Market Commentary Monday, August 29, 2022

August 29, 2022

EXECUTIVE SUMMARY

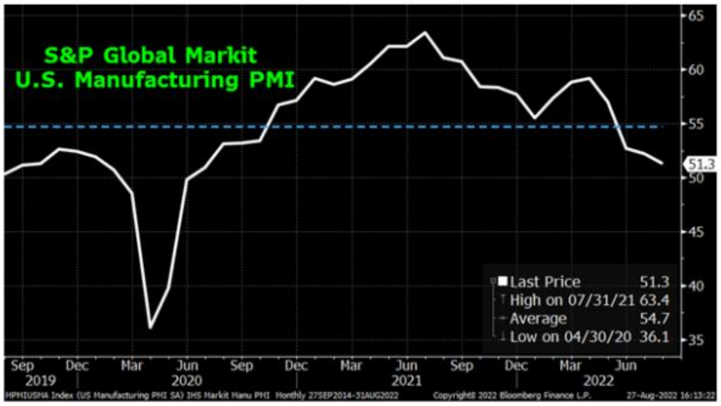
Econ Numbers – Some Not so Good and Some Favorable
Media – Easy to Bash Stocks; Hard to Say Anything Bad About Bonds
Jackson Hole – "Painful" Speech from the Fed Chair
Inflation – Lower Core PCE and Near-Term UMich Inflation Expectations
Market Week – Big Plunge on Friday; Growth Back in Bear Market Territory
History Lesson – "Volcker Shock" Produced Fantastic Returns for Equities
Homework – Recessions and Inflationary Periods No Reason to Sell Stocks
Valuations – Liking the Price Metrics and Dividend Yields for our Portfolios
Stock News – Updates on JWN, MDT, DKS, NTAP & MMM

Market Review

The latest trading week started with a sizable selloff, as folks worried about the health of the U.S. economy, with the latest read on the state of the services sector coming in well below expectations,…

THE PRUDENT SPECULATOR

S&P GLOBAL MARKIT PMI READINGS FALL FURTHER IN AUGUST



The S&P Global Markit preliminary U.S. PMIs for the factory and services sectors in August came in at 51.3 and 44.1, the latter well below expectations. S&P Global commented, "August flash PMI data signaled further disconcerting signs for the health of the U.S. private sector. Demand conditions were dampened again, sparked by the impact of interest rate hikes and strong inflationary pressures on customer spending, which weighed on activity. Gathering clouds spread across the private sector as services new orders returned to contractionary territory, mirroring the subdued demand conditions seen at their manufacturing counterparts. Excluding the period between March and May 2020, the fall in total output was the steepest seen since the series began nearly 13 years ago."

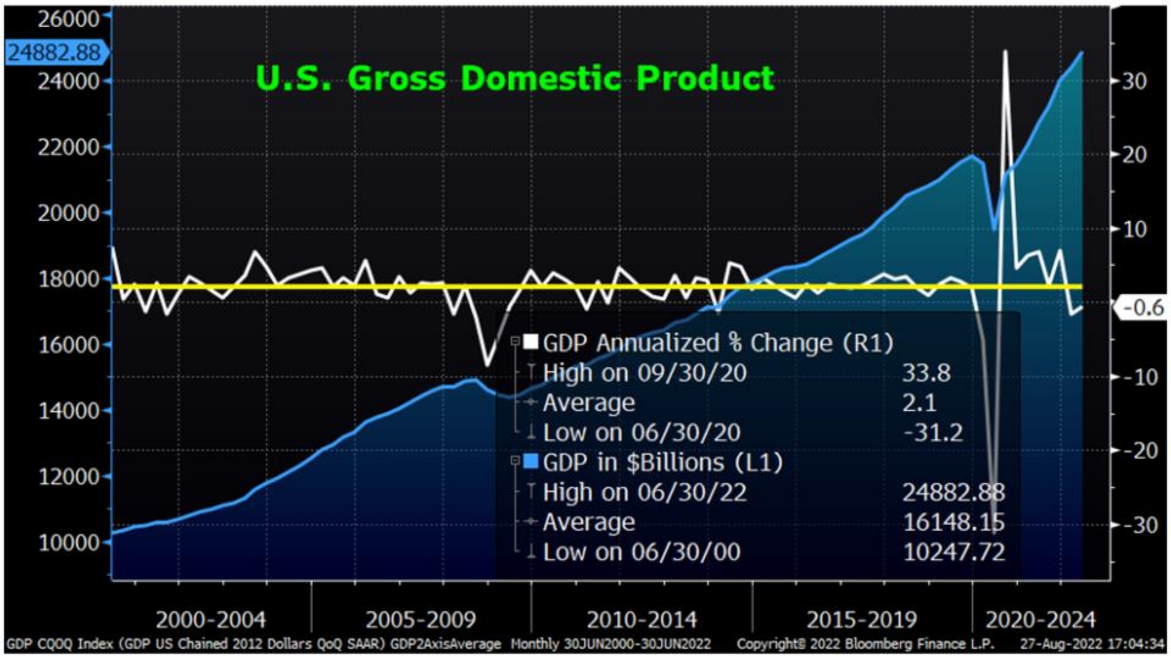
…and housing data continuing to head south.

However, the tune changed as the week went on, with an upward revision to nominal GDP growth for the second quarter,…

THE PRUDENT SPECULATOR

HUGE 9.4% JUMP IN Q2 NOMINAL GDP, BUT REAL GDP CONTRACTS BY 0.6%

Second quarter 2022 real (inflation-adjusted) domestic economic growth came in weaker than expected at a 0.6% contraction on an annualized basis, even as the current-dollar nominal GDP figure of $24.9 trillion soared by 9.4% on an annualized basis to an all-time high.



…and better-than-expected numbers on weekly jobless claims.

THE PRUDENT SPECULATOR

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

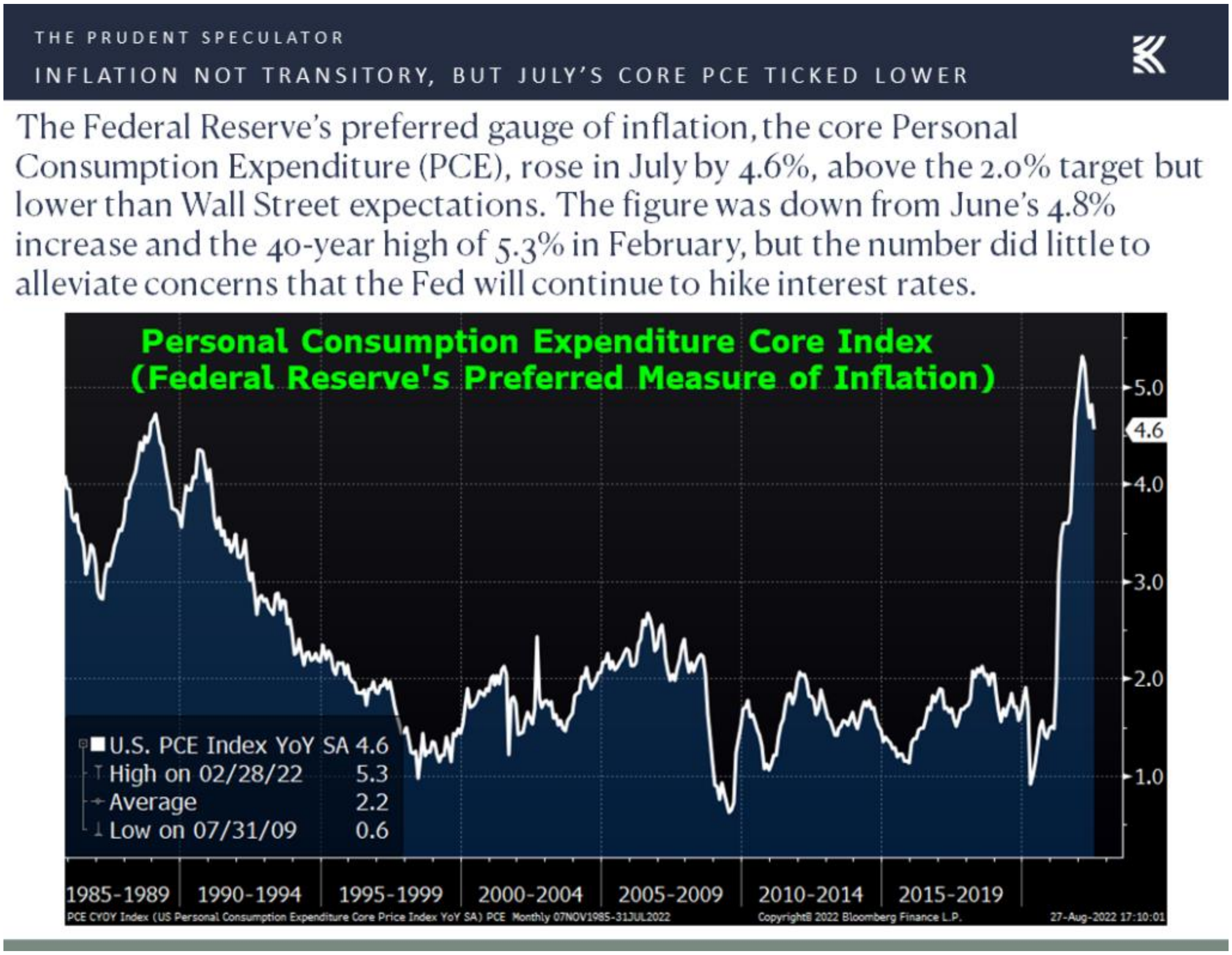
While higher than readings earlier in the year with a 1-handle, yet still coming in near the lowest levels since 1969 when the work force was much smaller, new filings for unemployment benefits for the period ended August 20 were a seasonally adjusted 243,000, down from a revised 245,000 the week prior. Continuing claims filed through state programs inched down to 1.42 million, near the lowest level since 1969 as businesses continue to hold onto workers with labor so difficult to obtain.

In fact, by the time Friday’s morning papers hit the newsstands, the headlines had shifted focus from equity market losses to bond yield increases,…

STOCKS AND BONDS: MIXED MESSAGES FROM THE HEADLINE WRITERS

We understand that stocks historically have been far more volatile than bonds, so focusing on the losses (*Dow Falls Sharply As Rate Worries Linger*) during the downturns makes perfect sense, but we are puzzled by the upbeat language (*Yields Climb on Economic Hopes*) utilized by the financial press of late in discussing the carnage in fixed income. Hopefully, folks understand that the reason bond yields have risen is that prices have plummeted (long-term Treasuries are off more than 20% this year, much worse than the Dow or S&P 500), lest they be fooled by a rewrite of the equity headline, *Stock Yields Jump*.

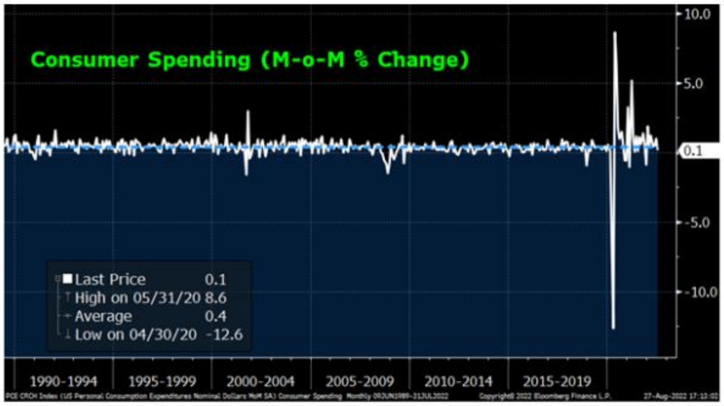
…with stocks looking like they might continue their rebound prior to the opening of trading that day, given that the index futures were pointing to gains after the widely anticipated personal consumption expenditure core index rose "only" 4.6% in July, down from June's 4.8% advance and better than Wall Street projections,…

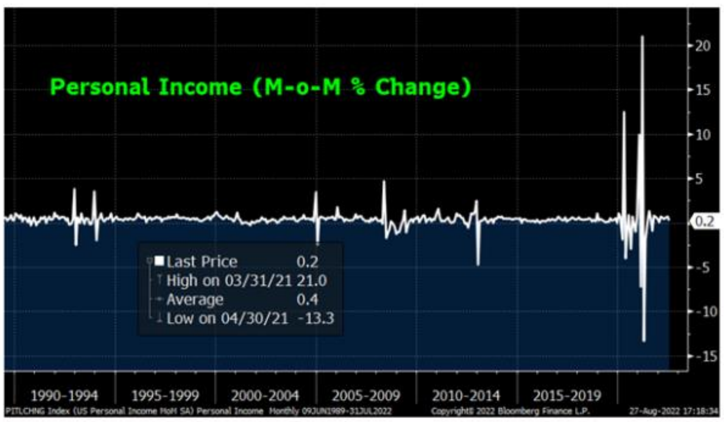


…while real consumer spending edged higher last month,…

THE PRUDENT SPECULATOR

CONSUMER SPENDING & PERSONAL INCOMES BOTH RISE





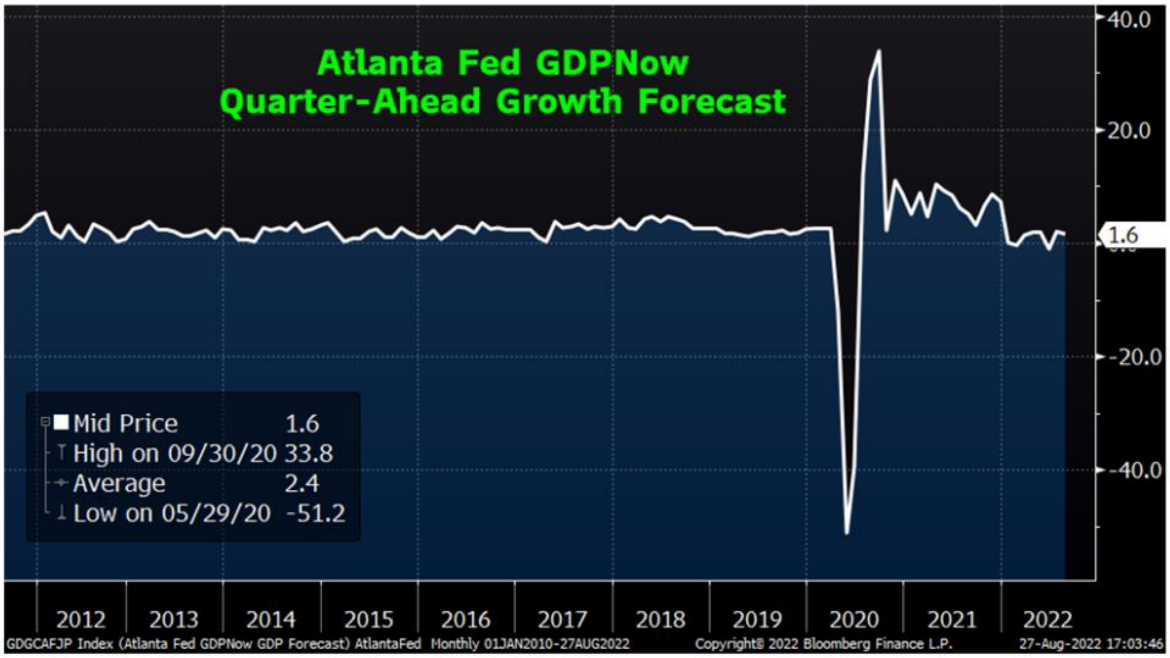
Despite sky-high inflation levels in July, consumer spending rose 0.1% on a nominal basis and 0.2% on an inflation-adjusted basis, with lower gas prices helping pocketbooks and the advance suggesting that the economy is not likely to tip into recession soon. Shoppers did not have to reach too deeply into their wallets as personal income gained 0.2% and the savings rate held at 5.0%, though the latter figure represented a 13-year low.

…arguably keeping the economy on pace for growth on an inflation-adjusted basis in Q3,…

THE PRUDENT SPECULATOR

Q3 U.S. REAL GDP GROWTH PROJECTION HOLDS AT 1.6%

Q1 and Q2 2022 saw respective 1.6% and 0.6% 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 26 stood at 1.6%.

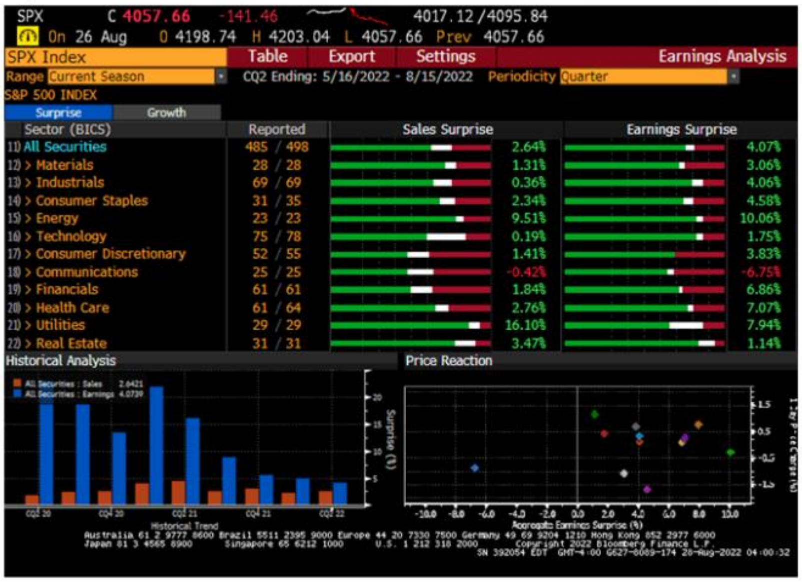


…and continuing to provide a favorable backdrop for corporate profits.

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 and is likely to reverse somewhat in Q3), even as outlooks generally were muted and stock prices often reacted poorly. 75.6% of the 485 S&P 500 companies beat EPS expectations and 62.8% exceeded revenue forecasts.



S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2023	$62.88	$240.56
9/30/2023	$60.98	$235.64
6/30/2023	$59.55	$230.65
3/31/2023	$57.15	$218.35
12/31/2022	$57.96	$210.56
9/30/2022	$55.99	$209.33
6/30/2022	$47.25	$205.36
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 8.22.22

*****

Of course, the economic numbers were merely a warm-up act for the main event last week, which was Jerome H. Powell's eagerly awaited speech on *Monetary Policy and Price Stability* at the Federal Reserve's confab in Jackson Hole, Wyoming. As most expected, the Fed Chair talked tough on inflation,…

THE PRUDENT SPECULATOR

MONETARY POLICY AND PRICE STABILITY: CHAIR POWELL 08.26.22

The Federal Open Market Committee's (FOMC) overarching focus right now is to bring inflation back down to our 2 percent goal. Price stability is the responsibility of the Federal Reserve and serves as the bedrock of our economy. Without price stability, the economy does not work for anyone. In particular, without price stability, we will not achieve a sustained period of strong labor market conditions that benefit all. The burdens of high inflation fall heaviest on those who are least able to bear them.

Restoring price stability will take some time and requires using our tools forcefully to bring demand and supply into better balance. Reducing inflation is likely to require a sustained period of below-trend growth. Moreover, there will very likely be some softening of labor market conditions. While higher interest rates, slower growth, and softer labor market conditions will bring down inflation, they will also bring some pain to households and businesses. These are the unfortunate costs of reducing inflation. But a failure to restore price stability would mean far greater pain.

The U.S. economy is clearly slowing from the historically high growth rates of 2021, which reflected the reopening of the economy following the pandemic recession. While the latest economic data have been mixed, in my view our economy continues to show strong underlying momentum. The labor market is particularly strong, but it is clearly out of balance, with demand for workers substantially exceeding the supply of available workers. Inflation is running well above 2 percent, and high inflation has continued to spread through the economy. While the lower inflation readings for July are welcome, a single month's improvement falls far short of what the Committee will need to see before we are confident that inflation is moving down.

We are moving our policy stance purposefully to a level that will be sufficiently restrictive to return inflation to 2 percent. At our most recent meeting in July, the FOMC raised the target range for the federal funds rate to 2.25 to 2.5 percent, which is in the Summary of Economic Projection's (SEP) range of estimates of where the federal funds rate is projected to settle in the longer run. In current circumstances, with inflation running far above 2 percent and the labor market extremely tight, estimates of longer-run neutral are not a place to stop or pause.

…concluding his remarks with, “We are taking forceful and rapid steps to moderate demand so that it comes into better alignment with supply, and to keep inflation expectations anchored. We will keep at it until we are confident the job is done.”

Interestingly, exactly as Mr. Powell had started speaking on Friday, the Univ. of Michigan’s Consumer Sentiment survey was released, showing that in August folks on Main Street were feeling better than economists had feared,…

THE PRUDENT SPECULATOR

CONSUMER SENTIMENT REBOUNDS TWO MONTHS AFTER RECORD LOW

University of Michigan Consumer Sentiment
Cyclical Lows & Subsequent Equity Returns

Cyclical Low	U of M Sent.	1 Year SPX TR	1 Year Value TR	3 Year SPX TR	3 Year Value TR	5 Year SPX TR	5 Year Value TR	10 Year SPX TR	10 Year Value TR
May-80	51.7	25.2%	34.5%	70.8%	128.6%	118.2%	227.7%	395.6%	537.8%
Mar-82	62.0	44.3%	54.5%	86.5%	129.5%	224.0%	276.0%	431.0%	503.6%
Nov-87	83.1	23.3%	32.0%	55.7%	31.1%	121.8%	124.2%	455.1%	545.8%
Oct-90	63.9	33.4%	41.2%	68.6%	129.6%	121.4%	191.0%	490.0%	619.1%
Sep-01	81.8	-20.5%	-13.6%	12.6%	40.7%	40.0%	98.9%	32.0%	48.6%
Mar-03	77.6	35.1%	67.5%	61.0%	129.0%	71.0%	116.0%	126.8%	176.2%
Nov-08	55.3	25.4%	22.3%	48.6%	34.0%	124.8%	135.2%	280.7%	246.4%
Aug-11	55.8	18.0%	14.8%	75.4%	89.6%	98.3%	95.0%	353.7%	264.7%
Jun-22	50.0								
		23.0%	**31.6%**	**59.9%**	**89.0%**	**114.9%**	**158.0%**	**320.6%**	**367.8%**

TR = Total Return. SPX = S&P 500. Value = Value Weighted Book to Market Portfolios - Blend of Small Value and Big Value.
Source: Kovitz Investment Group using data from Bloomberg, Professors Eugene F. Fama & Kenneth R. French and the Univ. of Michigan

The latest read on the Univ. of Michigan's Consumer Sentiment gauge was better than expected, bouncing back further from the most pessimistic level in history two month's prior. Incredibly, folks were then more downcast than when inflation was in the double-digits in the early '80's ...and after the Crash of '87...and after the Gulf War Meltdown of '90...and after 9/11...and at the end of the Tech Wreck...and during the Great Financial Crisis...and after the downgrade of the U.S. credit rating. Believe it or not, the prior 8 cyclical lows, on average, proved to be great times for long-term-oriented investors to be adding to their (Value) equity exposure.

…AND indicating that near-term inflation expectations declined, with longer-term expectations remaining unchanged.

THE PRUDENT SPECULATOR

LONGER-TERM INFLATION EXPECTATIONS REASONABLY WELL ANCHORED

Likely bringing a modest smile to Jerome H. Powell, per data from the Univ. of Michigan, inflation expectations for the next year fell to 4.8% in August, down from 5.2% in July to the lowest level since December, while the five-year outlook held steady at 2.9%, a seven-month low. The "contained" view of prices for the long-term echoed the New York Fed's latest median expectation of inflation over the next three years, which dropped to 3.2% in July from 3.6% in the prior survey.

Alas, the Michigan good news was ignored as equity traders dashed for the exits in reaction to Chair Powell's speech, with the Dow Jones Industrial Average losing more than 1000 points in the aftermath and the S&P 500 and Nasdaq Composite suffering even steeper stumbles on a percentage basis, the red ink turning the full week into one of the 217 worst ever,…

THE PRUDENT SPECULATOR

DOWNSIDE VOLATILITY RETURNS: S&P 500 SHARPLY REVERSES COURSE

Rare are one-week skids of more than 4% for the S&P 500, but the popular market gauge tumbled 4.04% in price over the fourth week of August, the 217th worst weekly showing since 1928.

Down < 4.04%

	1920's	1930's	1950's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	2020's	Totals
Years Ending in 0		10	5	2	0	3	2	1	5	3	5	36
Years Ending in 1		16	3	0	0	0	1	0	5	4	0	29
Years Ending in 2		17	1	0	4	0	0	0	4	1	3	30
Years Ending in 3		11	1	0	0	3	0	0	1	0		16
Years Ending in 4		6	0	0	0	9	0	0	0	0		15
Years Ending in 5		2	0	2	0	2	0	0	0	1		7
Years Ending in 6		2	4	0	2	0	2	0	0	1		11
Years Ending in 7		9	2	1	0	0	4	0	2	0		18
Years Ending in 8	1	9	1	0	0	1	1	3	8	5		29
Years Ending in 9	8	6	0	0	0	1	1	3	7	0		26
Totals	9	88	17	5	6	19	11	7	32	15	8	217

From 1.31.28 through 8.26.22. Weeks of index price decreases of greater than or equal to 4.04%. SOURCE: Kovitz using data from Bloomberg

Up > 4.04%

	1920's	1930's	1940's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	2020's	Totals
Years Ending in 0		2	1	1	0	4	2	1	7	1	4	23
Years Ending in 1		10	0	0	0	1	1	3	3	5	1	24
Years Ending in 2		17	2	0	1	0	5	0	4	0	4	33
Years Ending in 3		15	0	0	1	1	0	0	1	1		19
Years Ending in 4		6	1	0	0	4	1	0	0	1		13
Years Ending in 5		2	0	0	0	3	0	0	0	0		5
Years Ending in 6		1	1	1	2	1	2	1	0	0		9
Years Ending in 7		2	0	0	0	1	3	2	0	0		8
Years Ending in 8	1	11	1	0	0	0	3	2	6	2		26
Years Ending in 9	4	3	0	0	0	0	1	6	8	1		23
Totals	5	69	6	2	4	15	18	15	29	11	9	183

From 1.31.28 through 8.26.22. Weeks of index price increases of greater than or equal to 4.04%. SOURCE: Kovitz using data from Bloomberg

…and pushing Growth stocks back into Bear Market Territory for the year.

THE PRUDENT SPECULATOR

MARKET OF STOCKS – INDEXES CAN HAVE WIDE DISPERSION IN RETURNS

With Jerome H. Powell's "painful" words at Jackson Hole the catalyst, stocks plunged on Friday, August 26, pushing the Nasdaq Composite index and other Growth stock gauges back into Bear Market territory. There are no awards for the losses on Value this year, but inexpensive stocks have held up better, which is in keeping with the historical evidence when inflation is high, when the Fed is tightening and when interest rates are moving up.

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	M	-4.20	-9.97	-6.50	26.27	18.45	82.29	32.71	65.01	Dow Jones Industrial Average	DJITR Index
1.01	-10.21	A	-2.59	-10.07	-6.77	27.47	21.98	83.38	30.53	45.95	New York Stock Exchange Composite	NYA Index
-39.18	-20.81	R	-4.43	-21.97	-18.14	12.85	5.67	80.36	58.63	103.26	Nasdaq Composite Index	CCMP Index
-22.43	-9.23	K	-2.60	-20.10	-20.91	5.69	4.50	71.03	23.66	46.36	Russell 2000 Growth	RU20GRTR Index
22.83	**14.02**	E	**-3.26**	**-9.39**	**-5.01**	**49.65**	**47.78**	**118.43**	**40.72**	**43.32**	**Russell 2000 Value**	**RU20VATR Index**
-3.02	2.49		-2.93	-14.69	-13.13	26.05	24.56	94.98	33.60	47.07	Russell 2000	RU20INTR Index
-11.75	-20.15	T	-3.60	-23.18	-23.96	2.94	2.16	70.72	27.37	69.57	Russell Midcap Growth Index Total Return	RUMCGRTR Index
19.18	**2.33**		**-3.11**	**-9.61**	**-4.57**	**38.42**	**37.38**	**111.58**	**37.12**	**47.75**	**Russell Midcap Value Index Total Return**	**RUMCVATR Index**
8.25	-5.62	O	-3.28	-14.43	-11.77	24.98	24.05	98.07	36.27	60.66	Russell Midcap Index Total Return	RUMCINTR Index
-22.42	-19.63	F	-4.43	-20.94	-15.63	15.50	7.76	85.33	54.40	104.24	Russell 3000 Growth	RU30GRTR Index
8.04	**-4.33**		**-3.17**	**-7.91**	**-3.67**	**36.75**	**32.62**	**91.14**	**34.72**	**49.58**	**Russell 3000 Value**	**RU30VATR Index**
-7.46	-11.46	S	-3.82	-14.76	-9.90	25.55	19.31	89.41	46.08	77.44	Russell 3000	RU30INTR Index
9.64	-0.39	T	-3.59	-10.54	-5.31	38.22	34.64	109.00	47.87	72.27	S&P 500 Equal Weighted	SPXEWTR Index
-9.10	-11.89	O	-4.02	-14.00	-7.86	27.53	20.20	88.37	48.10	81.53	S&P 500	SPXT Index
-22.08	-12.73		-4.87	-20.44	-13.46	19.93	11.48	87.68	54.65	102.21	S&P 500 Growth	SPTRSGX Index
6.08	**-11.71**	C	**-3.19**	**-6.82**	**-1.95**	**35.97**	**30.96**	**84.89**	**37.06**	**56.21**	**S&P 500 Value**	**SPTRSVX Index**
3.18	1.57	K	-0.74	-14.80	-16.66	-16.23	-16.09	-8.70	-11.78	-6.19	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index
11.63	8.44	S	-0.36	-10.02	-10.59	-10.42	-10.88	-5.74	-4.78	3.71	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index

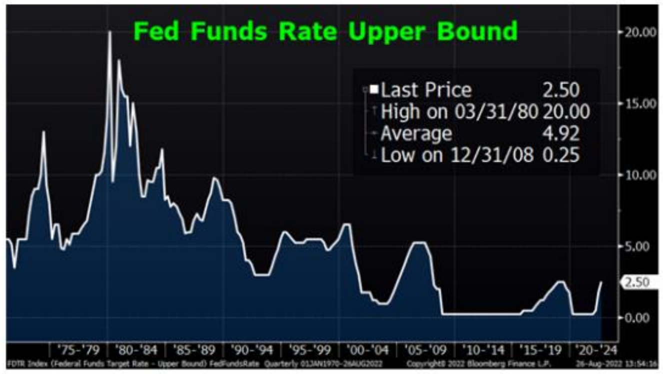
As of 08.26.22. Source Kovitz using data from Bloomberg

No doubt, many didn't like that Chair Powell said: "While higher interest rates, slower growth, and softer labor market conditions will bring down inflation, they will also bring some pain to households and businesses. These are the unfortunate costs of reducing inflation." But bond yields didn't move much in response and the outlook for further interest rate hikes, at least if the Fed Funds futures are to be believed, remained essentially unchanged,…

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.



Model	Meeting	%Hike/Cut
North America		
US - Fut	09/21/2022	+264.4%
US - OIS	09/21/2022	+257.2%
CA - OIS	09/07/2022	+331.8%
Europe		
EZ - OIS	09/08/2022	+250.3%
GB - OIS	09/15/2022	+230.0%
SE - OIS	09/20/2022	+423.0%
APAC		
AU - Fut	09/06/2022	+165.0%
NZ - OIS	10/05/2022	+182.7%
JP - OIS	09/22/2022	+11.9%
IN - OIS	09/30/2022	+180.0%

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
09/21/2022	+2.644	+264.4%	+0.661	2.992	0.250
11/02/2022	+4.395	+175.1%	+1.099	3.430	0.250
12/14/2022	+5.225	+83.0%	+1.306	3.637	0.250
02/01/2023	+5.607	+38.2%	+1.402	3.733	0.250
03/22/2023	+5.785	+17.8%	+1.446	3.778	0.250
05/03/2023	+5.763	-2.2%	+1.441	3.772	0.250
06/14/2023	+5.584	-17.9%	+1.396	3.727	0.250
07/26/2023	+5.445	-13.9%	+1.361	3.693	0.250
09/20/2023	+5.085	-36.0%	+1.271	3.602	0.250
11/01/2023	+4.795	-29.0%	+1.199	3.530	0.250

…and Bloomberg's recession probability held steady.

THE PRUDENT SPECULATOR

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

The respective 1.6% and 0.6% 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.

Mr. Powell also saw fit to invoke the name of Paul Volcker, Fed Chair from 1979 to 1986, in his speech, stating: “The successful Volcker disinflation in the early 1980s followed multiple failed attempts to lower inflation over the previous 15 years. A lengthy period of very restrictive monetary policy was ultimately needed to stem the high inflation and start the process of getting inflation down to the low and stable levels that were the norm until the spring of last year. Our aim is to avoid that outcome by acting with resolve now.”

While we realize that conditions today are dramatically different than they were four-plus decades ago, we suspect many do not remember that turbulent period as being favorable for equities. Indeed, favorable was not a strong enough word as fantastic was a far better description for what actually took place.

EQUITIES CLEARLY DIDN'T MIND THE VOLCKER SHOCK

During the 1970s, as inflation climbed, the anticipation of high inflation became entrenched in the economic decisionmaking of households and businesses. The more inflation rose, the more people came to expect it to remain high, and they built that belief into wage and pricing decisions. As former Chairman Paul Volcker put it at the height of the Great Inflation in 1979, "Inflation feeds in part on itself, so part of the job of returning to a more stable and more productive economy must be to break the grip of inflationary expectations." – Jerome H. Powell

Volcker Vanquishes The Great Inflation Equity Returns

Year	FF Value	FF Growth	FF Div Payers	FF Non Div	Inflation	Fed Funds Rate
1979	30.5%	32.3%	22.5%	60.5%	13.3%	14.0%
1980	19.5%	44.2%	30.8%	63.3%	12.4%	18.0%
1981	16.0%	-9.0%	-1.1%	-16.1%	8.9%	12.0%
1982	34.1%	20.8%	21.7%	13.6%	3.9%	8.5%
1983	37.5%	17.5%	22.8%	20.7%	3.8%	9.5%
1984	11.9%	-7.3%	5.1%	-18.3%	4.0%	8.3%
1985	32.5%	31.2%	33.7%	24.0%	3.8%	7.8%
1986	18.1%	8.6%	18.2%	2.2%	1.1%	6.0%
Annualized	**24.7%**	**15.9%**	**18.7%**	**15.3%**	**6.3%**	

Total Return. Value Weighted Equity Portfolios. Year-End Federal Funds Rate. Source: Kovitz Investment Group using data from Bloomberg and Professors Eugene F. Fama & Kenneth R. French

The approach took two tries to get its intended effect. Volcker's tightening slowed economic activity enough that by January 1980, the U.S. was in recession. But Fed interest rates actually began falling sharply after April, which limited the effectiveness of the Fed's anti-inflation efforts. The Fed tightened again after that and sparked another recession in July 1981. This one was far worse than the first; while unemployment peaked at 7.8 percent during the 1980 recession, it would peak at 10.8 percent in December 1982 in the middle of the 16-month second Volcker recession. That's a higher level than at the peak of the Great Recession in 2009. Over the course of the 1980s, this policy regime would become known as the "Volcker shock."

– Vox.com

Believe it or not, Mr. Volcker was blamed for two recessions beginning in January 1980 and July 1981, both of which led to terrific returns for Value stocks over the ensuing three and five years.

THE PRUDENT SPECULATOR

EQUITY RETURNS AND RECESSIONS (PRE AND POST) – FAMA FRENCH VALUE

As the saying goes, the stock market (and economists) has predicted nine of the last five recessions, but the 15 prior instances of actual negative economic growth illustrate that long-term-oriented investors (on average) should stay invested (in Value, preferably) no matter what.

U.S. Recession Commencement (per NBER) & Equity Returns
S&P 500 and Fama/French Value Performance

Year Prior S&P 500 TR	Year Prior FF Value TR	Recession Start Date	1 Year S&P 500 TR	1 Year FF Value TR	3 Year S&P 500 TR	3 Year FF Value TR	5 Year S&P 500 TR	5 Year FF Value TR	10 Year S&P 500 TR	10 Year FF Value TR	To Present S&P 500 TR	To Present FF Value TR
51.9%	30.6%	August 1929	-32.6%	-32.0%	-73.5%	-65.1%	-71.1%	-61.7%	-58.0%	-48.4%	303020%	7691191%
18.2%	42.0%	May 1937	-39.3%	-55.8%	-33.2%	-55.0%	-32.5%	-44.7%	53.7%	140.3%	563117%	7280957%
26.3%	56.8%	February 1945	26.0%	42.0%	12.0%	28.6%	64.3%	75.6%	379.2%	469.5%	405852%	3545492%
4.0%	4.8%	November 1948	19.2%	12.2%	101.8%	109.3%	145.2%	130.8%	542.0%	586.7%	329652%	2567450%
3.1%	4.7%	July 1953	31.9%	25.4%	128.9%	118.2%	136.5%	138.6%	308.5%	385.1%	136206%	1075797%
-1.2%	-0.3%	August 1957	10.0%	16.6%	40.2%	55.8%	55.1%	79.0%	188.9%	421.8%	62545%	508225%
-2.4%	-6.3%	April 1960	24.2%	29.5%	41.7%	51.9%	92.4%	130.9%	107.7%	270.1%	47101%	343527%
-8.4%	-20.9%	December 1969	3.9%	8.7%	41.4%	39.8%	-11.3%	-7.6%	77.0%	264.4%	20274%	86989%
-15.2%	-19.4%	November 1973	-23.8%	-14.8%	20.8%	77.2%	23.7%	142.2%	182.3%	716.8%	17128%	76043%
20.6%	30.5%	January 1980	19.5%	12.5%	49.5%	81.1%	102.4%	183.6%	342.4%	480.0%	10738%	21990%
13.0%	23.2%	July 1981	-13.3%	-0.7%	34.0%	78.2%	127.9%	199.8%	343.5%	405.4%	8653%	17224%
6.5%	-7.2%	July 1990	12.7%	10.0%	38.2%	75.2%	83.2%	125.3%	407.4%	436.7%	2124%	3670%
-21.7%	22.3%	March 2001	0.2%	13.1%	1.9%	34.3%	21.4%	83.7%	38.3%	85.6%	436%	492%
5.6%	-8.0%	December 2007	-37.0%	-36.5%	-8.3%	-7.8%	8.6%	4.2%	125.8%	116.4%	277%	214%
8.2%	-9.6%	February 2020	31.3%	39.0%							45%	65%
7.2%	**9.5%**	**Averages**	**2.2%**	**4.6%**	**28.2%**	**44.4%**	**53.3%**	**84.3%**	**217.0%**	**337.9%**	**127144%**	**1547955%**

Through 4.29.22.TR = Total Return. FF Value = Value Weighted Book to Market Portfolios - Blend of Small Value and Big Value.Source: Kovitz Investment Group using data from Bloomberg, Professors Eugene F. Fama & Kenneth R. French and the National Bureau of Economic Research

There is no assurance that the past is prologue, but Mark Twain said, “History doesn’t repeat, but it often rhymes,” so we spend a lot of time looking at what actually has taken place previously rather than blindly believing what the supposed experts have to say. For example, there is plenty of talk about the “miserable” 16 years for the equity markets the last time the U.S. faced high inflation, yet Value stocks enjoyed annualized returns of 13.4% PER YEAR from 1965-1981.

THE PRUDENT SPECULATOR

MISSING THE WHOLE STORY: S&P & DOW WENT NOWHERE FROM '66 TO '82

It helps, whenever markets turn worrisome, to look at historical precedents. How bad could things get?

In this case, what U.S. investors should probably fear the most is a replay of the stagflationary slog from 1966 to 1982, when economic growth was spotty, inflation stayed double digits for years and stocks went utterly nowhere.

On Feb. 9, 1966, the S&P 500 closed at a then-record 94.06. More than 16 years later, on Aug. 12, 1982, it stood at 102.42.

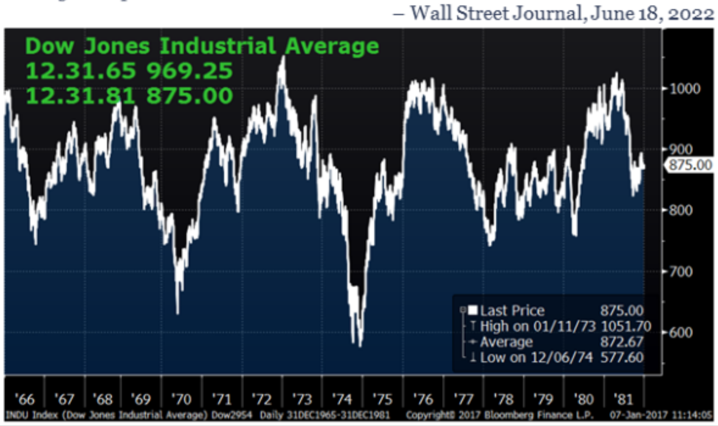
Corporate earnings, after inflation, shrank 15%, according to data from Yale University economist Robert Shiller.

Yes, stocks paid generous dividends, reaching nearly 6% by the end of the period, but inflation devoured them whole.

That period was such an ordeal it turned the individual investor into an endangered species.

– Wall Street Journal, June 18, 2022

Incredibly, the Dow Jones Industrial Average actually lost ground over a 16-year time span from the beginning of 1966 to the beginning of 1982, yet the total return on Value stocks was a superb 13.39% PER YEAR. Obviously, stock picking mattered as Large Company annualized return was *only* 5.95%, though Non-Dividend Payers outperformed Dividend Payers by more than one percent per year. Despite losing nearly 10% of its price, the Dow's total return during the period was 3.94% per annum.



Annualized Total Returns	
16 Years	
12.31.65 - 12.31.81	
FF Value	13.39%
FF Growth	7.35%
FF Divs	7.29%
FF No Divs	8.44%
FF Large Company	5.95%

Source: Kovitz Investment Group using data from Morningstar and Professors Fama & French

None of the above is meant to suggest that smooth sailing lies ahead (the equity futures are pointing to a tough opening of trading today) as we know that volatility is the price that must be paid for achieving handsome equity market rewards,…

THE PRUDENT SPECULATOR

VOLATILITY IS NORMAL BUT VALUE WINS THE RACE

Selloffs, downturns, pullbacks, corrections and even Bear Markets are events that equity investors always have had to endure on their way to the best long-term performance of any of the financial asset classes.

Advancing Markets

Minimum Rise %	Average Gain	Average # Days	Count	Frequency (in Years)	Last Start	Last End
20.0%	113.4%	995	27	3.4	3/23/2020	1/3/2022
17.5%	68.2%	583	39	2.3	3/23/2020	1/3/2022
15.0%	65.7%	555	46	2.0	6/16/2022	8/16/2022
12.5%	44.7%	336	73	1.3	6/16/2022	8/16/2022
10.0%	35.0%	245	100	0.9	6/16/2022	8/16/2022
7.5%	23.7%	149	159	0.6	6/16/2022	8/16/2022
5.0%	14.7%	72	311	0.3	6/16/2022	8/16/2022

Declining Markets

Minimum Decline %	Average Loss	Average # Days	Count	Frequency (in Years)	Last Start	Last End
-20.0%	-35.0%	281	27	3.4	1/3/2022	6/16/2022
-17.5%	-30.2%	216	39	2.4	1/3/2022	6/16/2022
-15.0%	-28.3%	188	45	2.1	1/3/2022	6/16/2022
-12.5%	-22.8%	138	72	1.3	1/3/2022	6/16/2022
-10.0%	-19.6%	102	99	0.9	3/29/2022	6/16/2022
-7.5%	-15.5%	65	158	0.6	3/29/2022	6/16/2022
-5.0%	-10.9%	36	311	0.3	8/16/2022	8/26/2022

From 02.20.28 through 08.26.22. S&P 500 Price return series. We defined a Declining Market as an instance when stocks dropped the specified percentage or more without a recovery of equal magnitude, and an Advancing Market as in instance when stocks appreciated the specified percentage or more without a decline of equal magnitude. SOURCE: Kovitz using data from Bloomberg, Morningstar and Ibbotson Associates

LONG-TERM RETURNS

	Annualized Return	Standard Deviation
Value Stocks	13.2%	25.9%
Growth Stocks	9.6%	21.4%
Dividend Paying Stocks	10.7%	18.0%
Non-Dividend Paying Stocks	9.0%	29.3%
Long-Term Gov't Bonds	5.3%	8.6%
Intermediate Gov't Bonds	4.9%	4.4%
Treasury Bills	3.2%	0.9%
Inflation	3.0%	1.8%

From 06.30.27 through 04.30.22. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Dividend payers = 30% top of Fama-French dividend payers, 40% of middle Fama-French dividend payers, and 30% bottom of Fama-French dividend payers rebalanced monthly. Non-dividend payers = Fama-French stocks that do not pay a dividend. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

…but we think that stocks in general continue to be reasonably priced,…

THE PRUDENT SPECULATOR

INTEREST RATES STILL SUPPORTIVE OF STOCKS

The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. Though many dismiss the Fed Model, investing is always a choice of this or that, and we like today's rich (and rising) earnings yield (5.04% vs. 3.04% 10-Year) and S&P 500 dividend yield of 1.61%.

…while we like that our portfolios sport much less expensive valuation metrics and much greater dividend yields than the overall market.

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	12.1	11.0	0.9	2.2	2.8
ValuePlus	12.6	11.4	1.2	2.3	2.3
Dividend Income	11.7	11.1	0.8	2.1	3.2
Focused Dividend Income	13.1	12.2	1.1	2.5	2.7
Focused ValuePlus	12.7	12.3	1.3	2.5	2.6
Small-Mid Dividend Value	10.2	9.6	0.5	1.6	3.0
Russell 3000	21.3	18.4	2.2	3.8	1.6
Russell 3000 Growth	30.7	25.1	3.4	9.8	0.9
Russell 3000 Value	16.1	14.3	1.6	2.3	2.2
Russell 1000	20.4	18.2	2.3	3.9	1.6
Russell 1000 Growth	28.9	25.0	3.7	10.2	1.0
Russell 1000 Value	15.7	14.1	1.7	2.4	2.2
S&P 500 Index	19.8	17.9	2.4	4.1	1.6
S&P 500 Growth Index	24.2	22.1	4.4	7.5	0.9
S&P 500 Value Index	16.9	15.1	1.7	2.8	2.3
S&P 500 Pure Value Index	10.5	9.6	0.7	1.5	2.6

As of 08.27.22. 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 several of our stocks that posted quarterly results last week or had other market-moving developments.

High-end department store **Nordstrom** (JWN – $18.04) earned $0.81 per share in fiscal Q2 2023 (vs. $0.80 est.) on sales of $3.99 billion, compared to the estimate of $3.90 billion. Alas, the solid quarter was overshadowed by a negative revision to guidance for the back half of the year, causing shares to plunge by 20% in Wednesday's trading session.

CEO Erik Nordstrom explained, "Compared to the first two months of the quarter, July sales decelerated nine percentage points in the Rack banner. Across both banners [Nordstrom and Nordstrom Rack], the softening trend was more significant in customer segments with the lowest income profiles, while we saw greater resilience in the higher income segments. For example, in the Nordstrom banner, items with lower AURs underperformed higher AURs. Within our designer business, higher-priced luxury products significantly outperformed lower-priced product. Customers sought newness and responded very positively to the fall assortment overall but were less responsive to our private label product and clearance items. Taking all this into account, we are updating our 2022 financial outlook to reflect the deceleration at the end of the quarter as well as anticipated margin pressure from clearing through excess inventory."

Mr. Nordstrom continued, "Though we face uncertainty as the consumer shifts, we have a seasoned team that has successfully managed through a range of business cycles. We have continued to build on our legacy of being a market leader in customer service that is always a result of our teams putting the customer at the center of everything we do. We are fortunate to have so many people with us who truly care about the customer. We have a strong balance sheet and cash position. And through investments in our Closer to You strategy and digital assets, we are well-positioned to capture pockets of demand. We are taking the necessary steps to navigate the short term while also continuing to invest in capabilities to better serve our customers, drive long-term profitable growth and increase shareholder value."

CFO Anne Bramann commented, "Nordstrom banner sales and GMV grew 15% with sales exceeding pre-pandemic levels. Nordstrom Rack sales increased 6% in the second quarter. Digital sales increased 6% and represented 38% of total sales during the quarter. Gross profit as a percentage of net sales increased 65 basis points, primarily due to leverage on buying and occupancy costs, partially offset by higher markdown rates on clearance product. Ending inventory increased 10% versus a 12% increase in sales…Since last year, we've been making progress on our supply chain optimization initiatives to provide offsets to labor and fulfillment cost pressure. We expect that these initiatives will deliver more significant benefits in the second half of the year."

Ms. Bramann offered the outlook, "In the first quarter, we were encouraged by the momentum in our business as customers updated their wardrobes and prepared for occasions. As we described on our Q1 call, we had not seen an adverse impact on customer spending from inflationary pressures. That continued until late June when demand began to soften, predominantly at Nordstrom Rack and in our lowest income customer segments. We reacted quickly to the shift by managing expenses and aligning staffing schedules…we are updating our 2022 financial outlook to reflect deceleration at the end of the second quarter, reduced topline growth expectations for Nordstrom Rack and increased markdown pressure. For fiscal year 2022, we now expect revenue growth of 5% to 7% versus 2021, supported by high single-digit sales growth in the Nordstrom banner…Our revised outlook reflects approximately $200 million of incremental markdown impacts in the second half relative to our previous outlook. Despite our lower sales outlook, our SG&A leverage assumptions for the year remain unchanged. Though we are facing inflationary expense pressures, we contemplated that pressure in our outlook at the beginning of the year along with the offsetting benefits of our supply chain optimization initiatives."

Ms. Bramann added, "At the beginning of the year, we expected that third quarter year-over-year sales growth would decelerate versus the second quarter, given tougher prior year comparisons and the Anniversary Sales shift. Due to the demand deceleration we saw in the latter part of the second quarter, we now expect a mid-single-digit decrease in revenue in the third quarter versus the prior year. Our projections include the impact of 1 week of our Anniversary Sales shifting out of the third quarter, which reduces revenue growth by approximately 200 basis points."

Nordstrom's top three priorities remain: 1) invest in the business, 2) reduce the leverage ratio, dropping from 2.9x to 2.5x over the long-term and 3) return cash to shareholders. JWN's management team remains committed to its quarterly dividend, which it resumed paying earlier this year after pausing payments during the pandemic.

We think JWN's Q2 result was decent. The lack of a slowdown in spending on high-end goods was unsurprising, as was the upcoming inventory clear-out (given other retailers reporting the same liquidations). Unlike **Target** (TGT – $160.62), which had the wrong type of inventory and now needs to unload it, JWN seems to have had the right type of inventory, but it skewed towards the wrong demographic (Rack shopper vs. Nordstrom department store shopper). Of course, it's impossible to say for certain that JWN management would have been able to get the upper-end inventory to sell, even if they had ordered in appropriate amounts. Certainly, judging by the 20% price whack, traders didn't expect the impact to amount to $200 million.

Plus, the Rack comments weren't great, especially when investors have heard concerns elsewhere about the financial health of lower-income consumers. The back half of the year might not impress, but we are sticking with our JWN position (and, of course, we are happy to have made trims around $37 and $40 in January 2021). The valuation remains very reasonable at 7.5 times forward earnings expectations, long-term net income can grow and the company always seems like a good candidate to be taken private. Our Target Price for JWN, which now has a dividend yield of 4.2%, is $39.

Medtronic PLC (MDT – $89.43) earned $1.13 per share in fiscal Q1, barely edging out the consensus estimate of $1.12, even as sales across all of the medical device maker's business segments fell year-over-year. Supply issues, particularly for plastic packaging materials, were cited as a major headwind and the company expects semiconductor supply challenges to linger through year-end. On the demand side, procedure volumes remain soft due to COVID in some markets, but management kept its fiscal 2023 revenue and earnings forecast the same, projecting organic top-line growth between 4% and 5% and adjusted EPS in the range of $5.53 to $5.65.

Medtronic says it has experienced growth in the user base of its MiniMed 780G insulin pump outside the U.S., but continues to work with the FDA on the recall of the MiniMed 600 series model before it can expect approval for the 780G stateside. CEO Geoffrey Martha said, "We're in active dialogue with the FDA on our regulatory submission for the MiniMed 780G with the Guardian 4 sensor and we remain focused on resolving our warning letter. We're making good progress on our warning letter commitments. We've completed more than 90% of the actions we committed to the FDA. This represents substantial progress toward resolving the warning letter and preparing for reinspection. In our CGM pipeline, we submitted our next-generation sensor, Simplera for CE Mark. Simplera is disposable. It's easier to apply, and it's half the size of Guardian 4. The Simplera file is ready to submit to the U.S. FDA, and we're waiting to submit it as we're prioritizing the 780G Guardian 4 review."

Mr. Martha also mentioned several innovative technologies in the company's pipeline, referencing over 200 regulatory approvals in the U.S., Europe, Japan and China over the past 12 months. These include new transcatheter valves, which purportedly enhance ease of use and provide implanters with greater precision and control during the procedure, while maintaining the durability benefits of the previous platform. Medtronic is also working to develop neuromodulation technologies to treat chronic pain.

We remain patient while Medtronic takes measures to sort through regulatory and supply chain hurdles alike, which include co-location of employees with suppliers and sourcing materials from sub-tier suppliers to remove middlemen. We still think very highly of MDT's terrific products for acute procedures and pipeline for a variety of chronic diseases, and we believe that the competitive position in the med-tech space remains intact. Falling over 30% over the past year, we find shares of high-quality MDT attractive with a forward P/E ratio of 16, well below the historical norm. The dividend yield is 3.0% as our Target Price is now $136.

Shares of **Dick's Sporting Goods** (DKS – $106.74) fell almost 4% last week, despite the company reporting a better-than-expected fiscal Q2 2023 that included a full-year outlook that was more upbeat than expected. Despite the solid print, DKS shares retreated Friday in the Jackson-Hole-inspired market rout.

The sporting goods retailer posted adjusted EPS for the quarter of $3.68, versus the consensus analyst estimate of $3.59. Revenue of $3.11 billion also came in slightly better than forecasts. The quarter saw outperformance in footwear, team sports and golf while apparel was challenged given a delay in spring shipments.

Executive Chairman Ed Stack commented, "Our second quarter performance demonstrates the strength of our core strategies and the foundational improvements we have made across our business over the past five years. In fact, we delivered approximately the same EBT in Q2 as we did in all of fiscal 2019. The state of our industry is strong, and we remain in a great lane. DICK'S is the clear market leader, and as a result of our transformation, we are well-positioned to extend our lead and deliver long-term sales and earnings growth."

DKS CEO Lauren Hobart added, "We are very pleased with our second quarter results, and with our sales up 38% versus Q2 2019, the DICK'S Sporting Goods consumer has held up quite well. Our inventory is healthy and well positioned, and we are excited about our assortment for the back-to-school season. We are raising our full year 2022 outlook, which continues to incorporate an appropriate level of caution given today's uncertain macroeconomic environment."

Management raised the company's full-year adjusted EPS outlook to between $10.00 and $12.00, versus previously offered guidance of $9.15 to $11.70.

While the economy is definitely slowing and there are plenty of near-term concerns for investors, we are optimistic on the long-term potential of Dick's. We like that DKS is the largest pure sporting goods chain in the U.S., with limited competition in many of its markets, while it has a strong position in high school and youth sports as well as a large and popular loyalty program. Long term, we like that the company has materially improved its omnichannel execution, with digital sales continuing to rise at a nice clip, while Dick's has a differentiated set of offerings across brands, price points and categories. We see multiple drivers for growth, including national brands consolidating wholesale partners and appealing new store formats. While shares have jumped in price since our recent initial recommendation a few months ago, they are still more than 25% off of the twelve-month high. DKS boasts a forward P/E of just above 9 and a 1.8% yield. Our Target Price has been lifted to $132.

NetApp (NTAP – $74.96) reported a terrific fiscal Q1-2023 and raised some parts of the company's guidance for the full year. In the first quarter, the sorateg and data management services concern earned $1.20 per share (vs. $1.11 est.) and had revenue just shy of $1.60 billion, compared to the consensus estimate of $1.55 billion. NetApp's record-setting billings were the result of strong broad-based demand, organizational interest in hybrid cloud environments and growing needs for storage systems.

CEO George Kurian commented, "The urgency to address these priorities increased with the COVID pandemic and is further driven by the turbulent macro economy. Customers are searching for ways to reduce costs, improve flexibility, increase automation and accelerate application delivery in the Public Cloud, in their own data centers and in Hybrid Cloud environments. Our role in helping organizations achieve these transformation goals underpins our strategy and confidence in future growth."

Mr. Kurian continued, "Despite the uncertain macro, the enterprise spending environment has remained steady, driven by priority investments in digital and cloud transformation. Organizations around the globe want to learn how NetApp can increase the performance and reliability of these transformational projects, while helping reduce cost, risk and complexity. Our ability to address a broad range of customer problems while also optimizing cloud and IT investments makes NetApp more resilient to a potential further slowdown than many of our peers."

Looking ahead, CFO Mike Berry said, "During Q1, we repurchased $350 million in stock and paid out $110 million in cash dividends. In total, we returned $460 million to shareholders, representing 213% of free cash flow. We closed Q1 with $3.4 billion in cash and short-term investment… We are cautiously optimistic that supply constraints will ease further in the second half of our fiscal year, reducing our dependence on recurring parts at significant premiums. We should also start to see a benefit from declining prices for our hardware components. While the timing is uncertain, we remain confident that our structural product margins will normalize back to the mid-50s in the fullness of time. Despite the incremental currency headwinds, we remain committed to driving operating margin of 23% to 24% and EPS of $5.40 to $5.60 for the full year…We continue to expect to generate greater than $1.4 billion in operating cash flow and $1.1 billion in free cash flow for the full year…We expect Q2 net revenues to range between $1.595 billion and $1.745 billion, which at the midpoint implies a 7% increase year-over-year, including 4 points of currency headwinds. We expect consolidated gross margin to range between 66% and 67% and operating margin to be approximately 23%. We anticipate our tax rate to be between 21% and 22%. And we expect earnings per share for Q2 to range between $1.28 and $1.38 per share."

While the adjusted EPS range remains in the same \$5.40 to \$5.60 range, the range for the standardized GAAP EPS estimates grew from \$3.96-\$4.16 to \$4.09-\$4.29. Management comments indicate exchange rate and macroeconomic headwinds are expected to stick around a while longer, but with a larger impact on the NTAP's financial presentations than on actual customer dynamics. We continue to like NTAP's exposure to the secular growth of public cloud and its history of returning cash to shareholders. The dividend has been increased at a rapid rate since initiation (in 2013) and with the 17% dip this year, the stock now yields 2.7%, while the company's balance sheet shows the ability to hike the payout in the future. Our Target Price is presently \$105.

In an ugly market day overall, shares of **3M** (MMM – \$129.14) sank almost 10% on Friday as the United States Bankruptcy Court in the Southern District of Indiana declined Aearo Technologies (one of the conglomerate's subsidiaries) request for a preliminary injunction to ongoing litigation against 3M related to Combat Arms Earplug Version 2 products. The company had put Aearo, which it purchased in 2008 for about \$1 billion, into bankruptcy to stay additional litigation claims against itself. The move is not too dissimilar from actions taken by other major corporations in recent years over lawsuits related to matters ranging from the opioid epidemic to asbestos-related talc products.

In a press release, the company said, "Aearo Technologies and 3M disagree with the ruling and Aearo intends to appeal the decision. Aearo will continue in the chapter 11 proceedings, which it believes will offer a more efficient, equitable and expeditious pathway to resolution of these matters for all parties. 3M also will continue to vigorously defend its position in the multi-district litigation and in its appeals in that litigation."

Lawsuits have weighed heavily on the stock in recent years, even as the pandemic lifted its sales, particularly of safety equipment products like masks. Legal issues such as these are admittedly tough for us to handicap, but we are of the view that the parties in the earplug case will eventually reach a settlement as opposed to waiting potentially many years to reach an outcome. To be sure, there are outside legal professionals and observers who have argued both in favor and against 3M's latest legal maneuver, dubbed the "Texas Two-Step," after a similar move by **Johnson & Johnson** (JNJ – \$ 164.27).

Aside from litigation, we think 3M is moving in a positive direction to refine its edge in the industrial space, which includes spinning off its healthcare division to be merged with Neogen. The transaction is scheduled to complete September 1, with 3M shareholders owning greater than 50% of the new entity. Although the aforementioned obstacles will assuredly affect the bottom line, we aren't overly concerned about the company's ability to pay the dividend, where the yield is now 4.6%. And with the wallop on Friday, shares are off a third over the past year. Now trading for 12 times estimated earnings, we still find MMM attractive even as we have lowered our Target Price to \$203.