Market Commentary Monday, November 21, 2022

November 21, 2022

EXECUTIVE SUMMARY

Happy Thanksgiving – Plenty About Which to be Thankful…Especially for Long-Term-Oriented Value Investors
Week in Review – Pullback Not Unsurprising After Very Strong Start to Q4
Fed Speak – Hawkish Tone; Fed Funds Futures Now Targeting Higher Peak interest Rate
Econ Data – Mixed Batch of Statistics
Recession – Odds Rise; History Suggests No Reason to Sell Stocks
Earnings – Solid Nominal GDP Growth Likely to Support Corporate Profits
Reasons for Optimism – Valuations of Value Stocks, Pessimistic Sentiment, Seasonally Favorable Time of Year & Washington DC
Stock News – Updates on CSCO, MU, KLIC, SIEGY, COF, SYF, TSN, WMT, TGT, LOW, KSS & FL

Market Review

All of us at *The Prudent Speculator* wish our readers a very Happy Thanksgiving.

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No doubt, disciplined investors have much to be thankful for from their ownership of equities over the longer-term,…

LONG-TERM PERSPECTIVE – MUCH TO BE THANKFUL FOR IN VALUE STOCKS

Annualized Total Returns Matrix

Last 2 Years	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years	Last 20 Years	Name	Symbol
						Value Equities	
11.2	**7.5**	**7.7**	**8.9**	**11.0**	**8.9**	**Russell 3000 Value**	**RAV Index**
12.1	**7.8**	**8.9**	**9.9**	**11.7**	**9.0**	**S&P 500 Value**	**SVX Index**
						Global Equities	
2.6	6.3	6.8	8.7	9.5	8.6	MSCI ACWI	MXWD Index
-2.0	1.5	1.8	5.0	5.2	7.2	MSCI ACWI excluding United States	MXWDU Index
0.1	2.0	2.5	4.8	6.1	6.9	MSCI EAFE (Europe, Australasia, Far East)	MXEA Index
9.2	5.1	5.6	5.2	8.3	6.7	MSCI Europe	MXEU Index
-9.2	-1.0	-1.0	4.8	2.5	8.9	MSCI Emerging Markets	MXEF Index
10.5	7.0	9.2	10.6	11.1	10.5	S&P/ASX 200 - Australia	AS51 Index
12.8	6.5	7.5	7.6	10.4	7.1	CAC 40 Index - France	CAC Index
4.6	3.0	2.1	4.0	7.6	7.8	Deutsche Boerse - Germany	DAX Index
-15.2	-9.6	-6.2	0.4	1.9	6.7	Hang Seng - Hong Kong	HSI Index
1.3	0.8	8.2	12.6	7.0	12.7	Ibovespa - Brazil	IBOV Index
-1.5	4.5	0.6	0.3	6.9	6.0	Shanghai - China	SHCOMP Index
19.5	16.6	14.4	14.9	14.4	17.9	Sensex - India	SENSEXTR Index
6.1	8.1	6.6	7.2	14.1	8.0	Nikkei 225 - Japan	NKY Index
11.4	3.9	3.9	6.4	6.7	6.9	FTSE 100 Index - United Kingdom	UKX Index
						Other Assets	
28.9	14.2	7.8	9.1	-0.3	5.5	S&P GSCI Commoditles	SPGSCI Index
-7.1	7.8	8.4	15.2	-2.5	3.9	Gold & Silver Index	XAU Index
-7.6	-2.9	-0.1	0.8	1.0	3.1	Bloomberg Barclays U.S. Agg Bond	LBUSTRUU Index
-10.4	-4.7	-1.7	0.1	-0.5	2.8	Bloomberg Barclays Global Agg Bond	LEGATRUU Index
-9.3	-3.5	-0.2	0.4	0.6	NA	ICE U.S. Treasury 7 - 10 Year	IDCOT7TR Index
-6.1	-2.0	0.2	0.5	0.7	NA	ICE U.S. Treasury 3 -7 Year	IDCOT3TR Index
-2.5	-0.6	0.6	0.6	0.6	NA	ICE U.S Treasury 1 - 3 Year	IDCOT1TR Index

As of November 18, 2022. Annualized Returns.

2022 has been a miserable year for equities...and most financial assets, but we think the perspective gained via a longer-term lens is highly valuable. This is especially true for those invested in Value stocks, which have been maligned in recent years. Believe it or not, including this year's downturn, the Russell 3000 Value and S&P 500 Value indexes since November 18, 2012, had gained 11.0% and 11.7% PER ANNUM, a terrific 10-year annualized return (in dollar terms) relative to stocks around the world, not to mention bonds, commodities and U.S. Treasuries. The modest three- and five-year return numbers also are solid, especially versus fixed income, while the two-year annualized figures are terrific.

…even as 2022 has been a difficult year, with most of the major market averages again seeing a resumption of red ink last week. The collapse of a major cryptocurrency exchange and fears of crypto-contagion potential finding their way into stocks played a role in the modest selling last week, th0ugh it is not unreasonable to expect some sort of pullback after the terrific rebound witnessed thus far in Q4.

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 disappointing kind of volatility happening last week, though the Nasdaq Composite index is now down 28.2% and the U.S. Aggregate Bond index is off 13.7% 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

2000	2001		Week	Q4 '22	YTD	Last 12 Months	Since 10.31.20	Since 3.23.20	Last 3 Years	Last 5 Years	Name	Symbol
-4.71	-5.44	MARKET OF STOCKS	0.11	17.82	-5.41	-3.97	32.67	91.53	28.15	61.12	Dow Jones Industrial Average	INDU Index
1.01	-10.21		-0.20	13.97	-8.77	-8.27	29.32	86.04	22.16	41.35	New York Stock Exchange Composite	NYA Index
-39.18	-20.81		-1.50	5.55	-28.21	-29.72	3.83	65.95	33.76	72.29	Nasdaq Composite Index	CCMP Index
-22.43	-9.23		-1.59	9.13	-22.82	-28.04	2.08	65.20	12.78	28.72	Russell 2000 Growth	RU20GRTR Index
22.83	14.02		-1.81	13.58	-10.41	-12.98	47.96	115.96	25.63	31.74	Russell 2000 Value	RU20VATR Index
-3.02	2.49		-1.70	11.31	-16.63	-20.67	23.17	90.53	20.59	32.20	Russell 2000	RU20INTR Index
-11.75	-20.15		-2.13	10.16	-24.48	-28.29	1.19	67.82	18.59	53.22	Russell Midcap Growth Index Total Return	RUMCGRTR Index
19.18	2.33		-1.29	12.97	-10.02	-9.00	37.78	110.61	25.38	40.41	Russell Midcap Value Index Total Return	RUMCVATR Index
8.25	-5.62		-1.59	11.97	-15.21	-16.19	23.85	96.28	25.58	49.52	Russell Midcap Index Total Return	RUMCINTR Index
-22.42	-19.63		-1.17	7.43	-25.41	-26.17	8.96	74.84	35.35	77.89	Russell 3000 Growth	RU30GRTR Index
8.04	-4.33		-0.62	13.90	-6.57	-4.96	38.74	93.92	24.40	45.36	Russell 3000 Value	RU30VATR Index
-7.46	-11.46		-0.89	10.62	-16.61	-16.39	22.82	85.29	31.45	63.22	Russell 3000	RU30INTR Index
9.64	-0.39		-1.08	13.69	-9.82	-8.36	39.33	110.69	36.34	63.90	S&P 500 Equal Weighted	SPXEWTR Index
-9.10	-11.89		-0.61	10.86	-15.60	-14.36	25.16	84.87	33.41	67.99	S&P 500	SPXT Index
-22.08	-12.73		-1.26	6.55	-25.85	-25.66	11.76	74.91	36.09	76.04	S&P 500 Growth	SPTRSGX Index
6.08	-11.71		-0.04	14.94	-4.10	-1.24	39.93	90.28	25.33	53.44	S&P 500 Value	SPTRSVX Index
3.18	1.57		0.51	3.36	-17.20	-17.22	-18.59	-11.27	-13.40	-8.23	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index
11.63	8.44		0.48	1.07	-13.69	-13.48	-14.07	-9.58	-8.42	-0.34	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index

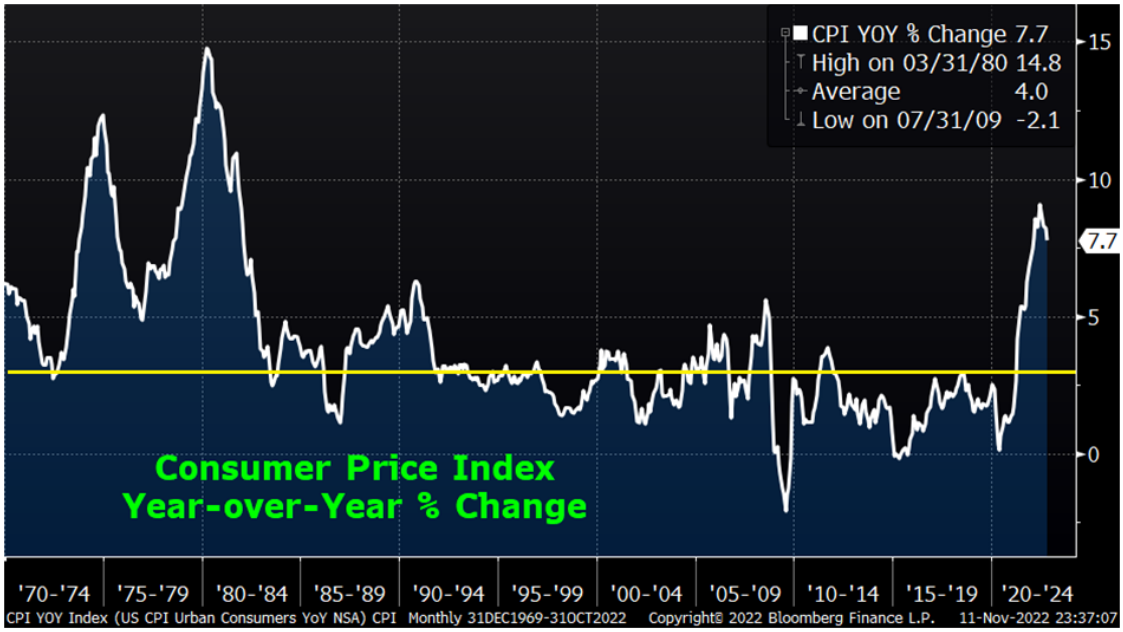
As of 11.18.22. Source Kovitz using data from Bloomberg

Of course, a major catalyst for short-term market movements these days is utterances by Federal Reserve officials, with Bank of San Francisco President Mary Daly proclaiming last week, "Pausing is off the table," as investors try to determine when Jerome H. Powell & Co. will stop raising interest rates. For his part, St. Louis President James Bullard has this to say about the week prior's better-than-expected (i.e. lower) read on inflation at the consumer level,…

THE PRUDENT SPECULATOR

INFLATION AT THE CONSUMER LEVEL DROPS BUT STILL NEAR 41-YEAR HIGH

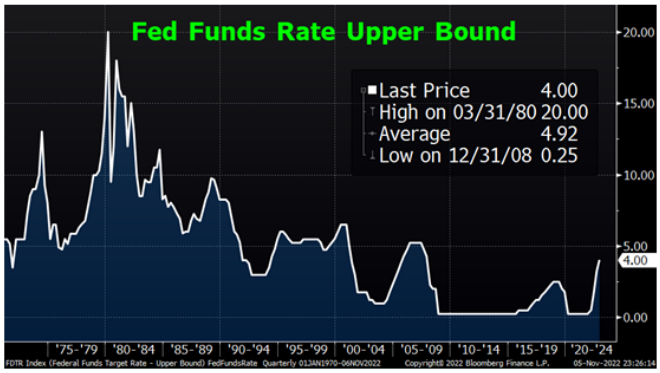
While overall inflation in the U.S. soared by 7.7% in October, the jump in the Consumer Price Index was better than the 7.9% expected by economists and lower than the 8.2% increase the month prior. The "core" rate, which excludes food and energy, was also lower than forecast, rising by 6.3%, down from 6.6% in September, with the CPI numbers leading to a big Wall Street advance.

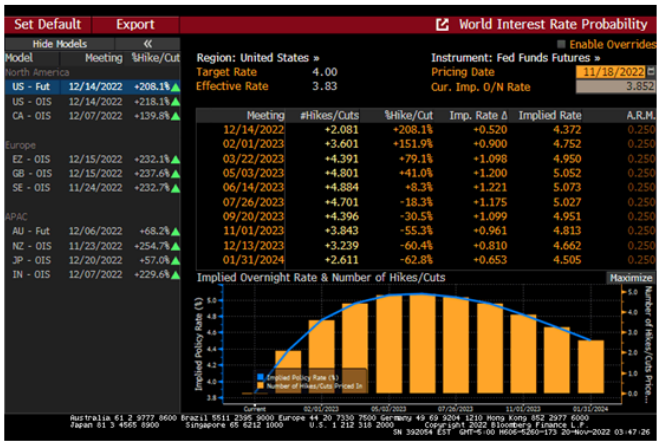


…and Monday's similar news on inflation at the producer level, "It could easily go the other way in the next report, and I just don't want to put too much weight on one-month's data." Although Fed Vice Chair Lael Brainard argued, "I think it will probably be appropriate soon to move to a slower pace of rate increases," the Fed Fund futures market became less dovish, with the expected peak rate moving back above 5% by the end of the week.

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, September and November 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 more hawkish last week as they are now estimating a 4.37% year-end Fed Funds rate and a 5.07% peak for June 2023, with a pivot coming in July 2023.





Treasury yields were all over the map last week,…

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BENCHMARK TREASURY YIELD INCHES UP 2 BASIS POINTS

Given the recent drop in the Consumer and Producer Price Indexes, continued tough talk on inflation from Federal Reserve members, and mixed economic stats, government bond prices were volatile last week. When all was said and done, the yield on the benchmark U.S. Treasury was little changed.

…as traders reacted to favorable and unfavorable economic news, though determining which was which remained a puzzle. Indeed, consumer spending surprised to the upside in October,…

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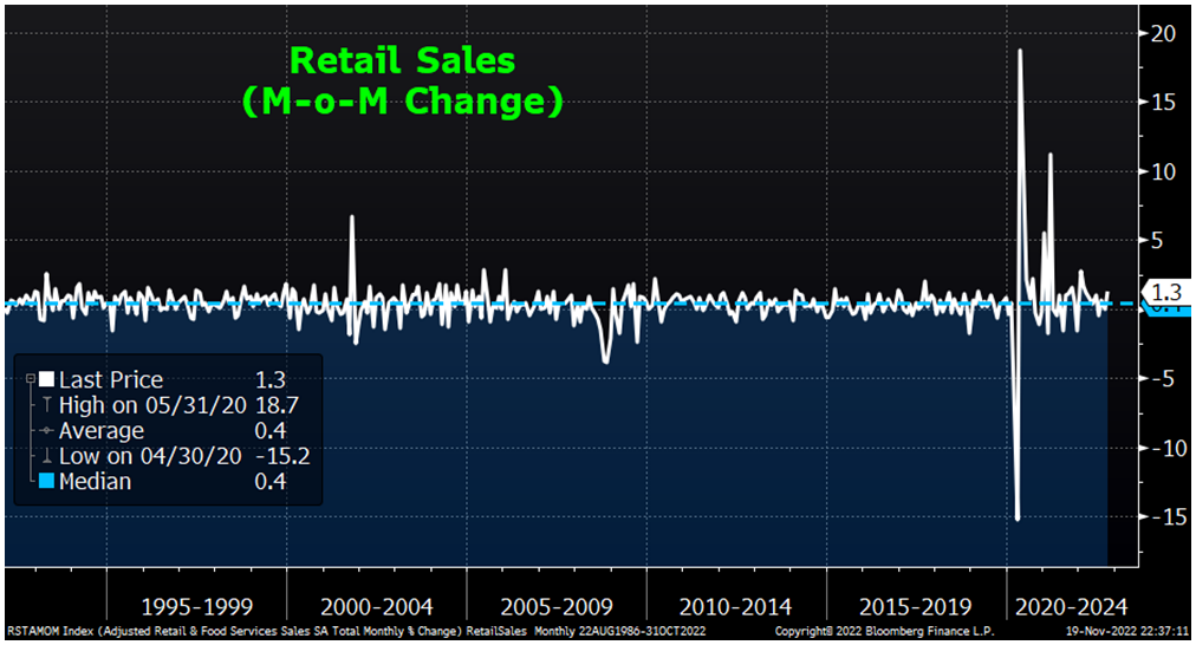
CONSUMERS ARE STILL SPENDING DESPITE HIGH INFLATION

September's reading remained unchanged, but retail sales for October rose 1.3%, slightly above estimates. Retail sales excluding vehicles and gasoline edged up a better-than-expected 0.9%, while restaurant sales jumped an impressive 1.6% last month.



…and the labor numbers remained very healthy,…

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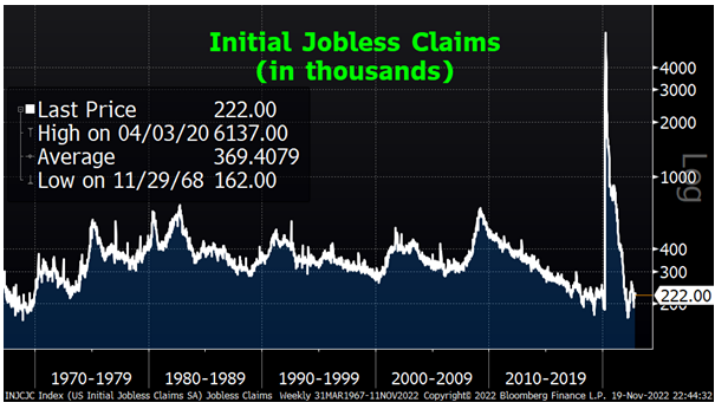
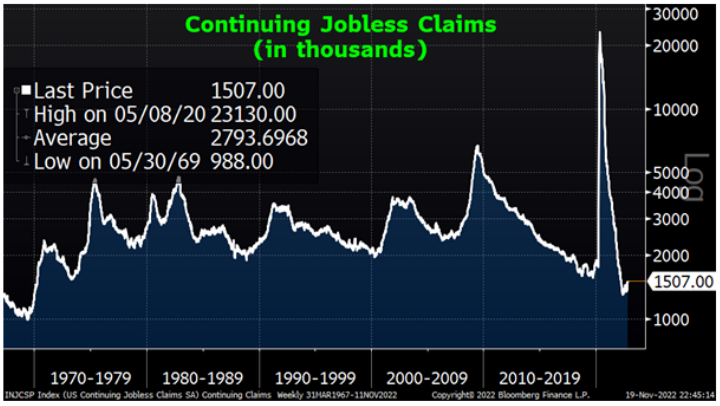
STRONG LABOR MARKET: CONTINUING CLAIMS STILL NEAR 50+ YEAR LOWS





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 November 12 were a seasonally adjusted 222,000, down from a revised 226,000 the week prior. Continuing claims filed through state programs inched up to 1.51 million, still near the lowest level since 1969 as businesses continue to hold onto workers with qualified labor difficult to obtain.

…but housing data continued to deteriorate,…

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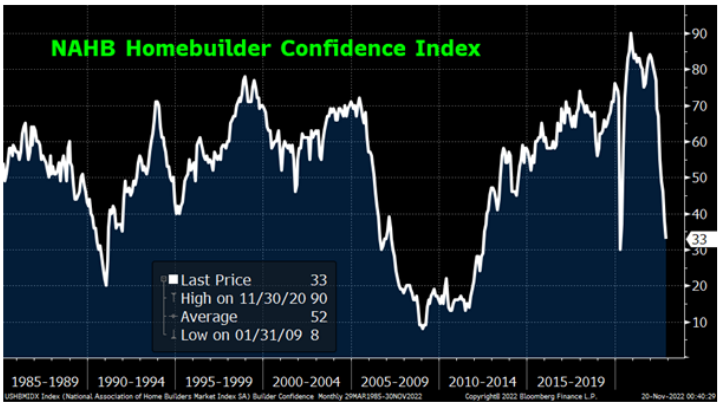
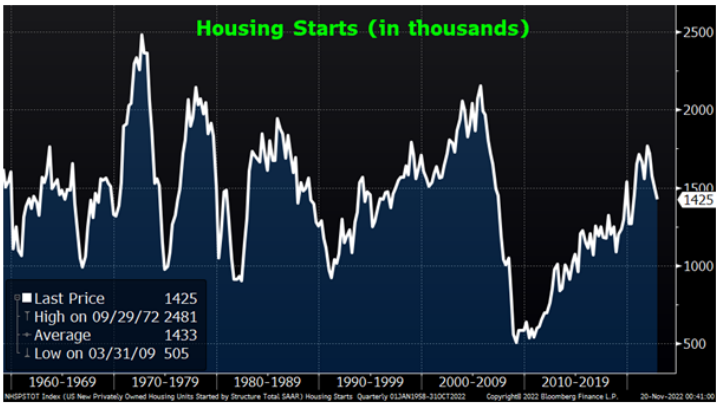
HOUSING DATA SLOWS FURTHER





The National Association of Home Builders' monthly confidence index for November trailed forecasts, skidding to 33, down 5 points from October and coming in well below the long-term average on the 35-year-old gauge. High prices and the spike in mortgage rates did not help, and ground was broken on just 1.43 million homes last month, down from 1.49 million in September. Of course, building permits came in above expectations in October, so the housing market is far from dead.

…and surveys on the strength of the factory sector were mixed,…

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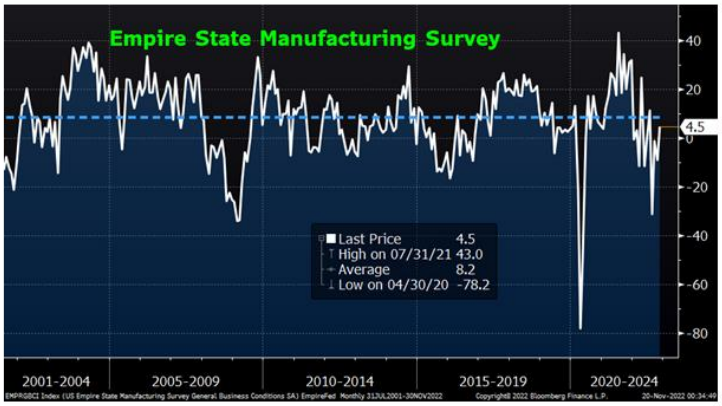
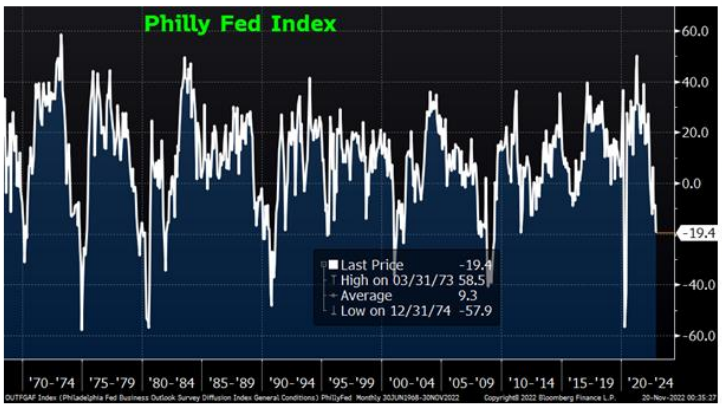
EAST COAST FACTORY ACTIVITY NOT SO GRAND





The Empire State gauge of manufacturing activity in the New York area improved in November to a much-better-than-expected 4.5, up from minus 9.1 in October. On the other hand, the Philadelphia Fed's measure of manufacturing activity in the mid-Atlantic region tumbled in November to a reading of minus 19.4, which was much weaker than forecast and down from minus 8.7 in October to the lowest level since May 2020. Both indexes of factory activity are well below their norms.

…as were a couple other statistics.

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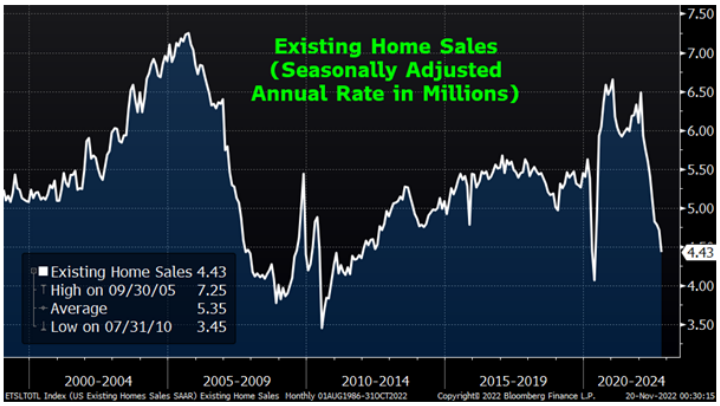
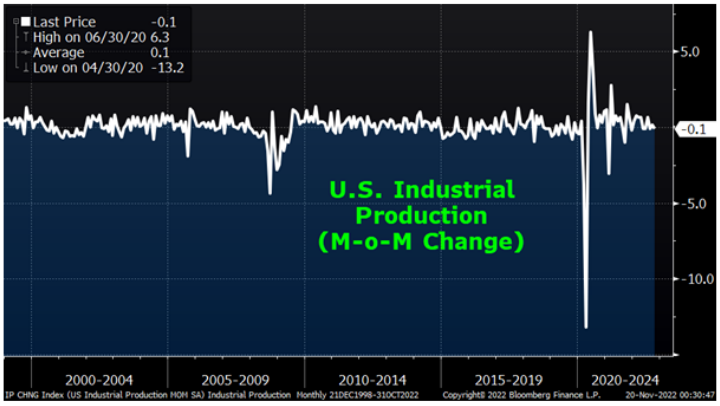
WEAKER ECONOMIC NUMBERS





U.S. existing home sales fell by 5.9% in October to a seasonally adjusted annual rate of 4.43 million, a bit better than projections but the ninth straight monthly decline as higher interest rates and elevated prices weighed heavily on affordability. Meanwhile, industrial production edged lower by 0.1% in October, weaker than estimates of a 0.1% advance and falling from the September tally of 0.1%. Manufacturing output rose 0.1%, with automobile production advancing 2.0% and capacity utilization of 79.9% coming in below expectations.

Interestingly, by week's end, the outlook for Q4 GDP had improved,…

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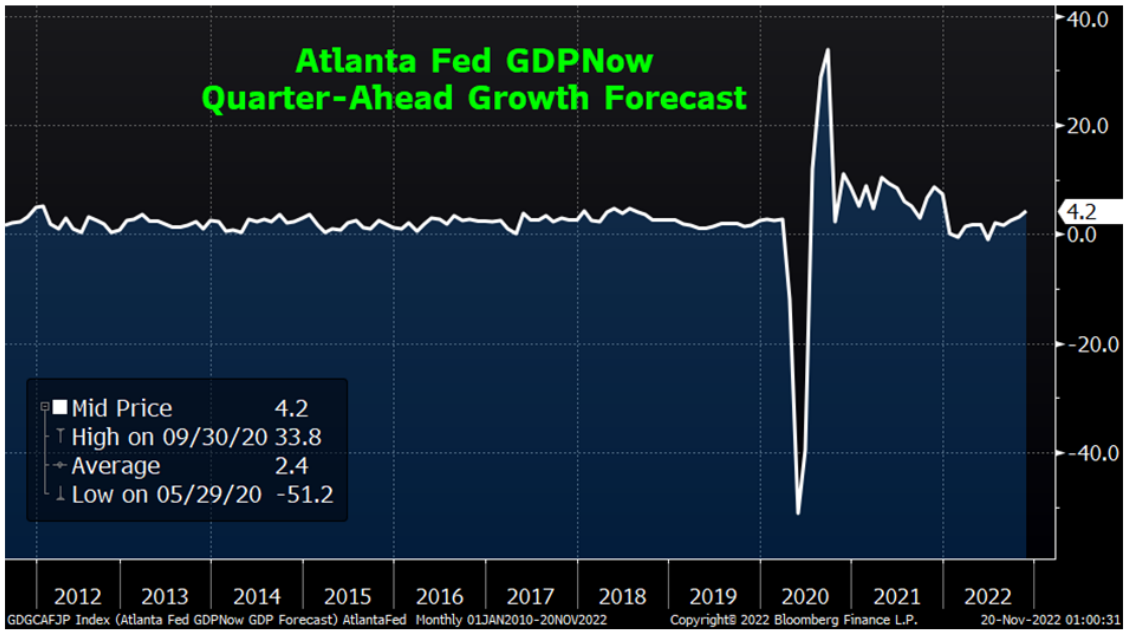
Q4 U.S. REAL GDP GROWTH PROJECTION NOW STANDS AT A ROBUST 4.2%

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 November 17 stood at 4.2%.



…yet the chance of recession in the next 12 months increased,…

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PLENTY OF DOOM & GLOOM TALK, ODDS OF RECESSION NOW 62.5%

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 62.5%, even as the consensus forecast for GDP growth this year is 1.8% and 0.4% for 2023.

…with the important Leading Economic Index suggesting that a real (inflation-adjusted) U.S. economic contraction will begin in Q1 2023 and last through the middle of the year.

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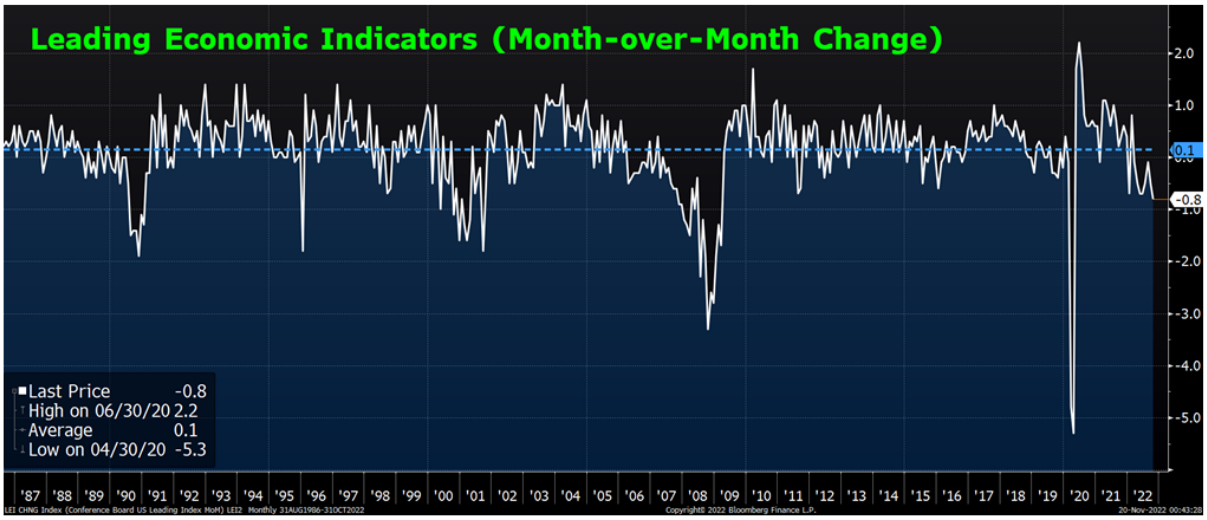
LEI DROPS BY 0.8% IN OCTOBER – RECESSION ON THE HORIZON

"The Conference Board Leading Economic Index® (LEI) for the U.S. decreased by 0.8% in October 2022 to 114.9 (2016=100), following a decline of 0.5% in September. The LEI is now down 3.2% over the six-month period between April and October 2022, a reversal from its 0.5% growth over the previous six months.

The U.S. LEI fell for an eighth consecutive month, suggesting the economy is possibly in a recession. The downturn in the LEI reflects consumers' worsening outlook amid high inflation and rising interest rates, as well as declining prospects for housing construction and manufacturing. The Conference Board forecasts real GDP growth will be 1.8% year-over-year in 2022, and a recession is likely to start around yearend and last through mid-2023."



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To be sure, there is other evidence that a recession may be in the cards,…

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

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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 3.83% yield on the 10-Year U.S. Treasury now 42 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%	22103%
9/8/1966	28.4%	34.2%	58.3%	97.0%	26677%
12/19/1968	-11.8%	4.3%	4.8%	30.6%	17600%
2/12/1973	-19.1%	-2.6%	-4.4%	105.0%	14074%
7/4/1978	13.3%	58.4%	131.5%	352.6%	13633%
9/1/1980	5.6%	56.7%	96.8%	300.4%	9389%
5/29/1989	16.0%	42.6%	66.2%	423.9%	2380%
9/10/1998	39.8%	15.7%	10.7%	48.2%	535%
1/20/2006	15.5%	-36.2%	16.0%	84.3%	331%
5/23/2019	6.8%	48.0%			49%
S&P Total Return	**8.8%**	**24.0%**	**44.2%**	**165.4%**	**10677.1%**

As of 11.18.22. Source: Kovitz using data from Bloomberg and Refinitiv via The Wall Street Journal

…but such an event would not be reason to exit equities,…

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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%**

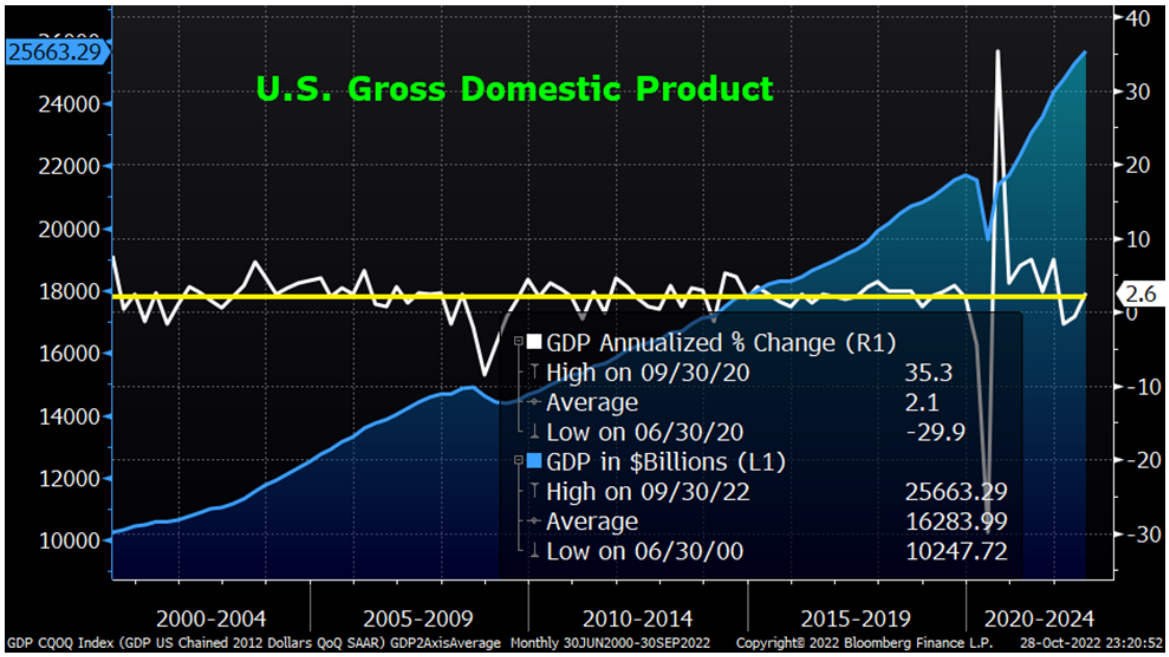
TR = Total Return. FF Value = Value Weighted Book to Market Portfolios - Blend of Small Value and Big Value.Source: Kovitz Investment Group using data from Bloomberg, Professors Eugene F. Fama & Kenneth R. French and the National Bureau of Economic Research

…while it is important to understand that nominal GDP growth is likely to remain robust even if inflation-adjusted growth heads south,…

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.

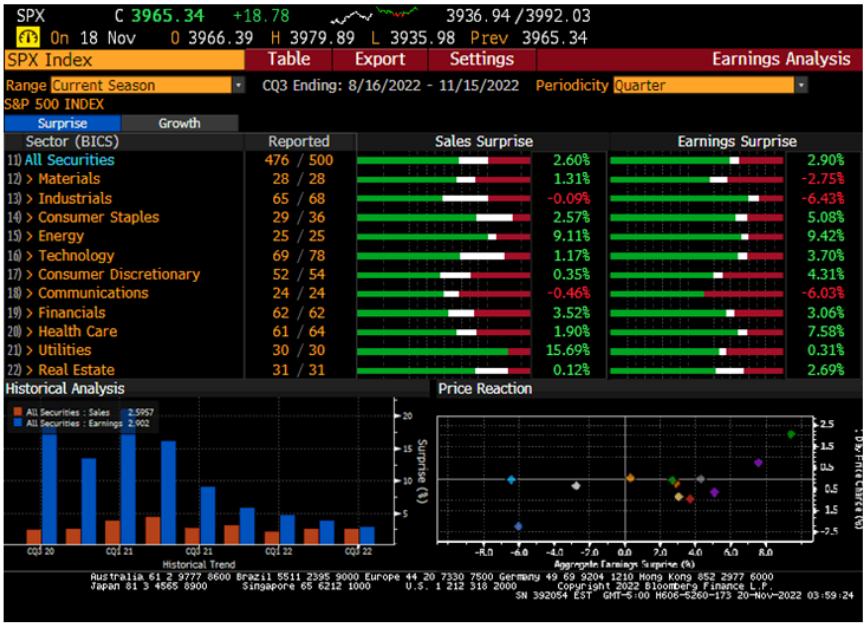


…which should put a floor under corporate profits and support stock prices, both of which are not calculated in "real" terms.

THE PRUDENT SPECULATOR

2023 EARNINGS GROWTH STILL THE ESTIMATE

Q3 earnings reporting season has been very good, even as outlooks have continued to be subdued and stock prices sometimes have reacted negatively. Of the 476 S&P 500 companies that have posted results thus far, 68.8% beat EPS expectations and 58.7% exceeded revenue forecasts.



S&P 500 Earnings Per Share

Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2023	$59.45	$228.44
9/30/2023	$58.40	$223.39
6/30/2023	$56.46	$215.94
3/31/2023	$54.13	$206.35
12/31/2022	$54.40	$201.58
9/30/2022	$50.95	$203.91
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 11.17.22

*****

Not surprisingly, we remain optimistic about the long-term prospects for equities in general,…

THE PRUDENT SPECULATOR

INTEREST 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 (5.21% vs. 3.83% 10-Year), despite the jump in interest rates.

…and our broadly diversified portfolios of undervalued stocks in particular.

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	12.0	12.0	0.8	2.3	2.8
ValuePlus	12.7	12.6	1.2	2.4	2.3
Dividend Income	11.9	12.0	0.7	2.1	3.2
Focused Dividend Income	13.2	13.1	1.1	2.6	2.7
Focused ValuePlus	13.3	13.2	1.3	2.7	2.5
Small-Mid Dividend Value	10.6	10.2	0.5	1.7	2.9
Russell 3000	20.5	18.4	2.1	3.7	1.6
Russell 3000 Growth	28.6	24.4	3.1	9.1	1.0
Russell 3000 Value	16.1	14.8	1.6	2.3	2.2
Russell 1000	19.7	18.1	2.2	3.9	1.7
Russell 1000 Growth	26.9	24.2	3.4	9.6	1.0
Russell 1000 Value	15.7	14.6	1.7	2.5	2.2
S&P 500 Index	19.2	17.9	2.3	4.0	1.7
S&P 500 Growth Index	22.8	21.3	4.0	6.9	1.0
S&P 500 Value Index	16.9	15.8	1.7	2.9	2.3
S&P 500 Pure Value Index	10.8	10.4	0.6	1.6	2.6

As of 11.19.22. 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.

Yes, we expect stock price volatility to remain high, but there are factors that we think bode well for equities to return to their winning ways…as has been the case over the past 95 years.

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%	34.8%	242	101	0.9	10/12/2022	11/11/2022
7.5%	23.6%	148	160	0.6	10/12/2022	11/11/2022
5.0%	14.7%	72	314	0.3	10/12/2022	11/11/2022

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 11.11.22. 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%

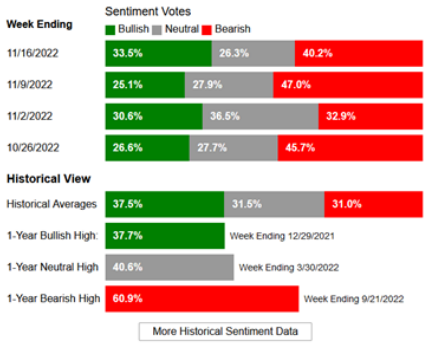
From 06.30.27 through 08.31.22. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the 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

These include the fact that Main Street sentiment continues to be pessimistic,…

THE PRUDENT SPECULATOR

STILL AN AAII CONTRARIAN BUY SIGNAL: BULL-BEAR SPREAD = -6.7%

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:

Previous Week	1 Month Ago	3 Months Ago	6 Months Ago
-22	-19	-28	-26
Greedy	Greedy	Greedy	Greedy

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 = 7.30											
BELOW	-54.0	7.3	920	0.24%	0.20%	1.11%	0.97%	3.27%	2.87%	6.47%	5.69%
ABOVE	7.3	62.9	920	0.17%	0.16%	0.56%	0.47%	2.02%	1.77%	4.67%	4.19%
Ten Groupings of 1839 Data Points											
1	-54.0	-16.7	184	0.44%	0.37%	1.98%	1.73%	4.52%	3.96%	8.45%	7.19%
2	-16.7	-8.4	184	0.28%	0.24%	0.91%	0.77%	3.42%	3.07%	6.31%	5.54%
3	-8.4	-2.0	196	0.34%	0.30%	1.23%	1.12%	3.40%	2.98%	7.48%	6.77%
4	-2.0	2.8	172	0.06%	0.02%	0.90%	0.80%	2.42%	2.05%	5.22%	4.65%
5	2.8	7.3	184	0.05%	0.02%	0.51%	0.41%	2.50%	2.24%	4.74%	4.20%
6	7.3	11.8	184	0.19%	0.17%	0.74%	0.67%	2.08%	1.85%	4.90%	4.45%
7	11.9	16.1	184	0.16%	0.13%	0.51%	0.37%	2.43%	2.18%	5.28%	4.78%
8	16.1	22.0	184	0.16%	0.14%	0.86%	0.79%	2.32%	2.08%	5.85%	5.43%
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 11.17.22. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

The gauge is widely viewed with a contrarian eye, so even though the tally of Bulls in the latest AAII Sentiment Survey rose to 33.5% and the number of Bears dropped to 40.2%, the minus 6.7% Bull-Bear spread is still pessimistically positive as it is in the favorable (2nd highest future returns) 3rd decile of the weekly figures going back to 1987.

…with the calendar having turned this month to the start of the seasonally favorable time of year.

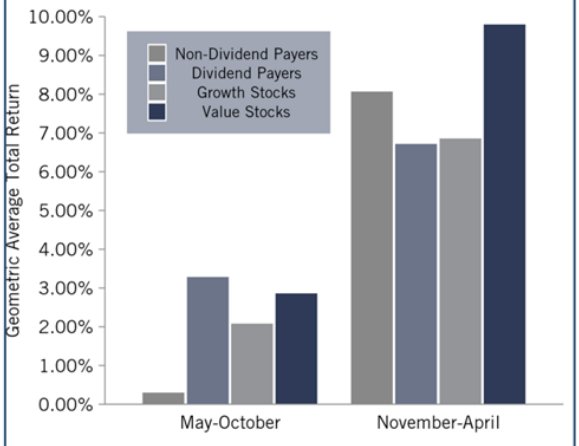
THE PRUDENT SPECULATOR

MOST WONDERFUL TIME OF THE YEAR

Given the difficult market year in 2022, we are happy that the calendar has turned to the seasonally favorable six months of the year. Indeed, the period between Halloween and May Day has seen terrific performance, on average, since 1990 and going all the way back to 1929.

SEASONALITY SINCE 1929

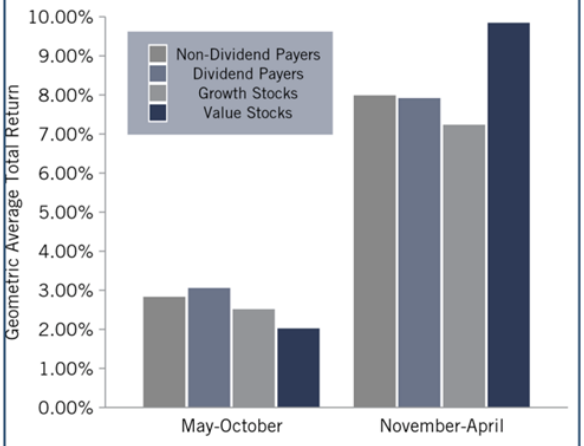
Nice to see that Value has won the performance spoils vs. Growth over the past nine-plus decades, no matter the time of year...



From 04.30.29 through 04.30.22. Geometric average. SOURCE: Kovitz Investment Group using data from Professors Eugene F. Fama and Kenneth R. French

SEASONALITY SINCE 1990

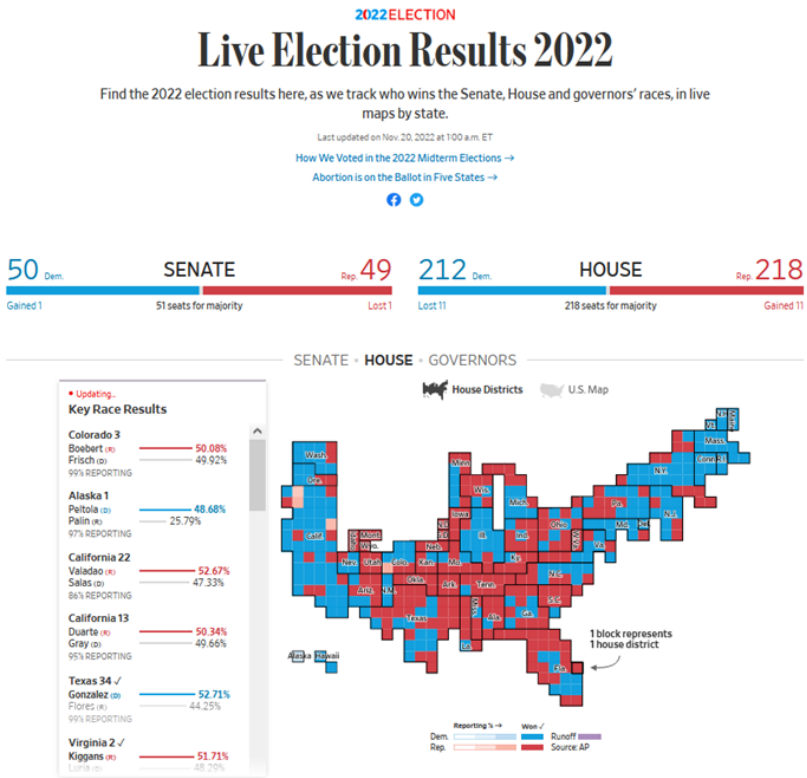
...even as Non-Dividend Payers have held a modest edge, long- and intermediate-term, over Dividend Payers from November-April.



From 04.30.90 through 04.30.22. Geometric average. SOURCE: Kovitz Investment Group using data from Professors Eugene F. Fama and Kenneth R. French

There is never any assurance that past is prologue, but even Washington could be good for stock returns,…

SPLIT CONGRESS AND A DEMOCRAT IN THE WHITE HOUSE GOOD FOR VALUE



While there was no "Red Wave," with the Democrats retaining control of the Senate, despite a pending runoff election in Georgia, the Republicans regained control of the House of Representatives, though votes in several close races are still being counted. The data points are relatively few, but history shows stocks enjoying terrific returns, on average, with a "D" in the Oval Office and a Split Congress.

…with the Presidential Cycle and Party Control of Capitol Hill providing positive historical precedent.

THE CALENDAR AND WASHINGTON ARGUABLY BODE VERY WELL FOR STOCKS

Figure 6: The Third Year Stands Out from the Others

From 12.31.1928 through 12.31.2021. Geometric average. SOURCE: Kovitz Investment Group using data from Professors Eugene F. Fama and Kenneth R. French

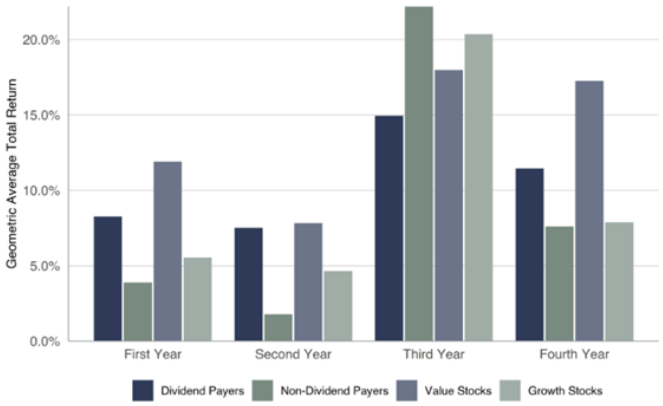


Figure 9: Investors Seem to be Rewarded by Democrats

Two-year, non-annualized total return. Geometric Average. SOURCE: Kovitz Investment Group using data from Morningstar and Professors Eugene F. Fama and Kenneth R. French

Party Control & Two-Year Returns

President Party	Congress Party	Dividend Payers	Non-Dividend Payers	Value Stocks	Growth Stocks	Large Cap Stocks	Small Cap Stocks
Democrat	Republican	31.9%	21.7%	35.3%	20.8%	32.2%	21.9%
Democrat	Democrat	30.1%	45.7%	45.1%	35.6%	27.4%	53.9%
Democrat	Split	33.1%	33.4%	31.4%	31.5%	33.5%	30.7%
Republican	Republican	-6.8%	-20.3%	-5.7%	-12.9%	-7.1%	-9.9%
Republican	Democrat	20.6%	4.5%	22.5%	14.1%	19.9%	13.1%
Republican	Split	13.9%	-6.7%	21.7%	4.0%	11.8%	11.0%

It is said that while history may not repeat, it often rhymes, so we like that the calendar is about to roll over to the third year of the presidency, historically the best of the four, while a Democrat in the White House and a Split Congress has seen sensational two-year returns, on average, for stocks of all stripes.

Certainly, anything can happen as we go forward, and the equity futures are pointing to a negative open to trading this week, but we continue to believe that time in the market trumps market timing.

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.

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.

Though the stock is still down more than 24% on the year, shares of **Cisco Systems** (CSCO – $47.79) rebounded 6.7% last week on the back of a better-than-expected earnings report. The networking equipment provider posted fiscal Q1 EPS of $0.86, compared to the $0.84 estimate, on revenue of $13.6 billion, versus the $13.3 billion forecast.

The top line grew 6% year-over-year, with CFO Scott Herren explaining, "We delivered strong results in Q1 and continued to make progress on our business transformation. Our annualized recurring revenue increased to more than $23 billion, with product ARR growing 12%. This,

together with our significant backlog, strong RPO, and easing supply situation, provides us with great visibility and predictability, and supports our increased full year guidance."

CFO Chuck Robbins added, "Our fiscal 2023 is off to a good start as we delivered the largest quarterly revenue and second highest quarterly non-GAAP earnings per share in our history. These results demonstrate the relevance of our strategy, our differentiated innovation, and our unique position to help our customers become more resilient."

Of course, in the current market environment, the stock would not have rallied on the report if the outlook was not relatively positive. Such was the case for Cisco with fiscal 2023 revenue projected to grow 4.5% to 6.5% year over year, with non-GAAP EPS coming in at $3.51 to $3.58.

With a cash-rich balance sheet, a forward P/E ratio of 13 and a generous dividend yield of 3.2%, we continue to think CSCO should be a core technology holding. We like that management shares our optimism for the stock as the company bought back 12 million CSCO shares at an average price of $43.76 per share for an aggregate purchase of $0.5 billion in fiscal Q1. And there is still $14.7 billion remaining on the repurchase authorization though there is no termination date for the program. Our Target Price for CSCO has been boosted to $73.

Micron Technology (MU – $58.58) reduced its DRAM and NAND "starts" by 20% year-over-year for Q4, which sent the stock down more than 6% last week. The memory chip maker said via press release, "In calendar 2023, Micron now expects its year-on-year bit supply growth to be negative for DRAM, and in the single-digit percentage range for NAND. Recently, the market outlook for calendar 2023 has weakened. In order to significantly improve total inventory in the supply chain, Micron believes that in calendar 2023, year-on-year DRAM bit supply will need to shrink and NAND bit supply growth will need to be significantly lower than previous estimates."

"Micron is taking bold and aggressive steps to reduce bit supply growth to limit the size of our inventory. We will continue to monitor industry conditions and make further adjustments as needed," said CEO Sanjay Mehrotra. "Despite the near-term cyclical challenges, we remain confident in the secular demand drivers for our markets, and in the long term, expect memory and storage revenue growth to outpace that of the rest of the semiconductor industry."

The chip market has weakened dramatically in the second half of this year, and Micron's capital expenditure and production cuts have caused renewed worry for investors. The memory and data storage businesses are cyclical, and tides can turn quickly as customer inventories can change rapidly. Micron is expected to make just $0.26 per share in 2023, before climbing back above $8.00 in 2026 (MU earned a $8.35 per share in 2022). That's a long time to wait for earnings to rebound, but we note that the price in the P/E equation can expand too, while the earnings tide may advance as quickly as it receded this year if geopolitical conflict eases. Our Target Price for MU has been trimmed to $94.

After-hours traders must have been filled with regret after shares of **Kulicke & Soffa** (KLIC – $48.36) opened in positive territory the day after releasing Q4 earnings. Extended-hours trades on Wednesday evening for the semiconductor capital equipment maker transacted with a drop

near 17%, while the stock closed Thursday up 2.8% and tacked on 3.2% on Friday. The Q4 report was terrific in that KLIC earned $1.11 per share (vs. $1.02 est.) and had revenue of $286 million (vs. $277 million est.). The problem, for some, was that revenue guidance for next quarter was $155 million to $195 million (compared with $461 million in Q1 of 2022).

On the topic of guidance, CEO Fusen Chen said, "Based on detailed feedback, we currently expect fiscal 2023 revenue to meet or exceed our previously cyclical peak revenue in fiscal 2018. This outlook suggests a more typical seasonal pattern through fiscal 2023 with ongoing factors in the first fiscal half, followed by greater demand improvement in the second fiscal half. The expected second half improvement are supported by well-known seasonal dynamic in addition to a heavier waiting of advanced display, in the advanced packaging revenue. Despite this dynamic vehicle and the industry environment, secular trends in advanced display, advance packaging and the automotive have continued to be very resilient."

CFO Lester Wong added, "As we look further through fiscal 2023, we continue to anticipate a period of capacity digestion to extend into the March quarter, with typical seasonality trends driving more distinct capacity needs in the second fiscal half. It remains a very exciting time for the company, as we have been significantly broadening our alignment with fundamental technology change across the semiconductor, advanced display, electronics assembly and automotive markets. As the industry recovers and we continue to execute, we are well positioned to reach new levels of financial performance beyond 2023. While there are near-term challenges for the entire industry, our fundamental improvements, enviable financial position and active roles enabling several long-term technology transitions will allow us to emerge as an even stronger and more profitable company."

KLIC spent $60.2 million on share repurchases in the September quarter, reducing the share count in the past year by roughly 10%, and has $215 million remaining on the existing buyback plan. In addition, management raised the quarterly dividend from $0.17 to $0.19 (1.6% yield) and will actively continue buying back shares. Kulicke shares are down 19% this year and the valuation remains very reasonable, including a 2023 P/E ratio of 16 and 2024 P/E ratio of 14. The company has just $35 million of long-term debt (lease obligations) and $776 million of cash on its balance sheet, versus a market capitalization of $2.8 billion, which should give it ample ability to navigate a choppy operating environment. Our Target Price for KLIC now stands at $71.

German industrial conglomerate **Siemens AG** (SIEGY – $68.31) reported earnings of 1.80 euros per share, compared to an expected gain of 1.73 per share. The stock jumped 7% after the company beat earnings projections, raised its dividend by 0.25 euros per share to 4.25 euros (about $2.20 for each SIEGY share, gross of taxes) and offered a solid outlook. Siemens expects comparable revenue growth between 6% and 9%, with EPS pre-PPA for each SIEGY share between $4.49 and $4.75.

CEO Roland Busch commented, "Siemens keeps reinventing itself from a position of strength by anticipating trends and developing new technologies by staying relevant and creating impact for our stakeholders by having the right team to transform at even higher speed and by laying the foundation of the decades ahead. Our ambition is clear. We will continue to play a leading role in

empowering our customers and societies to tackle the world's biggest challenges for a sustainable and better future…The clear goal is to set the strengthened combined business completely independent from these to unlock significant value and margin potential, best preparing it for future success. The motion control units business at DI, Digital Industries, with drive technology and machine tool systems is strategically important and a core topic for Siemens, we plan to further invest in this area."

On the topic of the outlook, CFO Dr. Ralf Thomas said, "We enter fiscal '23 with confidence in a very strong cash-generating portfolio and execution discipline. However, we monitor macroeconomic volatility closely to be able to act in an agile way, managing costs diligently and leveraging growth opportunities at the same time. The course is set for further value creation and cash excellence."

Siemens shares have held up well this year, given an eroding macroeconomic backdrop and geopolitical turmoil that caused a hasty exit for SIEGY in Russia and upset supply chains in Europe, not to mention rapidly rising energy costs. We like that SIEGY is quickly (for a conglomerate) adapting to changing customer needs and continues to put technological innovation at the top of its priority list. On the earnings front in dollar terms, analysts expect SIEGY's EPS for its U.S.-traded shares to grow from $2.96 in fiscal 2022 to $5 by 2024, putting the forward twelve-month P/E around 15. Given the potential ahead, we think that SIEGY remains attractively priced (especially compared with competitors like General Electric or Honeywell). With a net dividend yield of 2.4%, our Target Price has been inched up to $89.

Shares of consumer finance giants **Capital One Financial** (COF – $98.96) and **Synchrony Financial** (SYF – $35.89) respectively sank 15% and 11% last week as October charge-off and delinquency data for industry card portfolios was released. Net-charge offs annualized at a 2.93% and 3.17% rate for COF and SYF, respectively, versus the 2.23% and 2.90% rates from September. No doubt, the two firms are notoriously sensitive to changes in the health of consumer credit and concerns about rising credit costs amid macroeconomic uncertainty are valid, but we find the reactions for the stocks puzzling, in that the likelihood of weaker credit stats was part of the reason COF had dropped from $145 at the start of the year and SYF had skidded from $46. Both companies appear to us to have adequate capital cushions to withstand most, if not all but the direst of economic downturns. while credit costs remain in line with, if not below, historical averages.

Regarding Capital One, we recently noted the nearly 4% of loans set aside as reserves for future loan losses would be more than enough to handle all but the most dire scenario (think Great Financial Crisis) and a Tier 1 Common Equity ratio of 12% offers additional cushion. We have long been a proponent of Capital One's reliance on technology over a large physical presence even as the company is weighted toward higher-risk lending in the credit card and auto spheres. Of course, willingness by management to ramp marketing spend stands out versus other major financials, but COF's digital focus has historically allowed it to spend more on advertising than on traditional overhead. The stock price is volatile, but we think the 6 multiple of forward earnings presents a compelling opportunity for long-term-oriented owners. The dividend yield is 2.4% and our Target Price is $170.

We also 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 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.

Synchrony 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 stock also sports a dividend yield of 2.6%. We acknowledge the financial services concern's economic sensitivities, but shares remain inexpensive, trading for a forward P/E multiple of just 7, and our Target Price is now $55.

Tyson Foods (TSN – $65.52) announced Wednesday that it earned an adjusted $1.63 per share in Q3, softer than the $2.30 a year ago and the $1.70 consensus estimate. Shares declined going into the report but rose modestly throughout the remainder of the week. Lower beef prices and a generally weaker performance for pork offset price increases in the Chicken and Prepared Foods segments.

Great-grandson of Tyson founder and current CFO John Tyson was recently arrested and charged with public intoxication and trespassing after having been found sleeping in a strangers home at 2 a.m. The CFO was present on the company's recent earnings call and said, "I want to take a moment to address an important issue. I'm sure you've seen the news about the recent incident involving me. I'm embarrassed and I want to let that I take full responsibility for my actions. I also want to apologize to our investors, as I have to our employees. This was an incident inconsistent with our company values as well as my personal values. I just wanted you guys to hear this directly from me to know that I'm committed to making sure this never happens again."

CEO Donnie King added, "Like John, the company takes this matter seriously. Tyson Foods has a strong robust corporate governance process. Our independent Board of Directors are over overseeing a thorough review of this matter and are confident in this independent process."

Obviously, the personnel news was not good, but in 2023, Tyson anticipates total company sales between $55 billion and $57 billion backed by volume growth compared to the prior fiscal year, with full-year operating margins between 6% and 8%. Sales and volume growth in fiscal '23 are largely expected as a result of the Chicken, Prepared Foods and International businesses.

Given the launch of its productivity program at the start of 2022, Tyson had targeted $1 billion in productivity savings by the end of fiscal 2024. The company says it is ahead of schedule on this front, realizing more than $700 million of savings in the latest fiscal year, which partially offset the impacts of inflationary market conditions. It now believes it will exceed the $1 billion target in fiscal 2023.

While margin compression means times aren't quite as good as they have been, the company is expected to generate significant free cash flow in each of the next several years, which ought to support returns of capital to shareholders. We expect continued focus on streamlining operations to pay off long after supply conditions ease. Longer term, we continue to think protein consumption will increase around the globe, especially in emerging economies as residents see quality-of-life improvements. A modest increase to the dividend in August brings the yield to 2.9%, and the 25% decline in price year-to-date broadens the appeal for a stock trading for 10 times NTM EPS. Our Target Price for TSN has been pared to $102.

Walmart (WMT – $150.23) earned an adjusted $1.50 per share in Q3 of FY 2023 (vs. $1.32 est.), which doesn't include $3.3 billion related to opioid settlements that impacted GAAP results by $1.50 per share. On a two-year basis, same store sales improved +17.4%, bringing revenue to $152.81 billion, higher than the $147.9 billion estimate and 8.7% growth year-over-year. Walmart continued to gain market share in Grocery in the U.S. and left the quarter with a significantly improved inventory position, while the Board approved a new $20 billion share buyback authorization.

Shares dipped on Monday, as if someone had gotten wind that the report would be weak, only to reverse course upon the actual release the next day that included an improvement to full-year guidance.

CFO John Rainey said, "For the full year, incorporating the Q3 upside, we now expect net sales growth of about 5.5%, including comp sales growth of 5.5% for Walmart U.S. On an adjusted basis, we expect operating income to decline 6.5% to 7.5% and EPS to decline 6% to 7%. Excluding the effect of divestitures and on an adjusted basis, this would translate into net sales growth of 6.5% and a decline in operating income of 5.5% to 6.5%, and a decline in EPS of 5% to 6%."

He added, "Looking beyond Q4, we know some of the unanticipated costs experience this year shouldn't repeat next year. That said, we're planning our business with the assumption that inflation remains somewhat elevated. In addition, we've had significant currency headwinds this year. Based on year-to-date results and current FX rates, we estimate a year-over-year sales headwind for this fiscal year of $4.1 billion from currency and potential sales headwind of about $3 billion next year."

Walmart appears to be doing its part to keep inflation in check, using its heavyweight position to negotiate with key vendors to mitigate further price expansion. While gross margin is likely to remain tempered in the near term, we expect the retail behemoth to garner goodwill from customers whose wallets likely need a break. We continue to like the direction Walmart has been going over the past few years and believe its expanding omnichannel presence, value proposition and defensive characteristics continue to warrant the stock a place in our portfolios. Our Target Price for WMT is now $164.

Target (TGT – $162.88) earnings improved meaningfully in Q3 FY 2023 on a sequential basis but remain roughly half the FY 2022 figure as inventory issues in the front half of the year have turned into consumer softness on the back end. Shares of the discount retailer tumbled 13%

Wednesday in the biggest drop in nearly six months but gained about half of the decline back by the weekend.

The company said softening sales and profit trends that surfaced late in the recent quarter had persisted into November, leaving management cautious in its sales and profit outlook for Q4. Target now expects a low-single-digit decline in comparable sales and operating margin rate centered around 3%. The company thinks it can save a total of $2 billion to $3 billion of costs over the next three years by reducing complexity in the business, while continuing to support its team to avoid cutting jobs.

CEO Brian Cornell said, "Through the first two months of the quarter, we have 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 higher rates of inflation continuing to erode their purchasing 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 and responsive to promotions and more hesitant to purchase at full price."

Trims to some of our positions last year at $197 in January and $253 in July appear well timed, given the latest carnage, although we have since taken action to bring up many underweight portfolios to a full weighting. We think the considerable appeal Target holds for consumers remains intact even as shifting consumer sentiment and supply issues weigh in the near term. The dividend yield is 2.7% and our Target Price for TGT has been cut to $217.

Lowe's (LOW – $209.93) reported fiscal Q3 adjusted EPS of $3.27 per share in fiscal Q3 (vs. $2.73 a year ago) that beat the average analyst estimate of $3.09. Net sales for the home-improvement retailer were $23.48 billion, a 2.4% increase year-over-year (vs. $23.14 billion est.) with U.S. comparable store sales up 3%, driven by Pro growth of 19% and improved DIY sales trends.

Management increased its full year 2022 financial outlook, reflecting stronger-than-expected operating results. It said the Canadian retail business (which it is selling) represents less than 6% of the consolidated full year 2022 sales outlook, and approximately 60 basis points of dilution on the consolidated full year 2022 operating margin outlook. It now expects EPS of $13.65 to $13.80 (previous guidance was $13.10 to $13.60) on approximately $97 to $98 billion of sales.

CEO Marvin Ellison discussed the economy and home improvement market, "You've heard me talk about this before, but 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 three 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 currently have a record amount of equity in their homes, nearly $330,000 on average, which remain supportive of home improvement investment. And even in the select U.S. markets, while 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 US is over 40 years old and roughly three 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 two thirds of home improvement spend is non-discretionary on repair or maintenance projects that cannot be delayed. Third, consumer savings are near record highs while disposable personal income remain strong, and more than 90% of homeowners either own a home or are locked into a low fixed mortgage, insulating them from rising rates."

He added, "On top of these three factors, there is a persistent 1.5 million to two million undersupply of homes and 250,000 first-time millennial home buyers 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."

During the quarter, the company repurchased approximately 20.5 million shares for $4.0 billion (about $195 per share), bringing the reduction in the share count to 25% over the past five years. We continue to like that Lowe's is focused on improving its return on invested capital (it projects adjusted ROIC of over 37% next year) and that the company continues to return capital to shareholders. The 19% slide year-to-date for the stock presents a nice entry point, given the reasonable 15 times NTM P/E multiple and significant EPS growth expected over the next three-to-five years. Our Target Price has been raised to $274.

Kohl's (KSS – $30.98) earned an adjusted $0.82 per share in Q3, in line with the preliminary announcement from November 8, but roughly half of the prior year figure. CFO Jill Timm said, "From a channel perspective, store sales outperformed digital and improved sequentially in Q3 due in part to having more Sephora shops open." She added, "Kohl's stores with a Sephora partnership will see mid-to-high single-digit percent lifts in sales relative to the rest of the chain."

Shares were little changed on the week overall despite an 8% drop at market open last Wednesday as investors had largely taken account of news that Michelle Gass plans to step down as CEO and member of the Kohl's Board of Directors, effective December 2, 2022. However, the company did cite recent volatility in business trends, significant macroeconomic headwinds and the unexpected CEO transition as reasons to withdraw its prior Q4 and full year 2022 guidance.

Kohl's Independent Board Chair Peter Boneparth commented, "The Kohl's Board is focused on supporting the management team during this CEO transition period, as well as the Board's search committee in its pursuit of finding the next CEO to lead Kohl's. We look forward to partnering with Interim CEO Tom Kingsbury and the entire leadership team to execute at the highest level this holiday season, while also capitalizing on opportunities to strengthen the business. Kohl's is a great company with extremely bright prospects and I am confident we will find the right candidate to successfully position Kohl's to drive sales, grow earnings and create

shareholder value. On behalf of the Board, I want to thank all of our associates for their dedication and hard work."

For all its warts, the company continues to generate sufficient cash flow to support the dividend (the yield is 6.5%), while the balance sheet is in decent shape with a $500 million share repurchase program underway. There is also reason to think Kohl's growing partnership with makeup brand Sephora will prove fruitful, and the company sits on valuable real estate that is attracting institutional investor interest. Earnings have been very volatile, but KSS now trades for less than 10 times NTM earnings estimates. Our Target Price is now $49.

Shares of **Foot Locker** (FL – $35.88) jumped almost 9% Friday after the footwear and apparel retailer posted fiscal Q3 2023 top- and bottom-line results that outpaced consensus analyst expectations. Revenue came in at $2.17 billion, versus the expected $2.09 billion, and adjusted EPS of $1.27 was 14% better than the average forecast. The solid quarterly results were pressured by promotional activity, employment costs and currency headwinds. During the company's earnings call, management said the quarter saw strength from a variety of non-Nike brands including Adidas, Puma, UGG, New Balance, Crocs and HOKA.

CEO Mary Dillon commented, "Foot Locker's solid third quarter results in the midst of ongoing macroeconomic challenges are a testament to the strengths of this organization that I am honored to now be leading. Despite the tough environment, our expanding customer base remained resilient, and I'm proud that our team delivered sales above our expectations, thanks to their exceptional execution. I see tremendous opportunity to further leverage the power of our brand equity and our incredible field team to drive our growth in this exciting category."

This was Ms. Dillon's first quarterly call as CEO, and she made it clear that her top priorities include improving digital penetration, enhancing the company's loyalty program (known as FLX), and leaning into brand diversification. She indicated that she will work to strategically balance long-term investments while maintaining strong cash flow and return on investment. FL raised its full-year adjusted EPS guidance range to $4.42 to $4.50, up from the prior range of $4.25 to $4.45.

CFO Andrew Page added, "Following better-than-expected results for the third quarter and strong momentum coming out of the quarter, we are increasing our outlook for the fourth quarter and the full year. While the macroeconomic environment remains uncertain, our demand trends, and inventory position in high-quality product gives us confidence we can achieve our new range, while also remaining flexible to manage through ongoing volatility."

Like others, we were pleasantly surprised that the reduced emphasis on Nike and no specialty Yeezy Adidas inventory didn't cause bigger operational hiccups in the quarter. We will see how these two things play out as we move forward, but the results seem to be a testament to the Foot Locker team and that momentum across other shoe labels like Adidas, Puma and New Balance continues to build and benefit FL. We are still attracted to the single digit forward P/E multiple and the 4.5% dividend yield. There could be some short-term roller coaster riding as investors stay concerned about a lackluster holiday shopping season and the health of the domestic

consumer, but we think FL is an attractive consumer discretionary holding for long-term oriented broadly diversified portfolios. Our Target Price for FL is now $51.