Market Commentary Monday, December 19, 2022

December 18, 2022

EXECUTIVE SUMMARY

Calendar – Seasonally Favorable Time of Year, But December Has Seen a Big Decline
Volatility – Ups and Downs Normal, But Long-Term Trend is Up
Inflation – Lower CPI; Stocks Historically a Good Inflation Hedge
FOMC Meeting – Economic Projections Cause Consternation
Econ Data – Weaker-than-Expected Numbers, but Jobs Picture Remains Strong
Recessions – Economic Contractions & Equity Returns
Valuations – Inexpensive Multiples for our Portfolios
Dividends Hikers – 20 Undervalued TPS Stocks
Sentiment – Major AAII Buy Signal
Stock News – Updates on JBL, ORCL, KIM, AMGN, MRNA, MRK & PFE

Market Review

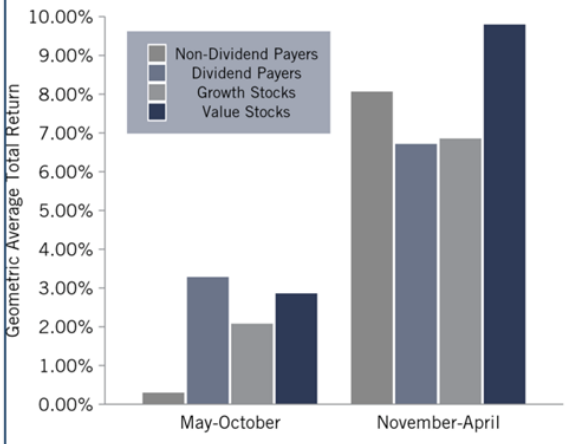
Although we are in the seasonally favorable six-month time span,…

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

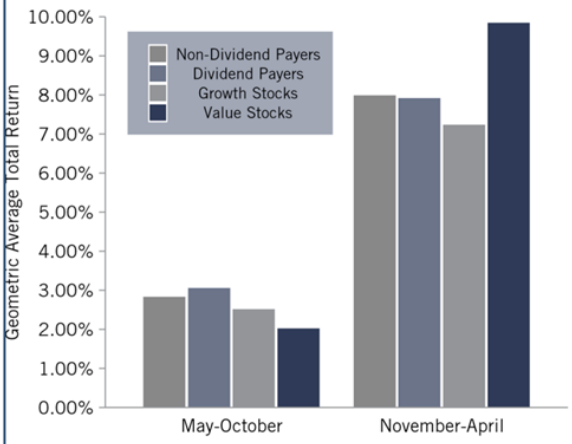
Nice to see that Value has won the performance spoils vs. Growth over the past nine-plus decades, no matter the time of year...



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.



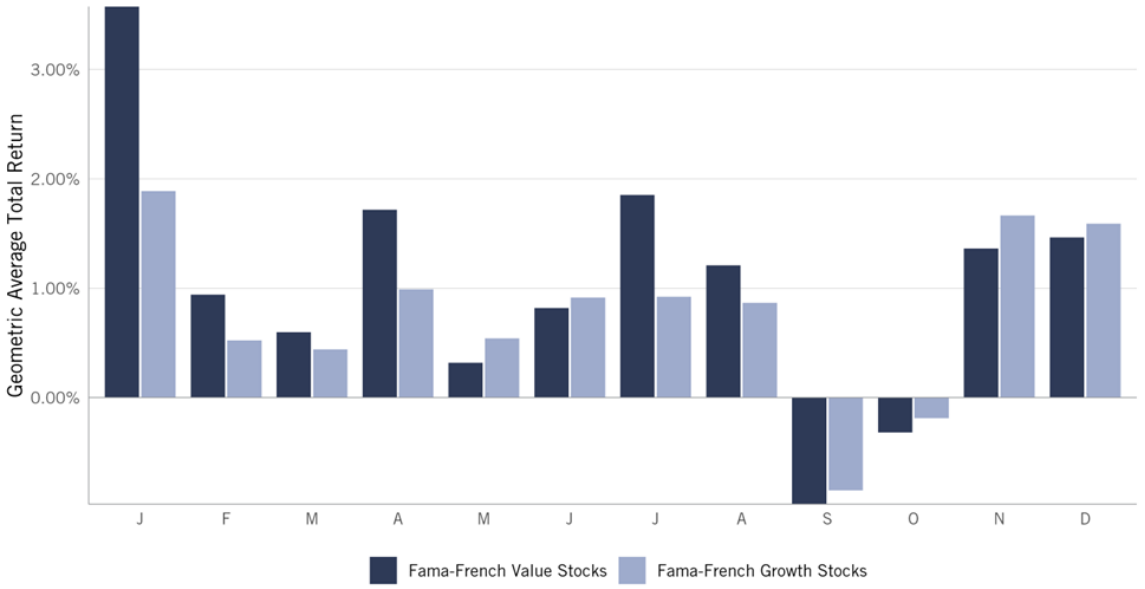
From 04.30.90 through 04.30.22. Geometric average. SOURCE: Kovitz Investment Group using data from Professors Eugene F. Fama and Kenneth R. French

…and December historically has been one of the better months of the year,…

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

…the pullback following the hefty rebound in October and November continued last week, though the larger-cap Value indexes lost less than their Growth counterparts, maintaining the trend of outperformance this quarter and over the last two years,…

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 again happening last week, pushing the Nasdaq Composite index down 31.0% and the Russell 3000 Growth index down 27.8% 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	-1.65	15.22	-7.50	-6.36	29.74	87.29	24.07	48.92	Dow Jones Industrial Average	INDU Index
1.01	-10.21		-1.73	12.06	-10.27	-8.51	27.19	82.97	17.23	34.44	New York Stock Exchange Composite	NYA Index
-39.18	-20.81		-2.70	1.45	-31.00	-28.87	-0.20	59.50	24.57	61.82	Nasdaq Composite Index	CCMP Index
-22.43	-9.23		-1.28	4.49	-26.10	-22.58	-2.25	58.18	3.43	20.05	Russell 2000 Growth	RU20GRTR Index
22.83	14.02		-2.34	8.13	-14.71	-11.31	40.87	105.61	16.03	22.22	Russell 2000 Value	RU20VATR Index
-3.02	2.49		-1.81	6.27	-20.40	-16.92	17.60	81.92	10.98	22.97	Russell 2000	RU20INTR Index
-11.75	-20.15		-1.68	7.76	-26.13	-23.15	-1.01	64.17	13.83	46.69	Russell Midcap Growth Index Total Return	RUMCGRTR Index
19.18	2.33		-1.89	9.96	-12.43	-9.83	34.10	104.98	19.79	32.81	Russell Midcap Value Index Total Return	RUMCVATR Index
8.25	-5.62		-1.81	9.17	-17.32	-14.56	20.76	91.38	20.17	42.12	Russell Midcap Index Total Return	RUMCINTR Index
-22.42	-19.63		-2.36	3.96	-27.82	-25.67	5.44	69.19	27.52	66.54	Russell 3000 Growth	RU30GRTR Index
8.04	-4.33		-1.63	11.09	-8.87	-7.18	35.31	89.13	18.74	36.33	Russell 3000 Value	RU30VATR Index
-7.46	-11.46		-1.99	7.48	-18.98	-17.00	19.33	80.02	24.66	52.96	Russell 3000	RU30INTR Index
9.64	-0.39		-1.76	11.33	-11.69	-9.41	36.43	106.30	30.82	55.13	S&P 500 Equal Weighted	SPXEWTR Index
-9.10	-11.89		-2.05	7.86	-17.88	-16.13	21.77	79.86	26.75	57.28	S&P 500	SPXT Index
-22.08	-12.73		-2.62	2.67	-28.55	-26.78	7.69	68.54	27.92	64.13	S&P 500 Growth	SPTRSGX Index
6.08	-11.71		-1.55	12.77	-5.91	-4.30	37.29	86.69	20.22	43.86	S&P 500 Value	SPTRSVX Index
3.18	1.57		-0.09	5.77	-15.27	-15.57	-16.68	-9.20	-11.53	-6.50	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index
11.63	8.44		0.80	4.08	-11.13	-11.19	-11.52	-6.90	-5.80	2.18	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index

As of 12.16.22. Source Kovitz using data from Bloomberg

…not to mention reestablishing the multi-decade historical propensity of inexpensively priced stocks to lead the returns 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%	44.3%	332	74	1.3	10/12/2022	11/30/2022
10.0%	34.8%	243	101	0.9	10/12/2022	11/30/2022
7.5%	23.6%	148	160	0.6	10/12/2022	11/30/2022
5.0%	14.7%	72	314	0.3	10/12/2022	11/30/2022

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	314	0.3	11/30/2022	12/16/2022

From 02.20.28 through 12.16.22. 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	13.0%	25.9%
Growth Stocks	9.4%	21.4%
Dividend Paying Stocks	10.5%	18.0%
Non-Dividend Paying Stocks	8.8%	29.3%
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 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 downside (and upside) volatility is always part of the equity landscape,…

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

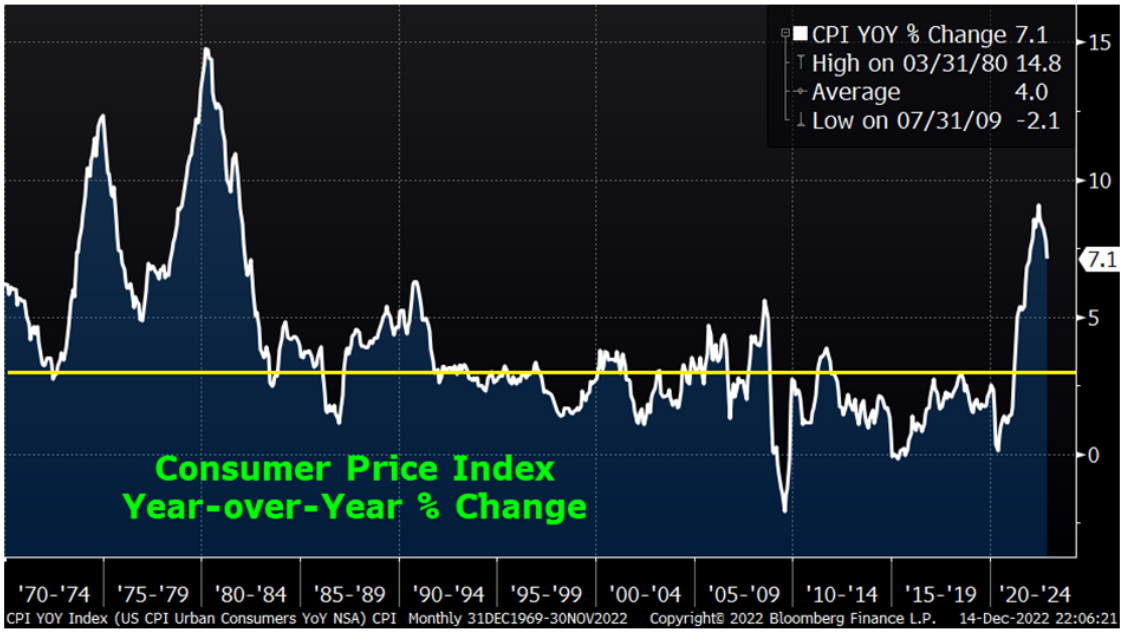
Trading has been volatile this year, to say the least, with stocks suffering their worst performance since the five-week 2020 Bear Market brought on by the COVID-19 Pandemic. While the S&P 500 quickly rallied out of correction territory in March, it closed on 6.16.22 below the Bear Market level with 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 reversed over the ensuing month and a half, even as we are now enduring another trip south. Of course, ups and downs are not unusual for equities, as there have been 38 advances and 37 declines 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.

…there was relatively good news out on inflation last week, with the Consumer Price Index (CPI) climbing "only" 7.1% and the so-called core rate (excludes food and energy) rising 6.0%, both numbers below the consensus forecasts from economists,…

THE PRUDENT SPECULATOR

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

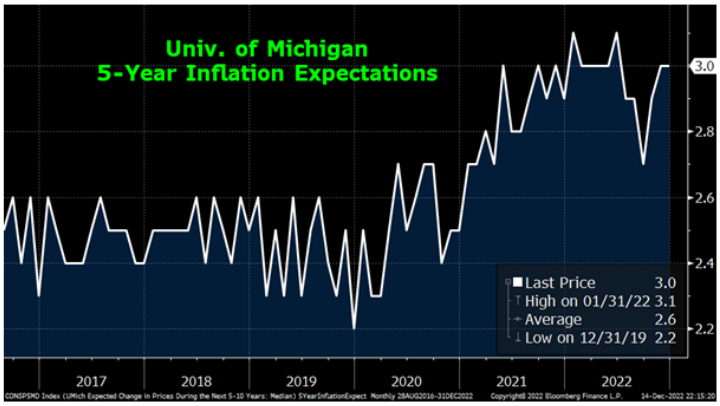
While overall inflation in the U.S. soared by 7.1% in November, the jump in the Consumer Price Index was better than the 7.3% expected by economists and lower than the 7.7% increase the month prior. The "core" rate, which excludes food and energy, was also lower than forecast, rising by 6.0%, down from 6.3% in October, with the CPI numbers leading to a Wall Street advance.



…and longer-term inflation expectations continuing to be anchored.

THE PRUDENT SPECULATOR

LONGER-TERM INFLATION EXPECTATIONS REMAIN "WELL ANCHORED"



While the New York Fed's latest Survey of Consumer Expectations saw the largest-ever one-month drop in the one-year inflation outlook to 5.2% from 5.9% the month prior, the three-year projection inched down to 3.0% from 3.1% in November. With the Univ. of Michigan's five-year outlook also standing at 3.0%, Fed Chair Jerome H. Powell's recent assertion, "Longer-term inflation expectations appear to remain well anchored," seems to be well supported.

Of course, the evidence since 1957 and since 1927 suggests that stocks, especially those of the Value variety, have performed better, on average, when the CPI is highly elevated than when it is not…which makes sense given that equities have long been thought to be a good inflation hedge.

THE WALL STREET JOURNAL.

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What's News

Business & Finance

FTX Founder Is Charged With Fraud

Indictment comes as SEC and CFTC file lawsuits and new chief testifies at hearing

By Corinne Ramey, James Fanell and Vicky Ge Huang

Sam Bankman-Fried is led in handcuffs out of a Bahamas court Tuesday as he faces eight U.S. counts in the FTX collapse.

In Collapse's Wake

U.S. Nears Deal to Supply Patriot Missiles to Ukraine

Inflation Rises At Slowest Pace In Nearly a Year

EU to Tax Imports Based on Emissions

INSIDE

BUSINESS & FINANCE

WWE's former CEO Vince McMahon faces legal demands over sexual abuse claims. B1

Inflation Rate >= 7.0% and Ensuing Value/Growth Returns Since 1927						
Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	4.5%	2.1%	10.3%	5.4%	24.5%	14.3%
Geometric Average	3.8%	1.5%	8.8%	4.1%	21.6%	11.7%
Median	3.9%	1.7%	6.7%	4.3%	18.0%	12.4%
Max	50.6%	33.2%	82.1%	61.2%	133.3%	84.3%
Min	-19.2%	-27.8%	-26.3%	-36.0%	-28.1%	-48.0%
Count	131	131	131	131	131	131

Source: Kovitz using data from Ibbotson Associates 06.30.27 - 11.30.21.

Inflation Rate <7.0% and Ensuing Value/Growth Returns Since 1927						
Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	4.1%	3.2%	8.1%	6.3%	16.3%	12.4%
Geometric Average	3.1%	2.5%	6.1%	4.9%	12.1%	9.5%
Median	4.0%	3.5%	8.0%	6.5%	16.2%	13.1%
Max	201.1%	131.7%	245.2%	135.6%	358.2%	213.8%
Min	-43.5%	-40.4%	-56.3%	-47.0%	-71.5%	-64.8%
Count	1001	1001	998	998	992	992

Source: Kovitz using data from Ibbotson Associates 06.30.27 - 11.30.21.

Inflation Rate >= 7.0% and Ensuing Value/Growth Returns Since 1957						
Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	4.1%	2.0%	9.2%	5.8%	22.2%	15.8%
Geometric Average	3.6%	1.2%	8.1%	4.1%	20.5%	12.6%
Median	4.6%	2.3%	6.9%	4.8%	20.5%	17.6%
Max	39.6%	32.9%	63.0%	60.8%	72.6%	84.2%
Min	-16.5%	-27.6%	-26.4%	-35.9%	-28.0%	-48.0%
Count	78	78	76	76	76	76

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

Inflation Rate < 7.0% and Ensuing Value/Growth Returns Since 1957						
Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	3.8%	3.0%	7.7%	5.9%	15.6%	11.9%
Geometric Average	3.3%	2.5%	6.7%	5.0%	13.6%	10.0%
Median	4.0%	3.3%	8.1%	6.2%	17.1%	12.7%
Max	37.8%	32.5%	68.5%	49.8%	105.8%	93.6%
Min	-39.5%	-34.9%	-54.2%	-41.7%	-52.2%	-39.9%
Count	701	701	700	700	694	694

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

The less-bad inflation print did lead to a nice move higher in stocks early last week, but the gains were short-lived, following digestion (indigestion?) by traders of the December decision on interest rates and statement from the FOMC, even as Jerome H. Powell & Co. lifted its target for the Fed Funds rate by an as-expected 50 basis points.

FOMC STATEMENT: 12.14.22

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

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

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to raise the target range for the federal funds rate to 4-1/4 to 4-1/2 percent. The Committee anticipates that ongoing increases in the target range will be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time. In determining the pace of future increases in the target range, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in the Plans for Reducing the Size of the Federal Reserve's Balance Sheet that were issued in May. The Committee is strongly committed to returning inflation to its 2 percent objective.

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

The problem seemed to be in the quarterly economic projections that were also released by the Fed as the latest estimates did not compare well with those from September. Indeed, the outlook for real GDP next year dropped to 0.5% from 1.2%; unemployment rose to 4.6% from 4.4%; PCE inflation climbed to 3.1% from 2.8%; and the target for the Fed Funds rate jumped to 5.1% from 4.6%.

FED: HIGHER INFLATION AND FED FUNDS & LOWER GDP GROWTH EXPECTED

With inflation remaining elevated, reflecting supply and demand imbalances related to the pandemic, higher food and energy prices, and broader price pressures, not to mention Russia's ongoing war against Ukraine, Federal Reserve members continued to hike the Fed Funds rate in December. Estimates for the 2023 rate also climbed to 5.1%, up from 4.6% in September, with the median PCE inflation projection for 2023 now standing at 3.1% and the real GDP forecast residing at 0.5%.

Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, December 2022

Percent

Variable	Median[1]					Central Tendency[2]					Range[3]				
	2022	2023	2024	2025	Longer run	2022	2023	2024	2025	Longer run	2022	2023	2024	2025	Longer run
Change in real GDP	0.5	0.5	1.6	1.8	1.8	0.4–0.5	0.4–1.0	1.3–2.0	1.6–2.0	1.7–2.0	0.2–0.5	-0.5–1.0	0.5–2.4	1.4–2.3	1.6–2.5
September projection	0.2	1.2	1.7	1.8	1.8	0.1–0.3	0.5–1.5	1.4–2.0	1.6–2.0	1.7–2.0	0.0–0.5	-0.3–1.9	1.0–2.6	1.4–2.4	1.6–2.2
Unemployment rate	3.7	4.6	4.6	4.5	4.0	3.7	4.4–4.7	4.3–4.8	4.0–4.7	3.8–4.3	3.7–3.9	4.0–5.3	4.0–5.0	3.8–4.8	3.5–4.8
September projection	3.8	4.4	4.4	4.3	4.0	3.8–3.9	4.1–4.5	4.0–4.6	4.0–4.5	3.8–4.3	3.7–4.0	3.7–5.0	3.7–4.7	3.7–4.6	3.5–4.5
PCE inflation	5.6	3.1	2.5	2.1	2.0	5.6–5.8	2.9–3.5	2.3–2.7	2.0–2.2	2.0	5.5–5.9	2.6–4.1	2.2–3.5	2.0–3.0	2.0
September projection	5.4	2.8	2.3	2.0	2.0	5.3–5.7	2.6–3.5	2.1–2.6	2.0–2.2	2.0	5.0–6.2	2.4–4.1	2.0–3.0	2.0–2.5	2.0
Core PCE inflation[4]	4.8	3.5	2.5	2.1		4.7–4.8	3.2–3.7	2.3–2.7	2.0–2.2		4.6–5.0	3.0–3.8	2.2–3.0	2.0–3.0	
September projection	4.5	3.1	2.3	2.1		4.4–4.6	3.0–3.4	2.2–2.5	2.0–2.2		4.3–4.8	2.8–3.5	2.0–2.8	2.0–2.5	
Memo: Projected appropriate policy path															
Federal funds rate	4.4	5.1	4.1	3.1	2.5	4.4	5.1–5.4	3.9–4.9	2.6–3.9	2.3–2.5	4.4	4.9–5.6	3.1–5.6	2.4–5.6	2.3–3.3
September projection	4.4	4.6	3.9	2.9	2.5	4.1–4.4	4.4–4.9	3.4–4.4	2.4–3.4	2.3–2.5	3.9–4.6	3.9–4.9	2.6–4.6	2.4–4.6	2.3–3.0

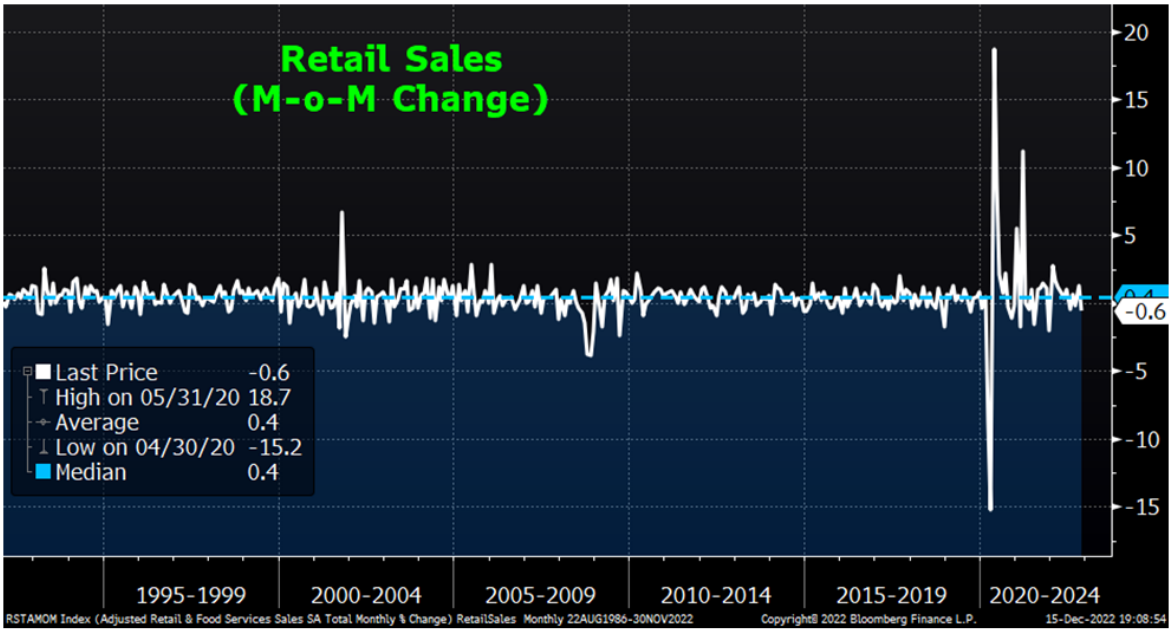
Source: Federal Reserve, December 14, 2022

More additional Fed rate hikes than many had predicted along with the likelihood of weaker GDP growth caused consternation for some market players, especially as worse-than-expected economic stats were also released. These included data on retail sales,…

THE PRUDENT SPECULATOR

CONSUMERS STILL HANGING IN THOUGH NOVEMBER SAW LOWER SPENDING

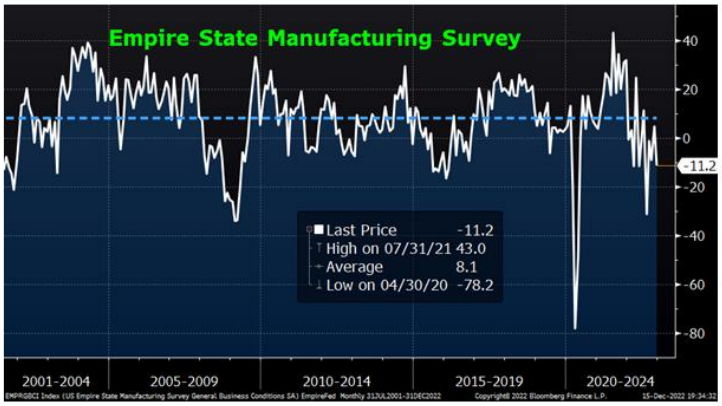
October's reading came in at a very healthy 1.3% increase, likely stealing receipts from November, but retail sales last month slipped by 0.6%, well below estimates. Retail sales excluding vehicles and gasoline edged lower by 0.2% in November, but restaurant rose an impressive 0.9%.

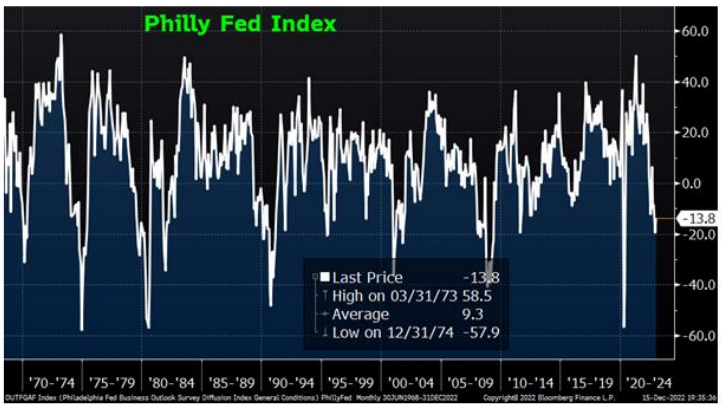


…East Coast manufacturing,…

THE PRUDENT SPECULATOR

EAST COAST FACTORY ACTIVITY NOT SO GRAND



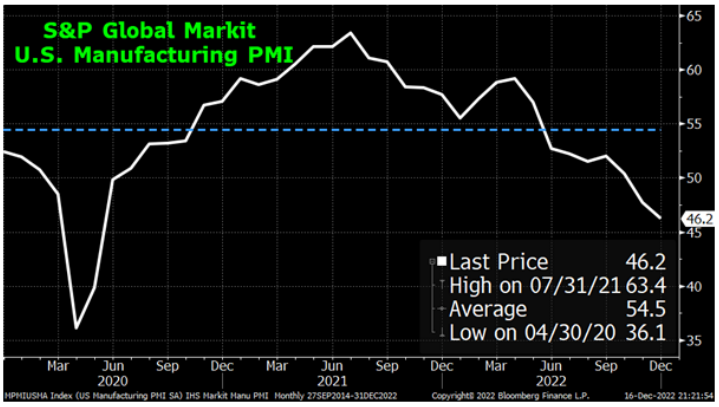


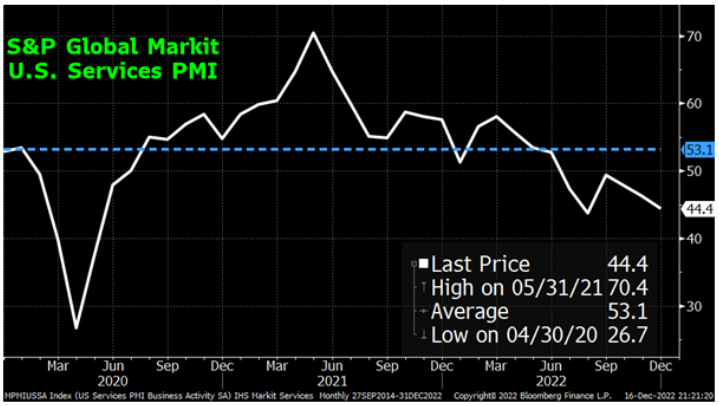
The Empire State gauge of manufacturing activity in the New York area weakened in December to a much-worse-than-expected minus 11.2, down from 4.5 in November. On the other hand, the Philadelphia Fed's measure of manufacturing activity in the mid-Atlantic region improved in December to a reading of minus 13.8, which was below forecasts even as it was up from the minus 19.4 in November. Both indexes of factory activity are in contraction and well below their norms.

…and the U.S. factory and service sectors.

THE PRUDENT SPECULATOR

S&P GLOBAL MARKIT PMI READINGS MOVE LOWER IN DECEMBER





The S&P Global Markit preliminary U.S. PMIs for the factory and services sectors in December came in at 46.2 and 44.4, both below expectations. S&P Global commented, "Business conditions are worsening as 2022 draws to a close, with a steep fall in the PMI indicative of GDP contracting in the fourth quarter at an annualised rate of around 1.5%. Jobs growth has meanwhile slowed to a crawl as firms across both manufacturing and services take a much more cautious approach to hiring amid the slump in customer demand...The upside is that weaker demand has taken pressure off supply chains which had been stretched during the pandemic...In short, the survey data suggest that Fed rate hikes are having the desired effect on inflation, but that the economic cost is building and recession risks are consequently mounting."

Certainly, a recession in 2023 would not be a big surprise, but such an event should not be cause for long-term-oriented investors to reduce their equity exposure,…

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

…especially as there were two economic contractions the last time the Fed had to vigorously fight inflation, yet stocks turned in fantastic returns during the Volcker years.

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

We also note that the odds of recession, as calculated by *Bloomberg*, dropped to 60% last week from 62.5% the week prior,…

THE PRUDENT SPECULATOR

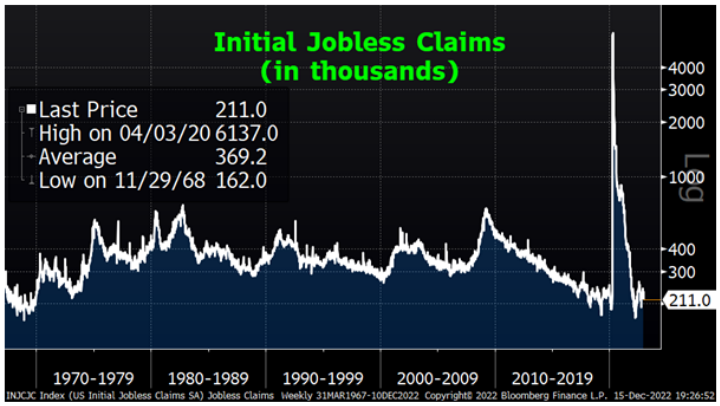
PLENTY OF DOOM & GLOOM TALK, ODDS OF RECESSION NOW 60.0%

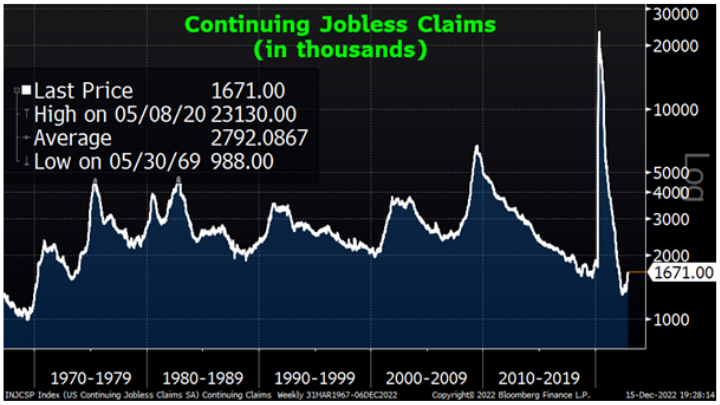
The respective 1.6% and 0.6% contractions in Q1 and Q2 2022 real (inflation-adjusted) GDP means economists could say that the U.S. economy was already in recession, but the odds of an official declaration stand today at 60.0%, even as the consensus forecast for GDP growth this year is 1.8% and 0.4% for 2023.

…while the labor market continued to be very strong,…

THE PRUDENT SPECULATOR

SOLID LABOR MARKET: JOBLESS CLAIMS DIP IN LATEST WEEK





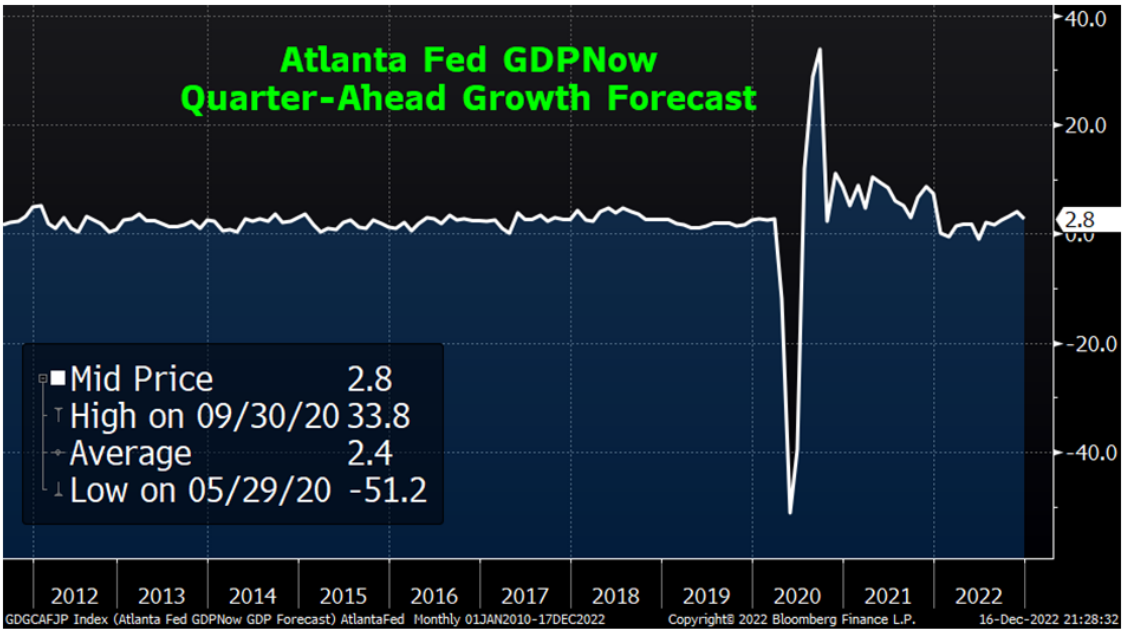
While higher than readings earlier in the year with a 1-handle, yet still coming in near the lowest levels since 1969 when the work force was much smaller, new filings for unemployment benefits for the period ended December 10 were a seasonally adjusted 211,000, down from a revised 231,000 the week prior. Continuing claims filed through state programs held steady at 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 estimate for real Q4 U.S. GDP growth from the Atlanta Fed came in at 2.8%.

THE PRUDENT SPECULATOR

Q4 U.S. REAL GDP GROWTH PROJECTION FALLS TO 2.8%

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 15 stood at 2.8%.



We also point out that at Mr. Powell's Press Conference following the decision on interest rates, the question was asked, "Do you think the soft landing is no longer achievable?" The Fed Chair responded:

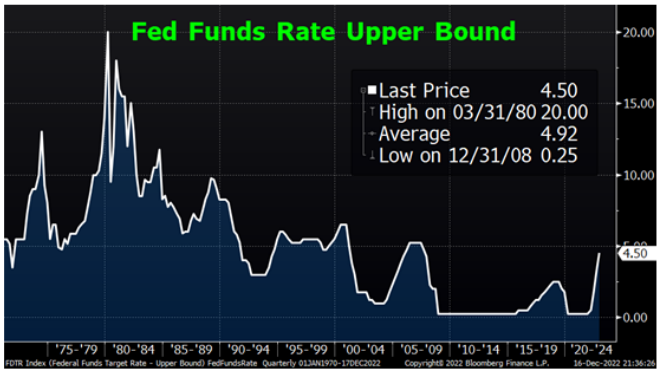
No, I wouldn't say that. No. I don't say that. I mean, I would say this: You know, to the extent we need to keep rates higher and keep them there for longer and inflation, you know, moves up higher and higher, I think that narrows the runway. But lower inflation readings, if they persist in time, could certainly make it more possible. So I just – I don't think anyone knows whether we're going to have a recession or not and, if we do, whether it's going to be a deep one or not. It's just it's not knowable. And certainly, you know, lower inflation reports, were they to continue for a period of time, would increase the likelihood of a – put it this way, of a return to price stability that involves significantly less, less of an increase in unemployment than would be expected given the historical record.

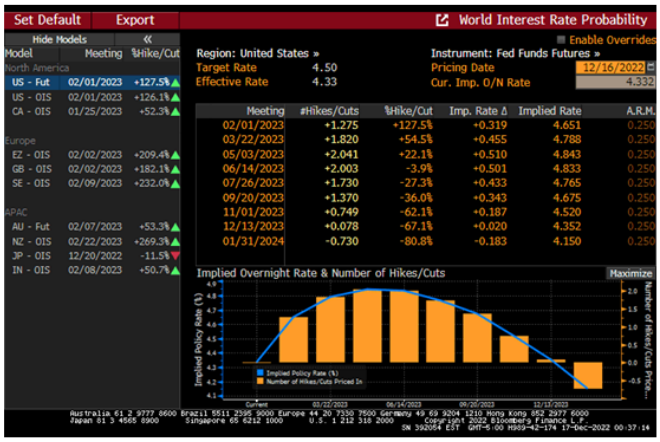
*****

Obviously, nobody knows what the future will bring, including Chair Powell and his colleagues at the Fed, and the Fed Funds futures are presently arguing for a less hawkish approach to monetary policy than what the Fed economic projections suggested…

FED FIGHTING INFLATION – INTEREST RATES STILL BELOW AVERAGE

Although the estimate for real GDP growth in 2023 was pared to 0.5% in December, down from 1.2% in September, the Federal Reserve lifted its target for the Fed Funds rate by 50 basis points this month, following 75 basis point hikes at each of the June, July, September and November FOMC meetings. Jerome H. Powell & Co. are now projecting that the Fed Funds rate will likely end 2023 at 5.1%, but the Fed Funds futures became less hawkish last week as they are now estimating a 4.35% year-end 2023 Fed Funds rate and a 4.84% peak in May 2023, with a pivot lower coming in June or July.





…but the historical evidence shows that, on average, stocks perform fine whether interest rates are rising or falling.

Rates Change and Equities Rise

Beginning Rate	Rate Environment	Start Date	End Date	Large Stocks	Small Stocks	Value Stocks	Growth Stocks	Div. Payers	Non-Payers
9.0%	FALLING	01.31.1970	02.29.1972	15.5%	8.0%	18.5%	13.5%	2.3%	15.5%
3.3%	RISING	03.31.1972	07.31.1974	-9.3%	-19.5%	-8.9%	-23.4%	-30.8%	-9.8%
12.9%	FALLING	08.31.1974	01.31.1977	20.2%	40.9%	38.6%	24.7%	31.2%	25.2%
4.6%	RISING	02.28.1977	06.30.1981	12.1%	35.8%	21.0%	21.6%	36.7%	14.7%
19.1%	FALLING	07.31.1981	02.28.1983	14.5%	21.4%	28.6%	13.5%	7.9%	15.5%
8.5%	RISING	03.31.1983	08.31.1984	11.2%	9.1%	18.1%	0.4%	-6.1%	10.1%
11.6%	FALLING	09.30.1984	10.31.1986	25.1%	14.1%	26.4%	18.5%	11.0%	26.1%
5.9%	RISING	11.30.1986	03.31.1989	11.2%	7.3%	12.4%	6.3%	5.6%	10.8%
9.9%	FALLING	04.30.1989	12.31.1992	13.5%	9.2%	12.3%	13.9%	12.0%	13.8%
2.9%	RISING	01.31.1993	04.30.1995	10.4%	12.7%	10.6%	5.2%	10.6%	9.6%
6.1%	FALLING	05.31.1995	01.31.1999	29.4%	14.1%	24.0%	21.3%	28.6%	27.2%
4.6%	RISING	02.28.1999	07.31.2000	12.1%	30.1%	15.2%	26.7%	36.5%	4.4%
6.5%	FALLING	08.31.2000	12.31.2003	-7.5%	10.8%	10.6%	-9.0%	-17.9%	2.9%
1.0%	RISING	01.31.2004	03.31.2007	9.5%	11.1%	15.2%	7.7%	8.6%	10.5%
5.3%	FALLING	04.30.2007	02.28.2014	5.7%	7.3%	4.1%	8.2%	9.9%	5.6%
0.1%	RISING	03.31.2014	04.30.2019	11.6%	5.7%	7.1%	11.9%	13.5%	10.6%
2.4%	FALLING	05.31.2019	09.30.2021	23.3%	19.8%	20.4%	31.5%	33.1%	20.9%
			AVERAGE	**12.3%**	**14.0%**	**16.1%**	**11.3%**	**11.3%**	**12.6%**
			FALLING	**15.5%**	**16.2%**	**20.4%**	**15.1%**	**13.1%**	**17.0%**
			RISING	**8.6%**	**11.5%**	**11.3%**	**7.0%**	**9.3%**	**7.6%**

So, whether or not there is a Santa Claus Rally in the next two weeks, we retain our long-term enthusiasm for our broadly diversified portfolios of what we believe to be undervalued stocks, as we like the valuations of our holdings,…

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	11.6	11.6	0.8	2.2	2.9
ValuePlus	12.2	12.1	1.1	2.3	2.5
Dividend Income	11.5	11.7	0.7	2.1	3.3
Focused Dividend Income	13.0	12.9	1.1	2.5	2.8
Focused ValuePlus	12.9	12.9	1.2	2.6	2.6
Small-Mid Dividend Value	10.4	10.0	0.5	1.6	3.0
Russell 3000	19.8	17.9	2.0	3.6	1.7
Russell 3000 Growth	27.5	23.7	3.0	8.8	1.1
Russell 3000 Value	15.6	14.5	1.5	2.3	2.3
Russell 1000	19.1	17.7	2.1	3.8	1.7
Russell 1000 Growth	25.8	23.5	3.2	9.2	1.1
Russell 1000 Value	15.3	14.4	1.6	2.4	2.3
S&P 500 Index	18.6	17.5	2.3	3.9	1.8
S&P 500 Growth Index	21.9	20.6	3.8	6.7	1.1
S&P 500 Value Index	16.5	15.6	1.7	2.9	2.3
S&P 500 Pure Value Index	10.5	10.3	0.6	1.5	2.7

As of 12.17.22. 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.

…not to mention the fact that many of our names have recently increased their dividend payouts,…

THE PRUDENT SPECULATOR

PAYOUTS HAVE GROWN OVER TIME – TPS Q4 DIVIDEND BOOSTERS

Dividend Payouts Hit Quarterly Record

By Hannah Miao

Dividend payouts set another record in the second quarter, a reassuring sign to investors who have flocked to steady, income-generating stocks during the market downturn this year.

The companies in the S&P 500 paid out a record $140.6 billion in dividends in the most recent quarter, according to S&P Dow Jones Indices. That is up from $137.6 billion in the first three months of the year and $123.4 billion in the same quarter last year.

Annual dividend payouts have notched new highs every year for a decade, excluding a slight decrease in 2020. Howard Silverblatt, senior index analyst at S&P Dow Jones Indices, expects dividends to set records in the current quarter and for the year as well.

Payments this year are projected to grow at a faster pace than usual, as companies have logged strong sales and are passing on a slice of the elevated profits to shareholders, according to Mr. Silverblatt. He estimates dividend payments will jump more than 10% in 2022 from last year's record $531.2 billion, which would mark the first double-digit increase since 2014.

"Businesses want to send a message to investors that they are in good health," said Brian Jacobsen, senior investment strategist at Allspring Global Investments. "If they can maintain their dividends and grow their dividends, despite the challenges, that tends to signal that they're confident about their business outlook."

Corporate earnings are in focus for investors as inflation hovers at a four-decade high and the Federal Reserve moves to aggressively raise interest rates to curb rising prices. Consumer spending has cooled, and worries of a potential recession lurk.

Investors are eyeing fresh inflation data and the unofficial kickoff of the corporate earnings season this week for the latest reading of how rising prices are affecting consumers and company profits.

The broader equity market has struggled this year amid the challenging crosscurrents, but dividend stocks have seen a resurgence in 2022 as investors seek a regular stream of cash to weather the economic turmoil.

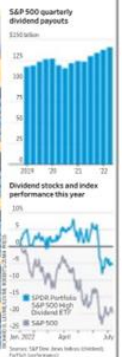
The S&P 500 High Dividend Index, made up of 80 high-yield S&P 500 companies, is down 4.7% in 2022, narrower than the S&P 500's 20% drop.

Among the dividend stocks that are beating the market are **Coca-Cola** Co., **AT&T** Inc. and **Valero Energy** Corp. All three stocks are up for the year and carry a yield of more than 2.5%. **Target** Corp., **Levi Strauss** & Co., **Goldman Sachs Group** Inc. and **FedEx** Corp. are among those that have raised their payouts of late.

The outperformance of dividend stocks highlights the market rotation of 2022.

Please turn to page B11

Levi Strauss is among the major companies that have increased their dividends recently.



Dividend Payouts Increase

Continued from page B1

For the past decade, mega-cap technology shares and stocks with high valuations led the major indexes higher. This year, rising rates and hot inflation turned the market upside down, with investors ditching highflying companies for overlooked stocks like dividend payers that offer greater stability.

Dividends finished the first half as the only investment factor with a positive return, according to a Bank of America analysis.

Companies paying out a slice of their earnings to shareholders typically have a record of strong profits, an appealing trait as investors worry elevated costs and strapped consumers could dent corporate results.

These companies also tend to be in industries like utilities, telecommunications and consumer staples, which consumers rely on regardless of the economic environment.

"They're profitable. They're making money. They're paying dividends. In a rising-interest-rate environment, that's very effective," said Eric Diton, president and managing director of investment advisory firm the Wealth Alliance.

Companies are also using their cash to repurchase their own shares at record levels, with second-quarter buybacks expected to set a high of $286.4 billion, according to S&P Dow Jones Indices.

Corporations tend to favor buybacks over dividends, Mr. Silverblatt said, because share prices typically respond more immediately to repurchase programs.

But the ratio of buybacks to dividends, which is currently higher than the historical average, should come back down as the year goes on and the effects of the tough economic environment increasingly weigh on earnings, he said.

"If companies want to pull back, it'll be towards those buybacks. They're not going to pull their dividends," Mr. Silverblatt said. "Dividends are the last thing you cut. You don't want to tell the whole world you have a cash-flow problem."

Still, the road ahead for dividend growth is tricky, investors and analysts say. Year-over-year comparisons will get harder and rising yields from bonds and other fixed-income assets could prove worthier competition.

"The dividend-growth outlook will be more muted as we go into the next couple of years versus the last year," said Chris O'Keefe, lead portfolio manager at Logan Capital Management. "But the outlook is still attractive for dividend strategies. Consistent growth and earnings and dividends are going to mean a lot more to people in a slowing growth environment than it had in the past."

AP, GETTY IMAGES

Retailer Target recently boosted its quarterly dividend.

Dividends are never guaranteed, but Corporate America has a history of raising payouts, and we think the income investors receive in periods of market turbulence should help folks worry less about price fluctuations.

TPS Undervalued Q4 Dividend Hikers

Symbol	Common Stock	12.16.12 Price	Target Price	Div Yld	Sector
ABT	Abbott Labs	$106.91	$139.87	1.9%	Health Care Equip/Srvcs
AMGN	Amgen	$267.41	$311.86	3.2%	Pharma, Biotech
AMT	American Tower	$213.45	$286.00	2.9%	Real Estate
ARE	Alexandria RE	$144.90	$220.93	3.3%	Real Estate
AVGO	Broadcom	$555.91	$731.45	3.3%	Semiconductors
BMY	Bristol-Myers	$73.49	$101.75	3.1%	Pharma, Biotech
CE	Celanese	$101.53	$188.58	2.8%	Materials
CVS	CVS Health	$95.45	$137.68	2.5%	Health Care Equip/Srvcs
DE	Deere & Co	$431.09	$534.06	1.1%	Capital Goods
KEY	KeyCorp	$16.62	$27.50	4.9%	Banks
KIM	Kimco Realty	$21.23	$29.21	4.3%	Real Estate
KLIC	Kulicke & Soffa	$47.14	$70.83	1.6%	Semiconductors
MRK	Merck & Co	$109.20	$125.28	2.7%	Pharma, Biotech
OZK	Bank OZK	$39.28	$63.74	3.4%	Banks
PFE	Pfizer	$51.40	$72.35	3.2%	Pharma, Biotech
SNA	Snap-on	$225.72	$294.92	2.9%	Capital Goods
TTE	TotalEnergies SE	$59.60	$102.64	4.0%	Energy
WM	Waste Mgmt	$161.79	$183.77	1.6%	Commercial & Pro Srvcs
WRK	Westrock	$35.07	$64.87	3.1%	Materials
XOM	Exxon Mobil	$104.70	$131.91	3.5%	Energy

S&P 500 DIVIDENDS PER SHARE

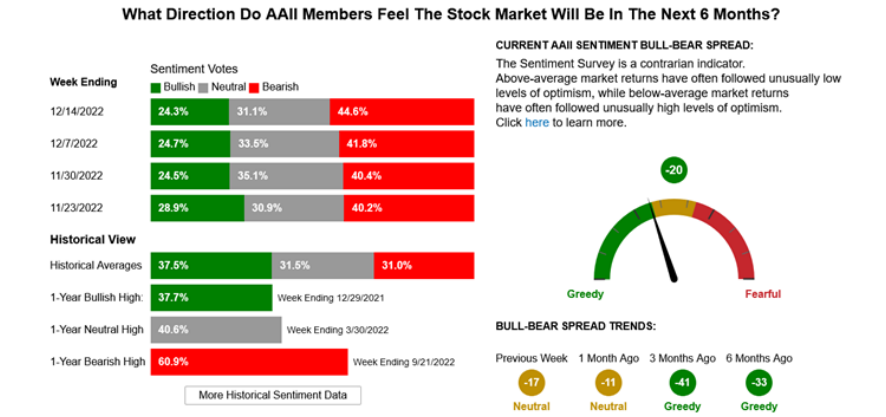
2023 (Est.)	$70.57
2022 (Est.)	$66.14
2021	$60.54
2020	$58.95
2019	$58.69
2018	$53.86
2017	$50.47
2016	$46.73
2015	$43.49
2014	$39.44
2013	$34.99
2012	$31.25
2011	$26.43
2010	$22.73
2009	$22.41

Source: Bloomberg. As of 12.15.22

…while it doesn't hurt that folks on Main Street are giving us a significant contrarian buy signal.

THE PRUDENT SPECULATOR

STILL A MAJOR AAII CONTRARIAN BUY SIGNAL: BULL-BEAR SPREAD = -20.3%



AAII Bull-Bear Spread

Decile	Low Reading of the Range	High Reading of the Range	Count	R3K Next 1-Week Arithmetic Average TR	R3K Next 1-Week Geometric Average TR	R3K Next 1-Month Arithmetic Average TR	R3K Next 1-Month Geometric Average TR	R3K Next 3-Month Arithmetic Average TR	R3K Next 3-Month Geometric Average TR	R3K Next 6-Month Arithmetic Average TR	R3K Next 6-Month Geometric Average TR
Below & Above Median Bull Bear Spread = 7.24											
BELOW	-54.0	7.2	922	0.24%	0.20%	1.14%	1.00%	3.25%	2.86%	6.46%	5.68%
ABOVE	7.3	62.9	922	0.17%	0.15%	0.55%	0.46%	2.01%	1.76%	4.67%	4.19%
Ten Groupings of 1844 Data Points											
1	-54.0	-16.7	185	0.45%	0.38%	2.05%	1.80%	4.49%	3.93%	8.41%	7.15%
2	-16.7	-8.6	184	0.22%	0.19%	0.87%	0.73%	3.33%	2.98%	6.23%	5.46%
3	-8.5	-2.3	184	0.35%	0.31%	1.20%	1.09%	3.21%	2.78%	7.35%	6.64%
4	-2.1	2.8	185	0.10%	0.06%	0.99%	0.90%	2.63%	2.27%	5.43%	4.86%
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	11.7	184	0.21%	0.19%	0.74%	0.66%	2.05%	1.81%	4.85%	4.40%
7	11.8	16.1	185	0.12%	0.10%	0.47%	0.34%	2.40%	2.14%	5.33%	4.83%
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 12.15.22. 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 down to 24.3% and the number of Bears climbing to 44.6% is a positive, with the minus 20.3% Bull-Bear spread in the most favorable (highest future returns) 1st decile of the weekly figures going back to 1987.

Stock Updates

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

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

Shares of **Jabil Inc** (JBL – $69.07) fell more than 3% last week, even as fiscal Q1 2023 results exceeded expectations. The electronics concern reported EPS that beat the consensus estimate ($2.31 vs. $2.22). Revenue also came in higher than the Street target, rising 12% year-over-year to $9.64 billion, driven by 17.4% growth in the firm's Electronic Manufacturing segment and 8.4% growth in the Diversified Manufacturing Segment. JBL's operating margin was 4.78%, which was a slight year-over-year improvement.

Chief Financial Officer Michael Dastoor commented, "Across many of our end-markets, demand has been extremely resilient, particularly in areas that continue to benefit from strong secular

tailwinds like electric vehicles, health care, renewable energy, infrastructure 5G and cloud. We continue to expect these secular markets to expand in the pace of an economic slowdown. At the same time, we also continue to expect some consumer-centric end-markets to underperform year-on-year consistent with our thoughts in September. All together, we still expect good growth in FY ’23, as you’ll see detailed on the next slide. Starting with our automotive business, which continues to outperform despite global supply chain issues as the transition to EV accelerates. We’ve seen this rapid acceleration manifest in FY ’23, automotive revenue growth expected to be in excess of 40% year-on-year. We’re also expecting double-digit year-over-year growth in our health care business, which continues to benefit from an outsourcing of manufacturing trend and has historically been recession-resistant with long product life cycles, accretive margins and stable cash flows. Further, our Industrial business is also expected to expand by double digits this year, fueled by growth in clean and smart energy infrastructure as government legislation, such as the Inflation Reduction Act in the U.S. accelerates investment in the space.”

Mr. Dastoor continued, “And in 5G Wireless, we continue to expect solid year-on-year growth. Infrastructure rollouts are accelerating, and our localized manufacturing capabilities are leading to growth in other geos such as India. We expect these rollouts to play out over the next several years regardless of near-term economic conditions. Within our Cloud business in September, we detailed our plan to shift certain components we procure and integrate from a purchase and resale model to a customer control consignment service model. This transition, in fact, began in November, which is earlier than our expectations 90 days ago. As a result, revenue will be lower than previously expected as an incremental $300 million of components was shipped to the new model. This is in addition to the $500 million of consignment impact we announced in September. Adjusting for this shift, we expect continued robust unit growth in the cloud space in FY ’23 and beyond.”

Mr. Dastoor closed, “We feel the outlook for our business is solid and expect demand across many of our end-markets to remain strong with year-over-year revenue growth at an enterprise level to be approximately 3% for FY ’23 despite an assumed economic slowdown in the second half of the fiscal year. Now turning to the next slide. We have intentionally structured our business with the aim of delivering core operating margin expansion, sustainable earnings growth, strong predictable cash flows and shareholder returns. With that in mind, while we continue to expect growth in our business despite recessionary headwinds, we have identified certain cost savings mainly in our SG&A and support organization for the second half of our fiscal year as we continue to look at doing more with less.”

For Q2 2023, Jabil expects revenue in the $7.8 billion to $8.4 billion range and adjusted EPS between $1.64 and $2.04, while core EPS for the full fiscal year is projected to be $8.40, That latter figure was above the consensus forecast of $8.29, and we continue to like the company’s strong execution, diverse business (which management has worked consistently to improve since 2016) and shareholder-friendly orientation. Jabil expects to repurchase shares at a rate of $150 million to $200+ million per quarter via the existing the total buyback authorization of $1.1 billion.

JBL shares are down 2% this year, which isn't bad considering the broader Tech sector carnage. We think the inexpensive P/E multiple (8 times the NTM estimate) can expand as can the bottom line itself. We like the exposure JBL brings to multi-year tailwinds that we still see in Cloud, 5G and the electrification of automobiles. Our Target Price has been raised to $96.

Shares of **Oracle** (ORCL – $79.58) ended the week modestly lower, even as the company reported fiscal Q2 2023 results that exceeded analyst expectations. In the quarter, the software giant earned $1.21 per share (vs. $1.18 est.) and had revenue of $12.3 billion (vs. $12.0 billion est.). Cloud Services and License Support revenue grew 14% year-over-year to $8.60 billion, while revenue in each of the Cloud License, Hardware and Service segments grew 5% or more y-o-y. Oracle has ramped up its capital expenditures over the last few years, growing from $1.7 billion in fiscal 2019 to more than $6.7 billion over the trailing twelve months.

CEO Safra Catz stated, "CapEx this quarter was $2.4 billion as we continued to invest in our cloud to meet this accelerating demand with triple-digit IaaS bookings growth the last couple of quarters. We now expect to spend about this amount per quarter for the next few quarters as we build capacity for our customers' needs. This level of spend though will not negatively impact our operating margins as we scale. When I talk about accelerating demand, that demand is reflected in the remaining performance obligation or RPO balance, which is now at $61.2 billion, up 68% in constant currency due to strong cloud bookings as well as to Cerner. I will also note that the organic RPO growth rate in constant currency accelerated to 28% in Q2 up from 22% last quarter and approximately 48% of the total RPO is to be recognized as revenue over the next 12 months. Now as we've said before, we're committed to returning value to our shareholders through technical innovation, strategic acquisitions, stock repurchases, prudent use of debt and a dividend."

Looking ahead, Ms. Catz said, "Total revenue for Q3, including Cerner, is expected to grow from 21% to 23% in constant currency and are expected to grow from 17% to 19% in USD. Total cloud growth, including Cerner is expected to grow from 46% to 50% in constant currency and 43% to 47% in USD. I expect the total cloud growth for the fiscal year, excluding Cerner will be above 30% in constant currency. Non-GAAP EPS is expected to grow between 9% and 13% and be between $1.23 and $1.27 in constant currency. Again, due to currency headwinds, non-GAAP EPS is expected to grow between 4% and 8% and be between USD 1.17 and USD 1.21. And as I've said before, Cerner will be accretive to earnings this year, including in Q3."

Founder Larry Ellison added, "During Q2, we signed multiple customers to contracts exceeding $1 billion, infrastructure contracts exceeding $1 billion. Let me be clear, multiple customers signed contracts for $1 billion worth of infrastructure. So given that's been added to our backlog, we expect our infrastructure business to continue to grow very, very strongly into the future. We now have 22,000 infrastructure customers. We have a total of 55 regions. That's public regions plus national security regions and the other kinds of regions and that's more than AWS or Microsoft or anybody, which may surprise some people. Gartner, as Safra mentioned, moved us into the Visionary Quadrant for the first time."

Oracle shares likely would have gained last week, were it not for the broad market retreat towards the end of the week, which pushed the YTD performance into negative territory by

about 7% on a total-return basis. Like JBL, the dip is relatively modest compared to the -18% return for the S&P 500 index or the -27% return for the Information Technology portion of that index. We think the recurring revenue model helps add stability, while customers on older ORCL systems offer a prime opportunity to upsell newer products. Plus, partnerships to bring multi-cloud services to customers with companies like Amazon and Microsoft offer extra opportunity to collaborate. Analysts have trimmed their EPS projections for fiscal 2023 to $4.90, but growth is expected to ramp into double-digit territory again in 2024 and 2025. ORCL shares trade for a cheap 15 times forward earnings, while the calculation with 2026 projected earnings is almost in single-digit territory. We like that Larry Ellison & Co. continue to win new business from major names like Citibank, PNC, Chubb, McDonald's, Tiffany and others. With the pullback, the dividend yield is now 1.6% and our Target Price has been boosted to $116.

Kimco Realty (KIM – $21.23) announced last week that it intends to restructure as an Umbrella Partnership Real Estate Investment Trust, otherwise known as an UPREIT. Through an intercompany merger, the current entity will convert to a Delaware LLC called 'Kimco Realty OP LLC' to be controlled by a new publicly traded entity assuming the REIT's current name. The merger is expected to be effective as of January 1, 2023, with the conversion occurring shortly thereafter, while the stock symbol and CUSIP will remain unchanged.

Kimco says the new structure improves its ability to acquire properties in tax-deferred structures as the operating LLC may issue membership interests to sellers of properties in exchange for a tax-deferred contribution of those properties. CEO Conor Flynn said, "We are very excited to announce our reorganization into an UPREIT, which we believe will enhance our ability to compete in the acquisition of real estate assets by enabling us to offer tax-deferred opportunity to sellers. We believe this reorganization will have no material impact on our existing shareholders, debt security holders, lenders or other constituencies, and will represent an enhanced platform for Kimco's continued growth."

We agree with Mr. Flynn in that there really isn't a material impact on existing shareholders and we continue to like that Kimco has a very diverse mix of tenants (the 5 largest are TJX, Home Depot, Albertsons, Ross Stores and Amazon/Whole Foods Market, which represent just over 10% of annual lease revenue) across its mostly grocery-anchored portfolio of properties. With over a third of annual leases coming up for renewal over the next few years, material rent increases ought to be in the cards. Shares have held up relatively well for a REIT in 2022 amid the market volatility, but trade for less than 14 times per share funds from operations projected over the next year and sport a robust dividend yield of 4.3%. Our Target Price for KIM is $29.

Amgen (AMGN – $267.41) on Monday agreed to buy Horizon Therapeutics Plc in a deal valued at $27.8 billion, in a further push toward rare disease drugs. The deal will be Amgen's largest ever, as the biotech giant has entered into a bridge credit agreement totaling $28.5 billion to help finance the purchase (on top of the more than $10 billion of cash on Amgen's balance sheet at the end of Q3), led by Citi and Bank of America. Management expects the transaction to close in the first half of next year and add to earnings from 2024.

With competition building for Enbrel, Prolia and Otezla (Amgen's top 3 drugs by revenue), it is not a big surprise that the company would continue to pursue these kinds of deals. The price tag

is higher than we would like (at north of 20 times the 2023 EPS estimate), given that the company had to compete against additional interested parties for the purchase. Horizon had announced back in November that it was also in preliminary talks with **Sanofi** (SNY – $46.98) and **Johnson & Johnson** (JNJ – $175.67), who eventually backed out over price concerns.

Nevertheless, growth is anticipated to be robust over the next three to five years, led by two fast-growing drugs: thyroid eye disease treatment Tepezza and gout treatment Krystexxa. Both Horizon medicines have been granted an orphan drug designation by the FDA, which comes with a market exclusivity period if the drug is approved. It also means the drugs would likely not be considered amongst those in which the U.S. Medicare program can negotiate lower drug prices under the Biden Administration's Inflation Reduction Act (IRA).

The Horizon transaction follows Amgen's much-smaller $3.7 billion deal in August for rare blood vessel inflammation treatment maker ChemoCentryx. Murdo Gordon, Amgen's head of global commercial operations said in an interview, "We liked [Horizon], even before the [Inflation Reduction Act]. Given the IRA, the strategic importance of being in these kinds of disease areas with biologics primarily, and with products that have low Medicare exposure and orphan designation, makes it even more attractive."

Our exposures to the health care sector, generally, and Amgen in particular, have performed very well in 2022, markedly outperforming the market year-to-date. AMGN shares had risen nicely in the last month or so on positive data from a trial for its obesity drug (AMG 133) and on data from September regarding its lung-cancer pill (Lumakras) that beat out chemotherapy, the current treatment. However, the stock has cooled a bit on the Horizon news. The dividend was hiked last week and the yield is now 3.1%, while the forward P/E ratio is a reasonable 15. Our Target Price is $312.

Illustrating why our focus is always on the long term and not on short-term fluctuations, shares of **Moderna** (MRNA – $193.29) traded as low as $163 and as high as $217 last week before closing out the roller-coaster ride up 9% from where they ended the prior week. The major catalyst for the big rally for the COVID-19 vaccine maker was that results from a mid-stage clinical study of Moderna's experimental personalized mRNA cancer vaccine for melanoma in combination with **Merck's** (MRK – $109.20) Keytruda were revealed.

The combination demonstrated a statistically significant and clinically meaningful improvement in primary endpoint of recurrence-free survival (and reducing the risk of recurrence or death by 44%) versus Keytruda alone (which already reduced the risk of death or recurrence by 43% vs. placebo in testing).

Moderna and Merck plan to initiate a Phase 3 study in melanoma patients in 2023, which will need to confirm the findings from Phase 2. Nevertheless, the recent data was a terrific win for MRNA not only given the commercial success of Merck's leading drug, but it also adds credibility to Moderna's pipeline outside of respiratory vaccine candidates. There is also potential that a similar combination (which incorporates patient tissue samples) achieves additional oncological indications beyond skin cancer.

The challenges in producing revolutionary vaccines are numerous and are compounded by the dramatic reduction of revenue anticipated from the firm's COVID-19 vaccine in the coming years. Aside from COVID, Moderna also has therapies for three different diseases in Phase 3 trials at present (RSV, influenza & CMV), each of which are potentially $1 billion sales opportunities. We also appreciate the $17 billion of cash and investments on the balance sheet at the end of September. Our Target Price for MRNA is $252.

Looking at Merck, it has had several major successes with Keytruda, Lagevrio, Gardasil and Januvia on pace to each gross well over $3 billion in 2022 (the first 2 clearing that hurdle in a single quarter). We think MRK offers significant growth at a very reasonable valuation, given a deep pipeline and room to add to existing franchises. Shareholders are rewarded with a 2.7% dividend yield, while MRK still trades for a reasonable NTM P/E multiple in the 15 range. The company boasts a history of returning cash to shareholders, a diversified revenue stream and solid free-cash-flow generation. Our Target Price has been bumped up to $125.

Interestingly, on Monday, shares of Moderna and other mRNA-based vaccine developers skidded even as **Pfizer** (PFE – $51.40) projected a $15 billion sales opportunity for its own mRNA franchise (which includes flu, combination flu/COVID and other experimental vaccine candidates) out to 2030. Of course, Pfizer generated more than $60 billion from its COVID vaccine over the past two years, but analysts project that figure to drop to below $10 billion by 2030. The pharmaceutical behemoth is prepared to quadruple the price to offset fewer individuals signing up for its jab in recent months, a move that has caught the eye of more than one politician.

We continue to appreciate the diversity of Pfizer's current revenue base (in addition to COVID-19 therapies) as well as management's increasing confidence for organic growth potential from its emerging pipeline of products as trial data is set to emerge over the next few years. Even as COVID sales are expected to wane in the coming years, the success of the products has loaded up Pfizer's balance sheet with over $30 billion of cash, while the average maturity of its debt is 2034 (with individual maturities as far as 2050). Shares have offered shelter from the market volatility over the past 12 months, especially given a robust dividend yield of 3.2%. PFE trades for less than 11 times expected 2023 EPS and our Target Price is now $72.