Market Commentary Monday, October 31, 2022

October 31, 2022

EXECUTIVE SUMMARY

Market Week – Rebound Picks Up Steam
Sentiment – Historic Levels of Pessimism
Econ Data -Many Weaker Stats, But Better-Than-Expected Q3 GDP Growth
Interest Rates – Yields Drop
Inflation – Higher PCE
Bogeymen – Recessions, Yield Curve Inversions & Equity Returns
EPS – Solid Q3 Profit Reports
Valuations – Stocks Still Attractively Priced
Stock News – Updates on AAPL, GOOG, META, INTC, STX, JNPR, BHE, COHU, XOM, CAT, ARE, AMT, SYF, ADM, NSC & GBX

Market Review

There is still one trading day to go in the historically scary month,…

THE PRUDENT SPECULATOR

OCTOBER STATISTICALLY THE SECOND WORST MONTH OF THE YEAR

Mark Twain said, “October: This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August and February.” Of course, history shows that, on average, September and October are the only two months with negative returns.

From 12.31.27 through 12.31.21. Geometric average. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

…but a spectacular move higher in the equity markets last week,…

THE PRUDENT SPECULATOR

REBOUND CONTINUES: HUGE RALLY IN THE DOW JONES INDUSTRIAL AVERAGE

Rare are nice one-week rallies of more than 5% for the Dow Jones Industrial Average, but the popular market gauge regained 5.72% over the last five trading days, the 75th best weekly showing since 1928.

Up > 5.72%

	1920's	1930's	1940's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	2020's	Totals
Years Ending in 0		1	0	0	0	1	1	0	1	0	4	8
Years Ending in 1		7	0	0	0	0	0	1	1	1	0	10
Years Ending in 2		10	0	0	1	0	3	0	1	0	2	17
Years Ending in 3		11	0	0	0	0	0	0	1	0		12
Years Ending in 4		2	0	0	0	3	1	0	0	0		6
Years Ending in 5		0	0	0	0	0	0	0	0	0		0
Years Ending in 6		0	0	0	0	1	0	0	0	0		1
Years Ending in 7		1	0	0	0	0	1	0	0	0		2
Years Ending in 8	1	5	0	0	0	0	1	1	2	0		10
Years Ending in 9	4	1	0	0	0	0	0	0	4	0		9
Totals	5	38	0	0	1	5	7	2	10	1	6	75

From 1.31.28 through 10.28.22. Weeks of index price increases of greater than or equal to 5.72%. SOURCE: Kovitz using data from Bloomberg

Down < 5.72%

	1920's	1930's	1950's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	2020's	Totals
Years Ending in 0		6	2	1	0	0	0	0	1	0	4	14
Years Ending in 1		10	0	0	0	0	0	0	2	2	0	14
Years Ending in 2		13	0	0	2	0	0	0	2	0	0	17
Years Ending in 3		2	0	0	0	0	0	0	0	0		2
Years Ending in 4		2	0	0	0	6	0	0	0	0		8
Years Ending in 5		0	0	0	0	0	0	0	0	1		1
Years Ending in 6		0	0	0	0	0	1	0	0	1		2
Years Ending in 7		6	0	0	0	0	4	0	0	0		10
Years Ending in 8	1	4	0	0	0	1	0	0	2	1		9
Years Ending in 9	4	2	0	0	0	1	1	1	2	0		11
Totals	5	45	2	1	2	8	6	1	9	5	4	88

From 1.31.28 through 10.28.22. Weeks of index price decreases of greater than or equal to 5.72%. SOURCE: Kovitz using data from Bloomberg

…has turned October into one of the best months in history, with the rebound in the Dow Jones Industrial Average over the first four weeks, should it be sustained today, representing the best monthly advance in that popular index since January 1976.

THE PRUDENT SPECULATOR

MARKET OF STOCKS – INDEXES CAN HAVE WIDE DISPERSION IN RETURNS

With Jerome H. Powell's "painful" words at Jackson Hole still the main catalyst, stocks and bonds have been very volatile, with the good kind of volatility happening last week. Of course, the Nasdaq Composite index is still down 28.6% and the U.S. Aggregate Bond index is off 15.4% on the year. There are no awards for the losses on Value in 2022, but inexpensive stocks have held up better, which is in keeping with the historical evidence when inflation is high, when the Fed is tightening and when interest rates are moving up.

Total Returns Matrix

MARKET OF STOCKS

2000	2001	Week	October	YTD	Last 12 Months	Since 10.31.20	Since 3.23.20	Last 3 Years	Last 5 Years	Name	Symbol
-4.85	-5.44	5.72	14.52	-8.06	-6.14	28.95	86.15	29.18	56.44	Dow Jones Industrial Average	DJITR Index
1.01	-10.21	4.63	9.97	-11.98	-11.15	24.77	79.49	20.78	35.94	New York Stock Exchange Composite	NYA Index
-39.18	-20.81	2.25	5.02	-28.57	-27.55	3.31	65.11	36.80	73.75	Nasdaq Composite Index	CCMP Index
-22.43	-9.23	5.78	9.49	-22.57	-25.88	2.42	65.74	15.73	28.68	Russell 2000 Growth	RU20GRTR Index
22.83	**14.02**	**6.27**	**12.60**	**-11.18**	**-10.96**	**46.69**	**114.10**	**25.20**	**28.58**	**Russell 2000 Value**	**RU20VATR Index**
-3.02	2.49	6.02	11.01	-16.85	-18.56	22.84	90.02	21.95	30.61	Russell 2000	RU20INTR Index
-11.75	-20.15	5.40	8.24	-25.81	-28.32	-0.58	64.89	19.99	52.00	Russell Midcap Growth Index Total Return	RUMCGRTR Index
19.18	**2.33**	**5.70**	**9.83**	**-12.52**	**-10.21**	**33.95**	**104.75**	**24.19**	**37.16**	**Russell Midcap Value Index Total Return**	**RUMCVATR Index**
8.25	-5.62	5.59	9.26	-17.26	-16.92	20.86	91.54	25.37	46.93	Russell Midcap Index Total Return	RUMCINTR Index
-22.42	-19.63	3.18	6.98	-25.72	-23.66	8.51	74.11	39.01	78.51	Russell 3000 Growth	RU30GRTR Index
8.04	**-4.33**	**5.11**	**10.92**	**-9.01**	**-6.93**	**35.11**	**88.85**	**24.09**	**40.64**	**Russell 3000 Value**	**RU30VATR Index**
-7.46	-11.46	4.14	8.93	-17.89	-15.80	20.94	82.45	33.05	60.82	Russell 3000	RU30INTR Index
9.64	-0.39	5.51	10.30	-12.50	-9.63	35.18	104.40	35.56	60.05	S&P 500 Equal Weighted	SPXEWTR Index
-9.10	-11.89	3.97	8.90	-17.09	-13.80	22.94	81.60	34.82	65.18	S&P 500	SPXT Index
-22.08	-12.73	2.17	5.63	-26.50	-23.16	10.79	73.39	38.20	75.48	S&P 500 Growth	SPTRSGX Index
6.08	**-11.71**	**5.62**	**12.00**	**-6.55**	**-3.47**	**36.36**	**85.42**	**26.24**	**48.79**	**S&P 500 Value**	**SPTRSVX Index**
3.18	1.57	2.50	-0.05	-19.93	-20.68	-21.27	-14.20	-16.09	-10.31	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index
11.63	8.44	1.65	-0.88	-15.36	-15.29	-15.73	-11.33	-9.79	-1.99	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index

As of 10.28.22. Source Kovitz using data from Bloomberg

To be sure, there is still little to cheer about thus far in 2022, and we are always braced for additional volatility, but we understand that downturns historically have always given way to upswings. Happily, the magnitude of the periods in the green has dwarfed that of those in the red, so much so that long-term equity market returns have been terrific.

THE PRUDENT SPECULATOR

VOLATILITY IS NORMAL BUT VALUE WINS THE RACE

Selloffs, downturns, pullbacks, corrections and even Bear Markets are events that equity investors always have had to endure on their way to the best long-term performance of any of the financial asset classes.

Advancing Markets

Minimum Rise %	Average Gain	Average # Days	Count	Frequency (in Years)	Last Start	Last End
20.0%	113.4%	995	27	3.4	3/23/2020	1/3/2022
17.5%	68.2%	583	39	2.3	3/23/2020	1/3/2022
15.0%	65.7%	555	46	2.0	6/16/2022	8/16/2022
12.5%	44.7%	336	73	1.3	6/16/2022	8/16/2022
10.0%	35.0%	245	100	0.9	6/16/2022	8/16/2022
7.5%	23.6%	148	160	0.6	10/12/2022	10/28/2022
5.0%	14.7%	72	314	0.3	10/12/2022	10/28/2022

Declining Markets

Minimum Decline %	Average Loss	Average # Days	Count	Frequency (in Years)	Last Start	Last End
-20.0%	-35.0%	281	27	3.4	1/3/2022	6/16/2022
-17.5%	-30.2%	216	39	2.4	1/3/2022	6/16/2022
-15.0%	-28.0%	185	46	2.0	8/16/2022	10/12/2022
-12.5%	-22.7%	137	73	1.3	8/16/2022	10/12/2022
-10.0%	-19.6%	101	100	0.9	8/16/2022	10/12/2022
-7.5%	-15.5%	65	159	0.6	8/16/2022	10/12/2022
-5.0%	-10.9%	36	313	0.3	10/4/2022	10/12/2022

From 02.20.28 through 10.28.22. S&P 500 Price return series. We defined a Declining Market as an instance when stocks dropped the specified percentage or more without a recovery of equal magnitude, and an Advancing Market as in instance when stocks appreciated the specified percentage or more without a decline of equal magnitude. SOURCE: Kovitz using data from Bloomberg, Morningstar and Ibbotson Associates

LONG-TERM RETURNS

	Annualized Return	Standard Deviation
Value Stocks	13.1%	25.9%
Growth Stocks	9.5%	21.4%
Dividend Paying Stocks	10.6%	18.0%
Non-Dividend Paying Stocks	8.9%	29.3%
Long-Term Gov't Bonds	5.2%	8.6%
Intermediate Gov't Bonds	4.9%	4.3%
Treasury Bills	3.2%	0.9%
Inflation	3.0%	1.8%

From 06.30.27 through 08.31.22. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Dividend payers = 30% top of Fama-French dividend payers, 40% of middle Fama-French dividend payers, and 30% bottom of Fama-French dividend payers rebalanced monthly. Non-dividend payers = Fama-French stocks that do not pay a dividend. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

Of course, the weight of the historical evidence shows that most investors do not come close to matching, much less beating, the market,…

THE PRUDENT SPECULATOR

THE ONLY PROBLEM WITH MARKET TIMING IS GETTING THE TIMING RIGHT

Per data analytics firm DALBAR, equity fund investors had awful relative returns in 2021, gaining only 18.4% on average, compared to a 28.7% return for the S&P 500, for a whopping 1030 basis point (10.3%) difference in performance. The longer-term historical numbers are even worse for bonds as Fixed Income fund investors had an annual return 500 basis points lower than the U.S. Aggregate Bond index over the past three decades.

Individual Investor Returns vs. Broad Benchmarks

	Stocks			Bonds			Inflation
Time Period	Average Equity Investor Return	S&P 500 Return	Difference	Average Bond Investor Return	U.S. Aggregate Bond Index Return	Difference	U.S. Consumer Price Index
1 Year	18.4%	28.7%	-10.3%	-1.6%	-1.5%	-0.1%	7.0%
3 Years	21.6%	26.1%	-4.5%	1.7%	4.8%	-3.1%	3.5%
5 Years	14.8%	18.5%	-3.7%	0.8%	3.6%	-2.8%	2.9%
10 Years	13.4%	16.6%	-3.2%	0.4%	2.9%	-2.5%	2.2%
20 Years	8.1%	9.5%	-1.4%	0.4%	4.3%	-3.9%	2.3%
30 Years	7.1%	10.7%	-3.6%	0.3%	5.3%	-5.0%	3.4%

From 12.31.1984 through 12.31.2021. Annualized returns. SOURCE: Kovitz using data from DALBAR and Bloomberg Finance L.P.

…with investment professionals seemingly receiving another lesson this month that time in the market trumps market timing,…

THE PRUDENT SPECULATOR

BE GREEDY WHEN OTHERS (ESPECIALLY PROFESSIONALS) ARE FEARFUL

"The sentiment on stocks and global growth among fund managers surveyed by Bank of America Corp. shows full capitulation, opening the way to an equities rally in 2023." – October 18, 2022

BofA Survey 'Screams' Capitulation With Rally Set for 2023

- Sentiment on equities and growth shows full capitulation: BofA
- Strategists expect stocks to bottom in the first half of 2023

SoFi's Young Cautions Investors About Stock Market Rally

Chart 13: FMS investors raised cash levels further in October '22

FMS average cash balance, %

Source: BofA Global Fund Manager Survey

Bloomberg

By Farah Elbahrawy
October 18, 2022 at 1:33 AM PDT *Updated on October 18, 2022 at 7:07 AM PDT*

The sentiment on stocks and global growth among fund managers surveyed by Bank of America Corp. shows full capitulation, opening the way to an equities rally in 2023.

The bank's monthly global fund manager survey "screams macro capitulation, investor capitulation, start of policy capitulation," strategists led by Michael Hartnett wrote in a note on Tuesday. They expect stocks to bottom in the first half of 2023 after the Federal Reserve finally pivots away from raising interest rates.

"Market liquidity has deteriorated significantly," the strategists said, noting that investors have 6.3% of their portfolios in cash, the highest since April 2001, and that a net 49% of participants are underweight equities.

Nearly a record number of those surveyed said they expect a weaker economy in the next 12 months, while 79% forecast inflation will drop in the same period, according to the survey of 326 fund managers with $971 billion under management, which was conducted from Oct. 7 to Oct. 13.

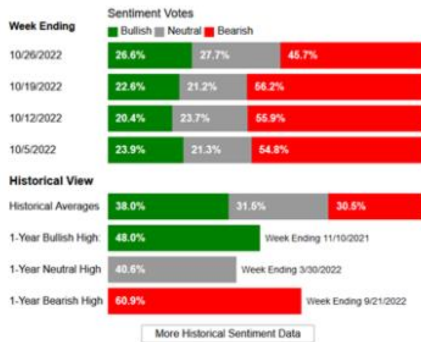
"While the stock market was immune to the bleak sentiment till last month, it has started to better reflect investors' pessimism," Hartnett wrote.

…as many lightened their equity exposure, joining individual investors with excessive Bearishness, right before the tremendous rebound.

THE PRUDENT SPECULATOR

STILL A MAJOR AAII CONTRARIAN BUY SIGNAL: BULL-BEAR SPREAD = -19.1%

What Direction Do AAII Members Feel The Stock Market Will Be In The Next 6 Months?



CURRENT AAII SENTIMENT BULL-BEAR SPREAD:

The Sentiment Survey is a contrarian indicator.
Above-average market returns have often followed unusually low levels of optimism, while below-average market returns have often followed unusually high levels of optimism.
Click here to learn more.

BULL-BEAR SPREAD TRENDS:

AAII Bull-Bear Spread

Decile	Low Reading of the Range	High Reading of the Range	Count	R3K Next 1-Week Arithmetic Average TR	R3K Next 1-Week Geometric Average TR	R3K Next 1-Month Arithmetic Average TR	R3K Next 1-Month Geometric Average TR	R3K Next 3-Month Arithmetic Average TR	R3K Next 3-Month Geometric Average TR	R3K Next 6-Month Arithmetic Average TR	R3K Next 6-Month Geometric Average TR
	Below & Above Median Bull Bear Spread = 7.32										
BELOW	-54.0	7.3	919	0.23%	0.20%	1.10%	0.96%	3.30%	2.90%	6.49%	5.72%
ABOVE	7.3	62.9	918	0.17%	0.15%	0.55%	0.46%	2.02%	1.76%	4.67%	4.19%
	Ten Groupings of 1836 Data Points										
1	-54.0	-16.7	184	0.46%	0.39%	1.90%	1.65%	4.56%	4.00%	8.50%	7.24%
2	-16.5	-8.4	184	0.25%	0.22%	0.92%	0.78%	3.48%	3.13%	6.41%	5.64%
3	-8.3	-2.0	193	0.33%	0.29%	1.22%	1.12%	3.45%	3.04%	7.47%	6.77%
4	-2.0	2.8	174	0.07%	0.03%	0.92%	0.82%	2.48%	2.11%	5.24%	4.67%
5	2.8	7.3	183	0.04%	0.02%	0.52%	0.41%	2.47%	2.20%	4.70%	4.15%
6	7.3	11.9	184	0.18%	0.16%	0.72%	0.65%	2.03%	1.79%	4.93%	4.48%
7	11.9	16.1	184	0.17%	0.15%	0.51%	0.37%	2.50%	2.25%	5.32%	4.81%
8	16.1	22.0	183	0.15%	0.13%	0.86%	0.79%	2.29%	2.04%	5.82%	5.39%
9	22.0	29.0	184	0.13%	0.12%	0.36%	0.28%	1.78%	1.49%	4.74%	4.17%
10	29.0	62.9	184	0.24%	0.22%	0.31%	0.23%	1.50%	1.28%	2.59%	2.15%

From 07.31.87 through 10.27.22. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

The gauge is widely viewed with a contrarian eye, so the tally of Bulls in the latest AAII Sentiment Survey coming in at 26.6% and the number of Bears residing at 45.7% is a major positive. The minus 19.1% Bull-Bear spread is not as pessimistic as in recent weeks, but it is in the most favorable (i.e. highest future returns) 1st decile of the weekly figures going back to 1987.

Certainly, the red ink in our portfolios this year won't win us any prizes, but the Wall Street and Main Street sentiment numbers shown above suggest that more than a few folks have been buying high and selling low so far in 2022, compounding their losses.

*****

Obviously, nobody knows what the future will bring, but even if one had advance knowledge of the economic numbers, predicting how equities might react, especially today, is anyone's guess. For example, stocks apparently rallied on a disappointing outlook for the manufacturing and services sectors,…

S&P GLOBAL MARKIT PMI READINGS MOVE LOWER IN OCTOBER

The S&P Global Markit preliminary U.S. PMIs for the factory and services sectors in October came in at 49.9 and 46.6, both below expectations. S&P Global commented, "The U.S. economic downturn gathered significant momentum in October, while confidence in the outlook also deteriorated sharply. The decline was led by a downward lurch in services activity, fuelled by the rising cost of living and tightening financial conditions. While output in manufacturing remains more resilient for now, October saw a steep drop in demand for goods, meaning current output is only being maintained by firms eating into backlogs of previously placed orders. Clearly this is unsustainable absent of a revival in demand, and it's no surprise to see firms cutting back sharply on their input buying to prepare for lower output in coming months."

…as well as a major downturn in the housing market.

THE PRUDENT SPECULATOR

LOTS OF WEALTH HAS BEEN ACCUMULATED IN HOMES

Obviously, soaring mortgage rates have crimped housing affordability, so home prices continue to be impacted, falling 1.3% in August as compared to July. Still, folks who own the roof over their heads have accumulated substantial wealth over the past decade and especially over the past 12 months, with the quarterly S&P CoreLogic Case-Shiller National Home Price Index up a hefty 13.0% year-over-year in August. Even so, sales of new homes in September were better than expected, though there was a sizable drop to 603,000 from a revised 677,000 in August.

Other economic gauges were also subpar,…

THE PRUDENT SPECULATOR

MUCH-WEAKER-THAN-EXPECTED ECONOMIC NUMBERS

The headline number for durable goods orders in September rebounded 0.4%, compared to a 0.2% rise the month prior, though the improvement was well below expectations. Excluding volatile transportation orders, orders fell 0.5%, with pundits thinking the manufacturing economy will be in recession soon. Meanwhile, pending home sales skidded 10.2% in September, a much larger drop than forecast and the tenth month out of the last 11 with a decline.

…and questions marks remain about the mood of the consumer,…

THE PRUDENT SPECULATOR

CONSUMER ATTITUDES HOLDING UP REASONABLY WELL

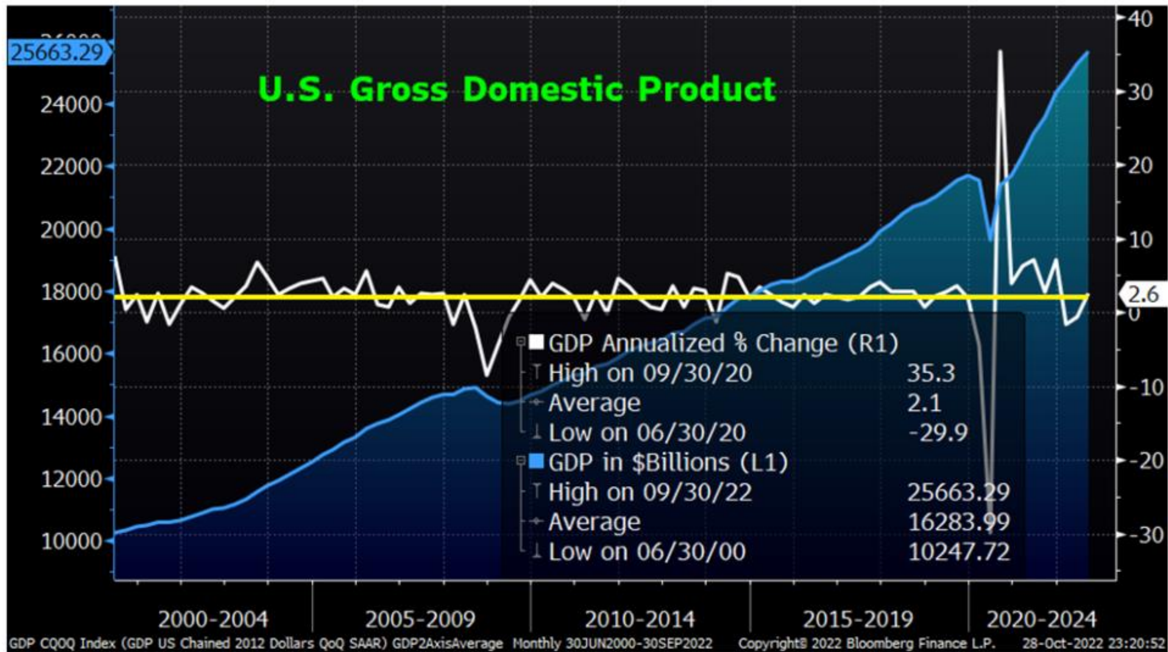
Consumer confidence, per data from the Conference Board, dipped for the first time in three months, falling to 102.5 in October, significantly below forecasts as concerns about inflation picked up. On the other hand, the University of Michigan's gauge of consumer sentiment inched up to 59.9 in October from 58.6 the month prior though folks with considerable stock market and housing wealth were quite pessimistic.

…but stocks still gained ground as Q3 GDP growth came in better than expected,…

THE PRUDENT SPECULATOR

HUGE 9.0% JUMP IN Q3 NOMINAL GDP, AND REAL GDP GROWS BY 2.6%

Third quarter 2022 real (inflation-adjusted) domestic economic growth came in better than expected at 2.6% growth on an annualized basis, while the current-dollar nominal GDP figure of $25.7 trillion soared by 9.0% on an annualized basis to an all-time high.

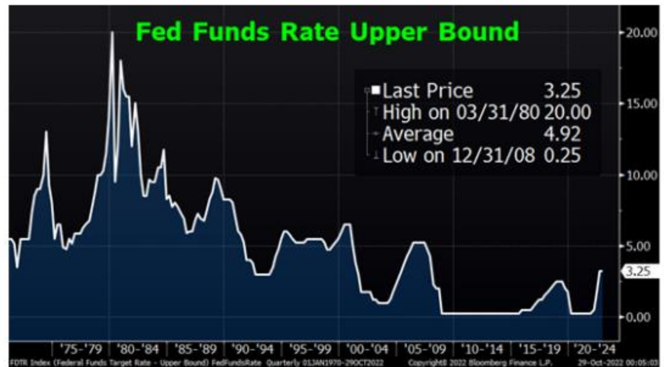


…which one might think would compel the Federal Reserve to maintain a very hawkish approach to monetary policy,…

THE PRUDENT SPECULATOR

FED FIGHTING INFLATION – INTEREST RATES STILL HISTORICALLY LOW

Although the estimate for real GDP growth this year was pared to 0.2% in September, down from 2.8% in March, the Federal Reserve lifted its target for the Fed Funds rate by 75 basis points at each of the June, July and September FOMC meetings. Jerome H. Powell & Co. were projecting that the Fed Funds rate will likely end the year at 4.4%, which still would be below the historical average. The Fed Funds futures became a bit less hawkish this week than last, with a current projected 4.42% year-end Fed Funds rate and a 4.91% estimated peak for May 2023, with a cut coming in June 2023.



Set Default Export World Interest Rate Probability

Region: United States » Instrument: Fed Funds Futures »

Target Rate 3.25 Pricing Date 10/28/2022

Effective Rate 3.08 Cur. Imp. O/N Rate 3.081

Model	Meeting	%Hike/Cut
North America		
US - Fut	11/02/2022	+299.1%
US - OIS	11/02/2022	+299.0%
CA - OIS	12/07/2022	+128.5%
Europe		
EZ - OIS	12/15/2022	+289.7%
GB - OIS	11/03/2022	+251.8%
SE - OIS	11/24/2022	+319.3%
APAC		
AU - Fut	11/01/2022	+103.4%
NZ - OIS	11/23/2022	+256.6%
JP - OIS	12/20/2022	+13.6%
IN - OIS	12/07/2022	+142.2%

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
11/02/2022	+2.991	+299.1%	+0.748	3.829	0.250
12/14/2022	+5.345	+235.4%	+1.336	4.418	0.250
02/01/2023	+6.737	+139.2%	+1.684	4.766	0.250
03/22/2023	+7.205	+46.8%	+1.801	4.883	0.250
05/03/2023	+7.294	+8.9%	+1.823	4.905	0.250
06/14/2023	+7.155	-13.9%	+1.789	4.870	0.250
07/26/2023	+6.925	-23.0%	+1.731	4.813	0.250
09/20/2023	+6.585	-34.0%	+1.646	4.728	0.250
11/01/2023	+6.068	-51.7%	+1.517	4.598	0.250
12/13/2023	+5.616	-45.2%	+1.404	4.485	0.250

Implied Overnight Rate & Number of Hikes/Cuts

…yet the yield on the benchmark U.S. government bond moved lower last week,…

THE PRUDENT SPECULATOR

BENCHMARK TREASURY YIELD FINALLY RETREATS

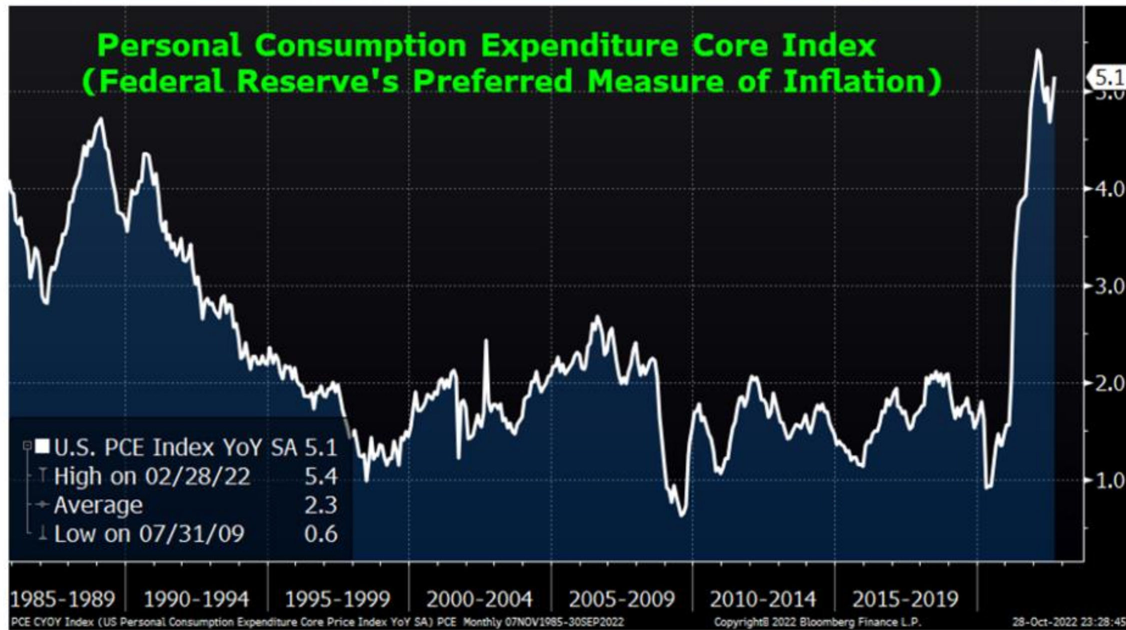
Despite an increase in the PCE and tough talk on inflation from Jerome H. Powell & Co., as well as the continuation of decent economic stats, government bond market players ceased their dumping of U.S. Treasuries last week, sending the yield on the benchmark 10-year bond down 21 basis points.

…even as the latest inflation reading inched higher,…

THE PRUDENT SPECULATOR

INFLATION NOT TRANSITORY AND SEPTEMBER CORE PCE TICKS HIGHER

The Federal Reserve's preferred gauge of inflation, the core Personal Consumption Expenditure (PCE), rose in September by 5.1%, above the 2.0% target but below Wall Street expectations. The figure was up from August's 4.9% increase and the number did little to alleviate concerns that the Fed will continue to hike interest rates as the full PCE index rose 6.2%, unchanged from August.



…and the labor market continued to be robust.

THE PRUDENT SPECULATOR

STRONG LABOR MARKET: CONTINUING CLAIMS STILL NEAR 50+ YEAR LOWS

While higher than readings earlier in the year with a 1-handle, yet still coming in near the lowest levels since 1969 when the work force was much smaller, new filings for unemployment benefits for the period ended October 22 were a seasonally adjusted 217,000, up from a revised 214,000 the week prior. Continuing claims filed through state programs rose to 1.44 million, still near the lowest level since 1969 as businesses continue to hold onto workers with qualified labor difficult to obtain.

*****

No doubt, the markets are forward looking, and many think that a U.S. recession will soon be in the cards,…

THE PRUDENT SPECULATOR

PLENTY OF DOOM & GLOOM TALK, ODDS OF RECESSION NOW 60%

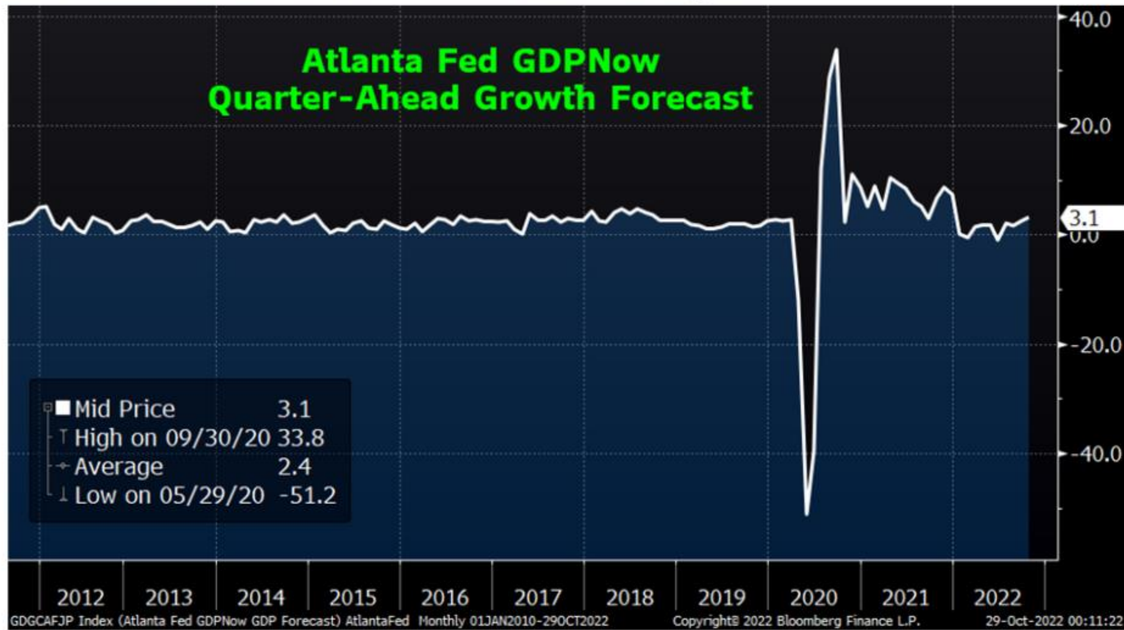
The respective 1.6% and 0.6% contractions in Q1 and Q2 2022 real (inflation-adjusted) GDP means economists could say that the U.S. economy was already in recession, but the odds of an official declaration stand today at 60%, even as the consensus forecast for GDP growth this year is 1.7% and 0.4% for 2023.

…but the initial estimate for Q4 GDP growth was 3.1%,…

THE PRUDENT SPECULATOR

Q4 U.S. REAL GDP GROWTH PROJECTION COMES IN AT A ROBUST 3.1%

Q1 and Q2 2022 saw respective 1.6% and 0.6% contractions in real (inflation-adjusted) GDP growth, as the Omicron variant, supply-chain difficulties, the war in Ukraine and inflation impacted the economy, but domestic growth in Q3 rebounded to 2.6% and the Atlanta Fed's projection for Q4 2022 real GDP growth on an annualized basis as of October 28 stood at 3.1%.



…though the siren calls from the economic naysayers grew louder last week.

THE PRUDENT SPECULATOR

YIELD CURVE INVERSION…HAS BEEN FINE, ON AVERAGE, FOR STOCKS

BARRON'S

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TREASURIES

The Recession Signal That Really Counts Just Flashed Bright Red

By Lawrence C. Strauss Follow Oct. 26, 2022 11:11 am ET

The yields on 3-month and 10-year Treasury debt inverted for the first time since 2020 this week.
Dreamstime

Wednesday morning brought another troubling sign for the economy: The yield on the 3-month Treasury had surpassed that of the 10-Year Treasury.

Such an inversion is very rare, but it suggests that a recession is on the way or even here.

The 3-month Treasury bill yielded 4.04% a little after 10 a.m. Eastern

With the 4.01% yield on the 10-Year U.S. Treasury now 8 basis below the yield on the 3-Month, we wonder if the financial press will remember that not all inversions lead to a recession and if they will note that such an event historically has been OK, on average, for subsequent stock returns.

S&P 500 Total Return Post 10-Year/3-Month Yield-Curve Inversion

Inversion Date	1 Year S&P 500 TR	3 Year S&P 500 TR	5 Year S&P 500 TR	10 Year S&P 500 TR	To Present S&P 500 TR
1/12/1966	-6.8%	19.3%	17.6%	46.2%	21711%
9/8/1966	28.4%	34.2%	58.3%	97.0%	26204%
12/19/1968	-11.8%	4.3%	4.8%	30.6%	17287%
2/12/1973	-19.1%	-2.6%	-4.4%	105.0%	13824%
7/4/1978	13.3%	58.4%	131.5%	352.6%	13390%
9/1/1980	5.6%	56.7%	96.8%	300.4%	9221%
5/29/1989	16.0%	42.6%	66.2%	423.9%	2336%
9/10/1998	39.8%	15.7%	10.7%	48.2%	524%
1/20/2006	15.5%	-36.2%	16.0%	84.3%	324%
5/23/2019	6.8%	48.0%			46%
S&P Total Return	**8.8%**	**24.0%**	**44.2%**	**165.4%**	**10486.7%**

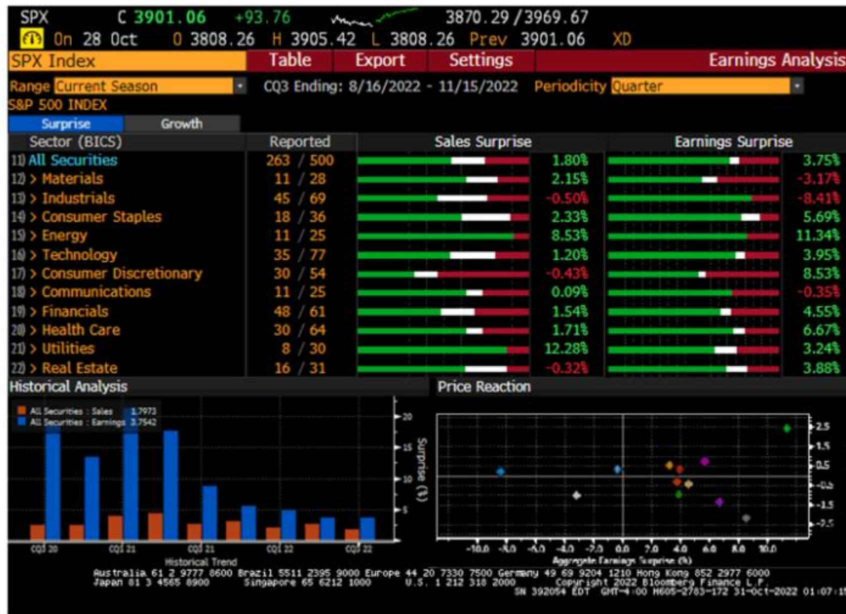
As of 10.28.22. Source: Kovitz using data from Bloomberg and Refinitiv via The Wall Street Journal

We would not be surprised if there were a recession, but we continue to believe that the plunge in stock prices this year has discounted far worse news than what we are likely to see on the corporate profit front,…

THE PRUDENT SPECULATOR

Q3 AND 2023 EARNINGS GROWTH STILL THE ESTIMATE

So far, so good for Q3 earnings reporting season, even as outlooks have continued to be subdued and stock prices sometimes have reacted negatively. Of the 263 S&P 500 companies that have posted results thus far, 71.0% beat EPS expectations and 55.0% exceeded revenue forecasts.



Sector (BICS)	Reported	Sales Surprise	Earnings Surprise
11) All Securities	263 / 500	1.80%	3.75%
12) > Materials	11 / 28	2.15%	-3.17%
13) > Industrials	45 / 69	-0.50%	-8.41%
14) > Consumer Staples	18 / 36	2.33%	5.69%
15) > Energy	11 / 25	8.53%	11.34%
16) > Technology	35 / 77	1.20%	3.95%
17) > Consumer Discretionary	30 / 54	-0.43%	8.53%
18) > Communications	11 / 25	0.09%	-0.35%
19) > Financials	48 / 61	1.54%	4.55%
20) > Health Care	30 / 64	1.71%	6.67%
21) > Utilities	8 / 30	12.28%	3.24%
22) > Real Estate	16 / 31	-0.32%	3.88%

S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2023	$61.02	$232.86
9/30/2023	$59.01	$227.76
6/30/2023	$57.45	$221.34
3/31/2023	$55.38	$210.76
12/31/2022	$55.92	$204.74
9/30/2022	$52.59	$205.55
ACTUAL		
6/30/2022	$46.87	$204.98
3/31/2022	$49.36	$210.16
12/31/2021	$56.73	$208.21
9/30/2021	$52.02	$189.66
6/30/2021	$52.05	$175.54
3/31/2021	$47.41	$150.28
12/31/2020	$38.18	$122.37
9/30/2020	$37.90	$123.37
6/30/2020	$26.79	$125.28
3/31/2020	$19.50	$138.63
12/31/2019	$39.18	$157.12
9/30/2019	$39.81	$152.97
6/30/2019	$40.14	$154.54
3/31/2019	$37.99	$153.05
12/31/2018	$35.03	$151.60

Source: Standard & Poor's. As of 10.27.22

…while an economic contraction, on average, has not been reason to dump stocks in the past.

THE PRUDENT SPECULATOR

EQUITY RETURNS AND RECESSIONS (PRE AND POST) – FAMA FRENCH VALUE

As the saying goes, the stock market (and economists) has predicted nine of the last five recessions, but the 15 prior instances of actual negative real economic growth illustrate that long-term-oriented investors (on average) should stay invested (in Value, preferably) no matter what.

U.S. Recession Commencement (per NBER) & Equity Returns
S&P 500 and Fama/French Value Performance

Year Prior S&P 500 TR	Year Prior FF Value TR	Recession Start Date	1 Year S&P 500 TR	1 Year FF Value TR	3 Year S&P 500 TR	3 Year FF Value TR	5 Year S&P 500 TR	5 Year FF Value TR	10 Year S&P 500 TR	10 Year FF Value TR
51.9%	30.6%	August 1929	-32.6%	-32.0%	-73.5%	-65.1%	-71.1%	-61.7%	-58.0%	-48.4%
18.2%	42.0%	May 1937	-39.3%	-55.8%	-33.2%	-55.0%	-32.5%	-44.7%	53.7%	140.3%
26.3%	56.8%	February 1945	26.0%	42.0%	12.0%	28.6%	64.3%	75.6%	379.2%	469.5%
4.0%	4.8%	November 1948	19.2%	12.2%	101.8%	109.3%	145.2%	130.8%	542.0%	586.7%
3.1%	4.7%	July 1953	31.9%	25.4%	128.9%	118.2%	136.5%	138.6%	308.5%	385.1%
-1.2%	-0.3%	August 1957	10.0%	16.6%	40.2%	55.8%	55.1%	79.0%	188.9%	421.8%
-2.4%	-6.3%	April 1960	24.2%	29.5%	41.7%	51.9%	92.4%	130.9%	107.7%	270.1%
-8.4%	-20.9%	December 1969	3.9%	8.7%	41.4%	39.8%	-11.3%	-7.6%	77.0%	264.4%
-15.2%	-19.4%	November 1973	-23.8%	-14.8%	20.8%	77.2%	23.7%	142.2%	182.3%	716.8%
20.6%	30.5%	January 1980	19.5%	12.5%	49.5%	81.1%	102.4%	183.6%	342.4%	480.0%
13.0%	23.2%	July 1981	-13.3%	-0.7%	34.0%	78.2%	127.9%	199.8%	343.5%	405.4%
6.5%	-7.2%	July 1990	12.7%	10.0%	38.2%	75.2%	83.2%	125.3%	407.4%	436.7%
-21.7%	22.3%	March 2001	0.2%	13.1%	1.9%	34.3%	21.4%	83.7%	38.3%	85.6%
5.6%	-8.0%	December 2007	-37.0%	-36.5%	-8.3%	-7.8%	8.6%	4.2%	125.8%	116.4%
8.2%	-9.6%	February 2020	31.3%	39.0%						
7.2%	**9.5%**	**Averages**	**2.2%**	**4.6%**	**28.2%**	**44.4%**	**53.3%**	**84.3%**	**217.0%**	**337.9%**

TR = Total Return. FF Value = Value Weighted Book to Market Portfolios - Blend of Small Value and Big Value.Source: Kovitz Investment Group using data from Bloomberg, Professors Eugene F. Fama & Kenneth R. French and the National Bureau of Economic Research

And, we continue to think that equities in general are reasonably priced,…

THE PRUDENT SPECULATOR

INTERVIEW RATES STILL SUPPORTIVE OF STOCKS

The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. Though many dismiss the Fed Model, investing is always a choice of this or that, and we still like today's rich earnings yield (5.27% vs. 4.01% 10-Year), despite the jump in interest rates.

…with our broadly diversified portfolios of what we believe to be undervalued stocks especially attractive.

CURRENT PORTFOLIO AND INDEX VALUATIONS

Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	11.7	11.2	0.8	2.2	2.9
ValuePlus	12.5	11.9	1.2	2.4	2.4
Dividend Income	11.5	11.2	0.7	2.1	3.3
Focused Dividend Income	13.0	12.6	1.1	2.5	2.8
Focused ValuePlus	12.8	12.6	1.2	2.5	2.6
Small-Mid Dividend Value	10.2	9.7	0.5	1.6	3.1
Russell 3000	20.6	17.9	2.1	3.6	1.7
Russell 3000 Growth	28.5	23.8	3.1	9.2	1.0
Russell 3000 Value	16.1	14.4	1.6	2.3	2.3
Russell 1000	19.6	17.7	2.2	3.8	1.7
Russell 1000 Growth	26.7	23.6	3.4	9.5	1.1
Russell 1000 Value	15.5	14.2	1.6	2.4	2.3
S&P 500 Index	19.0	17.5	2.3	3.9	1.7
S&P 500 Growth Index	22.6	20.8	4.0	6.9	1.0
S&P 500 Value Index	16.6	15.3	1.7	2.8	2.3
S&P 500 Pure Value Index	10.4	9.8	0.7	1.5	2.6

As of 10.29.22. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Kovitz using data from Bloomberg Finance L.P.

Stock Updates

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

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

Thought they initially sank in after-hours trading on Thursday, shares of investor favorite **Apple** (AAPL – $155.74) rose on Friday after the company reported fiscal Q4 results. The iPhone maker earned $1.29 per share (vs. $1.26 est.) and had revenue of $90.1 billion (vs. $88.6 billion est.). iPhone segment revenue was $42.6 billion (vs. $42.6 billion est.; +9.7% y/y), overall Products segment revenue was $71.0 billion (vs $69.0 billion est.; +9% y/y), and Service revenue was $19.2 billion (vs. $20.0 billion est.; +5% y/y). China revenue grew 6.2% year-over-year to $15.47 billion. The company has $169 billion of cash and equivalents on its balance sheet.

CEO Time Cook said, "The world continues to be unpredictable as old challenges evolve and new ones emerge. What remains constant is the ability of our teams to create great products, services and experiences while being a force for good in the world. Whatever challenges lie ahead in the new year, we're moving forward, as we always have, investing for the long term to deliver incredible innovations for our customers like only Apple can. And now I'll hand it over to Luca for more details on our performance."

"As we move ahead into the December quarter, I'd like to review our outlook, which includes the types of forward-looking information that Tejas referred to at the beginning of the call. Given the continued uncertainty around the world in the near term, we are not providing revenue guidance. But we are sharing some directional insights based on the assumption that the macroeconomic outlook and COVID-related impacts to our business do not worsen from what we are projecting today for the current quarter," said CFO Luca Maestri. "Specifically on Services, we expect to grow but to be impacted by the macroeconomic environment increasingly affecting foreign exchange, digital advertising and gaming. We expect gross margin to be between 42.5% and 43.5%. We expect OpEx to be between $14.7 billion and $14.9 billion. We expect O&E to be around negative $300 million, excluding any potential impact from the mark-to-market of minority investments and our tax rate to be around 16.5%."

Apple maintained its $0.23 quarterly dividend, which translates to a yield around 0.6%. While the company reported currency headwinds and saw dips in demand for some product categories, Apple's business is remarkably stable. Despite persistent challenges in its supply chain, it was interesting to see more softness in the company's Services segment than in Products. While the report left some disappointed, analysts still expect Apple to grow EPS in the 5% to 10% range for the next few years. The initial report seemed to cause some indigestion overnight, but the company's 7.6% jump on Friday suggests that investors think things are well in Cupertino, for the moment anyway. We continue to like the cash rich balance sheet and the flexibility and potential it offers, while we are also quite constructive on the entrenched Apple ecosystem. Our Target Price for AAPL is now $183.

Shares of **Alphabet** (GOOG – $96.58) have been whacked this year amid the Tech-and-Growth sell-off. Of course, Alphabet is classified as a Communications Services company, but there's a lot of technology involved in the company's businesses. Unfortunately, the Q3 report did little to help investors get excited about the advertising space. By segment, Advertising revenue was $54.48 billion (vs. $56.98 billion est.), YouTube Ads revenue was $7.07 billion (vs. $7.46 billion est.), Google Services revenue was $61.38 billion (vs. $63.98 billion est.) and Google Cloud revenue was $6.87 billion (vs. $6.61 billion est.).

CEO Sundar Pichai commented, "Our financial results for the third quarter reflect healthy fundamental growth in Search and momentum in Cloud. Our reported results reflect the effect of foreign exchange. The growth in our advertising revenues was also impacted by lapping last year's elevated growth levels and the challenging macro climate… As we head into 2023, we are going to focus on our most important priorities as a company. To support our growth, we'll continue to invest responsibly for the long term in a way that is responsive to the current economic environment. I want to thank our employees around the world for their contributions

over the last quarter. We help people, our partners and society when we focus on what we do best and execute on that really well."

Ms. Porat added, "Our results in the third quarter reflect an increased headwind from foreign exchange, given the ongoing strengthening of the U.S. dollar versus last year. Excluding the revenue benefit from hedging, there was a 6-point headwind year-on-year or 5 points with the hedge benefit compared with a slight tailwind in the third quarter of 2021. Looking to the fourth quarter, based on strengthening of the U.S. dollar quarter-to-date, we expect an even larger headwind from foreign exchange. In addition, as we have previously said, the impact of foreign exchange is greater on operating income than it is on revenues, given that our expense base is weighted more toward the U.S. with most of our R&D efforts located here."

While Alphabet isn't alone with concerns about the advertising business, it is interesting the extent to which companies have been impacted. This year, **Omnicom** (OMC – $72.59) is up 2%, Alphabet is down 33% and Meta (fka Facebook) is down 70%. While a variety of factors are always in play, it seems platform-neutral businesses seem to be looked upon favorably this year. We are content with our diversification in that respect and believe long-term ad spending trends will continue. Shares of GOOG are reasonably priced at 19 times forward earnings estimates, especially given the nearly $100 billion of net cash on the balance sheet, and with EPS expected to reach over $8.00 by 2025. Our Target Price for GOOG is now $165.

Speaking of the old Facebook, shares of **Meta Platforms** (META – $99.20) plunged anew following the release of Q3 financial results, bringing the year-to-date slide to over 70%. The social media giant continued to bump spending on its Metaverse effort in the quarter, contributing to a large bottom-line miss vs. the Street target (EPS of $1.64 vs. $1.89 est). In addition to its Metaverse goals, Meta is focused on further developing its AI discovery engine and click-to-message advertising functionality even as the uncertain macroeconomic environment has weighed on ad spending. The Facebook app reached its highest ever number of daily users at nearly 2 billion, while Instagram has more than 2 billion monthly actives and WhatsApp has more than 2 billion daily actives. Further investments into Reels resulted in plays across Facebook and Instagram that grew 50% over the past six months to more than 140 billion per day.

A surge in capital expenditures also reduced free cash flow to $316 million vs. the $4.6 billion last quarter, largely from building out AI infrastructure. Management said that it expects 2023 CapEx spending in the range of $34 billion to $39 billion, nearly all from investments in AI, but this should come down as a percent of revenue over the long-term to a level that depends on the returns the investments generate.

CEO Mark Zuckerberg stated, "We now reached more than 3.7 billion people monthly across our Family of Apps. And while we continue to navigate some challenging dynamics of volatile macroeconomy, increasing competition, ads signal loss and growing costs from our long-term investments. I have to say that our product trends look better from what I see than some of the commentary, I've seen suggests. There's been a bunch of speculation about engagement on our apps and what we're seeing is more positive…Across the family, some Apps may be saturated in

some countries or some demographics. But overall, our apps continue to grow from a large base."

He added, "And then there is some of the longer-term things that we're taking on expenses, because we believe that they're going to provide greater returns over-time. And I think we're going to resolve each of these things over different periods of time. And I appreciate the patience and I think that those who are patient and invest with us, will end-up being rewarded."

Management was questioned about the drivers of growth expected for 2023. CFO Dave Wehner responded, "Obviously, we're continuing to see significant macro headwinds in the business. We do think there is a big cyclical factor here, so some of it is just going to depend on the broader economy and recovery that we see. But we're continuing to make progress in a number of areas in terms of growth and Mark [Zuckerberg] sited one of those, which is a click to messaging ads, which has been a solid grower, it's a $9 billion revenue run-rate today and we're continuing to make good progress on click to messaging ads as a driver that's especially been important in some of the developing markets. And overall, we're focusing on a number of areas to grow revenue as we get through this tough cycle. And we're seeing progress on a number of fronts, but it's going to depend to some extent on what the overall macro climate is like. We're not going to be facing as significant headwinds next year from the signals point-of-view, as we are now lapping the big changes that were made on the iOS platform. So that's going to also not factor-in as strongly in our growth rates next year."

No doubt, the latest price action has seriously tested the resolve of even the most fervent owners. And, our experience since opening a position in the stock earlier this year has been far from ideal, to say the least. But we are still early in our ownership, even as healthy debate continues within our Team regarding the firm's three-to-five-year prospects. Our stance is that shares remain very inexpensive, particularly as the drop in profits is a result of substantially elevated R&D spending. Additionally, while profit margins for the core business will likely remain under pressure in the next year or two as META ramps its Reels offering with a lower take rate and AI investments flow through the income statement, overall, we think the core business remains intact.

Yes, the Metaverse effort is ambitious, but we think big potential exists, yet investors seem to be assigning very little value to this segment at the current price. Many will likely want Mr. Zuckerberg replaced with a new Chief Executive, but that is highly unlikely given his voting control over the firm, while something is to be said for having greater capacity to endure short-term pain for long-term gain. Shares trade for a forward P/E multiple of 11, well below that of the market, even as EPS estimates, which have been cut drastically over the past year, may fall further. We are still debating a potential averaging down on the holding, with the terrific cash-rich balance sheet a major positive in support of our continued ownership. For now, our Target Price has been cut to $241.

Shares of **Intel** (INTC – $29.07) rallied on the company's Q3 results. The chip giant earned $0.59 in the quarter, compared with an analyst consensus estimate of $0.33. Revenue came in around $15.3 billion, versus the consensus of $15.4 billion. Initial after-hours trading made it seem like the company was set to record its 10th straight loss of at least 5% the day after

quarterly results were released. Happily, further inspection of the report by analysts and traders spurred significant optimism, pushing shares up more than 10% on Friday.

CEO Pat Gelsinger said, “Despite growing economic headwinds, Q3 revenue was flat sequentially and only modestly below the midpoint of our guidance. In June, we were one of the first companies to highlight an abrupt and pronounced slowdown in demand, which has brought it beyond our initial expectations and is now having an industry-wide impact across the electronic supply chain. We are adjusting our Q4 outlook, and we are planning for the economic uncertainty to persist into 2023. While we are not satisfied with our results, we remain laser-focused on controlling what we can, and we are pleased that our PC share stabilized in Q2 and is now showing meaningful improvement in Q3. Our server share, while not where we want it to be, is tracking in line with our expectations, and we are encouraged by good execution in the quarter against our product road map. In addition, we are intensifying our cost reduction and efficiency efforts, and we are aggressively moving into the next phase of IDM 2.0 geared to unlocking the full potential of the IDM advantage.”

Mr. Gelsinger continued, “It was also rewarding to see that same drive and dedication in the faces of our broader developer community at Intel Innovation, the rebirth of Intel IDF in September. We are the building blocks, an enabler of their vision and aspirations, and it is our commitment to them to be great partners and collaborators. Our ambitions are equal by our passions and our efforts across manufacturing, design, products and foundry are well on their way to driving our transformation and creating the flywheel, which is IDM 2.0.”

CFO David Zinsner added, “Critical to driving our transformation is the implementation of our internal foundry operating model, dramatically increasing financial accountability and transparency, enabling all organizations to drive to world-class product cost and efficiency benchmarks. In addition, as we emerge from 5 nodes in 4 years and slower technology development cadence, we expect an additional approximately 200 basis points of gross margin after 2026. We expect these efforts to provide potential upside to the financial targets we provided at the February Investor Day. This will be a multiyear journey, but as Pat said earlier, best-in-class semiconductor companies have a financial profile that includes gross margins in the 60s and operating margins in the 40s, and we aim to be best-in-class. In the short term, we will continue to manage to the OpEx, net capital intensity and adjusted free cash flow guardrails established and drive back to a gross margin percentage range of 51% to 53% once economic conditions improve and revenue growth returns.”

Intel is not out of the woods—far from it—and significant hurdles remain before we might consider the company’s turn-around effort to have worked. Long-rising tension in U.S.-Chinese relations and a newfound emphasis on U.S.-based manufacturing seems to benefit Intel in a big way, especially as the company specializes in the high-value chips the U.S. government is seeking to keep out of Chinese military hands. The government seems happy to support the buildout and we think INTC will see higher costs and lower margins, but it will also get first-mover advantage and be the first to benefit from a stable supply chain.

Given the historical valuation, we have held that the return profile more than compensated for above-average risk for our portfolios, but we continue to debate the stock versus other

opportunities. In general, "Value" stocks are frequently unloved or underappreciated, and we want to be cognizant of the amount of business risk we are taking on an aggregate basis. The valuation has crept higher as capital spending plans ramp, so shares trade for 16 times forward earnings, but the dividend yield is 5.0% and significant cost-cutting is underway. Our Target Price has been trimmed to $45.

Shares of **Seagate Technology PLC** (STX – $51.45) plunged more than 7% last week after the storage maker reported fiscal Q1 results that came in far behind analyst estimates, while soft Q2 guidance and expense reductions sent shares further into negative territory for the year. In Q1, STX earned $0.48 per share (vs. $0.75 est.) and had revenue of $2.04 billion (vs. $2.12 billion est.). Management explained the shortfall was the result of intensifying macroeconomic pressure and softening customer purchasing habits, which prompted inventory adjustments and a whack to capital expenditures.

CEO Dave Mosley said, "We currently expect customer inventory drawdowns will remain a factor through at least the December quarter. We reacted quickly to adjust our production levels to the current demand environment and our gross margin performance reflects the resulting factory underutilization costs that increased markedly through the month of September. It's important to note that consistent with some of the U.S. CSP comments, end user demand for core data and analytics applications remain solid, which supports our view that the business will improve as elevated inventory levels are consumed. In the meantime, we continued to respond to the changing market conditions and further reduced production output across all product lines with the exception of our 20-plus terabyte products, where demand has held firm and pricing relatively stable."

Mr. Mosley ended his comments on an optimistic note, "We are navigating through the macro challenges that are impacting our business over the near term. However, the long-term growth trajectory for mass capacity storage remains solid, driven by the fundamental demand for data and the need for businesses to harness its value. We believe that the actions we have undertaken will ultimately strengthen our position over the long term. Looking ahead, as we incessantly push the technology innovation road map, we believe our customers will continue to value Seagate as their primary storage solutions provider."

Fiscal Q2 revenue guidance came in between $1.7 billion and $2.0 billion. Seagate expects EPS between -$0.05 and +$0.35. The consensus (12-month) analyst target price for STX has fallen from more than $110 to $58 this year, reflecting the rapid change in operating environment. Of course, we take a much longer view and our ownership of Seagate has been marked by wider-than-average price swings, which we have ridden out and used for opportunistic trimming. We continue to think data storage requirements will continue to grow handsomely over the long haul and we think STX is positioned for significant earnings growth after the current very rough patch. The dividend yield is now 5.4% and our Target Price is now $95.

Network hardware provider **Juniper Networks** (JNPR – $30.83) earned $0.58 per share in fiscal Q3 2022 (vs. $0.50 est.). JNPR's revenue grew 19% year-over-year to $1.42 billion (vs. $1.35 billion est.), while the adjusted operating margin of 17.2% came in ahead of the 15.9% expectation.

CEO Rami Rahim said, “Our Q3 results reflect the strong demand we’ve experienced across customer verticals and solutions since the beginning of last year as well as the actions we have taken to procure incremental supply and overcome the many supply chain challenges that continue to exist in the market. Our teams have executed extremely well over the course of the past year and these results are only possible due to the exceptional efforts from our go-to-market, product management, engineering, services and supply chain organizations, along with many others. This alignment across the company has not only helped us achieve strong Q3 results, but also should position us to deliver continued strength in Q4 and sustained growth in 2023 and beyond. Overall demand remained healthy in the September quarter with product orders being high single-digit year-over-year growth when adjusted to account for customers placing orders early due to the extension of the lead time related to supply chain challenges.”

Mr. Rahim continued, “Overall demand remains healthy. And given the backlog we’ve built, along with the actions we’ve taken to secure more supply, we are now incrementally more confident regarding our top line outlook and our ability to ship products to customers. As a result, we now expect to deliver approximately 12% to 13% year-over-year revenue growth in 2022 and at least 7% year-over-year revenue growth in 2023.”

CFO Ken Miller added, “Product orders were in line with our expectations in the third quarter. As a reminder, we have experienced order strength from customers placing orders at an accelerated pace to account for extended lead times related to industry supply chain challenges over the course of the past year. The impact of accelerated ordering decreased in the third quarter of 2022. We expect this impact to continue to dissipate over time.”

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JNPR paid $68 million of dividends to shareholders in Q3 and the outlook expects revenue between $1.43 billion and $1.53 billion, nicely ahead of the $1.42 billion consensus estimate. EPS is expected to come in between $0.61 and $0.69, versus a consensus estimate of $0.62. Shares rose 3% on the results and more than 7% for the week.

Supply chain issues continue to be the pinch point for JNPR, but management seemed to be of the mind that the headwinds are going to dissipate in the near future. Management continues to believe, as do we, that JNPR’s business is well-positioned for the longer term. JNPR trades with a forward P/E less than 15 and yields a solid 2.7%. Our Target Price for JNPR is now $40.

Shares of **Benchmark Electronics** (BHE – $28.10) tumbled 7% after the electronics designer and manufacturer delivered a Q3 report that included an outlook that somehow disappointed investors. For the three-month period, BHE said its revenue reached $772 million, versus expectations of $738 million. Adjusted EPS in Q3 was $0.57, compared to the forecast of $0.52.

"Benchmark is clearly benefiting from two key drivers. Our success in capturing new wins over the last several years, which are now ramping in the marketplace, and our existing customer success addressing high-growth markets with their innovative products," said CEO Jeff Benck. "Turning to the fourth quarter, we continue to see robust demand across the majority of our market sectors. The midpoint of our guidance positions us to achieve full-year revenue growth of around 30% and earnings of $2.11, which would represent year-over-year earnings growth of greater than 55%. We're encouraged by the improvements we are seeing in supply chain, availability, in many commodity areas. However, we still see constraints in some semiconductor families, which continues to limit our production output."

Management said that it sees adjusted EPS for Q4 coming in between $0.58 and $0.62, with the consensus estimate heading into the announcement at $0.54. Additionally, company revenue projections for Q4 came in at a range of $760 million to $800 million. The consensus analyst estimate had been $760 million. Restructuring charges next quarter are expected in the $800,000 to $1 million range related to site closures. The results were very good in our eyes, and after the initial whack, investors seemed to have had a change of heart. BHE gained 4% on Friday, bringing the return for the week to 1.5%.

Benchmark continues to invest in growth projects, while paying out a 2.4% yield to shareholders and maintaining a solid balance sheet. Our Target Price for BHE is now $39.

Semiconductor equipment firm **Cohu** (COHU – $33.66) earned an adjusted $0.74 per share in Q3 (vs. $0.67 est.). COHU had sales of $206.7 million (vs. $205.3 million est.). The big beat sent shares soaring more than 14%, with investors particularly enthused about the company's growing recurring revenue business (42% of COHU's Q3 total) and several design wins for high-end processors.

CEO Luis Muller explained, "Gross margin is steadily expanding with the transition of contactor manufacturing to our Philippines operation, ongoing progress to mitigate component shortages and lower costs and development of differentiated products for test and inspection of silicon carbide, MEMS, ADAS and other advanced semiconductors. Cohu's prospects remain strong and aligned to secular growth applications. In the third quarter, we repurchased about 638,000 shares at an average price of $27.74 reaffirming our belief in Cohu's growth initiatives. We're executing well against our strategic plans, are positioned to remain profitable during periods of market uncertainty, and we continue to make very good progress revamping our product portfolio with differentiated test and inspection solutions."

CFO Jeff Jones added, "Headwinds from cost increases for IC components used on our tester products impacted our gross margin by approximately 130 basis points. We expect these challenges to persist at a reduced level into mid-2023 as we increase sourcing directly with semiconductor manufacturers and component availability improves. Operating expenses for Q3 were lower than guidance at $52.6 million due mainly to lower labor costs from hiring delays and higher utilization of vacation."

When asked for specifics related to supply chain impacts in China, Mr. Muller said, "We don't really have any supply chain to speak of either in China. So we've been on a path to move out of

China. We've essentially completed that. So no issues there to speak of, Atif. [We've shifted to] recurring revenue, as you know, the reason why we like it and promote it so much, it's more stable. It's a stable revenue stream."

Cohu lacks a lot of the 'excitement' that some other IT companies get, yet management remains unbothered by the lack of attention. COHU has steadily converted to a subscription model and has grown EPS from $0.09 in 2019 to $3.20 in 2021. Analysts expect a bit of lumpiness in the next few years (EPS of $2.76 in 2022 and $2.59 in 2023), which generally fits Cohu's historical norms. The long term trend is growth, though, and management seems to have built a solid financial foundation and strong business, which serves 280 customers in 31 countries and ships over 1 million parts per year. The dividend was discontinued early in the Pandemic and remains suspended, but the growing cash pile and stable business environment (for COHU, at least) makes us suspect a restart might come soon. Our Target Price for COHU is now $44.

Shares of integrated energy titan **Exxon Mobil** (XOM – $110.70) rose more than 4% last week, continuing their march higher in 2022, following the release of solid Q3 financial results. Even with high expectations, Exxon reported revenue for the period of $112.1 billion, 8.7% higher than the consensus estimate. Adjusted EPS came in at $4.68, more than 19% greater than the $3.91 forecast. Management said strong volume performance, including record refining volumes, cost controls and higher natural gas realizations more than offset lower crude realizations and weaker industry refining margins.

Free cash flow of approximately $17.6 billion was the second highest quarterly amount ever. Shareholder distributions were $8.2 billion for the quarter, including $3.7 billion of dividends and $4.5 billion of share repurchases, bringing year-to-date repurchases to $10.5 billion. XOM had previously stated that it had planned to buy back up to $30 billion of stock through 2023. The company also declared a fourth-quarter dividend of $0.91 per share, payable on December 9. The increase of $0.03 per share marks 40 consecutive years of annual dividend growth.

CEO Darren Woods commented, "Our strong third-quarter results reflect the hard work of our people to invest in and build businesses critical to meeting the demand we see today. We all understand how important our role is in producing the energy and products the world needs, and third-quarter results reflect our commitment to that objective…The investments we've made, even through the pandemic, enabled us to increase production to address the needs of consumers. Rigorous cost control and growth of higher-margin petroleum and chemical products also contributed to earnings and cash flow growth in the quarter. At the same time, we are expanding our Low Carbon Solutions business with the signing of the largest-of-its-kind customer contract to capture and permanently store carbon dioxide, demonstrating our ability to offer competitive emission-reduction services to large industrial customers around the world."

We don't see global energy supply issues easing in the near future with the continued war in Ukraine leading much of Europe to need to source energy away from Russia and with a long period of industry-wide under-investment in exploration and production. The tight market hasn't even included a fully open and "normal" China. We continue to see Exxon Mobil as differentiated versus peers due to its strong organic set of investment opportunities. We are also constructive on how the company has worked to rapidly improve its financial footing, not only

from its products generating strong cash flow, but also from selling assets ($4 billion worth this year) more toward peak levels, versus trough. XOM shares have a 3.3% dividend yield and trade at less than 10 times NTM adjusted EPS projections. Our Target Price has been lifted to $132.

Shares of **Caterpillar** (CAT – $219.34) rocketed more than 15% last week as the well-known industrial giant reported a top-line beat and bottom-line results that smashed the consensus analyst estimate. For Q3, CAT reported revenue of $14.28 billion, versus the average forecast of $13.98 billion, while adjusted EPS of $3.95 came in more than 24% better than the consensus number.

CAT CEO Jim Umpleby commented, "I want to thank our global team for delivering another good quarter, including strong top-line growth, higher operating profit margins, and robust ME&T free cash flow, despite continuing supply change challenges. Our third quarter results reflected healthy demand across most end markets, for our products and services. We remain focused on executing our strategy and continue to invest for long-term profitable growth."

Mr. Umpleby continued, "Sales increased 21% in line with our expectations. Operating profit improved by 46%, although the margin improvement of 280 basis points was slightly less than we had anticipated. Sales growth was led by price realization in volume growth, sales were higher in all regions with double-digit increases in each of our three primary segments. Services growth momentum continued in the third quarter as a result of our services' initiatives and investments. Similar previous quarters our top line would have been even higher if not for ongoing supply chain constraints."

He concluded, "We generated strong operating profit margin improvements in the quarter both on a year-over-year and sequential basis. The adjusted operating profit margin was 16.5%, adjusted profit per share increased 48% to $3.95. We generated robust ME&T free cash flow of $2.1 billion. Our backlog continued to grow; it increased by $1.6 billion in the quarter and is now $30 billion compared with the third quarter of 2021 sales to users increased 7%, for machines including construction industries and resource industries sales to users increased by 2% while energy and transportation was up 22%."

We continue to think CAT's dominance in the U.S is intact, and despite hurdles (COVID shutdowns and property development woes) in China, runways for growth still exist in emerging economies like the Middle Kingdom, India, Africa and the Middle East. Moreover, an increase in U.S. infrastructure spending should extend elevated demand into next year and beyond, with the Street projecting EPS topping $17.50 by 2025.

A shift toward leaner operations and digital solutions continues to be evident in operational results. Shares continue to look attractive to us and currently carry a dividend yield of 2.2%. One of our core Industrial holdings, our Target Price for CAT now stands at $276.

Shares of **Alexandria Real Estate** (ARE – $145.72) rebounded 10% last week, partially because of its solid Q3 financial results, but also partially because interest rates eased during the week. The lab space real estate investment trust reported a resilient quarter that included adjusted funds from operations (FFO) of $2.13 per share, versus expectations of $2.11. Additionally, Alexandria

guided full-year adjusted FFO to $8.41. Quarterly lease spreads were strong during the period with occupancy at 94.3%, while 99.9% of October tenant rent was already received (as of 10.24).

Executive Chairman and Founder Joel Marcus shared, "I would characterize the third quarter as really an exceptional quarter when you look at earnings in this challenging macro-environment, delivering 9.2% and 8.3% FFO per share growth for the third-quarter. And then 2022 year-to-date is really exceptional, especially given the size and scope of the company with almost 75 million square feet in its total asset base."

He added, "I'd say the health and resilience of the broad and diverse life science sector the niche which we pioneered remains strong and there is a continuing strong R&D investment. But in general, we've seen life science R&D funding in 2021 approaching almost $500 billion, I think the number is actually about $480 billion, which is astounding and $1.8 trillion since 2017. And we expect totals in 2022 to be very strong continuation of that. I think it's also important to recognize that the strong life science sector, employment trends remain positive. And the core strength of the life science industry and our key cluster markets remains resilient and continuing strong. And I think the over writing macro observation would be that long-term healthcare needs of this country, certainly aren't going away. Innovation in medicine is really a national imperative. And just look at the mental health problem across this country, is one simple example."

Mr. Marcus concluded, "And as I've said many times before, there are about 10,000 known diseases to human kind and really that we've only addressed as a society, about 10% with addressable therapies and very few real cures. Biotech, I think remains resilient clinical data regulatory updates and M&A can be idiosyncratic events that really are unaffected by economic trends and Hallie will talk about that. I think demand continues very solidly for our high-quality and well-located assets, which are really powered by asset-level operational excellence, second to none."

Given global demographic and health trends, we expect life sciences to continue to grow at a high rate, and we see Alexandria as the premier name in the lab space. Of course, rising interest rates, concerns about a softer economy and slowing industry leasing activity have combined to form stiff operational headwinds. However, ARE's trends remain strong, the company is well-positioned on many fronts and has had consistent execution. Management expects occupancy levels to stay in the mid-90s, while 97% of Alexandria's leases contain a contractual annual rent escalator of approximately 3%. The consensus analyst FFO estimates for 2023, 2024 and 2025 are a respective $8.97, $9.76 and $10.37, so there is handsome growth projected, even as we see ARE's base of tenants as defensive with healthy long-term demand for biomedical research. Shares yield a respectable 3.2%. Our Target Price for ARE has been adjusted to $221.

Cell tower and data center operator **American Tower** (AMT – $204.71) generated $2.36 of adjusted funds from operations in Q3, just below the consensus analyst estimate, while adjusted EBITDA grew 5.9% year-over-year to $1.64 billion. AMT faced consolidation-related churn in its Latin-America/Africa geographical segment (particularly in Brazil and Mexico) and in the U.S. (cancellations from the Sprint merger with T-Mobile). With the bulk of the Sprint cancellations behind the company, management expects growth in tenant billings of more than

4% in the U.S. for Q4 as the AMT laps these events, although churn is expected to increase internationally to around 600 points in Q4.

AMT signed a new comprehensive Master Lease Agreement (MLA) with Verizon at the end of August which is expected to allow Verizon to efficiently accelerate its 5G network deployment over a multi-year period, in addition to an MLA with Airtel Africa (AMT's largest customer in the region). However, collections from Vodafone India fell short of billings, although the customer has indicated an expectation to make up the shortfall at the start of 2023.

With enthusiasm over opportunities to expand the firm through its data center segment, CEO Thomas Bartlett said, "Over the past year, as 5G deployments in the US continued into a rapid pace we've seen elevated emphasis from select wireless carriers with respect to their edge compute strategies and the forging of a partnership with cloud and enterprise technology platforms to better prepare for the network demands of the future. We see all of these incremental data points in support of our vision for forthcoming demand of the edge. In our view much like the adoption of the shared tower model, this digital ecosystem over time will be most efficiently provisioned to distributed neutral host, multi-tenant interconnected edge infrastructure model. Reducing the capital intensity and total cost of ownership among [Managers & Operators], cloud, landline and enterprise players and critically facilitating a seamless universal customer experience for the end user. Our tower portfolio coupled with our US data center business represents distributed portfolio of real estate with accessibility to robustly interconnected core networks and native access to cloud on-ramps. We believe the combination of these platforms will be critical as data processing extends from the core to edge. With that migration, more distributed and localized points of presence along with branded costs and low-latency consideration, we become essential over time providing American Tower and CoreSite potential to win across multiple edge layers. Today, our team has identified over 1,000 sites within our existing US tower portfolio that we see a shovel-ready candidate for mobile latest deployments based on location, personal footprint, land control and existing fiber and tower assets."

Management continues to evaluate opportunities to delever the balance sheet from currently 5.5X EBITDA at quarter-end (down from as high as 6.8X following the CoreSite acquisition) against repurchasing shares. CFO Rod Smith outlined his current thoughts about AMT's leverage profile, "We work through plans with the rating agencies to delever of maintaining our investment-grade credit rating. That is critical to us. That's very important. We take leverage very seriously. That's why we've been able to delever as quickly as we have, going down from that 6.8 to 5.5. I'd also tell you that the 5.5 is we're comfortably lower than the delevering plan that we've agreed with the rating agency. So that puts us in a pretty good position…We're also balancing the analysis around the cost of debt and how we drive better FFO per share accretion, either paying down our revolving credit lines or buying back shares. So, there's a lot of math as you know, that goes into that. So, we expect to be flexible and opportunistic as we evaluate what we do with our capital. And I do think that you could see us do both continue to delever at a furious pace as well as buy back some shares when we think that's appropriate."

As a leading independent owner, operator and developer of multitenant communications real estate with a portfolio of approximately 222,000 communications sites around the globe, we find

that AMT is well-positioned to benefit from an accelerating rollout of communication technology. We reserve our judgement of the CoreSite purchase late last year, despite management's high hopes for synergies from the segment. We think the runway for growth remains plenty long in the tower business as carriers continue to upgrade or install rural networks, and urban networks need higher tower density and upgraded equipment following three decades of transition to site-sharing by network carriers.

A significant portion of its contracts are linked to measures of inflation. Moreover, more than 40% of revenue is from international markets like India that are less consolidated and roughly a decade behind the U.S technologically. Shares trade for a 27% discount to the five-year average Price to FFO and the dividend yield is 2.9%. Our Target Price is $286.

Consumer finance giant **Synchrony Financial** (SYF – $36.13) reported last week that it earned $1.47 per share in Q3, ahead of the $1.39 expected by analysts, but 17% lower year-over-year. Net interest income increased 7% to $3.9 billion, while interest and fees increased 18% on a core basis. This was offset by the impacts of the portfolios sold during Q2. Purchase volume on dual and co-branded cards grew 28% versus last year, representing about 39% of the $44.6 billion total purchase volume and 23% of core receivables for the quarter. A $929 million provision for credit losses also detracted from the bottom line, although $294 million went toward future loss reserves. The percentage of delinquent loans ticked higher for respective 30- and 90-day delinquencies to 3.28% (vs. 2.42% last year) and 1.43% (vs. 1.05% last year) with a 3.00% charge-off rate (vs. 2.18% last year).

CFO Brian Wenzel commented, "We continue to see signs of gradual normalization across the credit spectrum of our portfolio. The vast majority of our borrowers continue to perform consistently with or better than 2019 performance. We continue to monitor borrower behavior closely and note that consumers are still slowly working through excess savings levels from peak levels." Management suggested last quarter that credit refinements earlier in the year position the portfolio a bit tighter than it was in 2019, albeit with lower line balances.

Mr. Wenzel added, "The external data we track indicates due to the combination of summer spending and inflationary conditions, the proportion of customers who received stimulus payments and have since spent the entire amount has increased approximately 2 percentage points since July now around 40% compared to 38% a few months earlier. The remaining 60% of the customers still have a portion or all the stimulus still saved."

Regarding consumer spending patterns, CEO Brian Doubles said, "There have been some modest seasonal shifts among a few of the major categories in favor of more education-related spend and less travel and entertainment spend. Otherwise, transaction values in gas and auto-related spend have continued to show growth, in line with gas price trends and inflation, while grocery spend value is running relatively steady with the last few months. The more recent pullback in gas prices appears to have contributed to a slight acceleration in broader discretionary and non-discretionary spend, with categories like clothing, home furnishing and repair, bill pay and auto-related spending experiencing higher transaction value at similar frequency."

We continue to appreciate that Synchrony is one of the largest issuers of private label credit cards in the U.S., while also offering co-branded products, installment loans and consumer financing for small- and medium-sized businesses, as well as healthcare providers. Purchase volumes and loan receivable balances continue to find growth across all platform sectors while Synchrony's balance sheet appears robust with a 14.3% Tier 1 common equity capital ratio. There always is the risk that SYF may face churn in its stable of partners, but major players like Sam's Club, TJX Cos and Belk have been with the firm for over a decade.

Management continues to return capital back to shareholders, buying back 40% of the shares outstanding in the past 5 years and driving an increase in book value per share of the same magnitude. The stocks also sports a dividend yield of 2.6%. We acknowledge the financial services concern's economic sensitivities, but shares remain inexpensive, despite the 11% bounce last week. Trading for a forward P/E multiple of just 7, our Target Price is now $56.

Shares of **Archer-Daniels Midland** (ADM – $94.88) rallied over 5% last week after another terrific quarter of financial results in Q3. The refiner and trader of agricultural products earned an adjusted $1.86 per share compared to the $1.44 estimate and $0.97 in the prior year. Revenue also grew 21% year-over-year to $24.68 billion, boosted by strong sales in the Ag Services & Oilseeds (up 22%) and Carbohydrate Solutions segments (up 25%), which together account for 92% of total revenue. Crush margins were strong in Q3, and management expects them to continue to strengthen into next quarter, due to feeding animals around the world and extra demand for biodiesel around the globe.

CEO Juan Luciano explained, "I'm proud of our team for delivering yet another quarter of strong results by supporting the global food system and providing needed nutrition to billions. Global demand remains robust, and our adjusted EPS of $1.86 is a reflection of our team's expertise in managing dynamic market conditions, as well as the unique benefits of our integrated global value chain and our product portfolio. Today's ADM is a resilient company, with a broad global footprint and an array of innovative capabilities that are driving performance for customers, consumers and shareholders. And with strong cash flows, we're advancing productivity initiatives to enhance cost efficiencies and returns; driving innovation efforts to build new capabilities and growth engines across all of our businesses; and continuing to return capital to our shareholders. We're well positioned to end 2022 strong, and carry that momentum into 2023."

Ag markets haven't been immune from tightness in the supply chain, further exacerbated by geopolitical conflict. These conditions have pushed sales to levels not seen for nearly a decade, with profits even higher given improvements in productivity. Of course, as a refiner of various agricultural commodities like soybeans and corn subject to changes in both supply and demand, we acknowledge the cyclical and often volatile nature that characterizes ADM's business. Shares have enjoyed fantastic gains this year (up 40% year-to-date), so we would not fault anyone for cashing in some of their chips for more badly battered opportunities in the marketplace. Still, the stock is not expensive trading for less than 15 times NTM estimated EPS, while the dividend yield is 1.7%. Our Target Price for ADM has been hiked to $106.

Railroad operator **Norfolk Southern** (NSC – $229.14) handily beat analyst expectations in Q3, earning $4.10 per share (vs. $3.60 est.) on $3.3 billion of operating revenues (17% improvement year-over-year). Revenue from coal, a much smaller slice of the pie now than in previous years, grew for the seventh consecutive quarter, rising 16% year-over-year. Pricing improvements and fuel pass-throughs allowed operating income to improve 12% to $1.3 billion even as volume slowed, while higher fuel costs and the effort to improve service through the hiring of new conductors increased operating expenses by 21% vs. a year ago.

Chief Marketing Officer Claude Elkins commented on the impact of labor negotiations, "Coming out of August, we were encouraged by the upward trajectory of our volumes. As we move through September and concerns of a labor disruption grew stronger, we acted to guard against the potentially negative impacts on our customers and the communities that we serve. And keeping with our no surprises approach to customer engagement, we spoke with our customers early on about our plans to limit the risk of stranded hazardous materials and security-sensitive freight like intermodal are restricting service for these products. We estimate that this approach accounted for roughly 40% to 50% of the volume decline in the quarter or $20 million to $25 million in lost revenue, mostly in our intermodal markets. Our goal as a customer-centric organization is to gain credibility as a transparent and trusted service provider, so that our customers integrate NS further into their supply-chain needs."

Mr. Elkins also provided color with an outlook for multiple aspects of the business, "Since emerging from the pandemic low, manufacturing activity has been increasing at a steady rate. But we're beginning to see that growth level-off with forecast calling for growth to moderate to 3% year-over-year in the fourth quarter. As the Fed tightens interest rates, mortgage rates have increased to levels that are cooling the housing market. This reduced demand affect several of our merchandise as well as intermodal markets. Overall, we expect merchandise volumes to be relatively flat in the fourth quarter with some upside potential as service continues to recover. Within intermodal, our expectation is for volume to be down slightly year-over-year. With opportunities from easing terminal congestion and equipment supply being offset by expectations for weaker demand and a softening truck market. On the domestic side, national intermodal volume trends are showing signs of slowing, suggesting weaker peak season demand. However, consumer spending, which has historically been a big driver of this market is currently forecasted to hold steady through the end-of-the year, providing underlying support for our domestic intermodal volumes. We continue to see volume opportunity for domestic intermodal as our service recovers and we expect customers to shift loads from the highway to rail as we intently focus on improving domestic intermodal service. International intermodal will continue to struggle with congestion and equipment supply. And we expect intermodal's storage charges to remain elevated so long as those issues continue. When supply-chain congestion does these, we expect to deliver additional international volume for customers as inland point intermodal or IPI becomes more attractive. And finally, our expectations for coal are that volumes will continue to improve year-over-year in the fourth quarter, driven by strength in the markets for both utility and export coal."

A robust intermodal market continues to play to Norfolk's strengths as operator of the most extensive network in the East and a major transporter of automotive and industrial products. We are glad to see improvement on the service and labor fronts despite the near-term hit to margins.

Longer term, we continue to appreciate the competitive benefit that rail networks are virtually impossible to replicate, along with their efficiency in transporting certain freight. We note that management has repurchased close to 9% of the share count at an average cost of roughly $258 per share over the past two years. The stock rallied following the release last Wednesday, but shares are more than 20% lower over the past 12 months, putting the NTM estimated P/E near 16, well below norms over the past decade. The dividend yield is 2.2% and our Target Price is currently $324.

Railcar manufacturer **Greenbrier Cos** (GBX – $34.25) earned $0.53 per share in fiscal Q4, 25% above the Street's target in the strongest quarter of the fiscal year, driving shares 19% higher the day of the release, with the rebound for the full week clocking in at 34%. Greenbrier delivered 5,800 units in the quarter (an increase of 600 units vs. fiscal Q3) while efforts to realize operational efficiencies and pricing actions from previous quarters aided the bottom line. The diversified backlog currently stands at nearly 30,000 units with a total value of $3.5 billion, not including 2300 units from the refurbishment program valued at more than $170 million. Management expects full-year fiscal 2023 operating margin of low-to-mid double digits, with performance strengthening throughout the year.

CEO Lorie Tekorius said, "With winter approaching, escalating energy prices together with record inflation levels and rising interest rates. Present an unprecedented set of conditions. Economic forecast predict recession in Europe. We are focused on managing our operations on the continent through current and future challenges. We're realistic and responsive to the economic conditions in Europe. There still a sense of relative optimism in the rail freight sector. Traffic volumes are holding up well and rail freight is playing an increasingly important role in the transportation of critical goods in response to the invasion of Ukraine. Europe's wagon supply chain has largely recovered from the disruption caused by the war, albeit with higher prices in most areas. Railcar delivery projections for the next few years are strong and back to pre-war level. Our work with our customers has brought more certainty to our production costs and our sales pipeline and backlog are growing again as new order inquiries remain stable. And our maintenance service business, we continue to gain momentum demonstrated by increased margin. The action plan to increase efficiencies in our repair facilities, which included increasing headcount in certain US locations is beginning to improve results."

She added, "We're cautiously optimistic about the moderating U.S. economy and expect recent economic volatility to ebb in calendar 2023 as a Federal Reserve smooth its pace of additional interest rate hikes. Sustained monetary tightening may impact employment and economic growth, but we remain optimistic that the rail equipment sector can withstand a gradual cooling of the economy. Supply chain issues have improved, are nowhere near result. Continuing challenges include the impact of ongoing congestion on the rail lines, a shortage of available labor and certain geographies and limited access to certain components. We expect these headwinds to diminish during the second half of our fiscal year. Overall commodity prices, excluding energy, have declined from recent peak levels, which in the main should be favorable for rail freight traffic in the months ahead. As we enter the first quarter of our new fiscal year. We're encouraged by the momentum in our business."

We agree with Ms. Tekorius in her assessment that the stock appeared undervalued given stock market volatility year-to-date, offering an opportunity for the company to repurchase shares. The firm's still-recent expansion into servicing and leasing should stabilize performance going forward, although manufacturing remains a substantial portion of the pie, with the tripling in operating profit vs. fiscal Q3 demonstrating the tremendous operating leverage for the segment. Shares trade for 13 times the NTM EPS projection and offer a 3.2% dividend yield. Our Target Price has been lifted to $54.

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