

# Market Commentary Monday, September 19, 2022

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## EXECUTIVE SUMMARY

Market Week – CPI Report Sends Stocks Into a Tailspin

Inflation – Fed Expected to be More Hawkish, But Future Expectations for CPI Retreat

Econ Outlook – Data Remain Mixed

Valuations – Stocks Still Attractive

Fear – Stocks Have Overcome Plenty of Disconcerting Events Over the Years

History – Value the Place to Be When Inflation is High & Before/After Recession

Sentiment – AAI Still Issuing a Contrarian Buy Signal

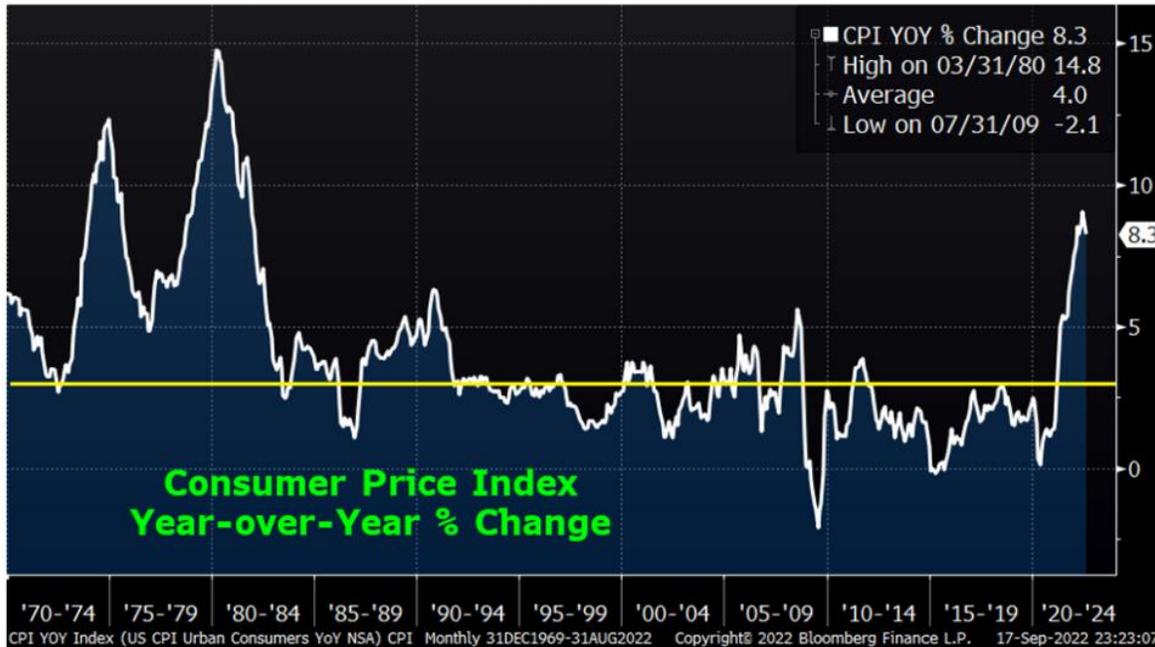
Stock News – Updates on FDX, ORCL, STX, BMY, AMGN, GILD & ALL

## Market Review

After rapidly traversing a steep climb over the four trading days prior to the release of the Consumer Price Index,...



While overall inflation in the U.S. soared by 8.3% in August, the jump in the Consumer Price Index was lower than the 8.5% increase the month prior. However, the so-called core rate, which excludes food and energy, rose by 6.3%, up from 5.9% in July, leading to a sizable Wall Street selloff.



...the equity-market roller-coaster screamed downward on Tuesday,...



Rare are sizable daily setbacks of 4% in the S&P 500, but the popular market gauge skidded 4.32% on a price basis on Sept. 13, 2022, the 127<sup>th</sup> worst daily showing since 1928. Happily, a massive one-day nosedive historically has led to hefty average gains (18.4%, not including dividends) one year later.

|                   | 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 |          | 2         | 4        | 1        | 0        | 0        | 0        | 0        | 1         | 0        | 9         | 17         |
| Years Ending in 1 |          | 6         | 0        | 0        | 0        | 0        | 0        | 0        | 1         | 4        | 0         | 11         |
| Years Ending in 2 |          | 21        | 0        | 0        | 1        | 0        | 0        | 0        | 0         | 0        | 1         | 23         |
| Years Ending in 3 |          | 17        | 0        | 1        | 0        | 0        | 0        | 0        | 0         | 0        |           | 18         |
| Years Ending in 4 |          | 2         | 0        | 0        | 0        | 0        | 0        | 0        | 0         | 0        |           | 2          |
| Years Ending in 5 |          | 0         | 0        | 1        | 0        | 0        | 0        | 0        | 0         | 0        |           | 1          |
| Years Ending in 6 |          | 0         | 3        | 0        | 0        | 0        | 1        | 0        | 0         | 0        |           | 4          |
| Years Ending in 7 |          | 7         | 0        | 0        | 0        | 0        | 3        | 1        | 0         | 0        |           | 11         |
| Years Ending in 8 | 0        | 5         | 2        | 0        | 0        | 0        | 2        | 1        | 13        | 0        |           | 23         |
| Years Ending in 9 | 9        | 3         | 0        | 0        | 0        | 0        | 1        | 0        | 4         | 0        |           | 17         |
| <b>Totals</b>     | <b>9</b> | <b>63</b> | <b>9</b> | <b>3</b> | <b>1</b> | <b>0</b> | <b>7</b> | <b>2</b> | <b>19</b> | <b>4</b> | <b>10</b> | <b>127</b> |

From 1.31.28 through 9.16.22. Days of index price decreases of greater than or equal to 4.32%. SOURCE: Kovitz using data from Bloomberg



Down > 4.32%

| S&P 500 One-Day Plunges > 4.32% Subsequent Price Performance |         |           |           |              |            |          |             |            |
|--|---------|-----------|-----------|--------------|------------|----------|-------------|------------|
| Metric   | One Day | Five Days | One Month | Three Months | Six Months | One Year | Three Years | Five Years |
|  | Later   | Later     | Later     | Later        | Later      | Later    | Years Later | Later      |
| Mean   | 0.5%    | 0.8%      | 1.8%      | 7.0%         | 10.5%      | 18.4%    | 35.6%       | 57.9%      |
| Median   | 0.5%    | 1.0%      | 0.6%      | 4.2%         | 12.1%      | 14.3%    | 34.9%       | 52.5%      |
| Max  | 12.5%   | 23.1%     | 26.1%     | 103.7%       | 97.7%      | 136.5%   | 169.8%      | 247.0%     |
| Min  | -20.5%  | -18.1%    | -20.2%    | -38.3%       | -43.8%     | -64.5%   | -67.5%      | -58.3%     |

Does not include dividends. Source: Kovitz using data from Bloomberg

...helping send stocks to one of their worst weeks in history, though the S&P 500 had even uglier weekly setbacks on three other occasions this year.



After a nice rebound the week prior, the S&P 500 gave back that advance and then some, skidding 4.77% in the latest trading week. Of course, stock prices have been quite volatile this year with now 4 weeks with losses of that magnitude or greater to go with 3 weeks with gains of that size or better.

  
Down > 4.77%

|                   | 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 |        | 8        | 3         | 1         | 0        | 1        | 1         | 1        | 2        | 2         | 5        | 24         |
| Years Ending in 1 |        | 9        | 2         | 0         | 0        | 0        | 0         | 0        | 2        | 2         | 0        | 15         |
| Years Ending in 2 |        | 12       | 1         | 0         | 3        | 0        | 0         | 0        | 3        | 0         | 4        | 23         |
| Years Ending in 3 |        | 11       | 1         | 0         | 0        | 0        | 0         | 0        | 0        | 0         |          | 12         |
| Years Ending in 4 |        | 3        | 0         | 0         | 0        | 6        | 0         | 0        | 0        | 0         |          | 9          |
| Years Ending in 5 |        | 0        | 0         | 0         | 0        | 1        | 0         | 0        | 0        | 1         |          | 2          |
| Years Ending in 6 |        | 1        | 2         | 0         | 0        | 0        | 1         | 0        | 0        | 1         |          | 5          |
| Years Ending in 7 |        | 7        | 0         | 0         | 0        | 0        | 4         | 0        | 1        | 0         |          | 12         |
| Years Ending in 8 | 1      | 8        | 1         | 0         | 0        | 1        | 0         | 3        | 6        | 3         |          | 23         |
| Years Ending in 9 | 7      | 5        | 0         | 0         | 0        | 1        | 1         | 1        | 4        | 0         |          | 19         |
| <b>Totals</b>     |        | <b>8</b> | <b>64</b> | <b>10</b> | <b>1</b> | <b>3</b> | <b>10</b> | <b>7</b> | <b>5</b> | <b>18</b> | <b>9</b> | <b>144</b> |

From 1.31.28 through 9.16.22. Weeks of index price decreases of greater than or equal to 4.77%. SOURCE: Kovitz using data from Bloomberg

  
Up > 4.77%

|                   | 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         | 0        | 0        | 2        | 1         | 0         | 4        | 1         | 4        | 15         |
| Years Ending in 1 |        | 8        | 0         | 0        | 0        | 1        | 1         | 2         | 3        | 4         | 0        | 19         |
| Years Ending in 2 |        | 13       | 1         | 0        | 1        | 0        | 3         | 0         | 3        | 0         | 3        | 24         |
| Years Ending in 3 |        | 12       | 0         | 0        | 1        | 0        | 0         | 0         | 1        | 0         |          | 14         |
| Years Ending in 4 |        | 5        | 0         | 0        | 0        | 4        | 1         | 0         | 0        | 0         |          | 10         |
| Years Ending in 5 |        | 2        | 0         | 0        | 0        | 2        | 0         | 0         | 0        | 0         |          | 4          |
| Years Ending in 6 |        | 1        | 1         | 0        | 1        | 0        | 1         | 0         | 0        | 0         |          | 4          |
| Years Ending in 7 |        | 1        | 0         | 0        | 0        | 1        | 3         | 1         | 0        | 0         |          | 6          |
| Years Ending in 8 | 1      | 9        | 1         | 0        | 0        | 0        | 1         | 1         | 3        | 1         |          | 17         |
| Years Ending in 9 | 4      | 1        | 0         | 0        | 0        | 0        | 0         | 1         | 6        | 0         |          | 12         |
| <b>Totals</b>     |        | <b>5</b> | <b>54</b> | <b>4</b> | <b>0</b> | <b>3</b> | <b>10</b> | <b>11</b> | <b>5</b> | <b>20</b> | <b>6</b> | <b>125</b> |

From 1.31.28 through 9.16.22. Weeks of index price increases of greater than or equal to 4.77%. SOURCE: Kovitz using data from Bloomberg

Long-term-oriented folks understand well that volatility is part of the investment process,...



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             | 312   | 0.3                  | 9/6/2022   | 9/12/2022 |

| 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%            | -19.5%       | 101            | 100   | 0.9                  | 8/16/2022  | 9/16/2022 |
| -7.5%             | -15.4%       | 65             | 159   | 0.6                  | 8/16/2022  | 9/16/2022 |
| -5.0%             | -10.9%       | 36             | 312   | 0.3                  | 9/12/2022  | 9/16/2022 |

From 02.20.28 through 09.16.22. 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 an 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%              | 4.3%               |
| Treasury Bills             | 3.2%              | 0.9%               |
| Inflation                  | 3.0%              | 1.8%               |

From 06.30.27 through 07.31.22. 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

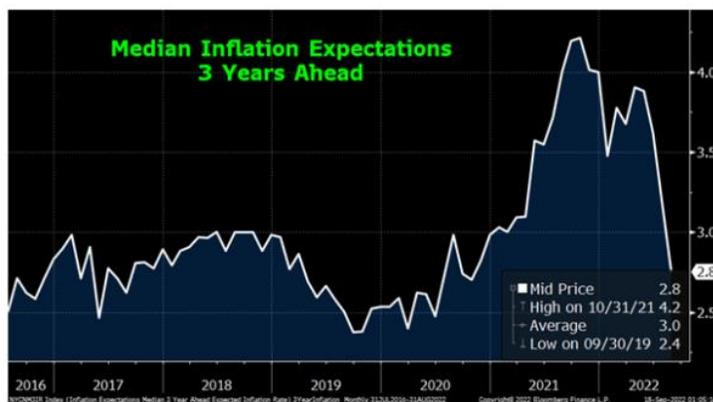
...though we respect that market pundits now think the Federal Reserve will be even more aggressive in hiking interest rates to combat inflation, even as most understand that there is usually a significant lag in terms of adjustments in monetary policy and economic numbers.



Although the estimate for real 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. were projecting that the Fed Funds rate will likely end the year at 3.5%, which still would be below the historical average. The Fed Funds futures grew much more hawkish last week, with a projected 4.19% year-end Fed Funds rate and a 4.40% estimated peak for March 2023, with a cut coming in May 2023.



Indeed, the impact of the two 75-basis-point interest rate hikes in June and July is only partially reflected in the current economic data. However, those moves are showing up in a significant reduction in inflation expectations, statistics that should provide a bit of comfort to the Federal Reserve.



Likely bringing a modest smile to Jerome H. Powell, per data from the Univ. of Michigan, inflation expectations for the next year fell to 4.6% in September, the lowest level in 12 months, while the five-year inched lower to 2.8%, a 14-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 2.8% from 3.2% in July, with the tally the lowest since November 2020.

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Of course, the big concern for market participants is the impact of the Fed rate hikes on the economy. Those fears were ratcheted up on Thursday when Raj Subramaniam said that he expects a “worldwide recession.” The **FedEx** (FDX – \$161.02) CEO explained, “We are a reflection of everybody else’s business, especially the high-value economy in the world.”



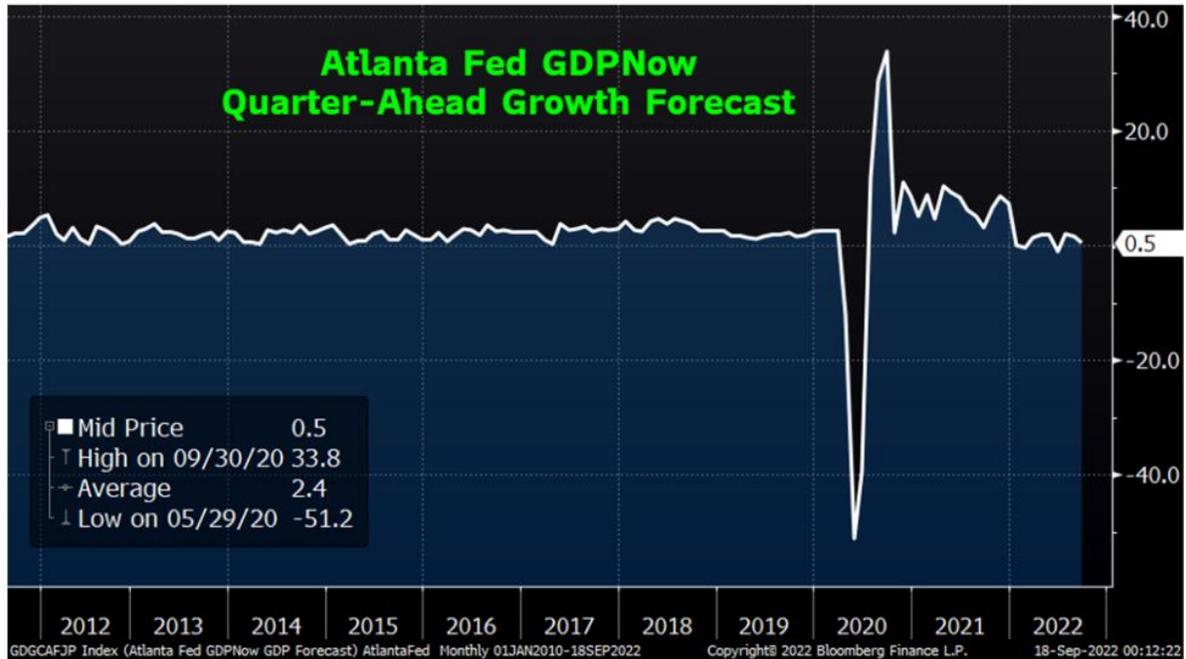
The respective 1.6% and 0.6% contractions in Q1 and Q2 2022 real (inflation-adjusted) GDP means economists could say that the U.S. economy is in recession, but the odds of an official declaration stand today at 50%, meaning the consensus forecast is split down the middle.



That said, the odds of U.S. recession, as calculated by Bloomberg, did not change last week, while modest real GDP growth is still the forecast for the current quarter,...



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 15 stood at 0.5%.



...with the labor situation remaining very healthy,...



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 10 were a seasonally adjusted 213,000, down from a revised 218,000 the week prior. Continuing claims filed through state programs fell to 1.40 million, near the lowest level since 1969 as businesses continue to hold onto workers with labor so difficult to obtain.

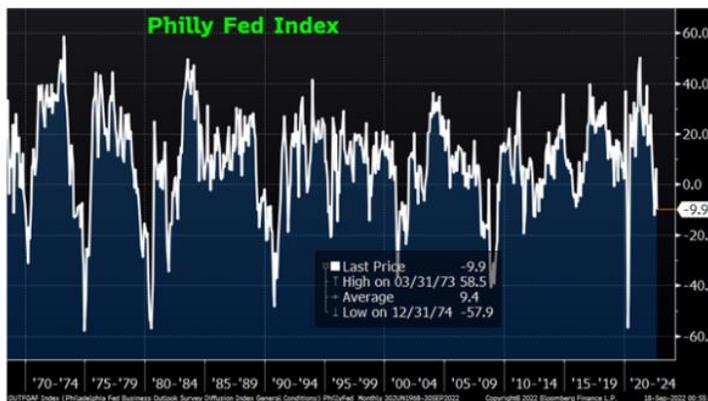
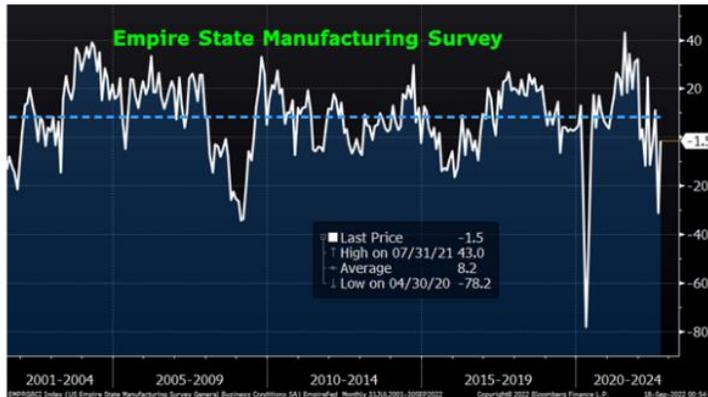
...and the consumer continuing to spend.



July's flat reading was revised lower to a disappointing 0.4% drop, but retail sales for August rose 0.3%, beating estimates. Of course, retail sales excluding vehicles and gasoline fell a weaker-than-expected 0.3%, even as restaurant sales rose a respectable 1.1% last month.



True, manufacturing numbers are not exactly robust,...



The Empire State gauge of manufacturing activity in the New York area improved in September to a much-better-than-expected minus 1.5, up from one of the lowest readings in the survey's history the month prior. On the other hand, the Philadelphia Fed's measure of manufacturing activity in the mid-Atlantic region came in below expectations for September, falling to minus 9.9, down from 6.2 the month prior. Both indexes of factory activity are now in contraction.

...while other economic stats are below par,...



The NFIB Small Business Index for August rose to 91.8, up from 89.9 in July and better than forecasts. Owners remain very concerned about inflation and finding qualified workers. NFIB said, “The worker shortage is impacting small business productivity as owners raise compensation to attract better workers.”



Industrial production fell 0.2% in August, trailing projections of a flat reading and falling from the July tally of a 0.5% advance, with capacity utilization of 80.0% coming in below expectations. Utilities output was the biggest drag on the measure.

...and consumer sentiment, though improving, is well below average.



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 three 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.

**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

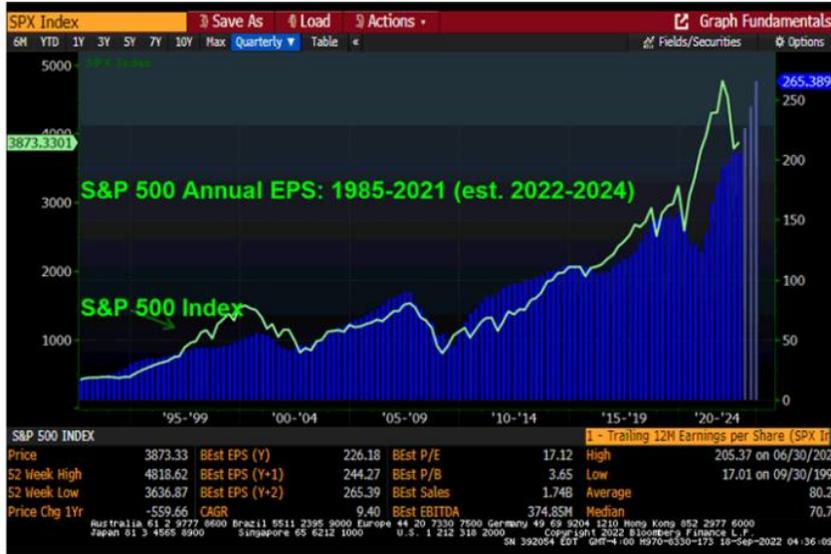
Interestingly, despite the economic question marks, analysts are still looking for corporate profit growth this year and next,...



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 |
|------------------|---------------------------------|----------------------------------|
| <b>ESTIMATES</b> |                                 |                                  |
| 12/31/2023       | \$62.71                         | \$240.36                         |
| 9/30/2023        | \$60.89                         | \$235.41                         |
| 6/30/2023        | \$59.54                         | \$230.20                         |
| 3/31/2023        | \$57.22                         | \$217.53                         |
| 12/31/2022       | \$57.76                         | \$209.67                         |
| 9/30/2022        | \$55.68                         | \$208.64                         |
| 6/30/2022        | \$46.87                         | \$204.98                         |
| <b>ACTUAL</b>    |                                 |                                  |
| 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 9.15.22



...the achievement of which, we think, would support significantly higher equity prices.



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 (5.29% vs. 3.45% 10-Year) and S&P 500 dividend yield of 1.70%.



Obviously, there is no assurance that earnings comparisons will remain favorable, so we continue to like the reasonable valuation metrics and generous dividend yields offered by our broadly diversified portfolios of what we believe to be undervalued stocks.



## CURRENT PORTFOLIO AND INDEX VALUATIONS

| Name                     | Price to Earnings Ratio | Price to Fwd. Earnings Ratio | Price to Sales Ratio | Price to Book Ratio | Dividend Yield |
|--------------------------|-------------------------|------------------------------|----------------------|---------------------|----------------|
| TPS Portfolio            | 11.6                    | 10.5                         | 0.8                  | 2.1                 | 2.9            |
| ValuePlus                | 12.0                    | 10.9                         | 1.1                  | 2.2                 | 2.4            |
| Dividend Income          | 11.3                    | 10.7                         | 0.7                  | 2.0                 | 3.4            |
| Focused Dividend Income  | 12.5                    | 11.7                         | 1.0                  | 2.4                 | 2.9            |
| Focused ValuePlus        | 12.4                    | 12.0                         | 1.3                  | 2.5                 | 2.6            |
| Small-Mid Dividend Value | 9.9                     | 9.2                          | 0.5                  | 1.5                 | 3.2            |
| Russell 3000             | 20.3                    | 17.6                         | 2.1                  | 3.6                 | 1.7            |
| Russell 3000 Growth      | 29.2                    | 23.9                         | 3.2                  | 9.4                 | 1.0            |
| Russell 3000 Value       | 15.5                    | 13.9                         | 1.6                  | 2.2                 | 2.4            |
| Russell 1000             | 19.5                    | 17.4                         | 2.2                  | 3.8                 | 1.7            |
| Russell 1000 Growth      | 27.5                    | 23.7                         | 3.5                  | 9.7                 | 1.0            |
| Russell 1000 Value       | 15.1                    | 13.7                         | 1.6                  | 2.3                 | 2.4            |
| S&P 500 Index            | 18.9                    | 17.1                         | 2.3                  | 3.9                 | 1.7            |
| S&P 500 Growth Index     | 22.9                    | 20.9                         | 4.1                  | 7.1                 | 1.0            |
| S&P 500 Value Index      | 16.2                    | 14.6                         | 1.7                  | 2.7                 | 2.4            |
| S&P 500 Pure Value Index | 10.0                    | 9.2                          | 0.6                  | 1.4                 | 2.8            |

As of 09.17.22. 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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Clearly, there is plenty about which to be concerned these days, but there are always things to fret over,...



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

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

"Supposing it didn't," said Pooh.

After careful thought, Piglet was comforted by this.

| Event  | Reaction Dates |            | S&P         |           | Event Gain/Loss  | 12 Months Later | 36 Months Later | 60 Months Later | Event End thru Present |              |
|--|----------------|------------|-------------|-----------|------------------|-----------------|-----------------|-----------------|------------------------|--------------|
|  |                |            | Start Value | End Value |                  |                 |                 |                 |                        |              |
| Pearl Harbor   | 12/6/1941      | 12/10/1941 | 9.32        | 8.68      | -7%              | 8%              | 51%             | 76%             | 44524%                 |              |
| Truman Upset Victory                                   | 11/2/1948      | 11/10/1948 | 16.70       | 15.00     | -10%             | 8%              | 52%             | 62%             | 25722%                 |              |
| Korean War   | 6/23/1950      | 7/13/1950  | 19.14       | 16.69     | -13%             | 32%             | 45%             | 153%            | 23107%                 |              |
| Eisenhower Heart Attack                                | 9/23/1955      | 9/26/1955  | 45.63       | 42.61     | -7%              | 8%              | 17%             | 25%             | 8990%                  |              |
| Suez Canal Crisis                                      | 10/30/1956     | 10/31/1956 | 46.37       | 45.58     | -2%              | -10%            | 26%             | 51%             | 8398%                  |              |
| Sputnik  | 10/3/1957      | 10/22/1957 | 43.14       | 38.98     | -10%             | 31%             | 37%             | 41%             | 9837%                  |              |
| Cuban Missile Crisis                                   | 8/23/1962      | 10/23/1962 | 59.70       | 53.49     | -10%             | 36%             | 72%             | 78%             | 7141%                  |              |
| JFK Assassination                                      | 11/21/1963     | 11/22/1963 | 71.62       | 69.61     | -3%              | 24%             | 14%             | 53%             | 5464%                  |              |
| MLK Assassination                                      | 4/3/1968       | 4/5/1968   | 93.47       | 93.29     | 0%               | 8%              | 8%              | 16%             | 4052%                  |              |
| Kent State Shootings                                   | 5/4/1970       | 5/14/1970  | 79.00       | 75.44     | -5%              | 35%             | 40%             | 22%             | 5034%                  |              |
| Arab Oil Embargo                                       | 10/18/1973     | 12/5/1973  | 110.01      | 92.16     | -16%             | -28%            | 12%             | 6%              | 4103%                  |              |
| Nixon Resigns  | 8/9/1974       | 8/29/1974  | 80.86       | 69.99     | -13%             | 24%             | 38%             | 56%             | 5434%                  |              |
| U.S.S.R. in Afghanistan                                | 12/24/1979     | 1/3/1980   | 107.66      | 105.22    | -2%              | 30%             | 31%             | 56%             | 3581%                  |              |
| Hunt Silver Crisis                                     | 2/13/1980      | 3/27/1980  | 118.44      | 98.22     | -17%             | 37%             | 55%             | 83%             | 3844%                  |              |
| Falkland Islands War                                   | 4/1/1982       | 5/7/1982   | 113.79      | 119.47    | 5%               | 39%             | 51%             | 147%            | 3142%                  |              |
| U.S. Invades Grenada                                   | 10/24/1983     | 11/7/1983  | 165.99      | 161.91    | -2%              | 4%              | 52%             | 69%             | 2292%                  |              |
| U.S. Bombs Libya                                       | 4/15/1986      | 4/21/1986  | 237.73      | 244.74    | 3%               | 20%             | 27%             | 57%             | 1483%                  |              |
| Crash of '87   | 10/2/1987      | 10/19/1987 | 328.07      | 224.84    | -31%             | 23%             | 39%             | 85%             | 1623%                  |              |
| Gulf War Ultimatum                                     | 12/24/1990     | 1/16/1991  | 329.90      | 316.17    | -4%              | 32%             | 50%             | 92%             | 1125%                  |              |
| Gorbachev Coup   | 8/16/1991      | 8/19/1991  | 385.58      | 376.47    | -2%              | 11%             | 23%             | 77%             | 929%                   |              |
| ERM U.K. Currency Crisis                               | 9/14/1992      | 10/16/1992 | 425.27      | 411.73    | -3%              | 14%             | 42%             | 132%            | 841%                   |              |
| World Trade Center Bombing                             | 2/26/1993      | 2/27/1993  | 443.38      | 443.38    | 0%               | 5%              | 46%             | 137%            | 774%                   |              |
| Russia Mexico Orange County                            | 10/11/1994     | 12/20/1994 | 465.79      | 457.10    | -2%              | 33%             | 107%            | 210%            | 747%                   |              |
| Oklahoma City Bombing                                  | 4/19/1995      | 4/20/1995  | 504.92      | 505.29    | 0%               | 28%             | 122%            | 184%            | 667%                   |              |
| Asian Stock Market Crisis                              | 10/7/1997      | 10/27/1997 | 983.12      | 876.99    | -11%             | 21%             | 57%             | 2%              | 342%                   |              |
| Russian LTCM Crisis                                    | 8/18/1998      | 10/8/1998  | 1,101.20    | 959.44    | -13%             | 39%             | 11%             | 8%              | 304%                   |              |
| Clinton Impeachment                                    | 12/19/1998     | 2/12/1999  | 1,188.03    | 1,230.13  | 4%               | 13%             | -10%            | -6%             | 215%                   |              |
| USS Cole Yemen Bombings                                | 10/11/2000     | 10/18/2000 | 1,364.59    | 1,342.13  | -2%              | -20%            | -23%            | -12%            | 189%                   |              |
| September 11 Attacks                                   | 9/10/2001      | 9/21/2001  | 1,092.54    | 965.80    | -12%             | -12%            | 17%             | 36%             | 301%                   |              |
| Iraq War   | 3/19/2003      | 5/1/2003   | 874.02      | 916.30    | 5%               | 21%             | 42%             | 54%             | 323%                   |              |
| Madrid Terrorist Attacks                               | 3/10/2004      | 3/24/2004  | 1,123.89    | 1,091.33  | -3%              | 7%              | 32%             | -26%            | 255%                   |              |
| London Train Bombing                                   | 7/6/2005       | 7/7/2005   | 1,194.94    | 1,197.87  | 0%               | 6%              | 5%              | -11%            | 223%                   |              |
| 2008 Market Crash                                      | 9/15/2008      | 3/9/2009   | 1,192.70    | 676.53    | -43%             | 69%             | 103%            | 178%            | 473%                   |              |
| <b>Price Changes Only - Does Not Include Dividends</b> |                |            |             |           | <b>Averages:</b> | <b>-7%</b>      | <b>18%</b>      | <b>39%</b>      | <b>66%</b>             | <b>5317%</b> |

As of 8.16.22. Source: Kovitz using Bloomberg and Neil Davis Research Events & Reaction Dates

...and it isn't as if stocks have been defying gravity this year, so we would argue that a significant amount of bad news is "in" equity prices.



With Jerome H. Powell's "painful" words at Jackson Hole still the main catalyst, stocks and bonds have been very volatile, with the bad kind of volatility happening last week. The Nasdaq Composite index is now down 26.4% and the U.S. Aggregate Bond index is off 12.4% 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  | M<br>A<br>R<br>K<br>E<br>T<br><br>O<br>F<br><br>S<br>T<br>O<br>C<br>K<br>S | -4.11     | -13.85 | -9.50          | 20.82          | 14.33        | 74.42         | 21.23        | 54.41        | Dow Jones Industrial Average             | DIJTR Index    |
| 1.01                 | -10.21 |  | -4.00     | -13.48 | -9.81          | 22.64          | 17.60        | 76.43         | 19.73        | 37.07        | New York Stock Exchange Composite        | NYA Index      |
| -39.18               | -20.81 |  | -5.46     | -26.39 | -24.00         | 6.46           | 5.18         | 70.15         | 44.05        | 86.21        | Nasdaq Composite Index                   | CCMP Index     |
| -22.43               | -9.23  |  | -5.00     | -24.36 | -26.38         | 0.05           | -0.42        | 61.91         | 11.50        | 32.46        | Russell 2000 Growth                      | RU20GRTR Index |
| 22.83                | 14.02  |  | -3.89     | -14.06 | -10.02         | 41.94          | 40.35        | 107.16        | 21.23        | 31.37        | Russell 2000 Value                       | RU20VATR Index |
| -3.02                | 2.49   |  | -4.46     | -19.16 | -18.44         | 19.43          | 18.51        | 84.75         | 17.79        | 33.94        | Russell 2000                             | RU20INTR Index |
| -11.75               | -20.15 |  | -5.36     | -26.19 | -27.69         | -1.09          | 1.39         | 64.03         | 20.50        | 58.02        | Russell Midcap Growth Index Total Return | RUMCGRTR Index |
| 19.18                | 2.33   |  | -4.90     | -13.24 | -7.86          | 32.86          | 29.94        | 103.08        | 23.02        | 39.09        | Russell Midcap Value Index Total Return  | RUMCVATR Index |
| 8.25                 | -5.62  |  | -5.06     | -17.84 | -15.29         | 20.00          | 19.34        | 90.18         | 24.85        | 50.58        | Russell Midcap Index Total Return        | RUMCINTR Index |
| -22.42               | -19.63 |  | -5.34     | -25.16 | -21.21         | 9.33           | 7.12         | 75.44         | 42.71        | 87.70        | Russell 3000 Growth                      | RU30GRTR Index |
| 8.04                 | -4.33  |  | -4.19     | -11.16 | -6.18          | 31.92          | 27.19        | 84.38         | 21.97        | 41.13        | Russell 3000 Value                       | RU30VATR Index |
| -7.46                | -11.46 |  | -4.77     | -18.56 | -14.13         | 19.96          | 16.63        | 80.97         | 33.67        | 65.21        | Russell 3000                             | RU30INTR Index |
| 9.64                 | -0.39  |  | -4.83     | -13.84 | -8.51          | 33.12          | 28.79        | 101.29        | 34.10        | 61.76        | S&P 500 Equal Weighted                   | SPXEWTR Index  |
| -9.10                | -11.89 |  | -4.73     | -17.80 | -12.09         | 21.89          | 17.91        | 80.05         | 35.72        | 69.31        | S&P 500                                  | SPXT Index     |
| -22.08               | -12.73 |  | -5.70     | -24.86 | -19.20         | 13.26          | 10.25        | 77.24         | 42.49        | 85.91        | S&P 500 Growth                           | SPTRSGX Index  |
| 6.08                 | -11.71 |  | -3.80     | -9.91  | -4.30          | 31.45          | 25.94        | 78.75         | 24.51        | 47.81        | S&P 500 Value                            | SPTRSVX Index  |
| 3.18                 | 1.57   |  | -0.90     | -17.29 | -19.14         | -18.68         | -19.02       | -11.37        | -13.13       | -9.03        | Bloomberg Barclays Global-Aggregate Bond | LEGATRUU Index |
| 11.63                | 8.44   |  | -0.93     | -12.38 | -13.19         | -12.77         | -13.30       | -8.21         | -6.19        | 0.98         | Bloomberg Barclays U.S. Aggregate Bond   | LBUSTRUU Index |

As of 09.16.22. Source Kovitz using data from Bloomberg

Although the past is no guarantee of the future, we think looking at what has taken place historically can provide some tranquility for those who share our long-term time horizon. After all, Value stocks have done well when inflation previously has been above 8%,...



# THE WALL STREET JOURNAL

WEDNESDAY, SEPTEMBER 14, 2022 - VOL. CCLXXX NO. 63

## Stocks Sink on Dashed Inflation Hopes

Broad price pressures strengthen, new report shows, fueling Fed's tightening campaign

By Owen Coon

U.S. consumer prices increased sharply in August from July after excluding volatile food and energy prices, showing that inflation pressures remained strong and stabilizers even as the year-over-year increase was slightly slower.

The Labor Department reported on Tuesday its consumer price index rose 0.3% in August from the same month a year ago, down from 0.5% in July and from 0.1% in June, which was the highest inflation rate in four decades. The CPI measures what consumers pay for goods and services.

Seasonally adjusted core CPI, which excludes energy and food prices, increased 0.2% in August from a year earlier, up markedly from the 0.9% rate in both June and July—a signal that broad price pressures strengthened.

On a monthly basis, the core CPI rose 0.1% in August—double July's pace. Investors and policy makers follow core inflation closely as a reflection of broad, underlying inflation and as a predictor of future inflation.

"These data are bad and are a reflection of feed-through of higher energy prices from earlier this year. Inflation is a stubborn thing," said Jamie Cox, managing partner for Harris Financial Group, in a statement.

Inflation has recently shown signs of easing for some goods and services. Gasoline prices declined 0.6% in August from July, according to the CPI report. The national average price of regular gasoline was \$3.71 a gallon on Tuesday.

Daily change in the S&P 500



U.S. Treasury yields



U.S. crude-oil future prices



S&P 500 suffers worst day in over two years, as investors reconsider rate outlook

By Karen Lawler and Matt O'Connell

Stocks suffered their worst day in more than two years after better-than-expected inflation data dashed investors' hopes that cooling price pressures would prompt the Federal Reserve to moderate its campaign of interest-rate increases.

Investors sold everything from stocks and bonds to oil and gold. All 30 stocks in the Dow Jones Industrial Average declined, as did all 11 sectors in the S&P 500. Only five stocks in the broad benchmark finished the session in the green.

Facebook parent Meta Platforms dropped 9.4%, BlackRock declined 7.4% and Boeing fell 7.2%.

The Dow fell 1,276.37 points, or 2.9%, to 39,949.72. The S&P 500 declined 177.72 points, or 4.3%, to 3,932.69. The Nasdaq Composite slid 632.84 points, or 5.3%, to 11,633.57.

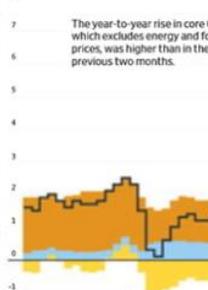
All three indexes posted their steepest one-day losses since June 11, 2020. The declines left the Dow industrials down 14% in 2022, while the S&P 500 has lost 17% and Nasdaq Composite has retreated 26%.

The selloff continued in the Asia-Pacific region early Wednesday with stock benchmarks in Japan, Hong Kong and Australia each losing more than 2%. But S&P 500 futures rose 0.2%.

Investors had eagerly anticipated Tuesday's release of the consumer-price index, which provided a last major look at inflation before the central bank's interest-rate-setting committee meets next Thursday.

Consumer-price index 12-month percentage change

With percentage-point contributions by category



Change from previous month in select core categories



- Where prices rose and fell in August: As
- Energy bills are climbing sharply: A7
- Head on the Street: Inflation report changes rate hopes: B4

Bonds fell sharply on consumer inflation report: B13

### Inflation Rate >= 8.0% and Ensuing Value/Growth Returns Since 1927

| Metric             | Value Stocks 3 Month | Growth Stocks 3 Month | Value Stocks 6 Month | Growth Stocks 6 Month | Value Stocks 12 Months | Growth Stocks 12 Months |
|--------------------|----------------------|-----------------------|----------------------|-----------------------|------------------------|-------------------------|
| Arithmetic Average | 4.2%                 | 2.4%                  | 10.4%                | 6.0%                  | 25.1%                  | 15.1%                   |
| Geometric Average  | 3.6%                 | 1.8%                  | 8.9%                 | 4.6%                  | 22.2%                  | 12.8%                   |
| Median             | 3.8%                 | 1.7%                  | 6.7%                 | 4.7%                  | 17.7%                  | 12.8%                   |
| Max                | 50.9%                | 32.9%                 | 82.7%                | 60.8%                 | 134.0%                 | 64.2%                   |
| Min                | -19.2%               | -27.6%                | -26.4%               | -35.9%                | -20.9%                 | -30.6%                  |
| Count              | 110                  | 110                   | 110                  | 110                   | 110                    | 110                     |

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

### Inflation Rate <8.0% and Ensuing Value/Growth Returns Since 1927

| Metric             | Value Stocks 3 Month | Growth Stocks 3 Month | Value Stocks 6 Month | Growth Stocks 6 Month | Value Stocks 12 Months | Growth Stocks 12 Months |
|--------------------|----------------------|-----------------------|----------------------|-----------------------|------------------------|-------------------------|
| Arithmetic Average | 4.2%                 | 3.1%                  | 8.1%                 | 6.1%                  | 16.4%                  | 12.3%                   |
| Geometric Average  | 3.1%                 | 2.4%                  | 6.2%                 | 4.8%                  | 12.3%                  | 9.4%                    |
| Median             | 4.0%                 | 3.5%                  | 8.0%                 | 6.2%                  | 16.6%                  | 12.8%                   |
| Max                | 200.5%               | 136.1%                | 244.7%               | 140.3%                | 357.8%                 | 221.9%                  |
| Min                | -43.1%               | -40.4%                | -56.1%               | -47.0%                | -71.3%                 | -64.8%                  |
| Count              | 1027                 | 1027                  | 1024                 | 1024                  | 1018                   | 1018                    |

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

### Inflation Rate >= 8.0% and Ensuing Value/Growth Returns Since 1957

| Metric             | Value Stocks 3 Month | Growth Stocks 3 Month | Value Stocks 6 Month | Growth Stocks 6 Month | Value Stocks 12 Months | Growth Stocks 12 Months |
|--------------------|----------------------|-----------------------|----------------------|-----------------------|------------------------|-------------------------|
| Arithmetic Average | 4.0%                 | 2.9%                  | 8.8%                 | 6.4%                  | 22.4%                  | 17.0%                   |
| Geometric Average  | 3.5%                 | 2.2%                  | 7.7%                 | 4.6%                  | 21.1%                  | 14.4%                   |
| Median             | 4.7%                 | 2.6%                  | 6.9%                 | 6.3%                  | 21.7%                  | 21.2%                   |
| Max                | 39.6%                | 32.9%                 | 63.0%                | 60.8%                 | 60.2%                  | 63.4%                   |
| Min                | -16.5%               | -27.6%                | -26.4%               | -35.9%                | -20.9%                 | -30.6%                  |
| Count              | 63                   | 63                    | 63                   | 63                    | 63                     | 63                      |

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

### Inflation Rate < 8.0% and Ensuing Value/Growth Returns Since 1957

| Metric             | Value Stocks 3 Month | Growth Stocks 3 Month | Value Stocks 6 Month | Growth Stocks 6 Month | Value Stocks 12 Months | Growth Stocks 12 Months |
|--------------------|----------------------|-----------------------|----------------------|-----------------------|------------------------|-------------------------|
| Arithmetic Average | 3.8%                 | 2.9%                  | 7.7%                 | 5.8%                  | 15.7%                  | 11.8%                   |
| Geometric Average  | 3.3%                 | 2.4%                  | 6.7%                 | 4.9%                  | 13.7%                  | 9.9%                    |
| Median             | 4.1%                 | 3.3%                  | 8.1%                 | 6.1%                  | 17.2%                  | 12.7%                   |
| Max                | 37.8%                | 32.5%                 | 68.5%                | 49.8%                 | 105.8%                 | 93.6%                   |
| Min                | -39.5%               | -34.9%                | -54.2%               | -41.7%                | -52.2%                 | -48.0%                  |
| Count              | 716                  | 716                   | 713                  | 713                   | 707                    | 707                     |

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

...and when Paul Volcker's Fed aggressively targeted inflation starting in 1979,...



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   | FF 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%           |
| <b>Annualized</b> | <b>24.7%</b> | <b>15.9%</b> | <b>18.7%</b>  | <b>15.3%</b> | <b>6.3%</b>  |                |

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 before and after the start of recessions.



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.

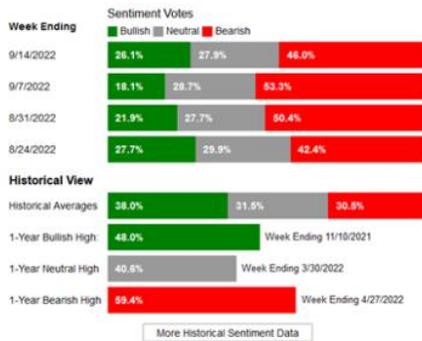
| U.S. Recession Commencement (per NBER) & Equity Returns |             |                         |             |             |              |              |              |              |               |               |                |                 |
|---|-------------|-------------------------|-------------|-------------|--------------|--------------|--------------|--------------|---------------|---------------|----------------|-----------------|
| S&P 500 and Fama/French Value Performance               |             |                         |             |             |              |              |              |              |               |               |                |                 |
| Year Prior  | Year Prior  | Recession Start<br>Date | 1 Year      | 1 Year      | 3 Year       | 3 Year       | 5 Year       | 5 Year       | 10 Year       | 10 Year       | To Present     | To Present      |
| S&P 500 TR  | FF Value TR |                         | S&P 500 TR  | FF Value TR | S&P 500 TR   | FF Value TR  | S&P 500 TR   | FF Value TR  | S&P 500 TR    | FF Value TR   | S&P 500 TR     | 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%             |
| <b>7.2%</b>   | <b>9.5%</b> | <b>Averages</b>         | <b>2.2%</b> | <b>4.6%</b> | <b>28.2%</b> | <b>44.4%</b> | <b>53.3%</b> | <b>84.3%</b> | <b>217.0%</b> | <b>337.9%</b> | <b>127144%</b> | <b>1547955%</b> |

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

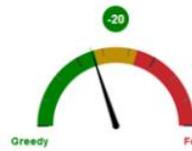
To be sure, we must be braced for additional downside in the near term, but we think long-term-oriented investors should be opting to be greedy while others are fearful.



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



**CURRENT AAIL SENTIMENT BULL-BEAR SPREAD:**  
 The Sentiment Survey is a contrarian indicator. Above-average market returns have often followed unusually low levels of optimism, while below-average market returns have often followed unusually high levels of optimism. [Click here to learn more.](#)



The gauge is widely viewed with a contrarian eye, so the tally of Bulls in the latest AAIL Sentiment Survey coming in at 26.1% and the number of Bears residing at 46.0% is a major positive. The minus 19.9% Bull-Bear spread is one of the lowest 10% and is in the most favorable (i.e. highest future returns) 1st decile of the weekly figures going back to 1987.

| Decile                                       | Low Reading of the Range | High Reading of the Range | Count | Next 1-Week           |                      | Next 1-Month          |                      | Next 3-Month          |                      | Next 6-Month          |                      | Next 6-Month |  |
|--|--------------------------|---------------------------|-------|-----------------------|----------------------|-----------------------|----------------------|-----------------------|----------------------|-----------------------|----------------------|--------------|--|
|  |                          |                           |       | Arithmetic Average TR | Geometric Average TR |              |  |
| Below & Above Median Bull Bear Spread = 7.44 |                          |                           |       |                       |                      |                       |                      |                       |                      |                       |                      |              |  |
| BELOW  | -54.0                    | 7.4                       | 916   | 0.24%                 | 0.20%                | 1.15%                 | 1.02%                | 3.35%                 | 2.95%                | 6.61%                 | 5.85%                |              |  |
| ABOVE  | 7.5                      | 62.9                      | 915   | 0.18%                 | 0.16%                | 0.55%                 | 0.46%                | 2.00%                 | 1.75%                | 4.70%                 | 4.21%                |              |  |
| Ten Groupings of 1831 Data Points            |                          |                           |       |                       |                      |                       |                      |                       |                      |                       |                      |              |  |
| 1  | -54.0                    | -16.1                     | 183   | 0.45%                 | 0.39%                | 2.08%                 | 1.84%                | 4.76%                 | 4.19%                | 9.07%                 | 7.86%                |              |  |
| 2  | -16.1                    | -8.3                      | 183   | 0.31%                 | 0.28%                | 0.94%                 | 0.81%                | 3.56%                 | 3.21%                | 6.50%                 | 5.72%                |              |  |
| 3  | -8.2                     | -2.0                      | 189   | 0.29%                 | 0.26%                | 1.32%                 | 1.22%                | 3.38%                 | 2.96%                | 7.49%                 | 6.79%                |              |  |
| 4  | -2.0                     | 2.9                       | 177   | 0.07%                 | 0.03%                | 0.92%                 | 0.83%                | 2.46%                 | 2.10%                | 5.31%                 | 4.75%                |              |  |
| 5  | 2.9                      | 7.4                       | 183   | 0.06%                 | 0.03%                | 0.53%                 | 0.43%                | 2.54%                 | 2.28%                | 4.63%                 | 4.09%                |              |  |
| 6  | 7.4                      | 11.9                      | 183   | 0.11%                 | 0.09%                | 0.50%                 | 0.38%                | 1.89%                 | 1.64%                | 5.02%                 | 4.58%                |              |  |
| 7  | 11.9                     | 16.1                      | 183   | 0.22%                 | 0.21%                | 0.68%                 | 0.59%                | 2.56%                 | 2.31%                | 5.33%                 | 4.82%                |              |  |
| 8  | 16.1                     | 22.0                      | 199   | 0.17%                 | 0.15%                | 0.80%                 | 0.73%                | 2.05%                 | 1.79%                | 5.86%                 | 5.43%                |              |  |
| 9  | 22.0                     | 29.0                      | 167   | 0.12%                 | 0.10%                | 0.41%                 | 0.33%                | 2.03%                 | 1.75%                | 4.59%                 | 4.01%                |              |  |
| 10   | 29.0                     | 62.9                      | 184   | 0.24%                 | 0.22%                | 0.31%                 | 0.23%                | 1.50%                 | 1.28%                | 2.59%                 | 2.15%                |              |  |

From 07.31.87 through 09.15.22. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

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://theprudentpeculator.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.

The aforementioned FedEx shares lost 21% on Friday, the biggest one-day drop for the company since 1980. In addition to the fiscal Q1 report coming up very short (EPS \$3.44 vs. \$4.28 est.; revenue \$23.2 billion vs. \$23.6 billion est.), the logistics company’s outlook was terrible, resulting in the complete withdrawal of guidance for fiscal 2023.

“Global volumes declined as macroeconomic trends significantly worsened later in the quarter, both internationally and in the U.S. We are swiftly addressing these headwinds, but given the speed at which conditions shifted, first quarter results are below our expectations,” said CEO Raj Subramaniam. “While this performance is disappointing, we are aggressively accelerating cost

reduction efforts and evaluating additional measures to enhance productivity, reduce variable costs, and implement structural cost-reduction initiatives. These efforts are aligned with the strategy we outlined in June, and I remain confident in achieving our fiscal year 2025 financial targets.”

FedEx is generally regarded as an economic bellwether. Therefore, the company’s observation that there are “significantly worsening” macro trends sent ripples through stock markets around the world. The European economic environment has been getting worse recently, as the Continent struggles to plug the supply gaps left from the cut-off of Russian oil and gas as winter rapidly approaches. FedEx’s note didn’t limit itself to Europe (where the former TNT operation dominates), it added the U.S. into the mix. Of course, the U.S. isn’t officially in recession territory, at least as calculated by the multi-factor method defined by the National Bureau of Economic Research (NBER), but the idea that the global inflation fight could push even the largest economies into recession territory was a big deal.

We certainly thought the Federal Reserve had a good handle on the inflation environment at the beginning of the year (even though it was creeping up), but the must-win war for Ukraine ramped inflation up around the world in ways that were difficult to anticipate. Even if the U.S. is headed for a worsening environment and recession, we aren’t clear why this one would be so unique that it substantially kills FDX’s business. Shares of the shipper are down 37% this year (plenty of a discount, we think) and there are definitely challenges (fuel prices, cargo volumes, margin pressures) to weather, but the longer-term outlook is largely unchanged in our eyes. We like the company’s balance sheet and cash flow generation potential, along with the 2.9% yield and “cheap” debt (average 3.54% maturing in 2038). Our Target Price for FDX now resides at \$337.

Shares of **Oracle Corp** (ORCL – \$68.83) held up well in Tuesday’s equity market plunge after the software giant reported fiscal Q1 results on Monday afternoon. ORCL earned \$1.03 per share, compared to analyst consensus estimates around \$1.06, and had revenue of \$11.45 billion, compared to the \$11.44 billion consensus. Adverse exchange rate movements for the company’s international units took \$0.08 off the quarterly EPS, and the Cloud License and On-Premise License segment revenue grew 11% year-over-year.

CEO Safra Catz stated, “We are seeing company-specific and product-specific momentum. We continue to expect organic revenue growth in our cloud business will accelerate substantially in FY ’23. The currency headwind this quarter was much higher than the 3% headwind that was present when we gave guidance. It was actually 6 points, even though due to rounding, it may look like 5%, and that’s a currency headwind to total revenue. It was, in fact, 6 points. And yet, we still exceeded our forecast on a reported basis, and we beat our constant currency revenue forecast by \$200 million.”

Ms. Catz said the company continues to return cash to shareholders, “We’re committed to returning value to our shareholders through technical innovation, strategic acquisitions, stock repurchases and prudent use of debt and our dividend. This quarter, we repurchased 7.5 million shares for a total of \$559 million. In addition, we paid out dividends of \$3.4 billion over the last 12 months, and the Board of Directors today declared a quarterly dividend of \$0.32 per share.”

Looking ahead, Ms. Catz said, “Total revenue for Q2, including Cerner, are expected to grow from 21% to 23% in constant currency and are expected to grow from 15% to 17% in USD. Total cloud growth (including Cerner) is expected to grow from 46% to 50% in constant currency, 42% to 46% in USD. I expect that total cloud growth for the fiscal year, excluding Cerner, will be above 30% in constant currency. Non-GAAP EPS growth is expected to grow between 1% to 5% and be between \$1.23 and \$1.27 in constant currency. Due to currency headwind, non-GAAP EPS is expected to decline 1% to 5% and be between \$1.16 and \$1.20 in USD.”

Interestingly, Oracle shares retreated more than 9% in price for the full week, not on the Q1 results or management commentary, but on a couple of analyst downgrades. ORCL has been whacked this year (-21%), but not as much as the S&P 500 Info Tech sector, which is down more than 25%. We think that’s the result of the company’s sustained growth and partnerships to bring multi-cloud services to customers with companies like Amazon and **Microsoft** (MSFT – \$244.74). Analysts have trimmed their EPS projections for fiscal 2023 to about \$5.00 (compared to \$4.90 in 2022), but growth is expected to ramp into double-digit territory again in 2024 and 2025. ORCL shares trade for a cheap 13 times forward earnings, while the calculation with 2026 projected earnings is almost in single-digit territory. We like that Larry Ellison & Co. continue to win new business from major names like Citibank, PNC, Chubb, McDonald’s, Tiffany and others. With the pullback, the dividend yield is now 1.9% and our Target Price is \$113.

**Seagate Tech** (STX – \$62.71) competitor Western Digital (WDC) presented at the Goldman Sachs Communacopia + Technology Conference. The WDC commentary wasn’t positive, especially for the NAND business. WDC chief David Goeckeler said, “We’re seeing a very, very sharp reduction in NAND demand. The current quarter we’re in, we’re seeing reduction in both pricing and bit demand... I think coming into the quarter, we saw those roughly the same. Now we see pricing deteriorating faster than bits. When you have that happen, you’re going to have this very severe downturn. As [CFO] Wissam [Jabre] said, we’re doing all the things — all the countermeasures against that, but there’s no doubt we’re in that environment. How long we’re going to be in it. We don’t quite know yet. We haven’t seen the signs of when the upturn starts, but very clearly, the industry is responding aggressively with CapEx reductions to lower the bit growth for next year, and we’re doing the same thing.”

Seagate also attended the Conference. CEO Dave Mosley declined to give additional guidance above what was offered during the earnings call several weeks ago and said of the NAND technology, “I think if you want to play in a data center at the volume that hard drives do, you have to have performance, especially on the right workloads, very intense right workloads. You have to have cost. You have to have predictability of supply, all these things. Tough, tough things to get to for that economics, and I just don’t see anything on the horizon that’s going to be anywhere close to that. And relative to NAND, NAND is a great technology. It has tons of applications out in the world today. We actually have an SSD business. It does quite well when we focus on certain applications. That would be my advice to people. To say I’m going to go build NAND fabs if they cost tens of billions of dollars to get paid back by penny at a time, that’s the same kind of economic problem that’s always come up with that argument, and I don’t see it changing in the next 5 to 10 years.”

Of course, STX already whacked its outlook a few weeks ago, so we might argue that negative near-term developments should be priced into the stock, but shares retreated nearly 9% last week. Obviously, competitors reporting weakness, or in this case a “very, very sharp reduction” in demand is not a positive, but we think the long-term story for STX remains intact. Analysts now project 2023 EPS to drop 34% year-over-year before snapping back to 2022 levels by 2025. We think the underlying fundamentals of the tech world support that outcome, with near-term dips giving us a potential opportunity to re-up our STX position at a discount. Our Target Price for STX is now \$109.

Shares of **Bristol Myers Squibb** (BMY – \$71.52) gained nearly 8% last Monday on news that the FDA had approved its drug Sotyktu (deucravacitinib) for the treatment of moderate-to-severe plaque psoriasis. The jump was enough to reverse declines over the past month, but gains were shed as shifting sentiment took hold of markets later in the week.

The safety profile and efficacy for Sotyktu are expected to put pressure on **Amgen’s** (AMGN – \$231.14) Otezla as a phase 3 trial showed that the former helped patients achieve 75% more skin clearance than the latter. “There is no doubt in our minds that this is the right drug... There’s absolutely no remorse,” BMY’s Chief Medical Officer recently said in an interview about selling Otezla to Amgen when Bristol bought Celgene in 2019. Street analysts were quick to note the lack of a black box warning for the Bristol drug, which is notable given safety concerns have plagued other autoimmune drugs.

BMY shares trade for less than 9 times the 2023 consensus analyst EPS forecast even as the stock has been an outperformer year-to-date. Bristol has a heritage of supporting its pipeline by bringing in partners to share the development costs and diversify the risks of clinical and regulatory failure, and the acquisition of Celgene moved Bristol further into the specialty pharma segment. Recent FDA approval of respective cancer and heart failure drugs Opdualag and Camzyos, along with new approvals for current drug Opdivo, are solid strides to not just offset losses from multiple myeloma drug Revlimid, which has lost patent protection starting this year, but to continue to grow the top line. The dividend yield is 3.0% and our Target Price for BMY is \$102.

AMGN shares shed about 7% on the news, although the biotech received some good news of its own last week when new data suggested a new lung-cancer pill (Lumakras) beat out chemotherapy-the current treatment. Wall Street currently projects the drug will generate \$1 billion of sales by 2025, though it’s more expensive than chemo (albeit with reportedly fewer side effects), and a major target is second-line indications.

Despite the pressure on Otezla and accelerating competition for Enbrel expected in the next one to two years, we are patient while Amgen works through its pipeline of promising oncology drugs. Meantime, newer osteoporosis drug Evenity and asthma drug Tezspire also should support modest revenue growth. Amgen shares trade for a reasonable 13 times NTM EPS and sport a 3.4% dividend yield. Our Target Price is \$301.

**Gilead Sciences** (GILD – \$65.60) announced last Monday that it had entered into agreements with five generic manufacturers to resolve the litigation and patent challenges associated with

certain Gilead therapeutics containing TAF-based, HIV pre-exposure prophylaxis (PrEP) products including Descovy, Vemlidy and Odefsey. The deal was similar to another one in 2014 for then-PrEP workhorse Truvada and pushes the threat of generics to no earlier than Halloween 2031.

Not only does the deal protect PrEP revenue for an additional 6 years beyond when many had expected generics to arrive, it also extends the runway for Gilead to pursue a long-acting PrEP. The company's Chief Commercial Officer Johanna Mercier recently said, "I think Lenacapavir can potentially offer that," which was recently approved for the treatment of HIV in Europe last July with a decision expected from the U.S. FDA in December. Ms. Mercier added, "And why it's so interesting, it's not just because of its potency and its safety, it's actually super interesting because of the flexibility of dosing. It can be dosed daily oral all the way up to [subcutaneously] every 6 months and anywhere in between that as well."

The drug is not without competition, however as GlaxoSmithKline controlled ViiV Healthcare has obtained FDA approval for its own long-acting PrEP jab, although injections are required on a bi-monthly basis and a negative HIV test is required before each shot. Gilead also settled with ViiV earlier this year to resolve litigation related to Gilead's Biktarvy and ViiV's Dolutegravir patents which resulted in an upfront payment of \$1.25 billion by Gilead to ViiV. In addition, Gilead will also pay a 3% royalty on all future U.S. sales of Biktarvy (\$6.09 billion in 2020) and in respect to the bictegravir component of any other future bictegravir-containing products sold in the U.S.

While the latest settlement certainly offers GILD some breathing room, we still think the biggest wildcard (with arguably the largest upside) remains the future of Gilead's oncology portfolio, with over \$40 billion of purchases over the past 5 years slow in bearing fruit. But strong performers in Yescarta and Trodelvy (from the acquisitions of Kite Pharma in 2017 and Immunomedics in 2020, respectively) remain promising with the former drug expected to breach \$1 billion in sales this year and the latter by 2024. Robust cash-flow generation ought to afford additional spending for R&D and/or additional bolt-on acquisitions, while supporting the robust dividend (the yield is 4.5%). Shares have held up pretty well year-to-date, (outperforming the S&P by over 10% on a price basis), though our relatively small position in the stock remains up for grabs versus other potential opportunities presented in the latest market volatility. We do like the single-digit P/E multiple. For the time being, our Target Price for GILD has been adjusted to \$86.

**Allstate** (ALL – \$129.42) management suggested at an analyst conference last Wednesday that it would take steps to deal with the high inflationary environment, which has rapidly increased claims expense in the past eight to twelve months. This follows a period of achieving above-average profit throughout the pandemic, allowing ALL to return a portion of premiums back to customers.

CEO Tom Wilson said Allstate would raise auto insurance rates, implement underwriting restrictions in underperforming markets, continue to reduce expenses and modify claim practices, all in anticipation of driving the firm's combined ratio back into the mid-90s. Indeed, in a release the following day, ALL detailed, "During the month of August, the Allstate brand

implemented rate increases of 14.5% across 8 locations, resulting in total Allstate brand insurance premium impact of 3.2%.” Wall Street applauded the move with shares rising as much as 4%, on an otherwise sour day for equity markets.

On top of these actions, ALL has lowered the duration of its bond portfolio by half, and estimates the action avoided about \$1.3 billion of losses from rising interest rates. It has also been an active repurchaser of shares, reducing the outstanding shares by 4.6% just in the first half of this year.

We had expected profitability to normalize from the uncharacteristically low loss ratio of 83.3 experienced early last year and still find the stock a solid value, trading for just 11.3 times the consensus 2023 EPS estimate, with EPS growth expected in subsequent years. Allstate boasts a vast distribution network, scale and resulting cost advantages, and pricing sophistication. Even as ALL has been a major outperformer year-to-date, the dividend yield is 2.6%. We have bumped our Target Price up to \$161.

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