SPREE CAPITAL
ADVISERS

Weekend Thoughts 10/22/22

<u>Net:</u> Federal Reserve speakers continue to express caution over the speed of interest rate increases, citing their concern over lagging variables' response to rate front loading and the risks of over-tightening. Businesses are looking for efficiencies in their cost structure and are showing some trepidation on committing to longer term expansion plans given macro uncertainty. Distribution costs are easing, and supply chains continue to heal. Retailers are preparing for a promotional fourth quarter as inventory is worked down. CPG companies are embarking on continued price increases and seeing favorable elasticities across their customer base with a modest percentage of consumers trading down. Credit performance in delinquencies and net charge offs remain strong given tight employment levels and strong consumer balance sheets.

- Information Technology
  - ASML Holding (ASML)
    - "We expect sales in the quarter to be higher as we continue to work through supply chain issues and reduce cycle times"
    - "With demand expected to remain significantly above supply and based on discussions with our customers, we're planning to increase our system output next year."
  - Snap Inc (SNAP)
    - “we are investing in driving scalable, lower funnel performance for our advertising partners and making improvements to our ad platform and Auction Dynamics so that we can continue to deliver strong returns on advertising spend.”
    - “Our camera has evolved into a leading platform for augmented reality."
    - "Advertising has become more technical as signals and measurement continue to evolve."
    - "in Q3, the deceleration in revenue growth was really observed across both our direct response and the brand advertising business, with the direct response advertising growing modestly faster than the overall business, while the brand-oriented advertising business declined slightly year-over-year in the quarter.”
- Communications
  - Omnicom Group (OMC)
    - "we are internally acting as if the markets are going to be extremely difficult. -- increasing our productivity in a couple of different areas is extremely important, and we're in the process of taking action and having very detailed conversations. . .We have real estate, which leases expire throughout 2023 and 2024. And with a new approach towards flexible working hours, where we believe we're going to be able to reduce our real estate footprint globally. . .In terms of people and payroll, we're taking it seriously to look at our processes at a very granular level through each of our subsidiaries, looking to offshore where it's appropriate."
    - "in the last 2 recessions, it's been pretty evident that companies that continue to market through those recessions, prospered and came out of them more quickly than ones that just focused on cutting costs indiscriminately"
    - “If you look at media, you look at all the providers that are out there that have decided to go to add an advertising model to the products that they're offering. You

see our automotive manufacturers, promoting their progress that they're making with the car of the future being a communication device driven by electric power as opposed to gasoline power. . .There's enough fundamental changes that are going on in the marketplace that have kept the marketers keen and very interested in making certain once again that their brands are recognized and differentiated so that when consumers make choices, that their brands are seriously considered."

    - "the product is also much closer and much more important in the consumer journey and probably more relevant in terms of brand awareness as well as the actual completion of the sale. Influencers didn't exist in 2016, they exist today. PR takes a leading position in things like that"
    - "digital has taken over the majority portion of how we speak to various groups of consumers. And there's been a an ever-increasing number of providers of interesting digital sites, information, which have their own following, which are omni product. . .retail media is a new -- relatively new entry into the marketplace. And during COVID, it had an explosion."
    - "we continue to look for efficiencies in the cost structure. It's a flexible cost structure. We've been pursuing opportunities for offshoring outsourcing automation. . .And we've got a number of open positions and access to a flexible workforce that we could fill those positions if we need to with contractors and a flexible workforce rather than with permanent people in some cases"
- Consumer Discretionary
  - Hasbro, Inc (HAS)
    - "We've also seen the average consumer become increasingly price-sensitive as the year has progressed, impacting point-of-sale trends. Promotions and entertainment field demand have become increasingly important and will be key in the quarters ahead."
    - "I think whatever happens on the macroeconomic front, we have 7 blockbuster films and 20 TV shows coming out that are very front half loaded”
    - "We are actually seeing reduced distribution costs. . .I think all supply chain is easing up a bit. The one exception, I would say, is still paper "
    - "So retail inventory is up, as we said at the end of the quarter, but it's of good quality. And we have a lot of promotional activity planned for the fourth quarter."
  - Lithia Motors (LAD)
    - "In the third quarter, provisions as a percentage of managed receivables remained stable, averaging 2.7%. And Delinquency rates across the industry and for DFC increased in the quarter overall, but DFC did see a decline in September month-over-month rates."
    - "Given the shifting macro environment, we have adjusted some of our focus towards improving our operational efficiency. . .We're proactively working to refine our cost structure in response to these trends with curbing discretionary spending and realigning compensation plans. Given the likely GPU and volume decline in the months ahead, we think it's prudent to strengthen our liquidity and maintain the quality of our balance sheet."
    - "we are starting to see some manufacturers, mainly the domestics that are starting to have better inventories"
    - "I believe that we're leaning more towards a positive SAAR increase rather than a negative. And I think beyond that, I think GPUs will subside probably by midyear"
    - "at some point, there's going to be a greater amount of disequity . . .that disequity

is going to push people into new car dealerships, which is a massive advantage. . .that disequity has to be absorbed in the financing or offset by cash down. . .Today and in the future, in the coming quarters, that additional disequity means they got to find cars that have more margin to absorb their disequity and that moves you really to new cars that are more of a staple diet, not high demand car that eventually will have incentives again on them to absorb that disequity."

    - "if there's a relaxation in pricing, I believe that consumers -- there's enough pent-up demand of people that are sitting on the fence because they weren't -- they can't rationalize the idea of paying MSRP for a car that I think that will be a tailwind for us in the future."
- Netflix, Inc. (NFLX)
    - "As it’s become clear that streaming is the future of entertainment, our competitors – including media companies and tech players – are investing billions of dollars to scale their new services. But it's hard to build a large and profitable streaming business – our best estimate is that all of these competitors are losing money on streaming, with aggregate annual direct operating losses this year alone that could be well in excess of $10 billion, compared with our +$5-$6 billion of annual operating profit. For incumbent entertainment companies, this high level of investment is understandable given the accelerating decline of linear TV, which currently generates the bulk of their profit. Ultimately though, we believe some of our competitors will seek to build sustainable, profitable businesses in streaming - either on their own or through continued industry consolidation. While it’s early days, we’re starting to see this increased profit focus - with some raising prices for their streaming services, some reigning in content spending, and some retrenching around traditional operating models which may dilute their direct-to-consumer offering. Amidst this formidable, diverse set of competitors, we believe our focus as a pure-play streaming business is an advantage."
    - "we don't see a lot of members switching plans."
    - "the initial demand that we're seeing is very strong. So people are very excited about the proposition of bringing their brands and their ads to a bunch of consumers around the world that are watching our shows."
    - "our job is to move from that into more of what we expect from a digital world, where we have 100% signed-in audience, fully addressable, fully targetable, and so we can start to layer in additional targeting capabilities over time."
    - "we want to start with an experience that's very pro-consumer, consumer centric. And so that's definitely informed both our ad load and thinking about the frequency capping."
    - "lower price helps with churn. And so I think that there'll be some positive dynamics there."
    - "Bob Iger said that linear TV was going off a cliff. . .And what we -- or what I underappreciated was just the impact on advertisers. They're just being able to reach fewer people. And then the 18 to 49 demographic is even faster than the decline in pay TV. So this is what is really fueling the cycle is that really collapse of linear TV as an advertising vehicle outside of a few properties like sports."
    - "focusing on subscribers in our early days was helpful. But now that we have such a wide range of price points, different partnerships all over the world, economic impact of any given subscriber can be quite different. . .So that's why we've been increasingly focused on revenue as our primary top line metric. . .And this is going

to be, I think, even more important as we head into 2023 and we develop new revenue streams like advertising and paid sharing, where membership growth is only one aspect of the revenue picture."

        - "you'll start to see a bunch of people focus on sports and bringing that over to on-demand. And then think of how mobile telephony just slowly replaced fixed-line telephony, and that was even before smartphones, right, just on the convenience. And you're just going to see it grow every year for many years ahead and makes TV a lot more convenient, more enjoyable. . .I think you'll see around the world smart TV is continuing to get to every home in the world that has a TV."
    - Winnebago Industries (WGO)
        - "we continue to believe that growing interest in the outdoors by an increasingly diverse range of consumers are lasting in the long term"
        - "As market conditions have recently downshifted, we have exercised further rigor and a focus on sustainable long term value by constantly adjusting production in certain business segments to calibrate to the needs of our dealers and the end consumer demand levels."
        - "Concerning calendar year 2023, we believe industry RV shipments will likely trend closer to a range of 400,000 to 410,000 units for that period, slightly lower than the latest RVIA forecast. For retail, we estimate 450,000 RV units for calendar year 2022."
        - "The good news is on many of our raw materials, particularly steel, aluminum and lumber, we have seen a significantly better environment over the course of the last calendar year. Steel is candidly probably, on sort of the spot market, 50% cheaper than it was at its peak. Aluminum is probably 30% cheaper than it was at its peak. And lumber candidly, is probably 60%, 65% cheaper than it was at its peak. . .We are, however, continuing to see some cost pressure in areas where the supply chain is still constricted. Motorized chassis is a good example of that because of the semiconductor situation and the automotive capacity limitations."
        - "We've not yet heard of any change in that mix of cash buyers versus finance buyers.”
- Consumer Staples
    - Procter & Gamble (PG)
        - "Raw and packaging material costs, inclusive of commodities and supplier inflation, have remained high since we gave our initial outlook for the year in late July. . .Freight costs have also remained high. . .we believe this is a rough patch to grow through, not a reason to reduce investment in the business."
        - "With the price increase and inflationary pressures, we see volume contracting by about 1 point or 2. And that is consumer behavior around entry inventory reduction, stretching purchasing cycles and maybe being a bit more careful in terms of dosing."
        - "We are also seeing consumers moving to different price points."
        - "In terms of volume elasticity, in my earlier remarks, as I said, we feel very encouraged by the fact that we were able to realize 9% of pricing in organic sales growth and effectively only see about a point of reduction in volume, which speaks to favorable elasticities"
        - "We adjust in the execution of the second pricing round for many of our brands. We took pricing on all our categories in the last fiscal year, covering about 80% of sales. We're now in the second round covering about 85% of sales, and that's what we see flowing through in the first quarter. Many of these price increases in the second

round are being executed in September and October."
        - "in aggregate, we are not seeing broad enough relief on the input side to offset some of the inflation that is also coming from our suppliers."
- Financials
    - Ally Financial (ALLY)
        - "prime continues to perform quite well. . .we actually observed some of our competitors lowering price in the quarter to try to capture volume."
        - "employment remains very tight and should [buoy] stronger-than-expected credit performance relative to historical norms. So net-net, we still see a strong and well-positioned consumer and the portfolio seasoning largely in line with expectations at this point."
        - "As pandemic tailwinds normalize, we expect delinquencies and net charge-offs to migrate above 2019 levels. We expect normalized delinquencies of 3.4% to 3.8% versus 3.1% in 2019, and we expect losses to migrate towards1.6%, which is 30 basis points higher than 2019."
        - "we are watching Carvana closely. . . our exposure while we do have retail commitments out there, there are price determinations. [indiscernible] allows us if we don't want the paper, you can indirectly influence that by a pricing decision. . . So in terms of retail exposure to us, it's -- the paper is performing quite well. In fact, I would say on a like-to-like basis, their credit performance performs every bit is good, if not, a tick better than our own auto -- core auto dealer originated paper."
    - Bank of America (BAC)
        - “Third, there's plenty of capacity for borrowing as credit and card balances of BAC are still 12% both pre-pandemic levels, and the payment rates on those credit cards are 1,000 basis points over pre-pandemic levels. . .A perspicacious analyst might wonder whether talk of inflation recession and other factors would fructify in a slower spending growth. We just don't see here at Bank of America. Year-to-date spending of $3.1 trillion through September is up 12% compared to last year. Second, as you look across the period, you can see in the trend of year-over-year spending.
        - “Average deposit balances of our consumer customer remained at high levels relative to a year ago. These balances are still multiples of the pre-pandemic periods, and they were largely unchanged at these elevated amount for the month of September.”
        - “early or late-stage card delinquencies, they all remain well below our pre-pandemic levels. These are decades-old lows, and we’re just now seeing gradual move off these lows and early-stage delinquencies. Late-stage to links are still 40% below pre-pandemic levels. Keep in mind, asset quality metrics were strong even before the pandemic.”
        - “If they remain unchanged for the rest of the year, this is the only the first time since 1976, that both equity and bond markets were down for the year.”
        - “we're seeing improvement in the credit book”
    - Bank of New York Mellon Corporation (BK)
        - "Year-to-date, we have reduced DV01 by about 50%. Duration is also the lowest it's been in a really long time"
    - Blackstone (BX)
        - "The third quarter of 2022 was a continuation of one of the most difficult periods for markets in decades. . . inflation, rising interest rates and a slower economy,

combined with ongoing geopolitical turmoil, have created an extremely difficult environment for investors to navigate. The traditional 60-40 portfolio is down over 20% year-to-date, its worst performance in nearly 50 years and sentiment in almost all areas is likely to remain negative, given the Fed's commitment to continue increasing interest rates to combat inflation."

    - "we do think we'll see a slowdown there. It's just inevitable. When you take the cost of capital from 0% to 4% and debt capital widens even more with spreads widening, people start to think about deleveraging, paying down their debt. They're less focused on expansion. There's more caution and that's going to lead to a slowing that will happen over time. And that's what we're anticipating, and that's what we're telling our companies. . .we're in a much better spot as a global economy than we were back in '08, '09. We don't have the same kind of overleverage we had back then in housing, in commercial real estate, in banking institutions."
    - "say the reason hard assets are interesting in an environment like this is because the replacement cost goes up pretty significantly. In inflationary environment, the cost to build the labor cost, which is a big component has gone up and probably the largest input cost of money goes up significantly. And the yield on cost that you need to build a new project goes up. . .So what you see happen in an environment like this is you start to see a reduction in new supply, which is obviously helpful in the long term and these hard assets are beneficial because they don't have much exposure to input costs. . .So as it relates to institutions, yes, they become more cautious in this environment, so they don't allocate quite as much. They pause, we've seen this before. . .unlike almost every other down cycle, what we have going into this, particularly in rental housing is low rates of vacancy and limited new supply and a lot less leverage."
    - "say about our investors is they've been at this a long time, the institutional ones in particular, and they don't want to just be procyclical. So they know that to leave growth equity after the tech market sold off in a big way, doesn't make a ton of sense. The same thing in private equity. And if you went back to the early 2000s, you went back to '08, '09, leaving these sectors and time prices go down is not the best decision."
- Goldman Sachs Group (GS)
    - "Global economy continues to face significant headwinds. Inflation remains high. Central banks are rating interest rates at a pace not seen in decades. Meanwhile, equity markets are well off the recent highs. Geopolitical instability and energy shocks are an ongoing concern, and GDP growth expectations are declining. Many of these trends accelerated towards the end of the quarter. For example, while our own financial conditions index has indicated steady tightening all year, we saw a sharp increase in the index starting in mid-August. Everywhere I go, macro themes dominate. My conversations with CEOs, they tell me that they are rethinking business opportunities and would like to see more certainty before committing to longer-term plans."
- Interactive Brokers Group (IBKR)
    - "IBKR is now the sixth largest provider of prime brokerage services by number of funds, and we feel fairly confident about moving to be #4 in the current year, right behind Morgan Stanley, Goldman and JPMorgan."
- MarketAxess Holdings (MKTX)
    - "We have seen especially strong growth in our international business with nearly

    1,000 client firms now active including strong growth in Asia. As traditional sources of liquidity have become scarce, the importance of our diversified liquidity pool increases, and further enhances our leading market position."
    - "While current trading conditions are extremely volatile, we believe higher bond yields create a better investing and trading environment. We maintain our view that bond trading velocity will grow in the years ahead due to growing bond market participation and increased adoption of trading automation."
    - "The way we view the SEC's proposal is the policy goals of the proposal are sound. The market will benefit from centralizing clearing at DTC of treasury activity because of the net settlement benefits that DTC provides and the guaranteed settlement that DTC provides. So organizing the market to have more centralized clearing is favorable to the overall market."
    - "It's not anything I've ever seen in my career. And in fact, in the last 20 years, if you look at the high-grade index, the worst year we've had was down about 4%, and here we are down 22% year-to-date."
    - "We still feel very strongly that debt in the world is going to continue to grow as it has been. And we really feel that the increase in participation in automation over time will increase velocity, but there are a number of factors that are contributing to some challenges in the very near term on market volume growth."
- M&T Bank Corporation (MTB)
    - "credit remained stable....Net charge-offs were $63 million in the third quarter compared to $50 million in this year's second quarter. The reserve build was largely due to changes in economic assumptions included in our reserve methodology as well as growth in our consumer portfolios."
    - "We continue to expect credit losses to remain well below M&T's legacy long-term average of 33basis points"
    - "I've been reading the press about peak rates and peaks. I think you see a little bit more into next year. But I think it starts to peak in either the first or second quarter and come down a little bit. But when you look at what the average is likely to be for 2023 versus 2022, it's going to be up, and it probably exits the year at a pretty solid level but it will start to work its way down as we go through 2023 and into 2024."
- SVB Financial Group (SIVB)
    - "We continue to see strength and momentum in our underlying business. I think it's really important to highlight given all the other factors that are going on. We got global fund banking term sheets near record highs, new client acquisition at all-time highs, strong credit quality, record core fee income."
    - "Market volatility arising from a number of global issues has reduced private and public investment in the innovation economy. And this investment reduction, combined with elevated cash burn is clearly pressuring deposit flow."
    - "on average, when venture capital gets invested in a quarter, we capture roughly half of that. And that was still true this quarter."
    - "the major competition last year was equity. This year, clearly, it's harder to raise money. . And so -- or people want insurance policies. So debt is now back in vogue. So the level of activity, new clients coming on board and delivering term sheets, the pipeline, the backlog, and this is specifically in the technology and life science area across all loan products is actually -- has been very healthy."
    - "are we doing anything different or being more cautious about who we're lending to being a little bit more particular. And the answer is, of course, yes."

        - "If we just kind of look at the dynamics of the loan portfolio, again, we talked about it, over 90% of that is variable rate, and we're seeing on the commercial lending side, in particular, close to a 90% beta coming through on that lending."
        - “banks and other -- the nonbanks are being very conscientious of their cost of funds. . . there's a lot less downward pricing -- pressure on the spread there and a little bit more neutral this time, maybe neutral to some possible bias to it the spreads expanding a bit."
        - "our clients continue relative to past cycles continue to have more robust liquidity. . .we did not see it translate to an increase in nonperforming loans or loan losses."
        - "if we start to see cash burn slow. . .you can start to see inflows on the deposit side pretty quickly. And from there, as we mentioned in the past, we have the ability to start to either pay down borrowings very quickly or redeploy some of those funds off the balance sheet."
        - "you remember what happened in COVID, it was cut your cost. It's going to be a horrible situation. They did that and then literally 90 days later, 120 days later, people said, no, we were just kidding, I can raise more money and increase your burn. So the COVID call it, fake out was definitely 1 that I think is still in some of their heads. So do I think it's fully set in across the board? The answer is no."
        - "As we think about next year, slowing cash burn, potentially seeing venture investments start to pick up, you could very quickly start to be in a spot where you need that capital to be able to support growth on a go-forward basis. So I think the way we're thinking about it is that you've got that pent-up amount of venture flows waiting to be deployed"
        - "we talked about $0.5 trillion worth of funding that's been raised what's really stopping that from being deployed is the disconnect and valuations between public equity markets that are bouncing around and the expectation of all these amazing founders that are management teams that are working on these ideas"
        - "To the extent that we see Fed pause or slowdown, I think that's going to start to bring some more certainty into public market valuations, reduce that uncertainty and really start the flow of funding across our markets."
- Healthcare
    - Danaher Corporation (DHR)
        - “we continue to see strong demand across the developed markets despite current macroeconomic and geopolitical events. North America's core revenue was up high teens with all 3 segments delivering double-digit or better core revenue growth. Core revenue in Western Europe grew high single digits with customer activity and funding levels remaining healthy."
        - "We also saw modest improvements in material availability, though certain electronic components remained difficult to procure."
        - "So what we're seeing right now is really the normalization of the marketplace coming from a red-hot pandemic fuel time of constraint a long lead times for orders ramped up significantly. So order rates ramped up significantly to the supply chain now normalizing and customers adjusting their order cadence."
        - "We continue to think about price as a lever for us. And we think that lever is available to us next year as well."
        - "There's a lot of headlines in Western Europe and emerging markets, but to date, our business momentum does not indicate any dramatic slowdown here. And so we think mid-single-digit plus from today's point of view, for the base business is the

right way to think about it."
        - "we don't believe that there is a general overstocking in the market. Having said that, we do think there are pockets where inventories are high. And those are based on customers ultimately changing their production plans, in other words, canceling orders specifically for COVID."
    - Intuitive Surgical (ISRG)
        - "during the quarter, we slowed our hiring pace, adding approximately 530 employees lower than the 700-plus employees we have added per quarter in the last 3 quarters. ...As part of our planning process, we are also conducting a review of our capital expenditure priorities and we'll provide an update as to the outcome of this review on the next call."
        - "As we've spoken to customers, and this is mostly anecdotal, you do see some input that staffing pressures are easing a little bit, particularly with respect to vacation rates and labor costs."
    - Johnson & Johnson (JNJ)
        - "So if we start off with immunology, yes, I mean the market will be experiencing a significant event, at least in the U.S., with some competitive biosimilars coming in against other assets. We do anticipate that, that will cause a bit of disruption"
- Industrials
    - Alcoa Corporation (AA)
        - "While the industry is certainly seeing challenges in the short term, we continue to believe the future of our commodity is bright as energy scarcity and decarbonization goals are expected to positively influence the aluminum industry's fundamentals"
    - CSX Corporation (CSX)
        - "Looking forward, there is obvious macroeconomic uncertainty as the Fed remains committed to raising rates and addressing high inflation. Given this backdrop, the team is highly focused on its efforts to drive strategic growth opportunities that target truck and expand CSX's addressable market. As you've seen, our select site program continues to facilitate new customer partnerships. Last month, a key emerging domestic lithium supplier for the EV and battery markets announced the construction of a $600 million refining and manufacturing facility on a CSX serve site in Tennessee. We also have several other potential projects in various stages of development. We continue to see customers investing in new projects across our network"
        - "In terms of other revenue, what we've said for a while here is that we do expect it to normalize as supply chains get back to normal."
        - "One, with the increased service performance and the manpower that we're putting on that increases our capacity, which we now can leverage to quickly provide for our customers. I've had the opportunity to reach out and have video calls with about 8 of our largest customers over the last couple of weeks. And almost every single one of them has told me directly to our -- CEO or COO of all those customers, they've all told me that when you deliver a better service and more reliable, predictable service, we want to do more business with you."
        - "Coal mines are -- have been undercapitalized, quite frankly, and now have a lot of money in there looking for equipment, reinvesting. And so I anticipate it will get better."
        - "Inflation doesn't show any signs of abating here more broadly outside of labor and recognize that some of our costs are based on lagging indicators, meaning they'll

get set based on where the inflationary rates are in 2022 for next year. So there's no doubt we'll be in a sustained inflationary environment going into next year between labor and some of those outside party contracts that we have. That being said, we've been carrying extra costs here throughout the year as the network has not operated the way we would have wanted it to based on not having enough crews in the right places. That problem is rapidly getting fixed here. You can see it in the numbers over the last couple of weeks. And so some of those costs are probably going to be a bit sticky going into the fourth quarter. But as we get into next year, I think there's plenty of opportunity for us to drive some efficiencies and take some of the cost out to help offset the inflationary headwinds that we're going to see."

- Dow Inc (DOW)
  - "As macroeconomic conditions began to erode in the quarter, we responded quickly by implementing a set of actions to prioritize resources toward hiring products, align production rates to supply chain and logistics constraints as well as demand, and reduce operational costs across the enterprise."
  - "In the U.S., healthy consumer spending and low unemployment rates have supported resilient underlying demand."
  - "industrial intermediates and infrastructure, the supply demands is through the middle part of the decade look good on MDI. Where we've seen market weakness is in consumer durables. . .it's housing and construction where we've seen the biggest weakness and then, of course, appliances closely related to that."
  - "Infrastructure is going to continue to be strong. There are stimulus packages out there, many governments around the world, and that tends to pull a lot in Functional Polymers, which we just about. It will pull some polyurethanes and construction materials that will pull some in coatings in that infrastructure space"
  - "The consumer demand has been strong, especially consumer nondurables, consumer discretionary has been good. I would say big ticket items, like I mentioned, have already slowed this year. So if anything, there's a chance for upside next year. I think that same is true on automotive. Automotive has really been supply constrained. And so we get through some of that, and we'll start to see that move up. . .we're starting to see prices come down in bulk commodities. It takes those prices a while to work through the fabrication shops and get themselves into the price of a product that a consumer would buy in the store. So those prices have come down through the year, and I think you'll start to see those show up in the consumer markets next year. And that may actually help things improve"
- Generac (GNRC)
  - “While shipments of Commercial & Industrial products performed as expected, Residential product sales were pressured during the quarter. . .installation capacity for home standby generators continued to grow but still lagged our production output during the third quarter. This has resulted in higher field inventory levels and lower home standby generator orders from our channel partners than previously expected even as end customer demand continues to be strong driven by elevated power outages"
- Genuine Parts Company (GPC)
  - "The pricing environment remains rational, and we're pleased with the ongoing positive impact of our strategic category management initiatives. We expect sales inflation in the fourth quarter to be largely consistent with the third quarter."

    - "All of our end markets, we're seeing super strong growth. We track 15 different industries. All are performing very well. We called out a few in the script, equipment machinery, food products, iron steel, automotive, mining, oil and gas. And I'd tell you, geographically, we're seeing strength pretty broad-based, including Canada and Mexico as well as our service business, fluid power automation conveyance. So are the customers just like everybody trying to predict what happens in 2023, certainly, those discussions happen when we were out in the field. But the backlogs are strong, and the recent trends have been strong. So we feel bullish about certainly closing the year and then coming into next year with some momentum."
    - "As we turn the corner into the next year, I think we'll see continued pressure on labor costs and on product cost at this point. We're going to continue to pass along inflation impacts to protect our gross margin rate."
- J.B. Hunt Transport Services (JBHT)
    - “While some improvement has been seen in rail service and company hiring challenges, in particular with our driver force, we continue to face difficulties in equipment availability for growth and replacement, along with the uncertainty of the direction of macro conditions."
    - "Further evidence has presented itself over the course of the quarter that requires an increased level of caution and awareness on broader demand trends and economic activity."
    - "From a cost perspective, we continue to experience inflationary pressures across most areas of our business but primarily around labor, equipment, including both parts and labor and in the area of claims."
    - "Today, so far in October, volumes have rebounded from weaker demand in September."
    - "Similar to last quarter, we continue to see pressure in the spot or transactional market and volume but also in rate and margin. Similar to last quarter, our published or contractual volume was up double digits on a percentage basis year-over-year in the quarter, offset by our spot or transactional business down double digits."
    - "historically, Intermodal prices haven't fallen and haven't moved to the magnitude that truckload rates maybe have at times. And the ability -- what's different this cycle is that ability for us to shed costs that I've highlighted. I mean, I think that the pricing strength of these last 1.5 years of pricing activity is because all of our costs are up so much. And I mean that's J.B. Hunt's cost, that's our rail providers' cost and it certainly is drayage activity in the industry, equipment costs more. It's everywhere you look, there were really significant cost increases. And so to me, that's one of the biggest differences moving forward. How does the industry shed some of that cost? And productivity is a big part of that. So some of our ability to move in that area really depends on how much additional productivity we can get out of our resources, both our assets and our people."
- PPG Industries (PPG)
    - " our sales performance was an all-time record, driven by continued realization of real-time price increases that are now fully offsetting total cost inflation. Total cost inflation includes generational -- high commodity cost inflation, energy, logistics and other employee-related cost inflation."
    - "commodity supply disruptions continued to ease in the quarter, and we expect further improvements as we progress through the second half of 2022. This includes much better raw material availability as inventories at most of our suppliers have

vastly improved."
    - "we are converting higher prices to improve margins. During the quarter, our operating earnings improved each month. This strong progress is being reflected in the positive momentum of our operating margin recovery as we improved sequentially -- sequential quarterly margins by 200 basis points and anticipate further improvement in the third quarter."
    - "Outside of a few commodities, we expect supply chain conditions to continue to improve, including better raw material and transportation availability, as our suppliers' production capabilities are returning to a more normal condition"
    - "In the third quarter, our 2-year stacked raw material inflation is expected to be about 40%, up a low single-digit percentage sequentially versus the second quarter. We'll continue to prioritize implementing further real-time selling price increases, and we expect a quicker offset versus historical lags, similar to what we delivered in the second quarter."
    - "with the fact that what's going to be different this time is, look, in the U.S., we have full employment and you have people with a lot of money in their pockets. And so even if the Fed overtightens, I'm still looking for people to maybe partially slow down. But it's not going to be anything significant. I would say that right now, there's a strong likelihood that people are going to continue to spend money in the U.S."
    - "I do think that we're going to keep a lot more raw materials in our pocket. So if you do see a raw material decline, I think that's going to flow through the P&L a lot quicker than you think. And I think that's a little bit of what people are missing in this analysis."
- Tractor Supply Company (TSCO)
    - "We continue to operate in an ever-changing and challenging macro environment. We can beta for a recession, but from our view, real economic growth in the near to medium term remain flattish and tepid. On the positive side, a great sign is that we're seeing moderation in supply chain bottlenecks. However, inflation remains persistent and elevated and we anticipate this to continue well into 2023 with some moderation in the back half of 2023. At the same time, the labor market continues to remain very constrained, and we expect that this will remain the case for the foreseeable future, particularly on the front line. And as we move into next year, the labor market will be a key determiner of our country's ability to return our economy to sustainable conditions."
    - "In regard to inflation, while moderating, we continue to see increasing costs in the commodity inputs in our product categories, as well as underlying variables like higher labor wages and transportation costs impacting both us and our vendor partners."
    - "I mean many of our investments are just now starting to reach significant scale, and we expect that they will pay substantive dividends next year. We're now at over 500 stores and are fusion layout seeing very strong results there. Many of those will be comping for the first time next year."
    - "So we feel like the economy is stable. We -- our outlook on the economy is not much different than what it is right now."
    - "We don't foresee a scenario of deflation in any near-term time horizon. '23 or into '24. If you look at where our retailers are now and just flow those through into the first half of the year, we're going to be at mid- to high single-digit inflation. And then fully expect that, that will moderate into the back half, both as we start to navigate

reducing COGS increases but also, hopefully, as the economy PPI and CPI and other kind of inflationary indexes, start to moderate as well. But I don't foresee at all a scenario of deflation in the near -- in any time horizon over the next few years. What I would say on some of those commodity-based products, we're well past just kind of core supply demand out there and the market is moving like they had 4, 5, 6 years ago in a normal environment. We're now in a market where even they've got higher input cost, whether it's fertilizer, and et cetera, that just has not come down. And even if it comes down, it's only coming down in a moderate way. They've got higher labor cost 10, 15, 20 points above a couple of years ago, and there's significant capacity constraints. I mean if you look at pet food, there are significant capacity constraints in the pet food market right now. So that's going to limit cost. That's going to limit any cost decreases that come. It's just the dynamics of the way the supply demand is shaping up right now."

- United Airlines Holdings (UAL)
    - "there are 3 industry tailwinds prevailing the COVID recovery for aviation and United . . .First, aviation uniquely is still in the COVID recovery phase. . .Second, there's been a permanent structural change in leisure demand because of the flexibility that hybrid work allows. With hybrid work every weekend to be a holiday weekend. That's why September, a normally off-peak month was the third strongest month in our history. People want to travel and have experiences and hybrid work environments untether them from the office and give them the newfound flexibility to travel far more often than before. . .And third, the strong demand environment is happening against the supply backdrop that currently has the industry,10% to 15% smaller relative to GDP than it was in 2019 and the multiple constraints, pilot shortages, aircraft delivery shortages from both Boeing and Airbus, air traffic control saturation and airport infrastructure constraints around the world are all real and they are constraints that will take years to fully resolve."
- Union Pacific Corporation (UNP)
    - "Although overall volume was up, we undoubtedly had less demand on the table as we continue to improve service across the network."
    - "The forecast for Industrial production is decelerating, and...Overall, we still foresee a favorable demand environment for the fourth quarter."
    - "markets are softening a bit and that is resulting in a slight reduction in our overall volume expectations, now more in the range of 3% growth for full year 2022."
    - "We're seeing some evidence that they're spending more on the services right now than the goods. We're seeing that show up in the parcel shipment, and so we're going to just watch that pretty closely week to week."
    - "We still have an issue with trying to get boxes off the inland ramps and process through warehouses. There's a lot of inventory sitting in warehouses right now. And the U.S. consumer is going to have to chew through that for us to be able to get street times and boxed well on the destination side back to normal"
    - "There are going to be some headwinds into next year. Inflation is quite real. But as we look at rolling up a budget and starting -- or really at the tail end of putting our plan together, for sure, we are confident we can get pricing above inflation."
    - "we saw second week of September, mid-September, and it probably lasted for a couple of weeks, a dip in our carloads, probably more noticeable in our Premium network than it was in our carload network."
    - "it's safe to say that there was less in the third quarter than the second quarter, and

as we're entering in the fourth quarter, there's less again."

- Federal Reserve
  - Daly
    - “We are at or near neutral rate”
    - “We are now at the point in policy where we must be thoughtful. We need to do everything in our power not to overtighten”
    - “If you continue to tighten until the lagging variables of unemployment and inflation return to a steady state, you could easily over-tighten”
    - "rental price inflation is starting to slow, we don't want to be too reactive as that can lead to overtightening"

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