Weekend Thoughts 12/10/22

Net: The problems of the last 18 months continue to heal. Inflationary trends continue to soften, and while the period of peak wage inflation has likely passed, the response in wages remains slow. Companies are talking up productivity and cost efficiencies as elasticity starts to wane. Consumer balance sheets remain strong but are slowly being worked off. Treasuries were unchanged on the week as the market looks ahead to next week's November consumer price index release and the December Federal Open Market Committee meeting. Strong consumer balance sheets and healthy employment rates continue to represent stabilizers that neutralize a severe recession from taking hold.

- Information Technology
    - GitLab Inc. (GTLB)
        - "Every company needs to be great at developing, securing and operating software or they will be disrupted. They're increasingly turning to DevSecOps as a central pillar of their software innovation strategy. We see a shift from a legacy approach where IT managers stitch together a patchwork of homegrown and third-party tools. While some of these tools may be best-in-class, the market is clearly moving away from point solutions towards a single application, a platform for the entire software delivery life cycle. "
        - "Fueling these results are a number of key aspects of our business model that I would like to discuss briefly. These include the predictability of a subscription model that provides high visibility, a platform sale rather than a point solution with very little revenue based on consumption, a diversified customer base across industry verticals, customer sizes and geographic regions and a short implementation cycle with an established and well-documented ROI. These attributes contribute to the results we are seeing. To illustrate this, customer cohorts from 7 years ago are still expanding today. Despite the ongoing volatility in the macroeconomic environment in the third quarter, we see customers continuing to prioritize the need to leverage a mission-critical platform to build software better, faster, cheaper and in a more secure manner."
        - “we're starting to feel some impact with the macro. . .The good is we land small and expand. We talked about cohort 7 years ago we're still expanding today. The cohort 7 years ago are expanding at the same rate that cohorts 2 years ago were expanding at. And so we're still seeing great expansion in cohorts from 7 years ago. Also, we had our largest first order quarter in company history. Our first orders grew over 75% year-over-year on an absolute dollar basis. And there's this overall trend to move to platforms. We provide a great ROI. We're super cost efficient and the time to value is what people are seeing. Some of the watch points that we're looking at is, I think all companies today are looking at expenses. It reminds me of right when COVID first hit, everybody just sort of clamped down, we had a V recovery. And so I think right now, every company is looking at expense. And I think that this is actually impacting us a little in expansion. Obviously, it didn't impact us on first order, being a mission-critical platform. People are trying to see how they can get more efficient and our ROI provides a -- there is a small uptick in contraction."
        - "We've had great gross retention. It's been about the same for the last 4 quarters.

So no major uptick there. And then also, we aren't seeing the sales cycle elongate that actually shrank again this quarter, but we are seeing more scrutiny on deals."

  - "We have sort of 2 controls over the business. One is pipeline, and we have great visibility into the pipeline. We have all the data on win rates, coverage ratios and so forth, and the other is open headcount. And so we'll continue to drive growth we'll do it responsibly and we'll monitor those demand drivers on a regular basis."
  - "In U.S. versus rest of the world, our pipeline remains healthy all over the world. . .It remains healthy all over the world because we have such a long tail of customers, and there's really -- there's not a few customers that are heavily weighted towards making up a large percent of our revenue, they're all acting relatively about the same."
  - "some of the watch points is we're seeing a slight uptick in contraction. And so maybe some of those companies who did a layoff where we were more fully penetrated, they've cut back in a couple of licenses. And we have seen some of the deals require greater scrutiny. And so where this is typically done at sort of a division department basis, we may require CFO approval or some C-level approval to acquire new software. . .it was more towards the end of the quarter. I will note, though, that in the closed deals, the overall deal cycle did not elongate. It actually shortened by a couple of days, but we are starting to notice more scrutiny on some of the deals and requiring more sign off at higher sort of seniority."
- Pure Storage, Inc. (PSTG)
  - "data continues to explode at an unprecedented rate and customers more and more, companies are trying to take advantage of that data. And quite simply, Pure Storage is the sole company that looks upon data storage and management as high technology. It's been promoted as a commodity by our competitors for literally for decades. We came in with a very different approach and really focused on investing in data storage as if it's high technology. . .It's what allowed us to be the sole company in data storage that continues to grow at double-digit rates and taking market share left and right."
  - "In our July quarter, we referenced the fact that we started to see, meaning in that last month primarily, we started to see lengthening of deal cycles, and then we saw it for all 3 months in the last quarter. So we are seeing lengthening of deal cycles, more checks controls inside the customer base, which is like in the sales cycle. What we've not seen is what we refer to as demand destruction. We haven't seen deals just being taken off the table."
  - "What is interesting, and it's actually been a benefit to us as we are working through the additional conversations with customers as they're going through their own internal approval process, the concept of TCO is really becoming relevant to the customer. They're wanting to understand that in a lot more detail. That's an advantage for us. And we're actually seeing some wins when we get through that TCO conversation holistically in terms of moving us across the finish line to close some of these deals. So there's some benefits coming out of this as well that we're seeing."
  - "Well, so to be clear, when flash first came out in enterprise storage, we competed against disk there, but it was for primary storage, which was much faster disk in much more expensive environments, right? And so we could compete at that level. And today, about 100%, so all of primary storage now in the enterprise market is flash, right? And we have a continuously growing market share there. What -- there

was this huge price delta between there and what is still secondary tier storage. And yes, the price of flash is getting -- and with our intellectual property is getting to the point where we can compete for that. And we think we're at least 2 to 3 years ahead of our competitors in that space."

- “I think the other thing to think about is as we look at the broader Tier 2 environments and workloads as we compete with the near-line disk opportunities, when we first started out with primary storage, it really was about price performance. As we look at this next set of opportunities, some of the other elements are becoming very, very impactful as well, right? The energy savings, the density, the footprint savings, where these workloads may not be as performance demanding, but they're large, right? They're large. They're messy. And so some of these other elements that feed into that TCO argument that Kevan was talking about start becoming very important. And this is an area where we've got a significant and structural advantage built in based on our differentiated technology. The fact that we can work with the run and chips where our competitive set is really limited to working with highly transformed and then consequently more expensive enterprise SSDs. Not only does that open up a tremendous amount of flexibility and agility to us in terms of navigating the NAND road maps and the different vendors in the space there, it -- also the economics don't necessarily travel on the same curves with the same volatility. And throughout that process, we've got a multiyear advantage and lead in taking the QLC technology and putting it into enterprise applications."
- “I'll just then add the same is true in the hyperscalers. They've not developed flash management technology as we have. We've been working on it for 10 years. And every new release of a new flash chip requires characterization, requires modifications to that software. So we believe that we have several years of opportunity to bring down the power space and cooling in a hyperscaler data center."
- “For the first time last quarter, mostly in Europe but a couple in Asia as well. We started seeing deals close solely on the basis of the power savings."
- “We think about it in several ways. First of all, we want to make the public cloud a customer, right? So the best way is not to compete with the public cloud. It's actually to feed the public cloud. And we are working hard on that. We have one proof-of-concept with Meta. We have others with, for example, the SaaS players, ServiceNow, et cetera. So we still view that as an opportunity. Secondly, what we'd say is that as we're starting to see, although it's anecdotal, but repatriation because of it's -- the cloud is a great deal when you're in development because you don't have to buy your equipment before you start your development. You can pay as you go. Before you get into production, the amount of utilization is relatively small, right? So you don't have any CapEx. It's very flexible, so your developers can do what they want. The minute you get into production, now you've got high volumes, and that pay-for-use starts to get very, very high. Customers are finding out that production workloads in the cloud are very expensive. And we're starting to see some repatriation. And for other situations, there was a phrase that was used quite often before, lift and shift. You don't hear that much anymore. The economics of moving traditional workloads into the cloud just really aren't there for a variety of reasons. First of all, all of the applications need to be redesigned, refactored. And when an application is working, and if you're not going to get a lot of economic

benefit out of it, why bother doing that. So we don't really see in the enterprise space a lot of migration of enterprise workloads. And of course, they continue to scale as well. So there's a variety of reasons why we think, first of all, hybrid is the way to go. We plan -- we're working to sell into the hyperscalers. And then finally, a lot of our technology, which we've not yet gotten into yet, is about creating a cloud operating model for our customers. So what do we mean by that? So storage has yet to be virtualized. What do I mean by that? Storage is in the enterprise environment is dedicated to workloads. And so you'll -- the typical environment is you sell an array, it works on these workloads. There's a different set of workloads over there, so you sell another array. Over across the room or on the other side of the country, a different workload, another -- these are all silos of data. There's no concept of spinning up a new application and just subscribing to a storage service. And what we're delivering now with Pure Fusion and PortWorx and to some extent, with Evergreen//One is the ability of enterprise customers to create pools of storage operated like a cloud, not just in a single data center, but across their data centers, and in fact, across their cloud providers as well where they just set up a set of policies and then a new application spins up and just calls -- through APIs calls upon the storage it needs. And so we're creating a lot of flexibility for customers across a multi-cloud environment."

- "we benefit from the fact that we have a very consistent portfolio. We basically have 2 hardware architectures. One -- for those of you that have followed the industry, in general, we have one scale-up architecture, one scale-out architecture. But we have -- we leverage the same software for both. We leverage the same storage modules for both. And so it's just a question of whether the customer wants more performance with scale or whether they want low latency for the scale-up architecture. These are 2 very fundamental things for which we need those 2 architectures. Both of those architectures provide either and can be configured to provide either or both high performance and high capacity, low cost. So now many of our competitors have a half dozen or more products to fulfill different niches. We can fulfill it with just these 2 architectures, one software architecture and the different storage modules that we build for it. And so we go after, again, both the high performance and low cost. On the high-performance side, for example, we have our FlashBlade architecture. This is what feeds the Meta Research SuperCluster, the largest AI artificial intelligence supercomputer in the world. And we also sell them our what's called FlashArray//C, which is our low-cost general-purpose data store that's very low power, very low footprint to feed into that. And that's just one example. And then finally, we also have PortWorx, which is our software to support next-generation what's called cloud-native workloads. These are Kubernetes and container-based workloads that we do with our PortWorx. So that's on the product side. In addition to that, we have a variety of services. So we are unlike other -- all other hardware players, not just other storage players, but I don't care if you're in the networking industry or in the compute industry. When we sell a product, it never gets old. So what does that mean that when we sell a product, it doesn't get old? When we -- even if we sell the product for CapEx, it then comes with a subscription agreement afterwards. That subscription agreement allows that product to be upgraded on an ongoing basis, both hardware and software, without taking the customer's application environment down, without them having to change a thing. We actually can do an upgrade in less than an hour, even during

working hours. And so -- and we just celebrated the sale of our first product 10 years ago that has been consistently upgraded. It looks like a product we sold last week because we just upgraded it again for about the third time last week. It looks like a brand-new product. It's very unusual. It's like driving to work in a car that's 3 years old. And when you arrive at work without stopping, it's a brand-new car. So it's a very unique model that we have, and it is like a SaaS service with equipment. We also have the opposite side of that, which is that with Evergreen//One, we will provide a customer an SLA. They will not buy a product at all. They subscribe to a class of service performance and capacity, and we manage everything behind that. It may be on their premise. It might be in a colo. It might be on a hyperscaler, but we provide storage as a service, and they only pay for what they use when they use it."

    - “in our initial ESG report, we outlined primarily a set of comparisons between our products and competitor all-flash products. And the net takeaway was, typically, we're seeing about a 5x improvement in power utilization or 80% reduction. And so where does that come from, right? Well, the primary drivers for that are, number one, far better data reduction. Number two, the density of the systems that we can go and ship. And really, the idea that with our direct flash technology, the integrated hardware software, we can just be far more efficient about delivering the bits of flash."
    - "And then number 3 is just other system efficiencies that we drive through the other parts of the integrated hardware and software. And so when you net that all out or multiply it together, that really gives you about a 5x advantage when you're looking at competitive all-flash systems because of the performance that we continue -- we're able to continue to deliver while driving those significant data reduction benefits, density benefits, so on and so forth. Now you shift that conversation in comparison over to disk, and your comparisons double, right? And so you're looking at really a 10:1 type of improvements there. And we've seen this both in our own analysis as well as customers coming back to us, right, and saying, "Hey, I made the switch to Pure. I might have made it for a variety of other reasons. But hey, these are the benefits I'm seeing in terms of significant power reduction, 75%, 80% reductions" and then meaningful cost reductions”
    - “I don't think the investment community fully understands the significance of Evergreen, which is our subscription- based services, right? Now I would say the analyst community is coming around, right? For many years, we suffered, well, isn't that support, right? Well, even a full SaaS service has support behind it, right? They also do their upgrades in the background, right? They have capital behind that, right? In our case, if you take apart our Evergreen, you will see that there's no difference between what we do and SaaS. Customer interacts to the service through a SaaS-based web portal. It's nondisruptive. It's constantly upgraded. It's always new. It just happens to sit on the customer premise."
- Sumo Logic, Inc. (SUMO)
    - "Despite the macro uncertainty, we are still in the early innings of a multiyear growth cycle driven by digital transformation, cloud migration, and security modernization."
    - "Companies are increasingly relying on digital services to help grow and operate their business. And we play a critical role in ensuring that these experiences are both reliable as well as secure."

- Wix.com Ltd. (WIX)
  - "in the future, Internet will continue to grow. With that, we can see that CMS growing faster and the SaaS CMS growing faster than that because we see a lot of movement within the Internet, people that used to use CMS moving right now to SaaS CMS platform like Shopify, Wix and Squarespace. . .And we also assume that partners will be growing more than 30% on a year-over-year basis, simply because we are taking more and more market share"
  - "the buildout of the business is already there, is already behind us, meaning that from now on, we are going to see only the variable cost to support the increased growth in the partner's activity. And therefore, we are going to see a lot of leverage."
  - "Someone that's already built this website is not going to shut it down because of a few dollars increase in pricing. Obviously, it has an effect on conversion of newcomers and this is why we do the AB testing to make sure that we are not also penalizing ourselves in terms of future growth. So this is exactly the -- what we are trying to consider existing versus new and to make sure that we are still building profitable growth in the future, not losing customers."

- Communication Services
  - Comcast Corporation (CMSA)
    - "the advertising market has been really pretty steadily worsening over the last 6 to 9 months. And I think it's gotten even worse really in the last month or so. It's hard to -- it's actually hard to figure out whether that's because of macro conditions, whether people's businesses are worsening or rather because people are just uncertain. I tend to believe it's more the uncertainty because it's more cash than pricing. Pricing is still pretty good. It's really cash and cash -- advertising is coming in late -- so it used to be a month out, we'd have our cash for Sunday Night football, for example. And now it's coming in a couple of days before. And that would indicate to me that advertisers are kind of like the rest of us trying to figure out where the economy is going and holding back, but it's definitely getting worse. For us, even given the worsening advertising market, we're still going to be in the fourth quarter up mid-single digits for a year ago. So this is not a disaster remote disaster. And that -- the fact that we're actually up year-on-year is really driven by a bunch of things, it's driven by Peacock, first of all, which continues to do really well, driven by election, dollars, the runoff in Georgia tomorrow is helping us. . .the advertising market is bad compared to the way it was a year ago or 2 years ago, which is historic highs, but it's just not that bad."
    - "So it's more that people are holding back. You don't know if there's a recession coming, how big and deep it will be. I think the upfront will be probably more challenged. Historically, forever in my experience -- I've been in the TV business for 30 years, it was a cycle where you'd have a weak scatter market, poor upfront, strong scatter market, strong upfront, and that kind of chain broke entering the pandemic in the last couple of years. I think we're returning to that kind of cyclicality."
    - "there's no question, cord cutting is accelerating. And by the way, it's one of the things where you can just put down the numbers and you look at your own behavior or kids' behavior, people are watching more and more on streaming and nonlinear. And so that's accelerating and that's putting pressure on affiliate fees. It's putting pressure on [rating points to sell] on linear because you have less home to sell

across, but is still a giant business. . .It's just that cord cutting now is at a level where those price increases are not going to offset from a total amount. You're still going to see declines in subscription revenue. We've kind of hit the top of the curve, right? And that's going to be offset by, hopefully, subscription revenue on the streaming side."

- IAC/InterActiveCorp (IAC)
  - "There's 3 main trends underlying the down 16% in digital revenues at Dotdash Meredith. The first is overall advertising market, classic display, both premium and programmatic, video, et cetera. That was soft in October. I think we've seen material or real weakening of that across the month of November. And like anything, it's -- like it's been, since May, different trends across different sectors. But you saw real softness and pullbacks across CPG, some pharma, a few other sort of discretional ad budgets. . .And then on programmatic, we have pretty good data from October that programmatic ad rates from a major platform were down about 10% in October. We'd expect that to probably be a little more in November based on what we're seeing.
  - “One would be public, what would now be small-cap companies that were just perceived at inflated multiples whether they came public through SPAC or through an IPO, where their shareholder base is a little bit lost, they're now at that share price level where kind of nobody cares. And the Board will go through the 5 stages of grief and management for accepting that. It just doesn't make sense to be a public company at the scale and positioning."
  - "The second are businesses that have good underlying core economics, gross margins, operating leverage, where they've obscured it with a lot of bad initiatives and money-losing activities, which there's a host of so you can buy a cleanup and ideally uses a platform. And the third are roll-up opportunities, both public and private. On the private side, the large cap stuff is -- tends to be heavily well capitalized. They raised a ton of money, and it's going to take a long time for that to reset on a value basis. But medium and small cap, you can sort of hone in on a mid-23 point where a lot of these will -- even if they are decreasing burn, we'll run out of money and that there will be need for price discovery, either sales or capital raises and we think there's going to be some very interesting roll- up opportunities. There's a number of sectors, we're talking about this earlier, where there's a ton of look-alike companies that all have the same -- we all do $70 million of revenue and lose $15 million of EBITDA, and they're all subscale. A bunch of them aren't going to make it, but you can cobble together a few with a platform, and we think create real value in markets like this”
  - “we expect the ad mark -- digital ad market and ad market overall to be weak, definitely first quarter, and then soft second quarter. This year, the comps get easier. You could go right around the May 15 when the market just hit a wall, especially retail, CPG, everything after the Walmart target earnings and strategy reversals this year. But up until there, there's not much reason to think the ad market will look anything but weak, I think, digitally."
- Paramount Global (PARA)
  - “the current (ad) market is challenging. And we're in it every day, and we see it, and that challenge is both on the linear side and on the digital side. . .as we've seen the state of the scatter market, as we look to our international networks, which are impacted by the economy but also by what's going on in the FX on exchange rate

side, we do now see the fourth quarter coming in a bit below the third quarter. And as we have navigated leading into this point, we had looked for some improvement in certain sectors. We haven't seen that."

- Consumer Discretionary
  - AutoZone, Inc. (AZO)
    - "In Q1, we experienced 11% pricing inflation in line with cost of goods, which was also up 11%. We believe both numbers will decrease slightly in the current quarter as we begin to lap the onset of high inflation last year. But to be clear, we do not believe inflation is going away, specially wage inflation but expect it to slow a bit as the economy slows."
    - "I want to highlight that our industry has been disciplined about pricing for decades, and we expect that to continue. Most of the parts and products we sell in this industry have low price elasticity because purchases are driven by failure or routine maintenance. Historically, as costs have increased, the industry has increased pricing commensurately to maintain margin rates, thereby increasing margin dollars. It's also notable that following periods of higher inflation, our industry has historically not meaningfully reduced pricing to reflect lower costs. While we continue to be encouraged with the current sales environment, it still remains challenging for us to forecast near to midterm sales as the economy impacts our customers.
    - "You've got a couple of dynamics going. One, you have an aging and growing car park. And used car prices, while they've started to abate, they're still up almost 30% over the last 2 years. New car prices are up closer to 20%. And you're in an environment where you have rising interest rates that have made financing more challenging. So we do believe that it is still a little bit of a tailwind for our business."
    - "this is a pretty unprecedented environment. I know I've never seen inflation rates in the upper single digits and lower double digits. So we're paying particular attention to what customer behaviors are happening. As a reminder -- and we certainly have more experience in the DIY business than we do in the commercial business, in the last economic shocks, the last 4 economic shocks in the U.S., our business has significantly outperformed normal periods of time. So we're monitoring that to make sure we understand, particularly what's going on with the low-end consumer. And then I think the expectation -- and we don't have near the evidence here at this point in time, but I believe that there's an expectation that some commercial customers or some jobs that a commercial customer would normally be done DIFM, can trade down into the DIY sector. And so we're watching those kind of trends, but we don't see anything yet that is alarming to us."
    - "the consumer is feeling the pinch of inflation on multiple fronts. And quite frankly, inflation is going to erode consumer spending overall. But in our business, where we see the primary pressures in our discretionary categories and our bread-and-butter failure and maintenance categories, the demand has been there. And the actions that we've taken from a pricing standpoint have not impacted volume in a meaningful way."
    - "So -- the other thing I'll say about just the consumer in general is it's clearly a 2-speed world. The middle and upper end consumers have stronger balance sheet, and they're continuing to spend in a meaningful way in the lower end consumer is pitched."
  - Brown Forman (BFB)

        - “the top line organic numbers are very, very strong, and they have remained very strong. A lot of that is I do think the consumer is pretty healthy. And for all indications of our own business, we are not seeing any kind of trade down. In fact, we've actually seen stronger performance even at the higher end of our portfolio. . .So you're not seeing the trade down that so many people have suspected would be coming through. I would say that's -- I don't know if it's global, but it's certainly more than just the U.S. We're just not seeing the weakened consumer yet.”
    - Conn's, Inc. (CONN)
        - "in this uncertain macro environment, having lived it before with this consumer back in The Great Recession of 2008 and 2009, it will -- it should create opportunities for us from a sales standpoint as people look for more opportunities from a credit standpoint. "
    - Costco (COST)
        - “Recall last quarter and fourth quarter, we estimated that year-over-year price inflation was about 8%. In the first quarter, we estimate the equivalent year-over-year inflation number in the range of 6% to 7%. Food and sundries is still up more than nonfoods, but overall, a little better level than a quarter ago for the company. And commodity costs are mostly coming down, whether it's corn flour, sugar and butter or even some things like steel. A few things are up, but overall, we're seeing a little bit of a trend”
        - “I think if you asked the buyers overall that there's a little less elasticity than there used to be on some of the things. Again, now that answer comes from the fact that my comments about big-ticket discretionary items.”
    - Lululemon (LULU)
        - “on pricing, as we've stated, we only increased around 10% of our assortment mix this year as we priced in and we continue to evaluate and look for opportunity. And we separate cost of goods and any pressure we're seeing there with short-term cost of supply chain logistics. And what we don't want to do is react to aggressively and create any impact on the demand of our product. And we're going to continue to take that approach, comfortable on the inflationary pressures we're seeing on cost of goods and how we're priced in. And as I said, we'll adjust on the other. And I think as we've seen through the 3 quarters of this year, the decision so far has been the right decision, where others that priced up are now heavily discounting and giving away any of that perceived gain and more so and having to mark goods down where we're able to continue to sell our product at regular price, not react and our markdown performance has been in our guidance in line with what we indicated we would be from a 2019 perspective.”
    - Olli’s Bargain Outlet (OLLI)
        - “our trends are running really strong and at the low end of our guidance until the end of the 11th week of the 13-week quarter. And we had some slowdown in business, mainly related to warmer weather. And obviously, we're locked and loaded for the cold weather at this point in time, and that did not come out in the Q3 perspective. But obviously, looking at the overall, the quarter was actually -- August and September were pretty much in line with each other, and October was definitely a drag on the overall quarter. And as we said, we're liking the way the fourth quarter is shaping up. We had a strong Black Friday day and a Black Friday weekend. We continue to see some nice trends in the business, and we're obviously pretty comfortable where we're sitting today and we feel good with the business.”

- “Yes. Going back to the 2008, 2009 period, obviously, it was a long time ago, I think it was very different than it is today. But we obviously experienced about an 8% comp store sales in 2009, which was very strong. The customers responded to the deals we had in the pipeline and what we offered to the customer. And they were under significant financial pressure. This one, I think, is a little different. People have had a lot of time at home. They've not spent as much money as they had previously and also they didn't -- we haven't had a real shock to the financial system like we had in 2008, 2009. But there's obviously, the inflationary pressures are going to put continued pressure on folks at the lower income and middle income ranges. And I think the annualization of the heating bills and whatnot are going to create pressure there. So we should see some favorableness come back to us.”

- RH (RH)
  - "We're not putting any longer-term investments on pause. I mean we're playing for the long term. . .So a lot of people are hunkering down right now and slowing down. We're kind of speeding up. We're more excited, less fearful."
  - “I would just say, look, if you look at the housing industry and track the housing industry and if you track the performance of home furnishings retailers against past housing downturns, that would tell you things are going to get worse before they get better here. The housing industry is in a free fall. I think the National Association of Realtors just reported that housing demand was down 37% in October. We've never -- at least in my lifetime, I've never seen interest rates rise so quickly. I don't think anybody on the phone has either and the impact on the housing market, especially when you look at it versus the housing market that was overinflated and run up by COVID, you're going to have some wild swings here. And it's happening first to the luxury market. If you look at the numbers and if you track the last, yes, 9 months or the reporting on Redfin. I think it started -- the luxury housing market started going down in the Q4 last year. And the luxury housing market went up faster and higher, and the luxury housing market is going to go down faster and lower.”
  - “the housing market has collapsed. And it's went down pretty viciously as interest rates have went up. . .the luxury housing market has trailed down since last September, right, it is down 8%, down 16%, down 17%, down 16%, down 12% in January, down 13% in February, down 15% in March, down 18% in April, down 18% again in May, down 21% in June, down 24% in July, down 28% in August. And the new numbers will come out for the next quarter, and we'll never know how far it's go down. But the odds are it could be down 35%, it could be down 40%. So when we start seeing trends like that, I don't know how it comes all apart.
  - "Now interest rates have never raised -- accelerated this fast. Inflation hit numbers that we haven't seen in 40 years. It seems like [Powell] kind of sounds relatively confident when he's up there, but he's the guy that raised interest rates way too slow. He's the guy that didn't start easing. I mean, he should have raised interest rates and not let the housing bubble happen. Housing prices went up from 2020 to 2022 by 45%. That's never happened except in the '70s. The 2-year period, housing going up 45%.”
- Signet Jewelers Limited (SIG)
  - "Jewelry is different from the rest of retail. For example, cyclical industries like apparel, are more sensitive to economic volatility. Carry inventory was a relatively low residual value and sell products that consumers see as more discretionary.

Conversely, customers place to higher value on jewelry. They see jewelry purchases as less discretionary because they're tied to special occasions and people in their lives, and jewelry retains its value or appreciates over time. In addition, jewelry doesn't go out of style from season to season. This makes jewelry more resilient and as a result, more attractive than many other retail industries. It's an industry well designed for sustainable long-term growth."

    - "We are seeing shifts in consumer purchasing talents that indicate many consumers are waiting until later in the season to complete their shopping. We anticipate the strength in our assortment units will persist. Customers will continue to purchase at higher price points, and our holiday readiness will enable us to be there for customers with the product fulfillment options and value they expect."
    - "I think customers are beginning to shop. We think this holiday will come in later than usual customers that every income tier are looking for value. And so they're waiting a bit later to shop, but it's encouraging to see so much online traffic because we know that we see that first before we see purchases happening online and in-store because people in the jewelry category tend to browse first before they buy. So I think that's the positive side."
    - "we're still very mindful of the macroeconomic environment that we're in, customers, especially in the value tier are the most challenged. And so our expectations are that we continue to drive purchase at higher price points in the accessible luxury tier more so than value."
  - Sportsman's Warehouse Holdings, Inc (SPWH)
    - "While we saw a very good trend on Black Friday to the point that Jon made, what we're seeing out of the consumer is still very cautious behavior when it becomes to their disposable income, where in a normal holiday period, we would see a focus on not just the promotional items, but also other items going into their basket. It is very apparent that this holiday season, the consumer is focused on the deals that are out there to be had given the recessionary and inflationary pressures that are on their pocketbook. So as we think about the guidance and what's incorporated there, the consumer behavior is going to be some of the largest pressure that you're seeing on those top line numbers."
- Consumer Staples
  - Campbell Soup Company (CPB)
    - "Our consumer insights show that consumers continue to cut back on out-of-home eating and are migrating from more expensive grocery categories as they seek ways to ease the impact of inflation. Consumers are making changes to stretch their budget and following several years of becoming more confident and comfortable with cooking, they continue to turn to our categories and importantly, our brands as evidenced by the continued growth of our Meals & Beverages business. With consumers preparing about 80% of meals from home, our brands are well positioned for sustained growth, delivering consumers the quality, value and convenience they seek for simple at-home meals and quick-scratch cooking."
    - "we expect cost inflation to continue throughout fiscal 2023. To mitigate the expected inflation, we are currently implementing selective additional pricing in both divisions, which should become effective in the second half of our fiscal year. We continue to focus on all other areas of inflation mitigation, while we diligently protect the important value proposition for consumers."
    - "I do think as you look out then across the balance of the year. . .some pockets of

increases in inflation. . . still a bit more pricing that we're in the midst of executing right now."

  - “As you think about the next quarter, I think the 2 things you'll see that are going to be a little different than Q1, is you won't have the inventory recovery opportunity, and you probably will see a little bit of modest increase in promotional spend and the continued kind of investment in the year, and that might be a little different than what you saw in Q1. . .as you get to the back half of the year, you're beginning to lap the significant pricing from a year ago as well as some tougher comps to get through.”
  - “it is low teens inflation year-over-year for the full year. However, I mean, basically, that Q1 number was as expected, the 18%. Because as you might recall, when we spoke about kind of our outlook for the full year, we're expecting double-digit inflation in the first half, but then we cut over into the new calendar year and certain contracts reset. And of course, then you start to comp also higher inflation levels from this past year. And then in the second half of the year as a result we expect more in the, call it, high single-digit type of inflation.”
  - “I do think we are in a moment now where this is more the tail end and thus then ensuring that everything that we're doing is really clear and transparent, rationalized by the costs that we're dealing with.”
  - “But I think when that happens, it's relatively constructive and the conversations kind of move forward, I would say, in a very almost mechanical way. I do think that the sensitivity around ensuring that we're doing everything possible to support the brands and the categories we're in, maintaining affordability for consumers in this tough environment. It's certainly top of mind for both us and the retailer as we work together. And so we're quite conscious of those dynamics and ensuring that we're making the right strategic choices for the business for the long term."
  - “I do think you might see a little bit more promotional spend in Q2 than Q1, again, all within a very reasonable range. It's really then the back half where you start to see the significant impact of a year ago pricing. And incremental contribution from pricing would be significantly lower as we get into Q3 and Q4."
- United Natural Foods, Inc. (UNFI)
  - “our unit performance in the quarter was down 3%. We saw about 10% inflation, down 3%, was in line with the total industry, including some of the large box retailers that have been driving growth because of value in the more recent past."
  - “I think there is a very significant relationship between prices being up strongly and the unit elasticity that's creating weakness in the units. If your scenario is that inflation starts to abate, the pressure on units year-over-year will also abate. Now there's the economic factors and there's competitiveness factors in and around retail. But I don't think that we are headed to a place where prices will be down and volume will be down. I see us in a place where price is up now. There's pressure, the economy is softer, there's pressure on consumers, and so elasticity is giving us a negative unit picture. But the consumer products companies will want to grow their business, however, their revenue management strategy guides them and that will include some combination of volume and price. And our job will be to manage that in the best possible way to keep our customers competitive. "
- Walmart Inc. (WMT)
  - "Why do I feel that way about the bottom line? And I think it's kind of 3 things. First one is just opportunities to manage the business better in all the kinds of ways that

we do in retail. Maybe more strategically, there's a productivity opportunity with automation, particularly in our supply chain and how that will affect store operations in particular. And then thirdly, the business model is changing. . .And the thread that you move through as you build a first-party e-commerce business and then a marketplace and then fulfillment services and then add income and then other forms of data monetization creates an opportunity to have higher margins and change the margin mix of the business so that we're more resilient and more profitable at the same time. And that work is underway. We're making some progress as it relates to that. Hopefully, you've noticed that on our results as we've shared them."

- "we realized that the magic is in the way that you put them together and truly creating omnichannel to save people time, not just money. Yes, a broader assortment; yes, a variety of experiences that include pickup and delivery but also things like the digital experience related to tire should enable the in-store or in-club experience with tires to be better, or the deli counter or the way we interact with pharmacy as a customer or a member. And so it does feel like that for some period of time now, the channels went away. It's been more seamless and that required us to change how we work inside the company. We finished off organizational structure changes to make that easier for our teams to execute. And now I think we are truly an omnichannel retailer."
- "As it accelerated through January, February, it moved quickly and it was steeper in terms of trajectory than we expected. And that had an impact on what people buy. So if you were kind of, let's say, a typical U.S. household and you've been through 2 years of a pandemic, some of you had worked from home more and some people had more discretionary income because of government stimulus. You spent more money on home goods, you spent more money on the backyard, et cetera. You then get to this period of January, February of this year, and I'm talking about the U.S. consumer, and you've got gas prices headed up and you've got food and consumables taking more of your spend. And so we started seeing, in around March, this behavioral change, particularly with people with household incomes below $50,000 where they started really prioritizing. So their dollars went to food and consumables, went to gasoline, the discretionary purchases, they've kind of been making those. They didn't have to invest in home decor, for example. They didn't have to buy a new sweater. And so general merchandise sales started really dropping off. And that pressure played through to higher income levels as the months went by. So you can see behavioral change now with basically all income levels in the country as people are more price- sensitive. And so they're more selective on discretionary purchases. They'll buy the things that they need."
- "Things are less elastic than they would typically be."
- "I think if you want to look at how income levels shop at Walmart, the way to think about it at first would be everybody buys food and consumables or almost everybody buys food and consumables from Walmart. But they might not buy their apparel from Walmart or their home categories from Walmart typically. The market share growth that we've seen with higher income levels that have driven our growth the last 2 quarters have been people making over $100 buying food and consumables. And so our challenge is to have market shares that look more consistent across the whole assortment. We sell a lot of units of bicycles. We sell a lot of units of televisions, but we don't sell as much in home and apparel and some

hardlines categories as we could. So the way for us to retain -- attract and retain higher income customers and members is, first, to have a great assortment at great prices in those discretionary categories so they don't need to go somewhere else and have more brands and grow the marketplace assortment as we've done. Then secondarily, having a digital relationship, which starts to head towards Walmart+ is really important. And we've shared before, if people buy in-store and online with walmart.com, they generally spend twice as much and they shop in store more often. That data has held over time. And so that digital relationship, which could be for a pickup order, it could be for a delivery order, whether that's from a store or any commerce fulfillment center, that's really important to us. And then you get to Walmart+, and we do like the behavior we see when someone becomes a Walmart+ member. So Walmart+ is important but it's not a simplistic shortcut for the investment community to think about valuing Walmart. Walmart can grow sales and profit regardless of how many Walmart+ members we have."

- “They're just looking for value, and they're looking across categories more than they were before. And to your point about kind of past cycles and to the degree to which we held on to customers, what's different now is we've got this bigger e-commerce business, 370 million items on the U.S. marketplace. We've got an app. We've got pickup. We've got delivery. We've got Walmart+. We added Paramount+ to it. So there are other things in place that were not in place in the last cycle that we hope will help us retain more customers."
- “Let's break it into categories. If you -- let's start with fresh food. The pricing on proteins, dairy, et cetera, is very volatile. It's moving around quite a bit. Chicken right now is up. Beef is down. Fruit and veg is in pretty good shape from a price perspective with disinflation or moderate inflation. So we'll manage that like we always do. Dry grocery and consumables has double-digit -- mid-double digit inflation that feels stubborn to us. And then general merchandise is coming down. Our cost of goods inflation for general merchandise across hardlines and apparel is still there. We still have an inflated price, but it's single digit and the trend line's coming down. . .But dry grocery and consumables where farmer input costs, supplier wages, their own input costs have driven prices up. That feels to us like it's going to be here for a while. And we're trying to figure out with our suppliers, what could we do that's different that would help mitigate some of those costs? Is there any waste in the system transportation point of view? Can we get better at forecasting? What are we doing with packaging? How do we help the American family as much as possible on dry grocery and consumables so that we can bend this curve back? And unfortunately, some of those suppliers are still pointing us towards more inflation next year on top of the mid- double digits this year. And we don't like that for any reason. We don't like it for families. We don't like it as it relates to mix and what that can mean for us. So we're pretty incented to try and make that turn happen faster than it might normally. And we've got good insight into commodity costs through private brands and other things. We know we can kind of penny up a P&L on an item and have a productive discussion with the supplier about what they're doing and try to encourage them to focus on market share and growth and the longer term with us. And the mean -- while we'll allocate space to private brands and tertiary brands to the degree that we need to help make this work for families."
- “There is more in front of us to do with the supply chain, in particular, and we're very excited about automation. And I think it's going to really help us, our store

associates and help us with productivity. And specifically, what we're seeing is after a number of years of work, there are opportunities to use automated storage and retrieval systems and ambient distribution centers, food distribution centers, e-commerce fulfillment centers and eventually market fulfillment centers next to stores."

- “So if you and I were in a Walmart store today in the U.S., we would receive the grocery product on pallets and it's easier to work that freight. But if we were working the general merchandise receiving area and we opened a trailer, there would be brown boxes floor-to-ceiling on the floor. And we would touch every one of those boxes, put it on the roller, push it into the back room, put it away somewhere in the back room and then eventually somebody comes and picks that order, puts it on the sales floor. In the future, those orders will come in palletized, arranged by layer for that department in that store. So we'll take the pallet jack, put it under the pallet, pull it to the sales floor, stock from the pallet. And if anything is left, it doesn't fit, it will go to the back room. It's a different process, eliminating a lot of the hours that we invest in today in the backroom of our stores. . .In addition to the robotics aspect of what I just described, there's work underway related to the data that we've got for our supply chain and the algorithms that we use to optimize it. You can imagine that in the past, we went from an ambient network for discount stores to an ambient network plus a food distribution capability. Then we layered on e-commerce fulfillment centers. Each one of those had different operating systems and operated to a degree in a silo. What we've been changing and have made progress towards changing is syncing all those together in a way that you can inventory optimize like you couldn't before. So if you can understand demand, get even better at forecasting with today's forecasting tools and then have a supply chain that's got data algorithms and robotics in it, you can take cost out of the system that we've not ever been able to take out before. So that's a multiyear investment journey. And we'll share more information about that in the future, but it's something that we're really excited about. That has to happen in conjunction with the business model changing. So the thread that you mentioned that runs from -- let's build an e-commerce business. Oh, part of that's marketplace. We can get paid to operate a marketplace and people want to buy fulfillment services. In fact, a lot of people want to buy fulfillment services. And they want to have sales so they're willing to buy an ad. The thread that runs from omnichannel to all of those things I just mentioned is a very strong thread that is being pulled through as we speak. And so that business model remixing happens in parallel with the automation of the supply chain and ends up with a different business model, which we're excited about."
- “Think about our existing buildings, not new buildings, being outfitted with automated storage and retrieval systems, step 1. As we do that, we get more throughput through those buildings, and we avoid the necessity of building more buildings in the future. And as we do that, there's space freed up. Because they're more dense, you now have in some of these million-square-foot boxes, excess space that you can do a variety of things in, including sortation for e-commerce, non-conveyables, other things you can do with that space, again avoiding the need for future buildings. That's true for the ambient DC network. The grocery DC network is also existing buildings with automation. Then there's e-commerce fulfillment centers. And you're right, we had a set of buildings. We added Jet buildings to it.

Those buildings, in most cases, if not all cases, will also be receiving automated storage and retrieval systems in the existing buildings, which helps the throughput. And we're building a few new ones where we need them. I was in a new one in Chicago the week before Thanksgiving. And it's remarkable. There's not a lot of human engagement with that product. There's still some, which eventually we'll work through to an even greater degree. But it is really slick and also more accurate. And so you get more productivity through those investments. Each one of these, I should say, individually has its own IRR, our own set of metrics. Each one of those investments is vetted individually. And then you get the benefit of the collective system that I've been trying to describe as a big additional benefit."

- “I think the challenge that we've got is getting them together in 1 place fast enough so that we can measure all of the other unintended or things that weren't in the model because you got to prove them all out. The Store 100 market fulfillment center that you're referring to is one of several. There are some other places where we're opening those. And we believe that having on-site market fulfillment centers with these big parking lots we've got, and in some cases, some of the buildings we're turning back a little bit, the 200,000-, 220,000-square-foot boxes can be 185,000 and still be as productive from a sales point of view. That gives us space to use costs that we've invested in the past to put MFCs in place and use the last-mile advantage that we have of being so close to people."
- “The way that I would describe it is, first, the mix of sales by product category is a key driver. You want a contribution profit that includes apparel and home and those kinds of things. Another way to think about mix of sales is first party, third party. We want a big enough marketplace business to make that mix work. And then as you work down the income statement and you get to wages, one of the biggest costs that we have in our e-commerce business is for store-level wage investments to pick orders. We assign store picking for e-commerce to the e-commerce P&L. So as we raise store wages or we use more hours to pick orders because sales are going up, that penalizes the e-commerce P&L, and we manage it that way as a habit. So if -- and as the market fulfillment centers take labor hours out of that system because we've automated using MFCs and the other automation coming in the back door is better, you end up not needing as many hours at store level to pick orders, which further relieves the P&L. And then if you keep working down, the way I think about it is the other income associated with fulfillment services and advertising and membership start to kick in. And that's when you have a more attractive income statement than even our original income statement that we had as a company, which was buying and selling merchandise, having associates and managing a narrow margin. All of that core P&L is still in place, but we've kind of -- sometimes I visualize it as 3 P&Ls. There's the original retail P&L. They're the new things we're building that have GMV marketplace, advertising membership, all the things I mentioned. And in the beginning, that P&L loses money because you're building it out. And then eventually, it's better than the first P&L. You put them together and you get a third one, and that's our new business model and that's what we're trying to build."
- “And it looks like a really good business, not only from an investment point of view but just from an operational point of view. We see synergies in financial services, to some degree, in health care as well as in all this omnichannel core retail discussion that are causing us to work more like a global company and, in some ways, more

like a tech company, building tech products that can be leveraged across markets more so than we've done in the past. And I think that will be even more true in the future. . .So I think that's the sequence I would go in, be marketplace, advertising, fulfillment services, other forms of data monetization. I wouldn't have health care and financial services in that same continuum. I think those are part of our flywheel and they connect up together but I think of them in a different way."

- Financials
    - American Express Company (AXP)
        - "there's been a structural shift, I believe, in the payment space. . .And when you look at the success, we've been able to get -- to become more generationally relevant. You look at our acquisition, we're bringing in younger and higher spending consumers. B2B, we're penetrating even more B2B, even though we have a really good position from a small business perspective, we're penetrating a lot more. We continue to make coverage gains. And I think one of the things that sort of goes a little bit unnoticed is our retention. We've got higher engagement with our card members right now and we're retaining more. And when we think about that, I think that's really an outgrowth of the virtuous cycle that we talk about, which is really our membership model, where we're signing up high-spending card members, we're getting more and more merchants, they're engaging, and we've got this sort of flywheel going. And you put that against a backdrop of changing structural environment in the payments landscape, more digitization of payments, more small business formation. And the premium consumer group is actually growing, I believe, at a faster pace than the consumer group in general. So all of those things give us really a lot of confidence."
        - "our credit losses and credit profile is better than it's ever been. I think when we look at 2023 from a momentum perspective, it really is the core business that is driving it"
        - "when you look at the tailwinds that we came in this year, we came in with tailwinds in international. International was really hurt by -- in the pandemic. Corporate was another one, and it didn't have as much travel. Travel haven't recovered. So I don't think you're going to have those tailwinds going into 2023. You'll have a little bit of a -- you have a little bit of growth in the first quarter because international came back a little bit later, travel came back a little bit later because we were dealing, I guess, with Omicron in January and February of last year -- this year. But -- so I think it's really core momentum, and that core momentum is generated by engaging existing card members. We also had record acquisition. We've had record card member acquisition, and they are spending at a higher level than previous vintages for us."
        - "the consumer is strong. Small businesses continue to be strong for us. International is strong. And I'm talking about 2 months in here. We're talking about October and November. . .we're not seeing any change in sort of that credit profile. What you have seen is you've seen some small businesses that have slowed down some of their advertising spending, you've heard about retailers talking about a decrease in sort of discretionary spending. But these are small sort of hits to our business at this particular point in time. And just looking at October and November, results are exactly what we would have expected and very, very strong at this point."
        - "during the pandemic, we had no line of sight into the consumer. Basically, we didn't know what was going to happen and we pulled back completely. So that's what I

mean about self-correcting. We've already started to bring our sort of ROI hurdles up a little bit."

    - “what drives overall spending is going to be unemployment and, obviously, bankruptcies.”
    - “there is still that pent-up demand to travel. If I look 3 months out, I'm still seeing record travel bookings, right? And so you're also seeing a little bit more of a shift from goods and services to travel. And I think you could see some of these consumers wind up going through. Let me take you back historically. When I think about sort of 3 major events as I've been here over the last 38 years, there was 9/11, and spending fell off a cliff for 4 months or so and then it came right on back. Then we had the financial crisis, and maybe that was 6 to 8 months, maybe 3 quarters, and then it came on back. And then we just had the pandemic, where if I sat here April 15, 2020, we're down 50%. And now we're at record levels. So I think the thing is, is that it will always come back. The trends will come back. What I focus on in those times, and I've been around now for a number of these things, it's really all about retaining the right card members. Because the spending can't come back if you don't retain the card members, the spending can't come back if you don't service the customer, the spending can't come back if the brand doesn't mean what the brand meant. And so for us, and this is what you saw during the pandemic, we didn't worry about what the spending is. But I can't tell you how much the spending is going to go down. But what I can tell you is if you don't support your customers, they will not come back and they will not spend.”
- Bank of America Corporation (BAC)
    - “a mild recession. . .that's the base case assumption. “
    - “the more unique thing is you look at what's happening in the consumer payment space, year-to-date payments at Bank of America across nearly $4 trillion or up 11% over last year. Month of November, they were up about 5%. So what is that telling you? The rate of growth and spending is starting to slow. That's a natural outcome of 2 things. One is the base effect is getting pretty big now. So last year, think of last year fourth quarter, about this time, a little bit earliness is when people actually started really going out and do whatever they wanted across the whole nation. And so that growth rate from '20 to '21 was a huge growth rate. So it's slowing down."
    - “So the consumers are still spending more money this right now than they did last year at this time, and they're spending more money this quarter than they did last quarter, but the rate of growth is slowing."
    - “If you look at the positive balances in the consumer cohorts I've talked about, they are starting to come down a little bit. But if you really think it through for the median income, 2x median income house come down, as long as they stay employed, the rate of them spending out those excess savings is very small."
    - “the Fed to bring down the rate inflation by slowing down the economy, and you're starting to see that take hold. The real question will be, how soon they have to stabilize that in order to avoid more damage is the question that's on the table."
    - “when there's this much volatility, people will make decisions. So think -- just to be clear, investment banking down with the market, 55%, 60% this quarter, year-over-year look. Sales & Trading, year-over-year look, 10% to 15%, and that's the natural balance as you like to have on our franchise.”
- Blackstone Inc. (BX)
    - "We're seeing consumers who have huge amounts of money after the pandemic. .

.they have an extra $3.5 trillion, and they're spending that money. It's starting to get spent down, but it still exists. So that will give you, in the United States, at least sort of more growth than you might think for a while until those consumers start really feeling the pinch. And that will put more pressure on the Fed. It just makes companies themselves more conservative."

    - "You're starting to see inflation moderate, certainly in the construction areas, commodities, that's all starting to happen. Housing starts are down 19%. Just to give you a sense, in the normal recession, housing construction has gone down on average 35%. So that can tell you almost where you are in this situation."
- Capital One Financial Corporation (COF)
    - "So the consumer -- let's just start with the consumer. I think the consumer is in strikingly good place, when I compare certainly to before the great recession, the consumer back then was not in nearly as good a position as the consumer is now. But obviously, for starters, the consumers' balance sheet is has been tremendously helped by government stimulus, forbearance on all the -- on so many loans, forbearance on rent. The consumer also pulled back on spending for much of the pandemic. So that led to an accumulation of savings that, across the income spectrum, we could see on average out there."
    - "Now that accumulated savings is gradually depleting, but that certainly still has been a position of strength. The consumer debt servicing burden is at 40-year lows right now. So that's a good thing. And additionally, the unemployment rate, of course, is at extraordinary lows. So consumer starts in a good place."
    - "the good news is that credit metrics are still better than they were in the past. But the bad news is the trajectory, if you look at the trajectory and it travels down the line and would soon get on the other side of that. So the question is, how does one -- how do we think about that? So we start with -- this is a very normal thing."
    - "We look at delinquencies, the entry into delinquency buckets, sorry, consumers rate of entry into delinquency into the first couple of stages in delinquency. And we look at the rolling rate that -- by which things roll into, ultimately. Charge-offs, which, consumers that are at delinquency, is still a little bit lower than the pre-pandemic, but it's certainly getting closer."
- Intercontinental Exchange, Inc. (ICE)
    - "One of the things that we've done over the last few years, we saw that Europe was going to become a large natural gas consumer and producer years ago, and we started investing in building this market that you referenced called TTF. More recently, we've been building a Gulf Coast market because we really think the U.S. market has largely been a market that -- in energy that was around pipelines and sort of domestic production and consumption. And increasingly, it's the coast that are going to be import/export, the marginal molecule."
    - "And similarly, we've been investing in the Middle East, building out platforms there because the Middle East, while many Westerners think of them as just being crude producers, are increasingly talking to us about hydrogen production, how they're going to meet their own ESG goals and carbon offset goals and how they can export that globally."
    - "So we're seeing sort of movement within the energy ecosystem that are the early stages of a completely different supply chain movement that we're capitalizing on by building products. We just launched, by the way, a number of new products in Europe for Europeans, the price of gas in France, the price of gas in Spain, the price

of gas in Greece. These were markers that didn't exist. But when the countries themselves start talking about internal subsidies, they need to know what are the benchmarks that they can use, and we want to provide those benchmarks."

    - "I've always been very transparent that we were late to getting into the fixed income space. Market access and Tradeweb, who I see on the board out there following us and, to a certain degree, Bloomberg, have been in the execution space. And we're just not a company that wants to be #3 or #4 in a space, we tend to think of ourselves as be a premium brand. And so what we've done is moved into areas that seem obvious to us that they weren't particularly spending a lot of time and resource on. So by that, data, indices, infrastructure for the trend that's going on right now and the way"
    - "of people are consuming debt, both consumer debt in the form of mortgage and institutional or commercial debt in the form of bonds. And so we have been building an ecosystem -- interest rate ecosystem, if you will, underneath there and designed it specifically for some of the macro trends. One of the trends that's going on right now, which we're benefiting from is as the interest rate environment in the West is going up, there's more investment in muni bonds and government bonds that have some kind of tax orientation though if you step back and think about those, those tended to draw small hedge funds, high-net-worth individuals that are looking for tax savings in an interest rate environment. And as a result of that growth, we've been able to attract institutions that want to interplay with that flow, and that's going really well right now. And so -- and then separately, we've been building out a lot of pricing tools and infrastructure tools for the movement that's going on as people are putting assets into exchange-traded funds. Our New York Stock Exchange is the largest lister of ETFs. And so we have a whole footprint there and familiarity with those markets. And so we continue to build out sort of these alternative access points for fixed income."
    - "we have been leaning hard into the mortgage space and trying to build an infrastructure that can change the cost of writing a mortgage for the average consumer and doing that by automating the tools and then similarly, building tools for the wholesale funding of mortgages that can fundamentally change the capital markets."
    - "we really think we can collapse the time it takes to underwrite a mortgage, automate that, underwrite process and then fundamentally change the way the capital markets fund wholesale lending that goes into those markets. And we think now is the time to do it."
    - "And specific to your question, we're seeing that we're trying to move the model from an à la carte per mortgage model to a subscription model where a lender would simply have a subscription for a number of services, and maybe much like a car dealer, could charge more overhead to somebody buying a Rolls-Royce and less overhead to somebody buying an entry-level used car and -- but still be able to be responsive to both ends of the market."
- KKR & Co. Inc. (KKR)
    - “I think the macro investment opportunity in infrastructure is incredible. Some of the biggest tailwinds from a trend standpoint really impact this space quite dramatically. So again, if you think about digital infrastructure around the world, right, all the data consumption that's happening. Fiber, it's towers, it's data centers. That's still going to be a massive area of deployment and need for the world as

technology continues to advance. You think about what's happening right now around energy transition and climate, the trillions and trillions of dollars that need to be invested around decarbonization around the world. In the last 10 years alone, we've already invested close to $25 billion around renewable themes and sustainability themes, and that's just scratching the surface in terms of what the world needs in terms of infrastructure capital. So as a destination for investment, there's some massive tailwinds in terms of demand, I think, that the private sector is going to be able to supply. And that's against the backdrop where most governments around the world are quite constrained in terms of financial capacity, right? Given all the stimulus that's happened in the world, they don't have really a lot of budget excess to really fund and invest in critical infrastructure for growth in these economies. So the private sector is going to have to step up and play a bigger role. And I think that's part of the reason why you're seeing the alternative space really grow dramatically in infrastructure."

- JPMorgan Chase & Co. (JPM)
  - “as we sit here today, the U.S. economy is still strong. I'm sure we will talk more about it. My sort of center of gravity being in Consumer Banking and lending, consumers and all businesses are still in generally in good shape, and so everything today is pretty good."
  - “We're supported of moderating the pace of rate hikes looking forward, more in restricted territory, no longer need a shocking normal approach to monetary policy. . .We are seeing signs that inflation will moderate through '23 and '24, but remaining meaningfully above target, but still show we think clear and committing signs of moderation. And then I think the labor market is still super tight no matter how you measure it, obviously. . .it does feel like we past the peak of wage inflation. It feels like they're sort of frenzy on hiring, and they're like super elevated attrition rates for us and generally have abated a bit. And so we look for that to soften into 2023. . .updating our outlook for unemployment, has unemployment moving higher in '23, peaking in '24 at or slightly above 5%, which in the context of any kind of stress test in the context of history is like really quite modest. So a shallow and short-lived recession at the end of next year”
  - “if you look at the small business space, it's pretty similar stories. Businesses have been very durable. They were able to pass on a lot of costs for a long time. More recently, from over the last few months, the smaller end of small businesses, particularly consumer-facing ones, have had more margin pressure, but still at reasonably healthy margins. And there, too, cash is normalizing, credit performance remains strong.”
  - “in the fourth quarter, nothing has specifically stood out. And we haven't seen a step change or a material change in the sort of pace of change, let's say that. There are a couple of different ways you can look at liquidity in consumers' accounts. And so I think if you just look at the absolute level of deposits, right, absolute deposits today versus pandemic, it is absolutely true that they're elevated and remain significantly elevated. But lots of things have changed since the pandemic, and inflation has had an impact both on inflows and outflows for consumers. So one of the ways that we like to look at excess liquidity in consumer's accounts is to take a stable cohort of customers that were our customers at the time the pandemic and to take a look at how much cash do they have on hand today. So how many days' worth of operating expense can they pay today, acknowledging that their operating

expenses today are higher than they were. So we call that a cash buffer. We measure it in days. And basically, it says how much cash does the average consumer has today to pay their bills in comparison to how much cash do they have relative to the outflows before pandemic. So if you look at the lower income sector less than $50,000, they're about halfway back. They are down year-over- year. They are normalizing faster. They are not yet at pre-pandemic levels, and so that's good news even with inflationary pressures. There's still this excess liquidity when you look at how capable you're paying the bill."

- Moelis & Company (MC)
    - "it's probably one of the easier cycles, in that, I think it's very predictable. It's just going to be different than over the last 20 years. The Fed has come to the rescue. The last 2 cycles that most of us have been in '08, and '08 was terrifying when it was happening. But the Fed ultimately came to everybody's rescue and the world rebounded fairly quickly after 12 to 18 months. And COVID was -- if people forget in the 6 weeks of the beginning to COVID, if you talk about uncertainty and fear, nobody -- there was no amount of decades of experience that could tell you what was going to happen. The interesting part about this cycle is, I think it's fairly apparent what's going to happen. The trouble is, it's not going to be a self-satisfying short-term thing. And we -- life cycles have accelerated, and none of us really want to wait for the 18 months of grinding, no Fed bailout, no Fed to the rescue."
    - "I think it's just going to be a long grinding process of where interest rates have to get to their destination."
    - "I came up in the '81 recession of Volcker, who's become world famous. It was not fun. '81-'82. I look around the room, many of you were not around. I came out of school, there were no jobs. Half my class got laid off at Drexel Burnham in '81. Nobody remembers that. They remember Paul Volcker was crushing up inflation. It was 2 years of horrific negative recession. So I do think he's going to -- I think the Fed is going to make sure that inflation is ended, and that means that we've been preparing, and we think rates -- we've always thought they probably would go to 5 or better, or higher, if not better or worse, and that it will be a very tough cycle. But it's not going to be quick. And that doesn't make it difficult to predict cycle. It makes it difficult to survive cycle."
    - "So if the Fed gets to 5% or if they get to 6%, the ultimate result of that is probably that transaction that was done at 20x EBITDA with 5x leverage at a 5% cost of capital is going to have to get done at 10x EBITDA at a 10% interest rate and 3x the leverage, and that's what will happen."
    - "I used to look at the financial markets and say, the first companies in every cycle I've ever been -- and we're homebuilders. That's how you knew the cycle was starting. It was the most significant financed large purchase. So it always got hit first. And then I realized, well, in the last few years, we've created a larger, more sophisticated public company called M&A Boutiques, and that's actually a bigger purchase. . .And so, we started feeling this. The financial markets are good at discounting and looking out to the future. So we've been in this for, I think, 3 quarters now, where our customers said, hey, I'm going to be careful. I think the homebuyers were like 3 months lagging on us because we're supposed to have the smarter finance people. So I wonder -- we might have a very tough 2023, and I think we will for the consumer, for the general economy, for interest rates."
    - "The first of the year is usually a moment where a lot of people rethink their capital

allocation. People go from, I don't want to lose any more money to, I'd like to figure out how to make some money. So there is a change in mindset.”

    - “It means that the maturity wall is more significant. I think you're not going to find people - now -- and the maturity wall starts to hit in '24, '25. But just remember, auditors, it often starts a year ahead because you have to -- some auditor might say, well, in this market, you can't refinance that, so we can't give you an opinion -- a going concern opinion. So you'll probably see these -- the pressure will build a year in advance of the maturity wall as people have to have going concern and prove their ability to refinance. So I think it will start earlier than people think. And if you're doing good advice, you'd be telling people, get ahead of this. Just -- it would probably be just more -- just tell them 6 months ago to get ahead of it, but people tend to kick the can down the road and this might not be a kick the can market."
- S&P Global Inc. (SPGI)
    - “I definitely believe there is quite a large backlog. And are indications for it anecdotally because we hear this from a lot of issuers that are waiting on the sidelines and are ready to step in once the macro circumstances are more supportive. But another indication is on certain days where the market looks a little bit more positive. For example, we had in November, a day, you recall that's only the CPI data came in a little better, which gave an indication of maybe the fab can start to slow down some of the rate hikes. I think that it led to some of the U.S. treasury levels coming slightly down. Those days, there was massive issuance for -- to the market. But the flip side is we have also never seen so many days with 0 prints this year. So for me, those days are an indication of once the CPI number start to become clearer, it becomes clear, how long the fab has to continue to hike, where ultimately, the yield curve for-- do we get to a month position or a more severe recession, which will have an impact on credit spreads, on credit risk, on credit defaults. I think once all of that -- the market starts to settle and understand where it's heading, I think we will be in a very good position, and we will see the market turn. "
    - “nothing has changed with respect to the algorithm. For the Ratings business, nothing is broken. And once the market starts to stabilize, they understand where the economy is heading, where the yield curve is heading, then we think it will come back with the same algorithm we have seen before. And that is not so much sensitive around interest rates. It is sensitive around GDP, plus future price increases, plus new initiatives that we're building around it. Of course, inflation makes a role ultimately there as well.”
    - “We don't believe that where rate levels are today, and where they are expected to go that, that is in any form a way prohibitive and restrictive for the debt markets and for issuers. Obviously, it's higher than where rates were at the beginning of the year. There's also always a psychological effect of a reset that people have to realize, "Oh, yes, first, it's unfortunate if I would have refinanced 9 months ago, I would have been in a very different place," but that at some point, that effect goes away and say, okay, yes, this is the new normal. And then compared to other forms of financing, it's still the most effective form. So therefore, it's hard to see that there are really alternatives. Looking at paying back, paying down debt, that only happens on an idiosyncratic basis is hardly ever we see that more structurally happening across the board. GDP growth is often just correlated -- debt growth is correlated with GDP growth and outstanding debt has only gone up over the last multiple

decades as a whole."

- Wells Fargo & Company (WFC)
    - "There's no question about it. When you look at the tools that the Fed has, how powerful that they are, that don't fight the Fed is in fact something that people should just take at face value, especially when they're not competing against fiscal policy. . .So our case would be, a slowdown, if you asked our economists, we'd say probably a couple of quarters of a relatively mild recession during 2023. But in our planning we would say we're expecting a fairly weak economy"
    - "throughout the entire year and hopeful that it'll be somewhat mild relative to what it could possibly be but time will tell."
    - "And the fact is people bought a lot of goods exercised a lot of the freedom they had in discretionary spend over the last couple of years. And those purchases are slowing, and you're seeing significant shifts to things like travel and restaurants and entertainment and some of the things that people want to do."
    - “what we see is still extremely strong credit performance on the consumer side with an expected level of normalization. But I would describe it as you do need to -- if you're looking at the graphs of delinquencies and what you do need to make change the scale to really see it, but it is very, very clear. And again, there's nothing in there that would suggest that it's -- the curves are turning in a more negative way. It's a consistent return to normal”
- Industrials
    - Ferguson plc (FERG)
        - “We're not seeing a large amount of channel destocking with our end customers. What we have absolutely done is focused on bringing our inventory levels down, and you saw that in Q1, reducing our inventories by $100 million as we started to see our vendor supply chain constraints improve and product availability improve. We've talked about some of the areas that still remain pressured from a supply chain perspective, like HVAC, like high-end appliances, like ductile iron pipe on the Waterworks side.”
        - “we didn't see a pull forward of demand in shipment activity. We did see a pull forward during supply chain pressures of ordering activity. . .we have done a good job of reducing inventory by reducing committed inventory inside of our systems for good projects and getting our customers ordering patterns back to a more normalized place."
        - “we don't see any catalyst for further abnormal price inflation. As we look at how product will trade in the coming quarters, remember that just under 15% of our business is in commodities. And as we've said, we expect to see some movement on the commodity side of the world, although we do not believe that we'll see those commodities move together. For example, cast iron, ductile iron, PVC, carbon steel, stainless steel, we've seen a touch of pressure on the carbon steel, stainless steel side. But generally speaking, we've seen pretty supportive pricing levels on PVC, polyethylene, cast iron and ductile iron. So we do expect to see some degree of pressure or change from a commodity perspective."
        - "On the finished goods side, we haven't seen any significant impact. From a pricing perspective, we do believe that there are some structural floors underneath those pricing levels. . .not the least of which would be the labor costs associated with those manufacturers and what their pricing levels need to be coming through our fiscal year. . .we haven't seen any discernible movement from a price elasticity

perspective, as demand has started to slow on new construction residential."

    - “We have seen some, albeit, very small, delayed activity on some of our commercial build-out activity. It hasn't been very large, and it's been spotty in different geographies."
    - "What we are energized by is, again, some of the larger scale projects as we look to nonresi, things like electric vehicle, battery, LNG, pharma, semiconductors, even normalized activity like refinery turnarounds, downstream chemical and mining activity. Those projects generally take a bit longer. And so as we expect, we'll see some softening in new residential construction. We also believe we will see those projects start to take hold as we go through our fiscal year '23 into the spring and summer. And as we look at those projects, in particular, those are good projects for our company as a whole as we take a more One Ferguson approach towards that owner, engineer, architect, general contractor, to bring all the customer groups of Ferguson together on the project and on the site. So we've seen a touch of slowing in some areas of knock-on build-out commercial, nothing discernible, but a good level of activity in what we would call megaprojects as we go forward."
    - “No pricing declines as we indicated earlier, pricing -- we're still experiencing price inflation, and we haven't seen any significant price deflation nor do we expect that in the short term."
    - "If you think about that 80 basis point decline year-on-year, it's really more a factor of what -- how we performed last year when we had significant commodity inflation. And that gross margin of 31.3% that we delivered last year was really a peak gross margin for us. And we had expected that to normalize as pricing traded more sideways on a sequential basis. So we've seen that compress over the last few quarters, but really pleased with that 30.5% delivery in Q1."
    - “we certainly had some inflationary cost pressures over the last couple of years, but I would submit that those inflationary cost pressures are not decreasing yet. If you think about our cost base, well, you know it well, 60% is labor. We're still experiencing wage inflation in the mid- to high single-digit rate. And so we're working hard to offset that, but we're still seeing cost inflation in other areas, such as truck costs, rents, effectively everything that we buy is still impacted by some level of inflation. So we don't see cost inflation pressures alleviating significantly, but we're working very hard to offset that."
- Korn Ferry (KFY)
    - “November new business compared to October, so sequentially was exactly like we would have imagined it to be, and it's in line with historical trends. . .And with respect to Executive Search, we saw in the -- take the second quarter, we saw a new business down about 4%. And we saw the same thing in November. So both in the quarter and November, this is constant currency, Mark, we saw declines in both of those. And the outlier was EMEA. EMEA was actually very strong. EMEA was up 13% in Executive Search in the quarter, again, constant currency. And constant currency in November was up 17%.
    - “there's massive changes that are happening under our feet from the inflationary pressure to changing global trade lanes, to near shoring, a lot of companies are making moves around transformation. But the one thing that's substantially different this time around, and I'll just take the U.S. as an example, is the labor force. And the reality is the labor force, 164 million Americans in the workforce hasn't changed in almost 3 years. And the labor participation rate at 62%, as you know, is

a historical low. So you can talk about uncertain times, and you can talk about recession, but that's a huge, huge difference. And I think companies are going to be pretty hesitant in doing any kind of massive downsizing of the workforce. And you're seeing the quit rate falling, you're seeing job openings falling, which you would expect. But I think the general makeup of the labor force is a substantially different and new variable compared to past cycles. And the firm today is a much, much different company. When I look at the Q2 results, and I compare them to the quarter before the pandemic, our revenue is up 40%."

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