Market Commentary Monday, November 7, 2022

November 7, 2022

EXECUTIVE SUMMARY

Newsletter Trades – 5 Buys for 3 Accounts
Market Week – Yields Rise, Bearishness Falls & Stocks Pull Back
Value vs. Growth – Inexpensive Stocks Performing Much Better
Fed – Another 75 Basis Point Interest Rate Hike
Econ Data – ISM Numbers Move Lower; Employment Stats Strong; Q4 GDP Outlook Improves
EPS – Solid Q3 Profit Reports
Valuations – Stocks Still Attractively Priced
History – Value Has Performed Well With All Sorts of Headwinds
Perspective – Stock Returns Look A Whole Lot Better Through a Longer-Term Lens
Stock News – Updates on PFE, NEM, GT, CIVI, ZBH, CVS, QCOM, ALB, NTR, APD, CMI, RCL, EOG, REG & CAH

Market Review

As discussed in the November edition of *The Prudent Speculator*, we bought the following for Buckingham Portfolio on Friday, November 4:

34 **Digital Realty** (DLR – $96.77) at $97.20
14 **Gilead Sciences** (GILD – $80.34) at $80.8494
410 **World Fuel** (INT – $26.50) at $26.6223

In addition, for our two hypothetical accounts, we added the following, also on Friday, November 4.

Millennium Portfolio

158 **Comcast** (CMCSA – $31.00) at $30.68

PruFolio
196 **Waste Management** (WM – $155.77) at $158.06

*****Given the resumption of the move higher in interest rates,…

THE PRUDENT SPECULATOR

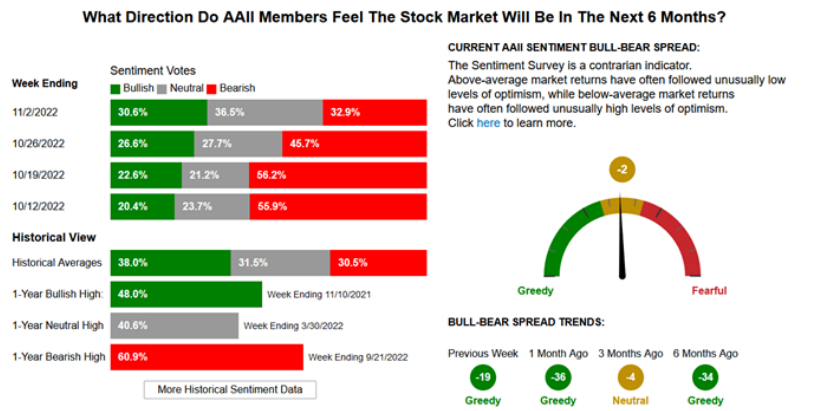
BENCHMARK TREASURY YIELD RISES AGAIN ON HAWKISH FED

Given the tough talk on inflation from Jerome H. Powell & Co. as well as the continuation of solid economic stats, government bond market players resumed their dumping of U.S. Treasuries last week, sending the yield on the benchmark 10-year bond up 15 basis points.

…and the sharp reduction in Bearishness that had persisted throughout October's big rebound,…

THE PRUDENT SPECULATOR

STILL AN AAII CONTRARIAN BUY SIGNAL: BULL-BEAR SPREAD = -2.3%



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 = 7.32										
BELOW	-54.0	7.3	919	0.23%	1.11%	0.97%	3.29%	2.90%	6.48%	5.70%
ABOVE	7.3	62.9	919	0.18%	0.16%	0.55%	0.46%	2.02%	1.77%	4.68%	4.19%
	Ten Groupings of 1837 Data Points										
1	-54.0	-16.7	184	0.44%	0.38%	1.94%	1.69%	4.56%	4.00%	8.47%	7.21%
2	-16.5	-8.4	184	0.25%	0.22%	0.92%	0.78%	3.46%	3.11%	6.41%	5.64%
3	-8.3	-2.0	194	0.33%	0.29%	1.22%	1.11%	3.43%	3.02%	7.44%	6.73%
4	-2.0	2.8	173	0.06%	0.02%	0.90%	0.81%	2.45%	2.08%	5.22%	4.65%
5	2.8	7.3	184	0.05%	0.02%	0.53%	0.43%	2.49%	2.23%	4.72%	4.18%
6	7.3	11.9	184	0.18%	0.16%	0.72%	0.65%	2.03%	1.79%	4.93%	4.48%
7	11.9	16.1	183	0.17%	0.14%	0.51%	0.37%	2.47%	2.21%	5.28%	4.77%
8	16.1	22.0	184	0.16%	0.14%	0.86%	0.79%	2.32%	2.08%	5.85%	5.43%
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 11.03.22. 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 30.6% and the number of Bears residing at 32.5% is still a positive. The minus 2.3% Bull-Bear spread is far less pessimistic than in recent weeks, but it is in a favorable (second highest future returns) 3rd decile of the weekly figures going back to 1987.

…we can't be overly surprised that equities gave back some of their recent gains in the latest trading 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 not-so-good kind of volatility happening last week. The Nasdaq Composite index is down 32.6% and the U.S. Aggregate Bond index is off 16.0% 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		Week	Q4 '22	YTD	Last 12 Months	Since 10.31.20	Since 3.23.20	Last 3 Years	Last 5 Years	Name	Symbol
-4.71	-5.44	MARKET OF STOCKS	-1.38	12.93	-9.33	-8.46	27.16	83.57	25.67	53.59	Dow Jones Industrial Average	INDU Index
1.01	-10.21		-0.59	9.31	-12.50	-12.19	24.03	78.43	18.47	35.01	New York Stock Exchange Composite	NYA Index
-39.18	-20.81		-5.61	-0.88	-32.58	-33.74	-2.49	55.84	27.45	62.44	Nasdaq Composite Index	CCMP Index
-22.43	-9.23		-3.43	5.73	-25.23	-31.99	-1.10	60.05	10.04	24.84	Russell 2000 Growth	RU20GRTR Index
22.83	14.02		-1.60	10.79	-12.61	-15.63	44.34	110.66	21.10	28.17	Russell 2000 Value	RU20VATR Index
-3.02	2.49		-2.53	8.21	-18.95	-24.08	19.74	85.22	16.95	28.42	Russell 2000	RU20INTR Index
-11.75	-20.15		-3.44	4.52	-28.36	-32.19	-3.99	59.22	15.28	46.59	Russell Midcap Growth Index Total Return	RUMCGRTR Index
19.18	2.33		-1.27	8.44	-13.64	-12.37	32.25	102.15	20.69	35.48	Russell Midcap Value Index Total Return	RUMCVATR Index
8.25	-5.62		-2.04	7.03	-18.94	-19.82	18.39	87.63	21.40	43.89	Russell Midcap Index Total Return	RUMCINTR Index
-22.42	-19.63		-5.47	1.13	-29.79	-29.90	2.57	64.58	30.08	67.77	Russell 3000 Growth	RU30GRTR Index
8.04	-4.33		-1.21	9.58	-10.12	-8.94	33.47	86.56	20.64	39.21	Russell 3000 Value	RU30VATR Index
-7.46	-11.46		-3.33	5.30	-20.63	-20.21	16.91	76.37	26.95	55.16	Russell 3000	RU30INTR Index
9.64	-0.39		-1.64	8.49	-13.94	-12.23	32.96	101.04	31.33	57.60	S&P 500 Equal Weighted	SPXEWTR Index
-9.10	-11.89		-3.31	5.30	-19.83	-18.16	18.88	75.59	28.68	59.25	S&P 500	SPXT Index
-22.08	-12.73		-5.75	-0.45	-30.72	-29.63	4.42	63.41	29.05	64.40	S&P 500 Growth	SPTRSGX Index
6.08	-11.71		-1.13	10.74	-7.60	-5.09	34.82	83.33	22.69	47.25	S&P 500 Value	SPTRSVX Index
3.18	1.57		-0.94	-0.99	-20.69	-21.24	-22.01	-15.01	-17.36	-11.53	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index
11.63	8.44		-0.78	-1.66	-16.02	-16.18	-16.39	-12.02	-10.87	-3.18	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index

As of 11.04.22. Source Kovitz using data from Bloomberg

…even as we remain pleased that reasonably priced Value stocks have been holding up far better than their much more expensively priced Growth counterparts.

RELATIVE VALUATION FOR VALUE MUCH MORE ATTRACTIVE THAN GROWTH

CNBC DELIVERING ALPHA

DELIVERING ALPHA

Value investors make a big comeback with one of their best months since 1978

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Traders work on the floor of the New York Stock Exchange during morning trading on November 02, 2022 in New York City.
Michael M. Santiago | Getty Images

Value investors have come back with a vengeance as inexpensive stocks pulled off a historic month of outperformance against growth names.

The Russell 1000 Value index jumped 10.1% in October, beating its growth counterparts by 4.3 percentage points. The value outperformance spread is in the 96th percentile of outcomes since 1978, according to Bank of America. The iShares Russell 1000 Value ETF (IWD) raked in $444 million inflows last month during the rally.

"We continue to prefer value over growth, with growth in the middle of a perfect storm of higher rates + weakening fundamentals," Savita Subramanian, BofA Securities head of U.S. equity and quantitative strategy, said in a note. "Value factors have also historically benefitted from year-end seasonality."

Obviously, the big news of the week was the Federal Reserve's decision to hike the Fed Funds rate by another 75 basis points. The move was entirely expected, but there was plenty of drama in the financial markets, with stock prices initially soaring, given that the FOMC Statement,…

THE PRUDENT SPECULATOR

FOMC STATEMENT: 11.02.22

Recent indicators point to modest growth in spending and production. Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher food and energy prices, and broader price pressures.

Russia's war against Ukraine is causing tremendous human and economic hardship. The war and related events are creating additional upward pressure on inflation and are weighing on global economic activity. The Committee is highly attentive to inflation risks.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to raise the target range for the federal funds rate to 3-3/4 to 4 percent. The Committee anticipates that ongoing increases in the target range will be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time. In determining the pace of future increases in the target range, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in the Plans for Reducing the Size of the Federal Reserve's Balance Sheet that were issued in May. The Committee is strongly committed to returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

… included language that suggested to some that Jerome H. Powell & Co. soon may be willing to become a bit less hawkish in their stance toward monetary policy. However, the Press Conference that followed 30 minutes later, sent stocks skidding as the Chair made it clear ("It is very premature to think about pausing") that the Fed's fight against inflation is a long way from over:

At some point, as I've said in the last 2 press conferences, it will become appropriate to slow the pace of increases, as we approach the level of interest rates that will be sufficiently restrictive to bring inflation down to our 2 percent goal. There is significant uncertainty around that level of interest rates. Even so, we still have some ways to go, and incoming data since our last meeting suggest that the ultimate level of interest rates will be higher than previously expected. Our decisions will depend on the totality of incoming data and their implications for the outlook for economic activity and inflation. And we will continue to make our decisions meeting by meeting and communicate our thinking as clearly as possible.

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CHAIR POWELL'S PRESS CONFERENCE: 11.02.22

The U.S. economy has slowed significantly from last year's rapid pace. Real GDP rose at a pace of 2.6 percent last quarter but is unchanged so far this year. Recent indicators point to modest growth of spending and production this quarter. Growth in consumer spending has slowed from last year's rapid pace, in part reflecting lower real disposable income and tighter financial conditions. Activity in the housing sector has weakened significantly, largely reflecting higher mortgage rates. Higher interest rates and slower output growth also appear to be weighing on business fixed investment.

Despite the slowdown in growth, the labor market remains extremely tight, with the unemployment rate at a 50-year low, job vacancies still very high, and wage growth elevated. Job gains have been robust, with employment rising by an average of 289,000 jobs per month over August and September. Although job vacancies have moved below their highs and the pace of job gains has slowed from earlier in the year, the labor market continues to be out of balance, with demand substantially exceeding the supply of available workers. The labor force participation rate is little changed since the beginning of the year.

Inflation remains well above our longer-run goal of 2 percent. Over the 12 months ending in September, total PCE prices rose 6.2 percent; excluding the volatile food and energy categories, core PCE prices rose 5.1 percent. And the recent inflation data have again come in higher than expected. Price pressures remain evident across a broad range of goods and services. Russia's war against Ukraine has boosted prices for energy and food and has created additional upward pressure on inflation.

Despite elevated inflation, longer-term inflation expectations appear to remain well anchored, as reflected in a broad range of surveys of households, businesses, and forecasters, as well as measures from financial markets. But that is not grounds for complacency; the longer the current bout of high inflation continues, the greater the chance that expectations of higher inflation will become entrenched.

And speaking of the incoming data, it was a mixed picture on the economic front, as last week began with a downturn in the outlook for manufacturing,…

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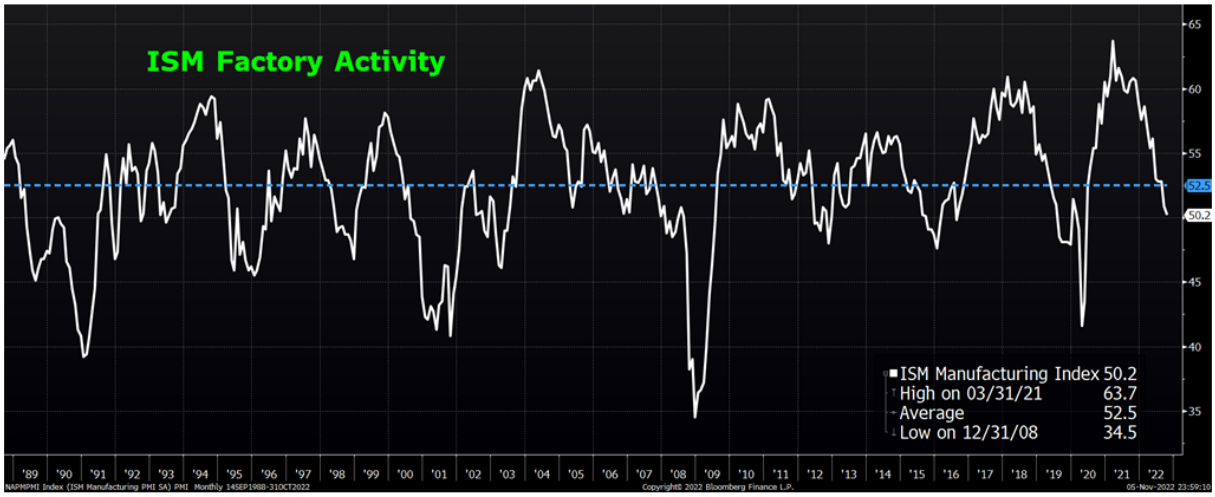
ISM MANUFACTURING FALLS: 0.5% ANNUALIZED GDP GROWTH SUGGESTED

The latest data point on the health of the manufacturing sector came in modestly above expectations at 50.2 in October, down from September's tally of 50.9 to a level below average for the 30-plus-year history of the gauge. The Institute for Supply Management stated, "The past relationship between the Manufacturing PMI and the overall economy... corresponds to a 0.5% increase in real gross domestic product (GDP) on an annualized basis."

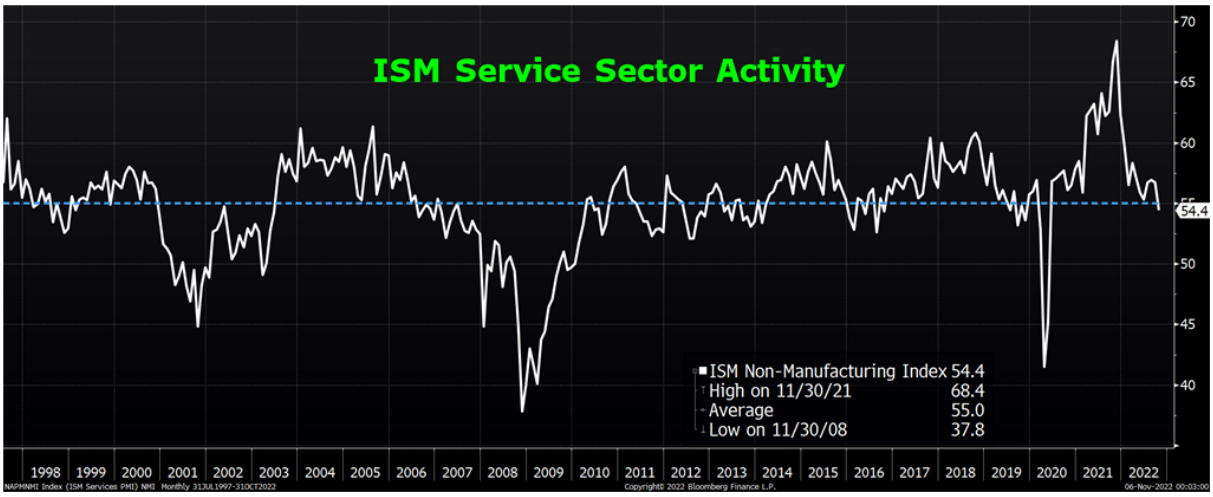


…and the important service sector,…

THE PRUDENT SPECULATOR

ISM NON-MANUFACTURING DIPS: 1.5% ANNUALIZED GDP GROWTH

The latest read on the health of the service sector dropped to 54.4 in October, down from September's tally of 56.7. The figure was weaker than expected and slightly below average, suggesting a less-than-stellar non-manufacturing economy. Still, the Institute for Supply Management stated, "The past relationship between the Services PMI and the overall economy...corresponds to a 1.5% increase in real gross domestic product (GDP) on an annualized basis."



…before continuing with surprisingly strong numbers on the labor front,…

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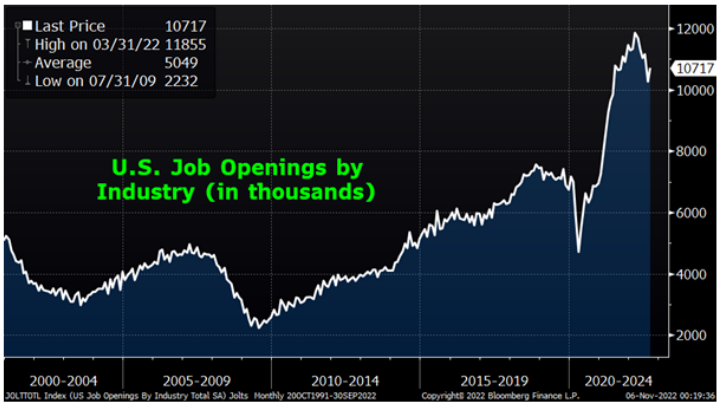
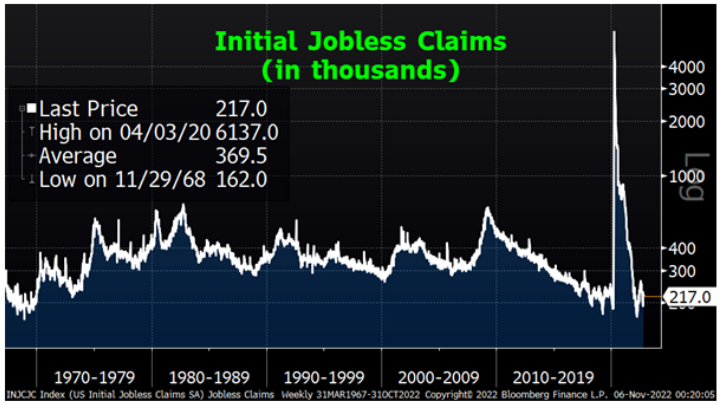
BIG RISE IN JOB OPENINGS AND LOW UNEMPLOYMENT FILINGS





With the "Great Resignation" continuing as 4.1 million people quit their jobs in September, the labor market remains healthy, with job openings jumping to 10.7 million, well above expectations and the August figure, even as the number of positions being filled fell slightly in the month. Looking at more current data, first-time filings for jobless benefits dipped by 1,000 to 217,000 in the week ending October 29, a figure that still suggests a slowing U.S. economy is not yet triggering wide layoffs.

…and ending with the critical monthly jobs reports seeing more payrolls created than expected,…

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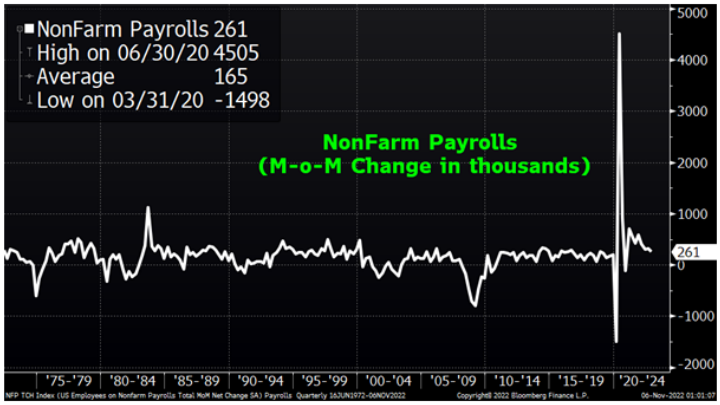
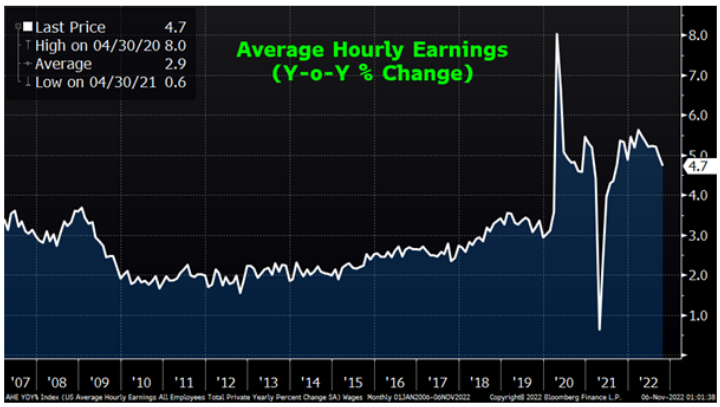
STILL HEALTHY JOBS PICTURE





Economists were looking for a gain of 205,000 payrolls, so the increase of 261,000 in October was above expectations and the August and September tallies were revised up by a combined 29,000 jobs. Notable job gains were in health care, professional businesses, leisure and hospitality and manufacturing. With strong demand for labor, wage gains continued on a year-over-year basis, rising 4.7% in October as employers struggled to fill positions with qualified applicants.

…but the jobless rate ticking higher.

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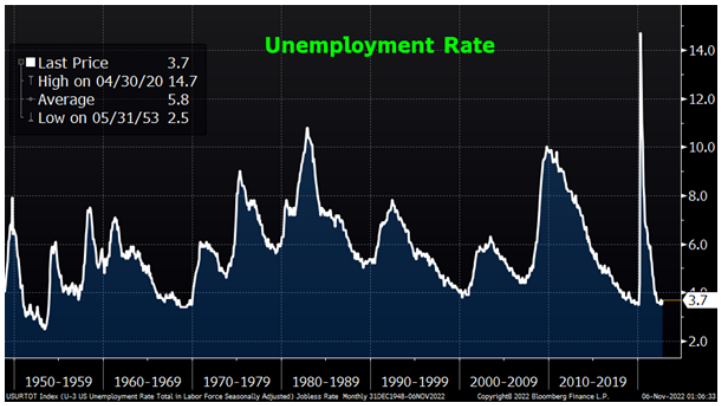
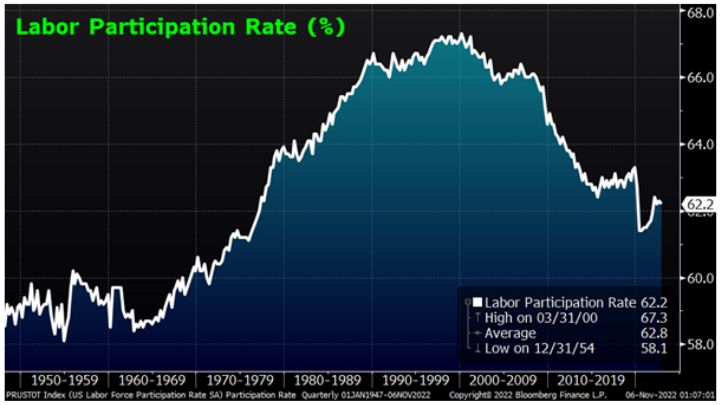
VERY-LOW JOBLESS RATE & NEAR PANDEMIC HIGH PARTICIPATION RATE



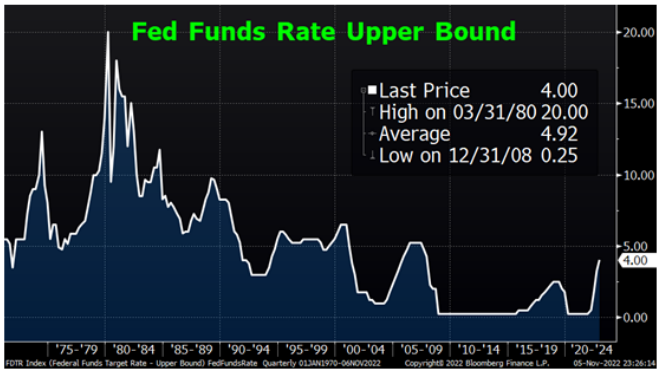


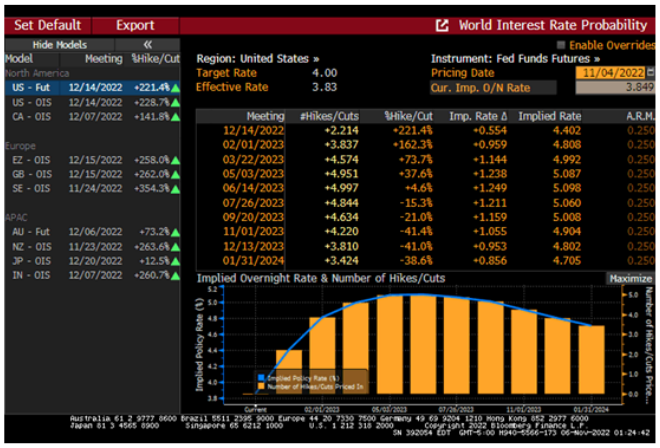
Though more jobs were created than expected last month, the unemployment rate for October rose to 3.7%, up from 3.5% in September, even as the numbers of unemployed folks dropped to 5.7 million versus 5.8 million in September. The jobless percentage was not far off the lowest since 1969. The so-called participation rate inched down 0.1 points in October to 62.2%, still near the highest level since the beginning of the pandemic.

When the dust had settled on the week, the Fed Funds futures were pointing to a higher peak next year in the benchmark interest rate,…

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, September and November 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 are estimating a 4.40% year-end Fed Funds rate and a 5.10% peak for June 2023, with the first potential cut coming in July 2023.





…and the odds of recession remained sky high.

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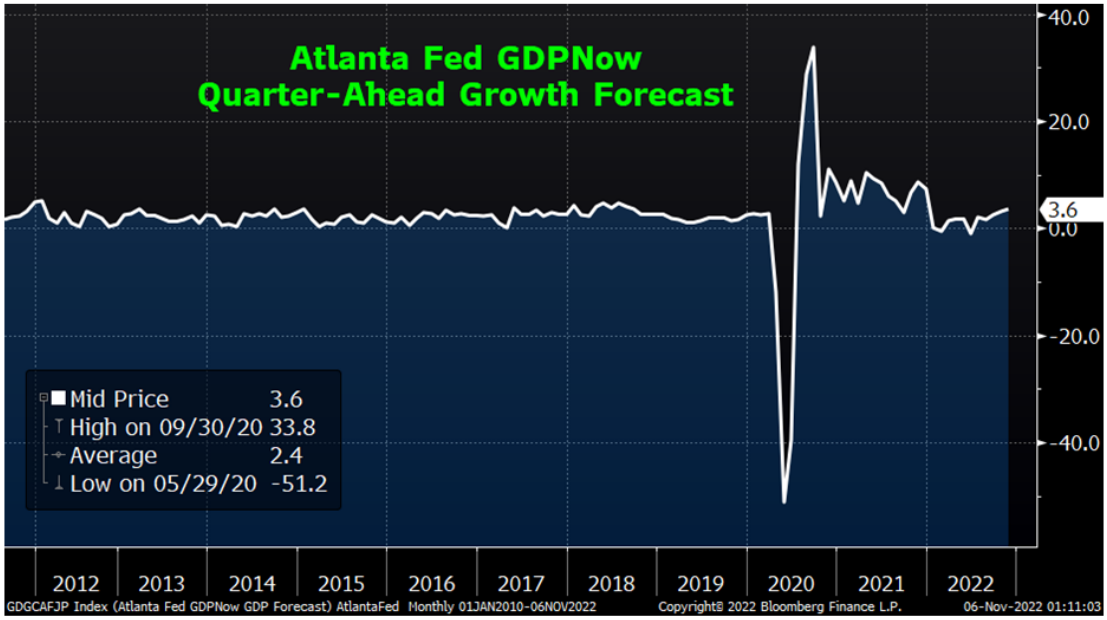
PLENTY OF DOOM & GLOOM TALK, ODDS OF RECESSION NOW 60%

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 was already 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 0.4% for 2023.

However, the prognosis for Q4 GDP growth improved last week,…

Q4 U.S. REAL GDP GROWTH PROJECTION RISES TO A ROBUST 3.6%

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 domestic growth in Q3 rebounded to 2.6% and the Atlanta Fed's projection for Q4 2022 real GDP growth on an annualized basis as of November 3 stood at 3.6%.

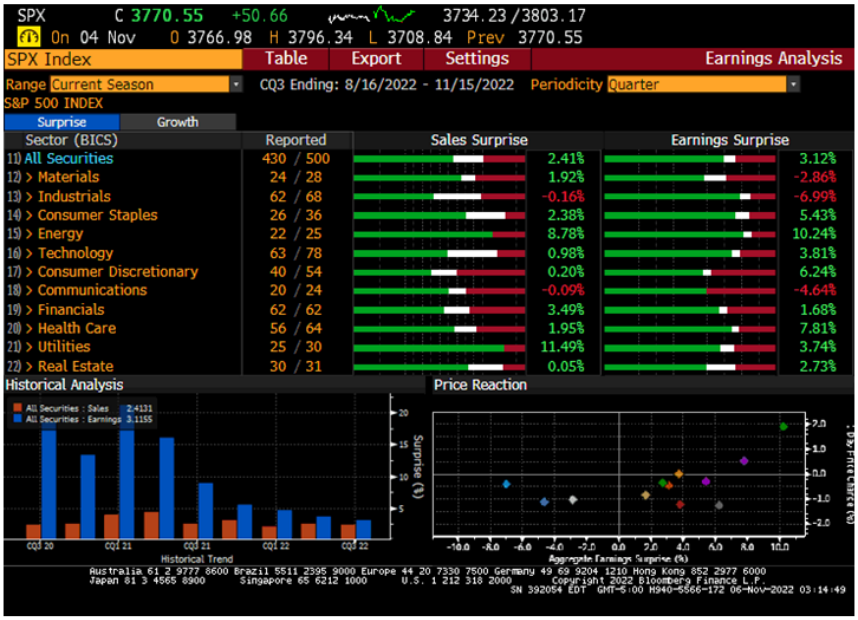


…and Q3 corporate profit reporting season remained on track for a typical 70% or so bottom-line "Beat" rate.

THE PRUDENT SPECULATOR

Q3 AND 2023 EARNINGS GROWTH STILL THE ESTIMATE

Q3 earnings reporting season has been very good, even as outlooks have continued to be subdued and stock prices sometimes have reacted negatively. Of the 430 S&P 500 companies that have posted results thus far, 70.1% beat EPS expectations and 58.1% 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	$59.86	$230.10
9/30/2023	$58.56	$225.39
6/30/2023	$56.92	$219.62
3/31/2023	$54.76	$209.57
12/31/2022	$55.15	$204.17
9/30/2022	$52.79	$205.75
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 11.03.22

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No doubt, it is anyone's guess as to what the near-term will bring and we have to expect elevated volatility, but we continue to think that stocks 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 (5.49% vs. 4.16% 10-Year), despite the jump in interest rates.

…while our stocks in particular are undervalued.

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	11.5	11.3	0.8	2.2	2.9
ValuePlus	12.4	11.9	1.1	2.4	2.4
Dividend Income	11.3	11.3	0.7	2.1	3.4
Focused Dividend Income	12.7	12.5	1.0	2.5	2.8
Focused ValuePlus	12.6	12.5	1.2	2.7	2.7
Small-Mid Dividend Value	10.2	9.7	0.5	1.7	3.1
Russell 3000	19.9	17.4	1.9	3.5	1.7
Russell 3000 Growth	26.9	22.8	2.6	8.6	1.1
Russell 3000 Value	15.9	14.3	1.5	2.3	2.4
Russell 1000	18.8	17.2	2.0	3.7	1.8
Russell 1000 Growth	25.2	22.5	2.8	9.0	1.1
Russell 1000 Value	15.2	14.0	1.5	2.4	2.4
S&P 500 Index	18.2	17.0	2.2	3.8	1.8
S&P 500 Growth Index	21.2	19.7	3.7	6.4	1.1
S&P 500 Value Index	16.3	15.2	1.6	2.8	2.3
S&P 500 Pure Value Index	10.6	9.8	0.6	1.5	2.7

As of 11.05.22. 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.

Yes, the future is uncertain (when is it ever certain?), but we never lose sight of the fact that equities, especially those of the Value persuasion, have provided handsome long-term rewards in the fullness of time,…

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%	23.6%	148	160	0.6	10/12/2022	10/28/2022
5.0%	14.7%	72	314	0.3	10/12/2022	10/28/2022

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 10.28.22. 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

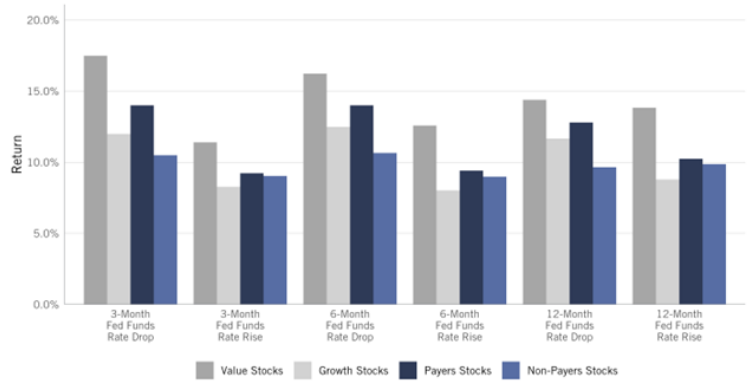
	Annualized Return	Standard Deviation
Value Stocks	13.1%	25.9%
Growth Stocks	9.5%	21.4%
Dividend Paying Stocks	10.6%	18.0%
Non-Dividend Paying Stocks	8.9%	29.3%
Long-Term Gov't Bonds	5.2%	8.6%
Intermediate Gov't Bonds	4.9%	4.3%
Treasury Bills	3.2%	0.9%
Inflation	3.0%	1.8%

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

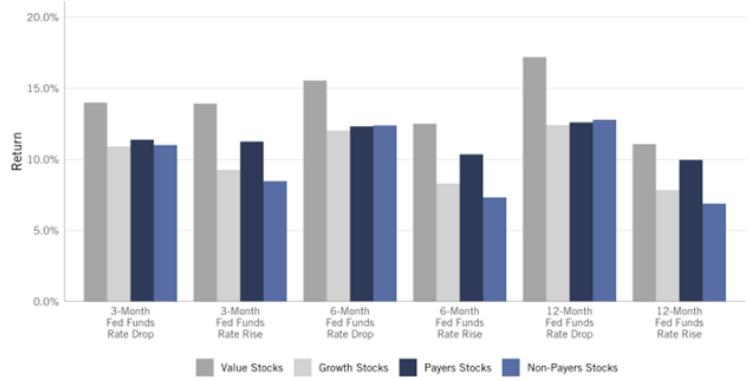
…while the odds historically have favored the kinds of stocks we have long championed when the Fed is raising the Fed Funds rate,…

THE PRUDENT SPECULATOR

FED FUNDS RATE Δ EQUITY RETURNS – VALUE THE PLACE TO BE



From 07.31.54 through 08.31.22. Concurrent annualized 12-month returns. SOURCE: Kovitz using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French



From 07.31.54 through 08.31.22. Subsequent annualized 12-month returns. SOURCE: Kovitz using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French

Many think the Federal Reserve hiking the Fed Funds rate will prove to be a big headwind for equities, but seven decades of returns data show that stocks in general have performed admirably on average, both concurrent with and subsequent to increases (as well as decreases) in the Fed Funds rate over 3-, 6-, and 12-month time spans, with Value Stocks leading the charge no matter the direction.

…and when Treasury yields are rising,…

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.

…and before and after recessions,…

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 during the last big inflation battle.

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

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We respect that the financial press is hyper-focused on short-term fluctuations and we understand that 2022 has been a very disappointing year. However, those who utilize even a modestly longer measuring stick will realize that Value stocks have been a terrific place in which to invest, provided that they have remembered that time in the market trumps market timing!

THE PRUDENT SPECULATOR

LONG-TERM PERSPECTIVE – MUCH TO BE THANKFUL FOR IN VALUE STOCKS

Annualized Total Returns Matrix

Last 2 Years	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years	Last 20 Years	Name	Symbol
						Value Equities	
13.4	**6.4**	**6.8**	**8.2**	**10.1**	**8.7**	**Russell 3000 Value**	**RAV Index**
13.8	**7.0**	**8.0**	**9.2**	**10.8**	**8.7**	**S&P 500 Value**	**SVX Index**
						Global Equities	
2.2	4.5	5.5	7.5	8.4	8.3	MSCI ACWI	MXWD Index
-1.9	-1.0	0.2	3.5	4.0	6.8	MSCI ACWI excluding United States	MXWDU Index
0.2	-0.7	0.7	3.3	4.8	6.4	MSCI EAFE (Europe, Australasia, Far East)	MXEA Index
11.2	4.0	4.2	4.6	7.4	6.5	MSCI Europe	MXEU Index
-9.2	-3.4	-2.1	3.1	1.5	8.7	MSCI Emerging Markets	MXEF Index
12.5	6.1	8.5	9.8	10.4	10.1	S&P/ASX 200 - Australia	AS51 Index
17.2	5.9	6.0	6.9	9.6	6.9	CAC 40 Index - France	CAC Index
4.5	0.8	0.0	3.1	6.2	7.2	Deutsche Boerse - Germany	DAX Index
-17.0	-13.7	-7.9	-1.7	0.3	6.2	Hang Seng - Hong Kong	HSI Index
9.9	2.8	9.8	13.8	7.3	13.2	Ibovespa - Brazil	IBOV Index
-0.9	3.4	0.5	0.6	6.3	5.7	Shanghai - China	SHCOMP Index
23.9	16.1	13.9	14.0	14.0	18.0	Sensex - India	SENSEXTR Index
9.2	8.0	5.9	7.4	13.7	7.7	Nikkei 225 - Japan	NKY Index
15.7	3.4	3.3	5.9	6.2	6.8	FTSE 100 Index - United Kingdom	UKX Index
						Other Assets	
37.0	16.7	9.6	9.2	0.6	5.8	S&P GSCI Commodities	SPGSCI Index
-12.4	5.4	7.0	12.4	-3.9	3.5	Gold & Silver Index	XAU Index
-8.8	-3.8	-0.6	0.3	0.7	3.0	Bloomberg Barclays U.S. Agg Bond	LBUSTRUU Index
-12.0	-6.2	-2.4	-0.7	-1.0	2.7	Bloomberg Barclays Global Agg Bond	LEGATRUU Index
-10.9	-4.4	-0.8	-0.1	0.4	NA	ICE U.S. Treasury 7 - 10 Year	IDCOT7TR Index
-7.0	-2.5	-0.2	0.3	0.6	NA	ICE U.S. Treasury 3 -7 Year	IDCOT3TR Index
-2.7	-0.7	0.5	0.5	0.6	NA	ICE U.S Treasury 1 - 3 Year	IDCOT1TR Index

As of November 4, 2022. Annualized Returns.

2022 has been a miserable year for equities...and most financial assets, but we think the perspective gained via a longer-term lens is highly valuable. This is especially true for those invested in Value stocks, which have been maligned in recent years. Believe it or not, including this year's carnage, the Russell 3000 Value and S&P 500 Value indexes since November 4, 2012, had gained 10.1% and 10.8% PER ANNUM, a terrific 10-year annualized return (in dollar terms) relative to stocks around the world, not to mention bonds, commodities and U.S. Treasuries. The modest three- and five-year return numbers also are solid, especially versus fixed income, while the two-year annualized figures are terrific.

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

Drugmaker **Pfizer** (PFE – $47.22) reported adjusted EPS of $1.78 in Q3, 26% higher than consensus and 33% better than the $1.34 a year ago. The result came even as sales declined 6% year-over-year, given a 30% drop in COVID-related revenue from Q2. Pfizer saw strong performance from its Prevnar suite of pneumococcal vaccines (with a new 20-strand jab licensed late last year) Eliquis and heart drug Vyndaqel.

Looking ahead, CEO Dr. Ablert Bourla said, "An exciting quarter for sure, but in our company and in our industry it's all about what's next? The next breakthrough medicine or vaccine, the next game changing technology, the next solution to an unmet patient need. This continued

pursuit of what's next is embedded in Pfizer's DNA and the foundational driver of our purpose, breakthroughs that change patients lives. It's also why we have confidence that Pfizer story is a story of growth. We recognize that some are questioning Pfizer's longer-term growth prospects particularly in the '25 to '30 time frame. That's understandable, given what we currently expect a negative impact of approximately $17 billion in revenues from losses of exclusivity during that period based on our internal calculations. We believe we not only can overcome these expected declines, but also can potentially generate strong growth through the end of the decade."

He added, "Our strong capital position has given us the ability to pursue business development opportunities, with the potential if successful, of course, to add at least $25 billion of Risk-adjusted revenues to our 2030 top-line expectations…Over the next 18 months, we expect to have up to 19 new products or indications in the market, including the five for which we have already begun [promotions] or commercialization earlier this year….If successful, these 19 launches of which more than two-thirds have the potential to be blockbusters would be the most ever in Pfizer's history."

Pfizer raised the lower end of its full-year 2022 revenue forecast to $99.5 billion, up from $98 billion, which incorporates a bump to its full-year COVID vaccine revenue forecast by $2 billion to $34 billion after Q3 sales came in almost $2 billion over the average analyst estimate, and about $22 billion of Paxlovid sales (the firm's COVID pill). The projection for adjusted EPS also moved higher, rising to a range of $6.40 to $6.50, up from a range of $6.30 to $6.45.

We continue appreciate the diversity of Pfizer's current revenue base (in addition to COVID-19 therapies) as well as management's increasing confidence for organic growth potential from its emerging pipeline of products as trial data is released over the next few years. Even as COVID sales are expected to wane in the coming years, the products' success has loaded up Pfizer's balance sheet with over $30 billion of cash, while the average maturity of its debt is 2034 (with individual maturities as far as 2050). Shares have offered shelter from the market volatility over the past 12 months, especially given a robust dividend yield of 3.4%. PFE trades for less 10 times expected 2023 EPS and our Target Price is now $72.

Despite a big rebound on Friday, shares of **Newmont Corp** (NEM – $40.99) ended the week 4.4% lower after announcing that it earned an adjusted $0.27 in Q3. It was the third consecutive profit decline for the giant gold miner as average realized gold prices fell from $1,836 per oz (in Q2) to $1,691 per oz. The result also missed analyst expectations as a delay at its Peñasquito mine reduced gold equivalent sales volumes, even as Q3 tends to be slower for the company, but management expects to make the sales up in Q4.

CEO Tom Palmer said, "At Newmont we have a diverse global portfolio of operations that we are managing to safely and responsibly deliver steady production over the long-term. This year we again expect to produce 6 million ounces of gold and 1.3 million gold equivalent ounces from copper, silver, lead and zinc, consistent with our full-year outlook and the most of any company in our industry. This year is very similar to last year with higher production expected in the fourth quarter to bring home a strong finish to the year."

He added, “In addition to higher production volumes we also expect to have lower unit costs in the fourth quarter, as we continue to take action to reduce or offset our exposure to elevated input prices and labor costs. We are working on improving productivity, through increasing and optimizing truck pay loads in both their open-pit and underground whole truck fleets. Improving underground development rates through increased equipment effectiveness and the implementation of jumbo bolting and operations where this machine has not been used before.”

NEM has offered little respite from market volatility in 2022 as inflation has impacted development and production costs, while gold prices have ebbed from over $2,000/oz in March to below $1,700 today. The slide brings spot prices to below the point at which the board’s incremental dividend payment is supported, although the base dividend is purportedly backed by precious yellow prices down to $1,200/oz. We have repeatedly acknowledged the complexities and obstacles inherent in the mining industry but still choose to have some modest exposure to gold. And, the balance sheet remains robust with $6.7 billion in liquidity and a net debt-to-EBITDA ratio of 0.5x, preserving Newmont’s financial flexibility with no debt due until 2029. Our Target Price for NEM, which presently yields 5.4%, has been cut to $66.

One of the most debated names amongst our investment team, **Goodyear Tire** (GT – $10.22), saw its shares fall more than 18% last week as the tire maker once again reported disappointing quarterly results. GT posted adjusted Q3 EPS of $0.40 versus the consensus estimate of $0.55. Revenue of $5.31 billion came in 2.2% below the average forecast. The quarter also saw segment operating margin contract 50 bps to 6.7%, as a higher-than-expected tax rate due to country mix also had a significant negative impact. Sales growth of lower-margin OEM tires (+26%) outpaced higher-margin replacement tires (-9%). GT guided for $1 billion higher raw materials costs in the second half of the year but said it expects cost inflation to peak in Q4.

CEO Richard Kramer commented on the latest difficulties, “Uncertainty and volatility have defined our operating environment since the onset of COVID. During the third quarter, we faced many ongoing challenges, including persistent inflation. At the same time, new challenges emerged, including a less certain outlook in Europe and the effects of a stronger U.S. dollar. Against this backdrop, GT’s net sales grew 8% compared with last year (15% excluding foreign currency). This increase was driven by pricing actions that drove revenue per tire (excluding foreign currency) 16% higher than Q3 2021 levels, reflecting the strength of our value proposition and our commitment to offset higher input costs with price and mix. At the same time, sales were impacted by lower tire volumes, which declined 3%, reflecting industry trends globally. These trends included lower consumer replacement industry volume following a period of robust recovery, partly offset by continued industry recovery at OE.”

Mr. Kramer added, “Despite the uncertainties in our environment, we continue to build and invest to lay the groundwork for future earnings growth. Our win rate on targeted new EV fitment bids exceeds 50% globally. In the quarter, we’ve added several high return, built-for-EV OE fitments that we expect will have strong pull-through in the replacement market. In the Americas, we recently partnered with a major online retailer, including piloting service centers to support their last-mile fleet. This partnership allows us to leverage our retail footprint, differentiated solutions and digital capabilities through our AndGo platform. It’s another way

we’re winning with fleets and leading the industry through integrated product, service and technology offerings.”

We continue to be highly disappointed with GT’s inability to consistently execute, and it is back on its last leg with us. Of course, management cannot help but adapt to the macroeconomic conditions they are dealt, but our patience has been sorely tested over our multi-year holding period. We are pleased to hear/see that the company is having some solid success with EV OEMs, as this could prove highly beneficial as tires for electric vehicles carry a heavier load and have to withstand high instant torque, leading to higher tire wear. As such, tires are needed with stronger constructions and more robust rubber compounds, and/or may need to be replaced at a much higher rate than the average ICE vehicle. With much to prove to regain investor trust, we balance the market disinterest with the fact that GT trades for just 5.5 times NTM earnings and analysts expect EPS to grow in 2023, 2024 and 2025. Our Target Price has been cut to $17.

Rockies-based oil and gas concern **Civitas Resources** (CIVI – $70.47) earned $3.56 per share in Q3, double that of the comparable quarter last year, but 23% lower than in Q2 due to lower selling prices, partially offset by higher volumes. Thanks to a series of mergers over the past 12 months, average daily sales volumes grew to four times the year-ago quarter, coming in at 176.3 thousand barrels of oil equivalent per day. Meanwhile, the fixed-plus-variable dividend, to be paid in December, increased to $1.95 per share, up roughly 11% sequentially from the $1.7625 per share paid in September.

CEO Chris Doyle said, “We’ve generated nearly a billion dollars in free cash flow through the end of the third quarter. That’s approximately 17% of our market cap during that nine-month period. Third quarter free cash flow alone was about $350 million dollars. In short, we’re living well within our means and generating significant cash, which we can in turn give back to our shoulders. We view this as a sustainable model.”

Management suggested that they CIVI was slightly ahead of its production targets for the year of being flat vs. 2021. This gives it a bit of flexibility in Q4, so, absent a significant run for crude or gas prices into year-end, we expect the quarter to be robust, but a bit lighter than the past two.

We continue to like that CIVI boasts industry-low lease operating and per barrel expenses with production that roughly consists of 40% oil and the remainder a combination of gas and natural gas liquids. Management has a propensity for deals, but the timing seems to have been very good thus far, given sustained strength in energy prices. The company boasts a peer-leading operating cost per barrel of oil equivalent of $4.20 and the balance sheet is superb with $282 million of net cash. Shares have traded as low as $45.83 and are off the $83.75 peak in June but are up over 40% for the year. Still, the valuation is very attractive at just 5.5 times EPS projected for 2023. Our Target Price is now $94.

Zimmer Biomet (ZBH – $104.85) earned $1.58 per share in Q3, compared with the analyst consensus estimate of $1.56. Revenue for the medical equipment maker was $1.67 billion, versus the $1.64 billion consensus. Although Zimmer was challenged by supply chain issues, inflation, staffing limitations and procedure cancellations, the company managed to turn in a good quarter thanks to momentum in the large-joint business and growth in the knee franchise.

CEO Bryan Hanson said, “We’re navigating and really managing through some very real macro headwinds that are definitely muting our growth. But, we’re also seeing an offset via COVID recovery, very strong execution from the team, and meaningful innovation in the field, and against that backdrop our team continues to execute our strategy and I feel increasingly confident about our future as a company.”

CFO Suky Upadhyay gave the outlook, “Based on the recent spot rates, we estimate that the strengthening of the dollar through 2022 will create about the 300 basis point headwind to revenue growth in 2023. Additionally, we’re tightening our expected adjusted diluted EPS range to $6.80 to $6.90…As a reminder we expect Q4 revenue growth to be slightly higher than the third-quarter due in part to a tailwind related to Q4, 2021 IPR&D charges that will be partially offset by about a one-day selling day headwind.”

Zimmer’s currency headwinds are likely to persist and management believes innovation and more emphasis on non-elective procedures is a way to keep revenue and earnings growing (albeit modestly). We appreciate ZBH’s efforts to rework its product lineup with cutting edge technology like its ZBEdge ecosystem, a suite of integrated digital and robotic technologies, and the momentum built for its ROSA Robotics equipment. We continue to like Zimmer’s global revenue stream (even if gets knocked in the near term by accounting rules) and expect to see benefits from the company’s product diversification. With some pent-up demand for elective surgeries put off during COVID still likely to provide a boost, our Target Price now stands at $162.

Shares of **CVS Health** (CVS – $99.56) rebounded almost 6% last week on the heels of a solid earnings release and news that the health care and pharmacy company would enter into a big opioid settlement. For Q3, CVS said adjusted EPS came in at $2.09 (versus the $1.99 est.) and revenue was $81.16 billion (versus the $76.77 billion est.). Revenue growth hit 11% vs Q2 of 2021.

The quarter was driven by better-than-anticipated results in its medical insurance arm Aetna and pharmacy benefit management, or PBM. These tailwinds offset COVID-19-related headwinds in its retail pharmacy business. During Q3, Aetna turned in 40% operating profit growth, due to better-than-expected medical utilization trends, while also experiencing mild membership (2%) and solid top-line (10%) growth primarily on expanding Medicare-related and commercial plans. The PBM delivered 6% operating profit growth on 4% claims processed growth and 10% revenue growth year over year, offset primarily by client price concessions. The retail stores’ adjusted operating income contracted by 19% in the quarter, as lower COVID-19 vaccinations and diagnostic testing, continued reimbursement pressure and rising wages weighed on margins.

CEO Karen Lynch commented, “We delivered another outstanding quarter, and have raised full-year guidance as a result. We continue to execute on our strategy with a focus on expanding capabilities in health care delivery, and the announced acquisition of Signify Health will further strengthen our engagement with consumers.” Adjusted EPS is now forecast to be between $8.55 and $8.65 (prior was $8.40 to $8.60), while cash flow from operations is now likely to come in between $13.5 billion and $14.5 billion (versus the prior $12.5 billion to $13.5 billion).

Investors were also very interested to see/hear input around 2023, and more importantly commentary on 2024 EPS targets. Those '24 targets, in particular, had appeared to be under pressure following recent negative headlines, which included a lower Stars rating in the 1.9 million member national Aetna plan and the loss of the Centene contract to Express Scripts. CVS has now quantified these two headwinds as being $2 billion in total and believes that it can mitigate half. This leaves a $1 billion ($0.55 EPS) headwind to 2024 earnings. We don't know if the company will try to offset the shortfall by M&A, share repurchases or other means, but we note that CVS has ample free cash flow to take some sort of action.

In terms of the settlement, CVS announced that it has agreed in principle to a financial resolution designed to substantially resolve all opioid lawsuits and claims against the company by states, political subdivisions, such as counties and cities, and tribes in the United States. CVS will pay approximately $5 billion ($4.9 billion to states and political subdivisions and approximately $130 million to tribes) over the next ten years beginning in 2023, depending on the number of governmental entities that agree to join the settlement.

Although the competitive landscape isn't getting any less challenging and there seemingly is always a regulatory cloud in the operational sky, we think there is plenty of runway ahead to improve access to care using CVS's integrated health care delivery model. We also appreciate that scale benefits from the Aetna acquisition are starting to show through. We continue to find CVS shares attractive as they trade for 11 times NTM adjusted earnings estimates and yield 2.2%. Our Target Price for CVS has been adjusted to $138.

Despite reporting fiscal Q4 bottom-line results that were better than expectations, semiconductor designer **Qualcomm** (QCOM – $106.69) saw its shares fall by more than 7% on Thursday as the company's forecast disappointed investors. For the quarter, QCOM posted adjusted EPS of $3.13 on revenue of $11.4 billion, versus the respective consensus estimates of $3.11 and $11.4 billion. Lower demand in China, where customers prefer high-end Android phones with QCOM chips, and a generally slowing smartphone market weighed heavily on the stock.

CEO Cristiano Amon commented, "Beyond 2023, we see a number of our strategic growth initiatives increasing in scale. We anticipate Automotive revenues will grow consistent with our Auto Investor Day projections as the design win pipeline materializes. We expect to see an inflection point in Windows on Snapdragon PCs in 2024, based on a significant number of design wins to-date. XR is just at the beginning of its growth curve. 5G wireless fiber presents significant opportunities in regions such as India and other developing economies that have just started to deploy 5G networks… We will continue to focus on stockholder returns and executing on our ongoing diversification opportunities. The powerful secular tailwinds driving multi-year demand for our one technology road-map across multiple industries are unchanged and resilient. We remain on-track to expand our addressable market by more than seven times to approximately $700 billion in the next decade. And formally established Qualcomm as the Connected Processor company for the Intelligent Edge."

For fiscal Q1, Qualcomm expects revenue between $9.2 billion and $10.0 billion (est. $12.0 billion) and EPS between $2.25 and $2.45 (est. $3.40). A quickly softening smartphone market caused a variety of worries among analysts, with one wondering in a note if declines in average

selling prices would shortly follow, even though **Apple's** (AAPL – $138.38) said it would keep Qualcomm 5G chips in its new iPhones for at least one more cycle before moving to its own (delayed) in-house chips.

Shares have slumped more than 40% this year, but we think the prospects for the company are bright, especially as high-quality chips are difficult to find. Inventory buildup and weakening demand remain risks but building a working smartphone without Qualcomm communications chips is nearly impossible. Once Apple rolls out their much-delayed in-house chip, it will still need to pay Qualcomm plenty in royalties to use their patents. Lest we forget to mention, there's also huge potential for QCOM in the automotive market, yet the stock changes hands at 10 times NTM adjusted EPS and offers a 2.8% dividend yield. Thinking the selloff this year is very much overdone, our Target Price for QCOM now resides at $201.

Shares of North Carolina based lithium producer **Albemarle** (ALB – $284.99) initially skidded after the company narrowed its 2022 guidance and 'only' managed a small earnings beat. ALB earned $7.50 (vs. $6.95 est.) and had revenue of $2.09 billion (vs. $2.23 billion est.). Both figures were substantially above last year's totals as continuing strength in the lithium market and a new emphasis on U.S.-sourced materials for EVs takes shape. For fiscal 2022, ALB now expects revenue between $7.1 billion and $7.5 billion with EPS between $19.75 and $21.75. The low end of adjusted EBDITA was hiked slightly from $3.2 billion-$3.5 billion to $3.3 billion-$3.5 billion.

CFO Scott Tozier commented, "Knowing that the economy is on everyone's mind, we expect all three GBUs to grow in 2023 even in the turbulent market environment but it's going to look different for each of our businesses. For example, in lithium and bromine, our vertical integration and access to low-cost resources helps control our cost structure, while approximately 45% of our cost come from raw materials and services, 20% of those relate to our own spodumene. We continue to expect strong demand for lithium driven by the secular shift to electric vehicles, including OEM investments and public policy support. We are watching to see how rising interest rates impact luxury vehicle sales in the short term, but we expect EVs to continue to grow and gain market share just as we saw in 2020 during the peak of the COVID pandemic."

Mr. Tozier continued, "Of the three businesses, bromine and our lithium specialties demand is likely the most leverage to global economic trends in consumer and industrial spending, automotive and building and construction. At the same time, they benefit from having diverse end-markets, meaning they can allocate production to higher growth or higher margin end-markets as needed. Bromine and lithium specialties also tend to rebound quickly after recession. Finally, catalysts, demand is closely linked to transportation fuel demand. In a typical recession, catalysts is relatively resilient. Think about it this way, oil prices generally drop in a recession and that drives higher fuel demand, which equals higher catalysts demand for refining and typically the catalysts business would benefit from lower raw material costs in a recessionary environment."

CEO Kent Masters added, "Let me sum up the key points in our growth strategy. First, a strong outlook, for 2022, we're projecting revenue at double 2021. Adjusted EBITDA at nearly four times 2021 and cash from operations at four times 2021 and we expect continued growth into

2023. Second, financial flexibility to fund profitable growth and maintain our credit rating while still supporting our dividend. Third, a strong operating model that should power us through the current macro-economic turbulence. Fourth, high return growth projects are underway in both lithium and bromine. In total, Albemarle is well positioned to deliver growth and build long-term shareholder value."

Lithium demand growth seems to be only constrained by adequate supplies of the metal and buy-in for EVs is starting to come from all levels, reflected in ALB's strong bounce off the Thursday morning low and the 22% year-to-date return. ALB has looked expensive at times during our ownership, but we experienced an earnings climb that has been nothing short of sensational. The company's 2020 earnings were a modest $4.12 per share, while ALB made almost twice that amount in Q3 alone and analysts expect 2022 EPS to come in around $21.00. Projections show EPS around $27.00 next year and $25.00 in 2024, though the lumpiness is probably based on projected mineral price forecasts as much as it is demand at this point. We continue to think that ALB will see long-term benefits from a major positive catalyst in lithium batteries as electric vehicle adoption increases and appreciate its 11-times forward P/E and solid balance sheet. Our Target Price for ALB has powered ahead to $382.

Shares of **Nutrien LTD** (NTR – $73.29) sank nearly 15% last week when it announced Q3 earnings that came in well below analyst consensus. The Canadian fertilizer producer earned $2.51 (vs. $3.94 est.), 82% higher vs. the prior year, but down 57% vs. Q2 as high prices curbed the purchase of new inventory, particularly for potash.

Nutrien CEO Ken Seitz explained, "Global grain supply remains very tight with the stocks-to-use ratio projected to fall to a more than a quarter century low this crop year. High energy costs and export restrictions continued to impact global fertilizer production and trade, most notably in Europe. And we believe these supply constraints will persist well beyond 2022."

Nutrien revised its full-year 2022 adjusted net earnings per share guidance to between $13.25 and $14.50 per share. For 2023, management expects robust agricultural fundamentals to drive increased fertilizer consumption as current inventories are drawn down and prices stabilize. Taking this into account, the company projects $11.20 to $11.50 of adjusted EPS in 2023, and Q1 2023 adjusted EPS of $2.60 to $2.80.

Mr. Seitz added, "Potash production and exports from Eastern Europe continue to be impacted by sanctions on Belarus and restrictions on Russia that are related to the war in Ukraine. For 2023, we forecast exports from Belarus to be down 40% to 50% compared to 2021 levels and Russian exports to be down 15% to 30%. Global potash shipments are projected to be between 64 million to 67 million tonnes in 2023, which is up from 2022, but still well below our unconstrained demand forecast of over 70 million tonnes."

We have considered for some time that long-term trends in agriculture are favorable, irrespective of global conflict. Tightness of the global supply chain exacerbated by the confluence of global events is unlikely to resolve in the near term, although we acknowledge the price elasticity of phosphates over the long term. As such, we continue to appreciate the scale offered by Nutrien's large retail presence with 1,400 locations in the U.S. and Australia, diversification across the

three major crop nutrients and the strategy of selling directly to farmers. Management says it is intent on deploying the remaining $500 million of its share repurchase authorization by February 2023. With a forward P/E ratio of 5 and a dividend yield is 2.6%, our Target Price now stands at $124.

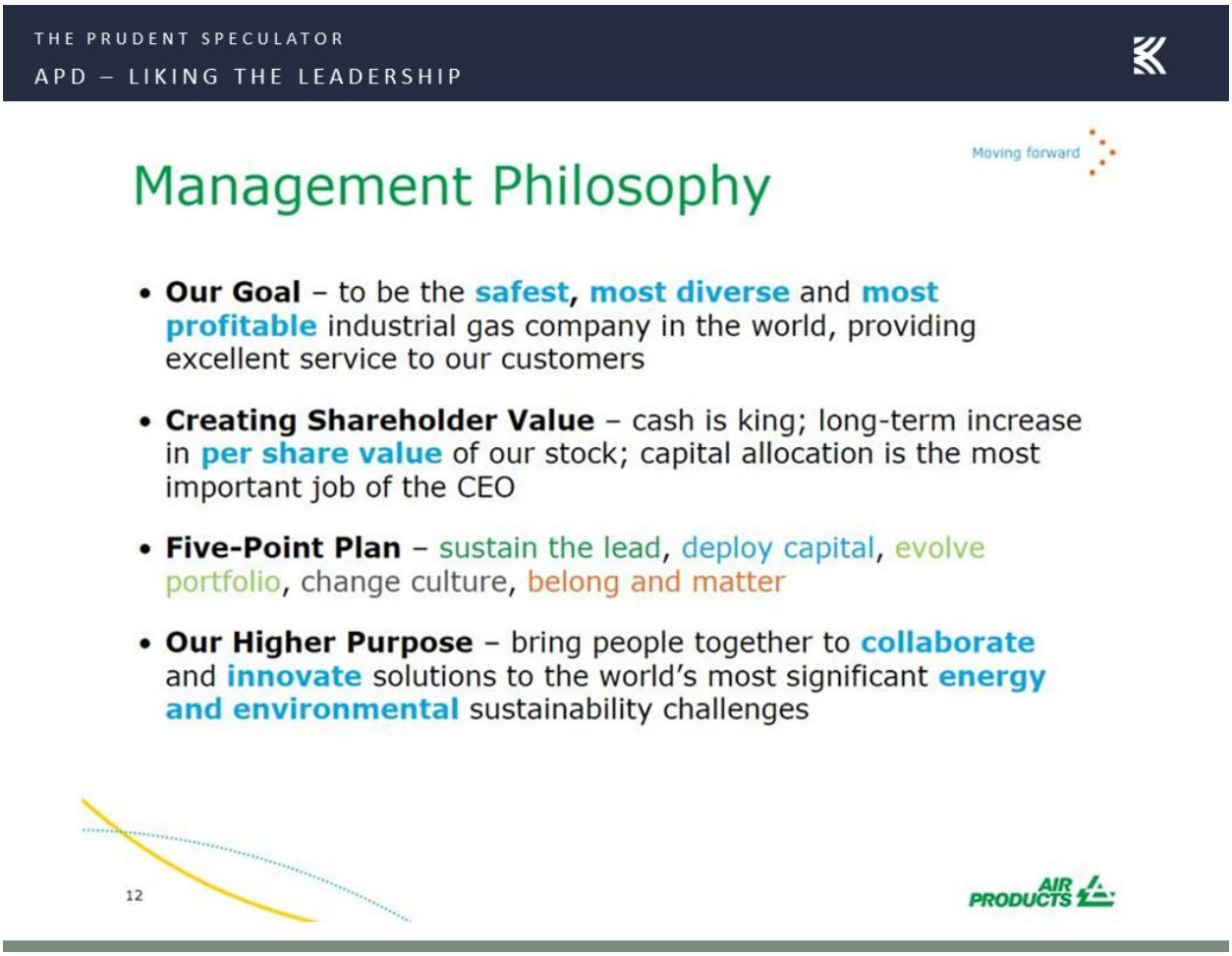
Shares of **Air Products** (APD – $276.06) rallied more than 8% last week with the release of fiscal Q4 financial results that came in higher than analyst consensus. The industrial gas company earned an adjusted $2.89 per share in the quarter (vs. the $2.76 est.), bringing full year EPS to $10.41, both representing a 15% improvement year-over-year. The pass-through of energy costs continued to negatively impact EBITDA margin (by 400 basis points in the latest quarter), although sales grew 23% for the full fiscal year. As management guided, return on common equity edged into the low teens for both Q4 and the full year.

The company expects to earn between $11.20 to $11.50 per share in fiscal 2023 and management states that it has invested 30% of its $36.5 billion capital deployment plan through fiscal 2027.

CEO Seifi Ghasemi commented, "Price and volume both improved across the regions and the Jazan project contributed as expected. Our team delivered these impressive results despite a $0.24 per share headwind from currency and challenging macroeconomic environment. These results for sure confirm the resilience of our business portfolio and the absolute commitment of our people to deliver near-term results…We have consistently delivered positive earnings growth since 2014, regardless of the macroeconomic conditions. Our onsite business with these take-or-pay contracts gives us downside protection, and our merchant business having volume and price flexibility and provide upside potential. In addition, our backlog of nearly $20 billion will add significant long-term growth in the future."

Discussing some of the firm's recent projects, he added, "We took another significant step forward toward a clean hydrogen future by announcing our investment of about $500 million in a new green hydrogen project in Massena, New York located on the banks at the St. Lawrence River…We announced our sustainable aviation fuel project [with World Energy] in April. This project is another great example of the investment opportunities that is further supported by their Investment Reduction Act legislation. We are as a result of that legislation and the incentives put for sustainable fuel aviation. We are expanding our scope and now with investment — we increased our investment from $2 billion to $2.5 billion in this project."

We continue to be fans of the philosophy management employs to run the company, which has been laid out on a slide in each of the firm's financial presentations over the past 8 years.



Industrial gases are often an indispensable input, yet they account for a small fraction of overall costs for those who use them. This leads customers to pay up for reliability and to pursue long-term contracts to assure uninterrupted and timely supply. This combination of factors also contributes to onsite investments with customers and provides the company with stable cash flows. Despite the slowing global economy, analysts expect per-share earnings to nearly double over the next five years, with the global energy transition and exposure to increasing demand for alternative fuels providing tailwinds. APD's streak of annual dividend increases extended to 40 this past February, and the yield is now 2.3%. Our Target Price is now $351.

Shares of **Cummins** (CMI – $238.37) fell 2.6% last week as markets reacted to the latest Fed rate hike, along with the industrial concern's Q3 financial results. Cummins generated revenue of $7.33 billion, which was greater than the $6.84 billion expected by analysts, but we assume, like the bottom-line number, there may not have been an apples-to-apples comparison given recent acquisition Meritor had two months of operations in the data, and there were costs associated with separating CMI's filtration business. All in all, CMI reported adjusted earnings of $2.82 per share, but it looks as if $0.88 per share of losses were taken due to one-time factors. The Street was looking for north of $4.00 per share. Given a muted reaction in the stock price, it seems obvious that the forecasts weren't comparable to the results, with all of the details.

Q3 revenue grew an impressive 11% YoY organically, driven by a strong backlog of truck engine orders and rising demand for power generators amid more common grid outages. Not surprisingly, CMI saw a drop in margin after the large acquisition, driven by required inventory mark-ups and M&A fees. Moving forward, we think there should be material improvement in cost competitiveness as the redundant Meritor operations are phased out and supplier orders scaled up. We also see the potential for better revenue growth as CMI can now sell more products to existing customers given its large end-market overlap with Meritor, which is a leading global supplier of drivetrain, mobility, braking, aftermarket and electric powertrain solutions for commercial vehicle and industrial markets.

"During the third quarter of 2022, Cummins advanced its growth strategy most notably with the completion of the acquisition of Meritor, and we have been excited to welcome our new colleagues into our company," said CEO Jennifer Rumsey. "Demand from customers remains strong, reflecting the quality and performance of our products and robust conditions in most markets except China. EBITDA for the third quarter improved year-over-year but declined compared to the second quarter of 2022, reflecting weaker joint venture earnings in China, a one-time bonus to employees to recognize their relentless commitment to meeting customer demand in challenging conditions, and costs associated with both the Meritor acquisition and the planned separation of our Filtration business. We expect results for Meritor and Cummins in total to improve in the fourth quarter."

Management said that full-year 2022 revenue should be as expected, coming in up 8%. Full-year 2022 EBITDA is now likely to be approximately 15% of sales, excluding the Meritor business and related acquisition and integration costs, the impacts of the indefinite suspension of operations in Russia and the costs associated with preparing for the expected separation of the Filtration business. This is below the company's previous guidance of approximately 15.5% of sales and reflects an improvement from the third quarter to the fourth quarter.

We have written multiple times that some of the same issues affecting Cummins (i.e. higher freight and logistics expenses, rising material costs and other factors contributing to supply chain challenges) also support demand for future business, particularly given high utilization rates for long-haul trucking. While shares are up more than 9% year-to-date, they still trade for just 12 times the NTM consensus EPS estimate, below the 5- and 10-year average forward P/E multiples. We continue to like Cummins' position as a leading maker of critical components in the industrial supply chain, while it continues to invest in new (and renewable) technologies. We also appreciate that management promotes returning 50% of operating cash flow to shareholders. The dividend yield is 2.6% and our Target Price is now $304.

Shares of **Royal Caribbean** (RCL – $54.70) rose for the second straight quarter after beating analyst estimates. For the first time since the pandemic began, the cruise operator posted a positive earnings per share figure. The $0.26 per share RCL earned was better than the $0.14 consensus, while the $3.0 billion revenue figure was the highest since Q3 2019. Despite many challenges, including high fuel prices, RCL investors seemed to find new enthusiasm for the cruiser, as shares have nearly doubled from the $31 low in July. RCL expects Q4 revenue around $2.6 billion and a loss per share between $1.50 and $1.30.

RCL also launched its Trifecta Program, which it explained as, "The Trifecta Program is a three-year financial performance initiative designed to chart out the pathway back to superior performance with three main goals to be achieved by the end of 2025: Triple Digit Adjusted EBITDA per APCD, to exceed prior record Adjusted EBITDA per APCD of $87 in 2019; Double Digit Adjusted Earnings per Share to exceed the prior record Adjusted Earnings per Share of $9.54 in 2019; Return on Invested Capital ("ROIC") in the teens to exceed the prior record ROIC of 10.5% in 2019 through optimizing capital allocation and enhancing operating income…all while returning to an investment grade profile and reducing carbon intensity by double digits compared to 2019."

CEO Jason Liberty is optimistic, stating, "Overall, across markets, brands, and products, we continue to see a financially healthy, highly engaged consumer with a strong hunger to dream and seek a variety of vacation experiences. Our commercial apparatus is seeing elevated booking activity across channels as we help our customers design their dream vacations. Our guests are willing to spend more than ever with us to create those memories. Consumers are engaging earlier into planning their vacation with about 60% purchasing onboard experiences before they even set sail. This has led to an 8-point increase in penetration and much higher revenue APD related to pre-cruise purchases versus 2019 levels. Our guests continue to seek the rich experiences we offer, spending significantly more on-board our ships compared to 2019, across nearly all categories. All this is translating into strong booking activity. During the third quarter, we saw both strong demand for close-in sailings and accelerating demand for sailings in 2023."

He added, "The value proposition of cruising remains incredibly attractive and we have an opportunity to close the gap to other land vacation alternatives as we grow our addressable market. We continue to expect the business to accelerate as we close out 2022 and set a strong foundation for us to deliver record yield and adjusted EBITDA in 2023. Our formula for success remains unchanged. As we have demonstrated in the past, moderate capacity growth, moderate yield growth, and strong cost controls lead to enhanced profitability and superior financial performance as we seek to improve the balance sheet."

RCL shares have been whacked by a third this year, even as there has been a benefit from loosening of COVID-related restrictions in most locales. Still, RCL's resurgence is potentially ill-timed as the world teeters on the edge of recession and high interest rates make financial decisions potentially more uncertain. Cruising remains a compelling value for many, but we are mindful of relatively large debt-service costs impacting EPS. There is still plenty to think about in regard to our long-time interest in Royal Caribbean, and we continue to weigh our stake in RCL against the sea of names battered in the latest volatility. For the time being, our Target Price stands at $71.

EOG Resources (EOG – $142.23) turned in another monster quarter, earning $3.71 per share in Q3, meaningfully higher both year-over-year and sequentially, although modestly below the Wall Street consensus. Shares of the oil and gas company rallied 2.7% on Friday after the release, and moved higher by nearly 7% for the week, pushing the YTD advance above 65%. EOG generated $2.26 billion of free cash flow in the quarter, bringing the balance sheet to a net cash position. The Board increased the regular dividend by 10% to $0.83 per share and declared a special dividend of $1.50 per share payable at year-end.

CEO Ezra Jacob commented, “Our goal is to expand and improve the overall quality of our portfolio by identifying higher-return inventory. Our approach is to build a diverse portfolio of premium assets predominantly through low-cost organic exploration, which adds reserves at lower finding and development costs and lowers the overall cost basis of the company. The end result is continuous improvement to EOG’s company-wide capital efficiency. Our track record of successful exploration coupled with strong operational execution is how EOG has continued to improve over time and position the company to create shareholder value through industry cycles. Looking forward, we expect 2023 will remain dynamic with respect to the supply chain, oil and gas prices, and other global macro drivers. Our diverse low-cost asset base puts us in an excellent position to capitalize on opportunities no matter the environment. EOG continues to consistently execute to lower our cost structure through innovation and inefficiencies, and grow the quality of our portfolio to improve capital efficiency and free cash flow potential.”

EOG also purchased mineral rights for 135,000 acres and leasehold interest for 395,000 acres in Ohio’s Utica Shale basin for about $480 million. VP of Exploration and Production Kenneth Boedeker said of the property, “This area is also where we’ve drilled our most prolific well, which initially produced over 2,500 barrels of oil per day and 3,500 barrels of oil equivalent per day from 12,000 foot lateral. The total value of this mineral interest across our Southern development area is significant, especially since EOG will dictate the pace of development as operator.”

EOG has some of the lowest-cost Permian assets of the U.S. oil and gas producers. While capital constraints are in vogue today, EOG has historically been one of a handful of shareholder-friendly oil and gas producers. Including the most recently declared special dividend, the company will have doled out $8.80 per share in dividends during 2022, exceeding the goal of returning at least 60% of annual free cash flow to owners. We continue to think very highly of management but are mindful of our expanding weighting in the stock relative to other potential opportunities. Shares still trade for about 10 times EPS projected for each of the next few years and our Target Price has been hiked to $166.

Shares of **Regency Centers** (REG – $63.57) gained 5% after the company beat analyst expectations in the third quarter. REG has funds from operations per share of $1.01, compared with the analyst consensus estimate of $0.96 and revenue of $308 million, versus the $266 million consensus. Despite the macroeconomic headwinds, the retail REIT reported strong tenant demand and rent growth. Management said REG and its tenants are not immune to higher inflation and rising interest rates, but the company believes its balance sheet and established history of resiliency suggest that any challenges on the horizon can be overcome.

For the calendar year, Regency expects FFO per share between $4.00 and $4.03, slightly ahead of the present analyst consensus estimate. Same-property net operating income is expected to grow in the 2.0% to 2.5% range, which is up from the previous range of 1.25% to 2.25%.

CEO Lisa Palmer stated, “It is through a lens of what I would characterize as cautious optimism that we look ahead, and we remain confident that we are uniquely positioned to outperform. The demographic profile of our portfolio provides greater cushion for inflationary impacts to be absorbed by consumers, and for spending to continue through a softer economic environment.

Our dense suburban trade areas also continue to benefit from structural tailwinds, stemming from post-pandemic migration patterns and hybrid work, but also by a renewed appreciation for the value of brick-and-mortar retailing. Additionally, and just as importantly, we are well positioned to continue to execute on our self-funded growth strategy."

Regency shares have performed well this year relative to the company's peer group. REG has declined 13% including dividends, while the S&P 500 Real Estate index is down 29% and the broader S&P 500 index is down 20%. Approximately 80% of the REIT's properties have a grocery store as an anchor tenant, and they are predominately located in and around major metropolitan areas, particularly since the merger with Equity One in 2017. Of course, rising interest rates will likely generate a bit of turbulence for the entire sector, but Regency's focus on quality should prevent cap rates for its properties from getting out of control. REG shares receive a just-hiked $0.65 quarterly dividend, which pencils out to a 4.1% yield. Our Target Price has inched up to $79.

Shares of **Cardinal Health** (CAH – $79.52) gained 5% after reporting fiscal Q1 2023 results, bringing the year-to-date gain just shy of 60% including reinvested dividends. The health care distributor earned $1.20 (vs. $0.97 est.) on revenue of $49.6 billion (vs. $48.0 billion est.). Cardinal benefitted from branded pharmaceutical sales growth and a higher contribution from branded and specialty products, while inflation detracted slightly. Management noted that inflation continues to impact supply chains and explained the phenomenon was particularly apparent within the transportation and labor markets.

Interim CFO Trish English offered the outlook, "We are reiterating our EPS guidance of $5.05 to $5.40, this includes our updated medical segments outlook, which has been adjusted for the impact of simplification actions in the first quarter and a few below the line improvements. Based on the first quarter performance, we are confident in lowing the top end of the ranges for interest and other, our effective tax rate, and deluded weighted average shares for the fiscal year. We now expect INO in the range of $140 million to $160 million, and ETR between 23% and 24%, and diluted shares between $262 million to $264 million. Our expectations for the remaining items listed on Slide 8 remain unchanged."

CEO Jason Hollar added, "I recognize there is still a lot to accomplish, yet I remain excited about these opportunities to drive growth. I believe that a resilient business models, robust operating cash flow generation, favorable capital structure, and capital allocation flexibility differentiate us in this time of macroeconomic uncertainty, and I am confident in our future."

While Cardinal is working to offset the negative impacts of inflation and supply chain crunches, it's virtually impossible to avoid the impacts entirely. As a result, management is implementing its third price adjustment this year (March, July and October), and there is an expectation that costs will start to come down next calendar year. Shares remain reasonably priced, trading at less the 15 times NTM EPS estimates, while the firm continues to generate strong free cash flow, which we believe is supported by demographic trends in the U.S. as the population ages and requires greater health care usage. The dividend yield is 2.5%. Our Target Price has been increased to $89.