Market Commentary Monday, November 14, 2022

November 14, 2022

EXECUTIVE SUMMARY

Market Week – Plenty of Uncertainty, But Huge Bond & Equity Rally after Cooler CPI
Econ Data – Weaker Numbers Lower The Number of Fed Rate Hikes Expected
GDP – Solid Q4 Growth Expected
Volatility – Can't Time the Ups and Downs
Valuations – Metrics Still Attractive, Especially for Value
History Lessons – Seasonally Favorable Time of Year, Inflationary 1970s & Volcker 1980s
Perspective – Stock Returns Look A Whole Lot Better Through a Longer-Term Lens
Stock News – Updates on KSS, AMGN, MDT, DINO, MOS, DPSGY, LITE, GEN, DIS, HMC, ALIZY, ENS, TPR & WRK

Market Review

No doubt, the collapse of a major cryptocurrency exchange and the Midterm elections last week,…

THE PRUDENT SPECULATOR

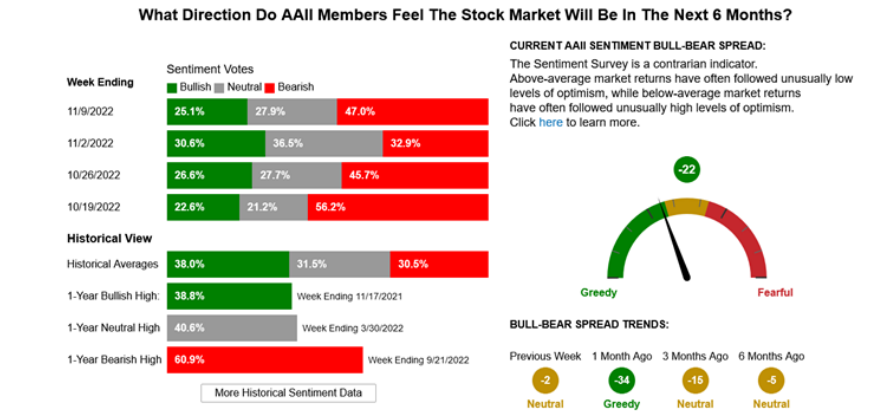
SPLIT CONGRESS AND A DEMOCRAT IN THE WHITE HOUSE GOOD FOR VALUE

While there was no "Red Wave," with the Democrats evidently retaining control of the Senate, the odds favor Republican control of the House of Representatives, though votes are still being counted. The data points are relatively few, but history shows Value stocks returning 14.5% on average, with a "D" in the Oval Office and a Split Congress.

…added to investor uncertainty and increased consternation in the financial markets.

THE PRUDENT SPECULATOR

MAJOR AAII CONTRARIAN BUY SIGNAL: BULL-BEAR SPREAD = -21.9%



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 = 7.31										
BELOW	-54.0	7.3	920	0.24%	0.20%	1.10%	0.97%	3.28%	2.88%	6.47%	5.69%
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 1838 Data Points										
1	-54.0	-16.7	184	0.44%	0.37%	1.93%	1.68%	4.52%	3.96%	8.43%	7.17%
2	-16.7	-8.4	184	0.28%	0.24%	0.91%	0.77%	3.42%	3.07%	6.31%	5.54%
3	-8.4	-2.0	195	0.34%	0.31%	1.23%	1.13%	3.44%	3.02%	7.52%	6.81%
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	183	0.05%	0.03%	0.51%	0.41%	2.48%	2.21%	4.74%	4.19%
6	7.3	11.8	184	0.19%	0.17%	0.74%	0.67%	2.08%	1.85%	4.90%	4.45%
7	11.9	16.1	184	0.16%	0.13%	0.51%	0.37%	2.43%	2.18%	5.28%	4.78%
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 11.10.22. 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 dropping to 25.1% and the number of Bears jumping to 47.0% is a major positive. The minus 21.9% Bull-Bear spread is back to being very pessimistic and is in the most favorable (highest future returns) 1st decile of the weekly figures going back to 1987.

And, since we are repeatedly told that stocks don't like uncertainty and seemingly all the talking heads on *CNBC Television* have been Bearish, we would not have been surprised if the major market averages saw red ink last week.

Seems like the airwaves have been filled with purveyors of doom-and-gloom, which is par for the course whenever stocks have headed south. Of course, about all the supposed experts have proved over the years is to remind investors that time in the market trumps market timing.

PRO: FOLLOW THE PROS

Ray Dalio says higher interest rates to squash inflation could tank stock prices by 20%

Billionaire investor Ray Dalio issued a dismal outlook for the markets and the economy, predicting a 20% plunge in stock prices, as the Federal Reserve ...

Yun Li 9/15/2022 6:42:14 AM PST

PRO: FOLLOW THE PROS

Hedge fund Elliott Management sees world on path to hyperinflation and worst crisis since WWII

Elliott Management, one of the world's biggest hedge funds, issued a dire warning on the markets and the economy, saying the world could be headed ...

Yun Li 11/3/2022 2:53:40 PM PST

MARKETS

Carl Icahn says he still thinks we are in a bear market despite Thursday's rally

Famed investor Carl Icahn said Thursday's relief rally didn't change his negative view on the market, and he believes a recession is still on the ...

Yun Li 11/10/2022 1:03:56 PM PST

PRO: FOLLOW THE PROS

Jeffrey Gundlach says yield curve inversions are 'reliable signals of economic trouble'

DoubleLine Capital CEO Jeffrey Gundlach urged investors to pay attention to the worsening recession signals from the bond market.In a tweet Tuesday evening, Gundlach pointed ...

Yun Li 8/31/2022 6:02:36 AM PST

DELIVERING ALPHA

Stanley Druckenmiller sees 'hard landing' in 2023 with a possible deeper recession than many expect

Billionaire investor Stanley Druckenmiller believes the Federal Reserve's attempt to quickly unwind the excesses it helped build up for a decade with easy monetary policy ...

Yun Li 9/28/2022 6:00:01 AM PST

PRO: FOLLOW THE PROS

Leon Cooperman still sees a recession coming, but he is finding stocks to buy

Billionaire investor Leon Cooperman cautioned that the final bottom of the stock market is yet to come as the economy is poised to hit a ...

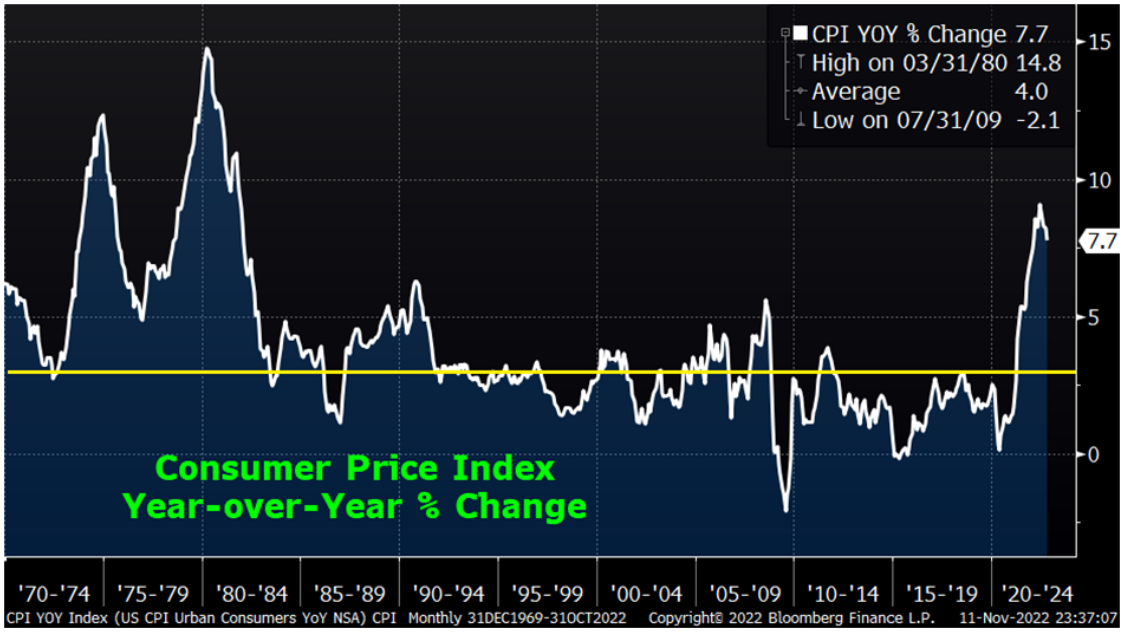
Yun Li 11/1/2022 5:49:42 AM PST

Such might have been the case, were it not for the release of cooler-than-expected readings on inflation at the consumer level,…

THE PRUDENT SPECULATOR

INFLATION AT THE CONSUMER LEVEL DROPS BUT STILL NEAR 41-YEAR HIGH

While overall inflation in the U.S. soared by 7.7% in October, the jump in the Consumer Price Index was better than the 7.9% expected by economists and lower than the 8.2% increase the month prior. The "core" rate, which excludes food and energy, was also lower than forecast, rising by 6.3%, down from 6.6% in September, with the CPI numbers leading to a big Wall Street advance.



…which led to a massive rally in prices of U.S. Treasuries,…

THE PRUDENT SPECULATOR

BENCHMARK TREASURY YIELD PLUNGES ON LOWER INFLATION READING

Given the drop in the Consumer Price Index and despite tough talk on inflation from Jerome H. Powell & Co. as well as the continuation of solid economic stats, government bond market players bought U.S. Treasuries last week, sending the yield on the benchmark 10-year bond down 35 basis points.

…and a big move higher in the equity markets,…

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 very-good kind of volatility happening last week, though the Nasdaq Composite index is down 27.1% and the U.S. Aggregate Bond index is off 14.1% 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	4.22	17.69	-5.51	-4.11	32.52	91.31	29.69	60.63	Dow Jones Industrial Average	INDU Index
1.01	-10.21		4.47	14.20	-8.59	-8.59	29.58	86.41	23.38	41.52	New York Stock Exchange Composite	NYA Index
-39.18	-20.81		8.11	7.16	-27.11	-27.31	5.42	68.48	37.22	75.87	Nasdaq Composite Index	CCMP Index
-22.43	-9.23		4.88	10.89	-21.58	-28.26	3.73	67.87	15.16	32.43	Russell 2000 Growth	RU20GRTR Index
22.83	14.02		4.40	15.67	-8.76	-13.00	50.69	119.94	27.06	35.80	Russell 2000 Value	RU20VATR Index
-3.02	2.49		4.64	13.23	-15.19	-20.80	25.30	93.82	22.55	36.14	Russell 2000	RU20INTR Index
-11.75	-20.15		7.70	12.56	-22.84	-26.42	3.39	71.47	23.91	58.27	Russell Midcap Growth Index Total Return	RUMCGRTR Index
19.18	2.33		5.55	14.45	-8.85	-8.07	39.58	113.36	27.63	43.04	Russell Midcap Value Index Total Return	RUMCVATR Index
8.25	-5.62		6.30	13.77	-13.84	-14.86	25.85	99.45	29.10	53.14	Russell Midcap Index Total Return	RUMCINTR Index
-22.42	-19.63		7.50	8.71	-24.53	-23.52	10.26	76.92	39.25	80.32	Russell 3000 Growth	RU30GRTR Index
8.04	-4.33		4.60	14.61	-5.99	-5.11	39.60	95.13	25.84	46.37	Russell 3000 Value	RU30VATR Index
-7.46	-11.46		6.01	11.62	-15.86	-14.90	23.93	86.96	34.12	64.89	Russell 3000	RU30INTR Index
9.64	-0.39		5.94	14.94	-8.83	-7.46	40.86	112.99	38.97	66.71	S&P 500 Equal Weighted	SPXEWTR Index
-9.10	-11.89		5.93	11.55	-15.08	-12.76	25.93	86.01	35.83	68.94	S&P 500	SPXT Index
-22.08	-12.73		8.40	7.91	-24.90	-22.57	13.19	77.14	39.76	77.94	S&P 500 Growth	SPTRSGX Index
6.08	-11.71		3.83	14.98	-4.06	-1.89	39.99	90.35	26.58	53.70	S&P 500 Value	SPTRSVX Index
3.18	1.57		3.86	2.83	-17.63	-17.96	-19.00	-11.73	-13.24	-8.18	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index
11.63	8.44		2.29	0.59	-14.10	-14.11	-14.48	-10.01	-8.25	-0.58	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index

As of 11.11.22. Source Kovitz using data from Bloomberg

…with the S&P 500 turning in one of its best weeks ever.

THE PRUDENT SPECULATOR

TERRIFIC REBOUND: S&P 500 BOUNCES BACK

Rare are sizable one-week rallies of 5% or greater for the S&P 500, but the popular market gauge regained 5.90% over the last five trading days, the 70th best weekly showing since 1928.

Up > 5.90%

	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		1	1	0	0	1	1	0	1	0	3	8
Years Ending in 1		4	0	0	0	0	0	0	1	2	0	7
Years Ending in 2		9	0	0	0	0	3	0	0	0	3	15
Years Ending in 3		10	0	0	0	0	0	0	1	0		11
Years Ending in 4		2	0	0	0	3	1	0	0	0		6
Years Ending in 5		0	0	0	0	0	0	0	0	0		0
Years Ending in 6		0	0	0	0	0	0	0	0	0		0
Years Ending in 7		1	0	0	0	0	0	1	0	0		2
Years Ending in 8	1	7	1	0	0	0	0	1	2	0		12
Years Ending in 9	4	1	0	0	0	0	0	0	4	0		9
Totals	5	35	2	0	0	4	5	2	9	2	6	70

From 1.31.28 through 11.11.22. Weeks of index price increases of greater than or equal to 5.90%. SOURCE: Kovitz using data from Bloomberg

Down < 5.90%

	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		5	2	1	0	1	1	0	1	1	3	15
Years Ending in 1		6	2	0	0	0	0	0	2	2	0	12
Years Ending in 2		10	0	0	1	0	0	0	2	0	0	13
Years Ending in 3		5	0	0	0	0	0	0	0	0		5
Years Ending in 4		2	0	0	0	4	0	0	0	0		6
Years Ending in 5		0	0	0	0	0	0	0	0	0		0
Years Ending in 6		0	0	0	0	0	1	0	0	1		2
Years Ending in 7		6	0	0	0	0	3	0	0	0		9
Years Ending in 8	1	5	1	0	0	1	0	0	5	2		15
Years Ending in 9	5	3	0	0	0	1	1	1	2	0		13
Totals	6	42	5	1	1	7	6	1	12	6	3	90

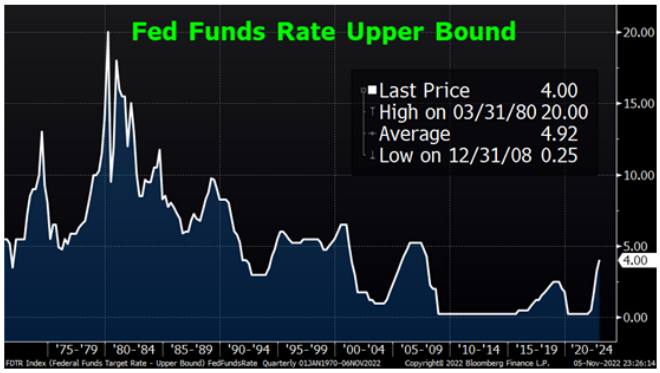
From 1.31.28 through 11.11.22. Weeks of index price decreases of greater than or equal to 5.90%. SOURCE: Kovitz using data from Bloomberg

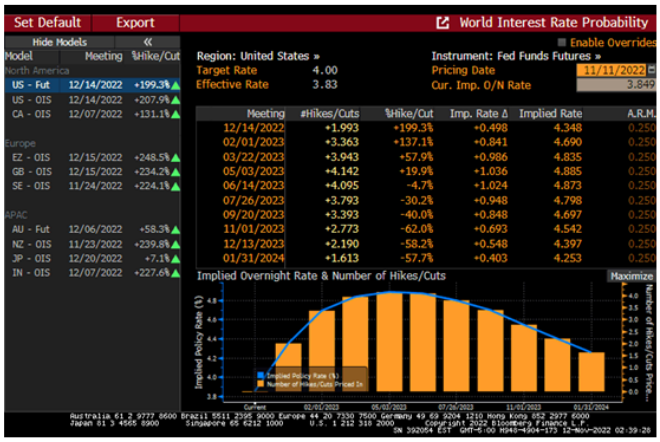
To be sure, Federal Reserve officials were quick with hawkish commentary. Dallas Fed President Lorie K. Logan reminded, "This morning's CPI data were a welcome relief. But there is still a long way to go." San Francisco Fed President Mary C. Daly added, "The new data are still far from a victory," with Cleveland Fed President Loretta Mester explaining, "We need to do more, and we will."

However, the interest rate futures market became less concerned about further Fed tightening, with the target for the peak Fed Funds rate dropping to 4.89% from 5.10% the week prior,…

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 became less hawkish last week as they are now estimating a 4.35% year-end Fed Funds rate and a 4.89% peak for May 2023, with a pivot coming in June 2023.

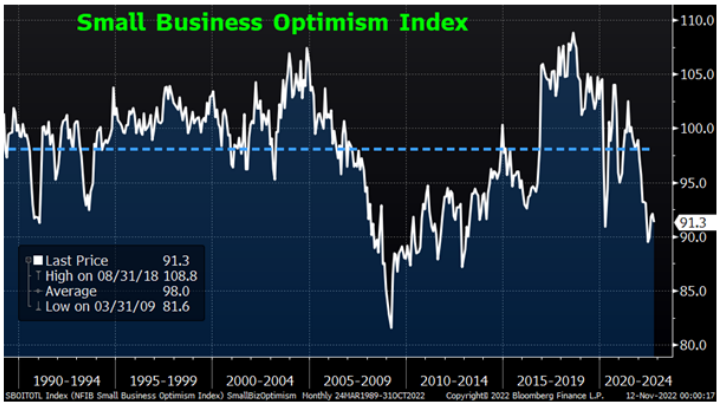


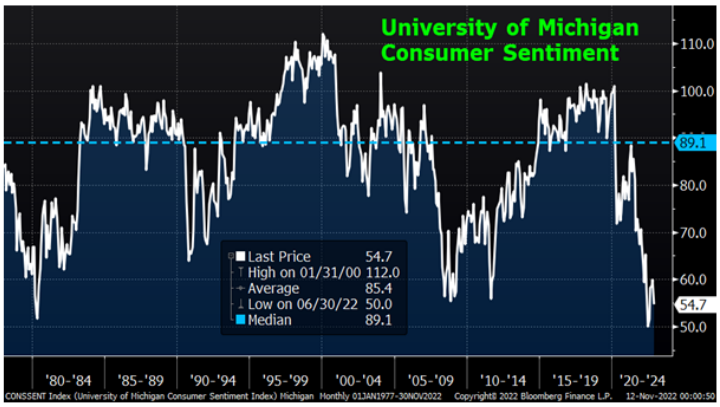


…with the expectation that Jerome H. Powell & Co. won't need to be as aggressive in their go-forward stance toward monetary policy bolstered somewhat by a pullback in sentiment on Main Street,…

THE PRUDENT SPECULATOR

MAIN STREET MORE PESSIMISTIC



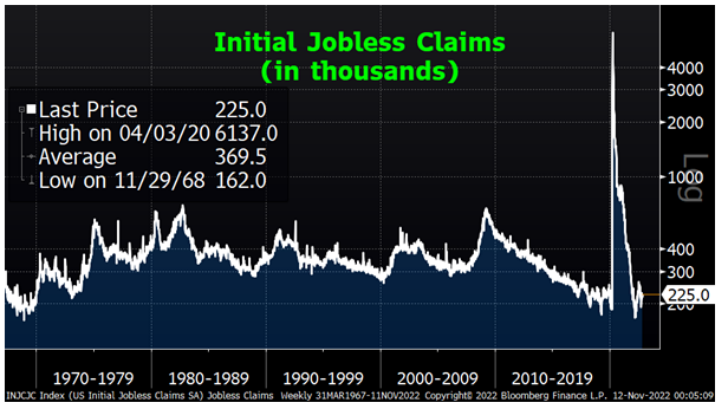


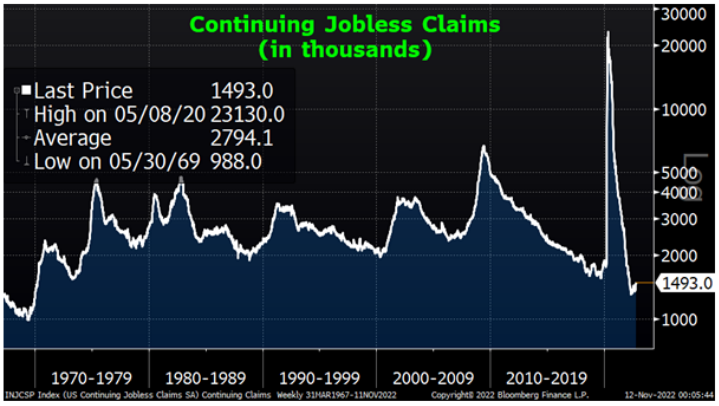
The NFIB Small Business Index for October came in as expected at 91.3, down from 92.1 in September. Business owners are very concerned about future sales growth, even as they are still looking to hire new workers. Meanwhile, the University of Michigan gauge of consumer sentiment skidded this month to a weaker-than-forecast reading of 54.7, and not too far above the all-time-low reached in June. The Michigan survey director said, "Instability in sentiment is likely to continue, a reflection of uncertainty over both global factors and the eventual outcomes of the election."

…and a modest increase in first-time jobless filings that are likely to move higher given recent layoff announcements at more than a few tech giants.

THE PRUDENT SPECULATOR

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





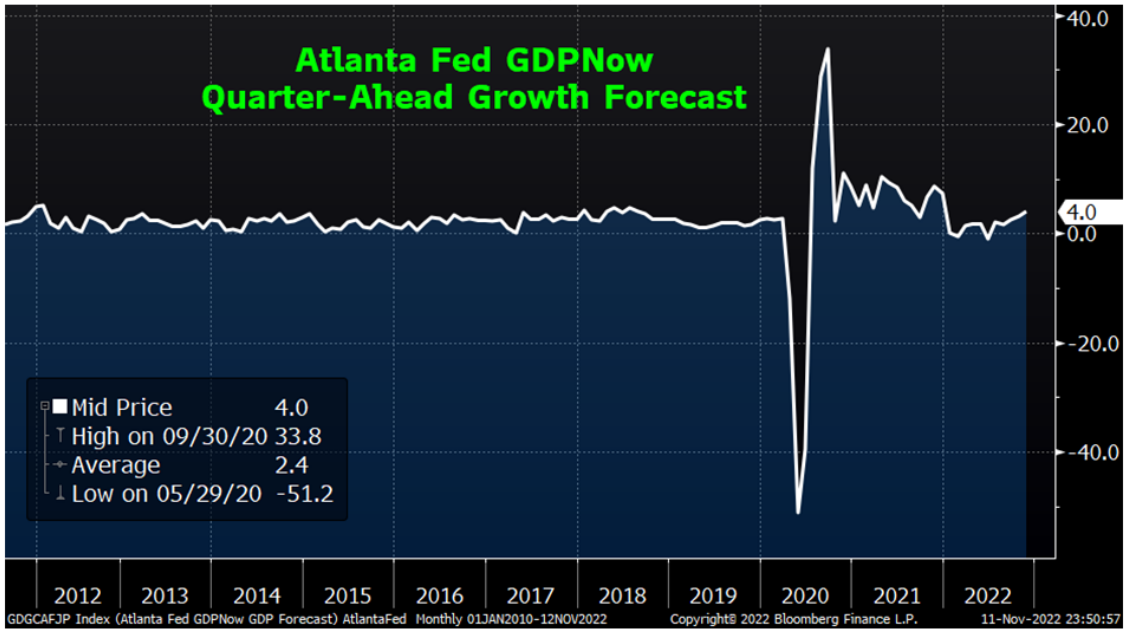
While higher than readings earlier in the year with a 1-handle, yet still coming in near the lowest levels since 1969 when the work force was much smaller, new filings for unemployment benefits for the period ended November 5 were a seasonally adjusted 225,000, up from a revised 218,000 the week prior. Continuing claims filed through state programs held steady at 1.49 million, near the lowest level since 1969 as businesses continue to hold onto workers with qualified labor difficult to obtain.

Of course, the outlook for Q4 GDP growth improved last week,…

THE PRUDENT SPECULATOR

Q4 U.S. REAL GDP GROWTH PROJECTION COMES IN AT A ROBUST 4.0%

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 9 stood at 4.0%.



…even as the odds of recession held steady at the sky-high 60% level,…

THE PRUDENT SPECULATOR

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

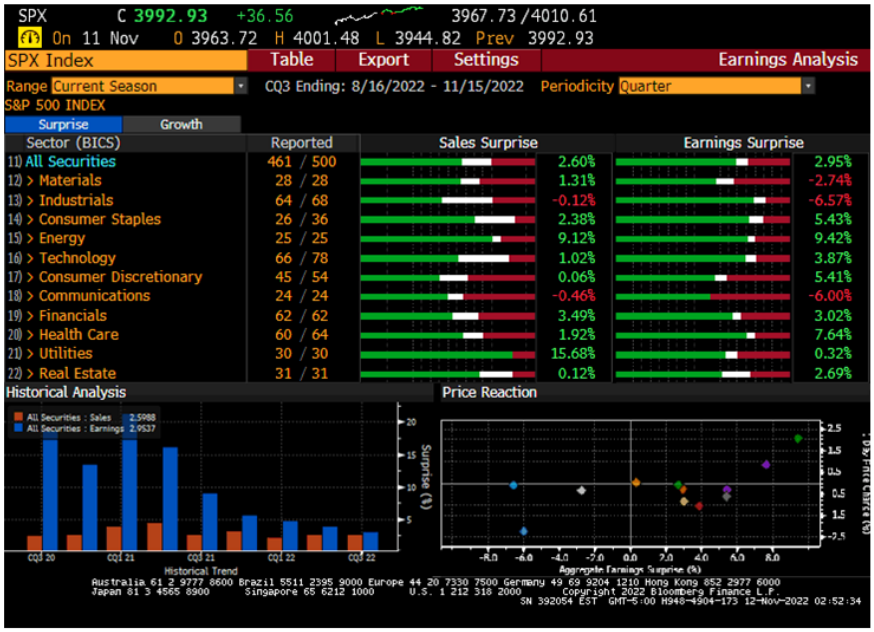
The respective 1.6% and 0.6% contractions in Q1 and Q2 2022 real (inflation-adjusted) GDP means economists could say that the U.S. economy was already in recession, but the odds of an official declaration stand today at 60%, even as the consensus forecast for GDP growth this year is 1.8% and 0.4% for 2023.

…and corporate profit projections for 2023 pulled back somewhat.

THE PRUDENT SPECULATOR

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 461 S&P 500 companies that have posted results thus far, 69.1% beat EPS expectations and 57.7% 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	$59.61	$228.93
9/30/2023	$58.49	$223.91
6/30/2023	$56.54	$216.64
3/31/2023	$54.29	$206.97
12/31/2022	$54.59	$202.04
9/30/2022	$51.22	$204.18
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 11.09.22

*****

As we have never possessed a market-timing crystal ball, we do not know which way the markets will move in the near term,…

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
				10/12/2022	11/11/2022	11.63%	BULL
Average Drop		**-18.24%**		**Average Gain**		**40.05%**	

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 set in, with the S&P falling 16.91% from its August high-water mark to its October trough, but that has reversed again over the last month. Of course, ups and downs are not unusual for equities, and we are now in the 38th advance of 10% or greater since the launch of *The Prudent Speculator* 45+ years ago. Happily, the the average gain during the periods in the green has dwarfed the average loss for times in the red.

…and we'll leave the soothsaying to others,…

BILLIONAIRE BABBLE APR/MAY 2020: ONLY PROBLEM WITH MARKET TIMING

April 9, 2020

Ray Dalio predicts a coronavirus depression: 'This is bigger than what happened in 2008'

Published Thu, Apr 9 2020-5:09 PM EDT

Tom Huddleston Jr.

April 16, 2020

Hedge fund Elliott says stocks could fall 50% from February highs

KEY POINTS

- The novel coronavirus erupted against a backdrop of record low interest rates coupled with record high leverage as markets were propped up by excessive government debt, the fund said.
- "Our gut tells us that a 50% or deeper decline from the February top might be the ultimate path of global stock markets," the letter said.

April 25, 2020

Icahn Sees Further Market Crash From Coronavirus, Says He's Shorting Commercial Real Estate

Sergei Klebnikov Forbes Staff

TOPLINE One of Wall Street's most successful investors, billionaire Carl Icahn, warned in a recent interview with Bloomberg that stocks are overvalued, and although there will be "good opportunities" to buy, he expects that the coronavirus will lead to a further market sell-off.

April 25, 2020

Jeffrey Gundlach is shorting the market, says a retest of the low 'very plausible'

PUBLISHED MON, APR 27 2020-12:49 PM EDT | UPDATED MON, APR 27 2020-7:09 PM EDT

Yun Li

KEY POINTS

- DoubleLine CEO Jeffrey Gundlach said the market could retest its March low as investors could be underestimating the social disruptions from the coronavirus.
- "I think a retest of the low is very plausible," Gundlach said. "People don't understand the magnitude of ... the social unease at least that's going to happen when ... 26 million-plus people have lost their job."
- The so-called bond king revealed he just initiated a short position against the stock market.

May 12, 2020

Legendary investor Stanley Druckenmiller says he doesn't like the way the market is set up

PUBLISHED TUE, MAY 12 2020-5:35 PM EDT | UPDATED TUE, MAY 12 2020-6:03 PM EDT

Jesse Pound

KEY POINTS

- Hedge fund manager Stanley Druckenmiller told the Economic Club of New York on Tuesday that, "the risk-reward for equity is maybe as bad as I've seen it in my career," Druckenmiller said, according to the organization's Twitter account.
- The hedge fund manager also said he thought the market was overreacting to news of progress on antiviral drugs, such as Gilead's remdesivir.
- "I don't see why anybody would change their behavior because there's a viral drug out there," he said, according the club.

May 13, 2020

David Tepper says this is the second-most overvalued stock market he's ever seen, behind only '99

PUBLISHED WED, MAY 13 2020-12:04 PM EDT | UPDATED WED, MAY 13 2020-2:09 PM EDT

Yun Li

KEY POINTS

- Appaloosa Management founder David Tepper's comments helped escalate a stock sell-off.
- The S&P 500's forward price-earnings ratio based on estimates for the next 12 months has ballooned to above 20, a level not seen since 2002.
- "The market is pretty high and the Fed has put a lot of money in here," Tepper said. "There's been different misallocation of capital in the markets. ...The market is by anybody's standard pretty tuff."
- He also said some Big Tech stocks like Amazon, Facebook and Alphabet may be "fully valued."

…but we remain of the view 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 (5.18% vs. 3.81% 10-Year), despite the jump in interest rates.

…and that our broadly diversified portfolios of what we believe to be undervalued stocks are very attractively valued.

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	12.0	12.0	0.8	2.3	2.8
ValuePlus	12.8	12.6	1.2	2.4	2.3
Dividend Income	11.8	11.9	0.7	2.1	3.2
Focused Dividend Income	13.2	13.0	1.1	2.6	2.7
Focused ValuePlus	13.1	13.1	1.3	2.7	2.6
Small-Mid Dividend Value	10.7	10.3	0.5	1.8	2.8
Russell 3000	20.9	18.5	2.1	3.7	1.6
Russell 3000 Growth	28.7	24.5	3.1	9.2	1.0
Russell 3000 Value	16.5	14.9	1.6	2.4	2.2
Russell 1000	19.9	18.2	2.2	3.9	1.6
Russell 1000 Growth	27.1	24.3	3.4	9.6	1.0
Russell 1000 Value	15.8	14.7	1.7	2.5	2.2
S&P 500 Index	19.3	18.0	2.3	4.0	1.7
S&P 500 Growth Index	23.0	21.4	4.0	7.0	1.0
S&P 500 Value Index	16.9	15.8	1.7	2.9	2.3
S&P 500 Pure Value Index	10.9	10.2	0.7	1.6	2.6

As of 11.12.22. 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.

There is never a guarantee that the past is prologue, but we offer the friendly reminder that equities have proved rewarding in the fullness of time for those who remember that the secret to success in stocks is not to get scared out of them,…

THE PRUDENT SPECULATOR

VOLATILITY IS NORMAL BUT VALUE WINS THE RACE

Selloffs, downturns, pullbacks, corrections and even Bear Markets are events that equity investors always have had to endure on their way to the best long-term performance of any of the financial asset classes.

Advancing Markets

Minimum Rise %	Average Gain	Average # Days	Count	Frequency (in Years)	Last Start	Last End
20.0%	113.4%	995	27	3.4	3/23/2020	1/3/2022
17.5%	68.2%	583	39	2.3	3/23/2020	1/3/2022
15.0%	65.7%	555	46	2.0	6/16/2022	8/16/2022
12.5%	44.7%	336	73	1.3	6/16/2022	8/16/2022
10.0%	34.8%	242	101	0.9	10/12/2022	11/11/2022
7.5%	23.6%	148	160	0.6	10/12/2022	11/11/2022
5.0%	14.7%	72	314	0.3	10/12/2022	11/11/2022

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 11.11.22. 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 we like that we are now in the seasonally favorable time of year,…

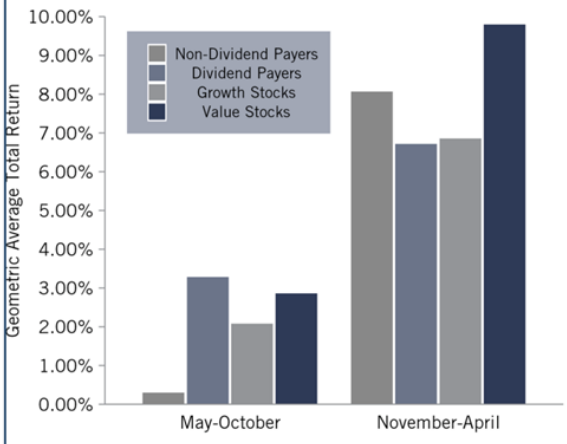
THE PRUDENT SPECULATOR

MOST WONDERFUL TIME OF THE YEAR

Given the difficult market year in 2022, we are happy that the calendar has turned to the seasonally favorable six months of the year. Indeed, the period between Halloween and May Day has seen terrific performance, on average, since 1990 and going all the way back to 1929.

SEASONALITY SINCE 1929

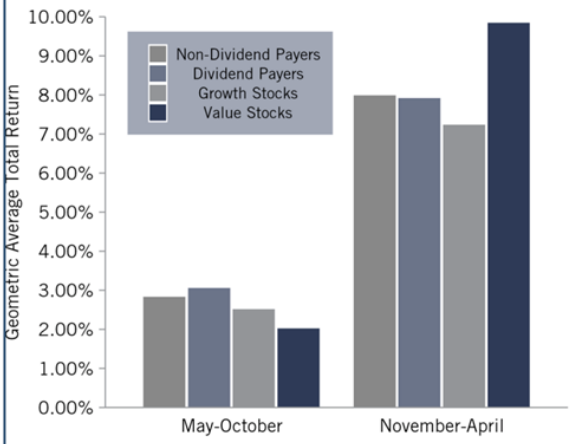
Nice to see that Value has won the performance spoils vs. Growth over the past nine-plus decades, no matter the time of year...



From 04.30.29 through 04.30.22. Geometric average. SOURCE: Kovitz Investment Group using data from Professors Eugene F. Fama and Kenneth R. French

SEASONALITY SINCE 1990

...even as Non-Dividend Payers have held a modest edge, long- and intermediate-term, over Dividend Payers from November-April.



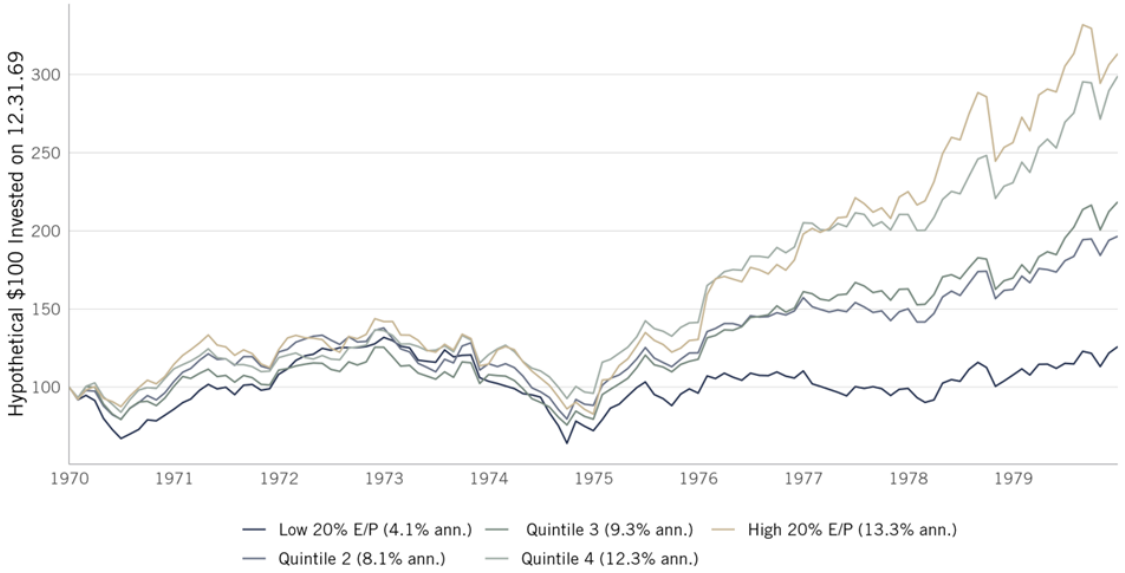
From 04.30.90 through 04.30.22. Geometric average. SOURCE: Kovitz Investment Group using data from Professors Eugene F. Fama and Kenneth R. French

..and that the kind of stocks we have long championed performed handsomely in the inflationary 1970s…

THE PRUDENT SPECULATOR

THE SEVENTIES – HIGH INFLATION & TERRIFIC EQUITY RETURNS…FOR VALUE

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



From 12.31.69 through 12.31.79. E/P is the Earnings to Price ratio. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

…and during the Volcker inflation fight of the first half of the 1980s, despite two recessions occurring in that battle.

THE PRUDENT SPECULATOR

EQUITIES CLEARLY DIDN'T MIND THE VOLCKER SHOCK

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

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

*****

Because the financial press remains hyper-focused on short-term fluctuations and we understand that 2022 has been a very disappointing year, while the equity futures were back in the red on Sunday night, we again offer longer-term perspective. After all, those who utilize even a modestly longer measuring stick will realize that Value stocks have been a terrific place in which to invest, even with this year's ugliness…

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	
12.1	**7.9**	**7.9**	**9.1**	**10.9**	**9.1**	**Russell 3000 Value**	**RAV Index**
12.4	**8.1**	**8.9**	**10.0**	**11.5**	**9.1**	**S&P 500 Value**	**SVX Index**
						Global Equities	
3.2	6.7	6.9	8.7	9.3	8.8	MSCI ACWI	MXWD Index
-1.2	1.5	1.7	4.8	4.9	7.3	MSCI ACWI excluding United States	MXWDU Index
0.8	2.0	2.4	4.7	5.8	7.0	MSCI EAFE (Europe, Australasia, Far East)	MXEA Index
9.3	5.1	5.3	5.2	8.0	6.9	MSCI Europe	MXEU Index
-8.4	-1.2	-1.0	4.5	2.2	9.0	MSCI Emerging Markets	MXEF Index
11.1	7.0	9.0	10.6	10.8	10.5	S&P/ASX 200 - Australia	AS51 Index
13.0	6.5	7.1	7.3	10.1	7.3	CAC 40 Index - France	CAC Index
3.7	2.5	1.6	3.9	7.1	8.0	Deutsche Boerse - Germany	DAX Index
-16.3	-11.0	-6.9	-0.2	1.4	6.6	Hang Seng - Hong Kong	HSI Index
3.5	1.2	9.2	13.2	6.9	12.9	Ibovespa - Brazil	IBOV Index
-1.6	4.4	0.3	-0.1	6.6	5.8	Shanghai - China	SHCOMP Index
20.4	16.6	14.5	14.6	14.2	18.1	Sensex - India	SENSEXTR Index
7.6	8.7	6.6	7.4	14.6	8.0	Nikkei 225 - Japan	NKY Index
11.0	3.5	3.6	6.2	6.4	6.9	FTSE 100 Index - United Kingdom	UKX Index
						Other Assets	
32.3	15.8	8.6	9.2	0.2	5.8	S&P GSCI Commoditles	SPGSCI Index
-7.0	10.2	9.1	15.5	-3.1	4.0	Gold & Silver Index	XAU Index
-7.5	-2.8	-0.1	0.7	0.9	3.1	Bloomberg Barclays U.S. Agg Bond	LBUSTRUU Index
-10.1	-4.6	-1.7	0.0	-0.6	2.8	Bloomberg Barclays Global Agg Bond	LEGATRUU Index
-9.0	-3.2	-0.2	0.4	0.6	NA	ICE U.S. Treasury 7 - 10 Year	IDCOT7TR Index
-5.8	-1.7	0.2	0.6	0.7	NA	ICE U.S. Treasury 3 -7 Year	IDCOT3TR Index
-2.3	-0.4	0.6	0.6	0.6	NA	ICE U.S Treasury 1 - 3 Year	IDCOT1TR Index

As of November 11, 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 downturn, the Russell 3000 Value and S&P 500 Value indexes since November 11, 2012, had gained 10.9% and 11.5% 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.

…provided they have stuck with their long-term investment plan. Alas, the evidence suggests this is easier said than done as many have jumped into and out of the market at inopportune times.

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.

Stock Updates

Keeping in mind that all stocks are rated as a "Buy" until such time as they are a "Sell," a listing of all current recommendations is available for download via the following link: https://theprudentspeculator.com/dashboard/. We also offer the reminder that any sales we make for our newsletter strategies are announced via our *Sales Alerts*.

Jason Clark, Chris Quigley and Zack Tart offer updates on several of our stocks that posted quarterly results last week or had news out worthy of mention.

Shares of **Kohl's** (KSS – $31.23) rallied more than 15% last week after the omnichannel retailer announced that embattled CEO Michelle Gass would be departing. Kohl's also released preliminary fiscal Q3 2023 data (with the full report scheduled for this coming Thursday).

Ms. Gass plans to step down as CEO and member of the Kohl's Board of Directors, effective December 2, 2022. While we think that she accomplished some solid strategic initiatives during her tenure, she looked bad and lost investor trust around the handling of a potential sale of the retailer with her public comments and management's overall disinterest in possible transactions at prices 80% to 100% higher than where the shares trade today.

The Board appointed Tom Kingsbury to serve as interim CEO until a permanent successor is named. Chair Peter Boneparth stated, “The Board is grateful for Michelle’s many contributions since she joined the company in 2013. Under her leadership, the company has driven a strategic transformation, expanded its partnerships and brand portfolio, and supported an inclusive and collaborative culture. On behalf of all Kohl’s associates, we wish her well in her next endeavor.”

Mr. Boneparth added, “Tom is highly regarded and perfectly equipped to take the role of Interim CEO, and the Board looks forward to working closely with him and the team to facilitate a smooth transition process and continue driving Kohl’s strategy.” Mr. Kingsbury has an accomplished career in senior positions at leading retailers, including President and CEO of Burlington Stores, Senior Executive Vice President of Kohl’s, and several management positions at The May Department Stores Company, including President and CEO of its Filene’s division. He is currently a Director of Tractor Supply Company, BJ’s Wholesale Club Holdings. and Big Lots.

Mr. Kingsbury stated, “I’m proud and humbled to take the Interim CEO role during such an important time for the Company. Despite a challenging economic environment, Kohl’s is well positioned for long-term success with its unique off-mall store footprint, omnichannel presence, and loyal customer base. The Board and I are committed to the continued refresh and innovation strategy Kohl’s has begun, the cornerstone of which is the terrific partnership we have with Sephora. I firmly believe in the long-term potential of this company, our associates and our ability to deliver value for shareholders.”

Kohl’s provided preliminary unaudited results for Q3, anticipating that comparable store sales decreased 6.9% and net sales decreased 7.2% as compared to the third quarter of the prior year, while operating margins came in at 4.7% and adjusted EPS at $0.82. That bottom-line tally is above the expected $0.75.

For all its warts, the company continues to generate sufficient cash flow to support the dividend (the yield is 6.4%), while the balance sheet is in decent shape with a $500 million share repurchase program underway. There is also reason to think Kohl’s growing partnership with makeup brand Sephora will prove fruitful, and the company sits on valuable real estate that is attracting institutional investor interest. Earnings have been very volatile, but KSS now trades for a forward P/E ratio of less than 10. Our Target Price is $52.

Shares of biotech giant **Amgen** (AMGN – $285.02) rallied 6% last week on positive data from a trial for its Obesity drug (AMG 133). In the phase 1 study, which included three doses, four weeks apart, the low dose showed a mean reduction in body weight of 7.19% by day 85, and the high dose a reduction of 14.52%, compared to a 1.49% drop for placebo. Amgen says it will present additional data in December at the World Congress on Insulin Resistance, Diabetes and Cardiovascular Disease, as it plans to rapidly start a phase 2 trial.

Management also recently increased its fiscal 2022 EPS and revenue guidance. It now expects between $17.25 and $17.85 of EPS and revenue between $26.0 billion to $26.3 billion.

AMGN has been on a tear this year, with shares up nearly 27% year-to-date. The latest win for the Obesity medication is one of several bits of good news to break of late, noting data from September regarding its lung-cancer pill (Lumakras) that beat out chemotherapy, the current treatment. Amgen is racing to fend off competition for leading drug Enbrel expected in the next one to two years, while newer osteoporosis drug Evenity and asthma drug Tezspire should support modest revenue growth until the pipeline bears additional fruit. Amgen shares trade for 15 times EPS expected this year and next, while the dividend yield is 2.7%. Our Target Price has been raised to $312.

Medical device maker **Medtronic PLC** (MDT – $83.55) suffered the opposite fate as its Renal Denervation Procedure (RDN), which is designed to reduce hypertension, failed to meet its primary endpoint (with a 51% probability of superiority for the RDN group versus those who received a sham control procedure).

Medtronic said the study did meet the prespecified secondary endpoint and primary safety endpoint, however, as it presented data at the American Heart Association scientific sessions. Despite the results, the firm said it has submitted a premarket approval package to the U.S. FDA for review and approval of the product.

Unlike many of our healthcare holdings, it's been a tough 12 months for MDT shares (now down nearly 30% over the period), as supply-chain issues continue to be a major headwind and overall procedure volumes remain soft due to COVID-19 restrictions in markets like China where rolling lockdowns have taken a toll. Despite the bumps in the road, we remain patient while MDT takes measures to sort through regulatory and supply chain hurdles, the latter including co-location of employees with suppliers and sourcing materials from sub-tier suppliers to remove middlemen.

We continue to think Medtronic's competitive position is intact, and given the slide shares now trade in line with a market multiple for a company that has historically held roughly 50% market share in its core heart device business. It is also the leader in spinal products, insulin pumps, and neuromodulators for chronic pain. At the time of the latest earnings release, management continued to project organic top-line growth between 4% and 5% and adjusted EPS in the range of $5.53 to $5.65. The dividend yield is 3.3% and our Target Price for MDT is $131.

HF Sinclair (DINO – $62.05) earned $4.58 per share (vs. $4.21 est.) in Q3, another fantastic performance for the mid-continent refiner. With record throughput, DINO generated a 65% increase in gasoline and distillate sales volumes as the industry continues to benefit from wide margins (particularly in the latter), while inventory remains tight. The relatively new renewable segment continued to drag on results with losses (albeit less than in Q2) as the company works through startup kinks related to new facilities. Management expects to approach renewable profitability in the quarters ahead as it pushes higher volume to cover fixed costs and as increasing reliability allows for the use of lower-cost feedstock. Following the closure of its merger with Sinclair, the firm is focused on growing its DINO brand, adding 29 branded marketing sites in the quarter.

Chief Operating Officer Timothy Go spoke to the demand/supply dynamics in the market, "We definitely see a better for longer scenario here where we think refining margins will continue to deliver above mid-cycle returns, here for the foreseeable future. We're on a structurally short market. We continued to see that which were refinery rationalizations that have occurred over the last couple of years, the Russia-Ukraine conflict that is causing trade flow disruptions. As you look forward, it's hard to see that changing significantly in the near term. We know that there's going to be some additional start-up of some refining capacity next year, think the [Exxon's] Beaumont refinery, [Cenovus] the Superior refinery, you're going to be starting up, but we also know that the Lyondell refinery has announced that it's going to close, the Rodeo refineries announced that they're going to close. So, we think that there is the structural shortage is going to continue for quite some time. Really until you get into 2024, when you start seeing the Mexico and Nigeria refinery start-up, we don't really see a big change in the overall supply-demand. We had a whole energy transition theme that is — I know it's gotten a lot of attention over the last several years. It's really proving out to be more of a longer-term evolution, right? With the high inflation that we're seeing right now, only going to slow down continued investments in-kind of green technology and so we see that the demand for our products are going to continue to be strong and our refineries are producing as much as they can right now and still having trouble keeping inventories for so, I mean, look, long-story-short, we think that refining market is going to be a strong year for the foreseeable future."

Since the closing of the Sinclair acquisition on March 14, 2022, DINO has returned over $1.1 billion back to shareholders, ahead of management's initial target of $1 billion by the end Q1 2023. Management reiterated its intention of returning at least 50% of free cash flow in the form of buybacks and dividends, which is supported by the announcement of a new $1 billion share repurchase authorization in September. The company suggested the mix of capital returns is to be determined, but we wouldn't be surprised to see a significant bump in the dividend (the yield is currently 2.6%) next February given the new cash generating potential of the combined entity.

It doesn't hurt to have a bit of luck, but the purchase of Sinclair assets, along with the Puget Sound refinery, could seemingly not have come at a better time given the state of global energy markets. We continue to think a lot of management and even as we acknowledge that refining profits tend to be cyclical shares are not egregiously priced (trading for nearly 10 times the 2025 profit estimate) despite the nearly 90% rally over the past year. We are mindful of the expanding weight in our portfolios, but our Target Price has been bumped to $76.

Crop nutrient provider **Mosaic** (MOS – $52.79 earned an adjusted $3.22 per share (vs. $3.41 est.) in Q3, more than double the $1.35 from a year ago. Sales grew 56% year-over-year to $5.35 billion (vs. $5.79 billion est.), bolstered by strong growth in Potash volumes, up 17% year-over-year.

CEO Joc O'Rourke echoed the sentiment offered by leadership at other major crop nutrient players recently, "Food security remains a concern around the world…It is important to remember that the market was tight when the year began, well before the start of the war, and issues over the last several months have further exacerbated the situation. Ukraine's production shortfall is significant, but weather issues like high temperatures and drought conditions in other major growing regions are having an even bigger impact on an already tight market…Because of

this, we see a tight market for global grains and oilseeds continuing into 2023 and beyond. The global fertilizer market remains tight with supply constraints in both potash and phosphate still unresolved… To summarize, the strength of crop prices and more affordable fertilizer prices suggest nutrient demand will recover from the summer lull we experienced during the third quarter. Given the constructive ag backdrop, we believe our business is well positioned to benefit."

Given the current period of abundance, Mosaic remains focused on returning capital to shareholders, shelling out roughly $670 million in the latest quarter, including $600 million of share buybacks. The effort has dropped outstanding shares from approximately 380 million shares to 340 million shares over the past 12 months. Management also intends to spend more than $200 million over the next few years to upgrade its core systems. It expects the effort to result in a payback period of 2-3 years as the upgrades allow for more seamless integration across sales, production, supply chain and global support functions.

It is hard for us to expect the tightness that characterizes global ag markets to alleviate overnight, but we acknowledge that both fertilizer and crop prices can be extremely volatile in either direction. As shares remain a third below their annual high in mid-April, we are pleased with our decision to trim our MOS position earlier in the year, but with the forward P/E ratio at just 5 times the 2023 EPS estimate we like management's decision to buy shares hand over fist. Comfortable with our exposure at present, our Target Price now resides at $85.

Deutsche Post AG (DPSGY – $41.18) shares soared 15% last week, even as the shipper reported bottom-line Q3 results that slightly trailed expectations. In the third quarter, DPSGY earned $1.02 per share (vs. $1.03 est.) and had $24.2 billion of revenue (vs. $22.6 billion est.). Management hiked the full-year adjusted EBIT target by 400 million euros to 8.4 billion euros and lowered the expected tax rate to 28% to 29%. DPSGY is targeting 2024 adjusted EBIT around 8.5 billion euros. Deutsche Post has benefitted from a return of demand in the Business-to-Consumer, Express and eCommerce Solutions segments. Declining air freight and ocean volumes presented challenges, while fuel surcharges have blunted some of the impact from rising transportation costs.

CEO Frank Appel said, "We are very happy that we have seen in the third quarter again profitability for the Group more than EUR2 billion and a lift up year-over-year despite that Q3 last year was already very strong. I'm particularly happy about the free cash flow performance, which is even stronger than our preliminary announcement. So that's very good, 45% up year-over-year. I think that shows that we really are focused on free cash flow generation."

He concluded, "Overall, we are confident that we can keep a very high level. Even if now, the next quarters will become more challenging, but still if you compare that before, in comparison to the pre-COVID level, we believe that we can keep a significantly higher level than before COVID despite (inaudible) we face."

Shippers, especially those tilted to express volume, have had a challenging year. High fuel costs and lower volumes have been strong headwinds, even as consumer spending remained robust in the first three quarters of the year. Deutsche Post holds nearly 7 billion euros of debt on its

balance sheet, but the weighted average coupon is 1.2% and weighted average maturity is in 2027, which provides some breathing room for the European macroeconomic environment to stabilize. The American Deposit Receipt offers a net dividend yield of 3.3% and our Target Price is $71.

Lumentum (LITE – $57.73) reported a soft outlook, despite announcing a solid fiscal Q1 2023, which sent shares down more than 19% last week. A leading manufacturer of optical products and lasers, LITE earned an impressive adjusted $1.69 per share (vs. $1.56 est.) on record revenue of $507 million (vs. $504 million est.). Lumentum expects weaker-than-expected fiscal Q2 2023 revenue between $490 million and $520 million and an EPS range between $1.20 and $1.45, which trailed the $1.61 consensus estimate. The guidance miss led to an analyst downgrade and several target price whacks.

CEO Alan Lowe commented, "In fiscal Q1, compared to the same quarter last year, we delivered $136 million of incremental revenue in Telecom, a 79% increase, which includes two months of revenue from our recent acquisitions. Organically, we grew Telecom 38% year-over-year. Over the years, we have built a foundation of customer trust, as our differentiated solutions have been proven within network architectures. Also Lumentum's revenue exposure to infrastructure markets through our Communications and Commercial Lasers product lines has never been stronger. We expect that greater than 85% of company-wide revenue will come from infrastructure markets outside of consumer in fiscal '23. This is due to the share normalization and consumer discussed on previous calls and recent strategic investments."

Mr. Lowe continued, "Last quarter, we gave a full-year financial outlook to help the investment community model our fiscal '23 business. Since then, there have been several developments in the supply and demand landscapes. In Telecom, I see supply shortages are not improving, as quickly as previously anticipated. We now expect these shortages to gate our revenue throughout fiscal '23. In addition, like many others, we are now seeing incrementally lower cloud and consumer end market demand from our customers."

CFO Wajid Ali offered some color on the 2023 outlook, "We continue to experience IC supply shortages, which are not improving as quickly as previously anticipated, and are now expected to gate our revenue throughout fiscal '23. In addition, like many others, we now expect lower cloud and consumer end market driven demand from our customers. Based on these factors, our new revenue outlook is $1.9 billion to $2.05 billion. At the midpoint, this is a reduction of approximately 9% from our August outlook, and still is greater than 15% growth from fiscal '22. Our fiscal '23 operating margin outlook is in the range of 19% to 22%, and annual EPS is in the range of $4.65 to $5.65 per share. The delay in the improvement of the supply of a small number of ICs is the largest factor within our lower fiscal '23 outlook. Within this outlook, we are reducing spending in discretionary areas, while increasing our R&D investments in growth initiatives, both in existing markets and new markets. As we execute on acquisition synergies and work down shortages in IC supply, and we begin to realize the benefits from the accelerated R&D investments. We expect to return to our target financial model of 50% gross margin, and 30% operating margin in the longer term."

Record backlogs in fiber and an "unrelenting need for bandwidth" would seem to be positive longer-term dynamics, even if supply chain constraints put a near-term damper on output. Still, it was disappointing to learn that supply shortages are not expected to improve as quickly as previously expected, especially when other companies in the Tech space are seeing some level of normal operations. Lower cloud and consumer demand is not unexpected given the growing economic uncertainty, and we are pleased that infrastructure spending (which is usually harder to earn but longer to last) is making up for it. We appreciate that LITE plans to accelerate R&D spend again once supply constraints ease. Shares trade for just 10 times forward earnings and our Target Price resides at $133.

Gen Digital (GEN – $22.94), formerly NortonLifeLock (NLOK), reported fiscal Q2 2023 earnings of $0.45 (vs. $0.45 est.) and had revenue of $748 million (vs. $722 million est.). The cyber-security concern said the name change reflects the company's focus on all generations, and the family of brands includes: Norton, Avast, LifeLock, Avira, AVG, Reputation Defender and CCleaner. The second quarter was GEN's 13th consecutive with bookings growth, which grew 11% and were propelled by cross-selling and key-partner revenue.

CEO Vincent Pilette said, "As we look to the future, the currents and potentially a recessionary economy thus put downward pressure on some part of our business, but we also see this as an opportunity and a catalyst for us. I am confident, with our high recurring revenue model coupled with our operational discipline that our business will remain durable and flexible to navigate the short-term challenging environment. At the end, we know that the need for comprehensive cyber safety and digital freedom is a secular growth trend, and we are the leader."

CFO Natalie Derse offered details on the outlook, "We have high confidence in our cash flow generation, which will continue to grow with profitability. Year-to-date we have returned over $550 million back to shareholders in the form of both buybacks and dividends. We deployed a total of $404 million toward share repurchases or over 17 million shares in the first half of this fiscal year and have approximately $1.4 billion remaining in our current buyback program… For Q3, we expect non-GAAP revenue in the range of $925 million to $940 million, which reflects the first full quarter of contribution from Avast and reflect cyber safety mid-single digit bookings growth. This also includes approximately $40 million of headwinds from FX. We expect Q3 non-GAAP EPS to be in the range of $0.42 to $0.45 per share, this reflects the first quarter diluted impact from Avast but please note, we expect Avast to be accretive in the first 12 months."

The outlook wasn't enough to win over analysts at Morgan Stanley, who wrote GEN is "too cheap to sell, too early to buy." Of course, we would argue that the hardest part of market timing is getting the timing right. While GEN has held up well this year relative to other Tech stocks, the 10% price whack and growing earnings suggest the stock is still on sale. EPS for 2022 was $1.75 and analysts expect that figure to grow to $2.35 by fiscal 2025, and we expect the company's acquisitions and integrations will bring additional benefits. Our Target Price for GEN is $35.

Shares of **Walt Disney** (DIS – $95.01) fell after the entertainment giant's Q4 2022 earnings and revenue report came up short of expectations. DIS earned $0.30 per share (vs. $0.50 est.) and had

revenue totaling $20.2 billion (vs. $21.3 billion est.). Disney+ grew 39% year-over-year to 164.2 million subscribers and ESPN+ grew 42% year-over-year to 24.3 million subscribers. Analysts were expecting the Parks segment to earn $1.9 billion, making the $1.51 billion revenue figure a disappointment, even as closures of the Shanghai park were outside of Disney's control.

CEO Bob Chapek said, "Fiscal 2022 was a strong year for our company as we continued our journey of telling incredible Disney stories, utilizing groundbreaking technology in order to further develop our brands and franchises while customizing and personalizing experiences to make magical memories that last a lifetime. Those efforts resulted in truly phenomenal storytelling, record annual results at our Parks, Experiences and Products segment, and outstanding growth at our Direct-to-Consumer services, which added nearly 57 million subscriptions this year to reach a total of more than 235 million.. 2022 was an important year of recovery coming out of the pandemic as we made foundational investments in our long-term success. As we celebrate the 3-year anniversary of Disney+ this week, I can't help but reflect upon how our commitment to and substantial investment in our DTC business has helped create the world's most powerful suite of streaming services with the ability to reach hundreds of millions of viewers around the world with must-see content. Services, which aren't just content delivery systems, but platforms that bring us closer to audiences than ever before and enable consumers to access more of The Walt Disney Company's total offering. With our unmatched brands and franchises, robust pipeline of content capable of filling all of our distribution channels, unique experiences and strong connections to audiences around the world, I believe we are well positioned for future long-term growth, and I'm confident in the path forward."

CFO Christine McCarthy added, "Looking towards fiscal 2023, while we continue to monitor our booking trends for any macroeconomic impacts, we are still seeing robust demand at our domestic parks and are anticipating a strong holiday season in Q1. Disney Cruise Line was also a meaningful contributor to the year-over-year increase in domestic parks and experiences' operating income in Q4, reflecting the successful launch of the Disney Wish in July and continued recovery of the existing fleet coming out of the pandemic…assuming we do not see a meaningful shift in the macroeconomic climate, we currently expect total company's fiscal 2023 revenue and segment operating income to both grow at a high single-digit percentage rate versus fiscal 2022. We are confident about the opportunities we see to continue to transform our business for the next 100 years and look forward to sharing our progress with you all throughout 2023."

While fiscal Q4 left a lot to be desired in terms of earnings and revenue, the company continued to grow its digital services franchise. Despite the more than 160 million global Disney+ subscribers, DIS is still working to find the balance between direct-to-consumer and other methods of release, including movie theaters. Mr. Chapek expects Disney+ to "achieve profitability" next fiscal year and the company's content calendar appears stacked with releases that are likely to achieve attention and eyeballs. While DIS has been fairly volatile since the pandemic began, a logarithmic price chart shows the company's trajectory has very much been unbothered by otherwise-major macroeconomic factors.

Beyond the newer digital-oriented business lines, the company's Parks segment continues to attract throngs of visitors paying high prices, while add-ons separate the initial ticket purchase

from the extras (in the same way airline bag fees and snack prices are disconnected from the fare price). In addition, the theme parks generally operate below capacity, offering DIS management the option of increasing visitor limits if there's an economic need to trim prices. Shanghai Disney Resort continues to experience restrictions related to China's zero-COVID policy, so we expect to see higher visitor counts there if the government's policy is relaxed.

We appreciate the longevity of Disney's content compared to peers in the film space and like the company's continued focus on content generation, which includes a healthy mix of completely new content and reach-backs into the deep intellectual property library. DIS is expected to grow annual EPS from the current $3.53 to a figure around $6.75 per share in fiscal 2025. Our Target Price has been cut to $151, but we consider Disney to be a cornerstone in our broadly diversified portfolios.

Shares of **Honda Motor** (HMC – $23.98) gained modest ground last week as the Japanese vehicle maker reported that it earned $0.80 per share in fiscal Q2, modestly below projections ($0.83) on $30.8 billion of sales, which topped estimates ($27.6 billion). The company did give a hike to operating profit guidance for the full year but the update was shy of the average analyst estimate. Motorcycles remain the driver of operating income, with operating profit growing 50% year-over-year for the segment.

We continue to like the cash-rich balance sheet and 2.9% dividend yield, even as a significantly stronger dollar has affected the payout. Shares have held up reasonably well this year, even with a CEO change. The company is behind most global competitors in its Electric Vehicle offering but is now working to speed up the electrification of its motorcycle division. Honda raised its target for electric motorcycles to be in the 60% to 70% range of overall sales by 2030 (previously 30%-40%) and is partnering with LG to build a battery plant for its U.S.-market vehicles. While our position in HMC is relatively small and we have debated consolidating into other undervalued stocks, for the time being we are content to hold our shares for a revised Target Price of $31.

Multinational financial services titan **Allianz SE** (ALIZY – $20.84) posted GAAP+ EPS of $0.61 for Q3 2022, ahead of the $0.52 estimate. For the first three quarters, ALIZY is tracking 3% ahead of last year on operating profit (10.2 billion euros) thanks to the Property and Casualty segment. The combined ratio in P&C was flat year-over-year and new business in the Life segment has been at a higher margin than existing business.

CFO Giulio Terzariol explained, "In summary, we had strong performance in Q3, but I will say also we had a strong performance throughout the year. Based on the performance that we see; we have revised our outlook to be in the upper half of the target range. And with the buyback that we announced today EUR1 billion we are basically at EUR2 billion for the year, combined with a EUR4.5 billion of dividend that we paid in May, we have EUR6.5 billion. And speaking about capital deployment, we also did some small acquisition in the first part of the year, like we bought some book of business in Asia, we also completed now the acquisition in Greece. So overall, we are speaking of capital deployment, both on good, healthy remittances, but also, we continue to invest in our business moving forward."

Allianz reiterated its expectation to achieve operating profit for 2022 in the neighborhood of 13.4 billion euros, plus or minus 1 billion euros. Management is working hard to improve operating ratios, minimize losses and grow the insurance business, while battling rising rates and high inflation. Shares have held up as well as the S&P 500 Financials sector index (and better than the broader S&P 500) and continue to look attractive from a valuation standpoint, while boasting a net dividend yield of 3.8%. Our Target Price for ALIZY is $25.

Power systems provider **EnerSys** (ENS – $77.54) posted adjusted EPS of $1.11 in fiscal Q2. Revenue grew 14% year-over-year to 899 million. Exchange rates again reduced the company's accounting profit, even as ENS reported volume growth in all of its business segments. Inflation and supply constraints continue to affect operating margins, which actually improved due to favorable price mix. Management explained costs have risen by about $100 million between Q2 2021 and Q2 2023, but the company expects Q3 EPS between $1.20 and $1.30 with a gross margin between 21% and 23%.

CEO David Shaffer said, "While we continue to monitor the supply chain environment and commodity markets, we are cautiously optimistic that our second quarter results represent a turning point with costs starting to plateau and signs of supply chain constraints easing. Customer demand for our products remains strong with secular trends in our diverse set of end markets providing support in a variety of economic environment scenarios."

He concluded, "Our top near-term priorities are to increase productivity at our Missouri plants, execute our inventory reduction initiatives and remain diligent in mitigating supply chain and inflationary pressures. As we have firm last quarter, our long-term strategic initiatives remain unchanged and we've made significant progress against them, despite this highly disruptive period."

We think EnerSys sits at a cross section of megatrends, such as 5G, the electrification of mobility and grid modernization, which offer a terrific runway for growth, and we like that the company continues to pursue new applications and technology. Even as ENS continues to battle widespread macroeconomic headwinds, the company continues to grow its revenue, which totaled $3.36 billion in 2022 and is expected to surpass $4 billion by 2025. Management has been quick to hike prices in response to rising costs, which hasn't seemed to impact demand in any meaningful way. After soaring nearly 17% following the Q3 report, shares are now almost flat for the year, and we think lots remains to be excited about. The dividend yield is modest at 0.9%, but we continue to think that significant capital gains potential exists for a reasonable price. Our Target Price has been hiked to $124.

Tapestry (TPR – $35.37) announced before the market open on Thursday that it earned $0.79 per share in fiscal Q1 on $1.51 billion of sales (vs. $1.5 billion est.), with the bottom line slightly ahead of estimates. Shares of the designer of clothing, footwear and accessories initially headed south on the report as management also guided for lower revenue. However, they reversed course throughout the trading day amidst a broader market rally that continued on Friday, with the stock ending the week up 9%. The revision to revenue was mostly due to a headwind from foreign exchange, with the projection for fiscal 2023 now between $6.5 billion and $6.6 billion, down from about $6.9 billion previously.

CEO Joanne Crevoiserat said, "Our results exceeded expectations despite the more challenging backdrop, demonstrating the strength of our iconic brands, the agility of our operating model, and the consistent execution of our global teams…We powered global growth, delivering record first quarter revenue. These results were led by double-digit constant currency growth in international markets, which we achieved despite COVID related headwinds in China with pressure fully offset by outsized gains in the rest of Asia and Europe. In North America, sales grew slightly amid an increasingly difficult consumer backdrop. Overall, we achieved our top-line expectations, highlighting the benefits of our globally diversified brands and business."

Coach continues to pull the lion's share of the weight, but we also like the potential of Tapestry's other brands. Even as Ms. Crevoiserat & Co. continue to produce solid results, the share price has fallen 20% over the last 12 months, so management efforts to repurchase stock should be all the better at current levels. Indeed, the company maintained its expectation to return approximately $1.0 billion to shareholders in the fiscal year. Shares appear to be a bargain to us, trading for less than 10 times the 2023 EPS projection with the figure falling to around 7 in 2025. Sweetening the proposition is the 3.4% dividend yield. Our Target Price for TPR now stands at $62.

Shares of **WestRock** (WRK – $37.66) jumped almost 9% last week as the maker of corrugated packaging reported fiscal Q4 results that were a bit below expectations, and the U.S. equity markets rallied sharply. For the recently completed quarter, WRK said adjusted EPS came in at $1.43, versus the consensus analyst estimate of $1.44. Revenue of $5.40 billion slightly trailed the average analyst forecast of $5.48 billion. Revenue was 6.1% better than the same period a year ago, while adjusted EPS came in more than 16% greater on a year-over-year basis.

"WestRock delivered record net sales of $21.3 billion in fiscal 2022 and continued our track record of strong operating cash flow by generating more than $2 billion in the same period," said CEO David Sewell. "Our team remains relentlessly focused on partnering with our customers to help them meet their needs for sustainable paper and packaging solutions as we deliver on our overall transformation initiatives."

As for the outlook, Mr. Sewell said, "Looking ahead to fiscal 2023, we will continue to strengthen our business as we drive innovation across our portfolio. While market conditions remain uncertain as our customers work through the current high inventory levels, WestRock's ability to serve a variety of end markets with our diverse portfolio provides resiliency that will serve us well. We remain confident that our business model, scale and ongoing transformation initiatives will continue to drive long-term shareholder value."

After slashing its dividend during the early part of the pandemic, a rebound in sales has allowed WRK to resume more generous payments, including a recent 10% hike, leaving the current yield at 2.9%. While an economic slowdown in many parts of the world might be a near-term wet blanket on aggregate demand, we think WRK produces important products that aren't easily replaced, and that the firm will be a beneficiary of long-term e-commerce tailwinds (via shipping boxes). The stock is very inexpensive, trading for a forward P/E ratio of less than 9. Our Target Price for WRK is now $66.