Market Commentary Monday, November 28, 2022

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EXECUTIVE SUMMARY

Week in Review – Holiday Advance
Sentiment – Bearishness Remains High
Fed Speak – Minutes Suggest a Slowing of Rate Hikes May Be On the Horizon
Econ Stats – Mixed Numbers
Earnings – Solid Q3 EPS & Modest Real GDP Growth Likely to Support Corporate Profits in 2023
Reasons for Optimism – Valuations & Calendar
Stock News – Updates on DIS, MDT, DKS, JWN & DE

Market Review

We hope everyone had a Happy Thanksgiving! Unlike last year, when Black Friday was turned red, with the Dow Jones Industrial Average plunging more than 900 points after the World Health Organization (WHO) warned of the new Omicron COVID-19 variant, it was a relatively quiet holiday-shortened week of trading.

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, though the Nasdaq Composite index is still down 27.7% and the U.S. Aggregate Bond index is off 12.8% 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	M	1.80	19.95	-3.70	-2.08	35.07	94.98	30.23	62.58	Dow Jones Industrial Average	INDU Index
1.01	-10.21	A	1.99	16.24	-6.94	-6.00	31.91	89.77	24.12	42.77	New York Stock Exchange Composite	NYA Index
-39.18	-20.81	R	0.73	6.32	-27.68	-28.55	4.59	67.16	33.39	70.86	Nasdaq Composite Index	CCMP Index
-22.43	-9.23	K	0.89	10.10	-22.14	-25.66	3.00	66.67	10.86	27.16	Russell 2000 Growth	RU20GRTR Index
22.83	14.02	E	1.25	15.00	-9.29	-11.61	49.81	118.66	25.82	31.54	Russell 2000 Value	RU20VATR Index
-3.02	2.49	T	1.07	12.50	-15.74	-18.73	24.49	92.57	19.64	31.28	Russell 2000	RU20INTR Index
-11.75	-20.15		1.73	12.07	-23.18	-25.40	2.95	70.73	19.34	54.13	Russell Midcap Growth Index Total Return	RUMCGRTR Index
19.18	2.33		2.07	15.32	-8.16	-7.21	40.64	114.97	27.45	42.53	Russell Midcap Value Index Total Return	RUMCVATR Index
8.25	-5.62	O	1.95	14.15	-13.55	-13.90	26.27	100.11	27.15	51.22	Russell Midcap Index Total Return	RUMCINTR Index
-22.42	-19.63	F	1.18	8.70	-24.53	-24.65	10.25	76.91	35.90	77.39	Russell 3000 Growth	RU30GRTR Index
8.04	-4.33		1.87	16.03	-4.83	-3.33	41.33	97.54	26.20	47.24	Russell 3000 Value	RU30VATR Index
-7.46	-11.46	S	1.53	12.32	-15.34	-14.78	24.70	88.13	32.67	64.03	Russell 3000	RU30INTR Index
9.64	-0.39	T	1.96	15.93	-8.04	-6.55	42.07	114.83	38.34	66.20	S&P 500 Equal Weighted	SPXEWTR Index
-9.10	-11.89	O	1.56	12.59	-14.29	-12.99	27.10	87.74	34.92	69.03	S&P 500	SPXT Index
-22.08	-12.73	C	1.04	7.66	-25.08	-24.52	12.93	76.73	36.64	75.70	S&P 500 Growth	SPTRSGX Index
6.08	-11.71		2.00	17.24	-2.18	0.25	42.73	94.09	27.63	55.68	S&P 500 Value	SPTRSVX Index
3.18	1.57	K	0.89	4.28	-16.47	-15.78	-17.86	-10.49	-12.54	-8.13	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index
11.63	8.44	S	1.05	2.14	-12.78	-12.19	-13.17	-8.63	-7.71	0.52	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index

As of 11.25.22. Source Kovitz using data from Bloomberg

Of course, we were happy to see the equity markets enjoying a handsome advance, and we note that we are in the seasonally favorable time of year,…

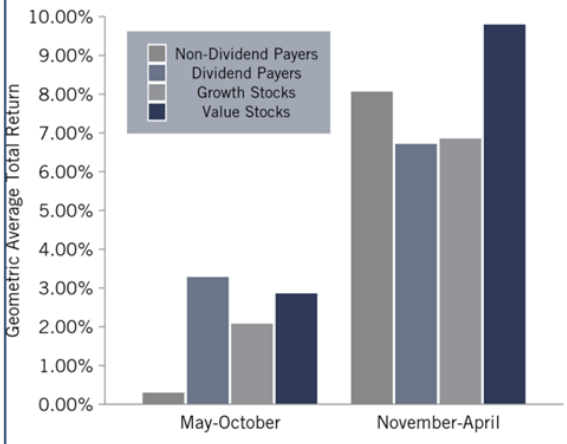
THE PRUDENT SPECULATOR

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

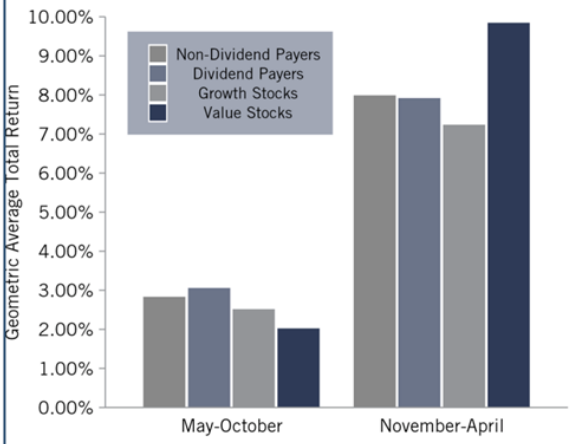
Nice to see that Value has won the performance spoils vs. Growth over the past nine-plus decades, no matter the time of year...



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

…and that investors remain very pessimistic, which historically has been a positive from a contrarian perspective,…

THE PRUDENT SPECULATOR

STILL AN AAII CONTRARIAN BUY SIGNAL: BULL-BEAR SPREAD = -11.3%

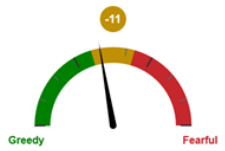
What Direction Do AAII Members Feel The Stock Market Will Be In The Next 6 Months?

Week Ending	Bullish	Neutral	Bearish
11/23/2022	28.9%	30.9%	40.2%
11/16/2022	33.5%	26.3%	40.2%
11/9/2022	25.1%	27.9%	47.0%
11/2/2022	30.6%	36.5%	32.9%
Historical View			
Historical Averages	37.5%	31.5%	31.0%
1-Year Bullish High:	37.7%	Week Ending 12/29/2021	
1-Year Neutral High	40.6%	Week Ending 3/30/2022	
1-Year Bearish High	60.9%	Week Ending 9/21/2022	

More Historical Sentiment Data

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
-7	-2	-35	-39
Neutral	Neutral	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 = 7.29											
BELOW	-54.0	7.3	921	0.24%	0.20%	1.12%	0.98%	3.26%	2.86%	6.46%	5.68%
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 1841 Data Points											
1	-54.0	-16.7	184	0.44%	0.37%	2.02%	1.77%	4.52%	3.96%	8.44%	7.18%
2	-16.7	-8.5	184	0.27%	0.24%	0.89%	0.75%	3.39%	3.04%	6.25%	5.48%
3	-8.4	-2.0	197	0.35%	0.32%	1.23%	1.13%	3.38%	2.96%	7.49%	6.79%
4	-2.0	2.8	171	0.06%	0.02%	0.90%	0.80%	2.42%	2.04%	5.19%	4.62%
5	2.8	7.3	184	0.05%	0.02%	0.54%	0.44%	2.52%	2.26%	4.74%	4.19%
6	7.3	11.8	184	0.20%	0.18%	0.72%	0.64%	2.08%	1.84%	4.96%	4.51%
7	11.8	16.1	184	0.15%	0.12%	0.50%	0.37%	2.40%	2.15%	5.29%	4.78%
8	16.1	21.9	184	0.14%	0.13%	0.86%	0.80%	2.29%	2.04%	5.81%	5.39%
9	22.0	29.0	184	0.15%	0.14%	0.38%	0.29%	1.83%	1.53%	4.76%	4.19%
10	29.0	62.9	185	0.23%	0.21%	0.30%	0.23%	1.51%	1.29%	2.60%	2.15%

From 07.31.87 through 11.24.22. 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 dropping to 28.9% and the number of Bears holding steady at 40.2% is a positive, with the minus 11.3% Bull-Bear spread in the favorable (3rd highest future returns) 2nd decile of the weekly figures going back to 1987.

…providing another reminder that time in the market trumps market timing.

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.

Certainly, it didn't hurt that interest rates tumbled last week,…

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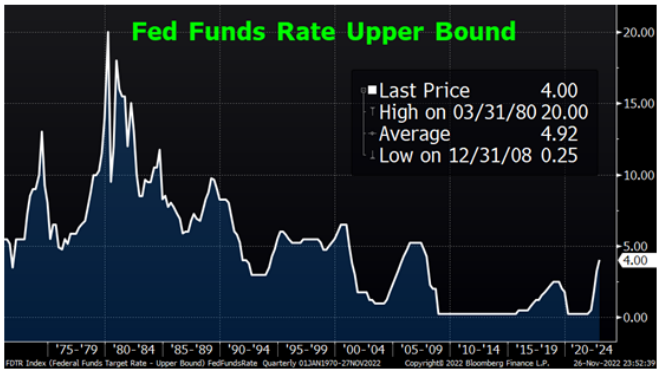
BENCHMARK TREASURY YIELD DROPS 15 BASIS POINTS

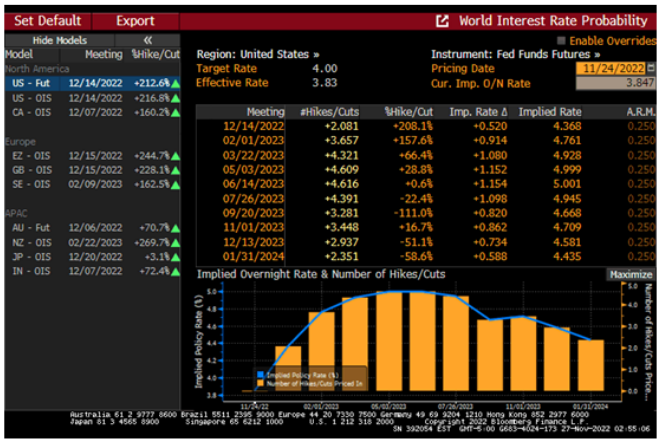
Given the recent drop in the Consumer and Producer Price Indexes, continued tough talk on inflation from Federal Reserve members, and mixed economic stats, government bond prices remained volatile last week, though the yield on the benchmark U.S. Treasury fell from 3.83% to 3.68%.

…as the Minutes from the latest Federal Reserve meeting included, "A substantial majority of participants judged that a slowing in the pace of increase would soon be appropriate," prompting a modest reduction in the outlook for future hikes in the Fed Funds rate.

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 less hawkish last week as they are now estimating a 4.37% year-end Fed Funds rate and a 5.00% peak for June 2023, with a pivot coming in July 2023.





Those same minutes also had language on the health of the economy: “There was wide agreement that heightened uncertainty regarding the outlooks for both inflation and real activity underscored the importance of taking into account the cumulative tightening of monetary policy, the lags with which monetary policy affected economic activity and inflation, and economic and financial developments.”

No doubt, “heightened uncertainty” is the right phrase to use, with consumers still down in the dumps,…

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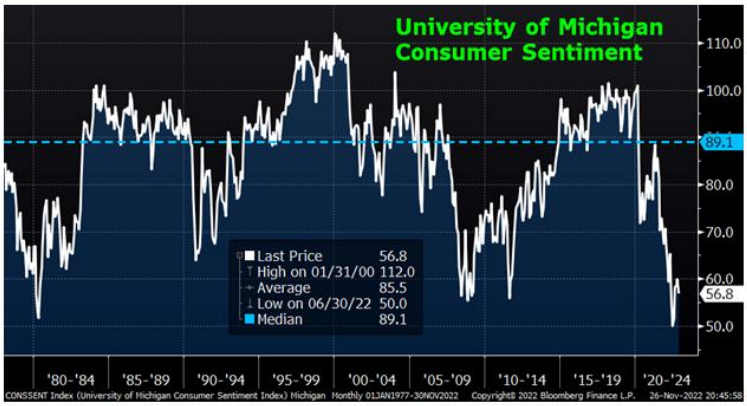
CONSUMER SENTIMENT REBOUNDS NOT TOO FAR ABOVE RECORD LOW



University of Michigan Consumer Sentiment Cyclical Lows & Subsequent Equity Returns

Cyclical Low	U of M Sent.	1 Year SPX TR	1 Year Value TR	3 Year SPX TR	3 Year Value TR	5 Year SPX TR	5 Year Value TR	10 Year SPX TR	10 Year Value TR
May-80	51.7	25.2%	34.5%	70.8%	128.6%	118.2%	227.7%	395.6%	537.8%
Mar-82	62.0	44.3%	54.5%	86.5%	129.5%	224.0%	276.0%	431.0%	503.6%
Nov-87	83.1	23.3%	32.0%	55.7%	31.1%	121.8%	124.2%	455.1%	545.8%
Oct-90	63.9	33.4%	41.2%	68.6%	129.6%	121.4%	191.0%	490.0%	619.1%
Sep-01	81.8	-20.5%	-13.6%	12.6%	40.7%	40.0%	98.9%	32.0%	48.6%
Mar-03	77.6	35.1%	67.5%	61.0%	129.0%	71.0%	116.0%	126.8%	176.2%
Nov-08	55.3	25.4%	22.3%	48.6%	34.0%	124.8%	135.2%	280.7%	246.4%
Aug-11	55.8	18.0%	14.8%	75.4%	89.6%	98.3%	95.0%	353.7%	264.7%
Jun-22	50.0								
		23.0%	**31.6%**	**59.9%**	**89.0%**	**114.9%**	**158.0%**	**320.6%**	**367.8%**

TR = Total Return. SPX = S&P 500. 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 Univ. of Michigan

The latest read on the Univ. of Michigan's Consumer Sentiment gauge was stronger than expected, coming in at 56.8 for November. Of course, it is still not too far from the most pessimistic level in history five month's prior. Incredibly, folks were then more downcast than when inflation was in the double-digits in the early'80's ...and after the Crash of '87...and after the Gulf War Meltdown of '90...and after 9/11...and at the end of the Tech Wreck...and during the Great Financial Crisis...and after the downgrade of the U.S. credit rating. Believe it or not, the prior 8 cyclical lows, on average, proved to be great times for long-term-oriented investors to be adding to their (Value) equity exposure.

…and first-time filings for unemployment benefits hit a three-month high.

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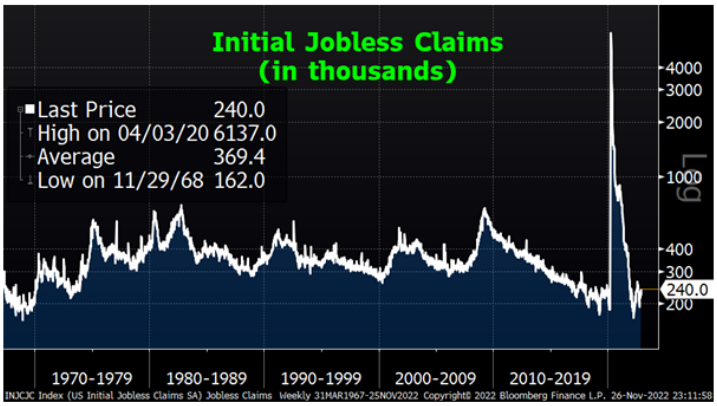
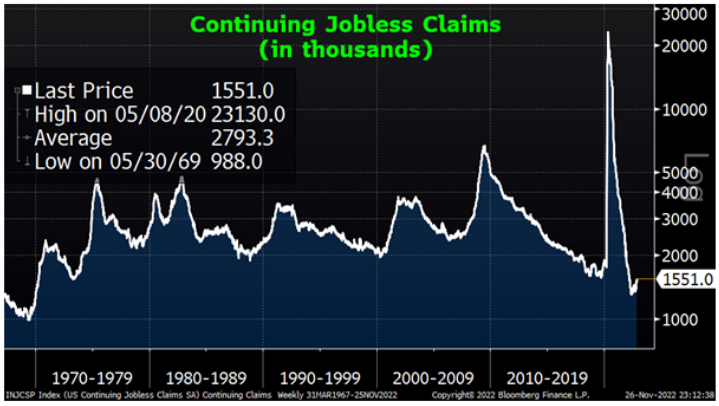
STRONG LABOR MARKET: CONTINUING CLAIMS STILL NEAR 50+ YEAR LOWS





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 19 were a seasonally adjusted 240,000, up from a revised 223,000 the week prior. Continuing claims filed through state programs inched up to 1.55 million, still near the lowest level since 1969 as businesses continue to hold onto workers with qualified labor difficult to obtain.

On the other hand, additional economic statistics for October came in better than expected,…

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MUCH-BETTER-THAN-EXPECTED ECONOMIC NUMBERS

The headline number for durable goods orders in October rebounded 1.0%, compared to a 0.3% rise the month prior, with the improvement well above expectations. Excluding the volatile transportation sector, orders rose 0.5%, even as pundits think the manufacturing economy will be in recession soon. Meanwhile, new-home sales jumped 7.5% in October, significantly better than pessimistic projections, though many argue a high cancellation rate is not reflected in the data.

…though the early numbers for November were disappointing.

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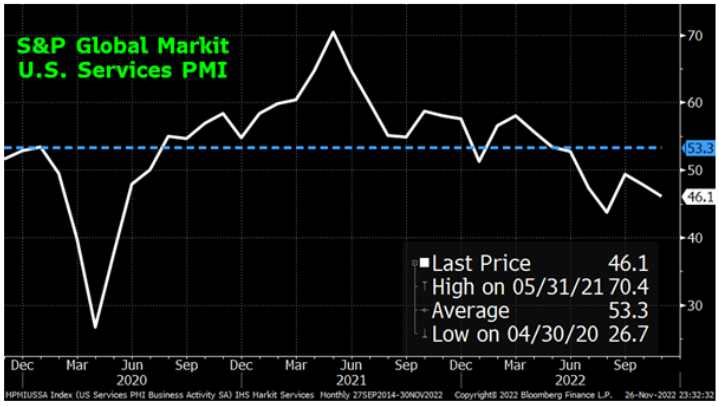
S&P GLOBAL MARKIT PMI READINGS MOVE LOWER IN NOVEMBER



The S&P Global Markit preliminary U.S. PMIs for the factory and services sectors in November came in at 47.6 and 46.1, both below expectations. S&P Global commented, "Business conditions across the U.S. worsened in November, according to the preliminary PMI survey findings, with output and demand falling at increased rates, consistent with the economy contracting at an annualised rate of 1%...Companies are reporting increasing headwinds from the rising cost of living, tightening financial conditions – notably higher borrowing costs – and weakened demand across both home and export markets...Skill shortages also remain a worrying constraint on expansion, but there is better news on supply chains, with supplier performance improving in November for the first time for over three years."

Somehow, the forecast for Q4 GDP growth actually ticked higher last week,…

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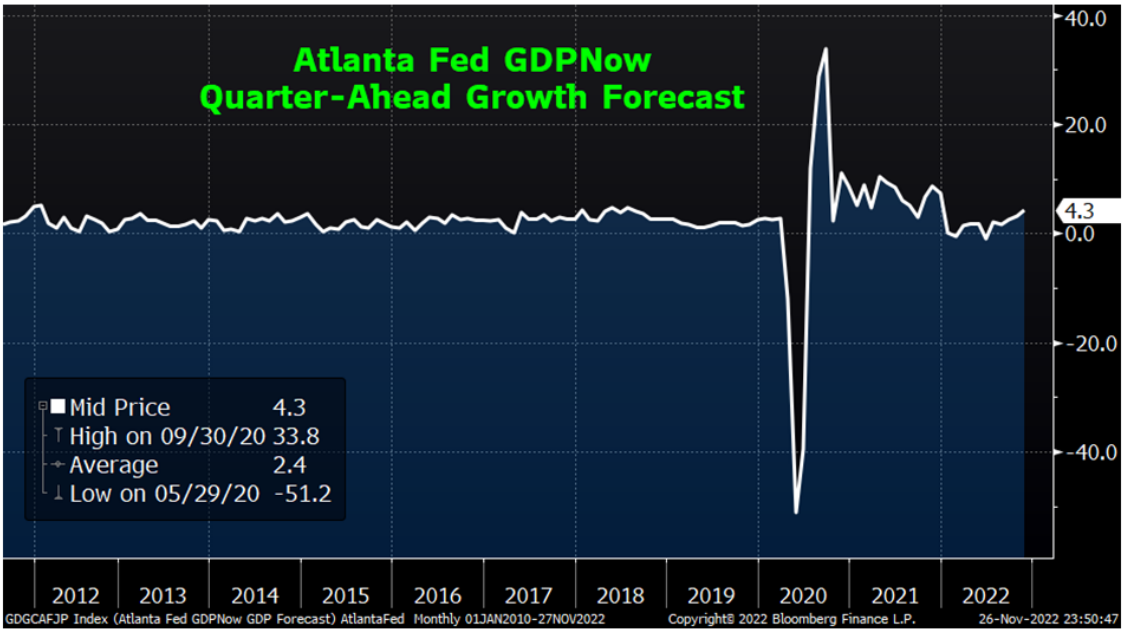
Q4 U.S. REAL GDP GROWTH PROJECTION NOW STANDS AT A ROBUST 4.3%

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 23 stood at 4.3%.



…but the likelihood of recession in the next 12 months remained very high,…

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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.

…yet the latest update to the Economic Outlook out last week from the Organisation for Economic Co-operation and Development (OECD) calls for 1.8% real U.S. GDP growth this year, 0.5% growth in 2023 and 1.0% growth in 2024.

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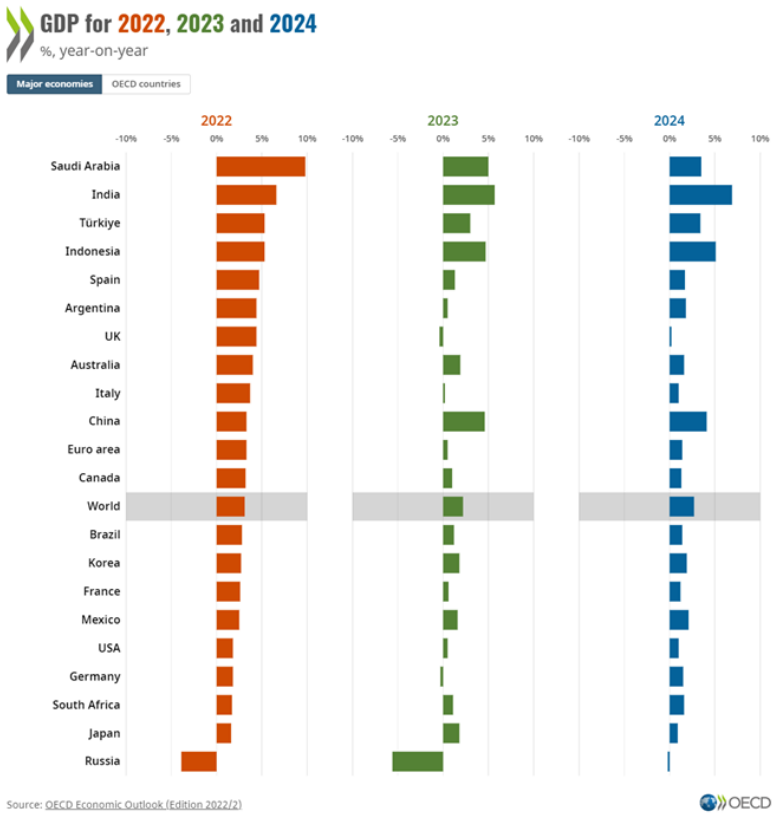
OECD – GLOBAL ECONOMY STILL GROWING, BUT MUCH MORE SLOWLY



2.2% World GDP Growth Expected in 2023

"Tighter monetary policy and higher real interest rates, persistently high energy prices, weak real household income growth and declining confidence are all expected to sap growth. The United States and Europe are slowing sharply and the major Asian emerging-market economies are expected to account for close to three-quarters of global GDP growth in 2023."

OECD, November 2022

Obviously, a very modest expansion is nothing to write home about, but it does help current estimates for corporate profit growth next year,…

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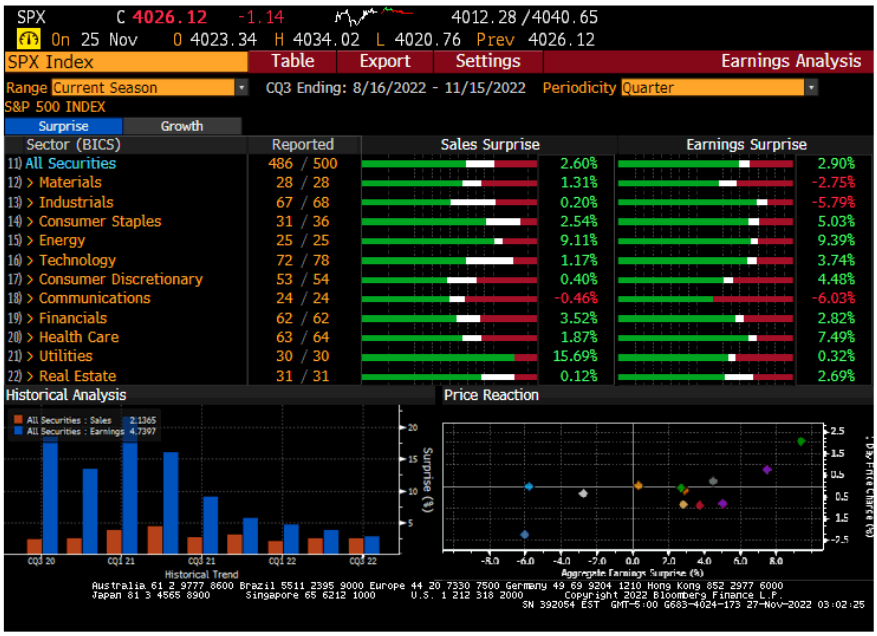
2023 EARNINGS GROWTH STILL THE ESTIMATE

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 486 S&P 500 companies that have posted results thus far, 69.0% beat EPS expectations and 59.4% 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	$59.55	$228.61
9/30/2023	$58.33	$223.35
6/30/2023	$56.52	$215.96
3/31/2023	$54.21	$206.31
12/31/2022	$54.29	$201.46
9/30/2022	$50.94	$203.90
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 11.22.22

…which supports our argument that equities in general are reasonably priced,…

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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 (5.14% vs. 3.68% 10-Year), despite this year's jump in interest rates.

…and that our broadly diversified portfolios of what we believe to be inexpensive stocks are attractively valued.

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	2.2	3.2
Focused Dividend Income	13.3	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	10.3	0.5	1.7	2.9
Russell 3000	20.5	18.4	2.1	3.7	1.7
Russell 3000 Growth	28.3	24.2	3.0	9.0	1.0
Russell 3000 Value	16.2	15.0	1.6	2.3	2.3
Russell 1000	19.6	18.2	2.2	3.9	1.7
Russell 1000 Growth	26.6	24.0	3.3	9.5	1.1
Russell 1000 Value	15.7	14.8	1.7	2.5	2.2
S&P 500 Index	19.1	18.0	2.3	4.0	1.7
S&P 500 Growth Index	22.6	21.1	3.9	6.9	1.0
S&P 500 Value Index	16.9	16.0	1.7	2.9	2.3
S&P 500 Pure Value Index	10.8	10.5	0.7	1.6	2.6

As of 11.22.22. 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.

Obviously, anything can happen as we go forward and we are always braced for downside volatility, with worries about new COVID-19 lockdowns in China sending the equity futures lower on Sunday evening. We also concede that we would not be surprised to see a recession occur, but such an event would not be cause to reduce equity exposure, in our view, especially given the downturn already endured this year,…

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

…while the calendar suggests that 2023 could be a promising year for stock returns.

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

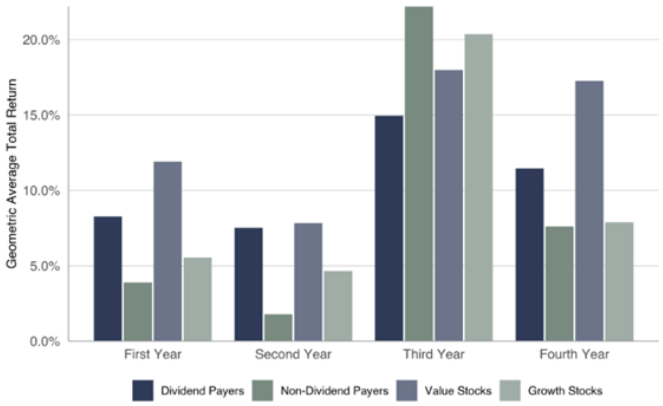

Figure 9: Investors Seem to be Rewarded by Democrats

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.

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.

Shares of **Walt Disney** (DIS – $98.87) rallied nearly 8% last week on the announcement on Monday that Robert A. Iger is returning to lead Disney as Chief Executive Officer, effective immediately, for a term ending Dec. 31, 2024. Disney Chair Susan Arnold explained, "The Board has concluded that as Disney embarks on an increasingly complex period of industry transformation, Bob Iger is uniquely situated to lead the company through this pivotal period."

Previous CEO Bob Chapek has already stepped down from the role, while Mr. Iger apparently has a mandate from the Board to set the strategic direction for renewed growth and to work

closely with the Board in developing a successor to lead the company at the completion of his two-year term.

Mr. Iger previously spent 15 years as CEO and will replace his successor, who was ousted after series of disappointing results. Of course, Mr. Chapek's contract as CEO was recently extended for three years starting July 1, making the move even more astonishing. Prior to the announcement, the stock had fallen 41% on the year, and 28% over Mr. Chapek's tenure, which was characterized by a messy political standoff in Florida that resulted in the company losing "favored nation" status in the state.

Even as our assessment that Disney attributes enormous value to its intelligent property, the fact that shares have experienced two drawdowns of 40% or more in just the past three years has been discouraging. Still, we are delighted in the return of Mr. Iger, who has shown a knack for building relationships in Hollywood and who understands the company's assets as well as anyone. While we liked the prospects for the entertainment giant at higher prices, we are all the more enthusiastic at the current level. Waning sentiment over most things streaming could affect near-term performance of the stock despite the management change, but we appreciate the longevity of Disney's content compared to peers in the film space and continue to note its ability to promote the brand through experiences. Still, earnings will likely be depressed as management continues to invest in its direct-to-consumer offerings. Nonetheless, we continue to think DIS should be a core holding in most portfolios. Our Target Price is presently $150.

Medtronic PLC (MDT – $79.12) turned in adjusted EPS of $1.30 (vs. $1.28 est.) in the latest quarter, a touch lower than the $1.32 a year ago. Revenue was $7.59 billion, a 3.3% year-over-year decline mostly due to foreign exchange effects, but also reflective of slower supply recovery, lower than anticipated underlying market procedure volumes in certain businesses and the pricing impact of volume-based procurement in China. Given a slower pace of market and supply recovery, management reduced its revenue expectations for the remainder of the year and trimmed its fiscal year 2023 diluted non-GAAP EPS projection to a range of $5.25 to $5.30.

CEO Geoffrey Martha commented, "While the current operating environment remains challenging, we had strong growth in several businesses and geographies, where our strategy, our operating model, and execution are yielding solid results. We have near-term product catalyst in our pipeline. We are decisively allocating capital internally and selectively making focused acquisitions. We're making improvements to the operational health of the company, and we're streamlining the company structure and taking cost out. All of this gives us confidence that we're on the path to creating durable growth and shareholder value."

Unlike many of our healthcare holdings, it's been a tough 12 months for MDT shares (down 27% over the period) as supply-chain issues continue to be a major headwind and overall procedure volumes remain soft due to COVID-19 restrictions in markets like China where rolling lockdowns have taken a toll. Despite the bumps in the road, we remain patient while MDT takes measures to sort through regulatory and supply chain hurdles, the latter including co-location of employees with suppliers and sourcing materials from sub-tier suppliers to remove middlemen.

We continue to think Medtronic's competitive position is intact and given the slide, shares now trade in line with a market multiple for a company that has historically held roughly 50% market share in its core heart-device business. It is also the leader in spinal products, insulin pumps and neuromodulators for chronic pain. We think shares trade for a bargain price tag, near multi-year lows despite EPS generation above pre-pandemic levels. The dividend yield is 3.4% and our Target Price for MDT is $124.

Shares of **Dick's Sporting Goods** (DKS – $121.69) powered ahead last week, rising over 11% in price as the company's Q3 earnings came in more than 16% above consensus estimates. The beat outweighed the fact that the retailer's $2.60 of adjusted earnings per share (vs. $2.22 est.) was lower than the $3.19 figure from last year, and gross margin of 34.2% was modestly below the 34.9% a year ago, while inventory remains bloated (35% higher vs. the year-ago quarter), even as it was down from the comparison in Q2.

CEO Lauren Hobart addressed the inventory issue, "As we indicated on our last call, at the end of Q2, our inventory position was strong, and we were back in stock in key items. This enabled us to deliver a very strong back-to-school season and meet robust consumer demand. Additionally, we also mentioned that we had pockets of apparel inventory to address, and we have addressed much of that overage this quarter. As a result, and as expected, we saw a merchandise margin decline of 438 basis points versus last year. Importantly, our merchandise margin remained elevated compared to 2019. And looking ahead, we continue to be very confident that our merchandise margin will remain meaningfully higher than pre-COVID levels on an annual basis."

Management said it raised its outlook given continued strong performance, quality of inventory and its confidence in the business. It now expects EPS between $11.50 and $12.10, up from the previous range between $10.00 and $12.00.

We continue to like that the company has materially improved its omnichannel execution, with digital sales rising to 21% of the total in 2021, while Dick's has a differentiated set of offerings across brands, price points and categories. We see multiple drivers for long-term growth, including national brands consolidating wholesale partners and appealing new store formats. Shares also trade for a forward P/E multiple just under ten, while the dividend yield is 1.6%. Our Target Price for DKS has been boosted to $140, but we wouldn't blame those with larger positions should they opt to trim a bit of their stake, considering the massive outperformance of late relative to many other stocks.

High-end department store **Nordstrom** (JWN – $22.13) earned $0.20 per share in fiscal Q3 2023 (vs. $0.14 est.) on sales of $3.43 billion, compared to the estimate of $3.47 billion. Nordstrom brand sales totaled $2.26 billion (vs. $2.3 billion est.), while Nordstrom Rack revenue was $1.17 billion (vs. $1.12 billion est.). Digital sales accounted for 34% of the company's sales, while gross margin came in 1% below the consensus at 33.2%.

CEO Erik Nordstrom explained, "While reporting our second quarter results, we saw customer demand begin to soften in late June. Across both banners, the softening trend was more significant in customer segments with the lowest Income profiles, while we saw a greater

resilience in the higher income cohorts. As customer trends shifted, we took action to manage through the short-term macroeconomic uncertainty and position our business for success. This included managing expenses to align with sales expectations and clearing through excess inventory to exit the year with healthy inventory levels and mix. These actions prepared us well for the third quarter as macroeconomic pressures impacted all customer segment."

Mr. Nordstrom continued, "Customers continued to refresh their wardrobes and shop for occasions such as social events travel work and holidays, which drove demand for our core categories and services consistent with the second quarter. Items with lower AURs underperformed higher AUR items and customers continue to respond very positively to newness and fashion in our seasonal assortment. Our team remains focused on improving Rack performance increasing profitability and optimizing our supply chain and inventory flow we're making progress in these initiatives, and we expect them to benefit our topline and bottom-line performance in the fourth quarter of this year in 2023 and beyond. While we take actions to address a shifting consumer backdrop, we're also building capabilities to better serve customers and deliver increased profitability. As we focus on improving Nordstrom Rack performance winning in our most important markets and leveraging our digital capabilities starting with Nordstrom Rack."

CFO Anne Bramann commented, "As a result of reduced supply chain backlogs, we had a higher percentage of our inventory on hand this year versus in transit last year. We continue to expect that we will end the year in a healthy inventory position and are committed to a disciplined approach to inventory management in 2023…Since last year, we've been making progress on our supply chain optimization initiatives to offset anticipated labor and fulfillment cost pressure, and we're pleased with the results we're seeing."

Ms. Bramann will be stepping down as CFO on December 5 and will be replaced by interim CFO Michael Mayer.

Mr. Mayer offered the outlook, "We continue to expect an elevated promotional environment across retail in the fourth quarter. Taking these factors into consideration, we are reaffirming our 2022 financial outlook. For fiscal year 2022, we continue to expect revenue growth of 5% to 7% versus 2021. We expect adjusted EBIT margin of approximately 4.3% to 4.7% for the full year. Our forecast assumes that EBIT margin improvement for the year will be driven by SG&A leverage, with gross profit roughly flat for the full year…With regard to the assumptions embedded in our guidance range, the low end of our guidance assumes that the softer sales trends from late October and early November return, and promotional activity in the sector increases above what we've seen to date. The high end of our guidance assumes that holiday sales will accelerate year-over-year as we approach Christmas, in line with pre-pandemic shopping behavior, and that promotional levels in the sector are consistent with what we've seen to date."

We thought JWN's third quarter was good given the uncertain environment, even though the stock dropped nearly 10% in after-hours trading, before rebounding to end the week more than 3% higher than where it began. The lower margin, due to higher discounts and inventory clearance, surely disappointed some and it seems likely that rapidly changing trends will make it difficult for JWN buyers to keep the right quantities of the right items in stock for shoppers. The

company's investments in online shopping and store-based distribution should help ease some of those headwinds, while Nordstrom's balance sheet saw a nice improvement in cash and the debt level ticked down slightly. The valuation remains very reasonable at 9 times forward earnings expectations, long-term net income can grow and the company always seems like a good candidate to be taken private. Our Target Price for JWN, which now has a dividend yield of 3.4%, is $34.

Shares of **Deere & Co** (DE – $441.47) plowed their way higher by more than 6% last week as the industrial powerhouse reported quarterly results that were better than expected. The company posted fiscal Q4 EPS almost 5% above the consensus Street forecast ($7.44 vs. $7.09 est.) on revenue of $14.35 billion, versus the average estimate of $13.38 billion. Positive momentum led to 40% net sales growth during the quarter. Results were supported by higher shipment volumes across DE's businesses, robust pricing realization and favorable industry fundamentals. Production & Precision Ag led revenue expansion, achieving an impressive 59% year-over-year sales growth, with a roughly equal contribution from pricing and volumes.

CEO John May commented, "Deere's strong performance for both the fourth quarter and full year is a tribute to our dedicated team of employees, dealers, and suppliers throughout the world. We're proud of their extraordinary efforts to overcome supply-chain constraints, increase factory production, and deliver products to our customers."

Mr. May added, "Deere is looking forward to another strong year in 2023 based on positive farm fundamentals and fleet dynamics as well as an increased investment in infrastructure. These factors are expected to support healthy demand for our equipment. At the same time, we have confidence in the smart industrial operating model and our ability to deliver solutions that help our customers be more profitable, productive, and sustainable." Management announced a net income forecast for fiscal 2023 in a range of $8.0 billion to $8.5 billion.

With its leading brand, we think Deere is the key enabler of low-cost agriculture, particular in the U.S. and Canada, which account for over half of the company's revenues. Deere's substantial dealer network places customer service closer to farms than competitors. And a massive installed base of machines offers a continual source of data with which to improve its products as farming becomes increasingly automated. Although the landscape could turn on a dime, favorable pricing for agricultural markets is primed to support a strong 2023, and we appreciate the diversification afforded by the company's construction products. Even as shares have performed handsomely in the past few years, making them a potential trim candidate, the forward P/E multiple at less than 16 times projected EPS for 2023 is still reasonable versus the last 5 years. Our Target Price has been hiked to $524.