SPREE CAPITAL
ADVISERS

Weekend Thoughts 11/19/22

Net: The recent softening in inflationary trends in goods prices, producer costs, and housing continues. Yet services inflation, representing 25% of the CPI, is showing stickiness. Macro uncertainty has limited the time frame businesses are willing to commit to. Businesses are raising hurdle rates on growth spending initiatives, while continuing to invest in efficiency and productivity initiatives. Consumers continue to have healthy balance sheets, but credit card outstanding and mortgage delinquency trends indicate that consumer debt capacity and liquidity are indicators to be watched going forward. Consumer spending remains strong across the board, but the more impulse driven discretionary purchases are showing signs of weakness.

- Information Technology
    - Cisco Systems (CSCO)
        - "As we've discussed, there are also tailwinds to our business such as Hybrid Work, 400 Gig and Beyond, 5G, WiFi 6, Security and Full Stack Observability. We believe these broader technology transitions will require every customer to rearchitect their network infrastructure, and in turn, fuel long-term growth across our portfolio."
        - "customers are trying to solve this energy cost issue in a very aggressive way. And we have several technology areas that can help them do that, including our Silicon One technology, which powers their networks at much lower power consumption. You've got IoT where we can connect these energy systems and make them more efficient as well as Power-over-Ethernet, which actually just reduces the power footprint for our customers. So it does also create some opportunity."
    - DLocal Limited (DLO)
        - "Our investment into geographic expansion typically have a fast payoff because: first, we normally have a merchant in waiting when we add a new country, providing immediate demand. This was the case for both Nicaragua and Saudi Arabia. And second, with One DLocal platform, any new geography or payment method become immediately available to our entire merchant base."
        - "we are extremely, extremely optimistic in terms of what's going to come for Q4 and the future years."
        - "We've seen nothing that makes us worry in the short term. We continue to see positive underlying growth in our business. So there's no reason why we shouldn't be able to continue to deliver on those numbers."
    - Monday.com (MNDY)
        - "We are closely monitoring uncertainties in the macro environment and the impact it's having on our customers and our business. We currently see 2 primary headwinds. First, we continue to see pockets of stress in our customer base, in particular, in Europe, with some indication of softness spreading to other regions. Second, since we have a large presence of business outside the U.S., the strong U.S. dollar has negatively impacted reported results and represents an FX headwind to revenue growth. Despite these uncertainties, new customer demand remains solid, and acquisition efficiency improved in Q3. While others are pulling back, we continue to see opportunities and invest for growth and gain market share."

        - "CRM is... We tapped into a new market. We've seen new customers of a new kind, and we also see them comparing us to other companies that we were not compared to before. . .the type of customers that are joining us are completely new. It's like -- it's not existing customers. And so obviously, they start off from like a different scale. They want different things. And this is very encouraging for us because it proves for us that Monday is a true platform that has completely different products on it. And obviously, CRM requests differ greatly from [indiscernible] to manage customers, e-mail them and manage the whole life cycle of the customer. And one of the great powers that we see that customers buy into Monday in CRM is its customizability. The fact that they can really do everything with it and that they never hit the wall. And that's something that a lot of -- it gives us a massive competitive edge compared to other platforms that they compare us to."
        - "the market environment has become more challenging across the board, in general, so the cost per click or the cost per sign-up is much lower today."
        - "in H2, also, we said that we were going to be more prudent on hiring and look at other discretionary costs that relates to marketing. So altogether, this helped us to reduce the cost of marketing -- sales and marketing in general."
    - NVIDIA Corporation (NVDA)
        - "Despite near-term challenges, we believe our long-term opportunity remains intact, fueled by AI simulation, computationally intensive design and engineering workloads."
        - "At GTC, we announced NVIDIA Omniverse Cloud Services, our first software and infrastructure as a service offering, enabling artists, developers and enterprise teams to design, publish and operate metaverse applications from anywhere on any device."
        - "Automotive has great momentum and is on its way to be our next multibillion-dollar platform."
        - "data center business is indexed to 2 fundamental dynamics. The first has to do with general purpose computing no longer scaling. And so acceleration is necessary to achieve the necessary level of cost efficiency scale and energy efficiency scale so that we can continue to increase workloads while saving money and saving power. Accelerated computing is recognized generally as the path forward as general purpose computing slows. The second dynamic is AI. And we're seeing surging demand in some very important sectors of AIs in important breakthroughs in AI. One is called deep recommender systems, which is quite essential now to the best content or item or product to recommend to somebody who's using a device that is like a selfie or interacting with a computer just using voice. You need to really understand the nature, the context of the person making the request and make the appropriate recommendation to them. The second has to do with large language models. This is -- this started several years ago with the invention of the transformer, which led to Bert, which led to GP3, which led to a whole bunch of other models now associated with that. We now have the ability to learn representations of languages of all kinds. It could be human language. It could be the language of biology. It could be the language of chemistry. And recently, I just saw a breakthrough called Jeans LM, we just one of the first example of learning the language of human genomes. The third has to do with generative AI. You know that the first 10 years, we've dedicated ourselves to perception AI. But the goal of perception, of course, is to understand context. This is now the beginning of the era

of generative AI. You probably see it all over the place, whether they're generating images or generating videos or generating text of all kinds and the ability to augment our performance to enhance our performance to make productivity enhanced to reduce cost and improve whatever we do with whatever we have to work with, productivity is really more important than ever. And so you could see that our company is indexed to 2 things, both of which are more important than ever, which is power efficiency, cost efficiency and then, of course, productivity. And these things are more important than ever. And my expectation is that we're seeing all the strong demand and surging demand for AI and for niche reasons."

    - "We're making excellent progress in NVIDIA AI enterprise. In fact, you saw probably that we made several announcements this quarter associated with clouds. You know that NVIDIA has a rich ecosystem. And over the years, our rich ecosystem and our software stack has been integrated into developers and startups of all kinds, but more so -- more than ever, we're at the tipping point of clouds, and that's fantastic. Because if we could get NVIDIA's architecture and our full stack into every single cloud, we could reach more customers more quickly. And this quarter, we announced several initiatives, one has several partnerships and collaborations, one that we announced today, which has to do with Microsoft and our partnership there. It has everything to do with scaling up AI because we have so many start-ups clamoring for large installations of our GPU so that they could do large language model training and building their startups and scale out of AI to enterprise and all of the world's Internet service providers. . Every company we're talking to would like to have the agility and the scale, flexibility of clouds. And so over the last year or so, we've been working on moving all of our software stacks to the cloud are of our platform and software stacks to the cloud. And so today, we announced that Microsoft and ourselves are going to standardize on the NVIDIA stack, for a very large part of the work that we're doing together so that we could take a full stack out to the world's enterprise. That's all software included. We, a month ago, announced the same similar type of partnership with Oracle."
- Semrush Holdings (SEMR)
    - "The strength in new customers was partially offset by lower expansion from existing customers, particularly those customers with larger average revenue per year."
    - "We leverage success in SEO to expand into new categories, such as competitive intelligence, digital PR, content creation and other areas, primarily through internal R&D. As we look ahead, the use cases continue to expand, but it is simply not feasible or practical for Semrush to build solutions for all the different use cases internally as our R&D resources would need to exponentially and, thereby, limit our ability to invest elsewhere. This is the crux of our App Center strategy. To address a fragmented market, including many niche use cases, we seek to offer a wide variety of product capabilities without overhelming the capacity of our internal development team. To solve this, we intend to offer third-party applications that address customer needs in instances where the third-party solution has a wide adoption, and we have decided not to build internally. Over the long term, we believe a substantial portion of Semrush revenue will be driven by products created by partners, but are only made possible by the Semrush platform. Another promising feature of the App Center model is the potential to monetize free active users. As many of you know, we have a large and growing cohort of free active users

on the platform. These users may have very modest requirements and the full functionality of the entry-level pro-plan may be overkill for their needs. They may be interested in limited functionality offered by a lower-priced app with the possibility to trade up to Semrush subscription in the future as their use cases expand. As we continue to grow the Semrush platform, I believe, partners, whether it be third-party developers or leading companies like Wix will increasingly see value in collaboration with Semrush. The App Center is central to our wide platform strategy, a strategy that I believe will lay the foundation for our growth well into the future.

    - “So in terms of macro, we see impact in larger accounts. But in terms of performance of our core base, we don't see that much difference. So I would say, actually, and somewhat surprisingly small business segment is holding pretty well, which is, I think, was counterintuitive for many experts that we talked to. . .But yes, right now, this is largely limited to larger transactions, mostly existing customers going through renewal process. Sometimes, it takes them a little bit longer, sometimes where previously, they would buy more, they stay with their current subscription. Sometimes, they experience layoffs, so they have to downsize their subscriptions. So that's what we are referring to when we talk about macro situations. But small business segment, when we look at total number of expansions, it's pretty -- doing pretty well."
    - "So I would start that in general, like I said, MarTech is very fragmented. So what fragmentation means for software developers is that it's much harder for them to get access to audience, it's much more expensive for them to advertise. It's harder for them to explain the value of their product, and it's almost impossible to gain wide brand recognition and earn trust upfront. So I think that's where partnering with Semrush provides enormous value to all new app developers. We have over 94,000 paying customers, over 750,000 free active users and that's a huge asset that attracts app developers. And I've been saying for a couple of quarters that we have a queue. We have a lot of people who want to integrate with us. Right now, the bottleneck is just our technical ability to launch those partnerships which we're working on. But in general, demand to partner with us is very high among developers. And like I said, of course, audience is a big asset, but also we have some data assets. Semrush data powers a lot of third-party applications, but sometimes buying data from us is expensive and a lot of people would rather partner with us and build app for our App Center, where we have more favorable terms for data partnerships. So that's another big reason for them to partner instead of build on their own."
- Wix.Com Ltd (WIX)
    - "So with that uncertainty, we kind of took a step back and decided to relook at our profitability plans, and that led to the cost reduction program that we went through this summer. And the idea behind that was we wanted to make sure that regardless of growth in 2023 or frankly, even beyond 2023, we could achieve the profitability margins that we outlined in the plan. Yes. So our commitment is to achieve the margins in the plan in 2023. And as we said on the earnings call last week, we intend to do that even with growth being probably less than what we had penciled out back in May."
    - "we have a partners business that we've been growing and investing a lot in over the last several years essentially in an effort to move upmarket, move beyond just

self-creators, but into professionals that build websites on Wix for clients or others. These are larger websites. Typically, much more technically designed. They're going to be oftentimes higher priced for Wix and for the clients. Many times, they come commerce related, so maybe a store bookings, events, which generates payment volume for us. So what we're seeing is that partners who we call agencies, they're still coming to Wix at a good pace, a similar pace than what we've been seeing, but their pipelines are slowing a bit. I mean I think they're going through a lot of the same pains we are on the demand side. And so what that means for us is a little slower on the GPV side. Maybe the websites that are being built or the client sites being built are less sophisticated, less frequent. It's a very similar dynamic to what we see on the self-creator side. But it's really a pipeline issue. It's not as much -- it's not -- has anything to do with partners coming to Wix and starting to use."

- "50% of subscriptions -- new subscriptions on Wix already have a domain name when they come to Wix, they're transferring it from somewhere else. So that could -- maybe as a new business formation, but most likely, they had a site somewhere else that they're moving over to Wix. And so that gets into the share gains a little bit. A lot of -- look, a lot of it is coming from WordPress -- WordPress.org. And part of that is because they're the largest kind of platform out there. But I think abigger reason is because designers, developers they are looking for more of a cloud-based solution today. WordPress.org is an open source platform. It comes with a lot of flexibility, but that comes with a lot of problems, too, vulnerabilities on the security side, vulnerabilities on reliability, plug-ins, and it's harder to manage and takes more time. And I think as designers and developers have more demands on their time, they need something that's much more out of the box. And so -- and maybe even where a developer isn't needed. You can have a design agency that if you have a cloud-based solution like Wix, you don't need to go out and hire a developer to contribute because everything is already there for you back end and the infrastructure and even some of the coding is -- can be done in a no-code environment."
- "I think what our kind of pitches is you're going to save time, you're going to -- it's going to make you and your team and your agency more efficient. You don't have to spend. Designers and developers, they want to spend their time designing and developing. They don't want to be spending their time monitoring and updating and having to manage. That's time consuming. So what we're -- the value prop we're giving is that, hey, take -- we'll take the management side. We'll take the updating side. You don't have to worry about that. Spend your time doing where your real value add is, and that makes you more efficient. And then the way that means you can do more projects and make up maybe whatever potentially margin they're not."
- "Well, what the macro has changed on it is the level that these businesses are willing to commit to. So like I said earlier, Vistaprint, LegalZoom, they committed to a multiyear agreement. Now we're hearing from partners -- from these partners, "hey, we want to do this. We want to have Wix as part of our funnel, but we're not willing to sign up for 3 years because we don't know what the next 3 years look like, but let's start with 1 year." So for us, on the bookings side, that's all we -- Revenue-wise, it's not going to change."
- "So in April, we kind of initiated a price increase. We began in the U.S. We rolled it out gradually throughout May and into the early summer through Europe and the rest of the world. Nearly every geography got some type of increase. Average is

where it's kind of teens to 20% area, depending on package, type and geography, et cetera. How it works is anyone who is new, who comes in, gets the new price. And that's whenever the price is implemented. And then anyone who renews sees the new price upon renewal. So we don't raise prices across the entire subscription base all in one day. If your renewal is coming up this month, when you renew, you will renew at a higher price. So it will take a year and actually a bit longer because we do have2- and 3-year subscriptions. It will take a time to ripple through the entire subscription base. We're halfway-ish right now. And into '23, we will realize -- [see] almost all of it. "

        - "we're focused on opening up the platform more. I mean we released -- we had our first developer conference in September. And we revealed a new e-commerce platform, which is meant for not exactly what you're talking about, but giving an e-commerce developer a lot more flexibility and a lot more openness into what they can build on Wix, and how it can be used across multiple different sites."
- Communication Services
    - John Malone
        - “So far we haven’t seen very much indication of consumer running out of debt capacity or liquidity but I think its right around the corner. If you look at credit card outstanding or delinquencies in mortgages, its starting to build. My guess is that there will be a bit of a squeeze on consumers ability to purchase. . .my guess is that we see a recession of some kind towards the end of this year into next year. I dont think it will be deep in my own opinion, but its likely to be correlated with the Federal Reserve does and what the other central banks do”
        - “We are definitely going into a dramatically slower ad market as people are anticipating the future and starting to cut back on their ad budgets. . .there is definitely going to be a slowdown in the ad markets. . .that will be across the board from the new streamers to the traditional linear stuff”
        - “Netflix's ability to foreclose any meaningful competition in that space is just unlikely. There is too much content, the public has too broadly diversified taste. There will be multiple players in that space. Its going to be hard for them to achieve the level of profitability and consistent profitability that the dual stream of revenue of traditional linear business achieved, with margins in programers and network owners in the 40-50% area. Its going to be hard with marketing and churn. To be successful in streaming you are going to have to have your own funnel. You are not going to be able to spend a fortune on advertising and promotions to gain customers because the churn will kill you. You have to drive down churn and churn costs. If you have your own funnel and are already present and can advertise cheap. If you are already on platforms where it is a simple click to add something, that will be an important ingredient in achieving profitability. There is going to have to be consolidation, budget cutbacks on spend for streamers.”
        - “Everybody I know is taking a hard look at their content budgets going forward and trying to be more targeted with what audience they are after. . you might see some specialization where you see profitability earlier for some segments. . . to keep churn down you have to bundle, Disneys approach is to bundle internally, have 3-4 services streaming that you can combine and try to satisfy a broader household but all internally. there may be opportunities for streamers to bundle with other streamers. . .it may take bundling with something other than entertainment programing, maybe sports, maybe connectivity services will turn out to be a

stronger bundle."
    - "Why didn't it (linear tv) work? because the bundle was too expensive. It contained way too much sports costs. It was not possible for distributers to unbundle because of contractual obligations"
    - "if its free and ad supported, I think people will watch and tolerate the ads in entertainment programing, in movies and series. If it is premium, they are used to premium not having ads. they are trained that way. I am skeptical as to how many people will tolerate ads in long form entertainment programing. . .if you start pushing a heavy ad load, Im not sure people will find it as interesting."
- Consumer Discretionary
  - Advance Auto Parts, Inc. (AAP)
    - "So relative to what you're hearing about in total retail, we're not seeing that. I think that you'll continue to see strength in the automotive aftermarket. The DIY segment performed well at the end of the quarter for us. So we feel like the industry performance will continue to be strong"
  - America's Car-Mart (CRMT)
    - "The consumer demand for our offering is high and as credit continues to tighten, we expect demand to increase even more. Absent consumer affordability challenges, our volume and profit opportunities would be higher. We will be ready to support the expected increase in customers that we will see in the future."
    - "Along with the expectation that used vehicle prices will continue to level off and decrease, we expect to be taking significant costs out of our procurement channels, while at the same time improving quality while leveraging strong partnerships throughout the chain, specifically reconditioning partners."
    - "As to credit losses, as mentioned in the press release, credit losses are higher than anticipated as inflation continues to run at extremely high levels, affecting our customers disproportionately. At present, losses have simply reverted to historical levels after a sustained period of below average losses. We've been the canary in the coal mine with credit losses due to how close we are to the ground. That being said, it does appear likely that industry credit losses by reference to 60-plus past due delinquencies and subprime used auto could be much higher down the road for competition."
    - "We are seeing competition scaling back and even closing locations, something we've not seen in many years in our industry. And of course, that creates tremendous opportunity for us. We do expect net charge-off levels to level off as the competitive landscape for credit continues to tighten. We are strengthening our deal structures to help more customers succeed."
    - "For the current quarter, net charge-offs as a percentage of finance receivables, despite the recent increased frequency of losses, were at 5.8%. This was in line with our prior 5-year average and below our 10-year average of 6.3% for second quarter. This compared to 4.4% in the prior year quarter. For a historical comparison, pre-pandemic, net charge-offs were also 5.8% for the quarter ended 10/31/'19. The primary driver of the increased charge-offs was an increased frequency of losses, but we also experienced a smaller increase in the relative severity of losses. The declining wholesale prices had an effect as well. Recovery rates decreased about 50 basis points to just under 30%."
    - "As the credit environment normalizes and credit above us tightens, now is the time that we need to work with our customers to keep them in their car and on the road.

Our dealerships will be focused on this, especially as we approach the holidays over the third quarter and the upcoming income tax refund time."
  - “The frequency of losses was the biggest contributor. The severity was a smaller piece of that. As we talked about before, our consumers, we believe are still pretty healthy. The job markets are still good. Wages are still up. Hours are still up in terms of what they're working. There is some adjustment here to this inflationary environment and a higher car payment than maybe what they've historically been used to. But as you mentioned, overall, things are pretty positive. We feel good about it. We've been working with consumers for 40 years. We're used to working through situations like this with them, and that's what we'll be focused on."
  - "the Manheim Index is incredibly valuable to track if I sort of looked at the time period and locked in January 1 and sort of restated that index from January 1, 2020, our prices went up, I'd call it, probably close to 40%. On the cohort of vehicles, we really stay focused on sort of reaching a crescendo there in December of last year. They've come down about 17% since that point and we expect that to sort of level off throughout the balance of the user as things sort entered the spring market, and there's a little bit more robustness around there. But we could see a more normalized depreciation going forward, which we'll capitalize on. So I think the very first question around the pricing of the vehicles. If you sort of like think about that continuum I just mentioned, prices have come down nearly 20%, but are still 20% higher than pre-pandemic levels. I think our pricing and the vehicles that we're selling is a function of what's available in the marketplace and the fact that prices are still very much elevated from pre-pandemic and we'll participate. And I think for those customers in the lower end of the credit spectrum that becomes accretive to our volume."
- Aramark (ARMK)
  - "We're making progress on the planned tax-free spin-off of this business into an independent company, and we'll be sharing further details in the new year regarding this strategic transaction."
  - "As a company, we've moved from recovery mode to growth mode very quickly, concluding our fiscal year on substantially stronger footing and believe we are well poised to continue the strategic transformation we set out to achieve back at the beginning of fiscal '20."
  - "We feel as though one of the tailwinds continues to be the outsourcing trend and the net new business wins. We have an incredibly strong pipeline at the moment as we enter into fiscal '23.”
  - “we do see a softening in the labor market, as you've seen the announced layoffs and others. We're beginning to see more people return to work and a higher level of concern.”
- Berry Global (BERY)
  - “There continues to be inflationary pressures. There's pockets of supply chain challenges that are out there. And frankly, our end customers are pointing to a near-term outlook that is a little softer customer demand.”
- Farfetch Limited (FTCH)
  - "In the current global macro environment, we're seeing continued digital media cost inflation for luxury, especially in the U.S. as well as reports of higher inventories indicating we're going to be heading to a very promotional environment. We've made the strategic decision of prioritizing margin profitability over growth in this

promotional markets, which is reflected in our revised full year 2022 guidance."

    - "Our consumer continued to exhibit a strong interest in luxury in Q3, as evidenced by the year-on-year growth in active customers, driven by double-digit growth of existing customers as well as high single-digit growth in new customers Both new and existing customers also increased the number of items per basket which is even more"
    - "encouraging as this behavior over time has historically been correlated with higher repurchase rates. Overall, our customers are highly engaged and the demand generation leverage delivered during the quarter indicates that we have become more efficient in interacting with them. This is also a reflection of our investments in building our brand, which is particularly beneficial in times like these."
- The Home Depot, Inc. (HD)
    - "Our results in the quarter reflect continued solid demand for home improvement projects. While we did see some deceleration in certain products and categories. . .We also saw year-over-year growth with both our Pro and DIY customers in the quarter. . .We can't predict how the evolving macroeconomic backdrop will impact our customer going forward. . .Despite near-term uncertainties, we believe the long-term underpinnings of demand for home improvement remains strong"
    - "11 of our 14 merchandising departments posted positive comps: build materials, plumbing, lumber, millwork, paint and hardware had comps above the company average. All other departments with the exception of appliances, flooring and indoor garden were positive, but below the company average."
    - "our Pros tell us their backlogs remain strong. During the quarter, our project business remained healthy. This can be seen in the double-digit comp performance of our build materials, plumbing, lumber and new work departments as well as in other categories like fencing, siding, conduit boxes and fittings, hubs and showers and cabinets."
    - "We are operating in a broad-based inflationary environment, not seen in 4 decades while managing through constrained global supply chain conditions, all against the backdrop of monetary policy shifts intended to moderate demand. To date, our customer has proven resilient."
    - "From our core customer, we think our customer is still healthy. I mean our customer tends to have a good job, growing wages, strong balance sheets. They own their home and have seen increased home equity.
    - "home price appreciation, we think, has always driven home improvement demand, and we've talked that to you for a long time. But what we also really ran into even, I'd call it, the middle part of the last decade was that as home prices begin to call it, become more steady, price discovery, in our view, became a little bit harder. And so the question has always been, number one, is there a lag to spending? Are you going to spend in that specific period when you know your home price is appreciated or is there a halo effect that lags over multiple periods? And our hypothesis is yes. That's what we saw in the last decade. And I think that, that just sort of holds true from an intuitive perspective. But I think there's another -- there are so many points that are important and I think we are all somewhat anchored to what we observed in 2008 and '09, and many of the folks on this call, in fact, almost all of us were here during 2008, 2009. You have a situation where 25% of homeowners were underwater on their mortgages. You had really a relationship that we saw in our comp sales driven by acceleration in foreclosures. So it wasn't --

we were not in a period of home price depreciation that you're talking about single digits. We had a massive price correction in 2006 to 2008. There was price discovery every single day on the front of the newspaper and millions of forced sellers that were creating that price discovery. When I look at the situation now, as Ted said, we have home price appreciation of essentially 40% year-over-year -- sorry, over the last 3 years. In fact, year-over-year home prices are up 13%. Since December, home prices are up 8%. It is decelerating. But I think if you ask -- or you listen to most observers, and I think most people are calling for, if there is a correction, a modest one. So my question is, how will the price discovery occur? And then second, is that price depreciation actually meaningful enough to change folks' spending behavior? Because as Ted said, if you're a homeowner, you've done quite well from a balance sheet perspective. You likely have a job, you likely have cash in the bank. And then we're seeing another just interesting dynamic where with mortgage rates increasing, our customer is becoming more and more likely to stay in place and begin a project."

  - "And so just sort of going back to the health of the homeowner back in over a decade ago, 25% of mortgages were underwater back then. Let's look at the credit standing of the housing stock in the U.S. now. Of owner-occupied households, 40% are owned outright, no mortgage. Of the 60% that do have a mortgage, 90% of those mortgages are fixed rate, 73% of those mortgages are fixed rate below 4%."
  - "We're watching inflation very carefully. We have seen some deceleration in inflation in the recent months which is good for our consumers.”
  - “commodities have been down 6, 7 months in a row. Lumber is obviously way down from peaking at nearly $1,500 to now under $500 from peak to current during these last 3 years. However, we still see inflation across the store. So while some will be coming down in certain categories with costs and retails, our forecast at this point is that net inflationary cost pressures continue into 2023."
- Lowe’s Corporation (LOW)
  - “demand drivers for home improvement are distinctly different from those that drive home building. So it's important not to confuse the two. And as a reminder, at Lowe's, the 3 highest correlating factors of home improvement demand are home price appreciation, age of housing stock and disposable personal income. So let's start with home price appreciation. Even if there is a broad-based decline in home prices, homeowners"
  - "(homeowners) currently have a record amount of equity in their homes, nearly $330,000 on average, which remains supportive of home improvement investment. And even in the select U.S. markets where home prices have declined after a particularly steep run-up during the pandemic, we are not seeing any impact to sales; second, the average age of homes in the U.S. is over 40 years old and roughly 3 million more homes built during the housing boom in the mid-2000s, will be entering prime remodeling years by [2025], which is a key inflection point for big ticket repairs. This is one of the key reasons why 2/3 of home improvement spend is nondiscretionary on repair or maintenance projects that cannot be delayed; third, consumer savings are near record highs, while disposable personal income remained strong. And more than 90% of homeowners either own or home or are locked into a low fixed mortgage insulating them from rising rates. "
  - “there is a persistent 1.5 million to 2 million under supply of homes and 250,000 first- time millennial homebuyers are expected per year through 2025. This unique

combination of factors is causing homeowners to trade up in place, preferring to invest in repairs and renovations to make their current homes meet their families evolving needs rather than buying a new home. And this is why we're so confident about the outlook for the home improvement industry even in a period of high inflation and rising interest rates because the key drivers of our business remain supportive."

  - "When we look at markets around the country where we saw an aggressive increase in home prices during the pandemic, now you can see some of those prices start to fall. Those markets are performing at the same rate of performance as other markets. So we're already seeing due to the life cycle of home price appreciation and home price declines around the U.S., signals of kind of what the broader macro may look like in months, quarters and years in the future."
  - "we do believe there was some degree of pull forward in some of these more seasonal discretionary categories. But we are not seeing anything that feels or looks like a trade down or consumer pullback."
  - "third quarter was our best performing DIY quarter of the year. And that customer segment tends to be kind of the indicator for us on the overall health of our business. Pro has been strong all year."
  - "we do continue to see high single-digit inflation this quarter, inclusive of about 80 basis points that I mentioned earlier of commodity inflation."
  - "Our consumer does continue to be resilient. We haven't seen any significant trade down. In fact, we've actually seen trade up in place across a number of categories."
- Target Corporation (TGT)
  - "consumers are showing increasing signs of stress and pulling back from discretionary purchases"
  - "While overall Q3 comp growth was nearly identical to our second quarter performance, we experienced dramatically different trends within the quarter. More specifically, through the first 2 months of the quarter, we had seen comp growth of well over 3%, and then saw a deceleration to just under 1% in October. Even within the month of October results in the back half of the month were much softer than in the first half and the mix of our sales tilted much more heavily towards promotions. This rapid change in trend is consistent with what we're seeing in syndicated data on broader industry trends and the feedback we're hearing from our guests. More specifically, consumers are feeling increasing levels of stress, driven by persistently high inflation, rapidly rising interest rates and an elevated sense of uncertainty about their economic prospects. With high rates of inflation, continuing the road, their purchase power, many consumers this year have relied on borrowing or dipping into their savings to manage their weekly budgets. But for many consumers, those options are starting to run out. As a result, our guests are exhibiting increasing price sensitivity, becoming more focused on in response to promotions and more hesitant to purchase at full price."
  - "we faced an unexpected gross margin rate headwind from a higher-than- expected mix of promotional sales as guests moved away from full price purchases."
  - "like the rest of the industry, we're facing a growing financial headwind from shrinkage, which is running hundreds of millions of dollars higher than a year ago. Along with other retailers, we've seen a significant increase in theft and organized retail crime across our business."
  - "We see our guests holding out for and expecting promotions more than ever

spending less on regularly priced items. When they shop our frequency categories, some guests are trading into smaller pack sizes, opening price point options or own brands to reduce their spending on a single trip. Others are opting for larger pack sizes or stocking up when items are on promotion, knowing they will receive greater per unit value. And these trends only became more pronounced towards the end of the third quarter when spending patterns changed dramatically. With inflationary food prices absorbing more of their spending, those costs are crowding out other categories, including spending on discretionary items, and in some cases, even household essentials."

    - "compared with the second quarter, lead times improved by about 15% in Q3, and we're more than 3 weeks shorter than a year ago. While we were really pleased to see this improvement, the acceleration was faster than we expected, causing many overseas orders to arrive earlier than needed. As a result, the team has been reducing lead times on our future orders just as they extended them during the pandemic."
    - "we saw improvement across multiple dimensions of our transportation costs in the quarter, even as those costs remain above pre-pandemic levels. Container rates in global shipping have come down by about 1/3 in recent months, and we'll realize that benefit in 2023 as we renegotiate our staggered contracts with shipping partners. And importantly, we expect to see further reductions in those rates going forward as they remain about 3x higher than we were paying in 2019. Similarly, domestic transportation rates have come down since the beginning of the year, but remain higher than a year ago and double the rates we were facing in 2019.And of course, fuel costs, which are a major driver of our domestic transportation expense are still running more than double the amount we were paying in 2019."
    - “year-to-date, incremental shortage has already reduced our gross margin by more than $400 million versus last year, and we expect it will reduce our gross margin by more than $600 million for the full year. As Brian mentioned, this is an industry-wide problem that is often driven by criminal networks, and we are collaborating with multiple stakeholders to find industry-wide solutions. For example, because stolen goods are often sold online, Target strongly supports the passage of legislation to increase accountability and prevent criminals from selling stolen goods through online marketplaces."
    - "we do expect that the holiday season is going to be very promotional. We're seeing that as we move into the month of November."
- The TJX Companies, Inc. (TJX)
    - "Moving to inventory. Our balance sheet inventory was up 26% versus the third quarter last year. This is higher than we expected due to early receipts of merchandise as the supply chain continued to improve. On a per-store basis, inventory was up 31% on a constant currency basis. We are very comfortable with our balance sheet and store inventory levels when compared to fiscal '20."
    - "Importantly, overall store inventory turns and markdowns are in line with our fiscal '20 levels. We still have plenty of liquidity and under an excellent position to take advantage of the great buying environment, including packaway opportunities."
    - "Thanks, Omar. Well, on the macro lens, with regard to the pricing, we are seeing very, very little resistance. And I would say our hit rate is in the 90-plus percent in terms of success on measuring it. In fact, at one point, I think, Scott and his script talked about how our turns are essentially where they were in FY '20, which is

always a barometer. So we look at pre-COVID, and we get all the way down to a SKU level."
        - "So we look at categories, we look at apartments and then we go to SKU level. And obviously, we zero in on where we've adjusted the retail. And because of what's happened around us where the retails have gone up so much significantly, we have really been so effective at it and hit extremely low resistance. So a lot more, I guess, opportunity as we move forward to keep doing because we've spot it, as you can imagine, we're also spotting places where we've gone up for retail and we can go up again. So you have that dynamic, which is a little unusual because sometimes we do an intermediate price point raise. And the goods, whether it's apparel or hard lines, have gone up a couple of price points because remember, some of the inflationary hits have been more than just 2% or 3%. So there are some items that have gone up, 10% or 20%, and we've only gone up the first price point. So all in all definitely more opportunity there, if anything in terms of pricing stance. Scott?"
- Consumer Staples
    - Tyson Foods, Inc. (TSN)
        - "In this challenging macroeconomic environment with historically high inflation, consumer demand for protein remains relatively steady."
        - "In addition to growing sales, we are also aggressively mitigating inflationary cost and SG&A expenses through a disciplined revenue management and enterprise-wide productivity actions, including investments in automation to improve operational excellence and efficiency."
        - "we took various degrees of pricing in our key categories earlier this fiscal year to offset inflationary cost pressures. Recently, we have seen competitors followed by increasing their prices nearing Tyson's price gap relative to our competitors. This is supporting improved volume performance across our portfolio of prepared foods products as we are continuing to see price elasticities remain below historical levels."
        - "we've talked to you about already this morning is our plans for a heavier investment in our business compared to historical years. And I think in a small part, that's driven a little bit about the inflationary environment that we're in. But really, I think the point we want you to take away is that we see a lot of opportunity in our business in terms of productivity improvements, things like automation and a little bit of capacity expansion."
        - “automation is a huge part of our agenda. And what we like about those investments is we see sustained productivity as we reapportion team members to different parts of our operations. And so we feel really confident in some of the more programmatic investments we're making around our automation agenda."
    - Walmart Inc. (WMT)
        - "Inflation is being especially stubborn in some categories like dry grocery. Living with high prices through this year has a cumulative impact on our customers, especially for those that are most budget- conscious, and so we're focused on bringing our costs and prices down as quickly as possible by item and category. Regardless of income levels, families are more price-conscious now"
        - "As with advertising, growing our Marketplace business also unlocks fulfillment services opportunities through both fulfillment centers and last-mile delivery. We're scaling these businesses in the U.S., and we're starting to ramp up in Mexico and Canada. The team in Mexico increased the number of sellers on our Marketplace by

20% during the quarter. In the U.S., the Marketplace on Walmart.com now offers about 370 million SKUs. That's an increase of more than 50% from Q2. Many of these sellers want to leverage our fulfillment network. They also want to use our advertising capabilities to drive demand, and we're making that easier for them. We recently shared that all new Marketplace sellers in the U.S. will be automatically onboarded onto our self-service ad platform. We believe this seamless integration will help both businesses scale even faster."

- "What you see in our results is that we can run compelling stores and clubs, scale a first- and third-party e-commerce business and connect them together in an omnichannel fashion that saves customers and members money and time. Our strategy unlocks growth opportunities for us in a thread that runs from digital retail to fulfillment and advertising and opens up even more opportunities with health and wellness and financial services. This quarter demonstrates, again, that we can navigate short-term challenges and build for the long term simultaneously."
- “This quarter, our private brand penetration in food categories increased about 130 basis points, reflecting customers' increased focus on quality products at value prices. We observed incremental trade down in categories, including proteins, baking goods, baby and dog food. We're working hard to keep prices low and help ease the burden to make customers' lives better. This includes working with vendors to reduce product cost and minimize inflation impacts on final goods' pricing."
- "Inflation remained high, up mid-teens percentage in food categories reflecting an 80 basis point step-up compared to levels at the end of Q2. We've seen incremental levels of inflation month-over-month be less significant, but it's not clear if this represents a sustainable trend. . .we believe our strong price positioning is contributing to share gains as we attract value-seeking customers across the household income spectrum."
- "General merchandise sales declined low single digits with softness in electronics, home and apparel. E-commerce accelerated sequentially to 16% growth, even as store transactions continued to grow. We experienced strength in pickup and delivery from stores, Marketplace, fulfillment services and advertising."
- "Strong digital advertising growth continued this quarter, increasing over 30% on a global basis, led by 40% growth in Walmart Connect in the U.S. and Flipkart Ads in India."
- "As we focus on membership, our ability to leverage our data improves, so we continue to sign on more customers to our data ventures offering, Walmart Luminate, and the number of Walmart+ memberships continues to grow."
- "we're planning our business with the assumption that inflation remains somewhat elevated."
- "if you look back over the quarters of the year, in Q1 when we were the highest, the majority of the extra inventory was in supply chain and part of the backlog problem, then the second quarter that balanced more evenly between stores and the total, and in this quarter, at the end of Q3, what we see is an increase of 12.4%, but the stores are still heavy. So the inventory has moved from the supply chain to a balanced and now it's in the store. And when you look at the dollar amount that's up, about 70% of it, 3/4 of it roughly is inflation and the rest we can approximate to pretty significant improvements in in-stock over last year."
- “And we'll manage margins in a price gap in general merchandise department by department, category by category as we always do, but have an eye towards leading

down while protecting profitability as much as we can. I think dry grocery and consumables will be more stubborn. Wage rates have gone up, and that won't change. And some input costs have been high for those categories. That's the area where we need to partner even more with our suppliers and come up with more creative solutions and try to do the best we can of relieving that pressure for customers and members.”

    - "over the past, call it 35 years, we've generally been, either because of our business model of everyday low prices or just what's happening with retail prices, in general, we've generally been in a deflationary cost environment. We don't expect to live in this era of high inflation forever. I certainly hope not. And so if we do get back to what we've seen over the last 3 decades, you would expect that to reverse out in a reasonably quick time period. So this is not something that if we get back to a normal environment, it's going to take years to reverse out.”
    - "I'll just talk about private brand for a second. What we've seen really for the last 3 years up until Q1 of this year was a flat private brand penetration, not much movement in '19, 2021. And then the movement, the trading to private brands from other brands really started in about March of this year. And then as we said in the quarter, it's increased its penetration in the food categories by about 130 basis points. So a relatively decent amount has moved into private brands."
    - “One of the things that's assisted that thus far is relatively strong balance sheets among consumers assisted by stimulus payments. That's not going to last forever. So that's why we take a rather cautious view on the consumer."
- Financials
  - Mastercard Incorporated (MA)
    - "Consumer spending is healthy. It's being bolstered by high savings levels at the consumer, record low unemployment rates [which are their] rising wage levels."
    - "we generally expected a resilient consumer through the end of the year."
    - "And for what we've seen from our operating metrics through the first week of November, what we're seeing is generally consistent with our expectations as we had laid out in Q3. So generally, that's what we're seeing overall. Now one final point as it relates to the macro environment, what you are seeing from a consumer standpoint is a change in how they're spending. Back during the COVID environment, you saw a greater amount of spend taking place in what we call the nesting category: home improvements, appliances, things of that sort. What you are seeing much more of now is a bend towards spending towards experiences. So we're seeing good strength in airlines, lodging, restaurants, and a little bit more moderation taking place in the home improvements and those kind of categories, generally speaking. "
- Moody’s Corporation (MCO)
    - "Because if you think about what happened in '20 and '21, issuers issued an enormous amount of debt, stockpiled cash, cash levels were at all-time high, they've come down a little bit, but it gave issuers the opportunity to be patient and sit out all of this market volatility. So to your -- back to your question of, well, what about 2023? I think that eventually, we're going to have to revert back on trend or above trend. There's a lot of pent-up demand."
    - "we've got very good maturity walls. If you look at the spec-grade maturity walls, even for the next 2 years, they're higher than they've been. We've got more maturities in the next 2 years in the 4-year spec-grade maturity walls than we've

had at any other time."

    - "So a lot of debt that's got to be out there that's got to get refinanced. There's a lot of private equity dry powder that has still got to get deployed. M&A levels have been suppressed. And so I think that's going to be a key driver as"
    - "so we sign up first-time issuers. Almost all of those are spec-grade issuers, as you'd expect, right? Less than 1/3 of the first-time issuers that we've signed this year have gone to market and they haven't gone away. They're just sitting on the sidelines."
    - "So as you continue to kind of zoom in and you look at the maturity walls, so the 2023 corporate maturity walls represent about 50% or so of 2022, and I understand these are different time periods, but just to give you a sense, roughly 50% of 2022 corporate issuance, roughly 50%. So it just gives you a sense of how much, I would say, kind of ballast is in there to support issuance."
- Visa Inc (V)
    - "Tap to pay is a great example of kind of an accelerant of transactions, an accelerant of payments volume. In the U.S. now, more than 1/4 of all face-to-face transactions are tapped. I think it's 28%. All around the world, more than half of all the transactions now are tapped. And if you put the U.S. to one side, we're north of 70% around the world, 7 out of 10 Visa transactions being tapped. We know from our data that once you get a customer to start tapping as a way to pay, they make more transactions. They spend more on their Visa card. And there's a lot of those types of programs that we're driving together with our partners."
    - "So the opportunity for consumer payments is enormous. It's enormous in developed markets like the United States where we're sitting today. It's enormous in Africa. Africa is an enormous opportunity for us. We have -- I think there's about 800 million people in Africa, about 500 million of them are yet to be banked. I like to think about them as yet to be banked as opposed to unbanked. In the bigger markets like Nigeria and South Africa and Kenya, we've had offices there for decades, and we've been working to build those businesses. In more of the emerging markets like the Democratic Republic of Congo, more than 100 million people there. We just opened an office. Ethiopia, we just opened an office, 100 million people there. As soon as the U.S. relaxed their sanctions, we opened an office in Sudan, I think there's about 40 million people there, almost all of whom aren't buying or selling with Visa cards today. So it's a great opportunity, developed, emerging kind of credentials acceptance engagement, it's all upside."
    - "Well, alternative payment methods are a reality in every market we do business at this point. I mean, again, here in the U.S., you've got Venmo, you've got Square Cash, you've got PayPal. You've got Zelle, you've got all types of alternative payment methods. And as you move around the world, you have Paytm in India, you have Line in Asia, you have Mercado Pago in South America and Ali and [We], so on and so forth. We have -- we've seen these wallets kind of develop in kind of relatively at this point, predictable ways. They start -- they tend to start as closed ecosystems. No access to Visa either for issuance or acceptance as a lot of these companies around the world have grown and they've sought sources of revenue, which in this environment that we're all in today, that fintechs are in today is even more important than it's ever been, not just revenue but profitability. We look for opportunities to both expand their business without having to continue to build out a closed ecosystem and they're looking for opportunities to generate more revenue and earnings. So we've leaned into these types of partners all around the world.

We've made good progress with many of them, both issuing Visa credentials and turning some of these closed networks into acceptance points. I mentioned Paytm in India. Paytm started exactly that way. There's a closed ecosystem. It only works within that ecosystem. Paytm is now an issuer of Visa Debit and Visa Credit cards in India. I think they're going to surpass 15 million cards issued to their users at this point. They've also opened up what were previously closed sellers. They only accepted Paytm. Now they basically become an acquirer. I mean they've lit up, I don't know, something like 0.5 million of their merchants to accept Visa cards, which helps them expand their value proposition to their users, helps them generate earnings and revenue for their business and ultimately grow and grow their flywheel."

- Industrials
  - BrightView Holdings (BV)
    - "The macroeconomic headwinds remain the same, inflation of labor material costs, fuel price uncertainty and a potential recessionary environment. To be clear, we are not currently seeing any indicators of a recession in our business. Ancillary services remain strong, and our development pipeline is very encouraging. And our net new growth remains robust. That said, we have taken measures in each of our business segments to enhance and improve our profitability."
- Copart (CPRT)
    - "While supply chain bottlenecks persist today, we do anticipate that the eventual unwinding of these conditions will lead to a moderation of used vehicle values, ultimately trending back to lower levels in the future. We appear to be experiencing a moderation of these forces now, with Manheim's Used Vehicle Index now at its lowest point since August 2021. A decline in wholesale auction values may cause reduction in our ASPs but would almost certainly coincide with offsetting volume increases as well. We anticipate that lower ACVs and increased vehicle availability will inevitably reverse the observed short-term total loss frequency and volume trend previously noted."
    - "The Manheim Index has declined from the January record levels but remains historically elevated ending October at 200, a decrease of 10.6% year-over-year. Purchased vehicles continued to comprise an increasing percentage of our overall revenue mix, driven by both strong used car values and growth in volume, particularly in our Cash For Cars business in the U.S. and from international expansion."
    - "that through the end of the first quarter, ASPs were still up in somewhat meaningfully year-over-year 5% of the number, if I have the number correct off the top of my head here. So ASPs were rising year-over-year. Manheim certainly down over that same period, so we are correlated. There are some leads and lags, and so you'll never see a perfect regression there between us and other such third-party variables. But the market, broadly speaking, I think we still observe vehicle shortages. If you wanted to go buy a new car today, you might not have [your pick]. Or if you did, it might not come for 2 or 3 or 4 months down the road."
    - "we are observing a -- literally once-in-a-lifetime suppression of total loss frequency, which we believe will eventually abate and reverse very meaningfully."
    - "once-in-a-lifetime suppression of total loss frequency, which we believe will eventually abate and reverse very meaningfully. That, I think we would say, has stabilized. Driving activity has picked up. Depending on the country you're talking

about, it's picked up a lot in Europe where the driving was more suppressed a year ago than it has been in the U.S."

- "So driving frequency times, accident frequency times, total loss frequency is plus or minus the volume equation plus the market share question that you posted a moment ago. So in the aggregate, I think we're seeing stabilization on total loss frequency, but still a year-over-year decline, and we're seeing an increase in driving frequency and accident certainly are picking up as well. On the question of market share, we aren't in a position. In general, we don't comment on individual accounts. If you look at long-term arc of history, I'd say we, generally speaking, have earned more market share over the years both in insurance and outside of insurance. So in our non-insurance businesses in which we serve automotive dealers, rental car fleets, financial institutions, among others, we believe we continue to gain share relative to other providers in that space."
- "A difficult forecast, I'll leave because that -- underlying that then is your belief about used vehicle prices, in particular. The other forces, I think we've got a fair bit of conviction in, which is to say that the eventual rising tide is repair costs will rise and will continue to rise because of vehicle complexity. Every car that rolls off the line today is meaningfully more complex than 1, 5 years ago, and probably [one] a year ago. I saw anecdotally a recent description of a Ford Focus having 300 microprocessors in it and a Ford electric vehicle having 3,000 of them for example. And I think that will play itself out over the years and decades to come. So those forces, I think, are well known. Repair costs will rise. International demand for Copart vehicles will rise. The near-term variable is what happens to the used car prices. And that forecast is difficult to make in isolation. It does appear to be softening somewhat."

- Energizer Holdings (ENR)
    - “ the bulk of our portfolio falls within the Essentials bucket -- particularly when you're talking about our largest category in batteries. That is an essential product and consumers are focused on value. And value is going to depend on the individual consumer preference that could be pack-sized, it could be the frequency of the purchase. In terms of the fundamentals of all of our categories, particularly on batteries, the underlying fundamentals are very strong. device ownership is up 6% still today versus pre-pandemic levels. The number of batteries that a household uses on a year-over-year basis is up 15% when you compare it to prepandemic levels. And then let me transition into sort of private label part of your question, which is consumers continue to prioritize brands. Quality is really going to be the decision driver with long-lasting and a trusted brand, going to drive that decision. And you're seeing that play out in the scanner data with private label down 2 share points globally. In the U.S., it's down 3.2 share points and Energizer's gained 2.5 share points globally. So brands continue to matter. Demand is holding up well and you're not seeing a lot of trade down."
- Norfolk Southern Corporation (NSC)
    - "So we're seeing strengthen in a couple of markets, some of the industrial markets that we serve in energy markets and in food products. Our bulk network is running extremely well right now, and I'll talk about that in a little bit. Our intermodal franchise, which faces the consumer is seeing a slowdown in growth in consumer activity. It's still growing, it's still steady. And in fact, I think Walmart had pretty good results earlier this morning, which would kind of support that. What we're seeing

though in those -- that consumer-oriented market is a headwind associated with really loose truck capacity. We go through this quite a bit over cycles, and you'll see that probably play out as excess capacity comes out of the market, either because spot rates are still low or the smaller truckers get acquired by larger truckers."

    - "I think the peak season will be muted for us because of the impact of the consumer not growing as much in the past and because of the really loose truck market. We've also seen some international volumes kind of start to tail off, which would indicate inventory levels are somewhat more in balance."
- Real Estate
  - Redfin (RDFN)
    - “Demand for rentals is slowing because economic uncertainty is prompting many renters to stay put, and persistent inflation is shrinking renter budgets. That’s causing rent growth to cool,” said Redfin Deputy Chief Economist Taylor Marr. “There are signs that inflation is starting to ease, but it will likely be a while before renters see meaningful relief given that rents are still up more than wages.”
- Federal Reserve
  - Brainard
    - "I think it will probably be appropriate, soon, to move to a slower pace of increases. But I think what's really important to emphasize is we’ve done a lot, but we have additional work to do."
    - “By moving forward at a pace that’s more deliberate, we’ll be able to assess more data and be better able to adjust the path of rates to bring inflation down."
    - “The Fed will be able to see how its policy is working out better if it considers lags and cumulative impact of that policy. There are a range of estimates for the monetary policy lag, from many quarters to only two or three”
    - “We have additional work to do. By moving forward at a pace that’s more deliberate, we’ll be able to assess more data and be better able to adjust the path of rates to bring inflation down.”
  - Harker
    - “better to pause rate hikes at the right time than risk over tightening”
  - Bostic
    - “There are many scenarios in which a recession could turn out to be mild”
  - Waller
    - “Economic growth in the United States has slowed significantly in 2022, and I expect that slow growth to continue into next year.”
    - “Consumer and business spending has softened, amid deteriorating business sentiment in most sectors of the economy and near-record-low readings on surveys of consumer attitudes about the economy.”
    - “If you believe, as I do, that supply bottlenecks in the economy have mostly abated and that elevated inflation is primarily a function of high demand, then slowing down economic growth is absolutely necessary to bring inflation down to our 2 percent target. This slowing in activity is a sign that actions taken by the Federal Reserve this year to reduce inflation are working.”
    - “Housing may be the first but won't be the last sector of the economy where higher interest rates will have the effect of dampening demand and will ultimately help moderate price increases. Our goal is to rein in demand, bringing demand and supply into better balance, which will help reduce upward pressure on inflation.”
    - “Last week's consumer price index (CPI) report was a very welcome moderation in

the pace of increasing prices. . .Core CPI, which excludes food and energy prices, increased 0.3 percent in October from September, a marked step-down from the 0.6 percent readings in the previous two months and the average of 0.5 percent over the first nine months of 2022. On a twelve-month change, core inflation came in at about 6.3 percent, down from 6.6 percent the previous month. The step down in October was widespread, involving both a deceleration in services prices and the first decline in core goods prices since March. Though welcome news, we must be cautious about reading too much into one inflation report. I don't know how sustained this deceleration in consumer prices will be. But, as a snapshot, the 0.3 percent increase in core CPI inflation in October from September, (actually 0.27 percent rounded up) works out to an annualized rate of about 3.25 percent. I focus on core over headline inflation because I believe it is a better indication of future inflation."

- "I cannot emphasize enough that one report does not make a trend. It is way too early to conclude that inflation is headed sustainably down. In 2021, monthly core CPI inflation fell during the summer—it fell from 0.9 percent in April 2021 to 0.2 percent in August 2021 before accelerating back to 0.6 percent and 0.5 percent in October and November of that year. More recently, monthly core CPI inflation fell from 0.7 percent in June 2022 to 0.3 percent in July, only to rebound to 0.6 percent the next two months. We've seen this movie before, so it is too early to know if it will have a different ending this time."
- "Inflation remains too high relative to the FOMC's target, and I thought it would be helpful to offer some detail of what I will be looking at to see continuing improvement in the inflation outlook. One area is goods inflation, where there was a widespread deceleration across durables and nondurables in October. With drops in core import prices and processed materials excluding food and energy over the past few months, I'm looking for continued downward pressure on core goods prices going forward. Housing, which is a large share of expenses for households, is another sector I will be watching closely in the months ahead as an indicator of the direction of overall inflation. As I discussed in a recent speech, escalating rents have played a large role in driving up inflation this year, and because turnover of leases occurs only periodically, I expect measures of rents and the equivalent for homeowners will continue to increase significantly for at least several more months. But I will be watching for signs of moderation. Finally, I will be looking for a slowing in price increases in non-housing services, which have been quite robust in recent months and running at about twice their pre-pandemic level."
- "Until then, I support continued rate increases and ongoing reductions in the Fed's balance sheet to restrain aggregate demand. When we reach our terminal rate, how long we stay at that level will largely be driven by our progress in bringing down inflation."

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