Market Commentary Monday, December 12, 2022

December 12, 2022

EXECUTIVE SUMMARY

Newsletter Trades – 5 Buys for 3 Accounts
Week in Review – Big Pullback, Especially for Smaller Stocks
Calendar – Seasonally Favorable Period
Economy – Plenty of Recession Talk, Yet Solid Econ Stats Last Week
Fact vs. Fiction – Just Because it is in Print Doesn't Mean it is True
Volatility – Keeping the Faith Through Thick and Thin
Valuations – Reasonable Equity Multiples
Stock News – Updates on AVGO, BAC, PNC, COF & SNY

Market Review

As discussed in the December edition of *The Prudent Speculator*, on Tuesday, December 6, we bought the following for Buckingham Portfolio:

95 **Meta Platforms** (META – $115.90) at $114.8776
29 **Pinnacle West Capital** (PNW – $77.50) at $77.915

That same day, we also added the following to our two hypothetical portfolios:

Millennium Portfolio
139 **Deutsche Post** (DPSGY – $40.11) at $40.71
96 **ManpowerGroup** (MAN – $85.39) at $87.45

PruFolio
997 **Physicians Realty** (DOC – $14.89) at $15.06

*****
Once again, we were reminded last week that short-term downside volatility is always part of the investment landscape,…

THE PRUDENT SPECULATOR

MARKET OF STOCKS – INDEXES CAN HAVE WIDE DISPERSION IN RETURNS

With proclamations from Jerome H. Powell and his colleagues at the Federal Reserve still the main catalyst, stocks and bonds have been very volatile, with the not-so-good kind of volatility happening last week, pushing the Nasdaq Composite index down 29.1% and the U.S. Aggregate Bond index down 11.8% on the year. There are no awards for the losses on Value in 2022, but inexpensive stocks have held up better, which is in keeping with the historical evidence when inflation is high, when the Fed is tightening and when interest rates are moving up.

Total Returns Matrix

2000	2001		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	-2.74	17.15	-5.95	-4.40	31.91	90.42	27.67	53.44	Dow Jones Industrial Average	INDU Index
1.01	-10.21		-2.99	14.03	-8.70	-6.48	29.43	86.19	21.46	37.48	New York Stock Exchange Composite	NYA Index
-39.18	-20.81		-3.98	4.26	-29.09	-28.48	2.56	63.92	30.91	68.69	Nasdaq Composite Index	CCMP Index
-22.43	-9.23		-5.44	5.84	-25.15	-24.72	-0.99	60.22	5.99	22.54	Russell 2000 Growth	RU20GRTR Index
22.83	14.02		-4.67	10.72	-12.66	-11.02	44.24	110.53	20.49	25.72	Russell 2000 Value	RU20VATR Index
-3.02	2.49		-5.06	8.23	-18.94	-17.95	19.77	85.26	14.48	26.01	Russell 2000	RU20INTR Index
-11.75	-20.15		-4.20	9.61	-24.87	-23.98	0.68	66.97	17.47	49.22	Russell Midcap Growth Index Total Return	RUMCGRTR Index
19.18	2.33		-3.68	12.07	-10.74	-8.45	36.68	108.92	23.62	35.26	Russell Midcap Value Index Total Return	RUMCVATR Index
8.25	-5.62		-3.87	11.19	-15.80	-14.05	22.99	94.92	24.02	44.70	Russell Midcap Index Total Return	RUMCINTR Index
-22.42	-19.63		-3.74	6.48	-26.08	-25.18	7.99	73.28	33.09	72.51	Russell 3000 Growth	RU30GRTR Index
8.04	-4.33		-3.42	12.94	-7.36	-4.70	37.56	92.28	22.55	39.35	Russell 3000 Value	RU30VATR Index
-7.46	-11.46		-3.58	9.66	-17.34	-15.69	21.75	83.68	29.37	57.38	Russell 3000	RU30INTR Index
9.64	-0.39		-3.32	13.32	-10.11	-7.53	38.88	110.00	35.24	58.38	S&P 500 Equal Weighted	SPXEWTR Index
-9.10	-11.89		-3.35	10.12	-16.17	-14.33	24.31	83.62	31.74	62.09	S&P 500	SPXT Index
-22.08	-12.73		-3.81	5.43	-26.63	-25.71	10.59	73.07	33.47	70.55	S&P 500 Growth	SPTRSGX Index
6.08	-11.71		-2.94	14.54	-4.43	-1.23	39.45	89.63	24.59	47.04	S&P 500 Value	SPTRSVX Index
3.18	1.57		-0.07	5.87	-15.19	-15.40	-16.61	-9.12	-11.31	-6.09	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index
11.63	8.44		-0.44	3.25	-11.84	-11.72	-12.22	-7.64	-6.63	1.66	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index

As of 12.09.22. Source Kovitz using data from Bloomberg

…even as equities have proven to be a very rewarding asset class over the long haul.

THE PRUDENT SPECULATOR

VOLATILITY IS NORMAL BUT VALUE, DIVIDENDS & SMALL CAPS WIN THE RACE

Rare are sizable one-week plunges of 5% or greater for the Russell 2000, but the small-cap gauge skidded 5.08% on a total-return basis over the last five trading days, the 75th worst weekly showing since the index was established at the end of 1978. Of course, there have also been 70 weeks with gains of similar magnitude, while nine decades of data show that small-company stocks have enjoyed handsome long-term returns.

	1970's	1980's	1990's	2000's	2010's	2020's	Totals
Years Ending in 0		0	0	5	4	9	18
Years Ending in 1		1	2	1	6	4	14
Years Ending in 2		4	0	1	0	4	9
Years Ending in 3		0	0	3	1		4
Years Ending in 4		1	0	2	0		3
Years Ending in 5		0	0	0	0		0
Years Ending in 6		0	0	0	2		2
Years Ending in 7		2	1	0	0		3
Years Ending in 8		0	3	3	0		6
Years Ending in 9	1	0	0	10	0		11
Totals	1	8	6	25	13	17	70

From 12.31.78 through 12.09.22. Weeks of index price increases of greater than or equal to 5.08%. SOURCE: Kovitz using data from Bloomberg

	1970's	1980's	1990's	2000's	2010's	2020's	Totals
Years Ending in 0		3	3	6	4	7	23
Years Ending in 1		1	0	3	5	1	10
Years Ending in 2		0	0	3	1	4	8
Years Ending in 3		0	0	1	0		1
Years Ending in 4		0	1	2	0		3
Years Ending in 5		0	0	1	0		1
Years Ending in 6		1	0	0	1		2
Years Ending in 7		3	0	2	0		5
Years Ending in 8		0	5	8	3		16
Years Ending in 9	1	0	0	5	0		6
Totals	1	8	9	31	14	12	75

From 12.31.78 through 12.09.22. Weeks of index price decreases of greater than or equal to 5.08%. SOURCE: Kovitz using data from Bloomberg

LONG-TERM RETURNS

	Annualized Return	Standard Deviation
Value Stocks	13.0%	25.9%
Growth Stocks	9.4%	21.4%
Dividend Paying Stocks	10.5%	18.0%
Non-Dividend Paying Stocks	8.8%	29.3%
Large-Company Stocks	10.0%	18.7%
Small-Company Stocks	11.6%	28.2%
Long-Term Gov't Bonds	5.1%	8.7%
Intermediate Gov't Bonds	4.9%	4.4%
Treasury Bills	3.2%	0.9%
Inflation	3.0%	1.8%

From 06.30.27 through 09.30.22. 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 dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. Non-dividend payers = stocks that do not pay a dividend. Small company stocks, via Ibbotson Associates, are the bottom twenty percent of the New York Stock Exchange. Large company stocks, via Ibbotson Associates, are represented by the S&P 500 index. 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

Of course, we are in the seasonally favorable time of year,…

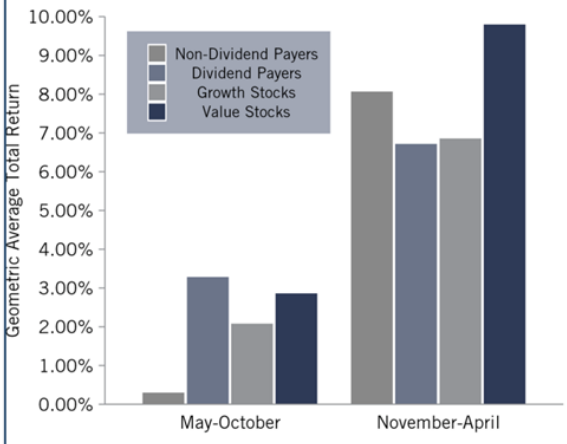
THE PRUDENT SPECULATOR

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

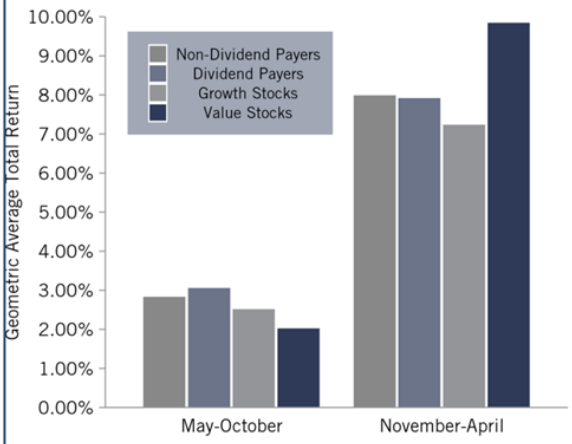
Nice to see that Value has won the performance spoils vs. Growth over the past nine-plus decades, no matter the time of year...



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.



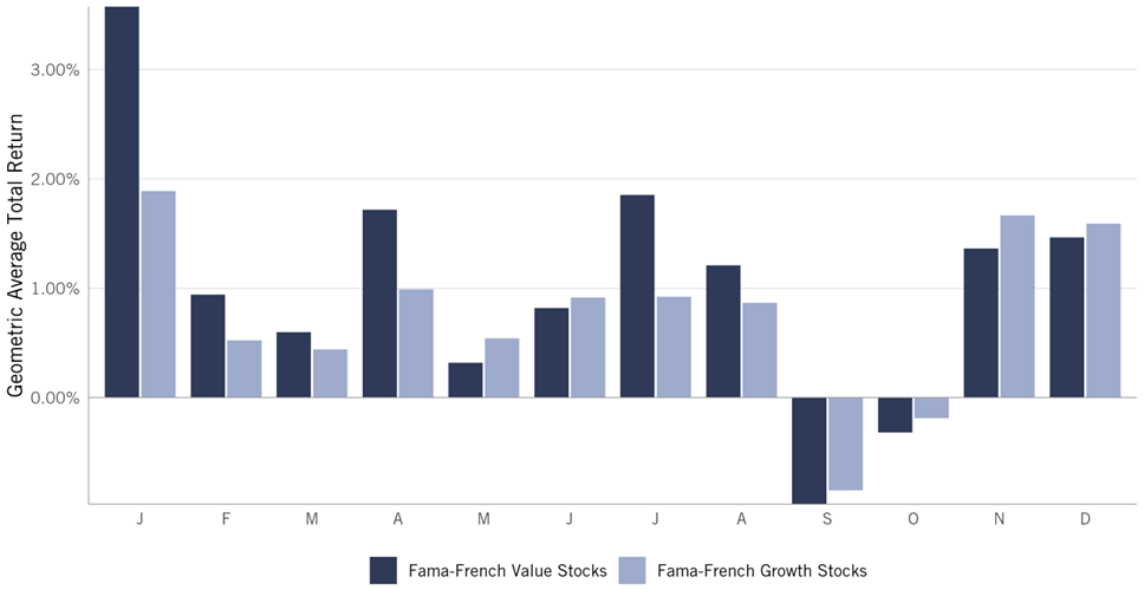
From 04.30.90 through 04.30.22. Geometric average. SOURCE: Kovitz Investment Group using data from Professors Eugene F. Fama and Kenneth R. French

…so the move lower was disappointing, even as we understand that the tremendous rebound in October and November, began in the second worst month of the year, statistically speaking.

THE PRUDENT SPECULATOR

DECEMBER STATISTICALLY A GOOD MONTH

Mark Twain said, "October: This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August and February." Of course, history shows that, on average, we are now in the very favorable November - January period.



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

There seemingly always are numerous reasons that can be utilized to attempt to explain short-term equity market gyrations, but many would argue that a renewed concern about recession was the primary catalyst for the selloff last week. Indeed, the odds of recession in the next 12 months as compiled by Bloomberg remained unusually high,…

THE PRUDENT SPECULATOR

PLENTY OF DOOM & GLOOM TALK, ODDS OF RECESSION NOW 62.5%

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 62.5%, even as the consensus forecast for GDP growth this year is 1.8% and 0.4% for 2023.

…while leaders of some of the country's largest financial institutions had cautious things to say last week.

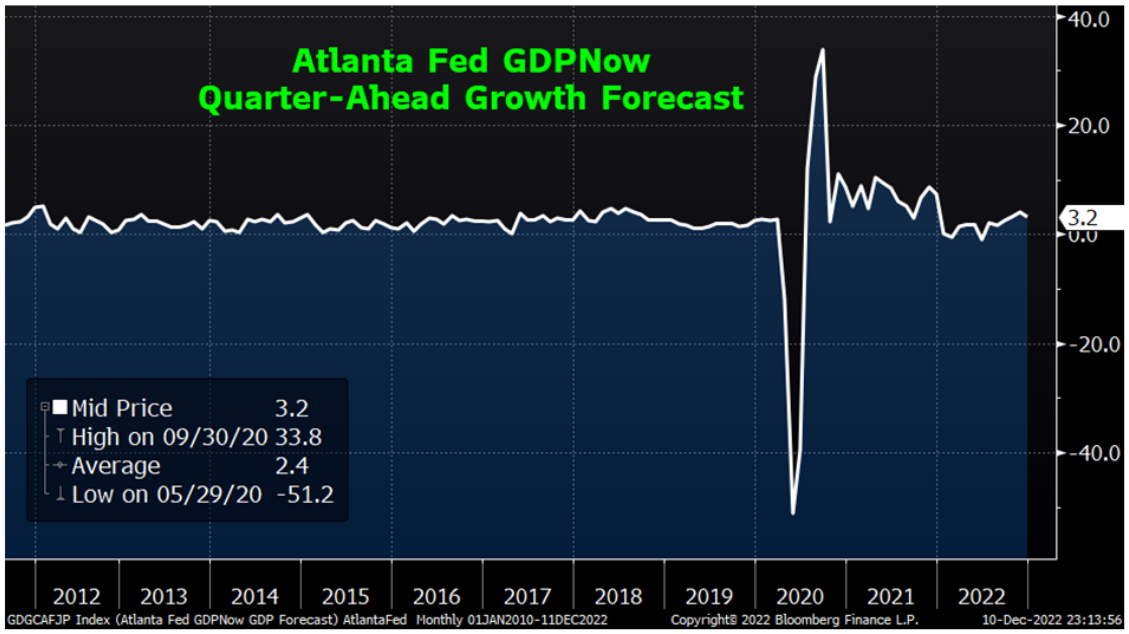
"There is a slowdown happening, there's no question about it," Wells Fargo CEO Charlie Scharf said. "We are expecting a fairly weak economy throughout the entire year." ***Goldman Sachs*** *(GS – $359.14) CEO David Solomon commented, "There is more uncertainty right now on the economic trajectory for the next 12 to 24 months than we have seen in quite some time. Hope for the best but prepare for a bumpier environment." U.S. Bancorp Chief Executive Officer Andy Cecere added, "The consumer is still healthy, still spending money, still sits on cash balances well above pre-Covid levels, but I believe we're at a bit of an inflection point. Things are good today. However, that cash balance and that cushion, so to speak, is going to start to dissipate, and I think that will create a change in behaviors and a slowdown."*

However, for those paying close attention to the economic statistics, the outlook for Q4 GDP now stands at 3.2%, up from 2.8% on December 1,…

THE PRUDENT SPECULATOR

Q4 U.S. REAL GDP GROWTH PROJECTION INCREASES TO 3.2%

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 2.9% and the Atlanta Fed's projection for Q4 2022 real GDP growth on an annualized basis as of December 9 stood at 3.2%.

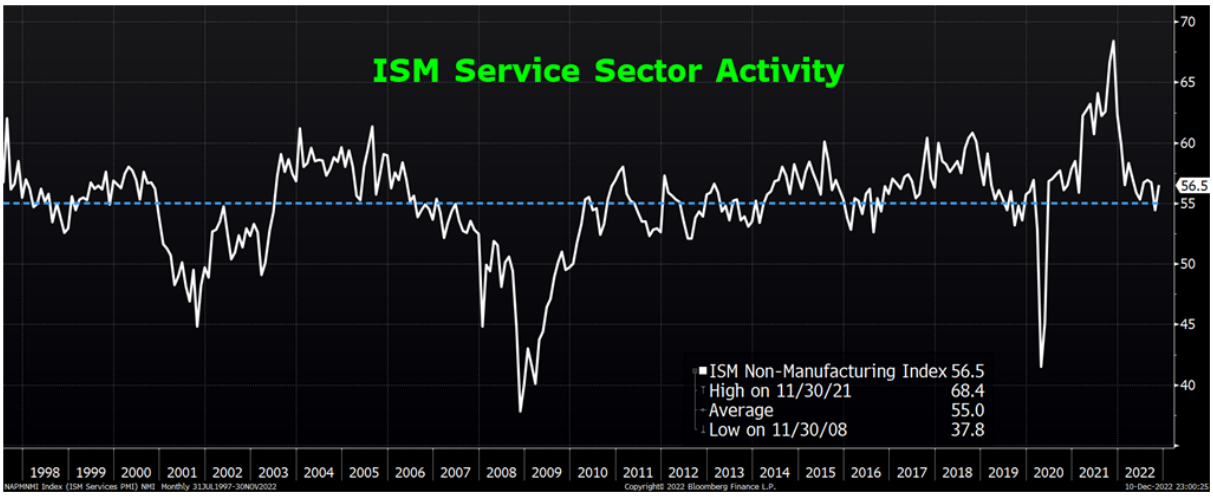


…with the important monthly ISM Non-Manufacturing gauge for December coming in last week much better than expected,…

THE PRUDENT SPECULATOR

ISM NON-MANUFACTURING RISES: 2.3% ANNUALIZED GDP GROWTH

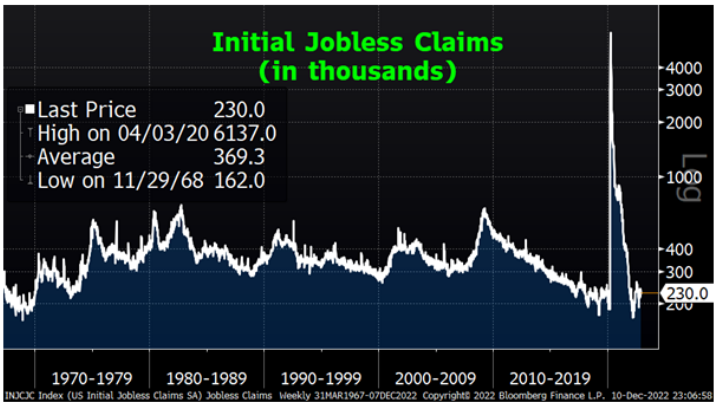
The latest read on the health of the service sector rebounded to 56.5 in November, up from October's tally of 54.4. The figure was much better than expected and was above average, suggesting a still-healthy non-manufacturing economy. The Institute for Supply Management stated, "The past relationship between the Services PMI and the overall economy...corresponds to a 2.3% increase in real gross domestic product (GDP) on an annualized basis."

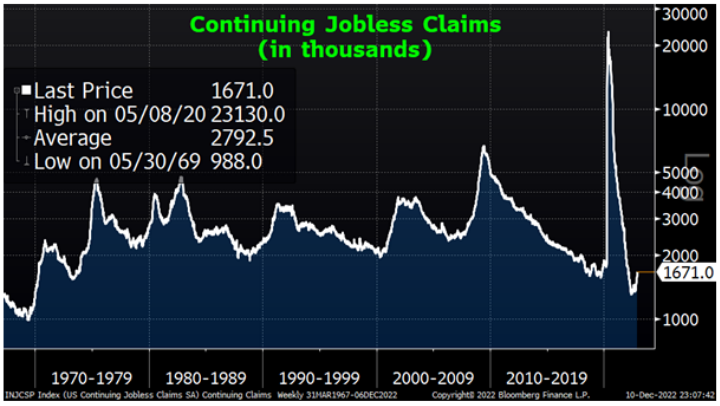


…the jobs picture continuing to be healthy,…

THE PRUDENT SPECULATOR

SOLID LABOR MARKET: JOBLESS CLAIMS STILL VERY LOW



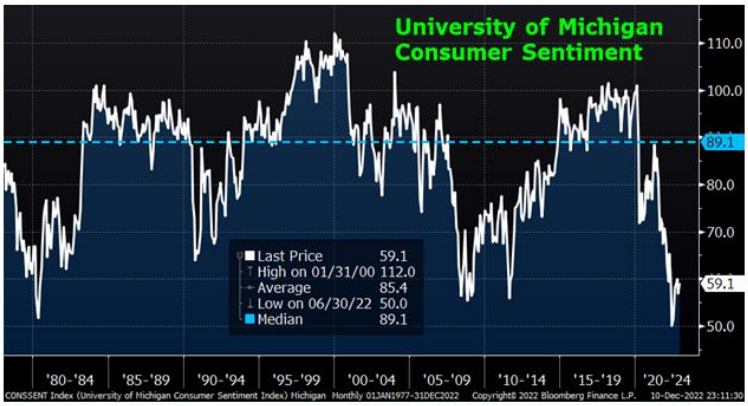


While higher than readings earlier in the year with a 1-handle, yet still coming in near the lowest levels since 1969 when the work force was much smaller, new filings for unemployment benefits for the period ended December 3 were a seasonally adjusted 230,000, up from a revised 225,000 the week prior. Continuing claims filed through state programs inched up to 1.67 million, as businesses continue to hold onto most workers with qualified labor difficult to obtain, though the tally has been moving up.

…and the latest read on consumer sentiment topping pessimistic forecasts.

THE PRUDENT SPECULATOR

CONSUMER SENTIMENT REBOUNDS NOT TOO FAR ABOVE RECORD LOW



University of Michigan Consumer Sentiment Cyclical Lows & Subsequent Equity Returns

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

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

The latest read on the Univ. of Michigan's Consumer Sentiment gauge was much stronger than expected, coming in at 59.1 for December. Of course, it is still not too far from the most pessimistic level in history six month's prior. Incredibly, folks were then more downcast than when inflation was in the double-digits in the early'80's ...and after the Crash of '87...and after the Gulf War Meltdown of '90...and after 9/11...and at the end of the Tech Wreck...and during the Great Financial Crisis...and after the downgrade of the U.S. credit rating. Believe it or not, the prior 8 cyclical lows, on average, proved to be great times for long-term-oriented investors to be adding to their (Value) equity exposure.

To be sure, there very well could be a recession in 2023, as economic contractions (and expansions) are normal parts of the business cycle. But, as **JPMorgan Chase** (JPM – $132.16) CEO Jamie Dimon said on Sunday when asked about the anticipated downturn, "I don't know whether there will be a mild or harsh recession, but if it happens, we're going to be fine."

"Fine" is not the view of a pessimistic columnist for the *Wall Street Journal* who asserted last week in a prominently featured story, "Obviously economists still have no crystal ball, and **obviously recession would mean lower stocks**, and probably lower bond yields, **as it always has.**"

Happily, students of market history realize that it is always beneficial to look at the facts to determine whether disconcerting headlines are truth or fiction. Clearly, more than a few grains of salt are needed with the *WSJ* story. Certainly, forward 12-month returns of 2.2% on average for the S&P 500 shown in the chart below are dismal, but 10 of the 1-year post-recession S&P 500 returns were positive, including a whopping 31.3% following the last recession, and longer-term average returns, especially for Value, have been very good.

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

Just for kicks, given that the *WSJ* scribe is short-term-oriented in his views, we also looked at forward-3-month returns for the S&P 500 from the month-end for the start of the 15 official recessions. The average figure is negative 3.7%, but 2020 saw a 3.6% 3-month gain, proving that the "always" claim in the piece is factually incorrect. Believe it or not, 8 of the 15 post-recession 3-month S&P 500 returns were positive.

Also interesting, given that the stock market is supposed to be a discounting mechanism, average returns in the year before the start of a recession, though below the historical norm, have been pretty good as well.

The article went on to state, "The Fed hasn't raised rates so far, so fast since Chairman Paul Volcker's assault on inflation at the end of the 1970s. Back then, not just one but two recessions followed in short order." As the Fama/French equity returns during the Volcker years vividly illustrate, we can only hope that stocks will perform as well this time around!

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

Further, it was said, "**Economists and investors alike have also learned to appreciate a market indicator that has in the past preceded recession**, the inverted yield curve, when long-dated bond yields are lower than those maturing soon. The 10-year Treasury yield is now 0.8 percentage point below the three-month yield, the biggest gap since December 2000 in what is, according to Campbell Harvey of Duke University, the most reliable indicator of recession."

While some may quibble with the Inversion Dates that we show below, such an event has also not been reason for long-term-oriented investors to bail out of stocks.

THE PRUDENT SPECULATOR

YIELD CURVE INVERSION…HAS BEEN FINE, ON AVERAGE, FOR STOCKS

THE WALL STREET JOURNAL.

WEDNESDAY, NOVEMBER 30, 2022 - VOL. CCLXXX NO. 128 WSJ.com ★★★★ $5.00

U.S. Defeats Iran 1-0 to Move to Next Round at World Cup

Inverted Yield Curve Deepens

Spread between the U.S. 10-year and two-year Treasury yields, weekly

Treasury Yield Curve Inverts To Deepest Level Since 1981

With the 3.58% yield on the 10-Year U.S. Treasury now 72 basis below the yield on the 3-Month, we wonder if the financial press will remember that not all inversions lead to a recession and if they will note that such an event historically has been OK, on average, for subsequent stock returns.

S&P 500 Total Return Post 10-Year/3-Month Yield-Curve Inversion

Inversion Date	1 Year S&P 500 TR	3 Year S&P 500 TR	5 Year S&P 500 TR	10 Year S&P 500 TR	To Present S&P 500 TR
1/12/1966	-6.8%	19.3%	17.6%	46.2%	21954%
9/8/1966	28.4%	34.2%	58.3%	97.0%	26497%
12/19/1968	-11.8%	4.3%	4.8%	30.6%	17481%
2/12/1973	-19.1%	-2.6%	-4.4%	105.0%	13979%
7/4/1978	13.3%	58.4%	131.5%	352.6%	13540%
9/1/1980	5.6%	56.7%	96.8%	300.4%	9325%
5/29/1989	16.0%	42.6%	66.2%	423.9%	2364%
9/10/1998	39.8%	15.7%	10.7%	48.2%	531%
1/20/2006	15.5%	-36.2%	16.0%	84.3%	328%
5/23/2019	6.8%	48.0%			48%
S&P Total Return	**8.8%**	**24.0%**	**44.2%**	**165.4%**	**10604.6%**

As of 12.09.22. Source: Kovitz using data from Bloomberg and Refinitiv via The Wall Street Journal

None of the above is meant to suggest that stocks are guaranteed to go up if we have a recession, but we will always believe that time in the market trumps market timing. After all, we have remained fully invested through 37 corrections of 10% or more since the launch of *The Prudent Speculator* in 1977. Happily, we have also been fully invested for the 38 rallies of 10% or more,…

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	11/30/2022	14.06%	BULL
Average Drop		**-18.24%**		**Average Gain**		**40.11%**	

SOURCE: Kovitz using data from Bloomberg

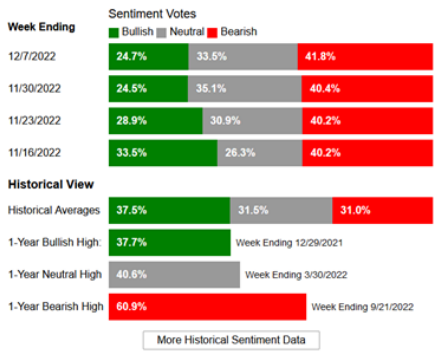
Trading has been volatile this year, to say the least, with stocks suffering their worst performance since the five-week 2020 Bear Market brought on by the COVID-19 Pandemic. While the S&P 500 quickly rallied out of correction territory in March, it closed on 6.16.22 below the Bear Market level with 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 and a half. 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.

…so we will always do our best to provide real-world evidence to remind readers that the secret to success in stocks is not to get scared out of them. In fact, 35 years of empirical data shows that it is far better to be a buyer, on average, than a seller when fear is the dominant emotion…as is the case today.

THE PRUDENT SPECULATOR

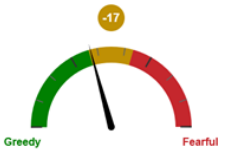
STILL A MAJOR AAII CONTRARIAN BUY SIGNAL: BULL-BEAR SPREAD = -17.1%

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



CURRENT AAII SENTIMENT BULL-BEAR SPREAD:

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



BULL-BEAR SPREAD TRENDS:

Previous Week	1 Month Ago	3 Months Ago	6 Months Ago
-16	-7	-43	-24
Neutral	Neutral	Greedy	Greedy

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 = 7.25											
BELOW	-54.0	7.3	922	0.24%	0.20%	1.14%	1.00%	3.25%	2.85%	6.44%	5.66%
ABOVE	7.3	62.9	921	0.17%	0.16%	0.55%	0.46%	2.02%	1.77%	4.68%	4.20%
Ten Groupings of 1843 Data Points											
1	-54.0	-16.7	185	0.43%	0.37%	2.04%	1.79%	4.51%	3.95%	8.38%	7.12%
2	-16.7	-8.5	184	0.24%	0.21%	0.86%	0.72%	3.34%	2.99%	6.21%	5.44%
3	-8.5	-2.1	184	0.34%	0.31%	1.18%	1.07%	3.17%	2.74%	7.34%	6.62%
4	-2.0	2.8	184	0.11%	0.07%	1.04%	0.94%	2.67%	2.30%	5.48%	4.92%
5	2.8	7.2	184	0.07%	0.04%	0.57%	0.47%	2.60%	2.34%	4.85%	4.31%
6	7.3	11.8	185	0.19%	0.17%	0.71%	0.63%	2.04%	1.81%	4.90%	4.45%
7	11.8	16.1	184	0.15%	0.12%	0.50%	0.37%	2.40%	2.15%	5.29%	4.78%
8	16.1	21.9	184	0.14%	0.13%	0.86%	0.80%	2.29%	2.04%	5.81%	5.39%
9	22.0	29.0	184	0.15%	0.14%	0.38%	0.29%	1.83%	1.53%	4.76%	4.19%
10	29.0	62.9	185	0.23%	0.21%	0.30%	0.23%	1.51%	1.29%	2.60%	2.15%

From 07.31.87 through 12.08.22. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

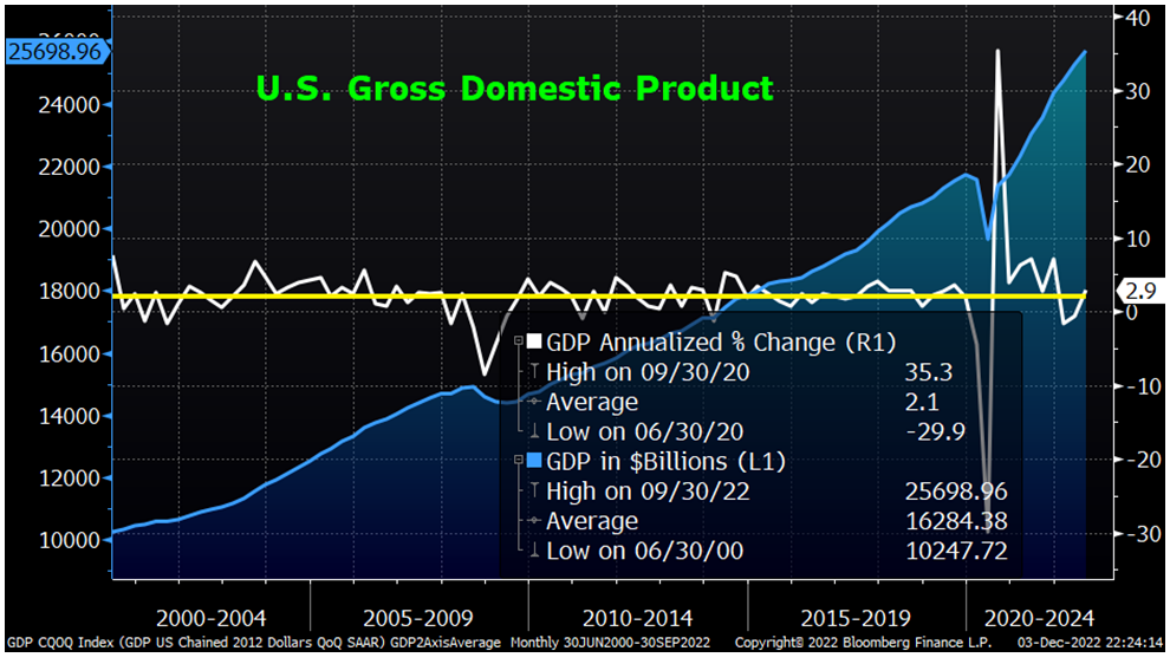
The gauge is widely viewed with a contrarian eye, so the tally of Bulls in the latest AAII Sentiment Survey inching up to 24.7% and the number of Bears climbing to 41.8% is a positive, with the minus 17.1% Bull-Bear spread in the favorable (highest future returns) 1st decile of the weekly figures going back to 1987.

We might add that what we think is missing from the view that stocks must decline if we have an "official" recession in 2023 is that many have already fallen significantly. We are not saying that equities can't fall further, but the downturn this year is not just due to rising interest rates AND we arguably had a recession with two quarters of negative real GDP growth in Q1 and Q2 this year, even as nominal growth has been stellar.

THE PRUDENT SPECULATOR

HUGE 9.1% JUMP IN Q3 NOMINAL GDP, AND REAL GDP GROWS BY 2.9%

Third quarter 2022 real (inflation-adjusted) domestic economic growth came in better than expected at a 2.9% growth rate on an annualized basis, while the current-dollar nominal GDP figure of $25.7 trillion soared by 9.1% on an annualized basis to an all-time high.



Of course, markets rise and fall for a variety of reasons, with stocks down 37% of the time when scored with a one-month measuring stick. However, using a one-year ruler, the chance of loss drops to 27% and to 10% with a 5-year holding period and to 3% for a 10-year hold, assuming one stays the course through thick and thin.

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

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

PATIENCE IS VIRTUOUS

VALUE STOCKS

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

DIVIDEND PAYERS

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

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

Unfortunately, far too many do not have the patience or discipline to stay on track to achieve their long-term investment objectives. The siren songs of the doom-and-gloom crowd are not easy to resist, but there is a reason why it is said that the only problem with market timing is getting the timing right. A trader who somehow has managed to get out ahead of a downturn must also know when to get back in before a rally has passed them by, with data from DALBAR showing the Average Joe is an awful market timer, whether it is stocks or bonds!

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%

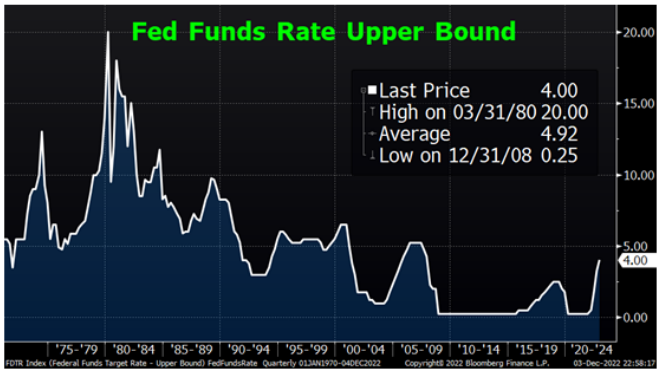
From 12.31.1984 through 12.31.2021. Annualized returns. SOURCE: Kovitz using data from DALBAR and Bloomberg Finance L.P.

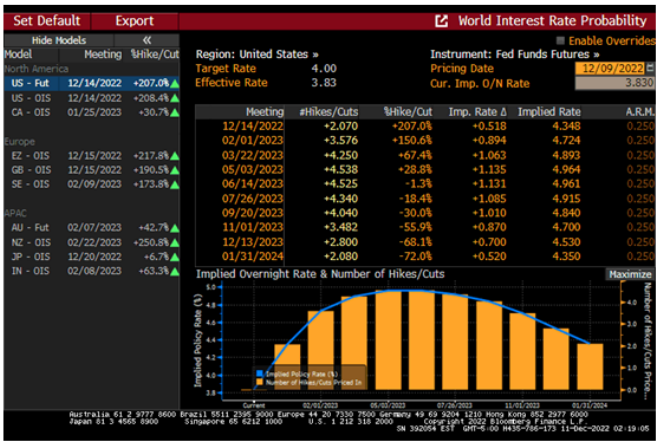
*****

Anything can happen as we move forward, and the equity futures were again heading south Sunday evening, while the latest read on inflation at the wholesale level came in above expectations and there is a big FOMC Meeting this week.

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 more hawkish last week as they are now estimating a 4.35% year-end Fed Funds rate and a 4.96% peak for May 2023, with a pivot coming in June 2023.





However, despite the likelihood of big short-term market moves in conjunction with the decision on interest rates and Fed Chair Jerome H. Powell's ensuing Press Conference, we see no reason to alter our enthusiasm for the long-term prospects of our broadly diversified portfolios of what we believe to be undervalued stocks,…

CURRENT PORTFOLIO AND INDEX VALUATIONS

Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	11.8	11.8	0.8	2.2	2.9
ValuePlus	12.4	12.3	1.1	2.3	2.4
Dividend Income	11.7	11.9	0.7	2.1	3.3
Focused Dividend Income	13.3	13.1	1.1	2.6	2.7
Focused ValuePlus	13.1	13.1	1.2	2.6	2.6
Small-Mid Dividend Value	10.6	10.2	0.5	1.7	2.9
Russell 3000	20.2	18.3	2.1	3.7	1.7
Russell 3000 Growth	28.2	24.3	3.0	9.0	1.0
Russell 3000 Value	15.9	14.8	1.6	2.3	2.3
Russell 1000	19.5	18.1	2.2	3.8	1.7
Russell 1000 Growth	26.5	24.1	3.3	9.5	1.1
Russell 1000 Value	15.5	14.6	1.6	2.4	2.3
S&P 500 Index	19.0	17.9	2.3	4.0	1.7
S&P 500 Growth Index	22.5	21.1	3.9	6.8	1.0
S&P 500 Value Index	16.8	15.8	1.7	2.9	2.3
S&P 500 Pure Value Index	10.6	10.4	0.6	1.5	2.6

As of 12.11.22. 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.

…and we continue to believe that equities in general are reasonably priced,…

THE PRUDENT SPECULATOR

INTEREST RATES STILL SUPPORTIVE OF STOCKS

The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. Though many dismiss the Fed Model, investing is always a choice of this or that, and we still like today's rich earnings yield (5.26% vs. 3.58% 10-Year), despite this year's jump in interest rates.

…while very good nominal GDP growth, even if real (inflation-adjusted) growth is negative, should support corporate profits in 2023 and beyond.

THE PRUDENT SPECULATOR

2023 AND 2024 EARNINGS GROWTH STILL THE ESTIMATE

Q3 earnings reporting season was very good, even as outlooks continued to be subdued and stock prices sometimes have reacted negatively. For the S&P 500, 69.5% of companies beat EPS expectations and 59.2% exceeded revenue forecasts, while present projections call for corporate profit growth in 2023 and 2024.

S&P 500 Earnings Per Share

Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2023	$59.27	$228.02
9/30/2023	$58.38	$222.71
6/30/2023	$56.42	$214.79
3/31/2023	$53.95	$205.24
12/31/2022	$53.96	$200.65
9/30/2022	$50.46	$203.42
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 12.08.22

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.

Broadcom (AVGO -$544.72) earned $10.45 (vs. $10.25) per share in fiscal Q4 2022. The designer and supplier of semiconductor equipment reported revenue near $8.9 billion, roughly matching the analyst consensus estimate. Semiconductor Solutions revenue came in barely ahead of expectations at $7.09 billion, while Infrastructure Software revenue trailed slightly at $1.84 billion. In fiscal Q1 2023, Broadcom expects to see $8.9 billion of revenue and EBITDA 63% of that revenue figure.

In his prepared comments, Broadcom CEO Hock Tan said, "For the year, I'm pleased to report that consolidated revenue hit a record of $33.2 billion, growing 21% year-on-year, yet another

year of double-digit organic growth. This growth was driven by our strong partnerships with customers and increased R&D investments, which enable accelerated adoption of our next-generation technologies. With our robust business model, we grew our fiscal 2022 operating profit by 28% year-on-year and our free cash flow per share by 25% year-upon-year."

Looking ahead, Mr. Tan said, "Aligned with our ability to generate increased cash flows in the preceding year, we are announcing an increase in our quarterly common stock cash dividend in Q1 fiscal 2023 to $4.60 per share, an increase of 12% from the prior quarter. We intend to maintain this target quarterly dividend throughout fiscal '23, subject to quarterly Board approval. This implies our fiscal 2023 annual common stock dividend to be a record $18.40 per share. I would like to highlight that this represents the 12th consecutive increase in annual dividends since we initiated dividends in fiscal 2011."

We were pleased to see AVGO raise its dividend, and we think it's reflective of solid cash-flow generation and expected business strength. The yield now stands at 3.3%, which is on the very high end in the IT space (XLK, the S&P Technology sector ETF, pays 1.0% in comparison). The company's acquisition of VMware cleared some regulatory hurdles recently in South Africa, Canada and Brazil. The deal is expected to close in Broadcom's fiscal 2023. AVGO shares have bounced off October's low, but we think the run is not over. Our Target Price has been bumped up to $731.

With the banking sector hit hard last week, those who are underweight the Financial sector may want to add new names or bring up their existing exposure. We might consider **Bank of America** (BAC – $32.38), given its leading base of consumer deposits. Fee income from mortgages and investment banking have taken a large hit in 2022, but we note that the trading department ought to benefit from elevated volatility, particularly within fixed income and commodity markets. Shares trade for 9 times NTM EPS estimates and offer a 2.7% dividend yield. Our Target Price is $55.

We also continue to like **PNC Financial** (PNC – $154.08), which dusted off a familiar playbook with its purchase of BBVA USA branches that is similar to the bank's successful buy of RBC's southeastern branch network in 2011. We like the latest acquisition, which was integrated over four months, as it expands PNC's access to 29 of the top 30 Metropolitan Statistical Areas across the country. The bank has historically experienced lower credit losses than peers across previous credit cycles. We expect PNC's slight overweight to commercial lending will prove a benefit, given our projection that the interest rate curve will normalize over our investment horizon, and like the diversity of the loan portfolio. A 32% drawdown from the high in January leaves shares attractively priced at 9.6 times NTM EPS estimates and brings the dividend yield to 3.9%. Out Target Price is $233.

For those with the willingness and/or ability to accept additional volatility, **Capital One Financial** (COF – $94.41) is among the hardest-hit financial stocks this year, having fallen from $145 at the start of the year. We acknowledge the higher risk that naturally comes with COF predominantly being a card issuer. However, we think the nearly 4% of loans set aside as reserves for future loan losses should be more than enough to handle all but the direst scenario (think Great Financial Crisis) and a Tier 1 Common Equity ratio of 12% offers additional

cushion. The bank increasingly goes after what management has deemed "heavy spender" customers, which it also says have exhibited lower credit loss with higher payment rates on average. We have long been a proponent of Capital One's reliance on technology over a large physical presence, even as the company is weighted toward higher-risk lending in the credit card and auto spheres. COF trades for less than 6 times the 2023 EPS estimate, which is presently 33% higher than pre-pandemic profits. The dividend yield is 2.5% and our Target Price is $170.

Shares of European pharma giant **Sanofi** (SNY – $46.26) rose almost 3% last week after a U.S. judge rejected the scientific evidence offered behind claims that heartburn drug Zantac can cause cancer. The rejection means the company will not have to face more than 5000 lawsuits (at least for now). On the announcement, shares initially rose almost 9%, but they cooled as the week progressed. The stock is still off 7% from the original Zantac-related selloff that began in early August.

District Judge Robin Rosenberg in West Palm Beach, Florida, concluded that consumers used flawed science to back up lawsuits filed in federal court blaming Zantac for causing a variety of cancers. The Judge on Tuesday found plaintiffs' experts couldn't show legitimate links between the product and the diseases, which include lung, liver and kidney cancer. While this ruling is a step in the right direction, we expect the Zantac litigation process will continue to play out for at least a year, with the first of several bellwether cases likely to start in February 2023. We look for a prolonged legal process before firms likely settle claims, unless all of the initial rulings play out in line with how Judge Rosenberg rules.

Even with the partial recovery in share price, we still view Sanofi as undervalued, and want to continue to hold at these levels (we also enjoy a 3.1% net dividend yield). We continue to like the potential of SNY's immunology drug Dupixent and the company has strong entrenchment in rare-disease drugs. With a wide product offering in vaccines, consumer health and insulins, Sanofi is well positioned for the fast-growing emerging markets. We have bumped up our Target Price for SNY to $66.