Market Commentary Monday, October 17, 2022

October 17, 2022

EXECUTIVE SUMMARY

CHNG – UnitedHealthcare Acquisition Completed
Market Week – Selling Resumes, Despite Inflation-Day Rally
Inflation – CPI and Expectations Move Up
Econ News – Mixed Numbers
GDP – Estimates Retreat but Nominal and Real Growth Still Projected
Market Timing – Time in the Market is Key
Volatility – Short-Term Ups and Downs are Normal but Equities Have Proved Rewarding Over the Long Haul
Market History – Volcker Shock & Recessions No Reason to Sell
Sentiment – AAII Contrarian Buy Signal
Stock News – Updates on JPM, C, BLK, PNC, MC, Semis, KR, KIM, LEG, BASFY, PHG & AMGN

Market Review

The dust has settled on UnitedHealth's acquisition of **Change Healthcare** (CHNG). We have received $25.50 per share in cash for our Change shares as well as a $2.00 per share special dividend. TPS Portfolio and Buckingham Portfolio respectively held 2,169 and 798 shares of CHNG, while our hypothetical Millennium Portfolio held 670 shares.

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With interest rates continuing to climb and the yield on the benchmark 10-Year U.S. Treasury piercing the 4% level,…

THE PRUDENT SPECULATOR

BENCHMARK TREASURY YIELD RISES AGAIN ON CPI AND HAWKISH FED

Given the increase in the CPI and tough talk on inflation from Jerome H. Powell & Co., as well as the continuation of decent economic stats, government bond market players continued to dump U.S. Treasuries last week, sending the yield on the benchmark 10-year bond up 14 more basis points.

…the week-prior's equity reprieve from the September swoon ended, as stocks closed the latest trading week with another sizable selloff on Friday.

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 last week. The Nasdaq Composite index is now down 33.6% and the U.S. Aggregate Bond index is off 15.8% 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	1.17	-17.13	-13.38	16.23	8.07	67.79	17.81	44.55	Dow Jones Industrial Average	DJITR Index
1.01	-10.21	A	-1.36	-19.09	-16.67	14.70	8.54	65.00	13.58	25.15	New York Stock Exchange Composite	NYA Index
-39.18	-20.81	R	-3.11	-33.61	-29.82	-3.98	-10.96	53.47	31.55	63.87	Nasdaq Composite Index	CCMP Index
-22.43	-9.23	K	-2.56	-29.49	-31.34	-6.74	-12.65	50.93	9.81	17.94	Russell 2000 Growth	RU20GRTR Index
22.83	**14.02**	E	**0.33**	**-19.11**	**-18.59**	**33.60**	**28.61**	**95.00**	**19.36**	**17.25**	**Russell 2000 Value**	**RU20VATR Index**
-3.02	2.49	T	-1.15	-24.28	-25.05	11.87	6.16	73.06	15.99	19.41	Russell 2000	RU20INTR Index
-11.75	-20.15		-4.09	-32.39	-33.01	-9.40	-15.31	50.26	11.41	39.80	Russell Midcap Growth Index Total Return	RUMCGRTR Index
19.18	**2.33**		**-1.67**	**-19.86**	**-16.59**	**22.71**	**17.70**	**87.57**	**16.69**	**25.69**	**Russell Midcap Value Index Total Return**	**RUMCVATR Index**
8.25	-5.62	O	-2.54	-24.34	-22.64	10.51	5.01	75.14	17.27	34.91	Russell Midcap Index Total Return	RUMCINTR Index
-22.42	-19.63	F	-2.78	-31.65	-26.57	-0.15	-7.81	60.22	30.96	66.98	Russell 3000 Growth	RU30GRTR Index
8.04	**-4.33**		**-0.62**	**-16.68**	**-13.27**	**23.72**	**17.91**	**72.93**	**16.87**	**29.26**	**Russell 3000 Value**	**RU30VATR Index**
-7.46	-11.46	S	-1.71	-24.63	-20.24	11.01	4.05	67.48	25.32	49.12	Russell 3000	RU30INTR Index
9.64	-0.39	T	-1.59	-20.10	-15.90	23.44	17.43	86.65	27.16	46.62	S&P 500 Equal Weighted	SPXEWTR Index
-9.10	-11.89	O	-1.53	-23.87	-18.01	12.89	5.86	66.75	26.89	53.37	S&P 500	SPXT Index
-22.08	-12.73	C	-2.87	-31.78	-24.99	2.83	-4.47	60.92	30.55	65.19	S&P 500 Growth	SPTRSGX Index
6.08	**-11.71**		**-0.29**	**-15.01**	**-10.70**	**24.01**	**17.99**	**68.63**	**18.62**	**36.29**	**S&P 500 Value**	**SPTRSVX Index**
3.18	1.57	K	-1.42	-21.34	-21.87	-22.65	-23.01	-15.71	-17.71	-13.00	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index
11.63	8.44	S	-1.19	-15.84	-15.90	-16.21	-16.66	-11.83	-10.52	-3.08	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index

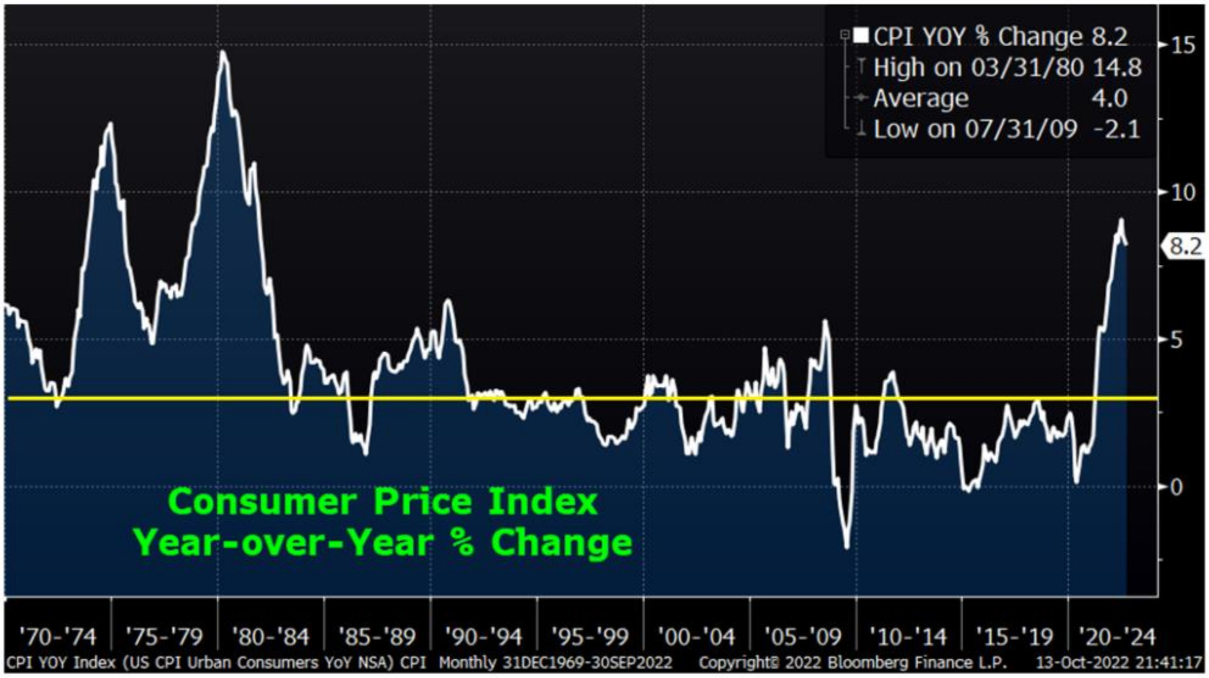
As of 10.14.22. Source Kovitz using data from Bloomberg

Interestingly, while four of the five days last week were red, Thursday saw a massive and surprising rally after a hotter-than-expected read on the critical Consumer Price Index for September.

THE PRUDENT SPECULATOR

INFLATION AT THE CONSUMER LEVEL STILL NEAR 41-YEAR HIGH

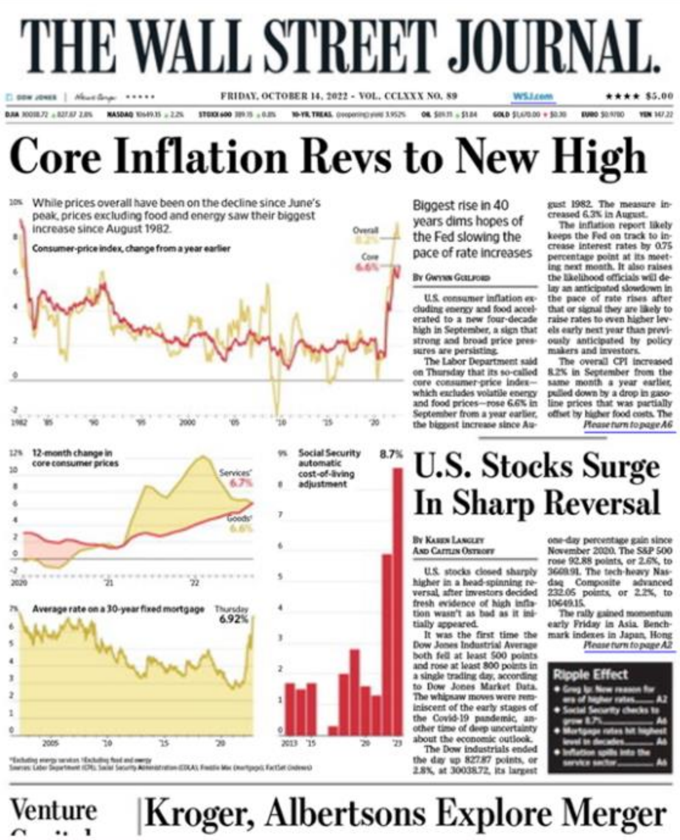
While overall inflation in the U.S. soared by 8.2% in September, the jump in the Consumer Price Index was lower than the 8.3% increase the month prior. However, the "core" rate, which excludes food and energy, rose by 6.6%, up from 6.3% in August, initially leading to a sizable Wall Street selloff, before the tide sharply turned.



Although history shows that high inflation figures, on average, have been a positive for stocks, especially those of the Value variety,…

THE PRUDENT SPECULATOR

EQUITY RETURNS AND 8%+ INFLATION – VALUE STOCKS THE PLACE TO BE



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: Kovitz 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: Kovitz 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: Kovitz using data from Ibbotson Associates 03.31.57 - 04.30.22.

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

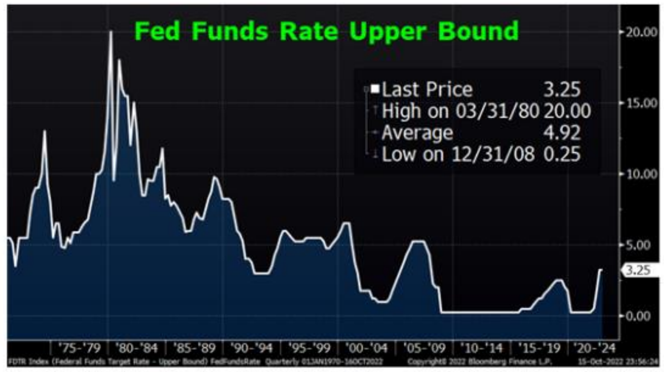
Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	3.8%	2.9%	7.7%	5.8%	15.7%	11.8%
Geometric Average	3.3%	2.4%	6.7%	4.9%	13.7%	9.9%
Median	4.1%	3.3%	8.1%	6.1%	17.2%	12.7%
Max	37.8%	32.5%	68.5%	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

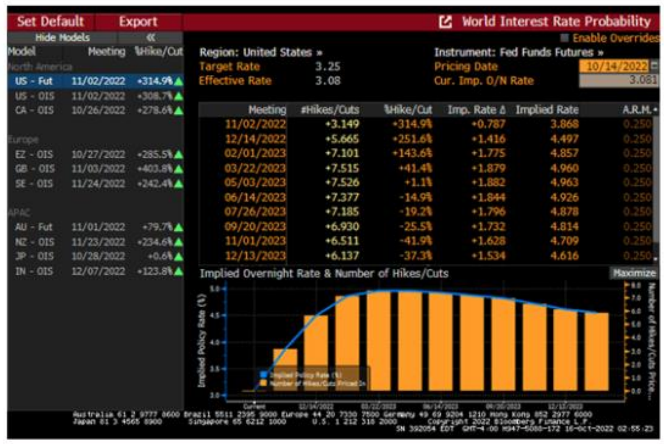
Source: Kovitz using data from Ibbotson Associates 03.31.57 - 04.30.22.

…we understand that market participants remain worried about additional monetary-policy tightening from the Federal Reserve,…

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 more hawkish this week, with a projected 4.50% year-end Fed Funds rate and a 4.96% estimated peak for May 2023, with a cut coming in June 2023.





…as the latest numbers on inflation expectations were worse than expected.

THE PRUDENT SPECULATOR

LONGER-TERM INFLATION EXPECTATIONS TICK HIGHER

Likely bringing a frown to Jerome H. Powell's face, per data from the Univ. of Michigan, inflation expectations for the next year jumped to 5.1% in October, up from a 12-month low of 4.7% in September, while the five-year projection rose to 2.9%, up from a 14-month low of 2.7% last month. While the forecasts are still relatively "contained," the New York Fed's latest median expectation of inflation over the next three years edged up by 0.1% to 2.9% in September, though this figure is still below average.

Certainly, we respect that additional interest rate hikes from Jerome H. Powell & Co. arguably make stocks less appealing, even as history would suggest otherwise,…

THE PRUDENT SPECULATOR

RISING INTEREST RATES ARE NOT GOOD FOR ~~STOCKS~~ BONDS, ON AVERAGE

Rising Long-Term Government Rates - Annual Returns Review

Name	Value Stocks	Growth Stocks	Dividend Payers	Non-Dividend Payers	Long-Term Corp Bonds	Long-Term Government Bonds	Intermediate-Term Govt Bonds	U.S. Treasury Bills
Arithmetic Average	18.2%	12.5%	11.6%	15.7%	0.9%	-1.1%	2.0%	3.6%
Geometric Average	14.0%	9.5%	9.5%	10.3%	0.8%	-1.2%	2.0%	3.6%
Median	18.2%	12.9%	14.3%	11.4%	1.1%	-0.3%	1.8%	3.1%
Max	126.6%	93.1%	69.8%	88.2%	14.6%	9.2%	9.7%	14.7%
Min	-54.0%	-42.2%	-47.4%	-50.9%	-8.1%	-14.9%	-5.1%	0.0%
Count	47	47	47	47	47	47	47	47

Source: Kovitz using data from Ibbotson Associates SBBI. From 1930 to 2021.

Falling Long-Term Government Rates - Annual Returns Review

Name	Value Stocks	Growth Stocks	Dividend Payers	Non-Dividend Payers	Long-Term Corp Bonds	Long-Term Government Bonds	Intermediate-Term Govt Bonds	U.S. Treasury Bills
Arithmetic Average	15.7%	12.7%	14.3%	11.5%	12.3%	13.4%	8.5%	2.9%
Geometric Average	12.9%	10.5%	12.6%	7.6%	12.0%	13.1%	8.4%	2.9%
Median	16.4%	13.8%	14.9%	12.3%	10.8%	10.7%	7.8%	2.1%
Max	71.1%	48.3%	53.5%	90.5%	42.6%	40.4%	29.1%	10.5%
Min	-43.6%	-37.0%	-34.8%	-48.6%	2.6%	2.8%	1.4%	0.0%
Count	45	45	45	45	45	45	45	45

Source: Kovitz using data from Ibbotson Associates SBBI. From 1930 to 2021.

…while a disappointing tally on retail sales last month,…

…raised the odds of recession.

Still, last week's statistics on Main Street optimism actually improved from their prior figures,…

THE PRUDENT SPECULATOR

MAIN STREET LESS PESSIMISTIC

The NFIB Small Business Index for September came in better than expected at 92.1, up from 91.8 in August. Of course, business owners remain very concerned about inflation and worker shortages. Meanwhile, the University of Michigan gauge of consumer sentiment inched higher this month to a stronger-than-forecast reading of 59.8, well above the all-time-low reached in June. The Michigan survey director said, "Continued uncertainty over the future trajectory of prices, economies, and financial markets around the world indicate a bumpy road ahead for consumers."

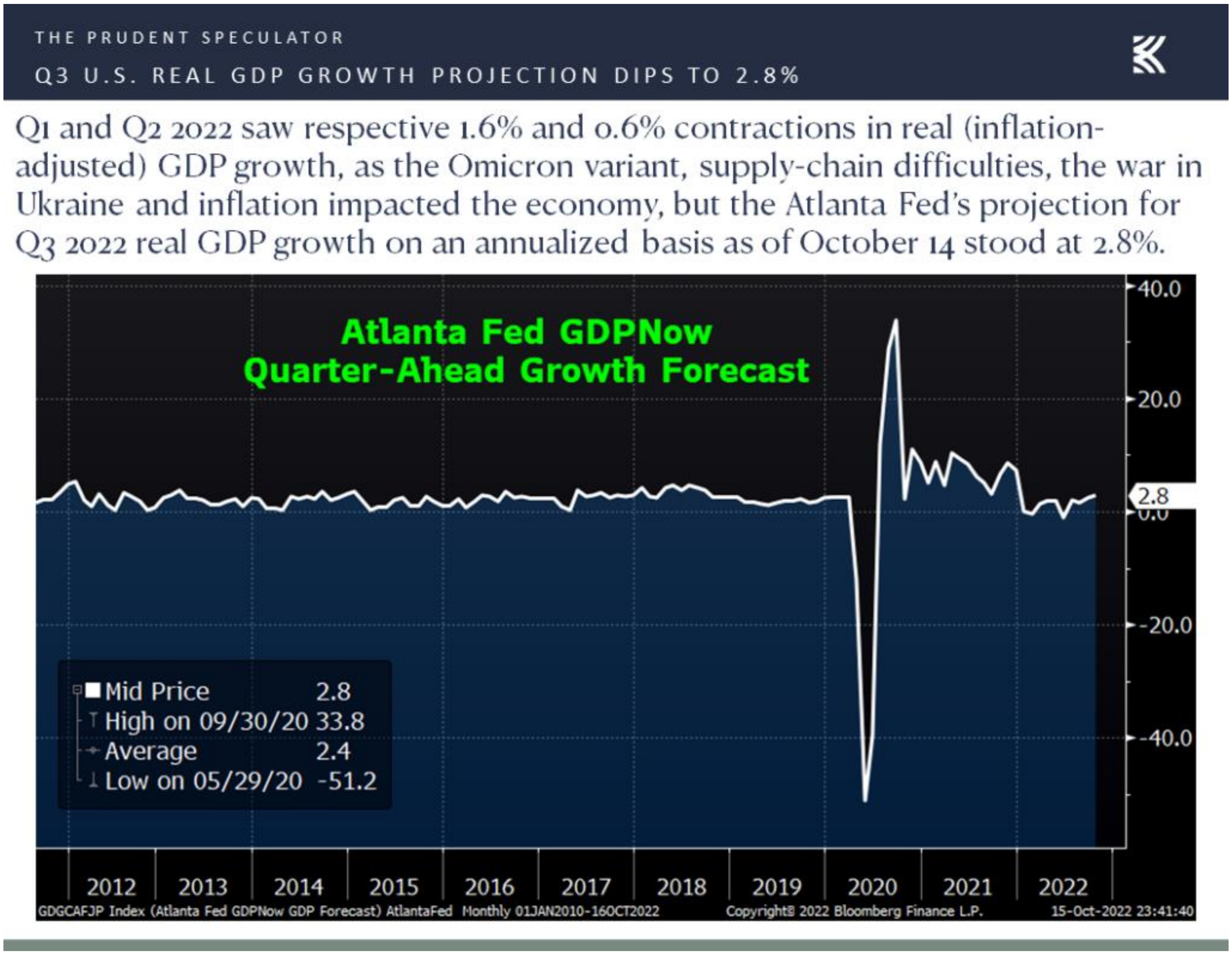
…no doubt supported by a healthy labor market,…

THE PRUDENT SPECULATOR

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

While higher than readings earlier in the year with a 1-handle, yet still coming in near the lowest levels since 1969 when the work force was much smaller, new filings for unemployment benefits for the period ended October 8 were a seasonally adjusted 228,000, up from a revised 219,000 the week prior. Continuing claims filed through state programs remained at 1.37 million, near the lowest level since 1969 as businesses continue to hold onto workers with qualified labor difficult to obtain.

…and the outlook for Q3 U.S. GDP growth continues to be favorable.



True, projections for domestic and global economic growth have been coming down,…

IMF OCTOBER WEO – 2.7% GLOBAL & 1.1% U.S. GDP GROWTH IN '23

Latest World Economic Outlook Growth Projections

(real GDP, annual percent change)	2021	PROJECTIONS 2022	2023
World Output	6.0	3.2	2.7
Advanced Economies	5.2	2.4	1.1
United States	5.7	1.6	1.0
Euro Area	5.2	3.1	0.5
Germany	2.6	1.5	-0.3
France	6.8	2.5	0.7
Italy	6.6	3.2	-0.2
Spain	5.1	4.3	1.2
Japan	1.7	1.7	1.6
United Kingdom	7.4	3.6	0.3
Canada	4.5	3.3	1.5
Other Advanced Economies	5.3	2.8	2.3
Emerging Market and Developing Economies	6.6	3.7	3.7
Emerging and Developing Asia	7.2	4.4	4.9
China	8.1	3.2	4.4
India	8.7	6.8	6.1
ASEAN-5	3.4	5.3	4.9
Emerging and Developing Europe	6.8	0.0	0.6
Russia	4.7	-3.4	-2.3
Latin America and the Caribbean	6.9	3.5	1.7
Brazil	4.6	2.8	1.0
Mexico	4.8	2.1	1.2
Middle East and Central Asia	4.5	5.0	3.6
Saudi Arabia	3.2	7.6	3.7
Sub-Saharan Africa	4.7	3.6	3.7
Nigeria	3.6	3.2	3.0
South Africa	4.9	2.1	1.1
Memorandum			
Emerging Market and Middle-Income Economies	6.8	3.6	3.6
Low-Income Developing Countries	4.1	4.8	4.9

Source: IMF, *World Economic Outlook*, October 2022

Note: For India, data and forecasts are presented on a fiscal year basis, with FY 2021/2022 starting in April 2021. For the October 2022 WEO, India's growth projections are 6.9 percent in 2022 and 5.4 percent in 2023 based on calendar year.

INTERNATIONAL MONETARY FUND IMF.org

As storm clouds gather, policymakers need to keep a steady hand.

The global economy continues to face steep challenges, shaped by the lingering effects of three powerful forces: the Russian invasion of Ukraine, a cost-of-living crisis caused by persistent and broadening inflation pressures, and the slowdown in China.

Our latest forecasts project global growth to remain unchanged in 2022 at 3.2% and to slow to 2.7% in 2023—0.2% lower than the July forecast—with a 25% probability that it could fall below 2%. More than a third of the global economy will contract this year or next, while the three largest economies—the United States, the European Union, and China—will continue to stall. In short, the worst is yet to come, and for many people 2023 will feel like a recession.

Russia's invasion of Ukraine continues to powerfully destabilize the global economy. Beyond the escalating and senseless destruction of lives and livelihoods, it has led to a severe energy crisis in Europe that is sharply increasing costs of living and hampering economic activity. Gas prices in Europe have increased more than four-fold since 2021, with Russia cutting deliveries to less than 20% of their 2021 levels, raising the prospect of energy shortages over the next winter and beyond. More broadly, the conflict has also pushed up food prices on world markets, despite the recent easing after the Black Sea grain deal, causing serious hardship for low-income households world-wide, and especially so in low-income countries.

Persistent and broadening inflation pressures have triggered a rapid and synchronized tightening of monetary conditions, alongside a powerful appreciation of the US dollar against most other currencies. Tighter global monetary and financial conditions will work their way through the economy, weighing demand down and helping to gradually subjugate inflation. So far, however, price pressures are proving quite stubborn and a major source of concern for policymakers. We expect global inflation to peak in late 2022 but to remain elevated for longer than previously expected, decreasing to 4.1% by 2024.

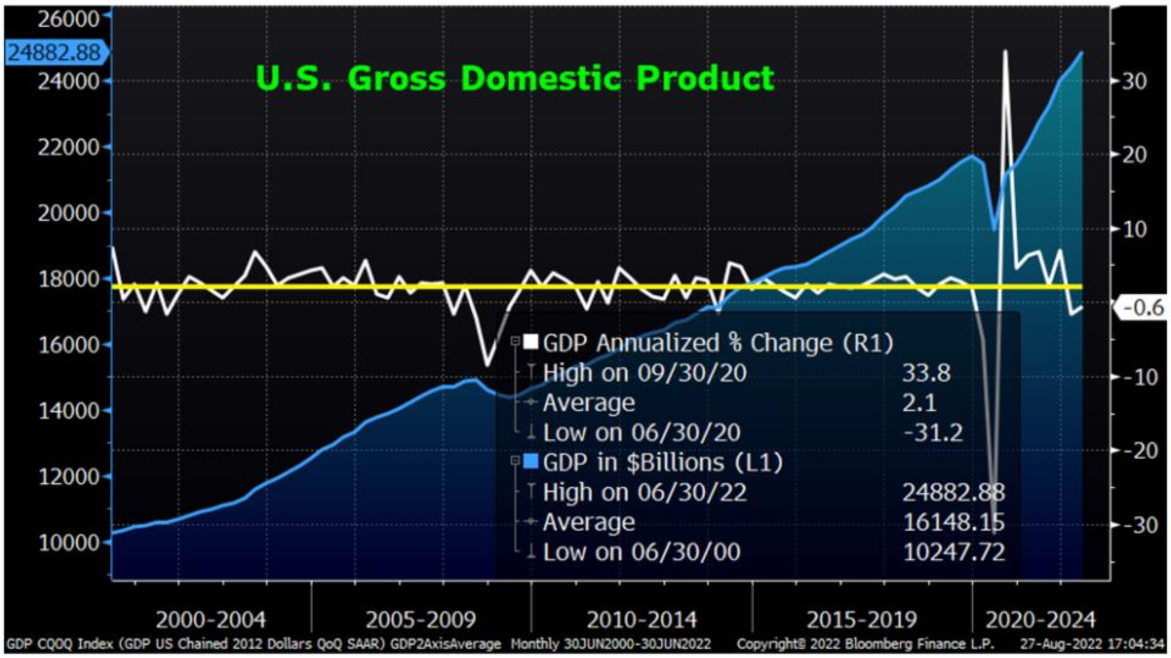
– International Monetary Fund, October 2022

…but we cannot forget that nominal GDP expansion is likely to continue to be robust,…

THE PRUDENT SPECULATOR

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

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



…while corporate earnings are not reported in real (inflation-adjusted) dollars, so it should not be a big surprise if EPS comparisons remain solid.

THE PRUDENT SPECULATOR

Q3 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. 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.

S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2023	$62.40	$238.29
9/30/2023	$60.37	$232.98
6/30/2023	$58.85	$227.41
3/31/2023	$56.67	$215.43
12/31/2022	$57.09	$208.12
9/30/2022	$54.80	$207.76
ACTUAL		
6/30/2022	$46.87	$204.98
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 10.06.22

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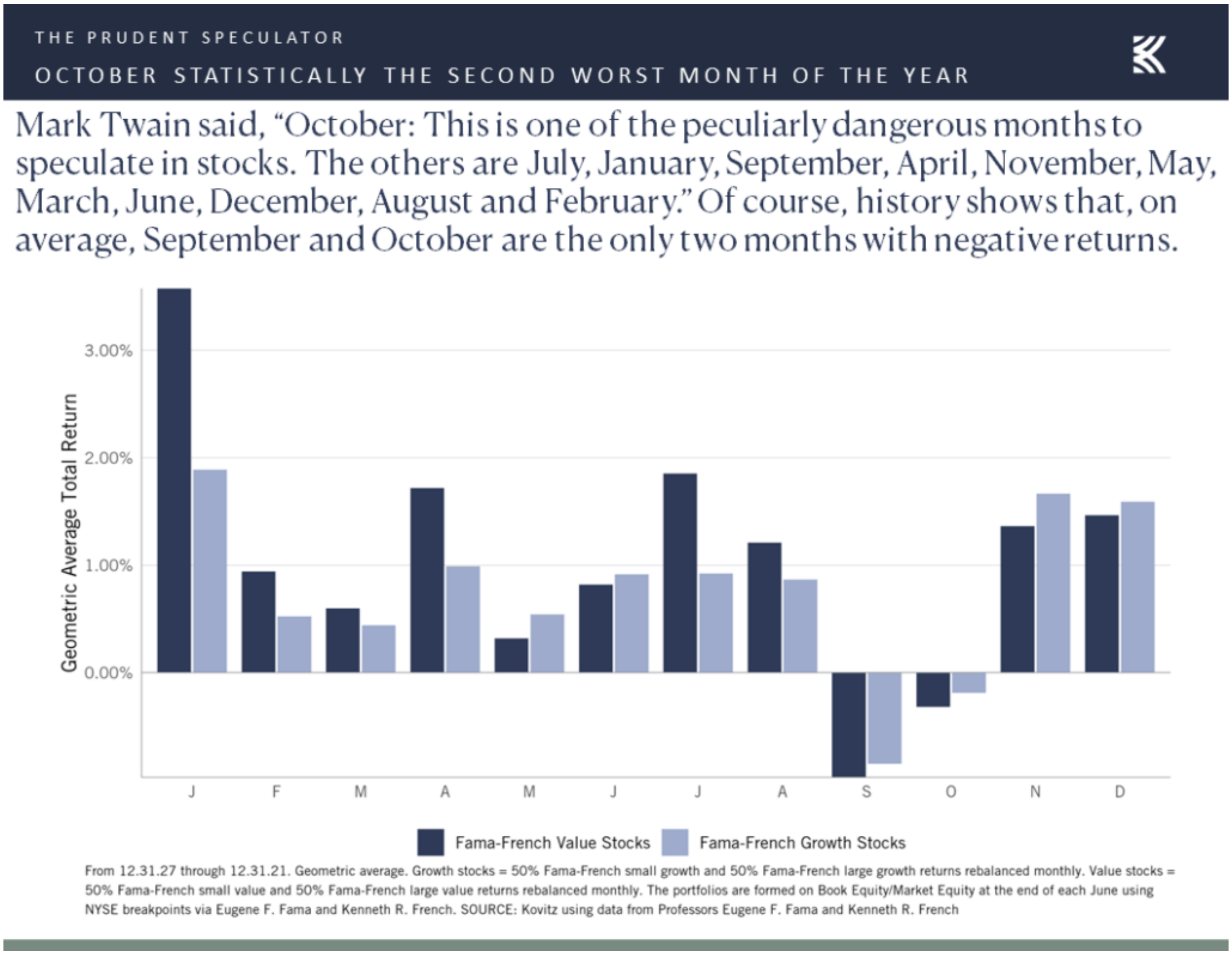
Of course, we understand that the near-term looks to be very uncertain, and it would not be surprising to see the downturn continue, especially as October historically is the second-worst-performing month of the year,…



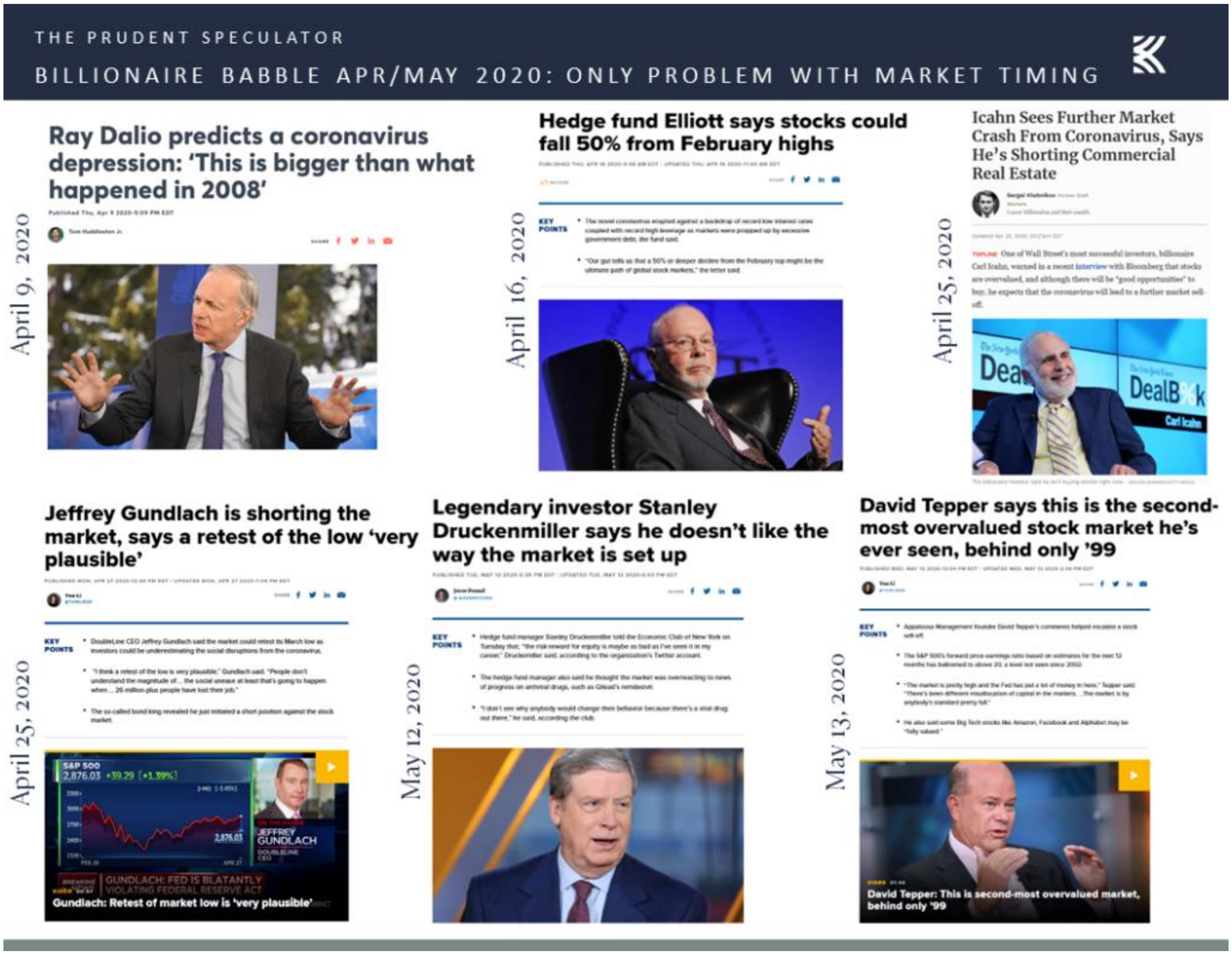
…but we are always focused on the long-term prospects of our broadly diversified portfolios of what we believe to be undervalued stocks,…

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	10.8	10.1	0.8	2.0	3.1
ValuePlus	11.5	10.6	1.1	2.1	2.6
Dividend Income	10.7	10.2	0.7	1.9	3.6
Focused Dividend Income	11.9	11.1	1.0	2.2	3.0
Focused ValuePlus	11.8	11.3	1.2	2.3	2.8
Small-Mid Dividend Value	9.4	8.9	0.5	1.4	3.3
Russell 3000	19.1	16.4	1.9	3.3	1.8
Russell 3000 Growth	26.6	21.8	2.9	8.5	1.1
Russell 3000 Value	14.9	13.1	1.5	2.1	2.5
Russell 1000	18.1	16.2	2.1	3.5	1.8
Russell 1000 Growth	24.9	21.6	3.2	8.8	1.1
Russell 1000 Value	14.3	13.0	1.5	2.2	2.5
S&P 500 Index	17.6	16.0	2.2	3.6	1.9
S&P 500 Growth Index	20.9	19.1	3.7	6.4	1.1
S&P 500 Value Index	15.4	13.9	1.6	2.6	2.5
S&P 500 Pure Value Index	9.7	8.9	0.6	1.3	2.9

As of 10.15.22. 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.

…while we leave the bottom- and top-guessing-game to the supposed experts,…



…who are part of the reason that most folks do not come close to beating the market (stocks and bonds!) over the long-term.

THE PRUDENT SPECULATOR

THE ONLY PROBLEM WITH MARKET TIMING IS GETTING THE TIMING RIGHT

Per data analytics firm DALBAR, equity fund investors had awful relative returns in 2021, gaining only 18.4% on average, compared to a 28.7% return for the S&P 500, for a whopping 1030 basis point (10.3%) difference in performance. The longer-term historical numbers are even worse for bonds as Fixed Income fund investors had an annual return 500 basis points lower than the U.S. Aggregate Bond index over the past three decades.

Individual Investor Returns vs. Broad Benchmarks

	Stocks			Bonds			Inflation
Time Period	Average Equity Investor Return	S&P 500 Return	Difference	Average Bond Investor Return	U.S. Aggregate Bond Index Return	Difference	U.S. Consumer Price Index
1 Year	18.4%	28.7%	-10.3%	-1.6%	-1.5%	-0.1%	7.0%
3 Years	21.6%	26.1%	-4.5%	1.7%	4.8%	-3.1%	3.5%
5 Years	14.8%	18.5%	-3.7%	0.8%	3.6%	-2.8%	2.9%
10 Years	13.4%	16.6%	-3.2%	0.4%	2.9%	-2.5%	2.2%
20 Years	8.1%	9.5%	-1.4%	0.4%	4.3%	-3.9%	2.3%
30 Years	7.1%	10.7%	-3.6%	0.3%	5.3%	-5.0%	3.4%

From 12.31.1984 through 12.31.2021. Annualized returns. SOURCE: Kovitz using data from DALBAR and Bloomberg Finance L.P.

Yes, this time is different (all times are different), but volatility is not unusual,…

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	10/12/2022	-16.91%	BEAR	6/16/2022	8/16/2021	17.41%	BULL
Average Drop		-18.24%		**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 falling 16.91% 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.

…as investors must endure plenty of ups and downs on the way to achieving excellent long-term returns. Indeed, the secret to success in stocks is not to get scared out of them!

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	313	0.3	9/30/2022	10/4/2022

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	10/12/2022
-12.5%	-22.7%	137	73	1.3	8/16/2022	10/12/2022
-10.0%	-19.6%	101	100	0.9	8/16/2022	10/12/2022
-7.5%	-15.5%	65	159	0.6	8/16/2022	10/12/2022
-5.0%	-10.9%	36	313	0.3	10/4/2022	10/12/2022

From 02.20.28 through 10.12.22. 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	13.1%	25.9%
Growth Stocks	9.5%	21.4%
Dividend Paying Stocks	10.6%	18.0%
Non-Dividend Paying Stocks	8.9%	29.3%
Long-Term Gov't Bonds	5.2%	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 08.31.22. 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

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To be sure, it is not easy to ignore proclamations like this one last week from Jamie Dimon (see our JPMorgan Chase update below): “These are very, very serious things which I think are likely to push the U.S. and the world — I mean, Europe is already in recession — and they’re likely to put the U.S. in some kind of recession six to nine months from now.”

We also cannot easily dismiss the turbulence in financial markets around the world, especially as the carnage in the global bond markets is unprecedented and there would seemingly have to be some colossal failures of levered entities. As Warrant Buffett states, “When the tide goes out, we see who has been swimming naked,” and the rise of fixed income exchange traded funds alters the dynamics for many asset allocation models in that individual bonds can simply be held to maturity without loss of principal, whereas an ETF like the iShares 20-Year+ U.S. Treasury Bond (TLT) must maintain a constant maturity. Believe it or not, TLT is down more than 32% this year, almost as bad as the Nasdaq Composite Index.

Interest rates are important to the case for or against equities, but that relationship, from an earnings yield perspective, continues to favor stocks,…

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. 4.02% 10-Year), despite the jump in interest rates.

….while we note that Chair Powell has been talking a lot about the Volcker Fed, with those years fantastic for equities in general and Value stocks in particular, despite two recessions along the way.

THE PRUDENT SPECULATOR

EQUITIES CLEARLY DIDN'T MIND THE VOLCKER SHOCK

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

Volcker Vanquishes The Great Inflation
Equity Returns

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

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

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

– Vox.com

The historical evidence also suggests, on average, that even if the U.S. economy does enter a recession, such an event is not a reason to abandon stocks, especially for those with a long-term time horizon.

THE PRUDENT SPECULATOR

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

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

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

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

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

And speaking of long term, the odds truly favor those who can stay focused on their multi-year investment objectives,…

THE PRUDENT SPECULATOR

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

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

PATIENCE IS VIRTUOUS

VALUE STOCKS

	Count >0%	Count <=0%	Percent >0%
1 Month	722	420	63.2%
3 Months	772	368	67.7%
6 Months	805	332	70.8%
1 Year	828	303	73.2%
2 Year	935	184	83.6%
3 Year	968	139	87.4%
5 Year	970	113	89.6%
7 Year	1023	36	96.6%
10 Year	989	34	96.7%
15 Year	963	0	100.0%
20 Year	903	0	100.0%

DIVIDEND PAYERS

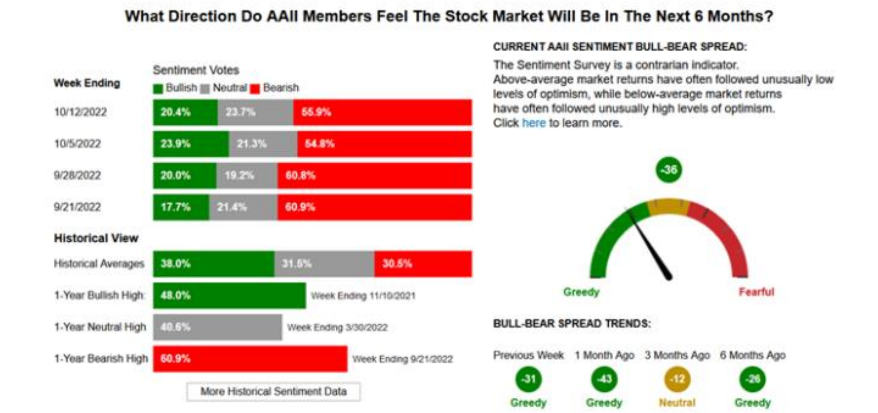
	Count >0%	Count <=0%	Percent >0%
1 Month	722	420	63.2%
3 Months	793	347	69.6%
6 Months	821	316	72.2%
1 Year	859	272	76.0%
2 Year	956	163	85.4%
3 Year	949	158	85.7%
5 Year	997	86	92.1%
7 Year	1019	40	96.2%
10 Year	989	34	96.7%
15 Year	963	0	100.0%
20 Year	903	0	100.0%

From 07.31.27 through 08.31.22. Value stocks represented by 50% small value and 50% large value returns rebalanced monthly. Dividend payers represented by 30% top of dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

…though we know that patience is in short supply today.

THE PRUDENT SPECULATOR

MAJOR AAII CONTRARIAN BUY SIGNAL: BULL-BEAR SPREAD = -35.5%



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 = 7.35										
BELOW	-54.0	7.3	918	0.23%	0.19%	1.12%	0.98%	3.33%	2.93%	6.53%	5.75%
ABOVE	7.4	62.9	917	0.17%	0.15%	0.54%	0.46%	2.01%	1.76%	4.68%	4.20%
	Ten Groupings of 1835 Data Points										
1	-54.0	-16.5	184	0.43%	0.36%	1.95%	1.71%	4.57%	4.00%	8.68%	7.45%
2	-16.3	-8.3	183	0.27%	0.24%	0.89%	0.75%	3.55%	3.20%	6.42%	5.65%
3	-8.3	-2.0	192	0.32%	0.29%	1.26%	1.15%	3.47%	3.05%	7.51%	6.80%
4	-2.0	2.8	175	0.07%	0.03%	0.92%	0.82%	2.45%	2.09%	5.25%	4.69%
5	2.9	7.3	183	0.06%	0.03%	0.53%	0.43%	2.50%	2.24%	4.72%	4.17%
6	7.3	11.9	184	0.17%	0.16%	0.70%	0.62%	2.02%	1.78%	4.90%	4.45%
7	11.9	16.1	183	0.17%	0.14%	0.52%	0.39%	2.50%	2.24%	5.32%	4.81%
8	16.1	22.0	200	0.16%	0.14%	0.77%	0.70%	2.04%	1.77%	5.85%	5.42%
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 10.13.22. 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 20.4% and the number of Bears residing at 55.9% is a major positive. The minus 35.5% Bull-Bear spread is among the 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.

With it time again for the nation’s largest banks to report financial results, **JPMorgan Chase** (JPM – $111.19) and **Citigroup** (C – $43.23) were both out with Q3 financial results on Friday that beat Street estimates.

A massive jump (15% vs Q2) in net interest income to $17.6 billion aided the beat for JPM despite a loss reserve build of $800 million versus a $2.1 billion release a year ago. A major portion of the provision came from commercial banking ($618 million vs. negative $363 million in Q3 2021). Noninterest expense continued to expand in Q3 to $19.2 billion, with a major contribution from consumer & community banking. Investments within the segment along with higher structural expense, including compensation, marketing and technology pushed the total 4% higher relative to the Q2 figure. Despite market volatility in the current year, asset/wealth management revenue grew a respective 5% and 6% in Q3 vs. a quarter and year ago.

JPM CEO Jamie Dimon commented on the results, "JPMorgan Chase delivered solid performance across our businesses as we generated $9.7 billion in net income, $32.7 billion in revenue, an ROTCE of 18% and a CET1 capital ratio of 12.5%…While we unfortunately still don't know the ultimate effect of changes in capital requirements due to the completion of Basel III, through our earnings power and demonstrated ability to manage down risk-weighted assets, we expect to reach our current target CET1 ratio of 13%, which includes a 50 basis point buffer, in the first quarter of 2023. Importantly, we continue to make all the investments that we need to grow our businesses and serve our customers, and we hope to be able to resume stock buybacks early next year."

Management expects net interest income of around $19 billion in Q4 and about $66 billion for all of 2022. On the expense front, management expects the bank will spend about $77 billion dependent on an anticipated loss rate of about 1.5% for credit cards.

JPM remains a favored holding in many of our diversified portfolios, and management was upbeat regarding loan demand for the year ahead, even as several previously noted risks sit on the horizon. We continue to like the multiple levers available to generate fee revenue in varying environments, and we maintain our fondness for Mr. Dimon, who is willing to take a long-term view, spending on enhancing various capabilities, even if there is limited near-term payoff. Shares trade for less than 9 times the consensus NTM EPS estimate and the dividend yield is 3.6%. Our Target Price for JPM has been bumped up to $184.

Citigroup earned $1.50 per share (vs. $1.43 est.) as shares closed modestly in the green on Friday in an ugly equity market day. Focused on improving returns in its markets business, Citi is demanding higher collateral from clients, and examining hedge positions and the amount of margin employed. The result has been a hit to trading revenues (which dropped 7%). Without these actions, management estimates trading revenue would have been flat.

The bank has directed the efforts of 10,000 people to satisfy a pair of consent orders issued by regulators in 2020. As expected, given a sharp drop in capital formation, investment banking revenue dropped 64% year-over-year, though Citi continues to invest in building out the division's capabilities. Citi also restarted marketing efforts and has been active acquiring new customers, seeing strong increases in spending on its cards and more borrowing. These efforts helped push balances 9% higher and combined with the impact of higher rates drove card revenue up by the same amount.

Citi CEO Jane Fraser discussed various divestitures that have been made to simplify the bank, "We're seeing good momentum in realizing client synergies and in attracting talent to grow the franchise. In terms of simplification, we continue to make progress on the divestitures of our international consumer businesses and the elimination of their associated stranded costs. We closed the sale of the Philippines during the third quarter and are on track to close Bahrain, Malaysia and Thailand during the fourth quarter. We also announced the wind down of our consumer franchise in the U.K. to focus fully on the wealth franchise there.”

She added, “We’re ahead of our plan in our Korean consumer wind down. We continued to shrink our operations in and exposure to Russia. To be clear, our intention is to wind down our presence in that country. In August, we announced the wind down of our consumer and local commercial banking businesses. While we have been supporting our multinational clients in Russia, we are now informing them that we will be ending nearly all of the institutional banking services we offer by the end of the first quarter of next year. At that point, our only operations in Russia will be those necessary to fulfill our remaining legal and regulatory obligations.”

We continue to think that strategic action plans laid out and thus far taken under Ms. Fraser offer reasons for optimism. Reframing its global scale/connectivity as a competitive advantage versus a source of complexity should help improve the turnaround sentiment with time. Of course, our time horizon is far longer than most, so we are willing to remain patient, as long as we see continued progress, especially as we think that there is significant appreciation available from the stock. The shares trade at a deep discount to competitors, changing hands at just 54% of tangible book value and for less than 7 times NTM adjusted EPS projections, while the dividend yield is now 4.7%. Our Target Price for C is currently $90.

BlackRock (BLK – $550.95) earned $9.55 per share in Q3, well ahead of the $7.07 consensus estimate, but down from $10.89 posted a year ago. The asset management titan saw $65.2 billion of net long-term inflows in the quarter (vs. $104.49 billion est.), while institutional net inflows totaled $47.73 billion and fixed income net inflows totaled $90.62 billion. The company’s assets under management equaled $7.96 trillion, shy of the $8.27 trillion consensus estimate.

CFO Gary Shedlin stated, “Market conditions remained very challenged in the third quarter, with global equity and debt markets ending down 25% and 14%, respectively, for the first 9 months of 2022. In total, these market declines, along with significant dollar appreciation against major currencies, reduced the value of BlackRock’s assets under management by over $2 trillion since December 31. Inflation, rising rates, liquidity, market volatility, and geopolitical uncertainty remain significant concerns for clients, but more of them are turning to BlackRock for comprehensive solutions to help build more resilient portfolios. They increasingly value our unparalleled breadth of investment products, styles and exposures, which allows them to customize portfolios to address the investment policies, return targets, and unique needs of their stakeholders.”

Mr. Shedlin continued, “As always, we remain committed to optimizing organic growth in the most efficient way possible and will be prudent in continuing to assess our overall level of spend in the current environment. Our capital management strategy remains to first invest in our business and then to consistently return excess cash to shareholders through a combination of dividends and share repurchases. We repurchased nearly $1.4 billion worth of shares in the first 9 months of this year, including $375 million in the third quarter. At present, based on our capital spending plans for the year and subject to market conditions, including the relative valuation of our stock price, we still anticipate repurchasing at least $375 million of shares in the fourth quarter, consistent with our previous guidance…Throughout our history, BlackRock is led by listening to clients. This connectivity has been foundational to our growth over the last 34 years, and our relationships with clients have never been deeper. We have always capitalized on market disruption to emerge stronger by continuing to innovate, to work collaboratively, and to deliver the full power of our platform. While challenging, this market environment is no exception."

CEO Larry Fink added, "We built BlackRock because we believe in the power of the capital markets, the power of what they have done in transforming economies for their long-term growth, and the importance of being invested in them. The money we manage belongs only to our clients. Over many years, we have built the most comprehensive platform to help them meet their investment objectives and deliver better outcomes for the portfolio. We provide them choice, so that their portfolios can be tailored to match their preferences and their goals unique to them…As markets change and as our clients need more of us, we will stay true to our fiduciary mindset, our innovation instinct, and our One BlackRock culture that has defined us and enabled differentiating growth and differentiating relationships with our clients. I believe the best of BlackRock is ahead of us. And we are all committed to delivering the power of our unified platform to benefit our clients, to benefit our employees, and most of all, to benefit our shareholders."

BLK was a *Portfolio Builder* feature in *TPS 672* and shares have been pummeled this year as most major asset classes have plunged. Shares trade for 17 times NTM earnings, below the 3-, 5- and 10-year average in the 20 range. The firm is maintaining its $4.88 per share quarterly dividend, which translates to a 3.5% yield, and BLK continues to repurchase shares (presumably thinking they are trading at a deep discount as do we). We continue to appreciate BLK's scale, competitive ETF franchise and diversified product base across asset classes. Our Target Price now resides at $828.

Despite posting top- and bottom-line results on Friday that outpaced the consensus analyst estimate, shares of **PNC Financial** (PNC – $153.42) fell more than 2%. The bank reported Q3 adjusted EPS of $3.78, versus the consensus estimate of $3.69. Better-than-expected results were achieved despite a $241 million provision for credit losses. The provision seemingly represented management's weaker economic expectations and not declining credit quality as PNC's net charge offs remain well managed and below pre-pandemic levels. Despite the inflationary environment (especially wages), PNC's expenses were held in check quarter over quarter (increasing just 1%). Net interest income spurred the quarterly increase of revenues and profits, growing by 14% on a year-over-year basis. Net interest margin expanded by 32 basis points to 2.82%.

CEO Bill Demchak commented, "Our third quarter results reflected continued strong momentum across the expanded PNC footprint. We grew loans and revenue, our net interest margin increased and expenses remained well controlled, resulting in substantial positive operating leverage. Our credit quality metrics and capital levels remain solid and we continue to be well positioned for ongoing success."

We continue to like PNC's latest acquisitions, which give the company expanded access to 29 of the top 30 Metropolitan Statistical Areas across the country. Management says that there continues to be momentum for new product sales. With shares down more than 25% this year, and trading slightly above 9 times NTM adjusted EPS expectations, we see PNC offering good long-term upside potential from current levels. We also are constructive on PNC continuing to make efficiency improvements over the next few years. Additionally, the dividend yield now sits at 4.0%. Our Target Price now stands at $233.

Shares of **Morgan Stanley** (MS – $75.30) continued their 2022 struggles, and are now down more than 23% after retreating 5% on Friday on the heels of its Q3 financial release. The financial services giant turned in adjusted Q2 EPS of $1.53, which came in a bit better than the consensus analyst estimate of $1.51. However, revenue of $12.99 billion trailed the $13.24 billion projection, caused by weakness in the Investment Management segment, which fell 11% below consensus expectations. Additionally, Investment Banking continued to be weak (down 46% versus the same quarter in 2021), however the firm's Wealth Management unit realized 3% revenue growth (year-over-year). While Equity Trading revenue was down (YoY), Fixed Income, Currency and Commodity Trading (FICC) was up solidly.

CEO James Gorman commented, "Firm performance was resilient and balanced in an uncertain and difficult environment, delivering a 15% return on tangible common equity. Wealth Management added an additional $65 billion in net new assets and produced a pre-tax margin of 28%, excluding integration-related expenses, demonstrating scale and stability despite declining asset values. While Investment Banking and Investment Management were impacted by the market environment, Fixed Income and Equity navigated challenging markets well. We continue to maintain our strong capital position while repurchasing $2.6 billion of shares and distributing a healthy dividend."

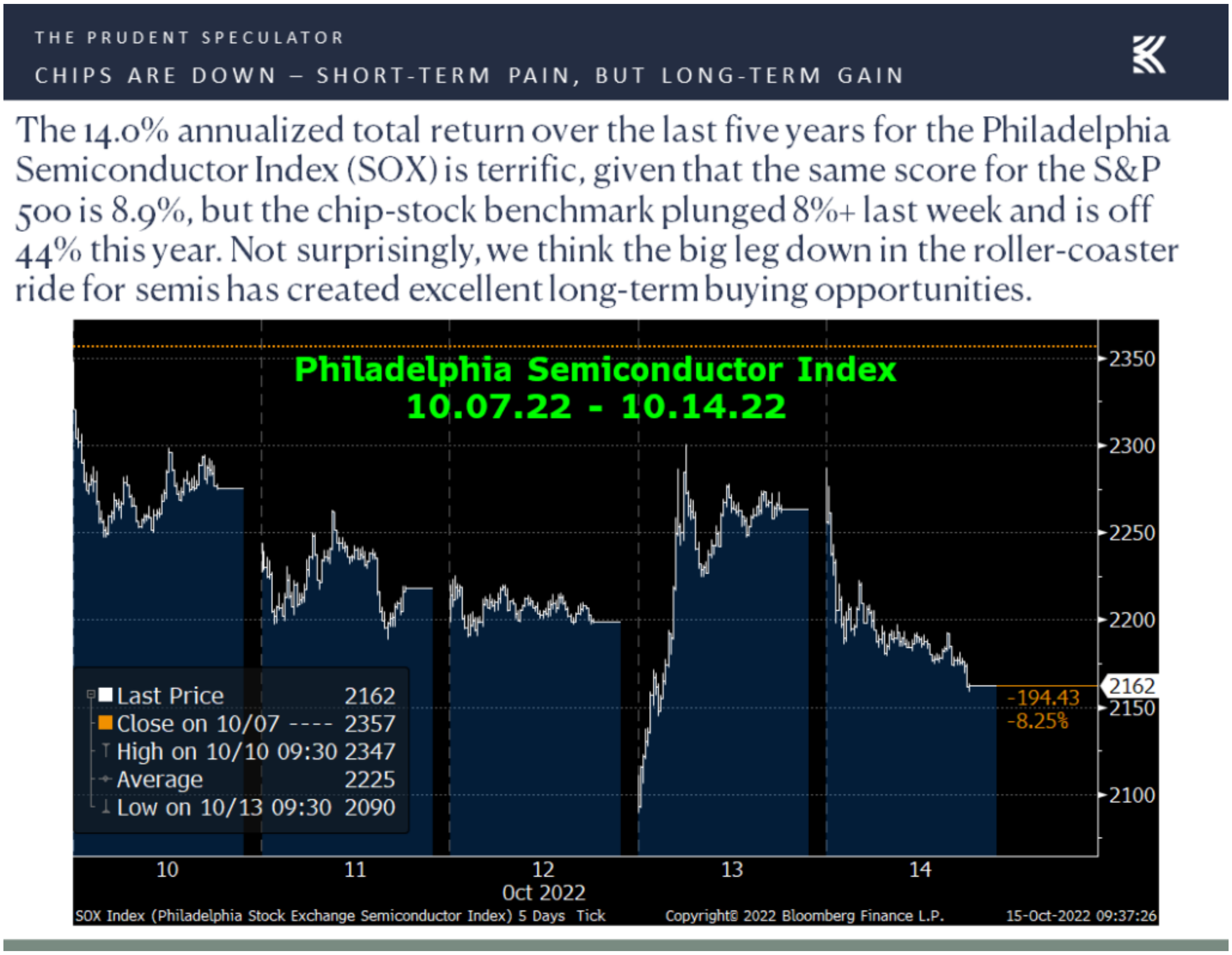
While the quarter wasn't what some investors were looking for, we were encouraged to see the firm gain Wealth Management assets in the current environment and we believe that in the intermediate-term, areas like Investment Banking and Investment Management should bounce back. We continue to like the diversifying acquisitions of Eaton Vance and E*Trade, which we believe give MS greater scale in tech, a deeper product and service base, and self-directed investors to complement advisor-assisted Wealth-Management clients. MS repurchased $2.6 billion of its shares during the quarter, part of its outstanding $20 billion buyback plan. Shares trade for less than 11 times NTM EPS estimates and offer a dividend yield of 4.1%. Our Target Price for MS is now $116.

Last week was a roller coaster for semiconductor and chip stocks, as a plunge in global PC shipments kicked off another week of worry for traders. A report from Gartner said worldwide PC shipments dropped 19.5% year-over-year in the third quarter, adding more short-term pain, following AMD's soft forecast the week prior.

Further uncertainty arrived thanks to work by President Biden's Administration to expand export restrictions related to chipmaking in China initially imposed by President Trump, with fears of plummeting near-term supply and demand sending ripples through the entire stock market. The official release from the Bureau of Industry and Security said in part, "The export controls announced in the two rules today restrict the PRC's ability to obtain advanced computing chips, develop and maintain supercomputers, and manufacture advanced semiconductors. These items and capabilities are used by the PRC to produce advanced military systems including weapons of mass destruction; improve the speed and accuracy of its military decision making, planning, and logistics, as well as of its autonomous military systems; and commit human rights abuses. Finally, these rules make clear that foreign government actions that prevent BIS from making compliance determinations will impact a company's access to U.S. technology through addition to the Entity List."

There were nine controls that made up the order. The most relevant to our chipmakers was number six, which stated, "Adds new license requirements for items destined to a semiconductor fabrication "facility" in the PRC that fabricates ICs meeting specified. Licenses for facilities owned by PRC entities will face a "presumption of denial," and facilities owned by multinationals will be decided on a case-by-case basis. The relevant thresholds are as follows: Logic chips with non-planar transistor architectures (I.e., FinFET or GAAFET) of 16nm or 14nm, or below; DRAM memory chips of 18nm half-pitch or less; NAND flash memory chips with 128 layers or more."

It's possible to receive waivers as some firms already have, including SK Hynix, Samsung and Taiwan Semiconductor, but the implementation of the rule and longer-term impacts remain to be seen, especially as China accounts for a significant amount of business for many chip companies. Happily, the doom and gloom last week was undone momentarily by a UBS analyst report arguing that **Micron Tech** (MU – $52.72) is seeing signs of recovery. The news sent the Philadelphia Semiconductor Index (SOX) temporarily soaring, illustrating the tremendous volatility of stocks in the sector.



The jump was fleeting, and the bad week continued after Citigroup analyst Christopher Danely wrote in a research note to clients "Strap on a helmet –- it will likely get worse… This is just the beginning of the downturn, and every company/every end market will feel it." The note included negative expectations for NXP Semiconductors, Texas Instruments and Nvidia.

Further negative news came on Wednesday and Thursday. First, chipmaking equipment titan Applied Materials warned, "On Oct. 7, 2022, the United States government announced new export regulations for U.S. semiconductor technology sold in China, including wafer fabrication equipment and related parts and services. Applied currently estimates that the new regulations will reduce its fourth-quarter net sales by approximately $400 million, plus or minus $150 million." Then, the aforementioned Taiwan Semi reported better-than-expected Q3 profits, but the world's largest contract chip manufacturer lowered its capital expenditure forecast for 2022 to $36 billion, down from an earlier estimate of $40 billion. Taiwan Semi CEO CC. Wei said, "TSMC is not immune," to a likely downturn in the industry next year, with the spending cuts due to weaker global demand and higher costs due to inflation.

Not to be left out of the headlines, **Intel** (INTC – $25.91) was rumored to face "thousands" of job cuts according to *Bloomberg* reporters. The headline certainly reads poorly for the chipmaker, but INTC employs almost 115,000 employees around the world, meaning that a headcount reduction in the thousands is a very small portion of the company's workforce. If anything, the company should be expected to make significant organizational changes at it works its way out of a very deep hole.

The recent repricing in the Information Technology sector and specifically in the chipmaking, chipmaking-equipment and memory industries has triggered a wide review of exposures in our broadly diversified portfolios, especially as traders seem to be punishing the stocks day after day for the same crime. While we have cut Target Prices across the board, we are debating a potential addition or an averaging down on an existing holding as we believe the recent price dumps are only warranted in part and there are some enticing stocks to buy on sale for those willing to add a little bit of incremental risk to their portfolios. In the fullness of time, it might turn out that we were early to the party (the hardest part of market timing is getting the timing right), but we are always excited to pick up stocks that have gone on sale, especially considering the long-term importance of chips is unlikely to go away.

While we already hold a full position of **Qualcomm** (QCOM – $109.95) in most of our managed accounts and it remains to be seen how the reduced demand environment with enhanced restrictions on Chinese manufacturing will impact the chip giant, we continue to like the company's position and competitive advantages. Shares are down 40% this year, but that's still several percentage points better than the SOX index, of which it makes up about 6%. Sure, negative analyst reports are not helping matters and it seems that dreary Wall Street missives have a larger negative impact than optimistic reports are able to push stocks up. To that end, KeyBanc analyst John Vinh lowered the company's 12-month target price from $220 to $170 (but keeps the "Overweight" recommendation) and Wells Fargo analyst Gary Mobley chopped his target price from $150 to $125 (but keeps the "Equalweight" recommendation). The long haul in mind, we are very happy with the evolution at QCOM and expect the company to continue to perform, even if recent stock gyrations have resulted in unsettled stomachs. QCOM now trades for 8.7 times the current NTM EPS estimate and yields 2.7%. Our revised long-term Target Price is $208.

Grocery store operator **Kroger** (KR – $43.16) picked a bad day to officially announce that it has agreed to buy rival Albertsons for a total estimated consideration of $34.10 per share, equating to an enterprise value of about $24.6 billion, including $4.7 billion of net debt from Albertsons. Kroger shares jumped as much as 5% on speculation of the move that was leaked Thursday morning, but quickly reversed course, and ended the two-days more than 6% lower by market close on Friday. Kroger has inked a $17.4 billion bridge loan commitment from Citigroup and Wells Fargo to help fund the deal, in combination with cash on hand.

The union is designed to translate each party's strengths into the other's stores, such as Kroger's fresh initiative, meal solutions and personalized data science capabilities, and Albertsons' deli and bakery expertise and lower cost structure. Despite confidence expressed by management, we think gaining regulatory approval is far from a cinch, although the company intends to spin off between 100 and 375 stores to appease regulators. Albertsons has declared a special dividend of $6.80 per share to account for the spin, while Kroger management says the deal price will be adjusted downward according to the number of stores ultimately spun off.

Of course, with Albertsons shares closing at $26 and change on Friday, there is a lot of skepticism about the combination, even as Kroger argues that it has done its antitrust homework. We think that should the deal go through it would likely create a formidable competitor in a tough landscape characterized by thin margins in a mature market. Kroger suggests the transaction would be accretive in year 1 and double-digit-percentage accretive by year 4. The combination worsens Kroger's debt profile, with at least one ratings agency downgrading its outlook for the debt, and Kroger has already paused its share-repurchase program to move back toward its net leverage target of 2.5x EBITDA in the first 18 to 24 months post close.

We continue to like the competitive portfolio of house brands at Kroger, particularly within the fresh category, and appreciate the ballast that the stock has offered our portfolio through some rocky moments over the past couple of years. Nevertheless, with every stock fighting for a spot in our broadly diversified portfolios, we continue to weigh our stake against other battered names in our opportunity set, especially given the significant relative share price performance advantage KR has enjoyed this year. Our Target Price has been trimmed to $63 on the deal uncertainty.

Long-time partner and owner of Albertsons shares, shopping-center REIT **Kimco Realty** (KIM – $18.96) elected to cash in close to 30% of its 39.8 million share stake upon announcement of the deal for close to $26 per Albertsons share. Kimco stated the rationale was a realization of incremental value given that the $34.10 deal price is significantly higher than where Albertsons had been trading. Of course, the timing of the move left us scratching our heads, as the price received was some $8 below the purported offer price. Kimco said it anticipates paying its own special dividend to stay in compliance with income payout requirements for REITs given the expectation that it will receive the special dividend for its remaining interest in Albertsons. While we are disappointed that a better sale price was not obtained, we remain fans of KIM and its management team, especially given that the company had enjoyed a massive return on its Albertsons ownership. Our Target Price for KIM is now $29.

Shares of **Leggett & Platt** (LEG – $31.91) sank by 7% last week, hitting a fresh 52-week low after the company cut 2022 sales and earnings forecasts for the second time this year. The maker of bedding, home and industrial products doesn't report Q3 financial results until Halloween, but the company now expects to generate between $2.30 to $2.45 of full-fiscal-year EPS on between $5.1 billion to $5.2 billion of sales, down 16.7% and 5.5%, respectively, from guidance provided back in May.

CEO Mitch Dolloff offered, "Demand in the U.S. bedding market is fairly stable but remains at relatively weak levels as industry headwinds persist, including inflationary and monetary policy impacts on consumer spending and consumer sentiment as well as higher inventory levels. Given the bedding demand environment and slowing market for steel generally, we are cutting production in our Rod and Wire businesses to reduce inventory. Our Specialty Foam business has experienced larger demand impacts as a result of previous pandemic-related supply issues and channel specific pressures. Lower demand in Specialty Foam in combination with operational inefficiencies, which are being addressed by continuing integration work, are taking longer than originally expected to resolve."

He added, “Demand in International Bedding has declined more significantly amid geopolitical and macroeconomic disruptions in Europe. Home Furniture demand has softened significantly in the last few months with slower consumer demand and excess inventory at retail. “Volume and cost recovery are improving sequentially in Automotive, but at a slower rate than anticipated. While improving year-over-year, industry production forecasts remain dynamic as supply chain and geopolitical impacts bring continued volatility. We continue to focus on things we can control and are taking action to mitigate the impact of these challenges by aligning costs, production levels, and inventory with demand; evaluating near-term opportunities with our customers and working with them on new product developments; and continuing to build out our existing businesses through acquisitions. Our strong balance sheet and cash flow give us confidence in our ability to navigate challenging markets while investing in long-term opportunities.”

The release also mentioned that LEG has made a string of small purchases in recent weeks and months. These include buys of a leading global manufacturer of hydraulic cylinders for heavy construction, a converter of construction fabrics for the furniture and bedding industries, and a distributor of geo components located in Ottawa, Canada. In sum, the transactions are expected to generate over $65 million of revenue.

LEG’s end markets will undoubtedly remain under pressure, as a product of the Federal Reserve’s fervor in quelling inflation, given exposure to discretionary items like bedding and household furniture. A 30% slide over the past year certainly bakes in a lot of bad news, with the shares now trading for less than 14 times the current cyclically depressed 2023 EPS estimate. We think the dividend is in good stead as the payout remains covered should LEG meet the reduced EPS projection, with the latest price volatility making the 5.5% yield even more appealing. LEG’s balance sheet (over 80% of debt is due in 2027 or later) ought to support its status as Dividend King (more than 50 consecutive years of hikes in the payout) in the years ahead. Nevertheless, our Target Price has been trimmed to $50.

BASF SE (BASFY – $10.44) released preliminary third quarter results last week. In euro terms, the chemical maker had adjusted EBIT around 1.35 billion euros (before special items), compared with the analyst consensus estimate of 1.3 billion euros. The company still sees adjusted EBIT between 6.8 billion euros and 7.2 billion euros for the full year, which has a midpoint below the analyst consensus of 7.11 billion euros. BASF launched a cost savings program designed to save 500 million euros annually.

Via press release, the company said, “Against the background of significantly weaker earnings in Europe – especially in Germany, where earnings in the third quarter of 2022 were negative – as well as the deteriorating framework conditions in the region, BASF has initiated a cost savings program focusing on Europe and particularly Germany to be implemented from 2023 to 2024. Cost savings possible in the short term will be implemented immediately. Upon completion, the program is expected to generate annual cost savings of EUR500 million in non-production areas. More than half of the cost savings are to be realized at the Ludwigshafen site. Operating, service and research & development divisions as well as the corporate center are to be streamlined.”

While BASF shares are still down significantly this year, the little bit of good news sent shares up 5% last week, thanks to the cost-cutting program. Inflation remains top of mind in Europe, especially as European energy prices have soared ahead of the Continent's expedited break from cheap Russian gas. Supposedly, Europe has enough gas to survive the winter, giving EU leaders additional time to construct alternate fuel delivery infrastructure. We know that traders don't care much about the long term, but we think the global chemical market is resilient and expect that BASF's global revenue stream will lessen the impact from challenges in certain regions. Of course, every stock is fighting for its spot in our broadly diversified portfolios, but our Target Price is $19 and BASFY yields around 6% after taxes.

Shares of **Koninklijke Philips NV** (PHG – $13.08) sank by 13% last week as the health technology company reduced its revenue and earnings guidance for the fourth time in ten months, citing continued supply chain constraints. If it is to be trusted at this point, management suggests that it "still expects a better second half of the year, compared to the first half of 2022." Nevertheless, the update incorporates a mid-single-digit comparable-sales decline for the fourth quarter of 2022 to lower than the average analyst estimate of €4.53 billion, with a high-single-to-double-digit adjusted EBITA margin range.

The multi-national firm's medium-term financial targets are now in question, including its goal for around €2 billion in free cash flow by 2025. As if a challenging macroeconomic environment wasn't enough with which to contend, Philips continues to struggle with reputational damage due to the recall of millions of its sleep therapy devices over issues that range from device foam degradation to the release of volatile organic compounds to interference of magnets in devices with other nearby medical equipment. As a result, the company expects to incur a 1.3 billion euro non-cash charge in the third quarter for the impairment of goodwill of its Sleep & Respiratory Care business. Philips continues to test for each of these matters, having enlisted the help of 5 certified testing labs and numerous external experts. Tests have been grouped by product category, and for each product category, it is investigating new devices, devices with lab-aged foam and used devices.

Not surprisingly, given all of Philips woes, Roy Jakobs took over as new CEO to replace Frans van Houten, who had led the company for the past 12 years and is responsible for morphing the former diversified maker of electronics and consumer devices into a healthcare equipment and diagnostics concern. Mr. Jakobs' role in turning around the company's Connected Care businesses in early 2020, managing the response to the COVID-19 crisis, and recent responsibility for the recall of medical devices to treat sleep apnea made him a likely candidate for the top slot. In a statement, he said, "Improving execution is clearly my immediate focus, in particular restoring supplies to deliver on the orderbook and customer demand."

Our thesis for the stock from the outset was that the eventual loosening of global supply chains would lead to a recovery in revenue and earnings. This is still our base case, although we acknowledge that being too early can appear indistinguishable from being wrong. And although sleep care does not represent a large portion of revenues on its own, the fix obviously is taking much longer than we had envisioned. Still early into our holding period, we remain patient for the time being for the company to straighten its path, even as the plethora of growing struggles tempers our appetite to average down at these extraordinarily low levels for the stock. PHG trades for a forward P/E below 10 and the dividend yield is pushing 6%. Our Target Price has been cut to $31.

Shares of **Amgen** (AMGN – $251.34) caught a bid last week, rising nearly 10%, in large part due to an analyst from Morgan Stanley upgrading the rating on the biotech giant from Equal-Weight to Overweight. The analyst cited promise in Amgen's weight loss drug AMG133 to support the case, along with "unappreciated upside" in AMGN's mid-term pipeline.

Amgen also highlighted in a recent report that biosimilar development is on the rise, citing six that have been approved thus far in 2022. Management said, "These new biosimilars have the potential to generate even more savings for the healthcare industry, which can then be deployed to newer, innovative treatments."

AMGN has been a solid performer year-to-date despite having traded all over the place in recent weeks. Shares sank 7% on the approval of **Bristol Myers Squibb** (BMY – $70.62) psoriasis drug Satyktu and rallied on encouraging results for new lung-cancer pill (Lumakras), which 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 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, Lumakras, and asthma drug Tezspire should support modest revenue growth. With the stock trading for a reasonable 14 times NTM EPS estimates and yielding 3.1%, our Target Price for AMGN is presently $301.