Market Commentary Monday, September 12, 2022

September 12, 2022

EXECUTIVE SUMMARY

Newsletter Portfolio Trades – 6 Buys for 3 Accounts
Market Week – Interest Rates Continue to Rise but Equities Enjoy Sizable Rebound
Fed – Hawkish Statements; More Rate Hikes Expected
Market Gyrations – Very Difficult to Explain Short-Term Movements
Sentiment – Be Greedy When Others are Fearful
Volatility – Ups and Downs, But Stocks Have Proved Rewarding
Miracle of Compounding – Substantial Growth Can Occur Over Time
Patience – The Longer the Hold the Less the Chance of Loss
Valuations – Liking the Metrics on our Portfolios
Econ News – Solid Statistics Suggest U.S. GDP Growth Likely
Inflation & History – Value the Place to Be
Stock News – Updates on AAPL, KR, CVS, VWAGY, EOG, GBX & Banks

Market Review

As discussed in the September edition of *The Prudent Speculator*, we bought the following for Buckingham Portfolio on Wednesday, September 7:

49 **EnerSys** (ENS – $65.22) at $60.77
17 **Alexandria Real Estate** (ARE – $158.84) at $153.08

In addition, we added the following to our two hypothetical accounts, also on Wednesday, September 7:

Millennium Portfolio:
9 **Elevance Health** (ELV – $493.60) at $476.91
51 **Walt Disney** (DIS – $115.18) at $109.87

PruFolio
Buy 622 **Kohl's** (KSS – $30.71) at $28.10
Buy 95 **Kroger** (KR – $51.94) at $48.72

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In case readers were wondering, stocks enjoyed one of their better weeks last week,…

THE PRUDENT SPECULATOR

TERRIFIC REBOUND: S&P 500 BOUNCES BACK

Not so rare are nice one-week rallies of more than 3.6% for the S&P 500, as the popular market gauge regained 3.65% over the last four trading days, the 237th best weekly showing since 1928.

Up > 3.64%

	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	2	0	5	2	2	7	2	6	29
Years Ending in 1		10	2	0	0	1	2	3	4	7	2	31
Years Ending in 2		18	2	0	2	0	6	0	5	1	5	39
Years Ending in 3		15	1	0	1	2	2	0	2	1		24
Years Ending in 4		7	1	0	0	4	2	0	0	1		15
Years Ending in 5		5	0	1	0	4	0	0	0	0		10
Years Ending in 6		2	2	1	2	1	3	3	0	1		15
Years Ending in 7		5	0	0	0	1	3	4	0	0		13
Years Ending in 8	2	14	1	0	0	1	3	4	6	2		33
Years Ending in 9	5	5	0	0	0	0	1	8	8	1		28
Totals	7	83	10	4	5	19	24	24	32	16	13	237

From 1.31.28 through 9.9.22. Weeks of index price increases of greater than or equal to 3.64%. SOURCE: Kovitz using data from Bloomberg

Down < 3.64%

	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		13	5	2	0	3	2	3	5	6	5	44
Years Ending in 1		19	3	1	0	0	2	0	6	6	0	37
Years Ending in 2		18	1	0	4	0	2	0	5	1	4	35
Years Ending in 3		11	1	0	1	6	1	0	2	0		22
Years Ending in 4		8	0	0	0	12	1	0	0	0		21
Years Ending in 5		2	0	2	0	2	0	0	0	2		8
Years Ending in 6		3	5	1	3	0	3	0	0	1		16
Years Ending in 7		10	2	1	0	0	4	0	4	0		21
Years Ending in 8	1	11	2	0	0	2	1	5	9	8		39
Years Ending in 9	10	6	0	0	1	1	1	3	8	0		30
Totals	11	101	19	7	9	26	17	11	39	24	9	273

From 1.31.28 through 9.9.22. Weeks of index price decreases of greater than or equal to 3.64%. SOURCE: Kovitz using data from Bloomberg

…as investors digested rising interest rates,…

THE PRUDENT SPECULATOR

BENCHMARK TREASURY YIELD RISES AGAIN ON HAWKISH FED

Given the tough talk on inflation from Jerome H. Powell & Co. as well as the continuation of solid economic stats, government bond market players continued to dump U.S. Treasuries last week, sending the yield on the benchmark 10-year bond up 12 basis points.

…which just happened to be the same rationale the financial press offered the week prior when equities stumbled in price and the yield on the 10-year U.S. Treasury moved up from 3.04% to 3.19% as opposed to last week's increase from 3.19% to 3.31%.

Of course, as students of market history well understand, about the only conclusion that can be drawn from higher government bond yields is that they are not good for government bond prices,…

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.

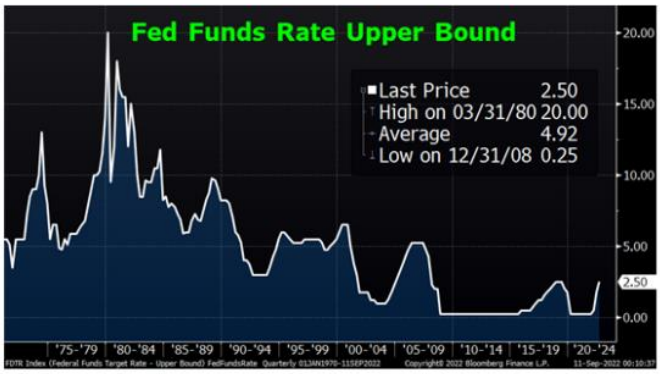
…but we realize that the media is compelled to try to explain the daily gyrations, with a prominent strategist vividly illustrating that it is a fool's errand. Looking at Thursday's handsome equity rally, this fellow proclaimed, "Traders were initially caught off guard by how firm the Fed's position remains on fighting inflation. But once investors realized that he [Fed Chair Jerome H. Powell] wasn't really saying anything different than what he had said before, the markets swung back."

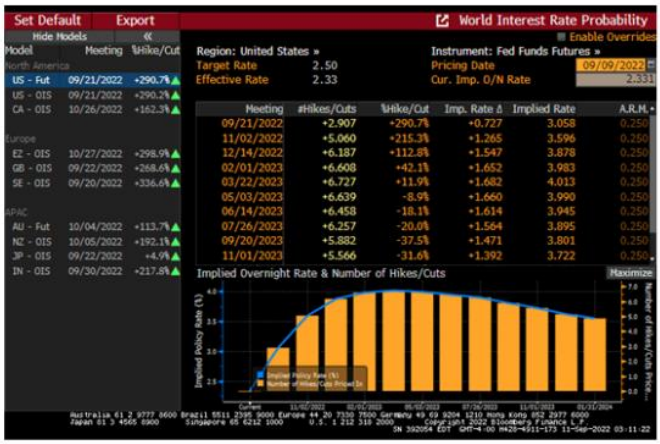
Never mind that interest rates moved higher following Mr. Powell's assertion that day: "It is very much our view, and my view, that we need to act now forthrightly, strongly, as we have been doing, and we need to keep at it until the job is done," or that the fed funds rate futures showed a faster pace of rate hikes over the balance of 2022 than they did a week ago.

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 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.





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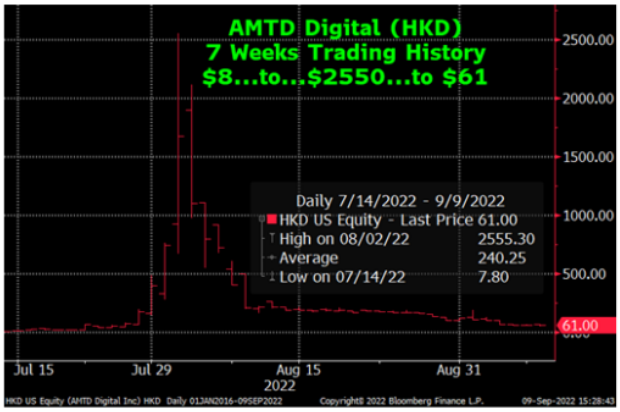
Obviously, stock prices move up and down based on many factors and sometimes they soar and plunge for no apparent reason, aside from simply more buyers than sellers or more sellers than buyers.

Warren Buffett states, "If a business does well, the stock will eventually follow," and those who have patiently held a broad basket of undervalued equities generally have grown wealthy in the fullness of time. Unfortunately, some folks lack patience and opt to try to get rich quick via questionable wagers on stocks not supported by fundamental valuation metrics. Sadly, these often crash and burn as has been the case thus far with recent China/Hong Kong-based IPOs such as textile printer Addentax (ATXG), digital financial services provider AMTD Digital (HKD) and financial services concern Magic Empire (MEGL).



The trick, of course, is to not let emotions get in the way of one's long-term investment plan, as we witnessed once again last week that the only problem with market timing is getting the timing right. Certainly, three days does not a trend make, but *Bloomberg* reported mid-week, "Seasoned investors, staring at a world clouded by war, inflation and economic uncertainty, are buying catastrophe insurance at a record clip. Institutional traders paid a total of $8.1 billion to initiate purchases of equity puts last week, the highest premium in at least 22 years."

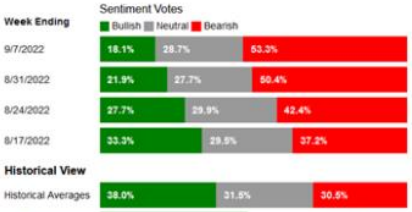
Sounds ominous, but as one pundit opined, "They have sometimes shown an uncanny ability to buy or sell ahead of significant events in a very short time frame. But the data is too limited to suggest that something is necessarily coming down the pike in the next week or two. More compelling evidence suggests the record put buying is a sign of panic, which has a good track record of preceding rising stock prices over the medium- to long-term."

Happily, for those of us who are contrarians, the professional investor fear is echoed in spades by Main Street. Incredibly, the good folks at AAII are presently exhibiting near-record levels of Bearishness,…

THE PRUDENT SPECULATOR

MAJOR CONTRARIAN BUY SIGNAL: SUPER PESSIMISTIC AAII SENTIMENT

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



BULL-BEAR SPREAD TRENDS:

Previous Week	1 Month Ago	3 Months Ago	6 Months Ago
-28	-4	-41	4
Greedy	Neutral	Greedy	Neutral

AAII Bulls & Russell 3000 Forward TR

Date	Bulls	1W RET	1M RET	3M RET	6M RET
11/15/1990	12.0	-0.4%	3.6%	18.4%	20.1%
10/6/1988	13.0	0.7%	1.1%	3.2%	9.9%
3/9/1989	13.0	1.7%	1.3%	12.2%	19.9%
9/20/1990	13.0	-3.7%	-0.5%	6.9%	21.5%
10/18/1990	13.0	1.5%	4.5%	10.1%	32.1%
9/3/1992	14.0	0.5%	-1.5%	5.2%	10.7%
2/1/1990	15.0	1.7%	1.9%	1.9%	8.8%
10/4/1990	15.0	-5.5%	-0.5%	4.3%	26.2%
4/14/2022	15.8	-0.2%	-8.8%	-14.0%	
7/21/1988	16.0	-0.3%	-1.9%	6.1%	8.2%
9/13/1990	16.0	-2.3%	-6.4%	4.1%	20.5%
11/22/1990	16.0	0.4%	5.5%	18.1%	23.0%
12/20/1990	16.0	-0.3%	0.6%	13.7%	17.2%
4/28/2022	16.4	-3.3%	-3.0%	-4.8%	
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%
9/8/2022	18.1				
24 Period Average		-0.6%	0.3%	5.9%	16.0%
All Periods Average		0.2%	0.9%	2.7%	5.7%

Source: American Association of Indivdual 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%
6/23/2022	-41.1	-0.4%	4.6%		
8/16/1990	-41.0	-8.0%	-4.6%	-4.4%	13.3%
1/10/2008	-39.3	-6.1%	-5.4%	-3.1%	-9.8%
6/16/2022	-38.9	3.7%	5.5%		
3/13/2008	-38.7	0.7%	1.5%	5.0%	-3.0%
8/30/1990	-38.0	0.5%	-4.4%	1.4%	19.1%
2/20/2003	-36.8	0.2%	4.6%	10.9%	22.3%
7/8/2010	-36.1	2.4%	5.0%	9.9%	21.4%
10/15/1992	-36.0	1.4%	4.4%	9.4%	12.4%
4/11/2013	-35.2	-3.4%	2.7%	5.9%	9.1%
9/8/2022	-35.2				
15 Period Average		-0.4%	3.0%	8.8%	18.3%
All Periods Average		0.2%	0.9%	2.7%	5.7%

Source: American Association of Indivdual Investors and Bloomberg

The gauge is widely viewed with a contrarian eye, so the number of AAII Sentiment Survey Bulls coming in at 18.1% is a major equity market buy signal, as it represents the 25th fewest number of optimists in the 35-year history of the weekly gauge. AAII itself understands that its measures are presently showing that it is time to be greedy when others are fearful, as the Bull-Bear Spread stands at -35.2%, the 15th most pessimistic reading in history. The past is no guarantee of the future, but we like what the prior evidence shows for returns over the next three and six months when fear is running rampant.

…with the fact that the only problem with market timing is getting the timing right going a long way toward explaining why few investors, professional or amateur, come close to seeing their long-term returns match those of the major market averages.

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.

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No doubt, it is not easy to keep the faith through thick and thin, so we consistently present data to show that stocks have proved rewarding in the fullness of time, despite the inevitable volatility that must be endured,…

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%	-15.4%	65	159	0.6	8/16/2022	9/6/2022
-5.0%	-10.9%	36	311	0.3	8/16/2022	9/6/2022

From 02.20.28 through 09.06.22. 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

…with the Miracle of Compounding perhaps the most important lesson any investor can learn.

THE PRUDENT SPECULATOR

MIRACLE OF COMPOUNDING: STOCK REWARDS DURING THE QE II REIGN

Reign
of
Queen Elizabeth II
1952 - 2022

While few have a seven-decade time horizon, the growth of $100 invested in equities since the coronation of Queen Elizabeth II in early 1952 has been sensational.

Miracle of Compounding

End of Period	Value Stocks	Growth Stocks	Dividend Payers	Non-Div Payers	Large Caps	Small Caps	Inflation
1951	$100	$100	$100	$100	$100	$100	$100
1952	$114	$111	$115	$110	$118	$103	$101
1954	$182	$162	$174	$156	$179	$155	$101
1956	$242	$212	$238	$186	$251	$194	$104
1958	$337	$290	$312	$243	$321	$274	$109
1961	$484	$414	$460	$290	$458	$407	$113
1971	$1,739	$921	$948	$515	$905	$1,298	$155
1976	$3,102	$880	$1,284	$436	$1,148	$1,803	$220
1981	$7,066	$1,785	$2,136	$1,351	$1,694	$6,379	$355
1986	$22,836	$3,348	$5,298	$1,916	$4,192	$14,178	$417
1991	$37,495	$6,320	$10,616	$3,301	$8,565	$19,751	$520
1996	$99,663	$10,600	$21,688	$6,776	$17,381	$48,062	$598
2001	$221,774	$15,686	$40,930	$9,989	$28,893	$84,024	$667
2006	$420,995	$20,201	$60,172	$13,260	$39,014	$170,210	$762
2011	$323,276	$22,423	$59,526	$14,982	$38,529	$166,037	$852
2016	$736,645	$42,957	$117,182	$31,578	$76,358	$355,038	$911
2021	$1,233,909	$116,292	$255,446	$91,291	$178,267	$563,545	$1,052
Jul ' 22	$1,219,379	$94,516	$237,942	$69,778	$155,842	$508,707	$1,118

Compounded using historical return data from Morningstar and Professor's Eugene F. Fama & Kenneth R. French. Past performance not a guarantee of future performance.

Further, the evidence reveals that patience is critical to achieving success in equities,…

THE PRUDENT SPECULATOR

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

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

PATIENCE IS VIRTUOUS

VALUE STOCKS

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

DIVIDEND PAYERS

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

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

…and that stock picking matters,…

THE PRUDENT SPECULATOR

MARKET OF STOCKS – INDEXES CAN HAVE WIDE DISPERSION IN RETURNS

With Jerome H. Powell's "painful" words at Jackson Hole still the main catalyst, stocks and bonds have been very volatile, with the good kind of volatility happening last week. Of course, the Nasdaq Composite index is still down 22.1% and the U.S. Aggregate Bond index is down 11.6% on the year. There are no awards for the losses on Value in 2022, 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	MARKET OF STOCKS	2.72	-10.16	-5.92	26.00	19.69	81.90	27.62	64.56	Dow Jones Industrial Average	DJITR Index
1.01	-10.21		3.46	-9.87	-6.49	27.76	23.63	83.79	26.22	45.18	New York Stock Exchange Composite	NYA Index
-39.18	-20.81		4.15	-22.14	-19.95	12.62	10.37	79.99	53.66	99.75	Nasdaq Composite Index	CCMP Index
-22.43	-9.23		4.69	-20.38	-22.92	5.32	7.14	70.43	21.48	41.87	Russell 2000 Growth	RU20GRTR Index
22.83	14.02		3.42	-10.58	-7.18	47.69	47.86	115.55	31.86	40.78	Russell 2000 Value	RU20VATR Index
-3.02	2.49		4.07	-15.39	-15.23	25.01	26.20	93.37	28.24	43.48	Russell 2000	RU20INTR Index
-11.75	-20.15		5.69	-22.01	-23.66	4.51	8.07	73.32	27.34	69.09	Russell Midcap Growth Index Total Return	RUMCGRTR Index
19.18	2.33		4.31	-8.77	-3.61	39.70	38.87	113.54	32.11	48.94	Russell Midcap Value Index Total Return	RUMCVATR Index
8.25	-5.62		4.80	-13.46	-11.09	26.40	27.42	100.32	33.21	61.13	Russell Midcap Index Total Return	RUMCINTR Index
-22.42	-19.63		4.11	-20.94	-17.00	15.50	12.28	85.34	51.18	100.62	Russell 3000 Growth	RU30GRTR Index
8.04	-4.33		3.68	-7.28	-2.61	37.69	34.19	92.45	29.50	50.59	Russell 3000 Value	RU30VATR Index
-7.46	-11.46		3.90	-14.47	-10.19	25.97	22.61	90.05	41.76	76.44	Russell 3000	RU30INTR Index
9.64	-0.39		4.27	-9.46	-4.27	39.88	37.21	111.51	43.04	72.69	S&P 500 Equal Weighted	SPXEWTR Index
-9.10	-11.89		3.68	-13.72	-8.10	27.95	23.33	88.99	43.47	80.61	S&P 500	SPXT Index
-22.08	-12.73		4.15	-20.32	-14.65	20.10	15.61	87.95	51.16	99.35	S&P 500 Growth	SPTRSGX Index
6.08	-11.71		3.22	-6.35	-0.92	36.65	32.00	85.82	31.36	57.16	S&P 500 Value	SPTRSVX Index
3.18	1.57		-0.78	-16.54	-18.64	-17.93	-17.84	-10.56	-13.20	-9.17	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index
11.63	8.44		-0.70	-11.56	-12.44	-11.95	-12.37	-7.35	-6.27	1.41	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index

As of 09.09.22. Source Kovitz using data from Bloomberg

…with those worried about elevated valuation metrics today for the major market averages able to put together diversified portfolios of very reasonably priced stocks with generous dividend yields.

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	11.8	11.1	0.8	2.1	3.2
Focused Dividend Income	13.1	12.3	1.1	2.5	2.7
Focused ValuePlus	13.0	12.5	1.3	2.6	2.5
Small-Mid Dividend Value	10.3	9.6	0.5	1.5	3.1
Russell 3000	21.3	18.4	2.2	3.8	1.6
Russell 3000 Growth	30.7	25.1	3.4	9.9	1.0
Russell 3000 Value	16.2	14.4	1.6	2.3	2.2
Russell 1000	20.5	18.2	2.3	4.0	1.6
Russell 1000 Growth	28.9	24.9	3.7	10.2	1.0
Russell 1000 Value	15.7	14.2	1.7	2.4	2.2
S&P 500 Index	19.8	18.0	2.4	4.1	1.6
S&P 500 Growth Index	24.2	22.2	4.4	7.5	0.9
S&P 500 Value Index	16.9	15.2	1.7	2.8	2.3
S&P 500 Pure Value Index	10.5	9.6	0.7	1.5	2.6

As of 09.10.22. 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.

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Of course, we also believe that the downturn we have seen in the equity markets this year discounts far worse news on the economic front than what the current statistics are showing. True, the odds of recession remain at 50%,…

THE PRUDENT SPECULATOR

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

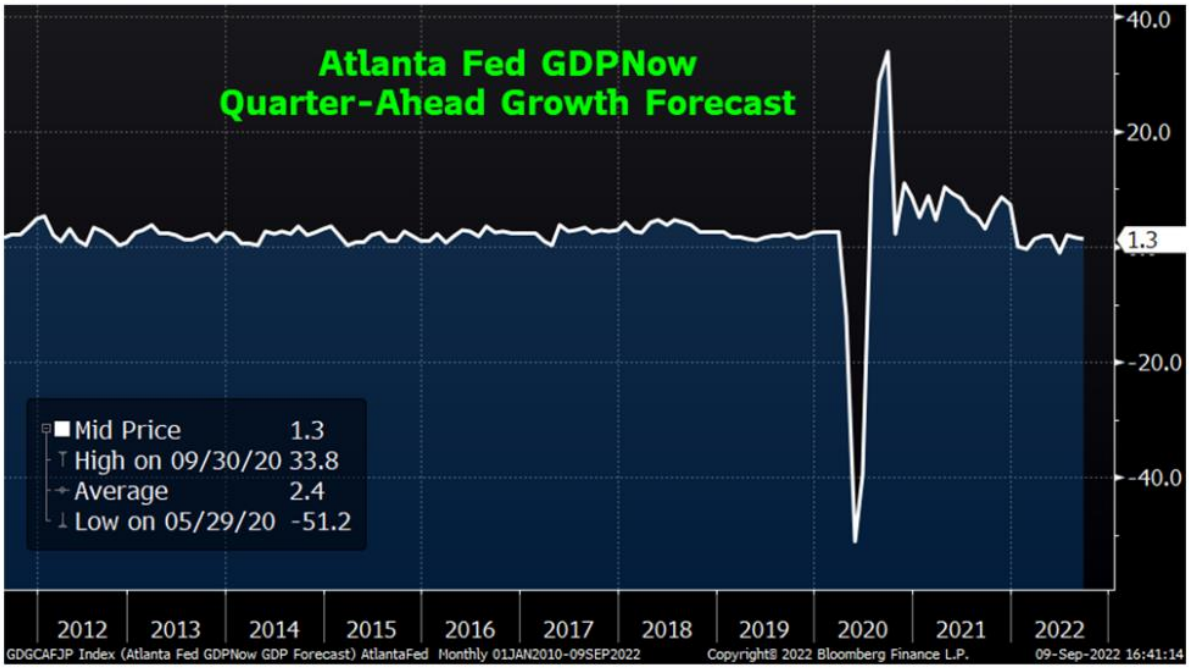
The respective 1.6% and 0.6% contractions in Q1 and Q2 2022 real (inflation-adjusted) GDP means economists could say that the U.S. economy is in recession, but the odds of an official declaration stand today at 50%, meaning the consensus forecast is split down the middle.

…but the present Q3 prognosis is calling for real (inflation-adjusted) U.S. GDP growth,…

THE PRUDENT SPECULATOR

Q3 U.S. REAL GDP GROWTH PROJECTION RETREATS TO 1.3%

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 September 9 stood at 1.3%.



…which is supported by the latest readings on the state of the services sector,…

THE PRUDENT SPECULATOR

ISM NON-MANUFACTURING RISES: 2.5% ANNUALIZED GDP GROWTH

Supply-chain conditions improving somewhat, the latest read on the health of the service sector inched up to 56.9 in August. The figure was better than expected, up from July's tally and above average, suggesting a still-healthy non-manufacturing economy. The Institute for Supply Management stated, "The past relationship between the Services PMI and the overall economy...corresponds to a 2.5% increase in real gross domestic product (GDP) on an annualized basis."

…and the manufacturing sector,…

THE PRUDENT SPECULATOR

ISM MANUFACTURING FALLS: 1.4% ANNUALIZED GDP GROWTH SUGGESTED

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

…not to mention the health of the labor market.

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 September 3 were a seasonally adjusted 222,000, down from a revised 228,000 the week prior. Continuing claims filed through state programs inched up to 1.47 million but are near the lowest level since 1969 as businesses continue to hold onto workers with labor so difficult to obtain.

To be sure, there are plenty of headwinds facing the economy, and there is no assurance that the lows for the year have been put in, so we remain braced for downside volatility. That said, we believe that corporate profits will continue to hold up,…

THE PRUDENT SPECULATOR

Q3 AND 2022 AND 2023 EARNINGS GROWTH STILL THE ESTIMATE

Q2 earnings generally were good, especially as Berkshire Hathaway's massive $66.9 billion unrealized investment loss skewed the overall S&P 500 EPS number sharply lower by $4.74 and it is likely to skew it higher in Q3. Corporate outlooks generally were subdued and stock prices sometimes reacted negatively, but earnings historically have grown over time, even as analysts are often too rosy in their estimates.

Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2023	$62.84	$240.68
9/30/2023	$60.96	$235.62
6/30/2023	$59.62	$230.41
3/31/2023	$57.26	$217.66
12/31/2022	$57.78	$209.76
9/30/2022	$55.75	$208.71
6/30/2022	$46.87	$204.98
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 9.8.22

…while we remember how the Federal Reserve's last victory over inflation turned out for Value stocks,…

THE PRUDENT SPECULATOR

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

…and how the supposed Fed defeat in the years prior to that ended up!

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.

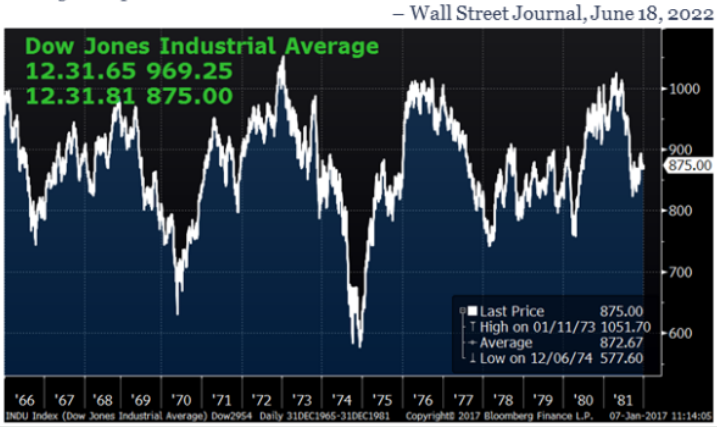
Corporate earnings, after inflation, shrank 15%, according to data from Yale University economist Robert Shiller.

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

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 news out worthy of mention.

No major surprises came from Wednesday's big **Apple** (AAPL – $157.37) product event. Leaks suggesting revamped AirPod Pro headphones, a new batch of flagship iPhones and an update to the Apple Watch family all turned out to be accurate. Apple's iPhone 14 models include new cameras, satellite SOS connectivity and a brighter flash. The iPhone 14 Pro model adds an always-on feature, a redesigned notch, a screen with a higher refresh rate and faster internals. Apple Watch Series 8 and Ultra models may include features like a larger display option, wider operating temperatures, a night mode and better communication features.

CEO Tim Cook commented, “Apple Watch Series 8 equipped with best-in-class health features and crash detection continue to make Apple Watch the gold standard for Smart Watches, the new Apple Watch SE brings all the core features of Apple Watch to even more users and the remarkable Apple Watch Ultra an entirely new category of Apple Watch with its rugged design long battery life and breakthrough technologies is been both capable watch ever. The new AirPods Pro deliver an even better audio experience, including improved active noise cancellation, personalized spatial audio and longer battery life. IPhone 14 and iPhone 14 Plus with a larger 6.7-inch display are full of innovations, including a fantastic new camera system and a new front camera with auto focus iPhone 14 Pro and iPhone 14 Pro Max, the best iPhones we’ve ever created with a new way to experience iPhone as well as the industry-leading A16 Bionic Always On display and powerful new camera technologies.”

Mr. Cook continued, “We’re continuing to build more safety features into iPhone with crash detection and for the first time, the ability to communicate via satellite, delivering the emergency SoS service. These incredible products each offer so many great capabilities and work seamlessly together in a way that only Apple can deliver. Making products that are so personal an indispensable is what drives us to continue innovating improving on what our already best-in-class experiences. I’m proud of all the teams and hard work that went into making today’s announcements possible and I’m excited to see all of the amazing things you will do with these new products.”

The product refreshes did little to move the stock, and we think the upgrades will do little to sway folks who have recently updated their devices to buy new ones. However, product cycles have lengthened, and carrier promotions might nudge those who have gone three years or more into a new handset. Apple seems to have sufficient supply of its new handsets. iPhone 14 models went on sale on Friday and are available to purchase in store (or delivered, if shipped) on 9/16. AirPod Pro 2’s will be available on 9/23. The Apple Watches are available to purchase immediately, but delivery dates seem to be running between the end of the month and first two weeks of October, depending on the model.

We remain comfortable with our oversized Apple position given the growth opportunities, tremendous ecosystem and balance-sheet strength. Our Target Price is $187.

Kroger (KR – $51.94) said that it earned an adjusted $0.90 per share in Q2, beating the $0.82 expected by analysts, as overall sales grew 9.3% year-over-year to $34.6 billion. KR reported that customers attempted to offset the impact of inflation by adjusting purchasing habits, including using more coupons (750 million digital offers were downloaded), redeeming fuel rewards, cooking from scratch and eating out less.

CEO Rodney McMullen commented, “Kroger delivered another strong second quarter. We continue to delight our customers, strengthen our business model and execute on our strategy of Leading With Fresh and Accelerating With Digital. We remain focused on delivering for our associates, customers and communities. And when we do that well, deliver value for our shareholders.”

CFO Gary Millerchip discussed Kroger's use of cash, "We continue to prioritize capital investments that support our go-to-market strategy and see many opportunities to drive future growth. As we updated in our guidance today, we now expect our range for capital investments for 2022 to be between $3.4 billion and $3.6 billion as various initiatives have been delayed due to supply constraints. Earlier this quarter, we raised our quarterly dividend by 24%, reflecting our confidence in our long-range plans and our ability to continue to generate strong free cash flow. The quarterly dividend has grown at a 14% compounded annual growth rate since being reinstated in 2006. And this marks the 16th consecutive year of dividend increases. During the quarter, we also repurchased $309 million of shares and year-to-date, have repurchased $975 million of shares. Earlier today, our Board of Directors authorized a new $1 billion share repurchase program."

Mr. Millerchip closed, "The Kroger team's consistent execution in our go-to-market strategy is building momentum in our business, which combined with sustained food-at-home trends gives us the confidence to again raise our full year guidance…We have the right go-to-market strategy and are operating from a position of strength. Looking forward, we remain confident in our ability to deliver attractive and sustainable total shareholder returns of 8% to 11% over time."

Management expects full-year comparable revenue to grow between 4.0% and 4.5% and raised its 2023 EPS guidance by $0.10 to between $3.95 and $4.05.

Kroger shares soared 7% on the news, pushing the YTD gain above 16% (including dividends), which we think is an impressive return given that the S&P 500 index is still down double-digits this year and the grocery business historically has had tight margins. Competition is stiff and customers are frugal, but we like that Kroger continues to remake itself and find ways to stand out from the crowd. Kroger has developed a competitive portfolio of house brands, and we appreciate the ballast that the stock has offered our portfolio through rocky times. KR now trades at 13 times NTM adjusted EPS projections and yields 2.0%. Our Target Price has been boosted to $65.

CVS Health (CVS – $102.15) announced last week that it had entered an agreement to purchase Signify Health for approximately $8 billion. The multiple (46 times 2023 estimated earnings) is hefty, but the acquisition moves CVS further down the path of providing end-to-end health care given Signify's 10,000 clinicians focused on making house calls across all 50 states. The target company also has its own proprietary analytics and technology platform that when combined with the other legs of CVS's stool (pharmacy and Aetna Insurance) should have an impact in reducing costs in the firm's care delivery model.

The deal is expected to close in the first half of 2023 and comes less than two months after Amazon announced it was buying primary care chain One Medical in pursuit of its own healthcare ambitions.

CVS CEO Karen Lynch said in a recent interview with Reuters, "We've been very clear about what we were looking for in expanding our health services, either be it primary care, provider enablement or in the home, and Signify Health clearly checks off two boxes: into the home and provider enablement."

Despite the price tag, we note that $8 billion equates to just over half of CVS' typical, annual free cash flow, while management expects the purchase will aid in achieving its double-digit earnings growth objective by 2024. Although the competitive landscape isn't getting any less challenging and there seemingly is always a regulatory cloud in the operational sky, we think there is still plenty of runway ahead to improve access to care using CVS's integrated health care delivery model. While modestly off the high from earlier in the year, shares have played defense for our portfolios yet still trade for a P/E multiple of just 11 times the consensus EPS estimate for 2023. The dividend is 2.2% and our Target Price is $139.

Volkswagen AG (VWAGY – $18.53) firmed up plans to IPO its wholly owned Porsche AG subsidiary, which is the maker of Porsche cars. Volkswagen AG Investor Relations put out a press release on September 5 following up from a February 2022 note that the company was looking to IPO part of its stake in the carmaker. The release said, "[Volkswagen AG will] pursue an initial public offering of the preferred shares Porsche AG with the target to list them on the Regulated Market of the Frankfurt Stock Exchange (Prime Standard) – subject to further capital market developments – at the end of September / beginning of October 2022 ("intention to float") to be completed by the end of the year."

Importantly, the press release stated, "Volkswagen AG would continue to hold Dr. Ing. h.c. F. Porsche AG in its consolidated financial statements by way of full consolidation even after implementation of the intended IPO. The existing industrial and strategic cooperation between Volkswagen AG and Porsche AG would be comprehensively continued after the IPO."

It was music to our ears to hear the proceeds will be returned in part to investors, "In the event of a successful IPO, Volkswagen AG will convene an extraordinary general meeting in December 2022 at which it will propose to its shareholders that a special dividend amounting to 49% of the total gross proceeds from the placement of the preferred shares and the sale of the ordinary shares be distributed to the shareholders at the beginning of 2023." We suspect the balance will be invested in EV-oriented projects.

Valuations for carmakers are all over the map, with Stellantis (fka Fiat Chrysler) trading for 0.2 times 2023 sales projections, Ford and **General Motors** (GM – $41.29) trading at 0.4x, Ferrari trading at 6.4x and Tesla trading at 7.2x. Earnings multiples are similarly spread out. *Barron's* reported an IPO valuation range between 60 billion euros and 85 billion euros, which would give the entire Volkswagen AG company a valuation between 3 billion euros and 27 billion euros. A wide range, no doubt, and one that, in our view, substantially underestimates the value of the non-Porsche AG business. VWAGY shares have been hammered this year, so it's a smaller-than-normal position in our broadly diversified portfolios. We will keep a close eye on Porsche AG trading, and our Target Price for VWAGY is $37.

Shares of **EOG Resources** (EOG – $123.36) have rallied markedly since the July bottom for the energy sector even as spot prices for WTI crude have continued to ease, closing the week at $86.10 per barrel. At an energy & power conference last week, EOG CEO Ezra Yacob mentioned that oil inventory levels were "at or below the 5-year historical average" as demand approaches pre-COVID levels despite continued lockdowns in China and fears of recession. As most major oil and gas producers have remained disciplined, and smaller independent firms find

it more difficult to deal with supply constraints and inflation, much of the increase in supply hitting the market has come from the government's Strategic Petroleum Reserve.

We have always thought very highly of EOG's relentless pursuit of reducing its costs both at the well level and for the company, as this has been a large determinant of its ability to produce industry-leading returns on capital. This mindset, which has also allowed the company to withstand the industry's inevitable ups and downs, was on display in the following comments by Mr. Yacob:

"We what we think about every year is what part of the lifecycle is each of those assets in and how much capital investment can they actually handle to the point where they're getting better every year. Now, in each of those, we could easily throw a lot of rigs and a lot of frac spreads and activity at them. But especially in an inflationary environment like this, you could see how it would be easy to erode returns in each of those plays. And I'm not talking about cash-on-cash returns, just a direct rate of return because it's $83 oil, I think is what it was this morning when I woke up, you can generate some cash and some returns. The challenge becomes on the cost of reserves and that finding cost and what are you doing on your operating cost side. In each of those assets, are you lowering the cost basis of the company for the future or are you increasing it? And that's really where the discipline, the definition of discipline comes for us."

While most major producers are focused on returning capital to shareholders, EOG plans to return 60% of free cash flow inclusive of the base dividend. Mr. Yacob highlighted that he expects production growth for gas to outpace that for oil in the coming year with major reserves recently discovered in South Texas between the Austin Chalk, the Lower Eagle Ford and the Upper Eagle Ford reservoirs and off the east coast of Trinidad. Shares trade for a premium to the peer median at 8 times NTM EPS, although the company's scale, particularly in the Permian, and stability ought to give it an edge with suppliers. On top of the $0.75 base dividend, we think additional special dividends are in the cards and the firm maintains a $5 billion share repurchase authorization. Our Target Price is $159.

Greenbrier Cos (GBX – $29.24) Treasurer and VP of Corporate Finance Justin Roberts spoke at a Global Transportation conference last week to discuss the railcar manufacturing and leasing concern's evolution over past 4+ decades and provide an update on the company. We have previously written favorably of the consolidation within railcar manufacturing in recent years as Greenbrier and one other major player currently represent about 80% of total railcar deliveries in North America. Since the mid-1980s, when Bill Furman co-founded the current iteration of the company, Greenbrier has also expanded to become one of the leading railcar manufacturers in South America and Europe, with operations in Brazil and Poland.

Of course, following an appointment in March, former President Lorie Tekorius officially took the reins from Mr. Furman to become CEO last Thursday. Mr. Furman also relinquished his position as Board Chair as shareholders elected retired four-star Admiral Thomas B. Fargo as Independent Chair of its Board of Directors effective August 31. Mr. Furman will continue to serve as a board member until January 2024, completing 50 years with Greenbrier and its affiliated businesses.

At the conference, Mr. Roberts said, “At this point manufacturing has grown to kind of where it is. It’s stable, it’s a good business and we’re going to turn our attention to the services part of the business, which is maintenance services, management and our leasing business. And we’re going to look to grow that part of the business, it’s going to provide a little more stability, take some of the cyclicality out of the new railcar cycle, and really look to move the company to the next level. It’s going to be more of an evolution than a revolution. I think is what [Lorie Tekorius] said in the past. But a few things are embedded in our DNA and they’re not going to change.”

Ms. Tekorius has a lot on her plate in dealing with the company’s operations in Europe, inflation of input costs and rail service issues in the U.S. But Mr. Roberts said, “North America is where we’re seeing a lot more of the activity. Europe is still I would say I’m in the recovery area, we have seen orders, we have seen our sales pipeline and inquiry activity in Europe increased substantially, but our inquiry activity has been very stable and strong in North America, order activity has been stable, but we are — the tone of some of the conversations has shifted to where customers are saying look industry backlogs out nine months, we’ve got a lot of different factors, some are positive, some are negative, raw material costs are coming down, interest rates are going up, congestion is still an issue. So, people who have the flexibility to wait, might be pushing off a few months and waiting to see how things shape up. But yes, I mean, we’re still taking good orders and expect to have, I think respectable number and a good number in Q4.”

Like a lot of manufacturers facing input cost inflation, GBX shares are off just more than a third in price year-to-date, making us glad we cashed in some of our chips around $46 in February 2021. Admittedly, we are not chartists, but it is hard to ignore the emergence of a pattern over the past decade with shares rising north of $50, then plunging to near or below $30 every two to three years. The company receives little coverage from the analyst community, but 2023 is expected to be a robust year as metals recede and Greenbrier works through its backlog to improve volumes. Europe remains a wild card given the War but raging petrol costs ought to support rail transport over truck. The balance sheet carries a bit more debt than in the past, but we find it bearable as the average maturity is four years out with an average coupon of just 2.9%. Even as the firm has moved further into servicing and leasing of late, manufacturing remains a substantial portion of the pie, and we await more detail around management’s game plan for the future with an investor day planned for early next year. Shares trade for 10 times the 2023 EPS projection and offer a 3.7% dividend yield. Our Target Price is $52.

Comments from The Clearing House conference, which met for the first time in person since 2019, hit the wire last week with the CEO of **Citizens Financial** (CFG – $38.32) hinting that loan demand would take a long time to normalize even while Brian Moynihan of **Bank of America** (BAC – $34.94) continued to talk up the health of U.S. consumers. Multiple crosscurrents and apparent fears of recession have driven the KBW banking index down over 16% year-to-date, broadening the appeal of several of our banks.

Among the hardest hit this year is **Capital One Financial** (COF – $108.32), which trades for just 6 times the 2023 EPS target, having fallen over 30% over the past year. We acknowledge the higher risk that naturally comes with COF predominantly being a card issuer. However, we think punishment of shares over higher marketing spending has been overdone, especially as the bank

increasingly goes after what management has deemed “heavy spender” customers, which it also says have exhibited lower credit loss with higher payment rates on average.

Bank of America’s leading base of consumer deposits also makes it a favored holding. Indeed, the APY on BAC’s savings accounts was less than 10 basis points as of last week. Of course, high rates are available for preferred customers although those often have multiple lines of business and carry significantly higher balances with the bank on average. Fee income from mortgages and investment banking have taken a large hit in 2022, but we expect trading revenue to benefit from market volatility in Q3. Shares trade for 10.9 times NTM EPS estimates and offer a 2.5% dividend yield.

We also continue to like **PNC Financial** (PNC $164.34), which dusted off a familiar playbook with its purchase of BBVA USA branches, a deal remarkably similar to the bank’s successful buy of RBC’s southeastern branch network in 2011. We like the latest acquisition, which was integrated over four months, as it expands PNC’s access to 29 of the top 30 Metropolitan Statistical Areas across the country. Management said in June that momentum for new product sales (particularly within commercial) is on a strong trajectory. With nearly 60% of income from rate spreads and strong credit performance, we find higher interest rates, very low-cost funding and the bank’s strong capital base highly favorable. A 28% drawdown from the high in January leaves shares attractively priced at 11 times NTM EPS estimates and brings the dividend yield to 3.7%.

And on the smaller end, Citizens Financial trades for just 7.5 times the 2023 EPS estimate. Citizens had been on its own buying spree, scooping up $9 billion of deposits from HSBC, acquiring Investors Bancorp and adding a small capital markets firm, JMP Group (not the best timing!) last year. While capital markets activity has hit a snag, we think the moves complement and round out its existing territory in the Northeast, while adding stability through additional fee generation over time. Shares offer a generous dividend yield of over 4%.

The rapid ascent of interest rates will likely take some time for borrowers to stomach given the last two years of nearly free access to capital and as prices have soared. Even as loan demand is questionable in the near-term, current (and rising) rates should support higher net interest margins as deposit costs are often slow to catch up. And yes, credit costs will likely normalize higher, but we think the industry remains well capitalized, with each of 33 banks passing the Federal Reserve’s latest Stress Test in June.