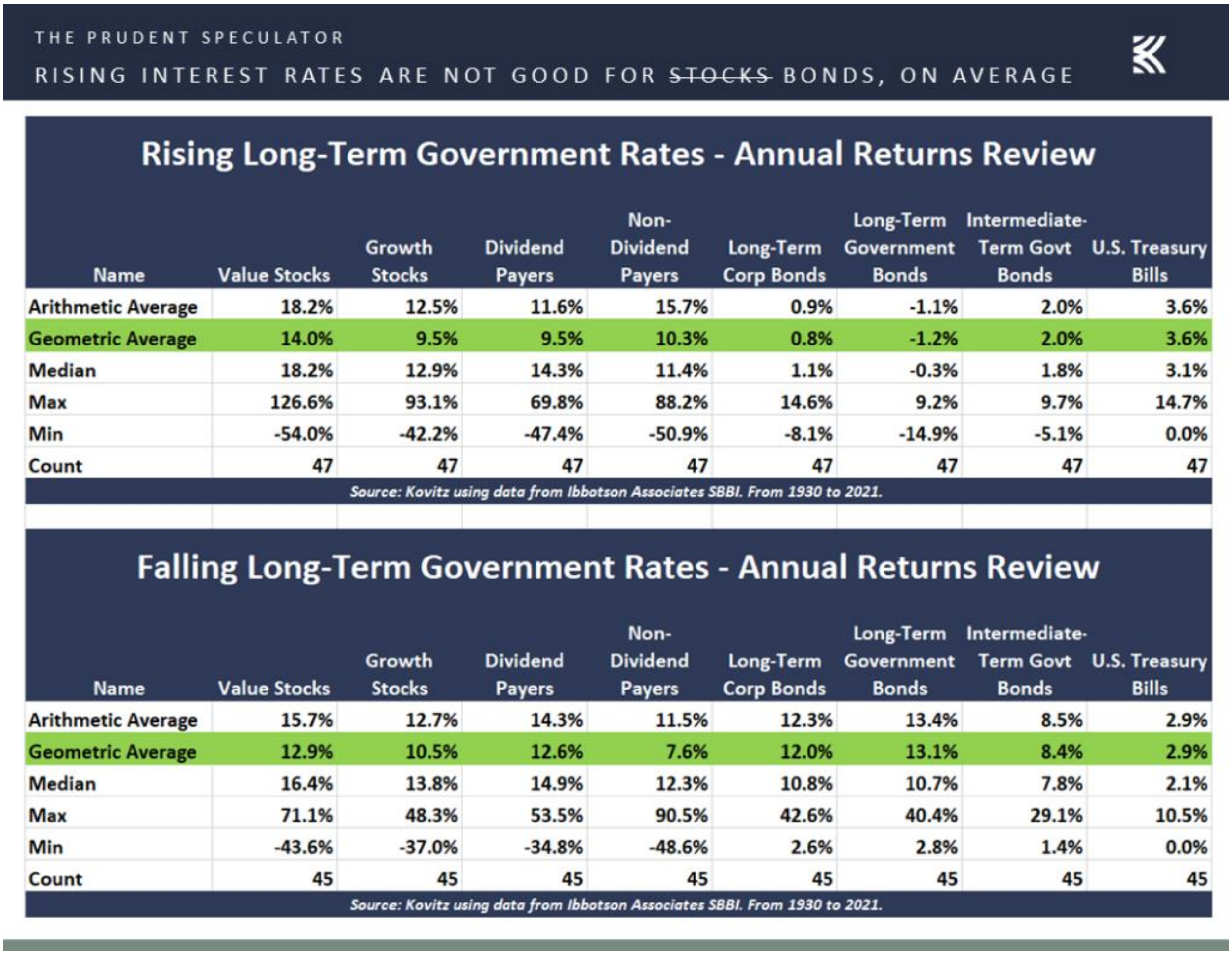
FED TIGHTENING – VALUE & DIVIDEND PAYERS THE PLACE TO BE

Rates Change and Equities Rise

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

…though about the only thing that can be said with certainty is that rising government bond yields are not good for government bonds.



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.

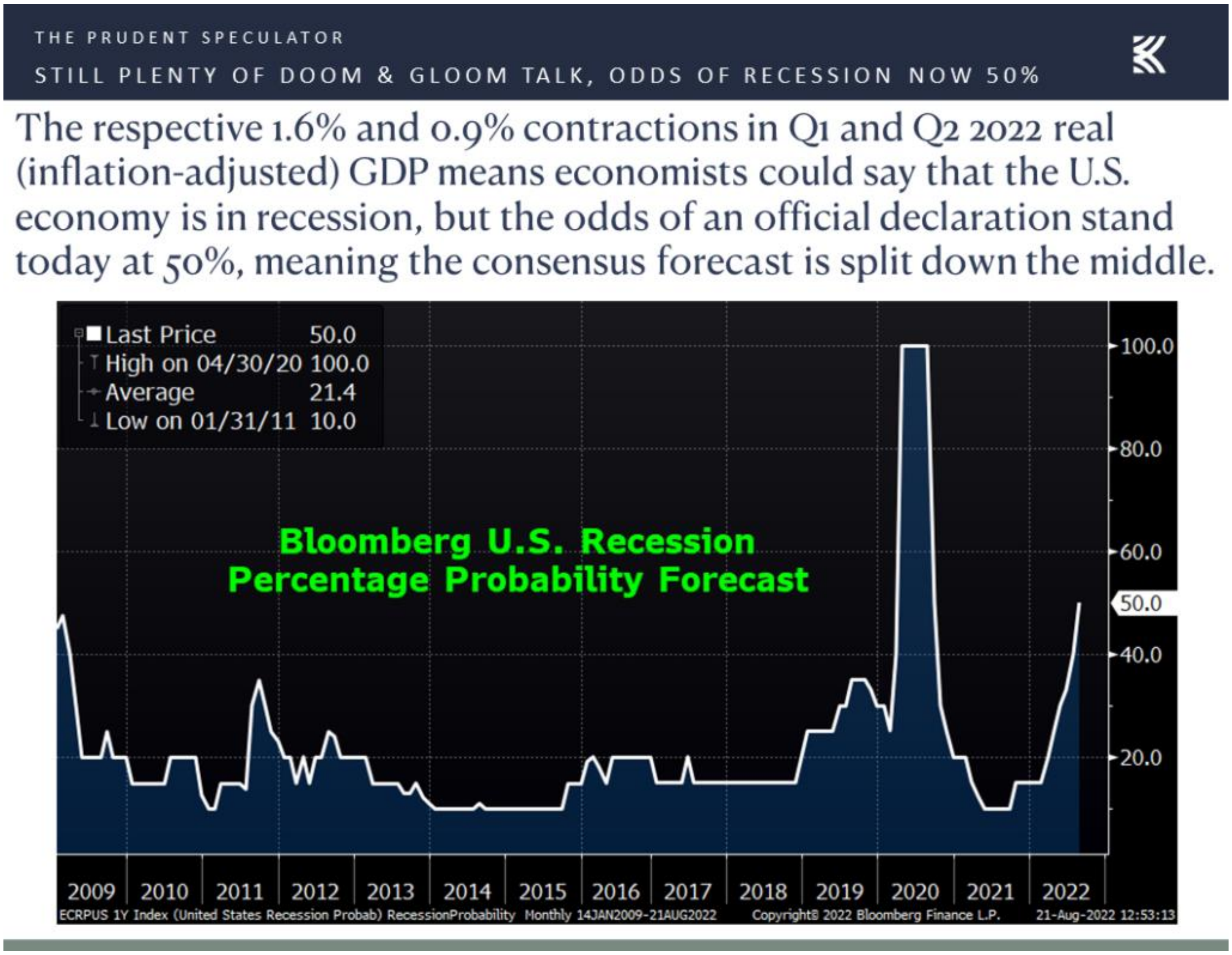
Falling Long-Term Government Rates - Annual Returns Review

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.

*****

To be sure, traders are also focused on the health of the U.S. economy, with the recession probability, per Bloomberg, remaining at 50% last week,…



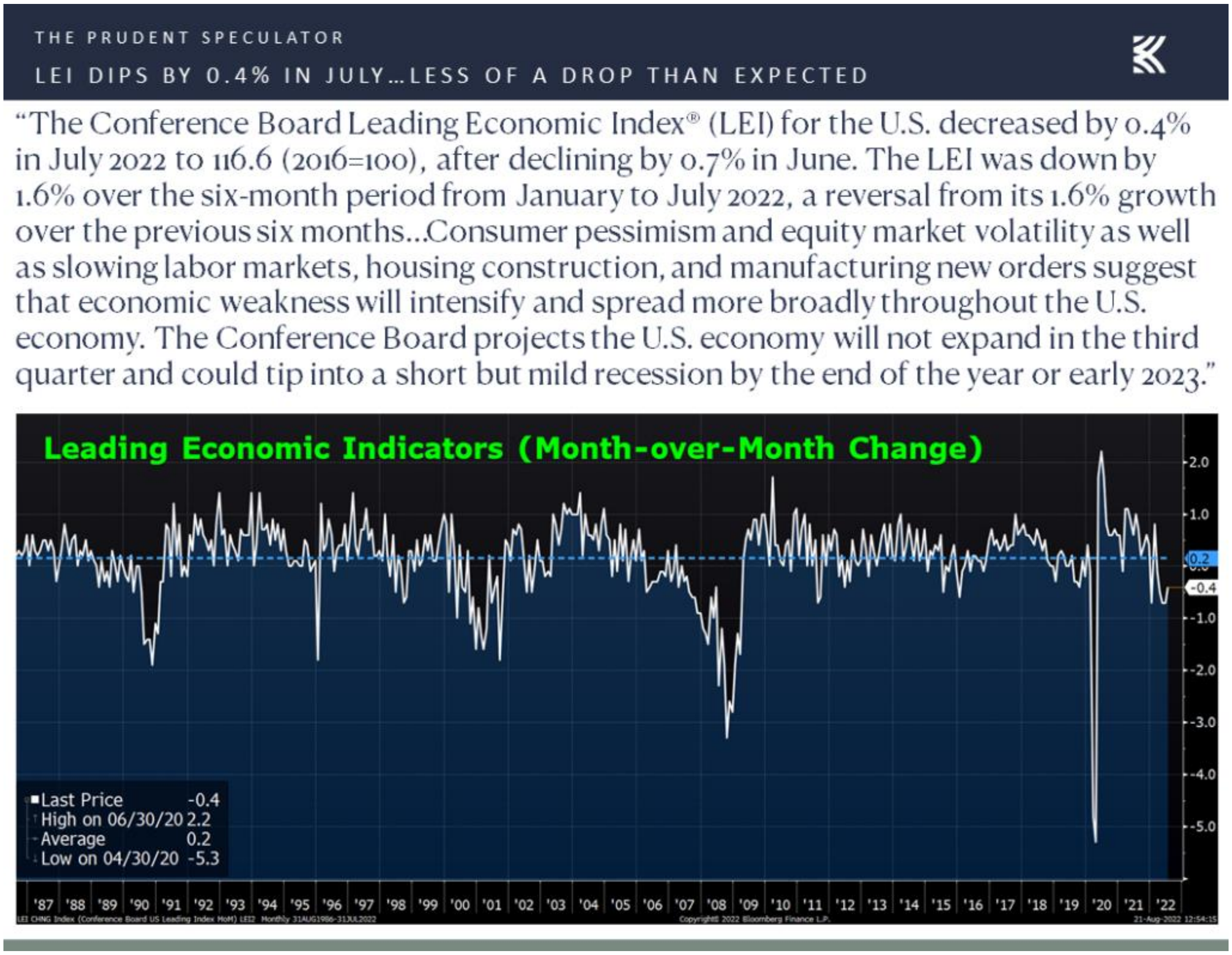
THE PRUDENT SPECULATOR

STILL PLENTY OF DOOM & GLOOM TALK, ODDS OF RECESSION NOW 50%

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 50%, meaning the consensus forecast is split down the middle.

ECRPUS 1Y Index (United States Recession Probab) RecessionProbability Monthly 14JAN2009-21AUG2022 Copyright© 2022 Bloomberg Finance L.P. 21-Aug-2022 12:53:13

…even as the important index of Leading Economic Indicators came in better than expected,…



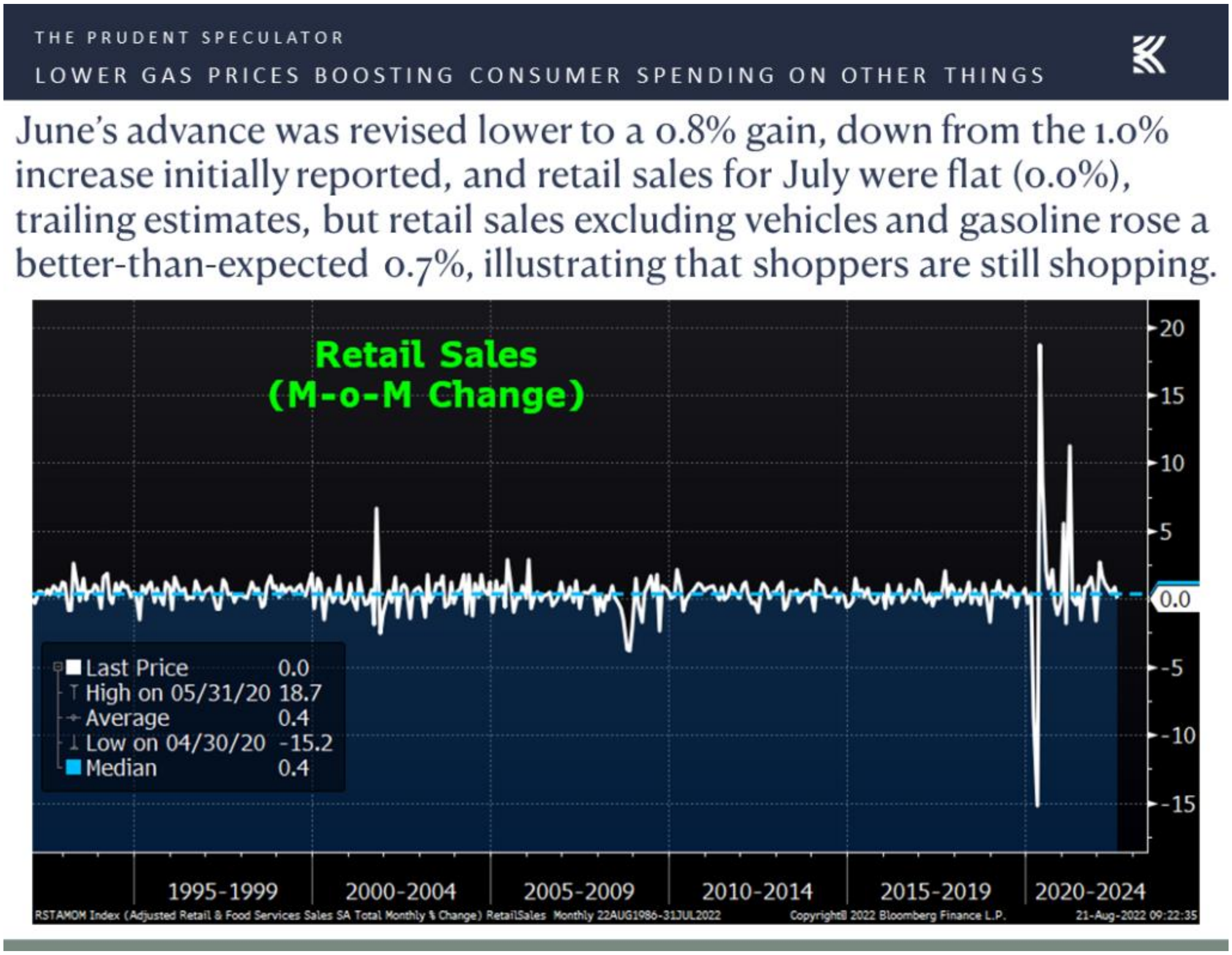
THE PRUDENT SPECULATOR

LEI DIPS BY 0.4% IN JULY…LESS OF A DROP THAN EXPECTED

"The Conference Board Leading Economic Index® (LEI) for the U.S. decreased by 0.4% in July 2022 to 116.6 (2016=100), after declining by 0.7% in June. The LEI was down by 1.6% over the six-month period from January to July 2022, a reversal from its 1.6% growth over the previous six months…Consumer pessimism and equity market volatility as well as slowing labor markets, housing construction, and manufacturing new orders suggest that economic weakness will intensify and spread more broadly throughout the U.S. economy. The Conference Board projects the U.S. economy will not expand in the third quarter and could tip into a short but mild recession by the end of the year or early 2023."

Leading Economic Indicators (Month-over-Month Change)
2.0
1.0
0.2
-0.4
-1.0
-2.0
-3.0
-4.0
-5.0
Last Price -0.4
High on 06/30/20 2.2
Average 0.2
Low on 04/30/20 -5.3
'87 '88 '89 '90 '91 '92 '93 '94 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12 '13 '14 '15 '16 '17 '18 '19 '20 '21 '22
LEI CHNG Index (Conference Board US Leading Index MoM) LEI2 Monthly 31AUG1986-31JUL2022
Copyright© 2022 Bloomberg Finance L.P.
21-Aug-2022 12:54:15

…as did retail sales, excluding gas and cars.



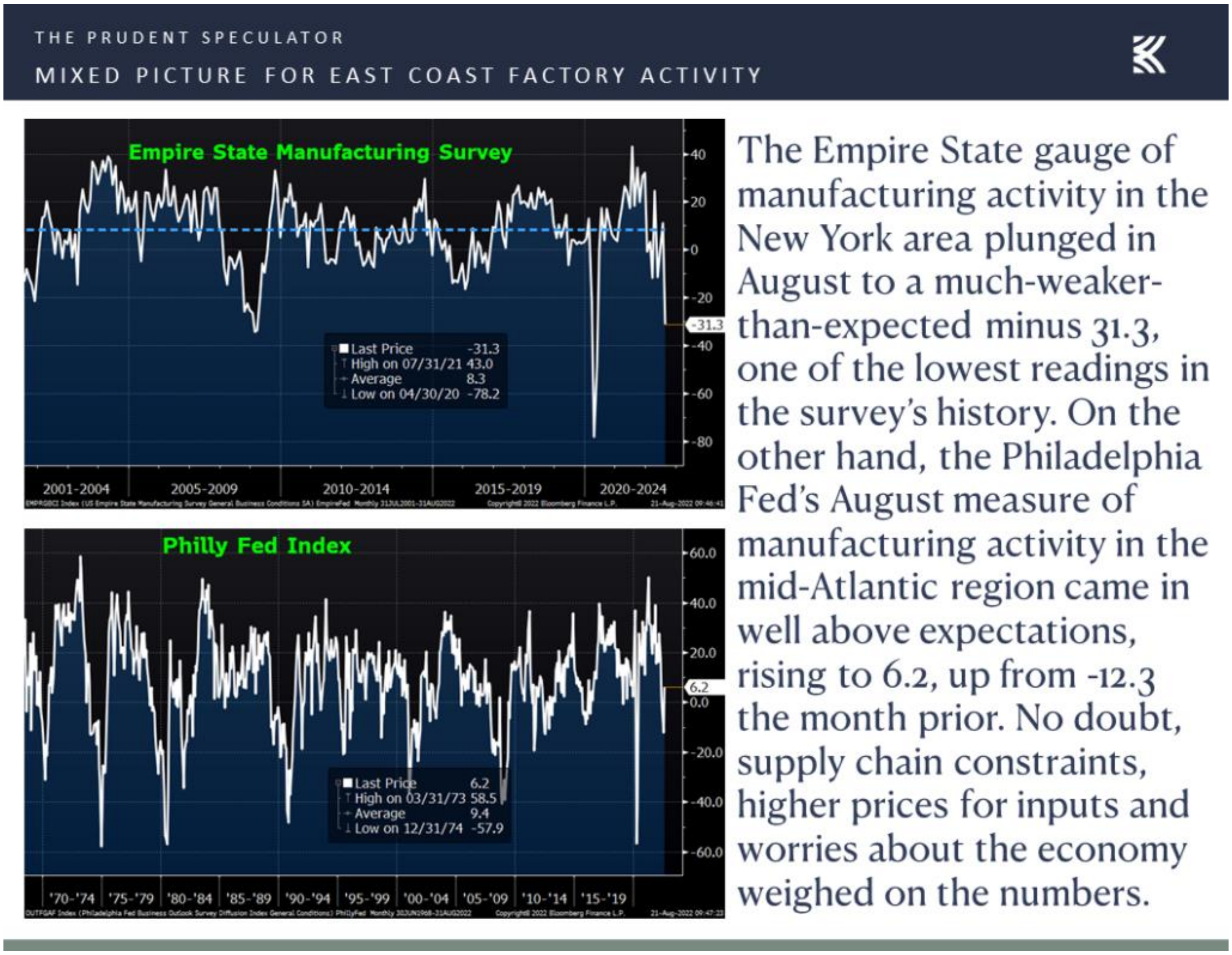
THE PRUDENT SPECULATOR

LOWER GAS PRICES BOOSTING CONSUMER SPENDING ON OTHER THINGS

June's advance was revised lower to a 0.8% gain, down from the 1.0% increase initially reported, and retail sales for July were flat (0.0%), trailing estimates, but retail sales excluding vehicles and gasoline rose a better-than-expected 0.7%, illustrating that shoppers are still shopping.

RSTAMOM Index (Adjusted Retail & Food Services Sales SA Total Monthly % Change) RetailSales Monthly 22AUG1986-31JUL2022 Copyright© 2022 Bloomberg Finance L.P. 21-Aug-2022 09:22:35

True, manufacturing numbers were mixed,…

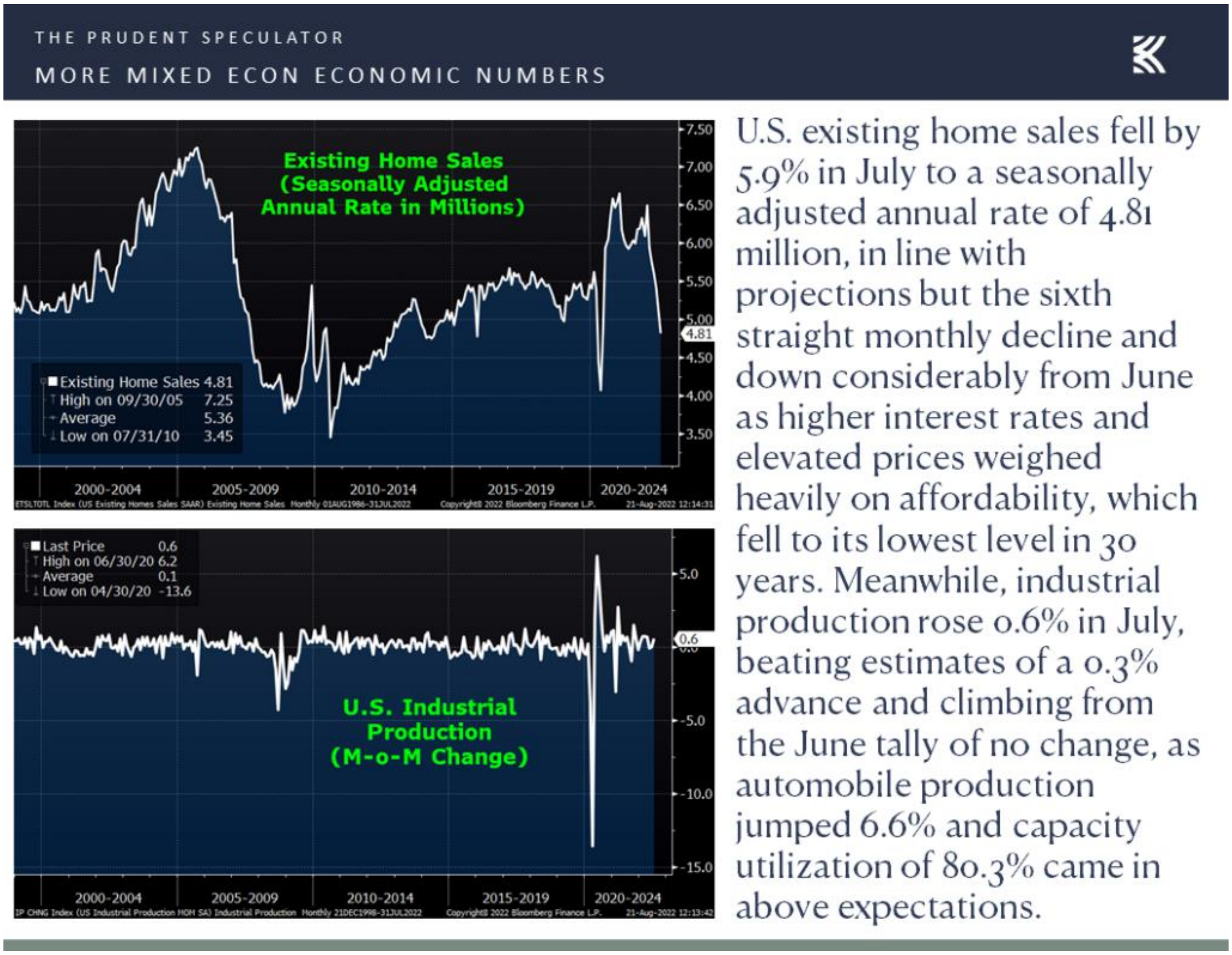


THE PRUDENT SPECULATOR

MIXED PICTURE FOR EAST COAST FACTORY ACTIVITY

The Empire State gauge of manufacturing activity in the New York area plunged in August to a much-weaker-than-expected minus 31.3, one of the lowest readings in the survey's history. On the other hand, the Philadelphia Fed's August measure of manufacturing activity in the mid-Atlantic region came in well above expectations, rising to 6.2, up from -12.3 the month prior. No doubt, supply chain constraints, higher prices for inputs and worries about the economy weighed on the numbers.

…and the housing market continues to cool, whether it is data 0n existing homes,…



THE PRUDENT SPECULATOR

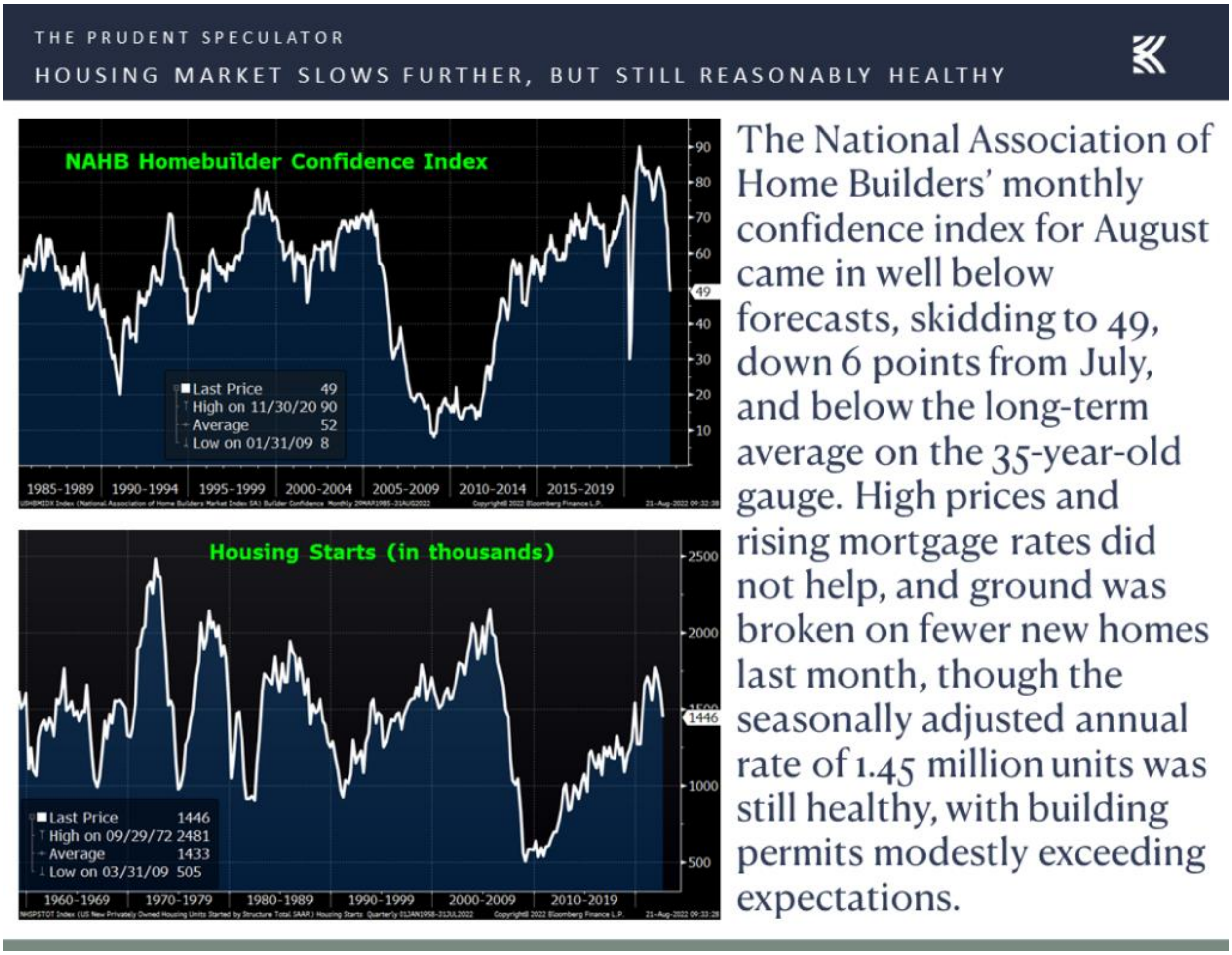
MORE MIXED ECON ECONOMIC NUMBERS

ETSLTOTL Index (US Existing Homes Sales SAAR) Existing Home Sales Monthly 01AUG1986-31JUL2022 Copyright© 2022 Bloomberg Finance L.P. 21-Aug-2022 12:14:31

IP CHNG Index (US Industrial Production MOM SA) Industrial Production Monthly 21DEC1998-31JUL2022 Copyright© 2022 Bloomberg Finance L.P. 21-Aug-2022 12:13:42

U.S. existing home sales fell by 5.9% in July to a seasonally adjusted annual rate of 4.81 million, in line with projections but the sixth straight monthly decline and down considerably from June as higher interest rates and elevated prices weighed heavily on affordability, which fell to its lowest level in 30 years. Meanwhile, industrial production rose 0.6% in July, beating estimates of a 0.3% advance and climbing from the June tally of no change, as automobile production jumped 6.6% and capacity utilization of 80.3% came in above expectations.

…or new homes.

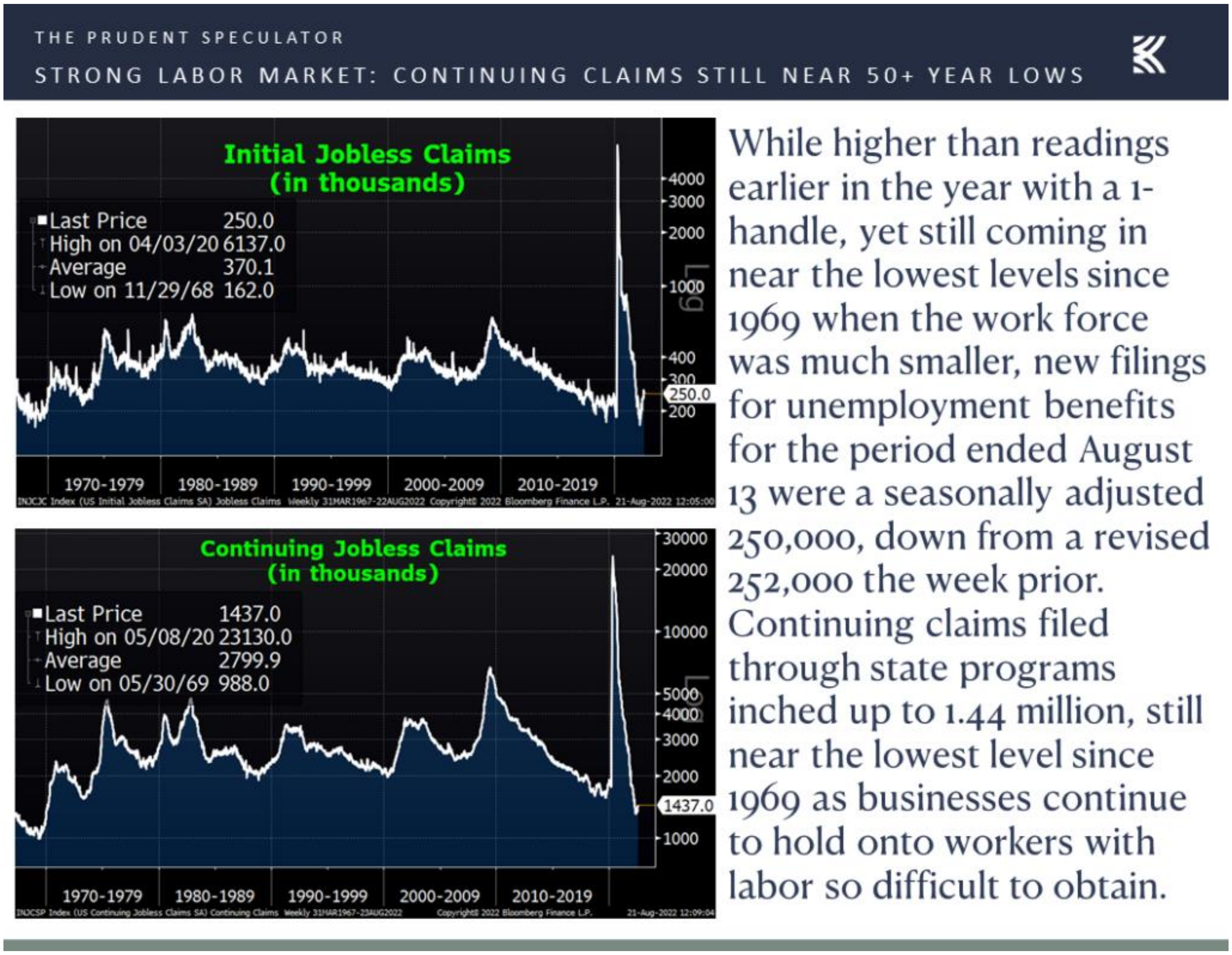


THE PRUDENT SPECULATOR

HOUSING MARKET SLOWS FURTHER, BUT STILL REASONABLY HEALTHY

The National Association of Home Builders' monthly confidence index for August came in well below forecasts, skidding to 49, down 6 points from July, and below the long-term average on the 35-year-old gauge. High prices and rising mortgage rates did not help, and ground was broken on fewer new homes last month, though the seasonally adjusted annual rate of 1.45 million units was still healthy, with building permits modestly exceeding expectations.

However, the labor market remains strong,…



THE PRUDENT SPECULATOR

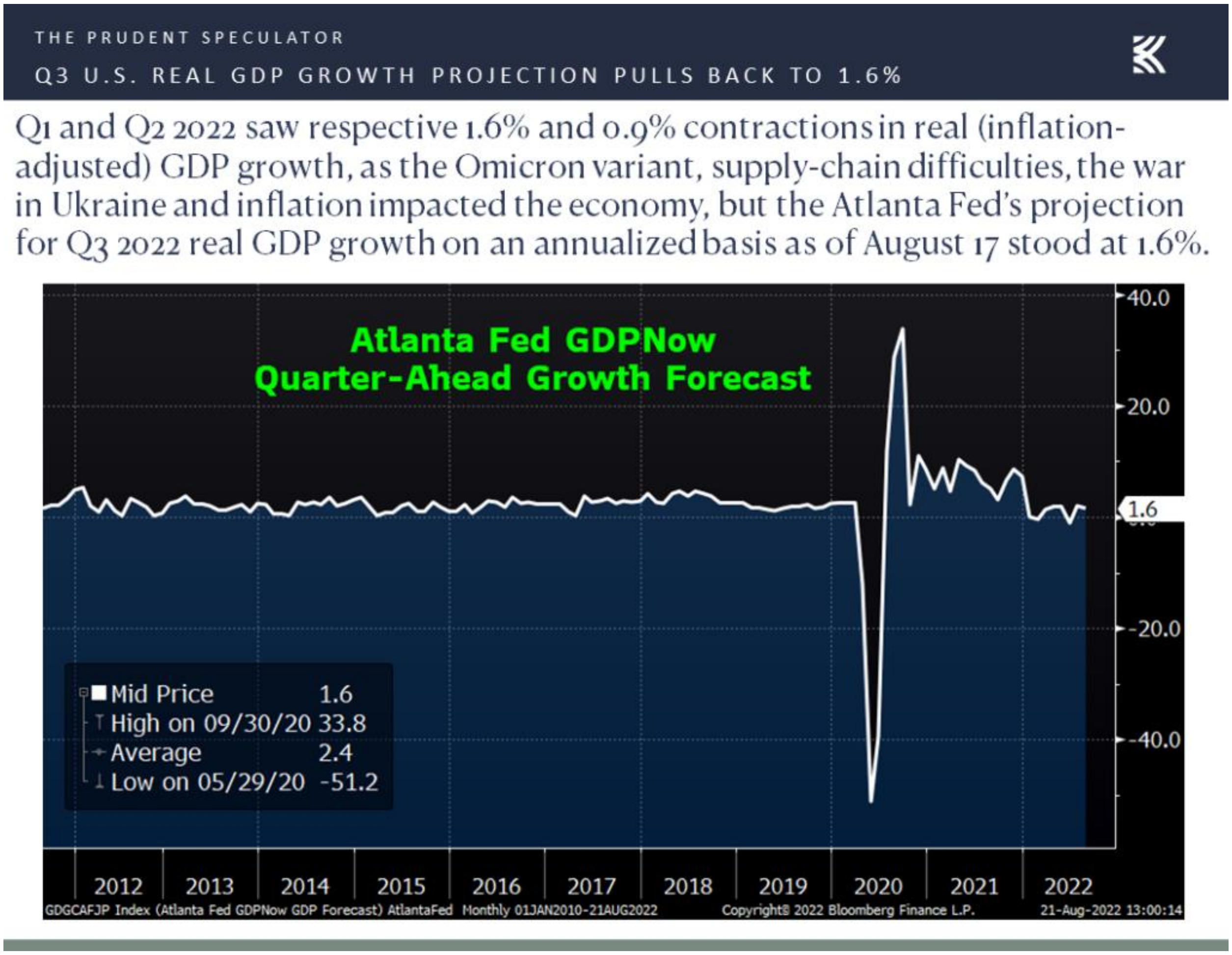
STRONG LABOR MARKET: CONTINUING CLAIMS STILL NEAR 50+ YEAR LOWS

INJCJC Index (US Initial Jobless Claims SA) Jobless Claims Weekly 31MAR1967-22AUG2022 Copyright© 2022 Bloomberg Finance L.P. 21-Aug-2022 12:05:00

INJCSP Index (US Continuing Jobless Claims SA) Continuing Claims Weekly 31MAR1967-23AUG2022 Copyright© 2022 Bloomberg Finance L.P. 21-Aug-2022 12:09:04

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 August 13 were a seasonally adjusted 250,000, down from a revised 252,000 the week prior. Continuing claims filed through state programs inched up to 1.44 million, still near the lowest level since 1969 as businesses continue to hold onto workers with labor so difficult to obtain.

…while the outlook for real (inflation-adjusted) Q3 GDP growth remains positive,…



THE PRUDENT SPECULATOR

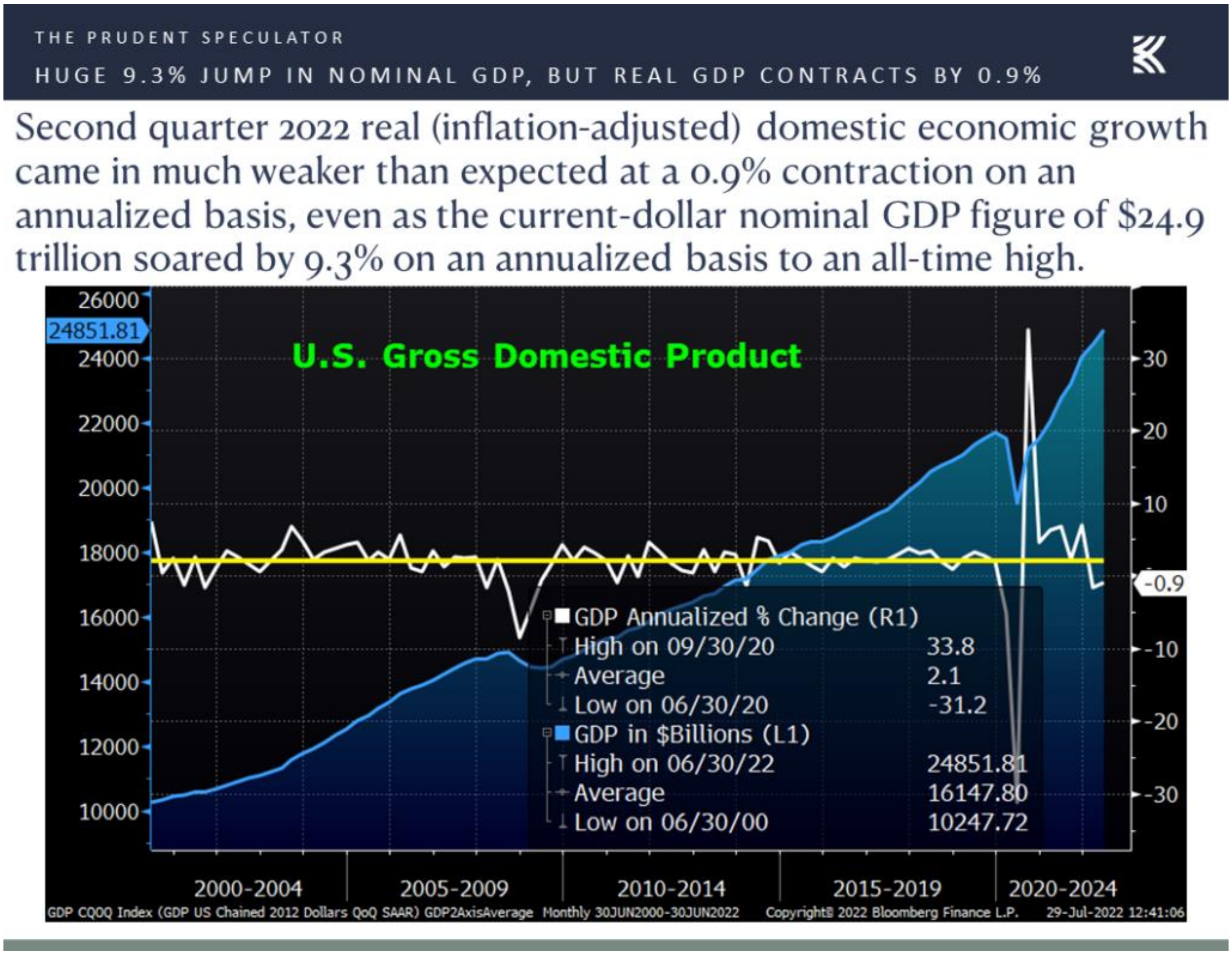
Q3 U.S. REAL GDP GROWTH PROJECTION PULLS BACK TO 1.6%

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 17 stood at 1.6%.

Atlanta Fed GDPNow
Quarter-Ahead Growth Forecast
40.0
20.0
1.6
-20.0
-40.0
■ Mid Price 1.6
High on 09/30/20 33.8
Average 2.4
Low on 05/29/20 -51.2
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022

GDGCAFJP Index (Atlanta Fed GDPNow GDP Forecast) AtlantaFed Monthly 01JAN2010-21AUG2022 Copyright© 2022 Bloomberg Finance L.P. 21-Aug-2022 13:00:14

…and nominal (actual) GDP growth is likely to continue to post records,…



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.

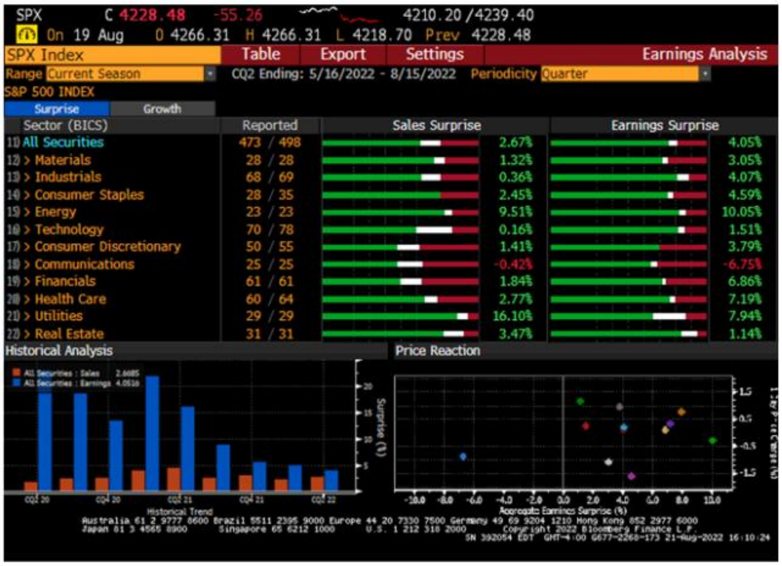
GDP CQOQ Index (GDP US Chained 2012 Dollars QoQ SAAR) GDP2AxisAverage Monthly 30JUN2000-30JUN2022 Copyright© 2022 Bloomberg Finance L.P. 29-Jul-2022 12:41:06

…which should bolster corporate profits this year and next.

THE PRUDENT SPECULATOR

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

Q2 earnings reporting season was pretty good (Berkshire Hathaway's massive $66.9 billion unrealized investment loss skewed the overall S&P EPS number sharply lower), even as outlooks generally were muted and stock prices sometimes reacted negatively. 75.6% of the 473 S&P 500 companies to have announced beat EPS expectations and 63.1% exceeded revenue forecasts.



SPX C 4228.48 -55.26 4210.20 /4239.40
On 19 Aug O 4266.31 H 4266.31 L 4218.70 Prev 4228.48

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

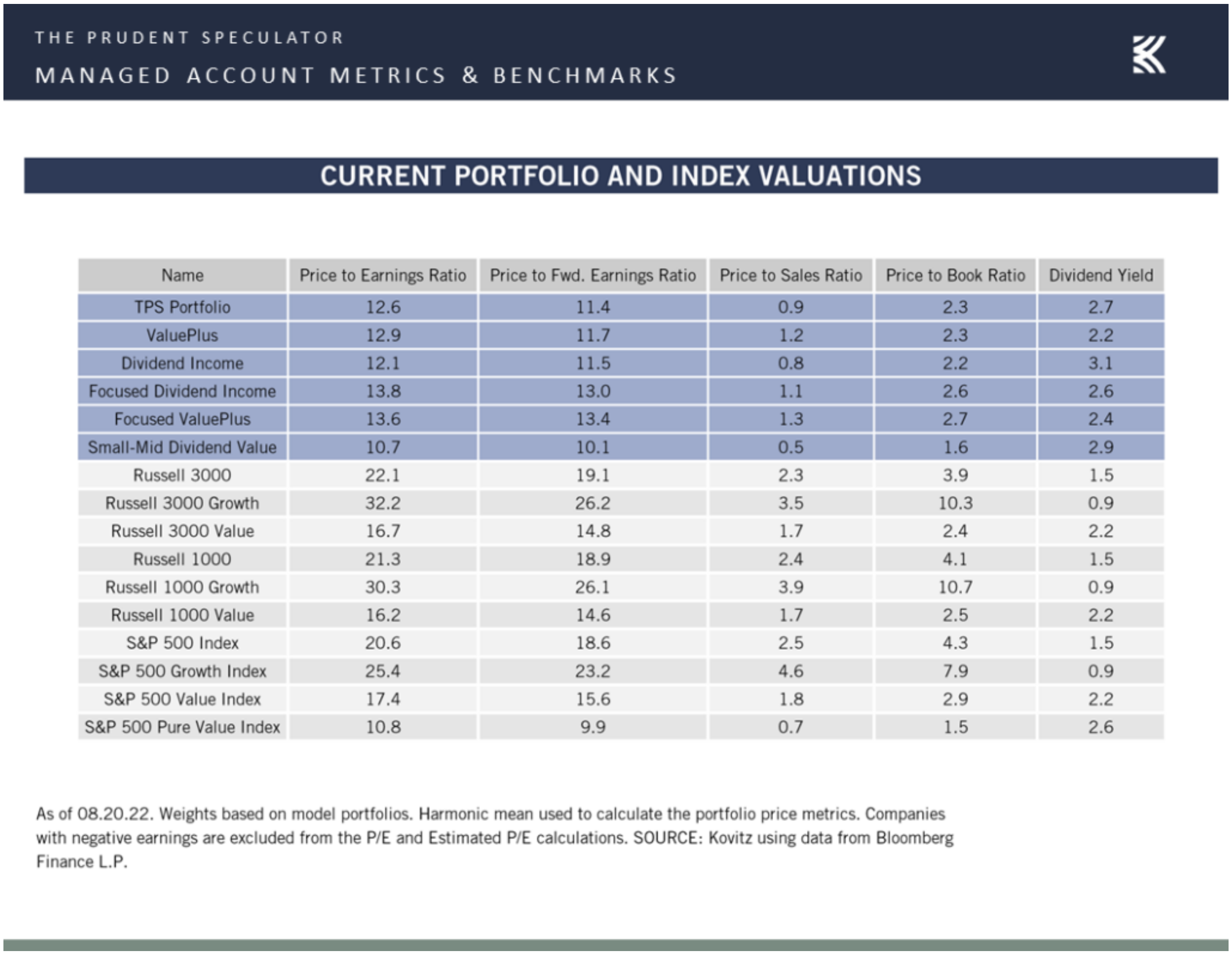
Sector (BICS)	Reported	Sales Surprise	Earnings Surprise
11) All Securities	473 / 498	2.67%	4.05%
12) > Materials	28 / 28	1.32%	3.05%
13) > Industrials	68 / 69	0.36%	4.07%
14) > Consumer Staples	28 / 35	2.45%	4.59%
15) > Energy	23 / 23	9.51%	10.05%
16) > Technology	70 / 78	0.16%	1.51%
17) > Consumer Discretionary	50 / 55	1.41%	3.79%
18) > Communications	25 / 25	-0.42%	-6.75%
19) > Financials	61 / 61	1.84%	6.86%
20) > Health Care	60 / 64	2.77%	7.19%
21) > Utilities	29 / 29	16.10%	7.94%
22) > Real Estate	31 / 31	3.47%	1.14%

Australia 61 2 9777 8600 Brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
Japan 81 3 4565 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2022 Bloomberg Finance L.P.
SN 392054 EDT GMT-4:00 G677-2268-173 21-Aug-2022 16:10:24

S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2023	$62.82	$240.58
9/30/2023	$61.13	$235.74
6/30/2023	$59.51	$230.74
3/31/2023	$57.12	$218.26
12/31/2022	$57.98	$210.50
9/30/2022	$56.13	$209.25
6/30/2022	$47.03	$205.14
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 8.11.22

Not surprisingly, the pullback last week has done nothing to diminish our optimism for the long-term prospects of our broadly diversified portfolios of what we believe to be undervalued stocks,…



THE PRUDENT SPECULATOR

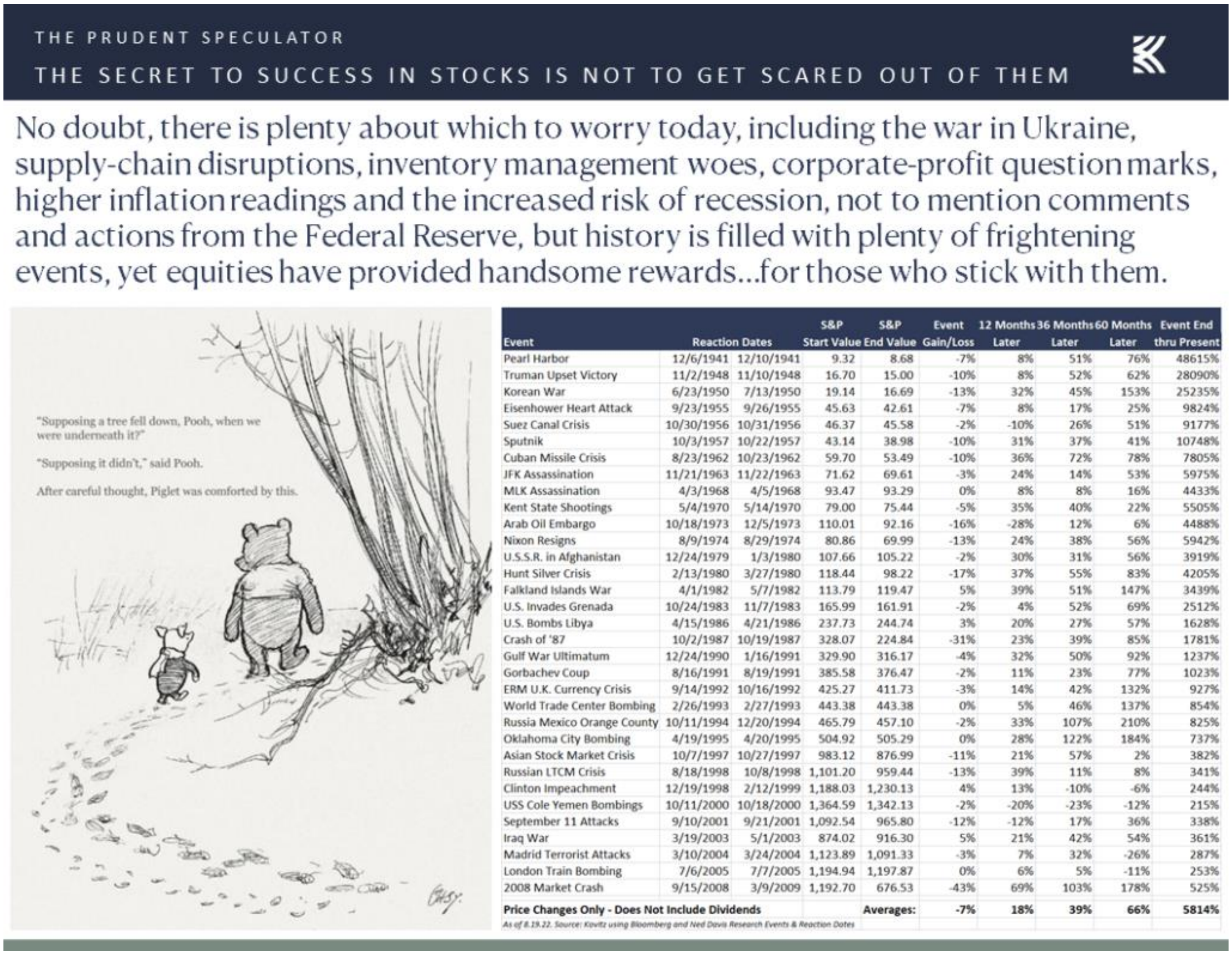
MANAGED ACCOUNT METRICS & BENCHMARKS

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	12.6	11.4	0.9	2.3	2.7
ValuePlus	12.9	11.7	1.2	2.3	2.2
Dividend Income	12.1	11.5	0.8	2.2	3.1
Focused Dividend Income	13.8	13.0	1.1	2.6	2.6
Focused ValuePlus	13.6	13.4	1.3	2.7	2.4
Small-Mid Dividend Value	10.7	10.1	0.5	1.6	2.9
Russell 3000	22.1	19.1	2.3	3.9	1.5
Russell 3000 Growth	32.2	26.2	3.5	10.3	0.9
Russell 3000 Value	16.7	14.8	1.7	2.4	2.2
Russell 1000	21.3	18.9	2.4	4.1	1.5
Russell 1000 Growth	30.3	26.1	3.9	10.7	0.9
Russell 1000 Value	16.2	14.6	1.7	2.5	2.2
S&P 500 Index	20.6	18.6	2.5	4.3	1.5
S&P 500 Growth Index	25.4	23.2	4.6	7.9	0.9
S&P 500 Value Index	17.4	15.6	1.8	2.9	2.2
S&P 500 Pure Value Index	10.8	9.9	0.7	1.5	2.6

As of 08.20.22. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Kovitz using data from Bloomberg Finance L.P.

…even as we realize that the short term could remain bumpy. Of course, we still think that time in the market trumps market timing.



THE PRUDENT SPECULATOR

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

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

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

"Supposing it didn't," said Pooh.

After careful thought, Piglet was comforted by this.

Event	Reaction Dates		S&P Start Value	S&P End Value	Event Gain/Loss	12 Months Later	36 Months Later	60 Months Later	Event End thru Present
Pearl Harbor	12/6/1941	12/10/1941	9.32	8.68	-7%	8%	51%	76%	48615%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	28090%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	25235%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	9824%
Suez Canal Crisis	10/30/1956	10/31/1956	46.37	45.58	-2%	-10%	26%	51%	9177%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	10748%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	7805%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	5975%
MLK Assassination	4/3/1968	4/5/1968	93.47	93.29	0%	8%	8%	16%	4433%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	5505%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	4488%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	5942%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	3919%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	4205%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	3439%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	2512%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	1628%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	1781%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	1237%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	1023%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	927%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	854%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	825%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	737%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	382%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	341%
Clinton Impeachment	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	244%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	215%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	338%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	361%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	287%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	253%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	525%
Price Changes Only - Does Not Include Dividends				**Averages:**	**-7%**	**18%**	**39%**	**66%**	**5814%**

As of 8.19.22. Source: Kovitz using Bloomberg and Ned Davis Research Events & Reaction Dates

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 or were in the news last week.

Shares of **Walmart** (WMT – $137.02) rallied more than 3% last week after releasing financial results for fiscal Q2 that beat lowered Wall Street estimates. The retail titan earned an adjusted $1.77 per share (vs. $1.63 est.) as sales grew 8.8% year-over-year to $152.9. billion, reversing course from Q1. Consistent with the update from two weeks ago, spending was focused more on lower-margin "need" items like food and private-branded consumables, while the strength in the U.S. dollar impacted international operations.

CEO Doug McMillan commented, "As I look ahead, I expect a strong finish to the back-to-school season, and we'll quickly transition to the holidays. Our fall and holiday products look great. There's a lot of newness, and we've got a strong position in opening price points across categories. From Halloween to Christmas to Flipkart's Big Billion Days, we'll be ready. We'll have a cleaner inventory position and we'll have a strong seasonal presence. We expect inflation to continue to influence the choices that families make, and we're adjusting to that reality so we can help them more. Regardless of the inflation level and as we work through the places we have too much inventory, we continue to make progress on our strategy. We're becoming more digital, even more relevant as an omnichannel retailer; and the related businesses, like fulfillment and advertising, continue to grow. We're building a different business, and we're making progress."

Walmart continues to be laser-focused on controlling costs as it implements price rollbacks to clear inventory, which rose 11% in the quarter, although CFO John Rainey said, "you normalize for [company growth and overall price inflation], you really whittle that down to about $1.5 billion of inventory that if we can just wave a magic wand, we'd make go away today." According to management, the cost of making that go away, in addition to other headwinds like foreign exchange, is a decline of between 8% and 10% to full-year EPS vs. last year.

As we wrote just two weeks ago, we aren't that surprised that the company has been feeling gross margin pressures in its general merchandise business (particularly in apparel), given the environment. These effects are likely to continue through the balance of the year even as the economy may have experienced peak cost increases. We note that gasoline prices have fallen in recent weeks, while food and commodity costs have also begun to abate, 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. 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 $160.

Target's (TGT – $167.04) second quarterly miss since 2018 was another doozy, thanks to inventory challenges causing a major profit shortfall for the second quarter running. For fiscal Q2 2022, the giant retailer reported revenue around $25.7 billion (vs. $25.8 billion est.), while the earnings per share figure was $0.39 (vs. $0.73 est.). Management explained that "a bold effort to right-size inventory" via heavy discounting and clearance pricing was necessary to avoid a situation where the inventory gets cleared out over quarters or years. The inventory issues were attributed to rapidly changing consumer patterns.

CEO Brian Cornell explained, "Consistent with the shopping trends we've seen for more than a year, our second quarter comp increase of 2.6% was driven entirely by traffic, which expanded 2.7% this year, on top of double-digit growth a year ago. With this increase, second quarter traffic has expanded by well over 20% since 2019. In raw numbers, that means in the second quarter alone, we've added more than 90 million guest visits over the last 3 years… As we look ahead to the back half of the year, the team is laser-focused on delivering convenience, value and joy at a time when our guests are facing multiple challenges. And while we've taken a cautious stance on our inventory commitments, we'll continue to lean into frequency categories where guest demand has been strong and where the markdown risks are very low. In addition, given the ongoing pressure our guests are facing from inflation, we're leaning into value. This means we're focused on providing great everyday pricing and strong opening price points across every category, including in our own brands. At the same time, we hear from our guests that they're focused on celebrating the seasonal moments they missed over the last 2 years. As a result, we'll lean into those seasonal moments, helping our guests find ways to come together and celebrate with family and friends… Given continued volatility in the external environment, we built our fall plans with a priority on flexibility and agility, and that's where our business model shines. More specifically, our multi-category portfolio stays relevant and drive strips across a wide range of wants and needs."

COO John Mulligan noted, "In terms of the short term, and as Brian and Christina mentioned earlier, our work to quickly rightsize inventory require determination, commitment and coordination between multiple teams across the company. And given the need to protect the guest experience, there was no higher priority than delivering against this near-term plan. At the same time, our team remains passionately focused on the long-term investments we're making in our future. These investments include our work to modernize and expand our store footprint, increase upstream capacity in our supply chain, automate distribution center processes to reduce store workload and enhance our last-mile fulfillment capabilities by opening sortation centers and integrating them into our Shipt network."

CFO Michael Fiddelke added, "Between the last 2 quarters of the year, we expect our third quarter rate will be well below our Q3 performance over the last couple of years, while our fourth quarter rate should be much more in line with our recent Q4 experience. Most notably, in the third quarter, we'll continue to experience some spillover impact from our inventory actions in the range of $200 million. In contrast, in Q4, we'll be annualizing meaningful cost headwinds that surfaced a year ago, which will make the year-over-year comparison more favorable despite the current headwinds we're facing. All that said, while we typically anticipate something closer to a balance of upside and downside potential when we make any forecast, the macro and consumer risks in the back half of this year feel skewed to the downside."

TGT shares fell 3% last week as it and several other retailing peers have struggled with inventory management over the past few quarters. From bare shelves to shelves full of the wrong products, it has been a very difficult operating environment, especially as procurement is months or years in advance, depending on the type of product. Shares have bounced off the local low of $139 on June 17, while our trims of TGT in July 2021 around $253 and in January 2021 around $197 still look well-timed. We remain fans of Target's streamlined business and emphasis on guest experience, which has been reflected in growing sales and normalized earnings over the past five years. Shares still trade at a reasonable 15x forward earnings and sport a 2.6% dividend yield. Our Target Price for TGT has been pared to $240.

Its shares gaining more than 2% last week, **Lowe's Cos** (LOW – $211.36) announced that the home improvement merchant earned $4.67 per share in Q2. The result barely topped the Street estimate but was nearly 10% higher year-over-year. A delayed spring season turned into a short one as elevated temperatures affected demand for typically high-margin outdoor items, pushing sales growth modestly negative. However, productivity improvements and growth of sales to professionals continue to expand the operating margin (12 basis points higher vs. Q2 2021).

When questioned about the strength of the home improvement consumer, CEO Marvin Ellison responded, "The 3 highest correlating factors of home improvement demand are home price appreciation, the age of the housing stock and disposable personal income. While housing turnover is important, it does not index at the same rate as home price appreciation, housing age and disposable personal income. And while we acknowledge that housing turnover has slowed, home prices and home equity remains at record highs, which gives customers confidence that they will get a return on the investment that they make in their homes. And also importantly, those homes keep getting older. More than half of the homes in the U.S. are over 40 years old and millions more built at the peak of the housing boom in the early 2000s are now starting to turn 20 years old, which is a key inflection point for big-ticket repairs."

He added, "In terms of disposable personal income, household wealth is still at an all-time high. Consumer savings are roughly $2.6 trillion higher than they were pre-pandemic. And 75% of that excess savings is concentrated in middle- and high-income households who are more likely to be homeowners, which highlights another key benefit of our industry, our core customer is the homeowner. In addition to having significantly more disposable income, most homeowners are benefiting from lower fixed mortgage rates. And as low housing supply and high interest rates make moving less desirable, homeowners are motivated to invest in their current homes to fit their needs. This is one of the key reasons that home improvement can win in markets when housing turnover is strong and when it slows as we saw in the mid-1990s when home improvement spend grew despite rising interest rates and a slowdown in housing turnover."

Management expects full-year sales to come in near the bottom of its previous forecast at a range of approximately $97 billion to $99 billion, and for diluted earnings per share for the year to be at the top end of the range of $13.10 to $13.60. We like that the company is able to opportunistically return capital to shareholders, repurchasing 21.6 million shares throughout the quarter for $4 billion (an average of $185 per share) and seeing the Board increase the dividend by 31% at the end of May, bringing the quarterly payout to $1.05 per share.

We continue to appreciate the ability of Lowe's management to drive efficiencies to expand returns on invested capital (reaching a record 34.8%) in the prior year. The stock has rebounded markedly from the June lows but is still nearly 20% below the 52-week high to trade for a forward P/E multiple of 15. The dividend yield is now 2.0% and our Target Price for LOW stands at $267.

Kohl's Corp (KSS – $29.89) announced last week that it earned $1.11 per share in Q2 (in line with expectations), a period that CEO Michelle Gass said was "impacted by a weakening macro environment, high inflation and dampened consumer spending, which especially pressured our middle-income customers." Inventory for the retailer also soared over 40% versus a year ago, a situation likely to affect margins in future quarters as major big box stores have already committed to shedding their own excess of apparel and discretionary product offerings. Forward EPS guidance for fiscal 2022 (ends January 2023) was sharply reduced to a range of $2.80 to $3.20.

Negative sentiment continues to weigh on the shares a bit more than a month since it put the kibosh on any buyout plans, following a strategic review process that began early in the year. For all the negativity, there is reason to think Kohl's growing partnership with makeup brand Sephora will prove fruitful (at least more than the exchange program with Amazon). Indeed, 292 of 400 Sephora stores slated to open in 2022 launched in the latest quarter and plans are in the works to bring a smaller footprint concept to the remaining store base.

Ms. Gass said, "We have adjusted our plans, implementing actions to reduce inventory and lower expenses to account for a softer demand outlook. Kohl's has navigated difficult periods in the past and I am confident in our ability to successfully manage through the current uncertainty. I want to thank our incredible associates around the country for their commitment to Kohl's and for providing excellent service to our customers every day. We continue to execute on our transformation strategy and are pleased to deliver outsized performance in the nearly 600 stores which have been refreshed and elevated, featuring Sephora as a key cornerstone."

Management is also following through with a commitment it announced last month to execute a $500 million accelerated share repurchase (ASR) program. In an arrangement with **Goldman Sachs** (GS – $349.27), Kohl's will pay $500 million for delivery of approximately 11.8 million shares of common stock on August 22, 2022, representing approximately 80% of the total shares that are expected to be repurchased under the ASR Agreement. Final settlement will occur in November, with the total number of shares purchased calculated according to the volume-weighted average price per share throughout the agreement period. Kohl's expects approximately $2.5 billion to remain available for repurchase in addition to the accelerated plan under its current buyback program, which is a shockingly high number considering that the current market capitalization is $3.8 billion.

No doubt, with the stock off 39% this year, it's been a tough row to hoe for Kohl's the past few years, given dramatic shifts in demand and supply, symptoms of the pandemic and fiscal measures taken by the government and monetary authorities. But for all its woes, the company continues to generate sufficient cash flow to support the dividend, and the balance sheet is in decent shape. At current levels, the full share repurchase authorization is nearly enough to take the company private (although cash for such an endeavor doesn't appear readily available at present). At the very least, the accelerated repurchase plan ought to put a meaningful dent in the share count (representing more than 10% of the current market cap). Trading for a single-digit forward P/E ratio with a 6.7% dividend yield, our Target Price for KSS is now $56.

Shares of **Tapestry** (TPR – $36.83) were up more than 3% last week, which saw the company report fiscal Q4 2022 results that were largely in line with expectations. The luxury fashion and accessory designer said it had adjusted EPS of $0.78 during the quarter versus the consensus estimate of $0.77. Revenue of $1.63 billion slightly trailed the average forecast of $1.64 billion. All regions, except, not surprisingly, China, saw double-digit sales growth versus the same period last fiscal year. Fiscal 2022 for Tapestry saw record annual sales of $6.7 billion, which was 15% higher compared to the previous fiscal year. The year also saw TPR's digital revenue jump approximately 25% to $2 billion.

CEO Joanne Crevoiserat commented, "We drove standout results this fiscal year and delivered accelerated revenue and profit growth across our portfolio – a direct reflection of the vibrancy of our brands and our team's successful execution of the Acceleration Program. Through an unwavering focus on the consumer, supported by our transformed and diversified business model, we increased AUR, and acquired 7.7 million new customers in North America alone in FY22."

She added, "Looking forward, we see significant runway for long-term growth as we harness our powerful combination of iconic brands amplified by a data-rich platform that enhances our ability to build lasting customer relationships. Although the external environment is challenging, we are well-positioned given the durability of our category, the strength of our brands and the proven ability of our teams to respond effectively to change. These competitive advantages and established capabilities will enable us to fuel sustained top and bottom-line gains and drive meaningful shareholder value."

The company said that it expects buybacks to total $700 million in fiscal 2023 (almost 8% of the current market cap) and management announced that the quarterly dividend was being boosted by 20% beginning with the payout next month.

Fashion and accessory markets remain intensely competitive and consumer preference can be fickle. While Coach continues to pull the lion's share of the weight, we like the potential of Tapestry's other brands. Regions like North America could cool a bit in the upcoming year, but we would expect China to snap back after COVID-related lockdowns took a toll this past fiscal year. Management's current guidance for the next four quarters stands at revenue of $6.9 billion and adjusted EPS of $3.80 to $3.90. TPR trades for less than 10 times NTM EPS and with a dividend yield of 3.3%. Our Target Price has been boosted to $59.

Foot Locker (FL – $38.39) posted EPS of $0.99 for fiscal Q2 (vs. 0.83 est.) on $2.1 billion of sales, trailing a tough comparable quarter one year ago. The bottom-line beat was good news, but arguably what got the stock moving (shares of the specialty retailer gained 20% on Friday) was the announcement that current CEO Richard Johnson would cede the top spot to Mary Dillon. The transition is effective September 1, 2022, though Mr. Johnson will serve as Executive Chairman of the Board from September 1, 2022 until January 31, 2023 and as a Senior Advisor to the company until a retirement date no later than April 15, 2023.

Ms. Dillon served as Chief Executive Officer and a member of the Board of Directors of Ulta from July 2013 through June 2021. Under her watch, the makeup chain's revenue grew at more than 12% per year on average, propelling the company's stock to more than triple in price.

Mr. Johnson said of the change, "We have made significant progress against our strategic objectives in recent years, which has allowed us to broaden our customer base while deepening our connection to the sport and sneaker communities. With the ongoing momentum we have built in our business, the Board and I believe now is the right time to complete the CEO transition. We are thrilled that Mary will join the Foot Locker team and are confident she is the ideal person to lead the company into the future. I know Mary is familiar to all of you. She has established a remarkable track record over a career spanning more than 3 decades that has included leadership roles at companies, including Ulta, McDonald's and PepsiCo. Mary has a passion for serving customers, and her expertise in developing attractive brand portfolios and delivering a superior experience is deeply aligned with Foot Locker's priorities and strategy. She is an inspiring leader who has not only been responsible for growing businesses but has also shown a commitment to fostering inclusive and collaborative cultures that are impactful for organizations and customers alike. We expect a smooth transition with a continued focus on our strategic imperatives and business goals."

On Foot Locker's performance in Q2, Mr. Johnson added, "Despite an increasingly challenging macroeconomic backdrop, we delivered a solid quarter against the favorable fiscal stimulus and promotional environment from last year. Driven by strong execution from our team and ongoing progress against our key objectives, we grew our sales 16.4% above levels from 2019. Our strategy of diversifying our brand portfolio and offering more choice continues to resonate with consumers and is enabling us to expand our customer base. We are confident that our operational excellence, our improving ability to fuel our customer's desire for self-expression, and the secular trends driving our categories, put us in a strong position to navigate the expected ongoing macroeconomic headwinds in the back half of 2022."

We continue to like the balance strong balance sheet though we realize that a reduced emphasis on Nike will cause some hiccups. Nevertheless, momentum has been building across other shoe labels like Adidas, Puma and New Balance, including an enhanced partnership deal with Adidas that has both firms believing sales of the brand will triple by 2025. We are excited to see what cards Ms. Dillon has up her sleeve, and the single digit P/E multiple still has shares looking very inexpensive even after the boost on Friday. Our Target Price for FL, which yields a generous 4.2% while management also buys back stock, has been adjusted to $60.

Cisco Systems (CSCO – $48.70) earned $0.83 per share in fiscal Q4 2022 (vs. $0.82 est.). The communications equipment firm had total revenue of $13.10 billion, versus the $12.73 billion estimate. CSCO turned in a solid Q4, led by strong execution and actions to counterbalance supply chain disruptions. The adjusted full-year EPS of $3.36 was a record for the company. The company returned $14 billion to shareholders in 2022 via dividends and share repurchases, and management says it is committed to "returning excess capital" to shareholders.

Cisco raised its revenue growth target to a range of 4% and 6% for fiscal 2023 (vs. 3.3% est.), which should result in adjusted EPS between $3.49 and $3.56 (vs. $3.54 est.). For fiscal Q1, CSCO expects revenue to grow between 2% and 4% with adjusted EPS of $0.83 +/- $0.01 and a gross margin between 63% and 64%.

The results and guidance helped push the stock price up by more than 4% last week. CEO Chuck Robbins said, "I want to be clear on our outlook for fiscal '23. We expect strong performance across our portfolio, driven by our continued focus on innovation and easing of supply constraints to drive solid top line growth and profitability. While we anticipated some moderation from the unprecedented product order growth of last year, demand signals remain solid. We do expect to continue to experience higher costs in the short term, driven primarily by higher component freight and logistics costs, which is reflected in our Q1 guide. However, as you'll see in our annual guidance, we expect this margin pressure to begin to ease as the year progresses. Long term, there are many multiyear application observability will likely provide tailwinds to our growth. With our portfolio in such a strong position to help our customers, I'm quite optimistic about what's ahead."

Mr. Robbins continued, “After a challenging April due to the COVID-related shutdowns in Shanghai, and the impact on semiconductor and power supplies, overall supply constraints began to ease slightly at the back half of the fourth quarter and continuing into the start of Q1. While the component supply headwinds remain, they have begun to show early signs of easing. The decisions we made and the multiple actions we have taken over the past 2 years are helping to improve our resiliency and will help offset cost inflation. These include adding new suppliers, leveraging alternative suppliers, redesigning hundreds of products to use alternative components with similar capability and targeted price increases, all of which position us for the future. These actions along with the tremendous efforts by our supply chain team and the investments we’ve made in building capacity to meet growth have the potential to drive momentum into fiscal ’23.”

He concluded, “In summary, we executed well on our strategy and transformation during what remains a very dynamic time. This led to a strong close to our fiscal year, setting several records across our business, thanks to the solid execution from our teams our market-leading innovation and our continued growth of recurring revenue. We also took decisive actions to help offset inflation and build resiliency in our supply chain, while investing in our business to position us well for long-term growth. The power of our technology continues to be a critical driver of economic growth and productivity. Our results and outlook demonstrate the critical role that Cisco plays as a leader in bringing innovative technology solutions to customers today and into the future. As we move into fiscal ’23, we remain guided by our purpose-led culture and deeply committed to delivering value for our customers, partners and investors, as well as continuing to be an amazing place to work for our employees.”

A battle against an inflationary and supply-chain-restricted environment isn’t unique to CSCO, and it was nice to see the company’s longer-term outlook show some positives, even if there are some near-term hurdles to overcome. One wouldn’t guess CSCO turned in a record year by looking at the stock price (shares are down 25% from the high on December 29), so it seems that the company is going to need to execute further in order to get rewarded with higher multiples. Wall Street analysts project increasing EPS ($3.54 in fiscal 2023, $3.81 in fiscal 2024 and $4.01 in fiscal 2025) along with revenue also climbing at a mid-single-digit pace, which we view as a positive anytime the top- and bottom-lines rise in lockstep. Cisco sports a forward P/E ratio near 14 and a 3.1% yield. We continue to find CSCO to be a value-priced stock with decent long-term growth potential. Our Target Price remains $70.

Lumentum (LITE – $92.42), a leading manufacturer of optical products and lasers, reported a soft outlook despite announcing a solid fiscal Q4 2022, which sent shares down by nearly 2% last week. LITE earned an impressive $1.47 per share (vs. $1.33 est.) on revenue of $422 million (vs. $418 million est.). Lumentum expects fiscal Q1 2023 revenue between $490 million and $520 million, the midpoint of which was below the Wall Street estimate of $496 million. The EPS range between $1.45 and $1.70 also trailed the $1.81 consensus.

CEO Alan Lowe said, “We are well positioned for double-digit growth into fiscal ’23 and beyond due to strong fundamental drivers in our Telecom and Datacom businesses. On August 3, we completed our acquisition of NeoPhotonics, which increases Lumentum’s exposure to the rapidly growing 400 gig and above optical communication opportunities, creates a even better partner for our customers and expands our photonics toolkit into areas such as ZR and ZR+

modules, silicon photonics, high-bandwidth coherent components, ultra-narrow linewidth external cavity tunable lasers and RF integrated circuits. The feedback from our customers on this transaction has been very positive, as they appreciate the logic of adding NeoPhotonics products and capabilities to our portfolio."

Mr. Lowe continued, "We are well positioned to capitalize on the increasing use of photonics and growing use cases across multiple end markets. Over the coming years, our products are critical to multiyear cloud and network infrastructure expansion, and deployments are accelerating. Underscoring this at the midpoint of our revenue guidance, we expect first quarter Telecom, Datacom and Lasers revenue to be up over $130 million or 45% compared to the same quarter last year. About half of this growth is organic, despite ongoing supply constraints. To capitalize on these trends in communications, consumer and industrial end markets, we are accelerating R&D investments during fiscal '23, which we believe will accelerate top line growth in fiscal '24 and beyond. These investments include coherent DSPs, 800G-and-higher-speed communication technologies, laser sources for high-performance computing architectures and the adoption of AI in data centers, industrial sensing and 3D imaging, LiDAR and in-cabin sensing for automotive and industrial lasers for electric vehicle and battery manufacturing."

CFO Wajid Ali offered some color on the outlook, "Before synergies, these acquisitions are operating well below our target model, and we plan to accelerate our R&D spending to capture new opportunities that we have with our broader set of products and capabilities. We also continue to experience supply chain challenges. And as previously discussed, we are experiencing share normalization in 3D sensing. Therefore, we would like to provide some expectations around the business and give a one-time fiscal 2023 financial outlook to aid investors in modeling the company. We expect that our largest 3D sensing customer will comprise between 10% to 15% of our company revenue in fiscal '23. Also, we expect the second half of our fiscal year will have improved IC supply compared to the first half, which will allow growth to accelerate and result in second-half company revenue being larger than that of the first half. Based on all this, we expect fiscal '23 revenue to be in the range of $2.1 billion to $2.25 billion, with an operating margin in the range of 24% to 26% and earnings per share between $6 to $7. This fiscal '23 margin performance is below our target model due to acquisitions and accelerated R&D investments. However, our 50% gross margin and 30% operating margin model continues to be our target, as we execute on acquisition synergies and work down shortages in IC supply, and we begin to realize the benefits from the accelerated R&D investments, we expect to return to our target financial model."

Lumentum's acquisitions seem to be impacting margins, as are some of the supply chain issues that the company expects to persist for at least the next few quarters. Management says it still expects NeoPhotonics to be accretive to earnings on day 1, but we suspect it'll take some time to get up to speed. The company has $450 million of convertible debt (0.25% coupon) maturing in March 2024 and is working to strengthen the balance sheet to settle the amount in cash. We think the forward P/E near 13 is a bargain, with both the "P" and the "E" likely to rise over time. Our Target Price for LITE resides at $149.

Shares of **Deere & Co** (DE – $369.66) began the day in the red on Friday, following the report of fiscal Q3 earnings, but gained ground throughout the day before ending in the black. The company posted Q3 EPS below the Street forecast ($6.16 vs. $6.65 est.) and management narrowed the top end of its full-year net-income forecast by $200 million to a range of $7.0 billion to $7.2 billion. Of course, the farm implement titan grew revenue by a whopping 22% on a year-over-year basis to $14.1 billion in the quarter and operating margin held roughly even at 21.2%. Volume and price gains benefited the Production & Precision Agriculture segments along with Small Agriculture and Turf, while the Construction and Forestry segment saw higher prices offset by higher costs.

CEO John May commented, "We're proud of the extraordinary efforts by our employees to increase factory output and get products to customers under challenging circumstances. At the same time, our results reflected higher costs and production inefficiencies driven by the difficult supply-chain situation."

Mr. May added, "Looking ahead, we believe favorable conditions will continue into 2023 based on the strong response we have experienced to early-order programs. We are working closely with our factories and suppliers to meet higher levels of customer demand next year. Additionally, we are confident the company's smart industrial strategy and leap ambitions will continue unlocking new value for customers through Deere's advanced technologies and solutions."

With its leading brand, we think Deere is the key enabler of low-cost agriculture, particular in the U.S. and Canada, which command over half of the company's revenues. Deere's substantial dealer network places customer service closer to farms than competitors. And a massive installed base of machines offer a continual source of data with which to improve its products as farming becomes increasingly automated. Although the landscape could turn on a dime, favorable pricing for agricultural markets are primed to support a strong 2023, and we appreciate the diversification afforded by the company's construction products. Even as shares have performed handsomely in the past few years, the forward P/E multiple is still inexpensive at 14 times projected EPS for 2023. Our Target Price is now $494.

General Motors (GM – $39.70) reinstated its dividend on Friday. Returning from a two-plus-year hiatus, the new $0.09 quarterly payment is an important step for the automaker. The company will also add to its share repurchase program, bringing the total available to $5.0 billion, a $1.7 billion boost from the previous authorization.

"GM is investing more than $35 billion through 2025 to advance our growth plan, including rapidly expanding our electric vehicle portfolio and creating a domestic battery manufacturing infrastructure," said Mary Barra, GM Chair and CEO. "Progress on these key strategic initiatives has improved our visibility and strengthened confidence in our capacity to fund growth while also returning capital to shareholders."

"GM's consistently strong earnings, margins and cash flow, our investment-grade balance sheet, and the achievement of several significant milestones in our growth strategy enables us to invest aggressively to accelerate our all-electric future while also supporting the return of excess free cash flow to shareholders, aligned with our long-term capital allocation strategy," said CFO Paul Jacobson.

The company's debt and cash balances are generally where they were at the end of 2019, even as GM has dumped massive amounts of money into its EV programs. It's still hard to call the behemoth nimble, but the successful pivot towards SUVs and trucks with improved powertrains happened much faster than we expected given that some of the company's early forays into EVs were window-dressing more than serious initiatives. Shares gained more than 2% on Friday on the news, despite a big down day for the overall market, but they still change hands at only 6 times expected NTM adjusted EPS. Our Target Price for GM is now $72.

In December 2021, **3M** (MMM – $145.20) announced plans to spin off its Food Safety business and combine it with publicly traded Neogen (NEOG – $21.01), a food processing and diagnostic product provider. 3M shareholders now have the option to keep their MMM or to convert some or all of their shares to "Garden SpinCo" (50.1% owned by 3M shareholders, 49.9% owned by Neogen shareholders). The tender offer expires at the end of the month and the company is providing incentive to participate by offering up to $107.53 of NEOG for every $100.00 of MMM, subject to an upper limit of 7.3515 NEOG shares per MMM share.

No doubt, some may see an arbitrage opportunity, but the 7.53% potential "windfall" is currently 6.37% because NEOG shares have been falling in price. We are of the mind that the risk of a continued deterioration in price is high as this has been our experience with spinoffs in the past year or two. No assurance that recent history repeats, of course, but without much buying interest, we fear that NEOG shares will drift south, so much so that we will be worse off swapping. This is especially true in that NEOG shares presently trade for 27 times forward earnings and have no dividend yield. Contrast that with MMM's 14 forward P/E and 4.1% yield and we will say no thanks to this tender offer, especially as we hold 3M in dividend-oriented managed accounts. Our Target Price for MMM is $211.

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