Market Commentary Monday, October 24, 2022

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EXECUTIVE SUMMARY

Market Week – Rebound Resumes
Sentiment – Historic Levels of Pessimism
Volatility – Ups and Downs Always Part of the Process
Interest Rates – Higher 10-Year Yield, Stocks Rally, Fed Funds Futures Turn Less Hawkish
Economy – Solid Q3 GDP Growth Still the Forecast; Recession Down the Road Still the Consensus Estimate
EPS – Q3 Reporting Season Off to a Good Start
Valuations – S&P 500 Still Reasonably Priced; Value Stocks Still Very Inexpensive
Stock News – Updates on BAC, GS, BK, TFC, CMA, ALL, OZK, FITB, ABT, JNJ, LMT, OMC, LRCX, IBM, SNA, WHR, MAN & VZ

Market Review

Providing more evidence that time in the market trumps market timing,…

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.

…the equity markets turned in a terrific week,…

THE PRUDENT SPECULATOR

MARKET OF STOCKS – INDEXES CAN HAVE WIDE DISPERSION IN RETURNS

With Jerome H. Powell's "painful" words at Jackson Hole still the main catalyst, stocks and bonds have been very volatile, with the good kind of volatility happening last week. Of course, the Nasdaq Composite index is still down 30.1% and the U.S. Aggregate Bond index is off 16.7% 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	4.93	-13.04	-10.89	21.97	14.62	76.07	23.38	48.64	Dow Jones Industrial Average	DJITR Index
1.01	-10.21	A	3.97	-15.88	-15.10	19.25	13.72	71.55	16.32	29.26	New York Stock Exchange Composite	NYA Index
-39.18	-20.81	R	5.22	-30.14	-28.06	1.03	-3.99	61.48	36.47	71.81	Nasdaq Composite Index	CCMP Index
-22.43	-9.23	K	3.81	-26.80	-29.56	-3.18	-7.07	56.68	10.86	21.78	Russell 2000 Growth	RU20GRTR Index
22.83	14.02		3.32	-16.42	-16.53	38.04	32.39	101.47	19.58	20.72	Russell 2000 Value	RU20VATR Index
-3.02	2.49	E	3.57	-21.58	-23.12	15.86	11.17	79.23	16.66	23.12	Russell 2000	RU20INTR Index
-11.75	-20.15	T	4.11	-29.61	-32.25	-5.68	-9.80	56.43	15.18	43.99	Russell Midcap Growth Index Total Return	RUMCGRTR Index
19.18	2.33		3.28	-17.24	-15.23	26.73	22.07	93.72	18.21	29.00	Russell Midcap Value Index Total Return	RUMCVATR Index
8.25	-5.62	O	3.57	-21.64	-21.53	14.46	9.96	81.40	19.72	38.59	Russell Midcap Index Total Return	RUMCINTR Index
-22.42	-19.63	F	5.32	-28.01	-24.88	5.16	-0.52	68.74	36.50	74.50	Russell 3000 Growth	RU30GRTR Index
8.04	-4.33		3.89	-13.44	-11.53	28.54	23.34	79.67	19.26	33.12	Russell 3000 Value	RU30VATR Index
-7.46	-11.46	S	4.61	-21.16	-18.54	16.13	10.60	75.19	29.25	54.70	Russell 3000	RU30INTR Index
9.64	-0.39	T	3.79	-17.08	-14.32	28.11	22.85	93.72	29.79	50.82	S&P 500 Equal Weighted	SPXEWTR Index
-9.10	-11.89	O	4.75	-20.25	-16.23	18.25	12.59	74.67	31.10	59.25	S&P 500	SPXT Index
-22.08	-12.73	C	5.46	-28.06	-23.23	8.44	2.82	69.71	36.49	73.04	S&P 500 Growth	SPTRSGX Index
6.08	-11.71		4.11	-11.53	-8.78	29.10	23.71	75.55	21.10	40.28	S&P 500 Value	SPTRSVX Index
3.18	1.57	K	-0.69	-21.88	-22.10	-23.19	-23.76	-16.29	-18.39	-13.02	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index
11.63	8.44	S	-1.07	-16.74	-16.11	-17.10	-17.20	-12.77	-11.41	-3.68	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index

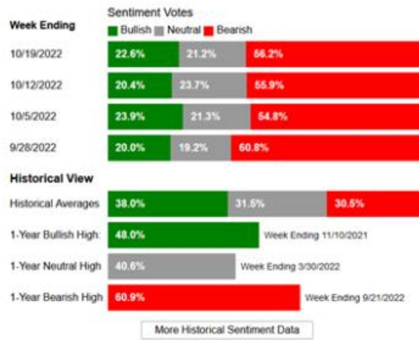
As of 10.21.22. Source Kovitz using data from Bloomberg

…continuing a handsome rebound in October that has taken the Russell 3000 Value index up more than 5.5% in a rally that has coincided with Fund managers having taken their cash positions to the highest level in 21 years, according to the latest *Bank of America Fund Manager Survey*, along with near-record levels of Bearishness in recent Sentiment Surveys from the American Association of Individual Investors.

THE PRUDENT SPECULATOR

MAJOR AAII CONTRARIAN BUY SIGNAL: BULL-BEAR SPREAD = -33.6%

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



CURRENT AAII SENTIMENT BULL-BEAR SPREAD:

The Sentiment Survey is a contrarian indicator. Above-average market returns have often followed unusually low levels of optimism, while below-average market returns have often followed unusually high levels of optimism. Click here to learn more.

The gauge is widely viewed with a contrarian eye, so the tally of Bulls in the latest AAII Sentiment Survey coming in at 22.6% and the number of Bears residing at 56.2% is a major positive. The minus 33.6% 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.

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 = 7.33										
BELOW	-54.0	7.3	918	0.23%	0.19%	1.10%	0.96%	3.31%	2.91%	6.51%	5.74%
ABOVE	7.3	62.9	918	0.17%	0.15%	0.55%	0.46%	2.02%	1.76%	4.67%	4.19%
	Ten Groupings of 1835 Data Points										
1	-54.0	-16.5	185	0.42%	0.36%	1.90%	1.65%	4.52%	3.95%	8.54%	7.30%
2	-16.3	-8.4	182	0.26%	0.23%	0.92%	0.78%	3.57%	3.22%	6.46%	5.68%
3	-8.3	-2.0	193	0.33%	0.29%	1.22%	1.12%	3.45%	3.04%	7.47%	6.77%
4	-2.0	2.8	174	0.07%	0.03%	0.92%	0.82%	2.48%	2.11%	5.24%	4.67%
5	2.8	7.3	184	0.06%	0.03%	0.53%	0.43%	2.48%	2.22%	4.73%	4.19%
6	7.3	11.9	183	0.17%	0.15%	0.71%	0.63%	2.01%	1.77%	4.90%	4.45%
7	11.9	16.1	184	0.17%	0.15%	0.51%	0.37%	2.50%	2.25%	5.32%	4.81%
8	16.1	22.0	183	0.15%	0.13%	0.86%	0.79%	2.29%	2.04%	5.82%	5.39%
9	22.0	29.0	184	0.13%	0.12%	0.36%	0.28%	1.78%	1.49%	4.74%	4.17%
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 10.20.22. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

While Bank of America strategists led by Michael Hartnett understand the contrarian nature of pessimistic sentiment, stating that the *Fund Manager Survey* "screams macro capitulation, investor capitulation, and crucially start of policy capitulation," we realize that two previous bounces in stocks this year quickly gave way to renewed selling,…

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	8/16/2022	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.

…with last week's outsized weekly move in the S&P 500 one of 8 this year of similar or greater magnitude.

THE PRUDENT SPECULATOR

TERRIFIC REBOUND: S&P 500 BOUNCES BACK

Not so rare this year are nice one-week rallies of more than 4.7% for the S&P 500, as the popular market gauge regained 4.73% over the last five trading days, the 129th best weekly showing since 1928.

Up > 4.73%

	1920's	1930's	1940's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	2020's	Totals
Years Ending in 0		2	1	0	0	2	1	0	4	1	4	15
Years Ending in 1		8	0	0	0	1	1	3	3	5	0	21
Years Ending in 2		13	1	0	1	0	4	0	3	0	4	26
Years Ending in 3		12	0	0	1	0	0	0	1	0		14
Years Ending in 4		5	0	0	0	4	1	0	0	0		10
Years Ending in 5		2	0	0	0	2	0	0	0	0		4
Years Ending in 6		1	1	0	1	0	1	0	0	0		4
Years Ending in 7		1	0	0	0	1	3	1	0	0		6
Years Ending in 8	1	9	1	0	0	0	1	1	3	1		17
Years Ending in 9	4	1	0	0	0	0	0	1	6	0		12
Totals	5	54	4	0	3	10	12	6	20	7	8	129

From 1.31.28 through 10.21.22. Weeks of index price increases of greater than or equal to 4.73%. SOURCE: Kovitz using data from Bloomberg

Down < 4.73%

	1920's	1930's	1950's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	2020's	Totals
Years Ending in 0		9	3	1	0	1	1	1	2	2	5	25
Years Ending in 1		9	2	0	0	0	0	0	2	2	0	15
Years Ending in 2		13	1	0	3	0	0	0	3	0	4	24
Years Ending in 3		11	1	0	0	0	0	0	0	0		12
Years Ending in 4		3	0	0	0	6	0	0	0	0		9
Years Ending in 5		0	0	0	0	1	0	0	0	1		2
Years Ending in 6		1	2	0	0	0	1	0	0	1		5
Years Ending in 7		7	0	0	0	0	4	0	1	0		12
Years Ending in 8	1	8	1	0	0	1	0	3	6	3		23
Years Ending in 9	7	5	0	0	0	1	1	1	4	0		19
Totals	8	66	10	1	3	10	7	5	18	9	9	146

From 1.31.28 through 10.21.22. Weeks of index price decreases of greater than or equal to 4.73%. SOURCE: Kovitz using data from Bloomberg

True, volatility like what has been witnessed in 2022 is unusual, but ups and downs are always the price that must be paid to achieve handsome long-term returns in equities.

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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Interestingly, last week's sizable advance came despite another jump in interest rates,…

THE PRUDENT SPECULATOR

BENCHMARK TREASURY YIELD CONTINUES TO CLIMB

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 20 more basis points.

…providing more evidence that rising long-term government bond yields are not reason to sell stocks,…

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

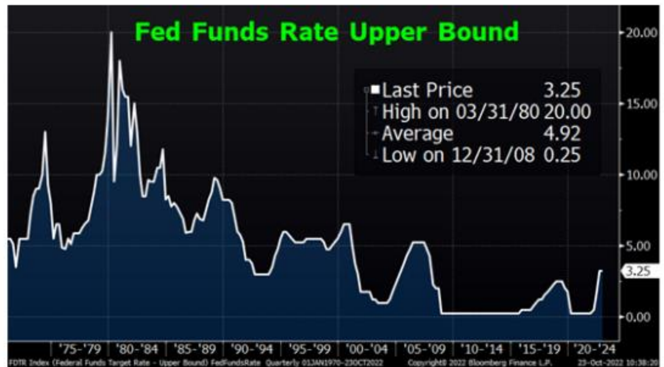
Source: Kovitz using data from Ibbotson Associates SBBI. From 1930 to 2021.

…though we realize that less hawkish commentary from Mary Daly helped matters. On Friday, the Federal Reserve Bank of San Francisco President said, "We need to be thoughtful in how restrictive we need to be and that means we need to be data dependent," which caused a modest drop in the peak interest rate projection in the Fed Funds futures market.

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 this week than last, with a current projected 4.44% year-end Fed Funds rate and a 4.89% estimated peak for May 2023, with a cut coming in June 2023.

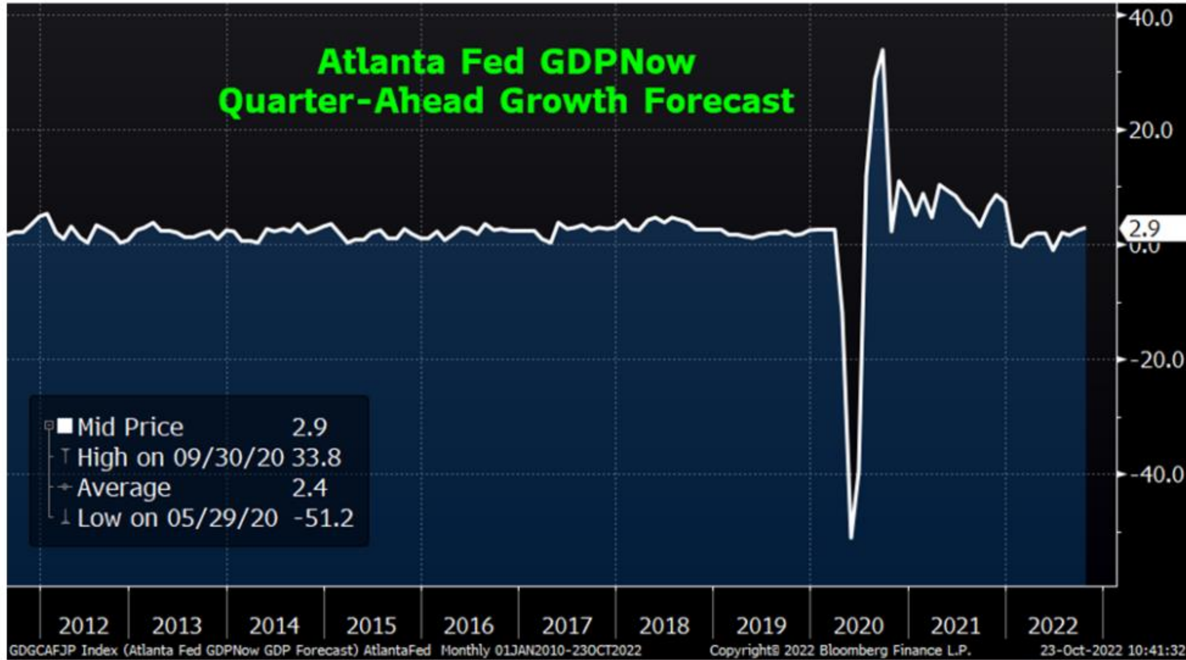


Of course, not much changed last week on the economic front. The outlook for solid Q3 U.S. GDP growth (yes, a real (inflation-adjusted) expansion is likely) remained intact,…

THE PRUDENT SPECULATOR

Q3 U.S. REAL GDP GROWTH PROJECTION INCHES UP TO 2.9%

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 October 19 stood at 2.9%.



…as the labor situation continued to be very healthy,…

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 15 were a seasonally adjusted 214,000, down from a revised 226,000 the week prior. Continuing claims filed through state programs inched up to 1.39 million, still near the lowest level since 1969 as businesses continue to hold onto workers with qualified labor difficult to obtain.

…and other numbers held up relatively well.

THE PRUDENT SPECULATOR

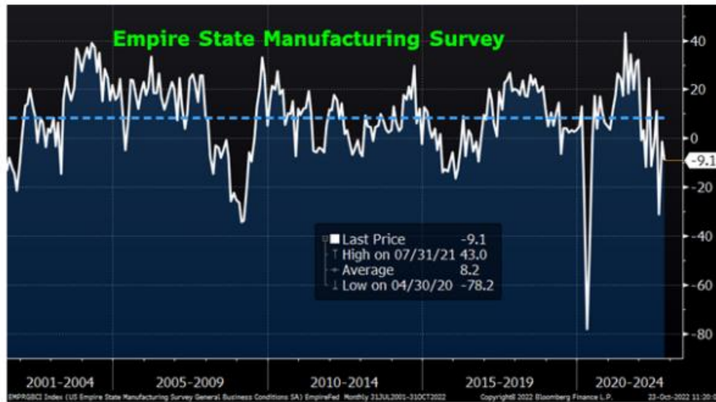
DECENT ECONOMIC NUMBERS

U.S. existing home sales fell by 1.5% in September to a seasonally adjusted annual rate of 4.71 million, in line with projections but the eighth straight monthly decline as higher interest rates and elevated prices weighed heavily on affordability. Meanwhile, industrial production rose 0.4% in September, beating estimates of a 0.1% advance and climbing from the August tally of minus 0.1%. Manufacturing output rose 0.6%, with automobile production advancing 1.0% and capacity utilization of 80.3% coming in above expectations.

True, statistics on manufacturing were not great,…

THE PRUDENT SPECULATOR

EAST COAST FACTORY ACTIVITY IN CONTRACTION

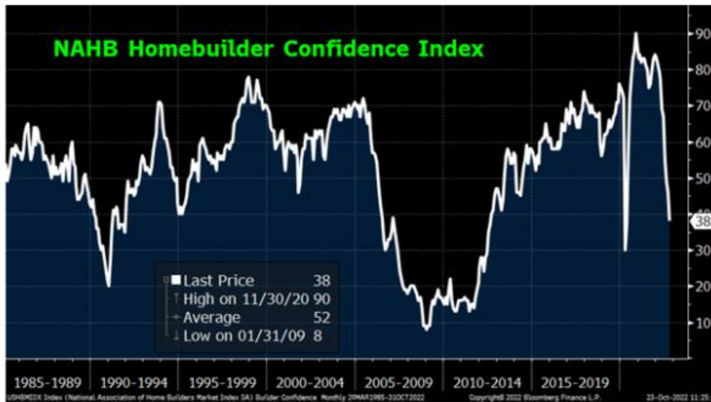


The Empire State gauge of manufacturing activity in the New York area weakened in October to a much-worse-than-expected minus 9.1, down from minus 1.5 in September. On the other hand, the Philadelphia Fed's measure of manufacturing activity in the mid-Atlantic region improved slightly in October, coming in at minus 8.7 compared to minus 9.9 in September, though the tally was below forecast. Both indexes of factory activity are now in contraction.

…while the outlook for new home construction continued to deteriorate,…

THE PRUDENT SPECULATOR

HOUSING DATA SLOWS FURTHER



The National Association of Home Builders' monthly confidence index for October trailed forecasts, skidding to 38, down 8 points from September and coming in well below the long-term average on the 35-year-old gauge. High prices and the spike in mortgage rates did not help, and ground was broken on just 1.44 million homes last month, down from 1.57 million in August. Of course, there was a bump up in building permits in September, so the housing market is far from dead.

…and the forward looking Leading Economic Index,…

THE PRUDENT SPECULATOR

LEI DROPS BY 0.4% IN SEPTEMBER

"The Conference Board Leading Economic Index® (LEI) for the U.S. decreased by 0.4% in September 2022 to 115.9 (2016=100), after remaining unchanged in August. The LEI is down 2.8% over the six-month period between March and September 2022, a reversal from its 1.4% growth over the previous six months...The U.S. LEI fell again in September and its persistent downward trajectory in recent months suggests a recession is increasingly likely before yearend. The six-month growth rate of the LEI fell deeper into negative territory in September, and weaknesses among the leading indicators were widespread. Amid high inflation, slowing labor markets, rising interest rates, and tighter credit conditions, The Conference Board forecasts real GDP growth will be 1.5% year-over-year in 2022, before slowing further in the first half of next year."

…supported the currently very elevated odds of recession down the road.

THE PRUDENT SPECULATOR

PLENTY OF DOOM & GLOOM TALK, ODDS OF RECESSION NOW 60%

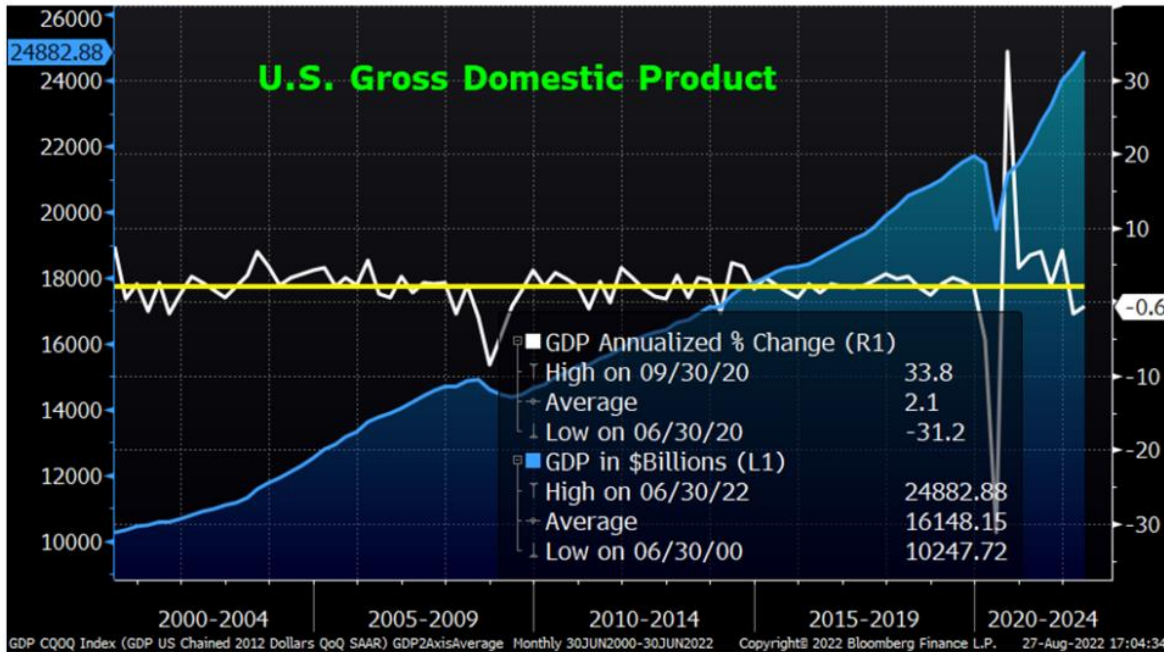
The respective 1.6% and 0.6% contractions in Q1 and Q2 2022 real (inflation-adjusted) GDP means economists could say that the U.S. economy already is in recession, but the odds of an official declaration stand today at 60%, even as the consensus forecast for GDP growth this year is 1.7% and 0.5% for 2023.

Still, we trust that readers are aware that recessions are determined based on inflation-adjusted GDP,…

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.

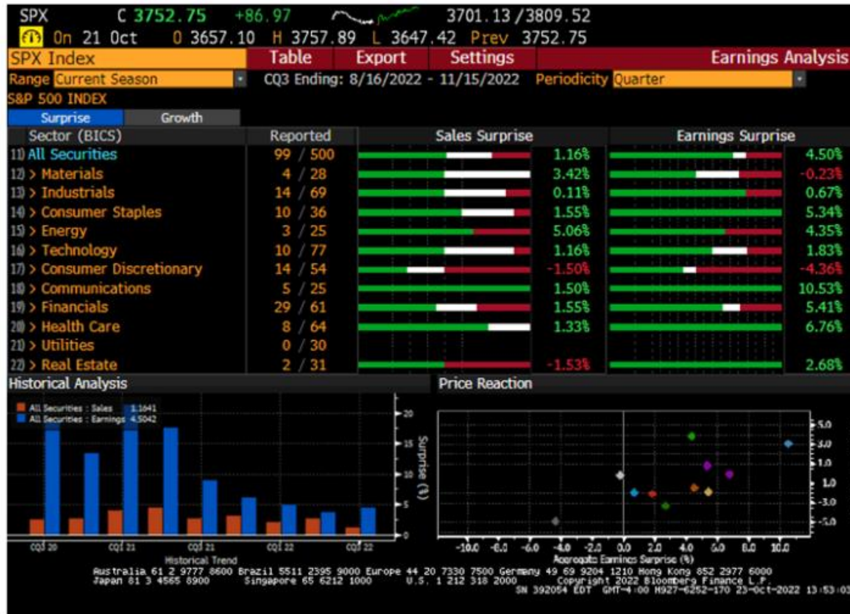


…while stock prices and corporate profits are tabulated in nominal dollars.

THE PRUDENT SPECULATOR

Q3 AND 2023 EARNINGS GROWTH STILL THE ESTIMATE

Q3 earnings reporting season is off to a good start, even as outlooks have continued to be subdued and stock prices sometimes have reacted negatively. Of the 99 S&P 500 companies that have posted results thus far, 71.7% beat EPS expectations and 51.5% exceeded revenue forecasts.



S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2023	$61.81	$235.40
9/30/2023	$59.53	$230.31
6/30/2023	$58.05	$224.57
3/31/2023	$56.01	$213.39
12/31/2022	$56.72	$206.74
9/30/2022	$53.79	$206.75
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 10.20.22

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It is hard to imagine that heightened market volatility will dissipate any time soon, so we are always braced for additional downside. However, we continue to think that equities in general are reasonably priced,…

THE PRUDENT SPECULATOR

INTEREST RATES STILL SUPPORTIVE OF STOCKS

The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. Though many dismiss the Fed Model, investing is always a choice of this or that, and we still like today's rich earnings yield (5.42% vs. 4.22% 10-Year), despite the jump in interest rates.

…while we very much like the valuation metrics for our broadly diversified portfolios of what we believe to be undervalued stocks.

CURRENT PORTFOLIO AND INDEX VALUATIONS

Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	11.3	10.6	0.8	2.2	3.0
ValuePlus	11.9	11.2	1.1	2.3	2.5
Dividend Income	11.1	10.6	0.7	2.0	3.5
Focused Dividend Income	12.3	11.6	1.0	2.3	2.9
Focused ValuePlus	12.2	11.9	1.2	2.4	2.7
Small-Mid Dividend Value	9.8	9.1	0.5	1.5	3.2
Russell 3000	20.0	17.2	2.0	3.5	1.8
Russell 3000 Growth	28.0	23.1	3.0	8.9	1.1
Russell 3000 Value	15.5	13.7	1.5	2.2	2.4
Russell 1000	19.0	17.0	2.2	3.7	1.8
Russell 1000 Growth	26.2	22.9	3.3	9.3	1.1
Russell 1000 Value	14.9	13.5	1.6	2.3	2.4
S&P 500 Index	18.4	16.8	2.3	3.8	1.8
S&P 500 Growth Index	22.0	20.3	3.9	6.8	1.0
S&P 500 Value Index	16.0	14.5	1.6	2.7	2.4
S&P 500 Pure Value Index	10.1	9.3	0.6	1.4	2.8

As of 10.22.22. 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.

We also like what history shows happened to equities the last time the Fed was taking drastic measures to address sharply elevated inflation.

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

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 quite a few of our stocks that posted quarterly results last week or had news out worthy of mention.

The story for **Bank of America** (BAC – $34.95) was similar to its largest peer, **JPMorganChase** (JPM – $122.23) in Q3. The nation's second largest bank by assets earned an adjusted $0.81 per share in the quarter vs. the $0.78 expected by the Street. Back in April, management said that a parallel shift of 100 basis points across the yield curve should add $5.4 billion of additional net interest income (NII) over the next 12 months. With about that amount added to the 2-year Treasury rate and a nearly 120 basis point increase for the 10-year, it wasn't shocking that NII grew to the highest figure in at least a decade ($13.8 billion).

Of course, an $898 million loan-loss provision (adding $378 million toward future loan losses) detracted from the bottom line versus a boost from the negative $600 million provision in Q3 2021. So, on a pre-provision basis before tax, income grew 10.8% year-over-year. Trading revenue was also better-than-expected, including beats within both fixed-income and equities trading. Wealth management revenue was resilient despite significant market volatility in the quarter, and modest expense growth added to the bank's streak of improving operating leverage.

CEO Brian Moynihan said of the bank's performance, "The teams adapted well to our new capital requirements and as a result, our common equity tier 1 ratio or CET1 ratio improved by nearly 50 basis points to 11%, moving 60 basis points above its current minimums…Our asset quality remains strong as net charge-offs and several other metrics, in fact, improved from the second quarter 2022…We produced a 15% [Return on Tangible Common Equity] and a 90 basis point [Risk-Weighted Assets]. Our efficiency ratio this quarter dropped to 62%. Taking out the litigation, it would have been 61%. So, even while investing in marketing and people and technology and physical plan, the team continues to drive operational excellence. An easy way to think about this is we currently operate Bank of America with less people than we had in 2015, seven years ago."

Regarding the health of consumers, Mr. Moynihan added, "First, consumers continue to spend at strong levels. Second, customer average deposit levels for September 2022 remain at multiples of the pre-pandemic levels…Third, there is plenty of capacity for borrowing, as credit and card balances of BAC are still 12%, both pre-pandemic levels, and the payment rates on those credit cards are 1,000 basis points over pre-pandemic levels."

BAC remains a favored holding in many of our diversified portfolios as we continue to appreciate the bank's propensity to stretch its technological capability, with increasing digitization of transactions driving continued efficiencies over time. Impressively, the CEO said that 48% of third quarter sales were digital, a 36% year-over-year increase, even as the bank fully reopened its financial centers.

Shares rallied more than 10% last week but the multi-year consolidation in price does not mesh with the nearly 50% improvement for EPS since 2017. The dividend yield is 2.5% and our Target Price has been raised to $56 as the forward P/E ratio is below 10.

Posting Q3 results, **Goldman Sachs** (GS – $325.10) saw its shares climb more than 8% last week, even as revenue was down 12% year-over-year. A strong quarter for the trading department (particularly fixed income, currencies and commodities), with revenue growing 11% to $6.2 billion, made up for continued weakness in investment banking. The net income results of $8.25 per share topped the $7.75 estimated by the Street.

The increasingly diversified bank reined in growth ambitions for its consumer business, while simultaneously announcing another reorganization of its various businesses into three segments: Asset & Wealth Management, Investment Banking & Global Markets, and Platform Solutions, which will consolidate Fintech platforms across the firm. Management says the move formalizes the strategic direction the various subsegments have held for some time, expecting to generate synergies and making the business more transparent to outside stakeholders.

Expressing caution about the economic backdrop, CEO David Solomon said that the "global economy continues to face significant headwinds; inflation remains high; central banks are raising interest rates at a pace not seen in decades; meanwhile, equity markets are well-off the recent highs; geopolitical instability and energy shocks are an ongoing concern; and GDP growth expectations are declining. Many of these trends accelerated towards the end-of-the quarter. For example, while our own financial conditions index has indicated steady tightening all year, we saw a sharp increase in the index starting in mid-August. Everywhere I go, macro themes dominate. My conversations with CEOs, they tell me that they are rethinking business opportunities, and would like to see more certainty before committing to longer-term plans. As we head into the fourth quarter, my sense is that the outlook will remain unsettled though economic performance will vary by region. I also expect volatility to persist, as markets continue to digest these factors."

Prodded on the motivations for the Platform Solutions business, Mr. Solomon added, "Our Investment Banking and Markets business is core to who we are, it will continue to be core to who we are; it drives our earnings and performance: it drives what we're associated with; we've built over a number of decades a very, very powerful Asset & Wealth Management business we're bringing together today; we're the fifth largest active asset manager in the world, and we think we've got a real opportunity to grow that. I understand now that people accept that as being core to Goldman Sachs. When we started back in the '80s, I don't think people viewed it as core. But we also have 11,000 engineers here, and we're doing some very, very interesting things as the world is changing and the world is evolving with technology. After the financial crisis, the regulatory structure came, and we became a bank. And it was clear, we needed deposits and we needed to diversify our funding. And so, what Platform Solutions represents is, a handful of smaller business opportunities relative to the scale of Goldman Sachs that we're investing in, where we think we have a capability to serve our clients.

After a blockbuster 2021, we have repeatedly expressed this year that our expectations for 2022 earnings were tempered. Of course, the current consensus EPS estimate of $34.47 is sensational, especially as it is significantly above the pre-pandemic levels, while the 2023 EPS projection now stands at $38.16.

We continue to find the stock attractive, liking the healthy balance sheet even as capital requirements edge higher, and management has changed the direction of its strategic objections amid economic uncertainty. Dealmaking is down for now, but ought to come back into vogue before too long as corporations adjust to the new normal of higher interest rates. While the 15% slide for shares year-to-date is less than the overall market, the forward P/E ratio is a modest 9. With a dividend yield of 3.1%, our Target Price is now $450.

Global custodian and asset servicer **Bank of New York** (BK – $40.23) earned $1.21 per share in Q3 when adjusted for a goodwill impairment to its investment management division. Of course, the charge was non-cash and management says was mostly a result of lower asset values and a higher discount rate used in its annual test. Indeed, assets under management declined 23% year-over-year to $1.8 trillion while firm-wide asset assets under custody/administration even declined 7% year-over-year to $42.2 trillion. Nevertheless, 44% growth in net interest revenue supported the bottom-line beat and 16% EPS growth vs. a year ago.

A few strategic wins for the bank in the quarter include sponsorship of a supply-chain financing program for major corporate customer, a contract for white-label trade processing with a major U.S. bank and an award to manage payroll and digital asset transfers for a digital asset client. BK continues to play the long game in the digital space in hopes of profiting from the proliferation of a broad range of assets not limited to cryptocurrencies through its internal venture called Pershing X.

In his first couple months as CEO, Robin Vince said he had taken a review of the firm's various businesses to reexamine their and his priorities. He elaborated, "First, I see exciting growth opportunities and numerous examples of innovation, like Pershing X, the reimagining of our collateral and custody platforms, digital assets and real-time payments that we need to continue to invest in and execute on with great discipline and urgency. Second, we're not just reviewing the top line, we are also closely examining our cost base and margins. I'm questioning how we do things and I'm of the view that our margins should be better in some areas. For example, we talked to you about improving our pretax margin and Security Services to 30% over the medium term. More broadly, we are also going to be looking for efficiency opportunities as we drive our operating model transformation and will be very determined to see them through. And third, while we have been providing more holistic solutions to clients that we believe our unique collection of businesses is better placed to deliver, we have the potential to do a lot more."

The bank has been able to shift to non-interest-bearing deposits and given the upward pressure of interest rates, management expects the growth in net interest revenue to continue through year end, pushing the full-year figure some 30% higher over 2021. BK said it is monitoring the chaotic events across the pond related to trading in the UK gilt market, but said the company had little exposure to those risks on the balance sheet. The company has been a major repurchaser of its shares in recent years, shrinking the count by over 20% since late 2017, but going forward it will be limited in deploying more capital depending on how capital holds up should interest rates continue to rise.

Bank of New York performs an essential service critical to the function of financial market participants across the globe but is subject to multiple macroeconomic factors and the whims of markets often beyond its control. This role somewhat necessitates that the bank maintain a conservative posture relative to other of our financial holdings, although we do appreciate efforts to move into new product areas and enhance its technological offering. Our relatively small BK ownership has fared worse than the more traditional banks that we own in our diversified portfolios thus far in 2022 but shares trade for less than 9 times forward EPS estimates and offer a 3.7% dividend yield. Our Target Price is now $67.

Truist Financial (TFC – $41.51) earned $1.24 per share in Q3, a tad above the consensus Street target and down from the $1.42 earned in the prior year. Like its peers, a $324 million provision detracted from earnings but added $267 million to reserves for future loan losses. Accordingly, pre-provision net revenue grew 8.3% on an adjusted basis (24.1% on an unadjusted basis, given higher merger expense in Q3 2021). Without a trading department like at money-center-bank rivals, noninterest income took a hit, falling 11% year-over-year as capital market activity remains subdued.

Still, average loans held for investment grew 4.3% year-over-year with growth in both commercial and mortgage as higher rates slowed prepayments. Loan yields expanded, driving a 23-basis-point increase in net interest margin, growing net interest income 16% vs. a year ago. Credit quality remains strong as net charge-offs were just 0.27% and nonperforming loans just 0.35% of total loans held for investment, while noninterest expense growth of just 2.0% added to operating leverage with most costs related to the BB&T/Suntrust merger in the rear-view mirror.

Tier 1 equity capital declined mostly from a modest drop in non-interest-bearing deposits relative to loan growth, along with two bolt-on acquisitions. New CFO Mike McGuire explained, "First, BenefitMall closed on September 1, providing a scaled entry into wholesale employee benefits and filling one of the remaining strategic gaps in our capability set. BenefitMall is expected to add $160 million of annual revenue at an initial EBITDA margin in the mid 20% that will build to the mid 30% over time as synergies are realized. The transaction also has potential earned benefits with-in Truist Insurance by supporting our brokers at McGriff, our retail insurance business, and also outside Truist Insurance with our corporate and commercial clients."

He added, "We also recently announced the acquisition of BankDirect Capital Finance, strategically BankDirect effectively doubles our premium finance business, broadens our capabilities to include life insurance and expands our west coast presence. Pro forma, we estimate Truist Insurance Holdings to be the number two premium finance player in the market after this deal closes later this quarter. BankDirect brings with it a $3.2 billion loan portfolio with strong projected growth, attractive profitability, limited credit risk in short duration. While both acquisitions are expected to be dilutive initially, we believe they are strategic and financially attractive over the long run."

We continue to find the marriage of BB&T and SunTrust favorable, given the conservative lending culture and competitive brands that both banks had independently, and the potential for cost savings. Management now expects a mid-double-digit basis-point increase in both core and reported net interest margin due to benefits from the recent rate hikes and a projected 75-basis-point hike in November. Remaining tempered in the outlook for investment banking fees dependent on the level of capital markets activity, the bank expects adjusted expenses to increase approximately 1% as the increase in minimum wages and investments in revenue-producing businesses, technology and acquisitions are partially offset by the impacts of cost savings. All in, adjusted pre=provision net revenue is expected to grow approximately 10% with some upside based on the realization of the investment banking pipeline's extended positive operating leverage for the full year.

We continue to watch for operating leverage to improve as benefits from the merger flow through and expenses and headcount trends downward going forward, with the opposite expected of loan growth and net interest income. We think TFC trades at an attractive forward P/E ratio near 8 and although share repurchases are on pause for now, the dividend was raised by 8% in July, pushing the yield to a robust 5.0%. Our Target Price now resides at $67.

Shares of **Comerica** (CMA – $65.34) skidded more than 9% last week to hit a new 52-week low even as the Texas-based regional bank posted strong Q3 results. Comerica generated a record $2.60 of EPS, a better-than-expected tally that was 37% and 35% higher year-over-year and

quarter-over-quarter, respectively. The performance was buoyed by continued loan growth to $51.7 billion at period end and a 100-basis point increase in yields, which in tandem with a modest decline in deposits pushed net interest margin to 3.50%. The provision for loan losses taken in the quarter was higher than estimated by analysts, but credit quality remains intact as nonperforming assets actually decreased both in absolute terms and as a percentage of loans as assets expanded.

In fact, the only blemish we could find that may have startled investors was an incremental decline of Accumulated Other Comprehensive Income to the tune of $1.2 billion, as previously purchased loans held for sale were marked to account for higher interest rates. Of course, this is a non-cash effect on book value that should reverse itself should the bank hold these securities to maturity.

CFO James Herzog explained, “While we maintain the portfolios available for sale mostly for liquidity purposes, we typically hold these securities to maturity in which case the unrealized losses should not impact income. As another avenue to provide liquidity for loan growth, we ceased securities purchases partway through the quarter which contributed to period-end balances declining to $19.5 billion. As the portfolio shrinks, we plan to manage our assets sensitivity through additional swaps as needed. Over the past year, we have concentrated or purchases in agency CMBS with the goal of delivering more consistent cash flows with an average duration of slightly over five years. The larger average portfolio along with the favorable new purchase yields resulted in a $19 million increase in securities income.”

CEO Curt Farmer said, “We continue to benefit not only from the rising rate environment, but also from investments and strategic management of our business to support long-term success. We produced another quarter of broad-based loan growth and continued to generate solid fee income. While our customers are closely monitoring recessionary risk and its potential impacts, they remain generally confident in their ability to successfully navigate the changing landscape. Corporate responsibility remains a priority as we continue to demonstrate our commitment to supporting economic growth in our local communities.”

Comerica continues to make use of swaps to reduce the historical volatility of its earnings as rates rise and fall throughout the business cycle. Nevertheless, the bank still has plenty of lending capacity no matter if deposits continue to roll off as loans represent a historically low ratio (71%) relative to deposits. We like the attractive deposit franchise Comerica has built, and its growth in Texas and California has helped diversify risk in Michigan, where it remains a dominant player. A puzzling 25% decline for the stock this year in an improving environment for traditional banking leaves the valuation very attractive at 6.4 times forward EPS estimates. The dividend yield is now 4.2% and our Target Price resides at $105.

Shares of **Allstate** (ALL – $120.08) plunged more than 9% last week after the insurer released estimated Q3 results that included an adjusted net loss between $400 million and $450 million (after reimbursements from reinsurance), including $305 million from Hurricane Ian, and a property-liability combined ratio of 111.6%. Another $875 million of reserve re-estimates will adversely affect results, updated for new assumptions related to medical inflation, increased accident severity, more complex medical treatment and greater attorney representation, with $643 million of the adjustment primarily from bodily injury coverages. In response, Allstate has implemented rate actions for auto policies, but these will take time to offset inflationary increases and loss costs.

The company said auto premiums written climbed 9.6% to $7.9 billion and premiums earned rose 9.2% to $7.5 billion, reflecting a 10.4% increase in Allstate brand average premiums and a 1.9% increase in total auto policies in force from the prior year. Homeowner premiums written increased 9.4% to $3.3 billion, and premiums earned rose 10.1% to $2.8 billion.

No doubt, these kinds of adjustments are always difficult to stomach, but they periodically are the reality of pricing/selling a product to be delivered in the future. Following abnormal profitability during the pandemic when driving was considerably subdued, we had expected the firm's loss ratio to climb (although not by such an extent). Going forward, we take solace that property casualty pricing has entered a hardening cycle while rates on new fixed income investments are substantially higher than just a couple of years ago.

As the largest publicly traded personal lines insurance company in the U.S., we appreciate Allstate's scale, in addition to the reshaping of its portfolio over the past couple of years, spending $4 billion to acquire National General in 2020 and selling 80% of its life insurance business to Blackstone for $2.8 billion. These moves seem logical given ALL's competitive position within property and casualty insurance. The big move downward in price enhances the value proposition going forward in our view, even as the shares are still up in price on the year. With EPS expected to recover to more than $10.00 in 2023 and more than $14.00 in 2024, and a dividend yield of 2.8%, our Target Price is $152.

Shares of **Bank OZK** (OZK – $40.09) fell more than 5% last week after the regional banking operator reported Q3 bottom-line results that fell short of the consensus analyst estimate ($1.09 vs. $1.17). The key reason for the bottom-line miss was an increase in provisions for loan losses to $40 million, up from $7 million in Q2. Despite this, the quarter showed a lot of strength, with net revenue up 11% and loan growth rising 4% (driven by strength in commercial real estate), while net interest margin jumped to 5.0%. The bank's annualized returns on average assets, average common stockholders' equity and average tangible common stockholders' equity were 1.97%, 11.85% and 14.02%, respectively, compared to 1.98%, 11.41% and 13.39%, respectively, for the third quarter of 2021.

CEO George Gleason stated, "We are pleased to report our strong results for the third quarter of 2022. Our results were highlighted by our fourth consecutive quarter of record RESG loan originations and solid growth in RESG's funded loans, along with meaningful contributions to growth from our Community Banking and other lending teams. This reflects our dual focus on both organic loan growth and increased portfolio diversification. Our strong capital and liquidity, disciplined credit culture and outstanding team have us well positioned for the current environment and the longer term."

We continue to favor Bank OZK's strategy of growth through the slow building and acquisition of individual branches rather than the consolidation of entire banks. Mr. Gleason has stated this strategy makes culture assimilation easier, which contributes to an impressive efficiency ratio that has averaged roughly 41% over the past decade (with Q3 coming in below 39%). We also like the unique exposure OZK offers to commercial and industrial lending, a typically more volatile segment of banking, as it has been able to produce above average net interest margins

while experiencing mild loan losses (relative to peers) throughout its history. With a dividend yield of 3.3% and a NTM P/E of 8, our Target Price for OZK shares has been adjusted to $64.

Fifth Third Bank (FITB – $33.02) earned $0.91 per share in Q3, 6% below last year's tally and below estimates by a similar score. Of course the comparison would have been much more favorable had the regional bank not taken a $158 million provision for credit losses (resulting in a $99 million addition toward loss reserves including unfunded commitments) versus a $42 million benefit in Q3 2021. As expected, noninterest income (adjusted for one-off items in the year-ago quarter) declined by 8.5% year-over-year, due to softer results in market-sensitive businesses including capital markets and the impact of higher credit rates in treasury management. But like most of our other bank holdings, net interest income grew 26% vs Q3 2021 as net interest margin expanded by 30 basis points on a sequential basis. Net charge-offs remained flat at 21 basis points vs. Q2, while the balance of delinquent loans declined 1 basis point relative to the total.

CEO Tim Spence said, "We continue to focus on maintaining our culture of prudent expense management across the company, while investing in organic growth and tech modernization initiatives. In the third quarter, we made meaningful progress in our technology and platform modernization journey. In the fourth quarter, we'll relaunch our mobile app into new cloud-based architecture and with several improvements to the user experience."

Mr. Spence added, "We remain cautious with respect to the broader economy given persistent inflation, the Fed's aggressive monetary policies and global growth concerns. We've continually improved the granularity and diversification of our loan portfolio with a focus on high quality relationships in companies with more diversified resilient business models. We continue to proactively monitor our portfolios for signs of potential stress and regardless of what comes, I'm confident in our ability to outperform peers through the full economic cycle. We continue to make decisions with the long-term in mind, hold ourselves accountable to what we say we are going to do, and invest in product and service innovations to generate long-term sustainable value for customers, communities, employees, and shareholders."

The board authorized a 10% increase to the quarterly common dividend in September, and management expects to achieve a 9.25% CET1 ratio by year end. The company also said that share repurchases would resume in Q1 subject to economic conditions. We continue to think Fifth Third is a quality regional bank with solid pricing power, attractive market share and a loyal client base. Following a tremendous rally in 2021, shares have cooled some 24% from their 52-week high to trade for under 9 times the NTM EPS estimate, with a dividend yield of 4.0%. Our Target Price has been trimmed to $49.

Abbott Labs (ABT – $95.06) earned $1.15 per share in Q3 on $10.4 billion of sales. Facing a tough comparable quarter from a year ago when nearly all segments were firing on all cylinders, the diversified health care giant dealt with continued supply challenges within the Nutrition Segment, given baby-formula recalls, while sales from COVID testing declined for the second consecutive quarter. In addition, the global nature of Abbott's business saw the strong dollar deliver a 6% headwind to sales. Diabetes and Pharmaceuticals segments were a bright spot, each growing at a single-digit clip vs. a year ago.

Regarding the firm's baby-formula issues, CEO Robert Ford said, "Over the last few months, we've made progress in several important areas following the temporary shutdown of our infant formula manufacturing plant in Sturgis, Michigan, earlier this year. We've restarted production at Sturgis in July with a focus on our EleCare and other specialty infant formulas. And in September, we began production of several Similac products, which we expect will begin to reach retail store shelves over the coming weeks. We also boosted production in our global network to increase infant formula supply to the U.S. In fact, we delivered roughly the same volume of formula to our U.S. customers this past quarter as we did during the three months prior to the recall. Our number one supply priority was to the WIC, Women, Infants, and Children, federal food assistant program to ensure that underserved participants would have access to infant formula."

Following an investigation of Abbott's missteps, the company shuffled leadership at its Sturgis facility and within its Quality Control division, and also concluded that it was beneficial to expand domestic production capacity.

With additional color on COVID testing and the diagnostics segment, Mr. Ford added, "The decline in COVID test sales compared to last year was driven by lower demand for laboratory-based tests. Whereas demand for our rapid tests, which include BinaxNOW, Panbio, and ID NOW continues to be strong with sales this past quarter at a similar amount to the third quarter of last year…Excluding COVID testing revenues, sales of routine diagnostic tests grew 6% in the quarter overall and even faster internationally fueled by the continued global roll-out of our Alinity instrument for immunoassay, clinical chemistry, and molecular testing."

Management raised its guidance for the full year and is now projecting ongoing earnings per share of $5.17 to $5.23, which is comprised of year-to-date results through September plus ongoing EPS guidance of $0.86 to $0.92 for the fourth quarter. Looking to next year, management expects the macroeconomic environment to remain difficult, a result of lingering inflation and currency headwinds. But Mr. Ford hinted toward top line growth of high-single digits, speaking highly of Abbott's prospects for its Medical Devices portfolio.

We continue to think very highly of Abbott and believe its diversified revenue stream offers resiliency to our portfolios despite the latest struggles. We agree with Mr. Ford about the attractive setup for medical devices in the coming years, particularly with the Freestyle Libre 3 gaining FDA clearance last May. Shares have taken it on the chin in 2022, but we think the future is much brighter than the present. High-quality Abbott offers a dividend yield of 2.0% and our Target Price is now $139.

Johnson & Johnson (JNJ – $168.71) earned an adjusted $2.55 in Q3, a modest decline year-over-year but just ahead of the Street target. Sales grew more than 8% not including effects from a strong dollar that detracted by over 6%. Gains in Pharmaceutical (led by DARZALEX, TREMFYA & STELARA) and MedTech led the way, with respective 9.0% and 8.1% growth year-over-year. Janssen COVID-19 vaccine sales contributed $489 million but this was offset by a decline in REMICADE (given competition from biologics) and IMBRUVICA sales.

3rd Quarter 2022 Results

3rd Quarter 2022 Sales

$23.8B Worldwide Increased ▲ **1.9%** | Excluding acquisitions/ divestitures on an operational basis Worldwide Increased ▲ **8.2%***

Diluted Earnings Per Share

$1.68 | Increased ▲ **22.6%**

Adjusted Diluted Earnings Per Share*

$2.55 | Decreased ▼ **(1.9)%**

"Our third quarter performance demonstrates our continued strength and resilience across all three of our businesses. Through the ongoing efforts of our teams around the world, we continue to navigate the dynamic macroeconomic environment and remain focused on delivering transformative healthcare solutions. Looking ahead, I remain confident in our business and ability to continue advancing our innovative portfolio and pipeline."

Joaquin Duato
Chief Executive Officer
Johnson & Johnson

For full financial data and non-GAAP reconciliations, please refer to Johnson & Johnson's earnings release issued on October 18, 2022 available at http://www.investor.jnj.com/sales-earnings.cfm.
*Non-GAAP financial measure; non-GAAP financial measures should not be considered replacements for, and should be read together with, the most comparable GAAP financial measures.
[1]Non-GAAP measure; excludes the impact of translational currency.
[2]Certain international OTC products, primarily in China, were reclassified from the Pharmaceutical segment to the Consumer Health segment based on operational changes.
Caution Concerning Forward-Looking Statements: This document contains "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995 regarding future operating and financial performance. You are cautioned not to rely on these forward-looking statements, which are based on current expectations of future events. For important information about the risks and uncertainties that could cause actual results to vary materially from the assumptions, expectations, and projections expressed in any forward-looking statements, review the "Note to Investors Concerning Forward-Looking Statements" included in the Johnson & Johnson earnings release issued on October 18, 2022 as well as the most recently filed Johnson & Johnson Reports on Forms 10-K and 10-Q. Johnson & Johnson does not undertake to update any forward-looking statement as a result of new information or future events or developments.

Management narrowed its full-year adjusted EPS guidance to between $10.70 and $10.75 per share (a 6% increase vs. the 2022 consensus), and sales not including contribution from the Jannsen COVID-19 vaccine to come in between $97.5 and $98 billion.

JNJ CFO Joseph Wolk offered, "We remain confident that we'll continue to grow our Pharmaceutical business every year towards our goal of $60 billion in Pharmaceutical sales by 2025 despite the STELARA LOE, which is anticipated to occur in the second half of 2023 in the US. For MedTech, we expect our investments in innovation and commercial capabilities to continue to enhance our competitiveness. At this time, we anticipate positive procedure trends, with the caveats that COVID-19 continues to be a dynamic situation regionally, lingering headwinds from hospital staffing, and some impact from volume-based pricing in China. For Consumer Health, we are seeing the benefits of our strategic price increases and a reduction in supply chain disruptions, although some challenges are expected to continue into 2023. We expect inflationary pressures and higher input cost to persist, and we are continuing to take actions to offset these challenges. While some inflationary pressures are improving, keep in mind that certain products we manufacture in 2022 will be sold and flow through our P&L in 2023."

Despite a lot of operational momentum for the health care behemoth, the company continues to face plenty of litigation (talc, baby formula, opioid), so we continue to monitor the progress of

JNJ's attempts to move the lawsuits into a separate entity intended for bankruptcy. The Health Care sector has been the place to be in 2022, with the group performing 11% better than the S&P 500 year-to-date. JNJ has been no exception as shares have virtually moved sideways throughout the year, outperforming the overall sector. We have long liked our exposure to the name even as the earnings multiple is roughly in line with the market, with every stock continuing to fight for its spot amidst the market volatility. The dividend yield is 2.7% as our Target Price is now $207.

Defense contractor **Lockheed Martin** (LMT – $454.61) earned an adjusted $6.87 per share in Q2, 2% ahead of the consensus estimate. The company's $16.58 billion revenue figure came in roughly in line with the consensus estimate. LMT shares have soared more than 30% this year, including more than 16% last week alone, propelled by an enormous effort by the West to support Ukraine in the defense of its territory.

CEO Jim Taiclet commented, "With residual pandemic impacts and supply chain challenges continuing, we now expect to return to growth in 2024 with 2023 sales being approximately equal to our 2022 outlook. We are confident in our 4 pillars to drive growth in 2024 and beyond. Importantly, we expect to deliver solid growth in free cash flow per share in 2023 and thereafter through a combination of cost reductions throughout the business, improved working capital management and an expanded share repurchase program."

Mr. Taiclet added, "Turning to budgets. Both chambers of Congress have advanced appropriation bills in support of fiscal year 2023 Department of Defense budgets. We have seen strong bipartisan support for increased defense funding and congressional authorization and appropriation committees. Final legislation approving these funds has yet to be passed, and the federal government is currently operating under a short-term continuing resolution for FY '23, limiting DoD funding to prior FY 2022 levels. As part of the continuing resolution, Congress did approve additional supplemental spending to support efforts in Ukraine for the defense of their country. The CR added $3 billion in funding for Ukraine security assistance initiatives, a program to provide equipment, weapons and military support to Ukraine, bringing the total amount appropriated for this effort to $9 billion. In addition, the continuing resolution appropriated $2 billion to replenish U.S. stocks of equipment sent to Ukraine and to increase production of critical munitions with the presidential drawdown authority funding now having been increased to over $14 billion since the beginning of the year. The international community has also increased their focus on global security with nations across the world having announced a planned 5-year increase in defense budget funding of approximately $60 billion in total. We continue to have discussions with customers to expand the manufacturing of multiple products and have submitted offers for consideration."

Beyond the huge quantity of weapons heading to eastern Europe, we think the war in Ukraine is a stark reminder that defense is a verb, and the battlefield is constantly evolving. While the Russians insist "everything is fine" even though they are bringing WWII equipment out of long-term storage because the newer equipment is no longer working, there have been many wake-up calls for the West in this battle. Recently, Iran sent its own personnel to Crimea to train the Russians on drone operations, which has the potential to tip scales of future conflicts. Even the world's most advanced missile defense system, Israel's Iron Dome, struggles to compete with drones in volume, complexity and expense. Plus, spending several million dollars to down a

drone that costs a hundredth of that price or less is terribly inefficient. We suspect an enormous shift in spending is on the way. Given LMT's critical contributions to the defense sector in the past, it's hard to imagine the company will be left out of the scramble to modernize armies of the West.

We expect Lockheed to benefit from restoring U.S. arms stockpiles and deepening of ally weapons systems. The Pentagon says it is working out production backlogs for Stinger shoulder-fired missiles (which haven't been manufactured by Raytheon in over 18 years), Javelin (a Raytheon and LMT joint venture) and HIMARS rockets (LMT). In addition to weapons systems, LMT also has significant interests in space, helicopter and fixed-wing projects. Shares trade for a reasonable forward earnings multiple of 17 and offer a 2.6% dividend yield. Our Target Price is now $520.

Advertising, marketing and corporate communications services firm **Omnicom** (OMC – $70.18) earned $1.77 per share in Q3 (vs. $1.69 est.) and had revenue of $3.44 billion (vs. $3.36 billion est.). Shares dipped slightly on the news (they still ended the trading week up better than 5%), even though the results beat expectations. Despite a negative currency impact near 5% that weighed down EPS, the underlying business results were solid. Collaborations with the likes of Amazon, Instacart, **Kroger** (KR – $43.63) and **Walmart** (WMT – $136.80) have continued to bear fruit, while OMC bolstered its CRM and marketing business with the expansion of Transact, a "dedicated practice focused on connected commerce consulting and e-retail execution service."

CEO John Wren commented, "Overall, we're very pleased with our quarterly and year-to-date financial results as well as our progress on our key strategic initiatives. Based on our strong performance this quarter and for the first 9 months of the year, we are increasing our prior organic growth forecast from 6.5% to 7%, to 8% to 8.5% for the full year 2022. We also continue to anticipate delivering the same strong operating margin of 15.4% for the full year of 2022 that we achieved in 2021. While we are confident in our forecast, we retain a healthy level of caution due to macro factors, including the ongoing war in Ukraine, the continuing disruption of global supply chains, the economic risk posed by rising interest rates here in the United States and higher inflation around the world. In light of these risks, we are actively taking actions to mitigate the potential negative effects of these macro factors on our business. I'm confident we are well equipped to handle any economic downturn and have the leadership teams in place to minimize the impact on our top and bottom lines."

CFO Phil Angelastro added, "Regarding our uses of cash, we used $438 million of cash to pay dividends to common shareholders and another $63 million for dividends to noncontrolling interest shareholders. Our capital expenditures of $66 million were at normal levels. Acquisition spend, net of dispositions and other items was $330 million. And lastly, our net stock repurchases during the third quarter were $486 million. We continue to expect total repurchases for the year at our historical annual range of around $500 million to $600 million."

When asked about macroeconomic pressures, Mr. Angelastro said, "I think if the environment is challenging, it's certainly a challenge that we're going to meet face on or head on but the flexible cost structure that we have, which includes still, as of now, some open positions, we're going to take advantage of that. I think maybe the most instructive thing you could do is take a look at our

performance prior to and subsequent to prior recessions for business disruptions like COVID. And you get the sense that we've been through this before, not just people on the call, but the people who are managing the company all around the world. So we've got the experience managing through these types of disruptions or uncertainties, we're going to be aggressive about it. and act accordingly to make the adjustments we need to make as quickly as we can make them to right-size businesses to the revenue outlook for that business. That being said, we don't know what 23 is going to hold at this point, but we're certainly preparing for it to be ready to manage through any disruptions that might occur."

We are again happy with OMC's quarter and think the company can still achieve more than $7.00 in EPS by 2024 (which would result in a P/E of 10 at the current price). Omnicom has relationships with big clients, including Philips, Mercedes, Nike and Diageo, and we think that there will be growing opportunities for the company to offer its expertise in a world dominated by a handful of large advertising platforms and their algorithms. Shares have held up well this year (roughly flat including dividends) and OMC continues to score well against its peer group in our proprietary valuation framework. The stock sports a 4.0% dividend yield. Our Target Price has been fine-tuned to $104.

Lam Research (LRCX – $369.29) reported fiscal Q1 2021 results that came in far ahead of analyst expectations. The semiconductor capital equipment maker earned an adjusted $10.42 per share (vs. $9.58 est.) with revenue of $5.07 billion (vs. $4.92 billion est.). While those numbers sound terrific, the outlook for the entire chip sector has had the stocks under severe pressure this year, as we have been discussing on these missives.

For its part, Lam CEO Tim Archer offered his outlook and discussed new China-related restrictions, "We see wafer fabrication equipment spending in calendar year 2022 in the low $90 billion range. This outlook includes the impact of new China-related restrictions and lower demand partially offset by improving supply chain conditions. As some of our customers have indicated recently, there has been a rapid deterioration in demand fundamentals, particularly within the Memory segments. Customers are adjusting investment plans into next year to bring channel inventories down to more normalized levels. As a result, we see memory bit shipments tracking below end demand for the next few quarters. In our normal cadence, we would provide our first view of 2023 WFE on our January earnings call. However, given the current environment, today, we are providing our preliminary estimate for calendar year 2023. Inclusive of the China restrictions, we expect next year's WFE to be down more than 20% with Memory investments accounting for a large portion of that decline. We will provide more detailed color on our outlook in our next earnings call. But for now, we believe that customer actions to reduce memory bit supply growth will create a favorable setup for memory mix to increase as a percent of overall WFE beyond 2023."

To a question Mr. Archer received about the $2.0 billion to $2.5 billion negative impact from new restrictions for China, he replied, "Where possible…including some impact of China restrictions, [are] offset partially by supply chain easing, offset as well by some decreases in other customers due to the demand elements that we talked about. We're not prepared to break each of those items out, but we're doing the best we can to essentially meet customer demand requirements where we can as early as we can."

CFO Doug Bettinger added, "Throughout 2022, we've demonstrated the ability to deliver record financial performance and profitable growth. It's been a year of volatile supply chain constraints, inflationary pressures and regulatory changes. We're confident we're prepared for the challenges we see in the industry in calendar 2023, and we built a solid foundation for continued success, evidenced in our technology leadership and robust installed base."

Lam is in a tough spot, no doubt, and the restrictions for the company's Chinese customers seems unlikely to be a bargaining chip that might go away if President Xi & Co. capitulate to U.S. interests in some way. That's a wet near-term blanket for LRCX, but it should be manageable over the longer term. Indeed, analysts expect nearly $35 of earnings in fiscal 2023, dropping to $28 in fiscal 2024 and rising back to near $35 in fiscal 2025. Not bad for a stock trading in the $300s, and the shares staged a big rebound last week, recovering 17% over the five trading days.

Given the challenges on the horizon, we thought LRCX's outlook was quite good, and the lowered expectations offer a "bear scenario" from which LRCX results can end up being much better. The valuation remains reasonable, including a forward 12-month P/E ratio that now stands at 12 and Lam has just $600 million of net debt. Our Target Price is now $609.

Shares of **International Business Machines** (IBM – $129.90) gained 8% last week as the company released Q3 2022 results. The IT services concern earned an adjusted $1.81 per share, in line with the consensus analyst estimate, and sales grew 15% year-over-year, including a 5% contribution from its recently-spun-off Kyndryl. IBM attributed the growth to its Software, Consulting and Infrastructure businesses, which benefitted from success in focused hybrid cloud and AI offerings.

CEO Arvind Krishna commented, "Last October and just prior to the separation of Kyndryl, we held our investor briefing, laying out priorities for our portfolio and growth. Over the last 4 quarters, we have driven constant currency revenue growth at or above our mid-single-digit model with solid free cash flow. And while there is always more to do, we are pleased with our first year's progress. As we look forward, we remain confident in our strategy and execution and feel we are well positioned to address today's client needs."

CFO Jim Kavanaugh added, "Looking specifically at the fourth quarter, we expect all-in constant currency revenue growth at the high end of the mid-single-digit range. At current spot rates, currency translation has increased to an 8- to 9-point headwind to revenue growth in the fourth quarter. That's up 2 to 3 points from 90 days ago. And then I'll remind you, in a couple of weeks, we'll reach the anniversary of our separation of Kyndryl. While the external sales to Kyndryl will remain in our revenue and profit base, we've essentially wrapped around the year-to-year contribution to our revenue and profit growth and margin expansion."

IBM expects free cash flow around $10.0 billion, which is consistent with last quarter's guidance. The balance sheet ended Q3 with $9.7 billion of cash. Steady IT spending and IBM's focus have helped the company beat analyst EPS estimates in three of the last four quarters, which is an enormous accomplishment given the company's preceding losing streak. Shares are flat this year (the S&P is down 20% including dividends), which we suspect is due to the spin-off

of Kyndryl and the arduous streamlining effort that started with CEO Arvind Krishna's appointment in early 2020.

IBM's forward P/E ratio is still a reasonable 13, while EPS are expected to grow in 2024 and 2025, indicating that there's more room for the stock to run before it might be considered fairly valued. Of course, every stock is fighting for a position in our portfolios and holding steady this year is an accomplishment, given the carnage in much of the Technology space. Our Target Price for IBM, which yields 5.1%, is now $164.

Shares of **Snap-on Inc.** (SNA – $207.75) dipped slightly last week but have managed to hang in well on the year, beating the return on the S&P 500 by some 1800 basis points. The premium-tool manufacturer posted another solid quarter with Q3 EPS of $4.14, almost 16% better than a year ago and nicely above the $3.85 consensus analyst estimate. Net sales also grew 6.2% (10.4% on an organic basis ex-currency effects and 22.3% compared to pre-pandemic levels) to $1.1 billion in the quarter. Top-line growth was driven by momentum in Repair Systems & Information Group. Despite ongoing negative foreign currency impacts, sales surpassed consensus forecasts by over $30 million. Cost saving initiatives, pricing benefits and volumes that were up broadly translated into operating margins expansion.

CEO Nick Pinchuk commented, "We're encouraged by our third quarter as it further demonstrates the momentum we've maintained in sales, in profitability, and in earnings throughout these ongoing periods of varied turbulence. Despite the uncertainties, we believe this period's performance confirms the resilience of our markets, reflects the considerable capabilities of our experienced team, and illustrates the diverse opportunities along our runways for growth, as evidenced by our continuing sales gains over the pre-pandemic levels of 2019, reaching 22.3% as reported, or 22.8% organically. At the same time, we continue to leverage our Snap-on Value Creation Processes to maintain and further extend our ongoing advantages in our people, in our brands and, importantly, in our products."

We continue to think Snap-on is positioned to benefit as the North American vehicle fleet is estimated to be more than a decade old, on average, with an ever-growing need to improve technician productivity given labor constraints. And as the appetite for new car purchases finally gets met with more supply over the near and intermediate term, we expect service departments at dealerships across the country to increasingly rely on SNA's specialty tools and sophisticated diagnostic solutions. Snap-on is conservatively financed with little debt on the balance sheet and the franchise remains competitively positioned within its market. The stock offers a solid dividend yield of 2.7%. Shares trade at less than 13 times NTM projected adjusted EPS. Our Target Price for SNA has been adjusted to $295.

Shares of **Whirlpool** (WHR – $131.22) fell almost 6% last week, leaving the stock down 44% on the year, as the appliance maker announced quarterly results that came in well short of the consensus analyst estimate, and also included a lowering of the company's full-year outlook. For Q3, WHR delivered $4.78 billion of revenue, with adjusted EPS of $4.49. The results severely lagged expectations of $5.15 billion and $5.34 per share, respectively. North America sales declined 8% year-over-year, EMEA tumbled 28%, Latin America dropped 11% and Asia fell 7%. Free-cash-flow guidance was reduced to $950 million from $1.25 billion in 2022 and

management said it has $1.8 billion in cash and equivalents. The company also said it now expects full year adjusted EPS to come in at $19.00, versus its previous guidance of $22.00 to $24.00 (and the consensus estimate of $21.85).

Whirlpool CEO Marc Blitzer commented, "While our Q3 results were impacted by ongoing macroeconomic headwinds and continued elevated levels of inflation that resulted in slowing demand, we remain on track to deliver the second-best year in our 111-year history in 2022. Looking ahead, we see these challenges persisting into the first half of 2023, however, we believe we have the right actions in place that will allow us to navigate through the current environment while advancing our portfolio transformation and delivering strong shareholder returns."

CFO Jim Peters added, "Our strong balance sheet and multi-year performance has positioned us to deliver on our capital allocation priorities. We have rewarded our shareholders by returning $2.6 billion in cash since 2021, while also pursuing value creating M&A, such as our recently announced InSinkErator acquisition."

Management also gave a brief update on its strategic review of its EMEA business, saying that it was near a conclusion with two potential strategic investors in the final evaluation stage.

Like pretty much any business involved with manufacturing, Whirlpool has had to contend with near-term supply constraints and raw material cost inflation in recent quarters. WHR has also been hit by the steep and rapid rate hikes the Fed has doled out in attempts to slow inflation, which has rapidly slowed home sales. But these headwinds are nothing new for Whirlpool as the company has navigated similar bumps in the road before, while consistently generating solid free cash flow. We also see non-North American markets driving long-term growth as the rest of the world progresses technologically and emerging markets incorporate modern conveniences into daily living. With a forward P/E ratio below 7 and a dividend yield of 5.3%, we continue to view Whirlpool as a core holding in our broadly diversified portfolios. Our Target Price has been trimmed to $261.

Despite Q3 top and bottom-line results that were a tad lighter than analyst expectations, shares of **ManpowerGroup** (MAN – $76.04) rose almost 7% last week. We suspect that investors might have been expecting even weaker numbers from the staffing company, given heavy exposure to Europe. Revenue of $4.8 billion in Q3 was approximately 2% shy of the consensus analyst estimate, while adjusted EPS of $2.13 was $0.05 below forecasts. MAN's top-two higher-value brands (Talent Solutions and Experis) saw significant revenue growth of 10% and 5%, respectively, as permanent hiring and IT recruiting continues to be in high demand by employers. Taking a closer look at organic gross profits, Talent Solutions increased 17%, year on year, while Experis enjoyed a high gross margin of 14%. Revenue for the Manpower brand (which accounts for 56% of gross profits) also saw growth of 1%, while consolidated Manpower generated a 9% year on year increase in gross profit.

CEO Jonas Prising commented, "Our third quarter results reflect continued improvements in our business mix and demand for our services despite increasing global uncertainty tied to higher inflation, energy costs and interest rates. During the quarter, our higher margin Experis and

Talent Solutions brands experienced strong revenue growth while our Manpower brand achieved modest constant currency revenue growth. Many segments of the market are growing and we continue to invest in resources to capture these growth opportunities. At the same time, we are taking the necessary cost actions in parts of the business that are experiencing slowing market demand. With that said, labor markets remain resilient and we see continued solid demand as we begin the fourth quarter. We anticipate diluted earnings per share in the fourth quarter will be between $2.11 and $2.19, which includes an estimated unfavorable currency impact of 38 cents. Our guidance excludes expected integration costs ranging from $3 million to $5 million."

Despite a strong labor market and nothing surprising in ManPower's latest results, shares of are down almost 22% on the year. Manpower is geared towards the European market, where it generates two thirds of its revenue, and that region has struggled amid soaring inflation, the war in Ukraine that has destabilized the EU in some ways and political turmoil. The Wall of Worry is not new for Manpower, which has managed through many crises throughout its 70-plus-year history. MAN's solid financial footing has allowed it to continue making acquisitions, paying dividends and repurchasing shares. Manpower spent $85 million buying back stock in the quarter and also retired $50 million of debt related to the Experis acquisition. We continue to find the stock attractive, especially after this year's pullback, as earnings are expected to approach $10.00 per share in 2024, up from $7.24 in 2021. The next dividend payment, which is paid twice per year, is expected in December and the yield is 3.6%. Our Target Price now stands at $137.

Telecommunications and wireless phone service provider **Verizon Communications** (VZ – $35.35) earned an adjusted $1.32 per share in Q3 2022 (vs. $1.28 est.). Management maintained its full-year EPS outlook range between $5.10 and $5.25. Wireless segment revenue growth is expected in the 8.5% to 9.5% range. The company said its pricing changes helped increase wireless service revenue, while postpaid phone net additions came in at 8,000, the modest growth the cause of investor consternation. FIOS internet added 61,000 subscribers, in line with analyst expectations.

CEO Hans Vestberg said, "We're constantly thinking about how we run our enterprise every day to enhance our performance while delivering on our strategy. In this period, we have designed a company-wide cost-savings program that we expect will save between $2 billion to $3 billion annually by 2025. A first step in these efforts is the creation of a global service organization under the leadership of Craig Silliman. This is one part of our larger program to leverage cross-functional opportunities across the business…We continue to practice financial discipline even in a competitive market and delivered solid financial performance quarter-over-quarter. Verizon is in a strong position, no matter economical environment with our high-quality customer base, diversified go-to-market options, including our value offering, the benefits from strengthening our organization through our cost-savings program and the best network that just keeps getting better."

CFO Matthew Ellis added, "As we look at Q3 results, we delivered the sequential revenue and EBITDA growth that we had anticipated from the actions taken in 2Q. Our guidance for 2022 remains unchanged. We are building momentum and remain confident that our strategy will deliver strong cash flow growth into the future. It is this confidence, combined with the health of our balance sheet, that enabled us to recently increase our dividend for the 16th consecutive year.

We recognize the importance of the dividend to our shareholders, and we intend to continue to put the Board in a position to approve annual increases."

VZ's results were poorly received by investors, pushing the stock down approximately 5% and bringing the YTD loss to near 30%. Verizon's balance sheet has $126 billion of corporate debt with a 3.2% coupon and an average maturity in 2037. The company operates in a capital-intensive business with much higher costs for new debt, so we think the bar recently rose when it comes to capital spending in order to achieve a sufficient return. Analysts project little growth from the company for the next few years, which would normally be cause for consternation, but VZ kicks off a 7.4% dividend yield, making it a lot easier to be patient while management positions the company for a higher-rate future. Our Target Price has been reduced to $68.

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