Sabrient Systems

Baker's Dozen Commentary – October 2022

October 20, 2022

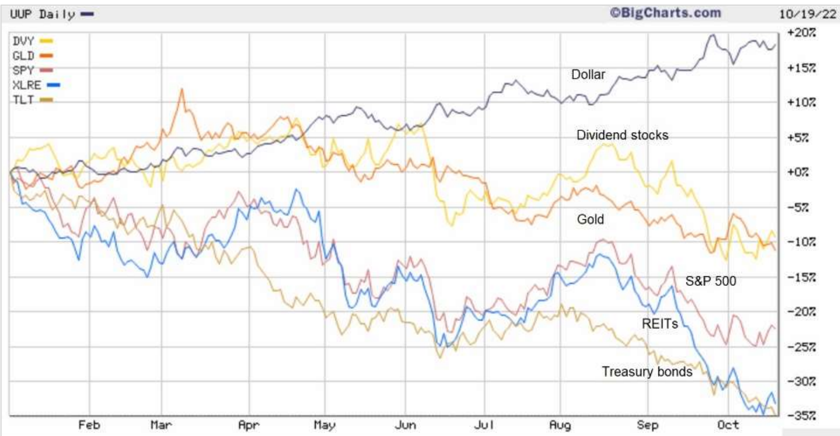
Scott Martindale, President & CEO

Key talking points this month include:

1. Sabrient Systems and subsidiary Gradient Analytics form a **unique collaboration of engineers and forensic accountants** who leverage quantitative models, a **process-driven approach** (led by founder and former NASA engineer David Brown), and **expertise in financial statement analysis** (through subsidiary Gradient Analytics, led by Brent Miller, CFA).
2. Our portfolios displayed **consistently strong performance** in 2009–2014, but then the market became narrow & news-driven, dominated by mega caps and passive index investing, leading to **historic divergences** in Growth versus Value factors and Large versus Small caps, which was challenging for our value-oriented *Growth at a Reasonable Price* (aka GARP) portfolio strategies.
3. In December 2019, we implemented **process enhancements** to make our approach more all-weather, including proprietary new alpha factors *Earnings Quality Rank v2* and *Growth Quality Rank*. Our GARP portfolios now provide diversified exposure to Value & Growth factors, cyclical & secular growers, and across market caps, leading to **significant improvement in performance** relative to the benchmarks for all Sabrient's portfolios … *while maintaining the potential for significant outperformance*.
4. **17 of our 20 live portfolios (including the 2 that terminated this week) are outperforming** (or within 1% of) their benchmarks (gross total return as of 10/19)—*despite* depressed consumer and investor sentiment and elevated market volatility caused by stubborn inflation, war, and a hawkish Fed. These portfolios include ***Baker's Dozen*, Forward Looking Value, Small Cap Growth, and Dividend.**
5. Our **Dividend portfolios have performed particularly well**. Rather than a pure income orientation, we employ a GARP + Income strategy that seeks quality companies selling at an attractive price and displaying a strong EPS growth forecast, a history of raising dividends, a solid coverage ratio, and an aggregate dividend yield approaching 4% or more. *Notably, the new **Dividend 41** portfolio launched with overweights in Energy, Financials, and REITs, and it currently offers a robust **5.4% dividend yield***.
6. The **Q3 2021 *Baker's Dozen*** just terminated on 10/19, significantly outperforming all relevant market benchmarks (including various mid- and small-cap indexes, both cap-weighted and equal-weight). It showed a gross total return of -5.2% versus -12.9% for the S&P 500 (+7.7% active return).
7. The latest FOMC announcement made it clear that the Fed intends to tamp down inflation *at any cost* (including recession, rising unemployment, and a weaker stock market). The 10-year yield has become way overextended as the Fed has "talked up" rates across the yield curve with ultra-hawkish language. Nevertheless, I still believe **inflation and bond yields are in volatile topping patterns** as supply chains gradually recover, the US dollar stays strong, and the Fed reduces accommodation—leading to demand destruction, recession, lower excess demand, and investor flight to the safety and income of elevated bond yields.
8. **Equity valuations have shrunk** to attractive levels, with the S&P 500 and S&P 600 small caps having fallen to forward P/Es of 16.5x and 12.0x, respectively, due to deleveraging and concerns about inflation, recession, war, earnings, and interest rates. If corporate earnings hold up and inflation and interest rates resume their downtrends, as I expect, there may be room for *multiple expansion*. Notably, the **Energy sector** displays a single-digit forward P/E along with solid growth expectations, and so it remains atop our **SectorCast** rankings.
9. We continue to suggest investors ***stay long but hedged,*** with a heightened emphasis on quality and a balance between value/cyclicals and high-quality secular growers & dividend payers. However, passive index returns may be volatile and uninspiring in this macro climate, so the time may be ripe for active strategies that can **exploit the performance dispersion among stocks**, which should continue to be ***favorable for Sabrient's portfolios***.
10. Sabrient's latest portfolios—including the new **Q4 2022 *Baker's Dozen*** (launched today, 10/20), **Forward Looking Value 10** (launched on 7/15), **Small Cap Growth 35** (launched on 8/29), and **Sabrient Dividend 41** (launched on 9/12—and offering a ***5.4% current yield***)—are positioned to outperform passive benchmarks, in our view. Each holds a diverse mix across market caps, Value and Growth factors, and cyclical and secular growth exposures, plus an overweight allocation to the strong Energy sector. (Note the new Q4 2022 *Baker's Dozen* holds 4 Energy names out of 13 positions.) If indeed inflation is on the wane and the Fed is soon to pivot to neutral (or even dovish), ***this seems like a great buying opportunity for our portfolios***.

Market commentary:

Although the historic divergences in Growth over Value factor and Large over Small caps have shown convergence over the past couple of years, this year has brought about an historic disconnect in the traditional relationship between equities and Treasuries. Whereas these two asset classes historically have been inversely correlated during volatile times (thus giving value to the traditional 60/40 allocation), this year they have fallen in concert to an extent that hasn't been witnessed in over 60 years—and Treasury bonds are having their *worst year ever*. Thus, bonds have <u>not</u> served as a traditional safe haven, although dividend-paying equities (aka "bond proxies") have held up relatively well this year. The chart below compares the performance of iShares 20+ Year Treasury Bond ETF (TLT) versus vs. iShares Select Dividend ETF (DVY), SPDR S&P 500 ETF (SPY), Real Estate Select Sector SPDR (XLRE), Invesco DB US Dollar Index Bullish Fund (UUP), and SPDR Gold Shares (GLD).



You can see TLT and SPY are both down well over 20%. The dollar has been quite strong this year—steadily rising since May 2021—while all other asset classes have been weak. Gold spiked higher when Russia invaded Ukraine but has been falling ever since. September has brought heightened uncertainty (including serious nuclear threats from Russia), causing a surge in the dollar and severe selloffs in S&P 500, REITs, and dividend stocks.

But this might change soon. The 10-year Treasury note has quickly spiked to over 4.2% (its highest since the Financial Crisis), while the S&P 500 dividend yield is only 1.7% and its earnings yield (inverse of 16.5x P/E) is 6.0%. So, as the equity risk premium (difference between earnings yield plus dividend versus risk-free Treasury yield) has fallen considerably to 3.5% (versus 5.0% "typical" ERP), there is less upside potential in the P/E multiple, further improving the relative attractiveness of bonds. With recession likely and knowing that capital markets are forward discounting (i.e., already pricing in expected Fed rate hikes), it seems that idle cash will soon flow into bonds. According to the Bank of America Global Fund Manager Survey in mid-September, 62% were overweight cash with an average cash balance of 6.1%—highest since October 2001, following the 9/11 attack—and a risk appetite on par with March 2020 (the pandemic low). The bank labeled sentiment "super bearish."

So, although bond prices keep falling (and yields keep rising) in concert with stocks, there will come a time (perhaps quite soon) when investors can no longer pass up such juicy yields (again, the highest since 2010). This in turn drives down yields, which gives stocks more opportunity for multiple expansion. From a technical (chart) perspective, the 10-year yield is quite overextended after its bullish breakout from a bearish "head & shoulders top," as hawkish Fed *jawboning* has artificially pushed up yields, in my view.

<u>Inflation and supply chains</u>:

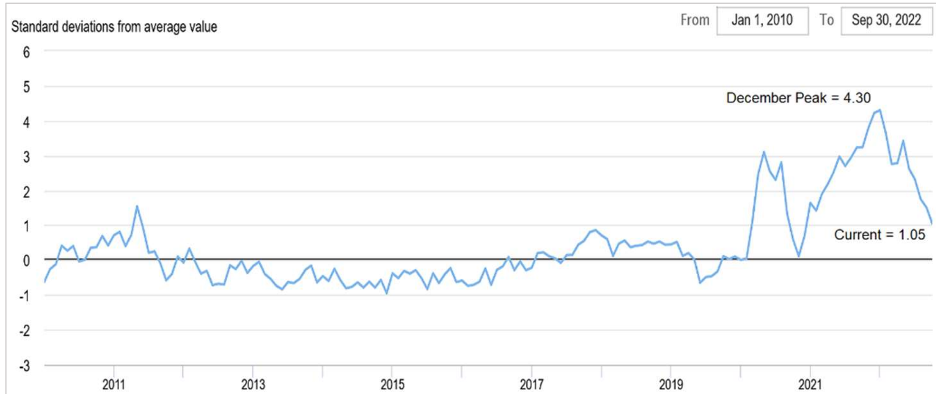
My view is that **artificially disrupted supply chains are a key differentiator** today versus previous periods of high inflation. So, rather than normal economic forces creating supply/demand imbalances, consumer demand quickly snapped back to pre-pandemic levels thanks to governmental monetary and fiscal largesse, while supply was constrained by supply chains (which include manufacturing, transportation, logistics, energy, and labor) hobbled *or destroyed* by forced lockdowns and war. Fed chair Powell even mentioned this in his latest post-FOMC press conference. So, to close the gaping excess demand gap, aggregate demand simply had to be depressed enough to *buy time* for supply chains to gradually mend—*and both are happening*.

After the August Consumer Price Index (CPI) came in hotter than expected at 8.3% YoY, some commentators asserted that inflation has become embedded in the economy and that current readings for food and shelter correlate with prior periods of *structural* inflation. They say the Fed's only solution is harsh monetary policy that drives us into deep recession, and, historically, the fed funds rate must go *above the inflation rate* to get such inflation under control. The September CPI reading on 10/13 also came in above expectations at 8.2%, but it reflects stability and indeed a slight reduction thanks to the energy component (which fell 2.1% after falling 5.0% in August). Shelter, food, and medical care were the main culprits in keeping CPI from falling further.

What has mainly spooked the market has been the continued increase in *core inflation.* After falling in April, May, and June, from 6.5% to 5.9%, it has risen in August and September, clocking in now at 6.6%, which is the highest since 1982. However, it continues to be driven mostly by *shelter* costs (including both rent and owner-equivalent rent), which are just now starting to stabilize (or even recede) as rising mortgage rates and recession fears quell demand. Because CPI is a *lagging* indicator, this dynamic in the housing market is yet reflected but should begin to show up in future CPI prints.

As for the Producer Price Index (PPI), after falling MoM in July and August, September PPI *rose* MoM by +0.4%. However, on a YoY basis, it *fell* once again with a final demand reading of 8.5% (versus 8.7% in August, and a peak of 11.7% in March). Core PPI (less food & energy) remained at 7.2% from August, which maintains the downward trend from the March peak of 9.6%. So, overall, both broad and core PPI seem to remain on a downward trend (albeit volatile, on a month-to-month basis).

However, key prices like oil, commodities, and transportation have fallen precipitously, and wage growth is showing signs of slowing. The New York Fed's Global Supply Chain Pressure Index (GSCPI) has been *falling rapidly*, as shown in the chart below, from a December high of +4.30 to the September reading of +1.05 (number of standard deviations from the average value, aka Z-score). Note that for most large data sets of any kind, it is rare to see a Z-score fall outside the range of -3 to +3, so the December high reflected notably extreme pressures on supply chains, which are coming down fast. The Baltic Freight Index has fallen in similar fashion, having fallen 70% over the past 12 months.



The latest FOMC announcement made it quite clear that the Fed intends to tamp down inflation *at any cost* (even if it means a recession, rising unemployment, and a weaker stock market), with another 125-bp increase in fed funds rate beyond the 75 bps just announced, which would bring the range to around 5% or so. Nevertheless, despite the monotonic surge in yields since August 1, I think it is mainly driven by the Fed's fear-inducing *jawboning*, and I still believe **both inflation and bond yields are in the midst of volatile *topping* patterns**. Which means both should decline soon, lowering the discount rate on long-duration growth stocks, ultimately leading to rising equity prices. The only question is timing, in my view. For the moment, Powell has been mercilessly "talking up" bond yields, while implying there would be no protective "Fed put" to support the economy or stock prices.

On that note, my view is that the fed funds rate has already far surpassed the "neutral rate" given how sensitive the highly leveraged US and global economies (including governments, businesses, and consumers) have become to debt financing costs. Consumer demand is being depressed, and the economy looks heavily burdened.

<u>US dollar, money supply, and corporate earnings</u>:

What I haven't heard the media ask of Fed chair Powell are any questions about money supply. The Fed must ensure a sufficient global supply of dollars in a world hungry for them—given that 85% of foreign exchange transactions, 60% of foreign exchange reserves, and 50% of cross-border loans and international debt are in US dollars. This limits the Fed's flexibility to shrink its balance sheet. Moreover, hawkish US monetary policy diverges from the accommodative policies in Japan and China and massive fiscal intervention in the EU and UK. As a recent Bloomberg headline said, *"The US is Exporting Inflation, and Fed Hikes Will Make It Worse."* So, to keep the dollar from getting any stronger than it already is, the Fed may be forced to ease up on its inflation focus, pause on further rate hikes, and start printing more dollars (and perhaps even buy foreign sovereign debt) *in order to weaken the US dollar* and bolster other major currencies. Perhaps this is why the Fed has been relying so much on tough talk while avoiding talking about M2 money supply—so that it wouldn't have to reduce its balance sheet so much.

Finally, let's not forget about corporate earnings, which along with interest rates are the two most important factors for stock valuations. Analysts forecast 2.4% EPS growth in Q3 for S&P 500 companies, according to FactSet, although <u>Energy</u> is the only sector that recorded an increase in its bottom-up EPS estimate for Q3 2022 during the quarter, at +7.9%. (Note: the new ***Q4 2022 Baker's Dozen*** **holds <u>4 Energy names</u>** out of 13 positions.) Average S&P 500 profit margin is 12.3%, which is down only slightly from last year's impressive 12.7%. However, the narrowing gap between PPI and CPI might suggest some margin compression ahead.

So, how did we end up in a position where we listen with bated breath to every nuanced word from the Fed? And why does the Fed wield so much influence over our investments and livelihoods? Well, first the Fed inflated markets with money supply (i.e., asset inflation) while our elected leaders enacted forced lockdowns and massive transfer payments. It then trickled over into CPI inflation due to broken supply chains, labor shortages, and falling productivity caused by those lockdowns. So, now the Fed is struggling to let the air back out via a "financial lockdown," even as our elected leaders are enacting even more spending programs.

Unfortunately, as voters, we reap what we sow. When usually the wisest course of action would be to do nothing and simply stay out of the way of market forces and the private sector, instead our elected and appointed (i.e., *unelected*) leaders jump into action to make often ill-advised decisions, whether it be interest rate cuts (ZIRP) or massive liquidity injections (QE); new laws, regulations, or congressional spending programs that pick winners and losers; or declarations of national emergency as a pretense to suspend our civil liberties. However well-intentioned it may be, knee-jerk policymaking often causes more damage than it prevents.

Active selection should outperform passive indexes:

The future direction of equities hinges on the trajectory of corporate earnings and interest rates, both of which are largely at the mercy of the trajectory of inflation, Fed monetary policy decisions, and the state of the economy (e.g., recession). I believe inflation and bond yields are in volatile topping patterns (including the recent "blow-off top" in the 10-year Treasury yield to over 4.2%). Supply chains are gradually recovering (albeit hindered by Russia's war) and the Fed is creating demand destruction, recession, and a global investor desire for the safety and income of elevated Treasury yields. Also constraining the Fed's ability to shrink its balance sheet is a world hungry for dollars (for forex transactions, reserves, and cross-border loans), a massive federal debt load, and the reality that a rising dollar is painful to other currencies by exacerbating inflationary pressures for our trading partners and anyone with dollar-denominated debt service.

The biggest risks of course are catastrophic escalation in the war, or untamed inflation coupled with a rapid withdrawal of liquidity…or the possibility that central banks' disinflationary tools of yore are no longer effective. But if inflation and nominal yields continue to fall, real yields (nominal minus inflation) should follow, leading to a neutral Fed pivot, improving corporate profitability, rising earnings, and perhaps some multiple expansion on stock valuations (e.g., higher P/Es).

Furthermore, it seems likely that passive index returns may be volatile and uninspiring, so the time may be ripe for active strategies that can exploit the performance dispersion among individual stocks. On that note, Sabrient's new portfolios—including the brand new ***Q4 2022 Baker's Dozen, Forward Looking Value 10, Small Cap Growth 35,*** *and* ***Dividend 41*** ***(sporting a 5.4% yield!)***—leverage our enhanced model-driven selection approach (which combines Quality, Value, and Growth factors) to provide exposure to both the longer-term secular growth trends and the shorter-term cyclical growth and value-based opportunities. By the way, all reflect an overweight allocation to the Energy sector. [Notably, the Energy Select Sector SPDR (XLE) sports a forward P/E of only 8.5x.]

Notably, last quarter's Q3 2022 *Baker's Dozen* launched on 7/20 with 23% Energy exposure and already shows a +7.6% active return, and the new **Q4 2022** ***Baker's Dozen*** just launched with 31% Energy sector exposure.

Performance Update:

Sabrient's GARP model combines growth, value, and quality factors while searching across all market caps to find opportunities. Our portfolios include the quarterly *Baker's Dozen*, Dividend, and Small Cap Growth portfolios, and the annual Forward Looking Value portfolio. As I have explained in the past, market divergences in 2018-19 (especially due to the trade war with China) were different from anything we had seen in developing our longstanding high-performing model and portfolio selection process, and it severely impacted our performance as well as most other value-biased strategies. In response, we implemented new process enhancements in December 2019 to produce portfolios displaying a better balance between cyclical and secular growth companies and across market caps, lower volatility relative to the benchmarks, and greater portfolio resiliency (i.e., "all weather"). Indeed, the enhanced process has improved relative performance across all our portfolios, as has the market's rotation away from speculative growth toward a preference for value and quality.

Baker's Dozen & FLV - Gross return thru: 10/19/2022

Portfolio	Launch	Close	Gross Return (FTP website)	SPY Return	Active Return
FLV 9	7/7/21	10/17/22	-8.8%	-14.0%	5.2%
Q3 2021 BD	7/20/21	10/19/22	-5.2%	-12.9%	7.7%
Q4 2021 BD	10/20/21		-8.8%	-17.3%	8.5%
Q1 2022 BD	1/20/22		-12.6%	-16.6%	4.0%
Q2 2022 BD	4/20/22		-10.6%	-16.4%	5.9%
Q3 2022 BD	7/20/22		1.4%	-6.3%	7.6%
FLV 10	7/15/22		4.8%	-3.9%	8.7%

Sabrient Dividend - Gross return thru: 10/19/2022

Portfolio	Launch	Close	Gross Return	SPY Return	Diff
Div 34	12/21/20		13.3%	2.7%	10.6%
Div 35	3/19/21		-4.2%	-3.3%	-0.8%
Div 36	6/22/21		-2.2%	-11.3%	9.1%
Div 37	9/20/21		6.1%	-13.8%	19.9%
Div 38	12/20/21		-0.6%	-18.1%	17.5%
Div 39	3/18/22		-10.2%	-16.4%	6.2%
Div 40	6/15/22		-4.0%	-2.0%	-2.0%
Div 41	9/12/22		-8.1%	-10.0%	1.9%

Small Cap Growth - Gross return thru: 10/19/2022

Portfolio	Launch	Close	Gross Return	IWM Return	Diff
SCG 31	9/8/21		-0.7%	-22.3%	21.6%
SCG 32	12/6/21		-14.0%	-20.8%	6.8%
SCG 33	3/4/22		-14.7%	-13.0%	-1.7%
SCG 34	6/1/22		-12.3%	-6.4%	-6.0%
SCG 35	8/29/22		-7.3%	-8.1%	0.8%

In fact, **17 of the 20 live portfolios** (including the 2 that terminated this week) are outperforming or staying even (within 1%) with their benchmarks [i.e., S&P 500 (SPY) and Russell 2000 (IWM)] despite the bear market this year. As shown in the **table**, gross total returns through 10/19 come from the ftportfolios.com website (without transactional sales charge).

Notably, our **Sabrient Dividend Portfolio** has been performing quite well. It is different from most high-yielding dividend products in that it seeks both capital appreciation and reliable income by identifying quality companies selling at an attractive price with a solid growth forecast, a history of raising dividends, a good coverage ratio, and a target dividend yield in of 4% or more (note: Dividend 41 is currently *yielding 5.4%*).

Update on the terminating Q3 2021 *Baker's Dozen* Portfolio:

The **Q3 2021 *Baker's Dozen*** terminated on 10/19. Like all our portfolios, it was selected based on Sabrient's *forward-looking* GARP selection approach that relies upon the consensus EPS growth estimates of the sell-side analyst community.

It launched on 7/20/2021 with an overweight (54% vs. 24% in the benchmark) in attractively valued "deep cyclical" sectors (Financials, Industrials, Materials, and Energy), i.e., 7 positions out of 13, plus 2 from Consumer Discretionary. It was slightly underweight (31% vs. 40% in the SPY) for secular growth Technology and Healthcare (4 positions). As for Value vs. Growth exposure, the portfolio launched with 38% allocation (5 positions) to the Growth factor, versus the benchmark's 60% weight (as the cap-weighted index is dominated by mega-cap Growth stocks). Lastly, it had a small-mid cap bias relative to the S&P 500 large cap benchmark, with 2 large, 7 mid, and 4 small caps (although top-performer ON Semiconductor has grown into a large cap since launch).

As shown in the **table**, about half the holdings have met or exceeded EPS estimates, yet *11 of them have been subjected to significant P/E multiple contraction*. Over the life of the portfolio (7/20/2021-10/19/2022), the gross total return of the model portfolio is **-5.2% versus -12.9%** for the S&P 500 index and **-20.3%** for the Russell 2000. So, it has <u>held up much better</u> than all relevant market benchmarks. Top performers include **ON Semiconductor (ON)**, which makes semiconductors for electric vehicles and power solutions, insurer/reinsurers **Arch Capital Group (ACGL)** and **Everest Re Group (RE)**, and packaging maker **Greif (GEF)**.

Q3 2021 Baker's Dozen Portfolio							
Ticker	**Company Name**	**Sector**	**Return**	**Fwd P/E at Launch**	**Current Fwd P/E**	**Est. NTM EPS Growth at Launch**	**Actual EPS Growth**
ON	ON Semiconductor Corporation	Information Technology	71.1%	17.0	12.6	87.8%	182.5%
ACGL	Arch Capital Group Ltd.	Financials	28.6%	11.0	11.5	126.7%	82.4%
RE	Everest Re Group, Ltd.	Financials	19.4%	8.2	10.8	193.7%	24.4%
GEF	Greif, Inc.	Materials	14.6%	10.3	8.7	63.0%	79.1%
HRI	Herc Holdings Inc.	Industrials	-2.2%	14.4	8.3	15.2%	60.9%
VSH	Vishay Intertechnology, Inc.	Information Technology	-6.5%	9.7	7.0	82.5%	73.8%
CNHI	CNH Industrial N.V.	Industrials	-7.6%	13.4	8.6	72.7%	14.8%
KLAC	KLA Corporation	Information Technology	-8.8%	17.6	12.3	30.4%	45.5%
BLD	TopBuild Corp.	Consumer Discretionary	-17.1%	17.0	10.3	36.2%	55.0%
TEX	Terex Corporation	Industrials	-24.0%	14.6	7.7	174.6%	36.8%
TOL	Toll Brothers, Inc.	Consumer Discretionary	-24.3%	7.6	4.2	66.1%	63.0%
AMAT	Applied Materials, Inc.	Information Technology	-40.9%	17.9	11.5	35.1%	23.5%
XPO/GXO	XPO Logistics / GXO Logistics	Industrials	-44.7%				
	Average		**-5.2%**	**13.2**	**9.5**	**82.0%**	**61.8%**
SPY	SPDR S&P 500 ETF		-12.9%				
RSP	Invesco S&P 500 Equal-Weight ETF		-10.2%				
MDY	SPDR S&P 400 MidCap ETF		-11.5%				
IWM	iShares Russell 2000 ETF		-20.3%				
EWMC	Invesco S&P 400 MidCap Equal-Weight		-10.7%				
EWSC	Invesco S&P 600 SmallCap Equal-Weight		-15.4%				

Of course, in a concentrated 13-stock portfolio, one or two breakout winners can offset several losers, and ON has been the big star, offsetting laggards like trucking firm **XPO Logistics (XPO)**, which spun off part of its operations as **GXO Logistics (GXO)**, semiconductor equipment maker **Applied Materials (AMAT)**, construction machinery maker **Terex (TEX)**, and homebuilder **Toll Brothers (TOL)**. Notably, TOL and homebuilding materials firm **TopBuild (BLD)** both either met or beat EPS estimates and have solid forward growth forecasts, and yet they are both down around 20% with forward P/Es that have been slashed by 40%! We have heard this story before, when fearful investors apparently don't believe (or care about) Wall Street's consensus estimates.

Introducing the new Q4 2022 *Baker's Dozen* Portfolio:

The <u>**Q4 2022 *Baker's Dozen***</u> just launched today, 10/20. Its 13 holdings are shown in table below, along with statistics on forward valuation, consensus next-12-months (NTM) EPS growth expectations, forward PEG ratio (P/E divided by EPS growth) and two key scores: Earnings Quality Rank (EQR, 1-5 scale, with 5 the best) and Growth Quality Rank (GQR, 1-10 scale, with 10 the best).

The portfolio has a diverse mix across market caps, with 6 large caps, 6 mid-caps, and just 1 small cap; a 6/7 split between value and growth stocks; and a 7/6 split between cyclical and secular growers. As for sectors, there are 4 Energy names, 2 Industrials, 2 Materials, 2 Financials, 1 Healthcare, 1 InfoTech, and 1 from Consumer Staples.

Ticker	Company Name	Sector	Industry	Mkt Cap ($B)	NTM EPS Growth	Fwd PE	Fwd PEG	Div Yield	EQR	GQR
ALK	Alaska Air Group	Industrials	Airlines	5.3	91.1%	8.5	0.09	0.0%	4	6
BOX	Box Inc.	Information Technology	Application Software	3.9	35.0%	20.9	0.60	0.0%	4	10
DAR	Darling Ingredients	Consumer Staples	Agricultural Products	12.0	49.7%	11.7	0.24	0.0%	4	9
DE	Deere & Co.	Industrials	Agricultural & Farm Machinery	112.1	40.0%	13.7	0.34	1.2%	4	6
DVN	Devon Energy	Energy	Oil & Gas Exploration & Production	47.1	41.3%	7.3	0.18	8.9%	5	10
EWBC	East West Bancorp	Financials	Regional Banks	10.0	35.3%	8.0	0.23	2.2%	5	9
GPK	Graphic Packaging	Materials	Paper Packaging	6.5	32.1%	9.3	0.29	1.9%	5	6
HAL	Halliburton	Energy	Oil & Gas Equipment & Services	29.0	65.6%	13.0	0.20	1.6%	3	7
IMO	Imperial Oil	Energy	Integrated Oil & Gas	31.0	57.8%	6.9	0.12	2.1%	5	8
LNTH	Lantheus Holdings	Health Care	Health Care Supplies	4.8	66.4%	19.4	0.29	0.0%	5	10
MUR	Murphy Oil	Energy	Oil & Gas Exploration & Production	7.0	128.0%	6.0	0.05	2.3%	3	8
NTR	Nutrien Ltd.	Materials	Fertilizers & Agricultural Chemicals	44.0	32.4%	6.8	0.21	2.4%	3	8
PGR	The Progressive Corp.	Financials	Property & Casualty Insurance	70.9	70.9%	20.0	0.28	1.6%	5	9

Some are familiar names, like **Deere & Co (DE)** and **Alaska Air Group (ALK)**, while others are more "under the radar," like industrial package maker **Graphic Packaging (GPK)** and medical diagnostics firm **Lantheus Holdings (LNTH)**.

By the way, the **table** to the right shows our latest *SectorCast* ETF rankings of the 10 US sector iShares. You can see that the current rankings favor cyclical sectors—with Energy by far leading the pack.

Sabrient SectorCast ETF Rankings (as of Wednesday 10/19/2022)		
Dow Jones U.S. Sector	Tracking ETF	Outlook Score
ENERGY	IYE	96
TECHNOLOGY	IYW	75
HEALTHCARE	IYH	68
CONSUMER DISCRETIONARY	IYC	59
TELECOMMUNICATIONS	IYZ	51
INDUSTRIALS	IYJ	48
BASIC MATERIALS	IYM	42
CONSUMER STAPLES	IYK	40
UTILITIES	IDU	27
FINANCIALS	IYF	12

You can find more detail on this portfolio by downloading the full Holdings report on the *Baker's Dozen* website: https://bakersdozen.sabrient.com/bakers-dozen-marketing-materials. The report describes each of the 13 stock picks in greater detail, including a brief description of each company and what makes them attractive. You also can download my latest slide deck and market commentary. In addition, I go into greater detail on market conditions and outlook in my periodic **Sector Detector newsletter** and blog post, which you can find (and subscribe to for free) on the **http://Sabrient.com** homepage.

Final Comments:

As a reminder, Sabrient implemented **process enhancements** in December 2019 to our GARP model and *"quantamental"* portfolio selection methodology (which uses the quantitative model as a prescreen and then uses a fundamental review and final selection approach that includes forensic accounting analysis by our Gradient Analytics subsidiary).

This has made our portfolios more "all weather" by reducing volatility relative to the benchmark and allowing companies that display *consistent and reliable earnings growth* to score more competitively in our value-biased GARP model, even if they display somewhat higher valuations. The enhanced process seeks to provide exposure to both the *longer-term secular* growth trends and the *shorter-term cyclical* growth opportunities … *without sacrificing the potential for significant outperformance.*

Indeed, with relative performance looking good once again, we believe Sabrient's portfolios – including the new **Q4 2022 *Baker's Dozen*** (launched today, 10/20), **Forward Looking Value 10** (launched on 7/15), **Small Cap Growth 35** (launched on 8/29), and **Sabrient Dividend 41** (launched on 9/12, and today offers a ***5.4% yield***)—are positioned to outperform passive benchmarks.

If indeed the market is pounding out a technical bottom, inflation is retreating, and the Fed is soon to pivot to neutral (or even dovish), ***this may be a great buying opportunity for our portfolios***.