Market Commentary Monday, October 3, 2022

October 2, 2022

EXECUTIVE SUMMARY

Newsletter Trades – 2 Sells & 1 Buy
TPS 672 – October Newsletter Coming Tuesday
Market Week – Another Sizable Selloff for Stocks and Bonds
Words of Wisdom – Al Frank Perspective on Long-Term Investing
Volatility – Ups and Downs Not Unusual; Valuations Attractive
Econ Outlook – Consumer Holding Up; Q3 GDP Forecast Rises; OECD Projecting Very Modest U.S. Growth in 2022 and 2023
Inflation – PCE Rises; Future Expectations Decline; Fed Funds Futures Less Hawkish
Sentiment – Be Greedy When Others are Fearful
Stock News – Updates on AAPL, QCOM, MU, COHU, KLIC, LRCX, JBL, FL, DKS, RCL & META

Market Review

As discussed on our *Sales Alert* on Tuesday, September 27, we made the following trades for our two real-money newsletter portfolios on Thursday, September 29:

TPS Portfolio
Sold 711 **Delta Airlines** (DAL – $28.06) at $28.3001
Bought 70 **FedEx** (FDX – $148.47) at $148.125

Buckingham Portfolio
Sold 128 DAL at $28.3001
Sold 113 **Alaska Airlines** (ALK – $39.15) at $39.21
Bought 31 FDX at $148.125

We will use the $28.3001 price to close out the 186 and 671 DAL shares respectively held in our hypothetical Millennium Portfolio and PruFolio on September 29.

We will use the $39.21 price to close out the 223 and 313 ALK shares respectively held in Millennium Portfolio and PruFolio, also on September 29.

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Work is underway on the October edition of *The Prudent Speculator*. This month we have one new recommendation while our *Graphic Detail* offers long-term perspective from a Value-stock basis to help navigate today's miserable market environment. If all goes according to plan, *TPS 672* will be emailed out on Tuesday, October 4.

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Speaking of miserable, stocks continued to sell off last week, with the major market averages pushing further into Bear Market territory.

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 bad kind of volatility happening again last week. The Nasdaq Composite index is now down 32.0% and the U.S. Aggregate Bond index is off 14.6% 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	M	-2.92	-19.72	-13.40	12.60	7.52	62.55	13.65	43.03	Dow Jones Industrial Average	DJITR Index
1.01	-10.21	A	-2.30	-19.96	-14.43	13.46	11.19	63.23	11.52	25.36	New York Stock Exchange Composite	NYA Index
-39.18	-20.81	R	-2.68	-31.99	-26.23	-1.63	-3.85	57.22	35.63	70.76	Nasdaq Composite Index	CCMP Index
-22.43	-9.23	K	0.60	-29.28	-29.27	-6.45	-5.74	51.38	9.07	19.32	Russell 2000 Growth	RU20GRTR Index
22.83	14.02	E	-2.27	-21.12	-17.69	30.27	34.93	90.14	14.85	15.21	Russell 2000 Value	RU20VATR Index
-3.02	2.49	T	-0.82	-25.10	-23.50	10.66	12.98	71.17	13.42	19.08	Russell 2000	RU20INTR Index
-11.75	-20.15		-0.68	-31.45	-29.50	-8.14	-8.03	52.34	13.34	44.39	Russell Midcap Growth Index Total Return	RUMCGRTR Index
19.18	2.33		-2.50	-20.36	-13.56	21.96	23.09	86.42	14.11	26.15	Russell Midcap Value Index Total Return	RUMCVATR Index
8.25	-5.62	O	-1.85	-24.27	-19.39	10.62	11.32	75.31	16.39	36.89	Russell Midcap Index Total Return	RUMCINTR Index
-22.42	-19.63	F	-2.64	-30.57	-23.01	1.42	-1.78	62.74	33.69	72.85	Russell 3000 Growth	RU30GRTR Index
8.04	-4.33		-2.54	-17.97	-11.79	21.81	20.54	70.25	13.71	28.32	Russell 3000 Value	RU30VATR Index
-7.46	-11.46	S	-2.59	-24.62	-17.63	11.03	8.63	67.50	24.93	51.17	Russell 3000	RU30INTR Index
9.64	-0.39	T	-2.54	-20.68	-13.53	22.55	21.80	85.31	24.84	47.10	S&P 500 Equal Weighted	SPXEWTR Index
-9.10	-11.89	O	-2.88	-23.87	-15.47	12.89	9.89	66.75	26.54	55.55	S&P 500	SPXT Index
-22.08	-12.73	C	-3.06	-30.41	-21.11	4.89	1.66	64.15	32.81	71.70	S&P 500 Growth	SPTRSGX Index
6.08	-11.71		-2.72	-16.56	-9.63	21.75	19.31	65.55	16.12	34.91	S&P 500 Value	SPTRSVX Index
3.18	1.57	K	-0.72	-19.89	-20.43	-21.23	-21.16	-14.16	-16.24	-11.06	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index
11.63	8.44	S	-0.99	-14.61	-14.60	-14.98	-15.36	-10.54	-9.45	-1.34	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index

As of 09.30.22. Source Kovitz using data from Bloomberg

No doubt, the global headlines remined disconcerting, ranging from developments in the war in Ukraine to the devastation inflicted on Florida and elsewhere by Hurricane Ian to the continued carnage in sovereign debt.

THE PRUDENT SPECULATOR

UNPRECEDENTED VOLATILITY IN U.K. GOVERNMENT BONDS

There was unbelievable drama last week when the British government unveiled a surprise tax cut, triggering a massive spike in the yield on long-dated gilts. And, for the month of September, the benchmark 10-year U.K government bond plunged almost 10% in price as the yield soared from 2.80% to 4.09%.

With plenty of leverage utilized in bond-land, we suppose it shouldn't be a big surprise that the spectacular rise in interest rates,…

THE PRUDENT SPECULATOR

REWARD FREE RISK – GERMAN BUNDS

On 8.11.21, Germany issued €5 billion of 10-year bonds with a coupon of 0% in a deal that attracted plenty of "interest" at a price of €104.56. That is not a typo! In order to receive €100 back in 10 years and NO interest along the way, "investors" gladly paid €104.56, locking in a sizable loss if held to maturity. Hoping to lose roughly 0.46% per annum, they must be thrilled with the 43 times expected annual return (the bonds have lost more than 20%) over the past 13 months!

…would lead to short-term turbulence in financial assets around the world. After all, as Warren Buffett states, when the tide goes out, you see who has been swimming naked, even as decades of market history show that equities have overcome all sorts of frightening events in the fullness of time.

THE PRUDENT SPECULATOR

KEEP CALM AND CARRY ON

Event	Reaction Dates		S&P Start Value	S&P End Value	Event Gain/Loss	12 Months Later	36 Months Later	60 Months Later	Event End thru Present
Pearl Harbor	12/6/1941	12/10/1941	9.32	8.68	-7%	8%	51%	76%	41209%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	23804%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	21384%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	8315%
Suez Canal Crisis	10/30/1956	10/31/1956	46.37	45.58	-2%	-10%	26%	51%	7767%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	9099%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	6603%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	5051%
MLK Assassination	4/3/1968	4/5/1968	93.47	93.29	0%	8%	8%	16%	3744%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	4653%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	3791%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	5023%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	3308%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	3551%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	2901%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	2115%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	1365%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	1495%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	1034%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	852%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	771%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	709%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	684%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	610%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	309%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	274%
Clinton Impeachment	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	191%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	167%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	271%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	291%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	229%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	199%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	430%
Price Changes Only - Does Not Include Dividends				**Averages:**	**-7%**	**18%**	**39%**	**66%**	**4915%**

As of 9.30.22. Source: Kovitz using Bloomberg and Ned Davis Research Events & Reaction Dates

Certainly, we do not wish to downplay the significant losses suffered this year, while we respect that the war in Ukraine, supply-chain issues, inflation, high interest rates, Federal Reserve tightening and a slowing economy remain sizable headwinds. Current headlines are troubling, but there have been more than a few frightening events throughout history, yet stocks have still managed to move higher in the fullness of time.

Interestingly, a couple of those scary periods included the Asian-Contagion equity plunge in the fall of 1997 and the collapse of Long Term Capital Management in 1998, due in large part to Russia defaulting on its debt. The U.S. equity market suffered huge losses during that period, with Al Frank's *TPS* Portfolio then off far worse than today's declines, prompting our founder to pen the words of wisdom below.

"As I struggle to maintain the tranquility and perspective of long-term investing, which has been a bit shaken by recent actions in the stock market, I hope you too can maintain the belief that 'this too shall pass away.' Life is pain and suffering as well as joy and triumph, but not necessarily in equal amounts. I think there are many who believe life is a hard struggle with intermittent periods of relief, while others believe that life is generally good with intermittent moments of trauma and darkness. Let us belong to the positive, optimistic class and not let the plethora of seemingly negative events, in the stock market and elsewhere, shake our faith in the good we now have."

—Al Frank

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Now, most understand that volatility is a normal part of the equity investing process,…

THE PRUDENT SPECULATOR

PERSPECTIVE: 10% UPS AND DOWNS SINCE TPS INCEPTION

S&P 500 Moves (on a Closing Basis) of 10% Without a Comparable Move in the Other Direction

9/12/1978	11/14/1978	-13.55%	BEAR	3/6/1978	9/12/1978	23.12%	BULL
10/5/1979	11/7/1979	-10.25%	BEAR	11/14/1978	10/5/1979	20.30%	BULL
2/13/1980	3/27/1980	-17.07%	BEAR	11/7/1979	2/13/1980	18.59%	BULL
11/28/1980	9/25/1981	-19.75%	BEAR	3/27/1980	11/28/1980	43.07%	BULL
11/30/1981	3/8/1982	-15.05%	BEAR	9/25/1981	11/30/1981	12.04%	BULL
5/7/1982	8/12/1982	-14.27%	BEAR	3/8/1982	5/7/1982	11.30%	BULL
10/10/1983	7/24/1984	-14.38%	BEAR	8/12/1982	10/10/1983	68.57%	BULL
8/25/1987	10/19/1987	-33.24%	BEAR	7/24/1984	8/25/1987	127.82%	BULL
10/21/1987	10/26/1987	-11.89%	BEAR	10/19/1987	10/21/1987	14.92%	BULL
11/2/1987	12/4/1987	-12.45%	BEAR	10/26/1987	11/2/1987	12.33%	BULL
10/9/1989	1/30/1990	-10.23%	BEAR	12/4/1987	10/9/1989	60.68%	BULL
7/16/1990	10/11/1990	-19.92%	BEAR	1/30/1990	7/16/1990	14.23%	BULL
10/7/1997	10/27/1997	-10.80%	BEAR	10/11/1990	10/7/1997	232.74%	BULL
7/17/1998	8/31/1998	-19.34%	BEAR	10/27/1997	7/17/1998	35.32%	BULL
9/23/1998	10/8/1998	-10.00%	BEAR	8/31/1998	9/23/1998	11.37%	BULL
7/16/1999	10/15/1999	-12.08%	BEAR	10/8/1998	7/16/1999	47.88%	BULL
3/24/2000	4/14/2000	-11.19%	BEAR	10/15/1999	3/24/2000	22.45%	BULL
9/1/2000	4/4/2001	-27.45%	BEAR	4/14/2000	9/1/2000	12.10%	BULL
5/21/2001	9/21/2001	-26.43%	BEAR	4/4/2001	5/21/2001	19.00%	BULL
1/4/2002	7/23/2002	-31.97%	BEAR	9/21/2001	1/4/2002	21.40%	BULL
8/22/2002	10/9/2002	-19.31%	BEAR	7/23/2002	8/22/2002	20.68%	BULL
11/27/2002	3/11/2003	-14.71%	BEAR	10/9/2002	11/27/2002	20.87%	BULL
10/9/2007	3/10/2008	-18.64%	BEAR	3/11/2003	10/9/2007	95.47%	BULL
5/19/2008	10/10/2008	-36.97%	BEAR	3/10/2008	5/19/2008	12.04%	BULL
10/13/2008	10/27/2008	-15.39%	BEAR	10/10/2008	10/13/2008	11.58%	BULL
11/4/2008	11/20/2008	-25.19%	BEAR	10/27/2008	11/4/2008	18.47%	BULL
1/6/2009	3/9/2009	-27.62%	BEAR	11/20/2008	1/6/2009	24.22%	BULL
4/23/2010	7/2/2010	-15.99%	BEAR	3/9/2009	4/23/2010	79.93%	BULL
4/29/2011	10/3/2011	-19.39%	BEAR	7/2/2010	4/29/2011	33.35%	BULL
5/21/2015	8/25/2015	-12.35%	BEAR	10/3/2011	5/21/2015	93.85%	BULL
11/3/2015	2/11/2016	-13.31%	BEAR	8/25/2015	11/3/2015	12.97%	BULL
1/26/2018	2/8/2018	-10.16%	BEAR	2/11/2016	1/26/2018	57.07%	BULL
9/20/2018	12/24/2018	-19.78%	BEAR	2/8/2018	9/20/2018	13.55%	BULL
2/19/2020	3/23/2020	-33.92%	BEAR	12/24/2018	2/19/2020	44.02%	BULL
1/3/2022	3/8/2022	-13.05%	BEAR	3/23/2020	1/3/2022	114.38%	BULL
3/29/2022	6/16/2022	-20.83%	BEAR	3/8/2022	3/29/2022	11.05%	BULL
8/16/2022	9/30/2022	-16.71%	BEAR	6/16/2022	8/16/2021	17.41%	BULL
Average Drop		**-18.23%**		**Average Gain**		**40.82%**	

SOURCE: Kovitz using data from Bloomberg

Trading has been volatile this year, to say the least, with stocks suffering their worst performance since the five-week 2020 Bear Market brought on by the COVID-19 Pandemic. While the S&P 500 quickly rallied out of correction territory in March, it closed on 6.16.22 below the Bear Market level with a 20.83% decline from the 03.29.22 interim high, before soaring 17.41% over the next two months. However, a new downturn has since set in, with the S&P now off 16.71% from its August high-water mark. Of course, ups and downs are not unusual for equities, and we are now enduring the 37th decline of 10% or greater since the launch of *The Prudent Speculator* 45+ years ago. Happily, there also have been 37 rallies of 10% or more along the way, with the average gain during those periods in the green dwarfing the average loss for times in the red.

…with Bear Markets having occurred every 3.4 years on average, yet stocks have managed terrific long-term returns.

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	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%	-28.0%	185	46	2.0	8/16/2022	9/30/2022
-12.5%	-22.7%	137	73	1.3	8/16/2022	9/30/2022
-10.0%	-19.6%	101	100	0.9	8/16/2022	9/30/2022
-7.5%	-15.5%	65	159	0.6	8/16/2022	9/30/2022
-5.0%	-10.9%	36	312	0.3	9/12/2022	9/30/2022

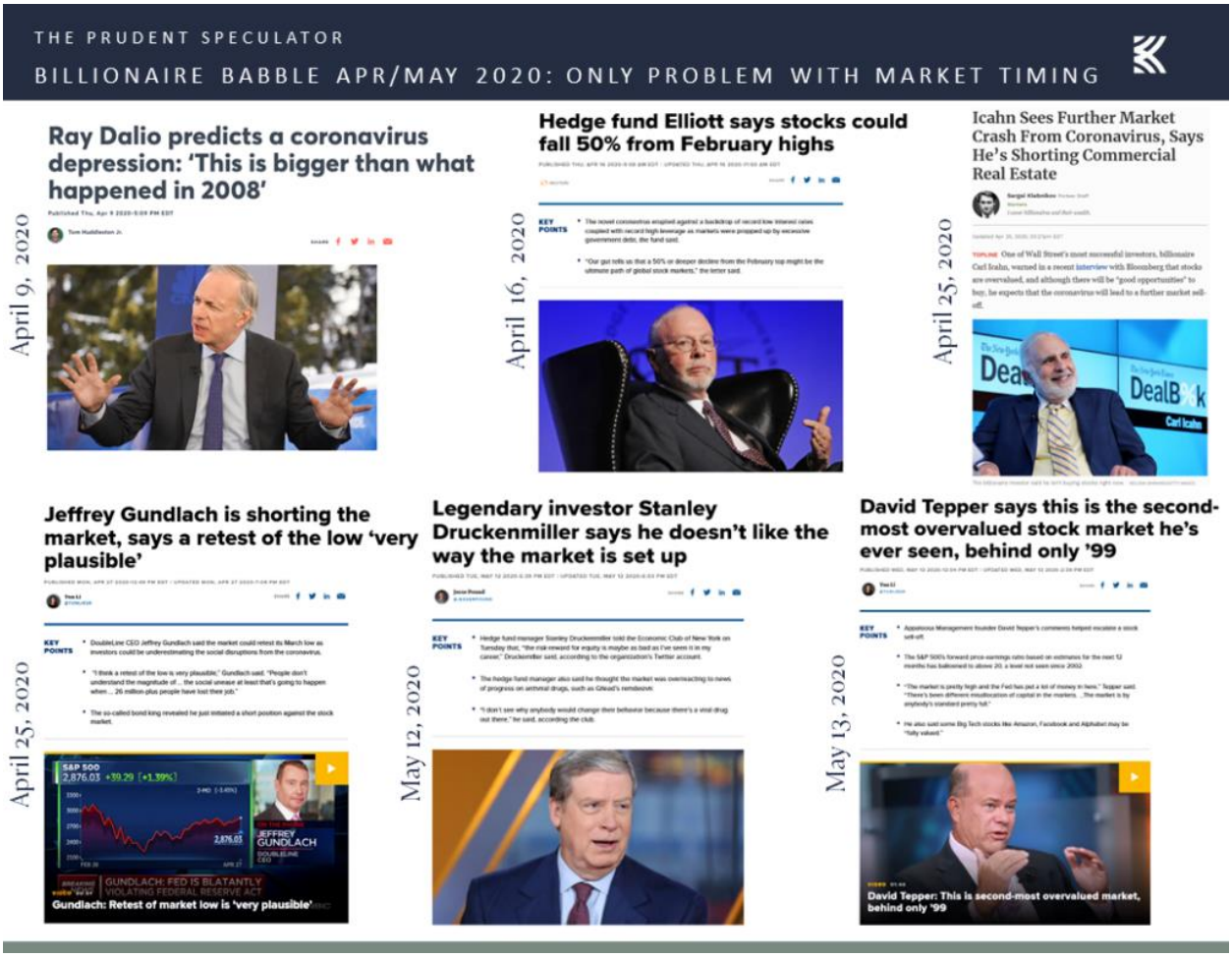
From 02.20.28 through 09.30.22. S&P 500 Price return series. We defined a Declining Market as an instance when stocks dropped the specified percentage or more without a recovery of equal magnitude, and an Advancing Market as in instance when stocks appreciated the specified percentage or more without 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%	4.3%
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

We know that the siren songs of the purveyors of doom-and-gloom have been growing louder, as is always the case any time equities head south rapidly,…



…so we continue to focus on the inexpensive valuation metrics and generous dividend yields maintained by our broadly diversified portfolios of what we believe to be undervalued stocks.

THE PRUDENT SPECULATOR

MANAGED ACCOUNT METRICS & BENCHMARKS

CURRENT PORTFOLIO AND INDEX VALUATIONS

Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	10.7	9.9	0.8	1.9	3.1
ValuePlus	11.1	10.2	1.0	2.0	2.7
Dividend Income	10.4	9.9	0.7	1.9	3.6
Focused Dividend Income	11.5	10.8	0.9	2.2	3.1
Focused ValuePlus	11.4	11.1	1.1	2.3	2.9
Small-Mid Dividend Value	9.2	8.6	0.5	1.4	3.4
Russell 3000	19.2	16.4	1.9	3.3	1.8
Russell 3000 Growth	27.2	22.3	2.9	8.7	1.1
Russell 3000 Value	14.7	13.0	1.4	2.1	2.6
Russell 1000	18.2	16.2	2.1	3.5	1.8
Russell 1000 Growth	25.5	22.0	3.2	9.0	1.1
Russell 1000 Value	14.0	12.7	1.5	2.1	2.6
S&P 500 Index	17.6	16.0	2.2	3.6	1.9
S&P 500 Growth Index	21.3	19.5	3.8	6.6	1.1
S&P 500 Value Index	15.1	13.7	1.5	2.5	2.6
S&P 500 Pure Value Index	9.3	8.6	0.6	1.3	3.0

As of 10.01.22. 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.

It also helps us stay sanguine that we think that stocks in general are attractively valued, despite the big jump in interest rates,…

THE PRUDENT SPECULATOR

INTEREST RATES STILL SUPPORTIVE OF STOCKS

The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. Though many dismiss the Fed Model, investing is always a choice of this or that, and we still like today's rich earnings yield (5.69% vs. 3.83% 10-Year), despite the jump in interest rates.

…even as we realize that the probability of recession in the U.S. remains high.

THE PRUDENT SPECULATOR

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

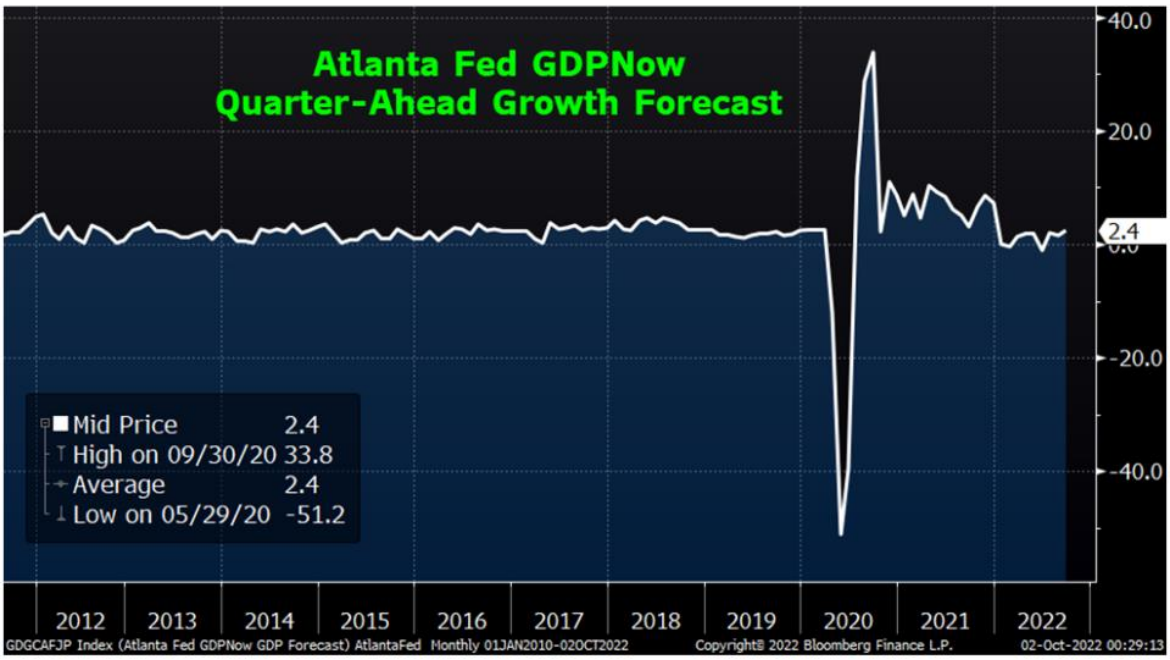
The respective 1.6% and 0.6% contractions in Q1 and Q2 2022 real (inflation-adjusted) GDP means economists could say that the U.S. economy is in recession, but the odds of an official declaration stand today at 50%, meaning the consensus forecast is split down the middle.

Of course, lost in the big front-pager headlines last week was that the latest estimate for Q3 domestic GDP growth from the Atlanta Fed jumped to 2.4%, up from 0.3% on September 27,…

THE PRUDENT SPECULATOR

Q3 U.S. REAL GDP GROWTH PROJECTION JUMPS TO 2.4%

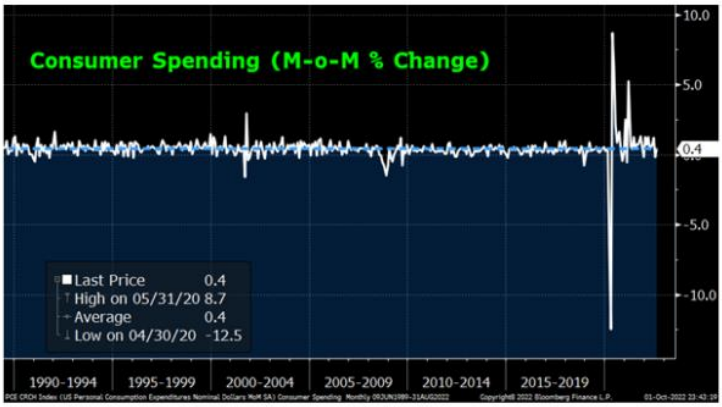
Q1 and Q2 2022 saw respective 1.6% and 0.6% contractions in real (inflation-adjusted) GDP growth, as the Omicron variant, supply-chain difficulties, the war in Ukraine and inflation impacted the economy, but the Atlanta Fed's projection for Q3 2022 real GDP growth on an annualized basis as of September 30 stood at 2.4%.



…with the projection bolstered by a better-than-expected report on the health of the consumer,…

THE PRUDENT SPECULATOR

CONSUMER SPENDING & PERSONAL INCOMES BOTH RISE



Despite a slowing economy and sky-high inflation levels, consumer spending rose 0.4% on a nominal basis in August and 0.1% on an inflation-adjusted basis, with lower gas prices helping pocketbooks and the advance suggesting that the economy is not likely to tip into recession soon. Shoppers did not have to reach too deeply into their wallets as personal income gained 0.3% and the savings rate held at 3.5%, though the latter figure represented a 14-year low.

…not to mention continued surprisingly strong numbers on the jobs front.

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 24 were a seasonally adjusted 193,000, down from a revised 209,000 the week prior. Continuing claims filed through state programs fell to 1.35 million, near the lowest level since 1969 as businesses continue to hold onto workers with labor so difficult to obtain.

True, it is hardly as if everything is unicorns and rainbows for the economy, but the mood of the consumer has been relatively upbeat,…

THE PRUDENT SPECULATOR

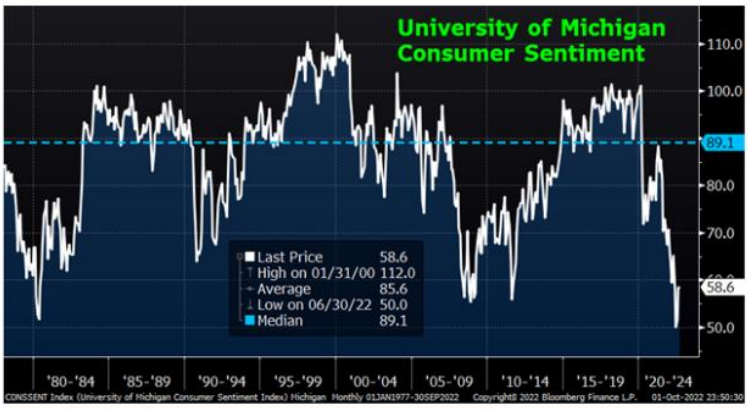
STRONGER- AND WEAKER-THAN-EXPECTED ECONOMIC FIGURES

Consumer confidence, per data from the Conference Board, jumped to a 5-month high of 108.0 in September, significantly above forecasts as the strong labor market and falling gas prices provided a major boost. On the other hand, the Chicago Business Barometer, also known as the regional manufacturing PMI, fell to a much-worse-than-expected reading of 45.7 in September, down from 52.2 in August and well below the historical average.

…rebounding from very pessimistic levels a couple of months back,…

THE PRUDENT SPECULATOR

CONSUMER SENTIMENT REBOUNDS AFTER RECORD LOW



University of Michigan Consumer Sentiment
Cyclical Lows & Subsequent Equity Returns

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

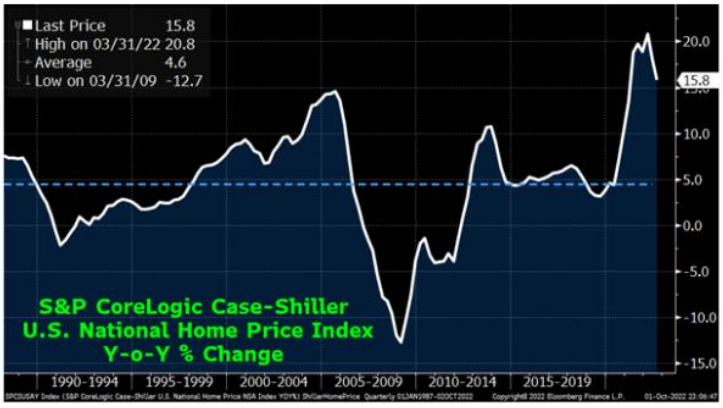
TR = Total Return. SPX = S&P 500. Value = Value Weighted Book to Market Portfolios - Blend of Small Value and Big Value.
Source: Kovitz Investment Group using data from Bloomberg, Professors Eugene F. Fama & Kenneth R. French and the Univ. of Michigan

The latest read on the Univ. of Michigan's Consumer Sentiment gauge was weaker than expected, even as it bounced back 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.

…with the housing market holding up much better than many would have expected.

THE PRUDENT SPECULATOR

LOTS OF WEALTH HAS BEEN ACCUMULATED IN HOMES



Obviously, soaring mortgage rates have crimped housing affordability, so home prices are starting to be impacted, falling in July as compared to June. Still, folks who own the roof over their heads have accumulated substantial wealth over the past decade and especially over the past 12 months, with the quarterly S&P CoreLogic Case-Shiller National Home Price Index up a whopping 15.8% year-over-year in July. Sales of new homes in August also surprised sharply to the upside, rebounding to a much-better-than-expected 685,000 from a revised 532,000 in July.

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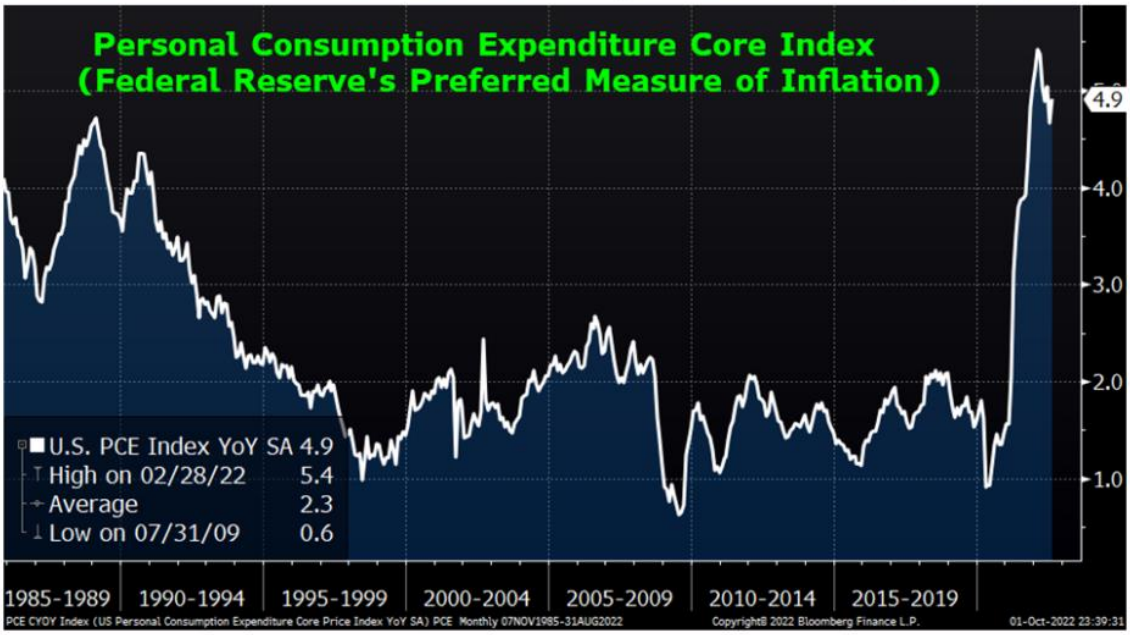
To be sure, we had another hot inflation reading last week,…

THE PRUDENT SPECULATOR

INFLATION NOT TRANSITORY AND AUGUST CORE PCE TICKS HIGHER

The Federal Reserve's preferred gauge of inflation, the core Personal Consumption Expenditure (PCE), rose in August by 4.9%, above the 2.0% target and above Wall Street expectations. The figure was up from July's 4.6% increase and the number did little to alleviate concerns that the Fed will continue to hike interest rates, even as the full PCE index "only" rose 6.2% vs. 6.4% in July.



…though inflation expectations have continued to retreat,…

THE PRUDENT SPECULATOR

LONGER-TERM INFLATION EXPECTATIONS CONTINUE TO DECLINE

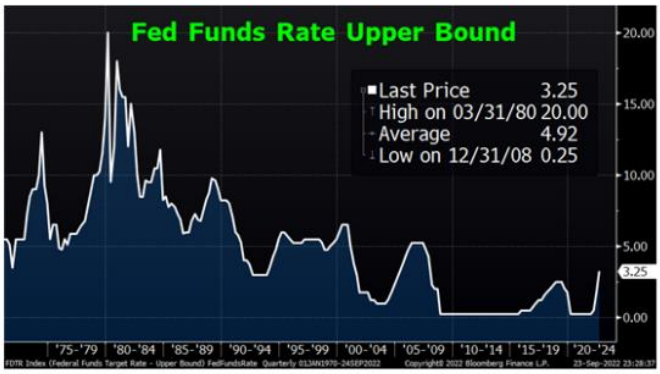
Likely bringing a modest smile to Jerome H. Powell, per data from the Univ. of Michigan, inflation expectations for the next year fell to 4.7% in September, the lowest level in 12 months, while the five-year inched lower to 2.7%, a 14-month low. The "contained" view of prices for the long-term echoed the New York Fed's latest median expectation of inflation over the next three years, which dropped to 2.8% in August from 3.2% in July, with the tally the lowest since November 2020.

…with the Fed Funds futures market modestly reducing the number of expected additional rate hikes from the Federal Reserve last week.

THE PRUDENT SPECULATOR

FED FIGHTING INFLATION – INTEREST RATES STILL HISTORICALLY LOW

Although the estimate for real GDP growth this year was pared to 0.2% in September, down from 2.8% in March, the Federal Reserve lifted its target for the Fed Funds rate by 75 basis points at each of the June, July and September FOMC meetings. Jerome H. Powell & Co. were projecting that the Fed Funds rate will likely end the year at 4.4%, which still would be below the historical average. The Fed Funds futures became a bit less hawkish last week, with a projected 4.24% year-end Fed Funds rate and a 4.53% estimated peak for March 2023, with a cut coming in May 2023.



We understand that economic conditions are expected to weaken, with the Organisation for Economic Co-operation and Development lowering its global growth outlook last week, but the OECD is still projecting a 1.5% expansion in real (inflation-adjusted) GDP for the U.S. this year and 0.5% next year.

THE PRUDENT SPECULATOR

OECD – GLOBAL ECONOMY STILL GROWING, BUT MUCH MORE SLOWLY

Despite a boost in activity as COVID-19 infections drop worldwide, global growth is projected to remain subdued in the second half of 2022, before slowing further in 2023 to an annual growth of just 2.2%. Compared to OECD forecasts from December 2021, before Russia's aggression against Ukraine, global GDP is now projected to be at least USD 2.8 trillion lower in 2023. There are many costs to Russia's war, but this gives some sense of the worldwide price of the war in terms of economic output.— *OECD, September 2022*

Table 1. **OECD Interim Economic Outlook GDP projections September 2022**

Real GDP growth, year-on-year, per cent

	2021	2022		2023	
		Interim EO projections	Difference from June EO	Interim EO projections	Difference from June EO
World	5.8	3.0	0.0	2.2	-0.6
G20[1]	6.2	2.8	-0.1	2.2	-0.6
Australia	4.9	4.1	-0.1	2.0	-0.5
Canada	4.5	3.4	-0.4	1.5	-1.1
Euro area	5.2	3.1	0.5	0.3	-1.3
Germany	2.6	1.2	-0.7	-0.7	-2.4
France	6.8	2.6	0.2	0.6	-0.8
Italy	6.6	3.4	0.9	0.4	-0.8
Spain[2]	5.5	4.4	0.3	1.5	-0.7
Japan	1.7	1.6	-0.1	1.4	-0.4
Korea	4.1	2.8	0.1	2.2	-0.3
Mexico	4.8	2.1	0.2	1.5	-0.6
Türkiye	11.0	5.4	1.7	3.0	0.0
United Kingdom	7.4	3.4	-0.2	0.0	0.0
United States	5.7	1.5	-1.0	0.5	-0.7
Argentina	10.4	3.6	0.0	0.4	-1.5
Brazil	4.9	2.5	1.9	0.8	-0.4
China	8.1	3.2	-1.2	4.7	-0.2
India[3]	8.7	6.9	0.0	5.7	-0.5
Indonesia	3.7	5.0	0.3	4.8	0.1
Russia	4.7	-5.5	4.5	-4.5	-0.4
Saudi Arabia	3.4	9.9	2.1	6.0	-3.0
South Africa	4.9	1.7	-0.1	1.1	-0.2

Table 2. **OECD Interim Economic Outlook headline inflation projections September 2022**

Headline inflation, per cent

	2021	2022		2023	
		Interim EO projections	Difference from June EO	Interim EO projections	Difference from June EO
G20[1]	3.8	8.2	0.6	6.6	0.3
Australia	2.8	6.1	0.9	4.4	0.3
Canada	3.4	6.9	0.9	4.5	0.6
Euro area	2.6	8.1	1.1	6.2	1.6
Germany	3.2	8.4	1.2	7.5	2.8
France	2.1	5.9	0.7	5.8	1.3
Italy	1.9	7.8	1.5	4.7	0.9
Spain[2]	3.0	9.1	1.0	5.0	0.2
Japan	-0.2	2.2	0.3	2.0	0.1
Korea	2.5	5.2	0.4	3.9	0.1
Mexico	5.7	7.9	1.0	4.9	0.5
Türkiye	19.6	71.0	-1.0	40.8	1.9
United Kingdom	2.6	8.8	0.0	5.9	-1.5
United States	3.9	6.2	0.3	3.4	-0.1
Argentina	50.9	92.0	31.9	83.0	32.4
Brazil	8.3	10.8	1.1	6.6	1.3
China	0.8	2.2	0.2	3.1	0.1
India[3]	5.5	6.7	0.0	5.9	-0.6
Indonesia	1.6	4.1	0.3	3.9	0.1
Russia	6.7	13.9	-2.3	6.8	-6.5
Saudi Arabia	3.1	2.5	0.3	3.2	0.5
South Africa	4.6	6.7	0.7	5.9	0.1

Certainly, the OECD forecasts are nothing to write home about, but the economic backdrop is still expected to be supportive of corporate profits, with the understanding that supply-chain woes are impacting near-term results.

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	$62.46	$239.03
9/30/2023	$60.56	$233.98
6/30/2023	$59.13	$228.66
3/31/2023	$56.88	$216.40
12/31/2022	$57.41	$208.88
9/30/2022	$55.24	$208.20
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 9.21.22

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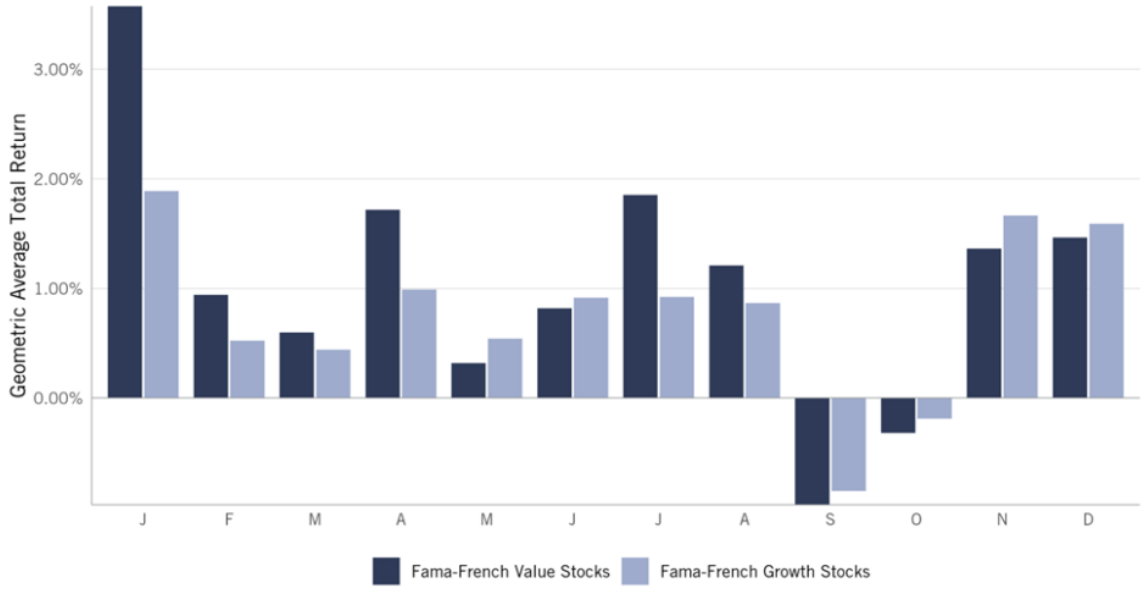
It is hard to believe that the selling pressure will lessen when trading resumes this week, and October historically is the second worst month of the year on average,…

THE PRUDENT SPECULATOR

SEPTEMBER STATISTICALLY THE WORST MONTH OF THE YEAR

Mark Twain said, "October: This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August and February." Of course, history shows that, on average, September and October are the only two months with negative returns.



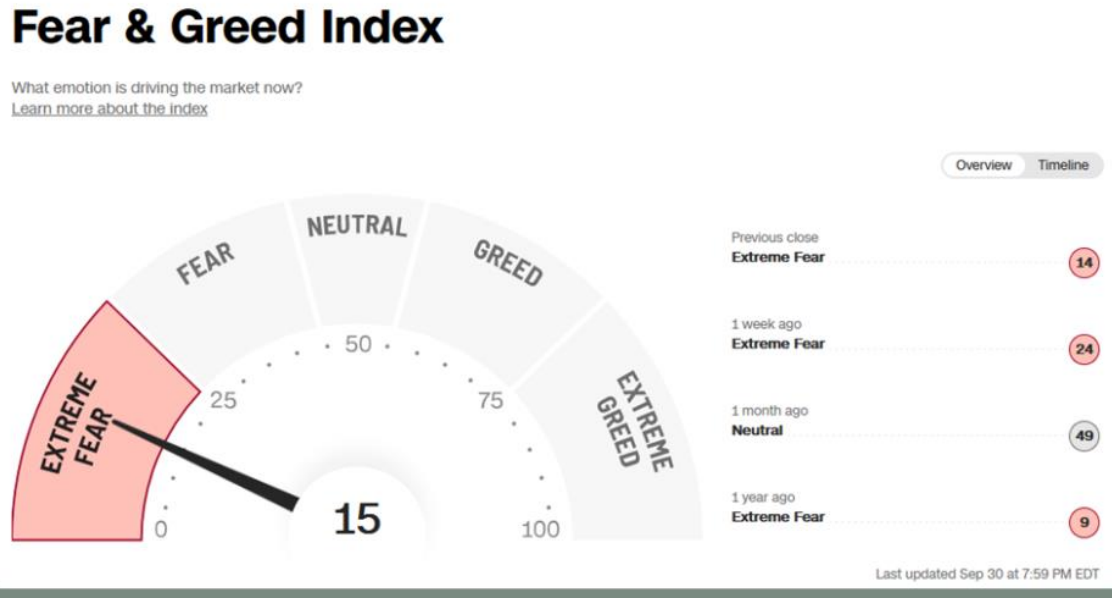
From 12.31.27 through 12.31.21. Geometric average. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

…but we continue to think that a significant amount of bad news is in stock prices, while the contrarian in us likes the heightened level of investor pessimism we have been seeing,…

THE PRUDENT SPECULATOR

FEAR & GREED INDEX…BE GREEDY WHEN OTHERS ARE FEARFUL

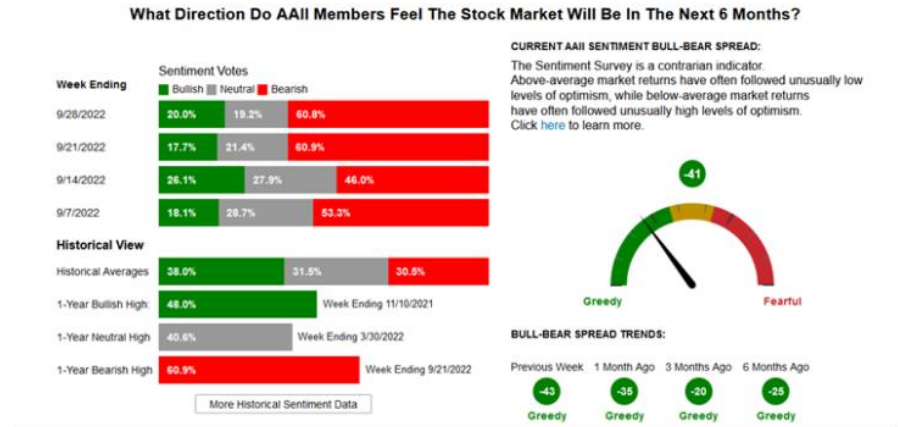
With the major averages well into Bear Market territory, folks are very scared. The *CNNMoney* Fear & Greed Index is deep into the Extreme Fear zone, though not as negative as a year ago. Only Safe Haven Demand and Stock Price Strength are in Fear Territory of the seven Fear & Greed Indicators, with Market Momentum, Stock Price Breadth, Put and Call Options, Market Volatility and Junk Bond Demand all flashing Extreme Fear.



…especially as there is ample evidence to support the admonition to be greedy when others are fearful.

THE PRUDENT SPECULATOR

MAJOR AAII CONTRARIAN BUY SIGNAL: BULL-BEAR SPREAD = -40.8%



AAII Bull-Bear Spread

Decile	Low Reading of the Range	High Reading of the Range	Count	R3K Next 1-Week Arithmetic Average TR	R3K Next 1-Week Geometric Average TR	R3K Next 1-Month Arithmetic Average TR	R3K Next 1-Month Geometric Average TR	R3K Next 3-Month Arithmetic Average TR	R3K Next 3-Month Geometric Average TR	R3K Next 6-Month Arithmetic Average TR	R3K Next 6-Month Geometric Average TR
Below & Above Median Bull Bear Spread = 7.37											
BELOW	-54.0	7.4	917	0.23%	0.19%	1.14%	1.00%	3.35%	2.95%	6.56%	5.79%
ABOVE	7.4	62.9	916	0.17%	0.15%	0.55%	0.46%	2.01%	1.75%	4.70%	4.21%
Ten Groupings of 1833 Data Points											
1	-54.0	-16.2	184	0.43%	0.36%	2.08%	1.84%	4.74%	4.18%	8.93%	7.71%
2	-16.1	-8.3	183	0.28%	0.24%	0.86%	0.72%	3.49%	3.15%	6.40%	5.62%
3	-8.3	-2.0	190	0.31%	0.28%	1.28%	1.17%	3.44%	3.02%	7.47%	6.75%
4	-2.0	2.9	176	0.06%	0.03%	0.92%	0.83%	2.47%	2.10%	5.28%	4.73%
5	2.9	7.3	183	0.06%	0.04%	0.54%	0.44%	2.53%	2.26%	4.73%	4.20%
6	7.4	11.9	184	0.11%	0.09%	0.50%	0.38%	1.90%	1.66%	4.94%	4.49%
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 09.29.22. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

The gauge is widely viewed with a contrarian eye, so the tally of Bulls in the latest AAII Sentiment Survey coming in at 20.0% and the number of Bears residing at 60.8% is a major positive. The minus 40.8% Bull-Bear spread is 10th lowest ever and is in the most favorable (i.e. highest future returns) 1st decile of the weekly figures going back to 1987.

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.

Citing often-inaccurate unnamed supply chain sources, a *Bloomberg* article last week said that **Apple** (AAPL – $138.20) was cutting back on plans to boost iPhone production growth. The article claimed, "The Cupertino, California-based electronics maker has told suppliers to pull back from efforts to increase assembly of the iPhone 14 product family by as many as 6 million units in the second half of this year, said the people, asking not to be named as the plans are not public. Instead, the company will aim to produce 90 million handsets for the period, roughly the same level as the prior year and in line with Apple's original forecast this summer, the people said." As a result, Apple shares fell about 3% and extended the decline to more than 8% by the

time the week was over, with a prominent analyst downgrade of the stock not helping matters. Suppliers, like **Qualcomm** (QCOM – $112.98), were also dragged down with Apple.

Wall Street is always looking for an edge and supply-chain sources frequently serve as a useful way to derive customer trends. However, using supplier information for a company that uses several suppliers (such as Apple) is inherently problematic, especially as suppliers can see orders whacked for reasons outside of demand (low quality, delays, et cetera). Still, the problematic nature of the cuts was undone a bit by the third paragraph, which said that Apple was shifting production from the low-cost iPhone models to higher-end models. We suspect the margins are better on the high end. Will Apple trim production growth? Perhaps. Are we banking on one report? No. We consider Apple to be a key company in our broadly diversified portfolios and we aren't making any portfolio decisions based on short-term and unconfirmed rumors.

Of course, we realize that where there is smoke there may be fire, and we understand that the forward P/E ratio of 22 for AAPL leaves little margin for error in the current market environment. Our Target Price for AAPL has been trimmed to $180. Qualcomm, on the other hand, trades for just 9 times estimated earnings and yields 2.7%. Our Target Price for QCOM is presently $215.

Micron Technology (MU – $50.10) will be a *Portfolio Builder* feature in this month's *TPS 672*, and the memory maker's Q4 earnings report included additional detail on capital spending that we weren't able to fit in the column due to space constraints. CEO Sanjay Mehrotra said, "We made significant reductions to CapEx and now expect fiscal 2023 CapEx to be around $8 billion, down more than 30% year-over-year. CapEx would be lower if it were not for more than doubling our construction CapEx year-over-year to support the supply growth required to meet demand for the second half of this decade as well as investments for EUV lithography systems to support 1-gamma node development. WFE CapEx will decline nearly 50% year-over-year, and reflects a much slower ramp of our 1-beta DRAM and 232-layer NAND versus prior expectations. Fiscal 2023, WFE CapEx is focused on developing the technology capability of our leading nodes and new product introductions. To immediately address our inventory situation and reduced supply growth, we are reducing utilization in select areas in both DRAM and NAND. Our CapEx and utilization actions will have an adverse impact on our fiscal 2023 costs but they are necessary to bring our supply and inventory closer to industry demand. We will aim to grow our DRAM and NAND supply in line with demand over time while continuing to optimize our cost and portfolio to improve our profitability."

Mr. Mehrotra concluded, "We are a technology leader in both DRAM and NAND with a very competitive cost structure. We have leadership products and a strong portfolio that is transitioning towards high-value solutions. And we are gaining share in products that represent a more attractive profit pool in our industry. Our balance sheet is strong and allows us to invest appropriately to maintain technology, product and manufacturing leadership going forward. Our world-class quality and manufacturing expertise is recognized by our customers worldwide. We have delivered record revenues in multiple end markets in fiscal 2022 and while returning record levels of cash to our shareholders. While the near-term environment is challenging, we are confident in our ability to emerge stronger and deliver financial performance in line with our long-term financial model. The long-term manufacturing investments we are making will further

strengthen our diversified fab footprint and position us to capitalize on the exciting long-term opportunities ahead of us."

Certainly, for near-term-oriented investors, the whack in spending would be concerning, especially as MU supplies a wide variety of customers. Diminishing demand for MU's products likely reflects a softening production environment. Prior to the pandemic, there was a broad and heavy emphasis on just-in-time component deliveries. Management teams around the world started seeing substantial supply chain challenges and shareholders threw their hands up, wondering why there wasn't more inventory on hand (which would have not been rewarded pre-pandemic). Paired with weakening economic environments in many areas around the world, excess built-up supply needs to be worked through before new orders can be placed and we think MU is doing the right thing by adjusting near-term projects and keeping long-term ambitions intact. The initial read on MU shares was negative after the results were posted, and semiconductor capital equipment makers we hold like **Cohu** (COHU – $25.78), **Kulicke & Soffa** (KLIC – $38.53) and **Lam Research** (LRCX – $366.00) were under pressure. Deeper inspection seems to have revealed that the Micron report wasn't so bad and shares ended roughly neutral in Friday's ugly overall trading session. Our long-term interest in Tech remains and our Target Price for MU is $104, for COHU is $47, for KLIC is $82 and for LRCX is $697.

Shares of **Jabil Inc** (JBL – $57.71) gained more than 2% in an ugly market week after the electronics concern reported fiscal Q4 EPS that beat the consensus estimate ($2.34 vs. $2.14). Revenue also came in higher than the Street target, rising 22% year-over-year to $9.03 billion, driven by 43% growth in the firm's Electronic Manufacturing segment and 9% growth in the Diversified Manufacturing Segment. JBL's operating margin increased by 40 bps (0.4%). For Q1 2023, Jabil expects revenue in the $9 billion to $9.6 billion range and EPS between $2.00 and $2.40.

Chief Financial Officer Michael Dastoor commented, "Across most of our end markets, demand has been extremely resilient, particularly in end markets that continue to benefit from strong secular tailwinds. We continue to expect these secular markets to expand in FY '23. We also expect some consumer-centric end markets to underperform compared to the robust growth for the past 18 months. Unlike in past economic slowdowns where Jabil was highly concentrated in a particular product or end market, today, it is critical to think of Jabil not as one company, but as a well-diversified accumulation of many end markets, a number of which we expect will continue to benefit from long-term secular tailwinds. This product and end market diversification, coupled with our global network of connected factories, global best-in-class supply chain management and deep domain expertise, makes Jabil today markedly more resilient than we were 5 to 10 years ago as evidenced by our strong results in the last few years in the face of multiple significant global challenges. Our FY '23 guidance assumes a moderate economic slowdown and some moderation in growth, which will impact certain end markets more than others."

Mr. Dastoor added, "We expect the momentum underway across our business to continue even in a subdued economic environment. Today, our business serves a diverse plan of end markets and areas that provide confidence in future earnings and cash flows. We have deep domain expertise complemented by investments we made in capabilities, all of which gives us

confidence in our ability to deliver 4.8% in core margins in FY ’23 along with $8.15 in core EPS and more than $900 million in free cash flow. And importantly, our balanced capital allocation framework approach is aligned and focused on driving long-term value creation to shareholders.”

We continue to like the company’s strong execution, diverse business (which management has worked consistently to improve since 2016) and shareholder-friendly orientation. The company announced a new $1 billion share repurchase program, bringing the total authorization up to $1.3 billion. In FY 2022, Jabil repurchased 11.8 million shares worth $700 million. Trading near 7 times forward earnings estimates, JBL offers very inexpensive exposure to multi-year tailwinds that we still see in Cloud, 5G and the electrification of automobiles. Our Target Price is $92.

The release of fiscal Q1 financial results on Thursday afternoon from athletic footwear powerhouse Nike caused shares of **Foot Locker** (FL – $31.13) and **Dick’s Sporting Goods** (DKS – $104.64) to respectively slide 4% and 7% on Friday, while shares of the Swoosh closed nearly 13% lower. While we realize that there are plenty of itchy trigger fingers these days, with traders looking for any excuse to sell, we note that EPS at Nike grew sequentially even as the shoemaker’s gross margin shrank by a whopping 7 basis points. Of course, what troubled Wall Street analysts was that North American inventories rose 65%, due in large part of supply-chain issues earlier in the year.

Certainly, Nike is not the only consumer-facing company to have this problem, but we would argue that plenty of bad news should have been in the price of the stock, considering that it began the year at $166 and change and was trading Thursday night at $95 and change. Now, in the $83 range, Nike shares are looking a lot less expensive, even as the forward P/E ratio of 26 is still too rich for our taste.

That is especially true, when we consider the valuations of Foot Locker and Dick’s. We note that sales of Nike inventory at FL and DKS have been falling, with Nike merchandise representing 75% of total purchases in 2020 and 70% in 2021 for the former, and a decline from 21% in 2019 to just 17% in 2021 for the latter.

At Foot Locker, momentum has been building across other shoe labels like Adidas, Puma and New Balance, including an enhanced partnership deal with Adidas that has both firms believing sales of the brand will triple by 2025. We are excited to see what cards new CEO Mary Dillon has up her sleeve, and the single digit P/E multiple still has shares looking very inexpensive. Foot Locker also announced in February that its Board approved a 33% increase in its quarterly dividend from $0.30 to $0.40, pushing the yield above 5% today, and authorized a new share repurchase program of $1.2 billion. The market capitalization is today $2.9 billion. Our Target Price for FL is now $56.

Despite the latest reaction, Dick’s shares have rallied more than a third since our initial recommendation three months ago. We continue to like that the company has materially improved its omnichannel execution, with digital sales rising to 21% of the total in 2021, while Dick’s has a differentiated set of offerings across brands, price points and categories. We see multiple drivers for long-term growth, including national brands consolidating wholesale partners and appealing new store formats. And the shares had been on the move higher earlier

this week, due in part to news that Peloton will begin selling its exercise bikes at Dick's. Shares of DKS also trade for a single-digit forward P/E multiple and offer a dividend yield of 1.9%. Our Target Price is $131, though we wouldn't blame those with larger positions should they opt to trim a bit of their stake, considering the massive outperformance of late relative to many other stocks.

An ugly financial report from rival Carnival Corp weighed on **Royal Caribbean** (RCL – $37.90), sinking shares of the cruise operator by 13% on Friday. Carnival continues to suffer from significant ticket discounts in order to fill its ships, while the cost of food and fuel have risen. Of course, energy prices have pulled back of late, COVID-19 restrictions essentially have ended and the industry still seems on the path to recovery.

We have cut our Target Price for RCL to $72 on the news as we await for the release of its own financial results later this month. We think the bottom line is primed to improve considerably as things return to normal and that the populous will continue to value experiences well into the future. Cruising should remain a compelling value for many, but we are mindful of relatively large debt-service costs impacting profitability and a worsening economy stands to impact consumer pocketbooks.

There is still plenty to think about in regard to our long-time (albeit small) interest in Royal Caribbean, and we continue to weigh our stake in against the sea of names battered in the latest volatility. The issue for us is less about the long-term merits of the cruise industry and more about the capital structure of the RCL balance sheet.

Meta Platforms (META – $135.68) CEO Mark Zuckerberg made waves last week when he reportedly said in a weekly Q&A session with employees that the social media giant would freeze hiring and endeavor to reduce costs by some 10%. Financial media seized the opportunity to report that should Meta actually reduce headcount through 2023, it would be a first for the company since going public in 2012. The news comes as a vastly uncertain economy is widely anticipated to reduce advertising demand, and as competition heats up between Apple, **Alphabet** (GOOG – $96.15), Amazon and others promoting their own advertising businesses.

Of course, Apple's privacy changes implemented last year did change the game for the social media giant. But sentiment could hardly get worse, with some calling Meta's pressure to reinvent itself a "death spiral" as shares have fallen an astonishing 60% year-to-date. Still, the analyst community continues to project that the company will grow earnings over the next few years to over $40 billion by 2025, even as revenue growth is expected to slow to a low-double-digit clip.

We hardly think that such a stage a maturation for Meta is a death spiral. As a *CNBC.com* story, which used "Death Spiral" in its headline to attract more eyeballs, conceded, "Nobody is suggesting that Facebook is at risk of going out of business. The company still has a dominant position in mobile advertising and has one of the most profitable business models on the planet. Even with a 36% drop in net income in the latest quarter from the prior year, Meta generated $6.7 billion in profit and ended the period with over $40 billion in cash and marketable securities."

The article went on to say; “The Wall Street problem for Facebook is that it’s no longer a growth story.” Of course, analysts still expect long-term growth, but not at the rate they had in the past. Nothing inherently wrong with that from our perspective, given our Value bias, as the cash-rich balance sheet and forward P/E ratio of 11 makes the stock a bargain in our book for those who share our long-term time horizon.

Our Target Price for META is now $333.