Market Commentary Monday, December 5, 2022

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EXECUTIVE SUMMARY

Week in Review – Post-Holiday Advance
Sentiment – Bearishness Remains High
Econ Stats – Mixed Numbers
Historical Evidence – Stock Returns & Yield Curve Inversion, Recession, Inflation and Volcker Shock
Jerome Powell – Time for Moderating?
Valuations – Reasonable Equity Multiples
Stock News – Updates on HPE, KR, BIG, ADM & MU

Market Review

Although Growth outperformed Value, it was another positive week for equities, with the terrific rebound since the end of the third quarter reinforcing our constant admonition that time in the market trumps market timing.

THE PRUDENT SPECULATOR

MARKET OF STOCKS – INDEXES CAN HAVE WIDE DISPERSION IN RETURNS

With proclamations from Jerome H. Powell and his colleagues at the Federal Reserve 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 26.2% and the U.S. Aggregate Bond index is off 11.4% on the year. There are no awards for the losses on Value in 2022, but inexpensive stocks have held up better, which is in keeping with the historical evidence when inflation is high, when the Fed is tightening and when interest rates are moving up.

Total Returns Matrix

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	0.41	20.45	-3.30	1.51	35.63	95.79	31.99	58.50	Dow Jones Industrial Average	INDU Index
1.01	-10.21		1.11	17.54	-5.90	-1.79	33.39	91.90	26.24	42.07	New York Stock Exchange Composite	NYA Index
-39.18	-20.81		2.12	8.58	-26.15	-24.85	6.81	70.71	37.22	75.50	Nasdaq Composite Index	CCMP Index
-22.43	-9.23		1.66	11.93	-20.84	-20.23	4.70	69.44	13.49	28.66	Russell 2000 Growth	RU20GRTR Index
22.83	14.02		1.01	16.15	-8.38	-5.63	51.32	120.85	28.36	30.24	Russell 2000 Value	RU20VATR Index
-3.02	2.49		1.33	14.00	-14.62	-13.01	26.15	95.13	22.26	31.43	Russell 2000	RU20INTR Index
-11.75	-20.15		2.08	14.41	-21.58	-20.47	5.09	74.29	22.80	56.31	Russell Midcap Growth Index Total Return	RUMCGRTR Index
19.18	2.33		0.91	16.36	-7.33	-2.86	41.91	116.92	29.57	40.81	Russell Midcap Value Index Total Return	RUMCVATR Index
8.25	-5.62		1.32	15.66	-12.41	-9.28	27.94	102.76	29.82	50.97	Russell Midcap Index Total Return	RUMCINTR Index
-22.42	-19.63		1.75	10.61	-23.21	-21.10	12.18	80.01	39.19	79.75	Russell 3000 Growth	RU30GRTR Index
8.04	-4.33		0.79	16.94	-4.08	0.69	42.44	99.09	27.98	44.59	Russell 3000 Value	RU30VATR Index
-7.46	-11.46		1.26	13.73	-14.27	-11.02	26.27	90.50	35.20	63.64	Russell 3000	RU30INTR Index
9.64	-0.39		1.11	17.22	-7.02	-2.27	43.65	117.22	40.94	64.59	S&P 500 Equal Weighted	SPXEWTR Index
-9.10	-11.89		1.19	13.93	-13.26	-9.60	28.62	89.98	37.35	68.36	S&P 500	SPXT Index
-22.08	-12.73		1.80	9.60	-23.73	-21.38	14.97	79.92	39.71	77.81	S&P 500 Growth	SPTRSGX Index
6.08	-11.71		0.66	18.01	-1.53	4.05	43.68	95.38	29.46	52.30	S&P 500 Value	SPTRSVX Index
3.18	1.57		1.60	5.95	-15.13	-15.49	-16.55	-9.05	-11.01	-6.47	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index
11.63	8.44		1.54	3.71	-11.44	-11.62	-11.83	-7.23	-6.03	2.09	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index

As of 12.02.22. Source Kovitz using data from Bloomberg

Of course, investors must endure plenty of ups and downs along the way,…

THE PRUDENT SPECULATOR

PERSPECTIVE: 10% UPS AND DOWNS SINCE TPS INCEPTION

S&P 500 Moves (on a Closing Basis) of 10% Without a Comparable Move in the Other Direction

9/12/1978	11/14/1978	-13.55%	BEAR	3/6/1978	9/12/1978	23.12%	BULL
10/5/1979	11/7/1979	-10.25%	BEAR	11/14/1978	10/5/1979	20.30%	BULL
2/13/1980	3/27/1980	-17.07%	BEAR	11/7/1979	2/13/1980	18.59%	BULL
11/28/1980	9/25/1981	-19.75%	BEAR	3/27/1980	11/28/1980	43.07%	BULL
11/30/1981	3/8/1982	-15.05%	BEAR	9/25/1981	11/30/1981	12.04%	BULL
5/7/1982	8/12/1982	-14.27%	BEAR	3/8/1982	5/7/1982	11.30%	BULL
10/10/1983	7/24/1984	-14.38%	BEAR	8/12/1982	10/10/1983	68.57%	BULL
8/25/1987	10/19/1987	-33.24%	BEAR	7/24/1984	8/25/1987	127.82%	BULL
10/21/1987	10/26/1987	-11.89%	BEAR	10/19/1987	10/21/1987	14.92%	BULL
11/2/1987	12/4/1987	-12.45%	BEAR	10/26/1987	11/2/1987	12.33%	BULL
10/9/1989	1/30/1990	-10.23%	BEAR	12/4/1987	10/9/1989	60.68%	BULL
7/16/1990	10/11/1990	-19.92%	BEAR	1/30/1990	7/16/1990	14.23%	BULL
10/7/1997	10/27/1997	-10.80%	BEAR	10/11/1990	10/7/1997	232.74%	BULL
7/17/1998	8/31/1998	-19.34%	BEAR	10/27/1997	7/17/1998	35.32%	BULL
9/23/1998	10/8/1998	-10.00%	BEAR	8/31/1998	9/23/1998	11.37%	BULL
7/16/1999	10/15/1999	-12.08%	BEAR	10/8/1998	7/16/1999	47.88%	BULL
3/24/2000	4/14/2000	-11.19%	BEAR	10/15/1999	3/24/2000	22.45%	BULL
9/1/2000	4/4/2001	-27.45%	BEAR	4/14/2000	9/1/2000	12.10%	BULL
5/21/2001	9/21/2001	-26.43%	BEAR	4/4/2001	5/21/2001	19.00%	BULL
1/4/2002	7/23/2002	-31.97%	BEAR	9/21/2001	1/4/2002	21.40%	BULL
8/22/2002	10/9/2002	-19.31%	BEAR	7/23/2002	8/22/2002	20.68%	BULL
11/27/2002	3/11/2003	-14.71%	BEAR	10/9/2002	11/27/2002	20.87%	BULL
10/9/2007	3/10/2008	-18.64%	BEAR	3/11/2003	10/9/2007	95.47%	BULL
5/19/2008	10/10/2008	-36.97%	BEAR	3/10/2008	5/19/2008	12.04%	BULL
10/13/2008	10/27/2008	-15.39%	BEAR	10/10/2008	10/13/2008	11.58%	BULL
11/4/2008	11/20/2008	-25.19%	BEAR	10/27/2008	11/4/2008	18.47%	BULL
1/6/2009	3/9/2009	-27.62%	BEAR	11/20/2008	1/6/2009	24.22%	BULL
4/23/2010	7/2/2010	-15.99%	BEAR	3/9/2009	4/23/2010	79.93%	BULL
4/29/2011	10/3/2011	-19.39%	BEAR	7/2/2010	4/29/2011	33.35%	BULL
5/21/2015	8/25/2015	-12.35%	BEAR	10/3/2011	5/21/2015	93.85%	BULL
11/3/2015	2/11/2016	-13.31%	BEAR	8/25/2015	11/3/2015	12.97%	BULL
1/26/2018	2/8/2018	-10.16%	BEAR	2/11/2016	1/26/2018	57.07%	BULL
9/20/2018	12/24/2018	-19.78%	BEAR	2/8/2018	9/20/2018	13.55%	BULL
2/19/2020	3/23/2020	-33.92%	BEAR	12/24/2018	2/19/2020	44.02%	BULL
1/3/2022	3/8/2022	-13.05%	BEAR	3/23/2020	1/3/2022	114.38%	BULL
3/29/2022	6/16/2022	-20.83%	BEAR	3/8/2022	3/29/2022	11.05%	BULL
8/16/2022	10/12/2022	-16.91%	BEAR	6/16/2022	8/16/2022	17.41%	BULL
				10/12/2022	11/30/2022	14.06%	BULL
Average Drop		**-18.24%**		**Average Gain**		**40.11%**	

SOURCE: Kovitz using data from Bloomberg

Trading has been volatile this year, to say the least, with stocks suffering their worst performance since the five-week 2020 Bear Market brought on by the COVID-19 Pandemic. While the S&P 500 quickly rallied out of correction territory in March, it closed on 6.16.22 below the Bear Market level with a 20.83% decline from the 03.29.22 interim high, before soaring 17.41% over the next two months. However, a new downturn set in, with the S&P falling 16.91% from its August high-water mark to its October trough, but that has reversed again over the last month and a half. Of course, ups and downs are not unusual for equities, and we are now in the 38th advance of 10% or greater since the launch of *The Prudent Speculator* 45+ years ago. Happily, the the average gain during the periods in the green has dwarfed the average loss for times in the red.

…but stocks have proved very rewarding in the fullness of time,…

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%	44.3%	332	74	1.3	10/12/2022	11/30/2022
10.0%	34.8%	243	101	0.9	10/12/2022	11/30/2022
7.5%	23.6%	148	160	0.6	10/12/2022	11/30/2022
5.0%	14.7%	72	314	0.3	10/12/2022	11/30/2022

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 11.30.22. 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

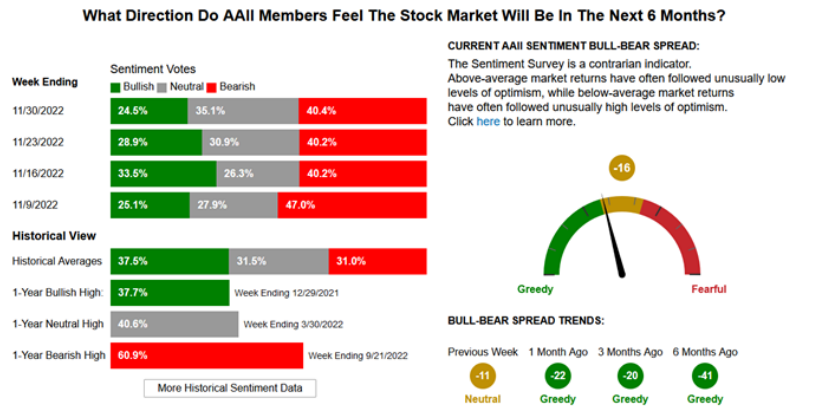
	Annualized Return	Standard Deviation
Value Stocks	13.1%	25.9%
Growth Stocks	9.5%	21.4%
Dividend Paying Stocks	10.6%	18.0%
Non-Dividend Paying Stocks	8.9%	29.3%
Long-Term Gov't Bonds	5.2%	8.6%
Intermediate Gov't Bonds	4.9%	4.3%
Treasury Bills	3.2%	0.9%
Inflation	3.0%	1.8%

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

…for those who aren't sitting on the sidelines at inopportune times.

THE PRUDENT SPECULATOR

STILL AN AAII CONTRARIAN BUY SIGNAL: BULL-BEAR SPREAD = -15.9%



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%	1.13%	0.99%	3.25%	2.86%	6.44%	5.67%
ABOVE	7.3	62.9	921	0.17%	0.16%	0.55%	0.46%	2.02%	1.77%	4.68%	4.20%
Ten Groupings of 1842 Data Points											
1	-54.0	-16.7	185	0.44%	0.37%	2.06%	1.81%	4.55%	3.99%	8.40%	7.15%
2	-16.5	-8.5	184	0.27%	0.24%	0.88%	0.74%	3.33%	2.98%	6.23%	5.46%
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 12.01.22. 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 24.5% and the number of Bears edging up to 40.4% is a positive, with the minus 15.9% Bull-Bear spread in the favorable (3rd highest future returns) 2nd decile of the weekly figures going back to 1987.

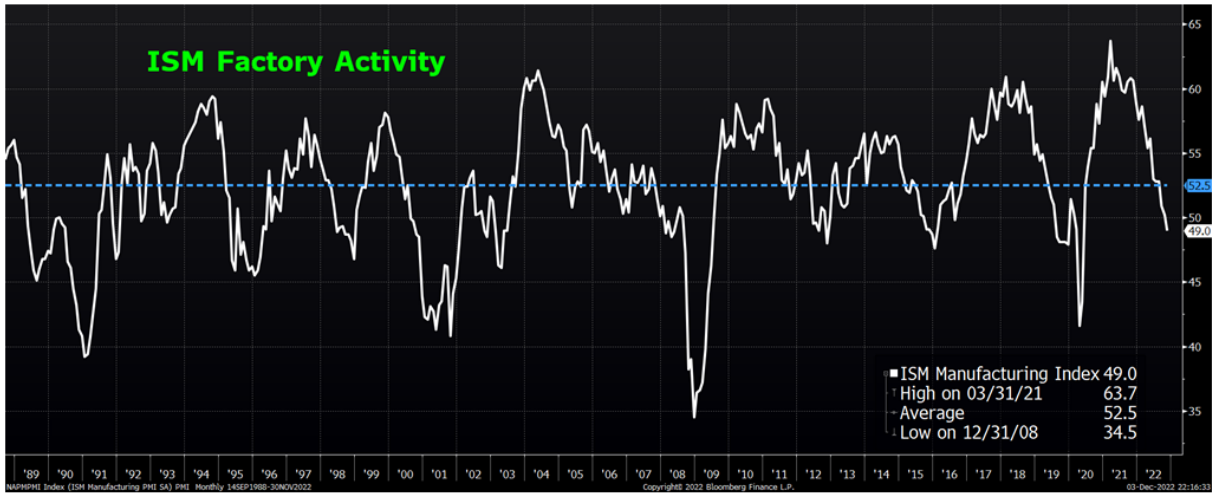
Keeping the faith is easier said than done, especially with many market pundits constantly explaining that stocks do not like uncertainty. Of course, uncertainty is a perpetual condition in that there are no crystal balls to predict the future. And even if one had early access to economic data, there is no assurance that it would lead to lucrative moves in and out of equities.

After all, last week we learned that the manufacturing sector is now in contraction,…

THE PRUDENT SPECULATOR

ISM MANUFACTURING FALLS: 0.1% ANNUALIZED GDP GROWTH SUGGESTED

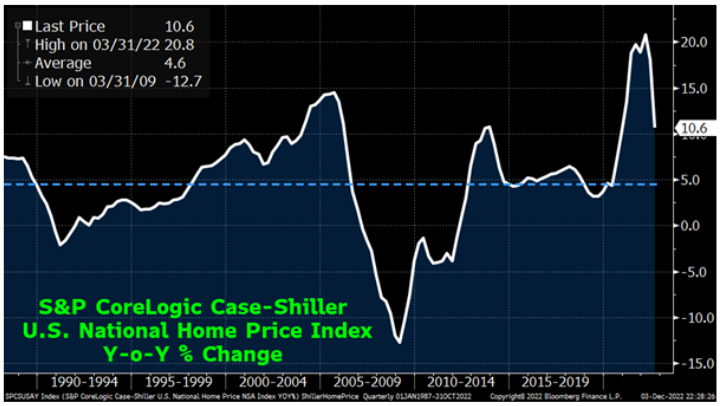
The latest data point on the health of the manufacturing sector came in below expectations at 49.0 in November, down from October's tally of 50.2 to a level below average for the 30-plus-year history of the gauge. The Institute for Supply Management stated, "The past relationship between the Manufacturing PMI and the overall economy... corresponds to a 0.1% increase in real gross domestic product (GDP) on an annualized basis."

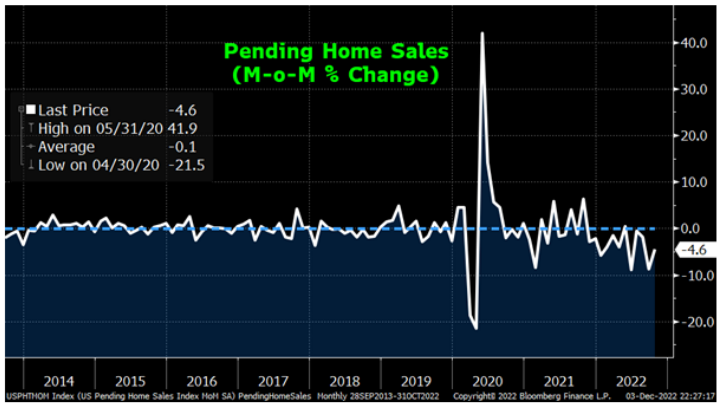


…and that the housing market continues to weaken,…

THE PRUDENT SPECULATOR

LOTS OF WEALTH HAS BEEN ACCUMULATED IN HOMES



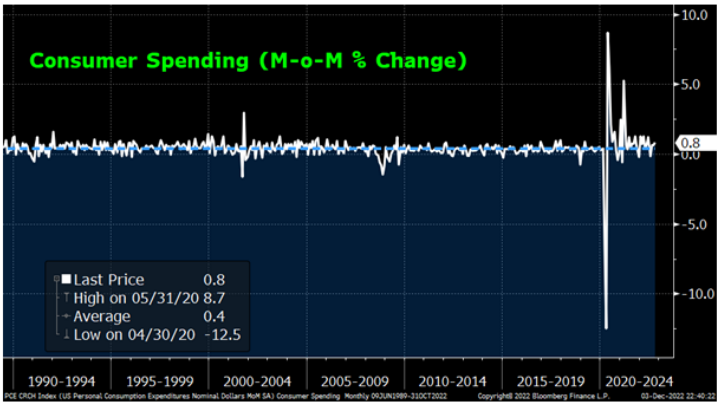


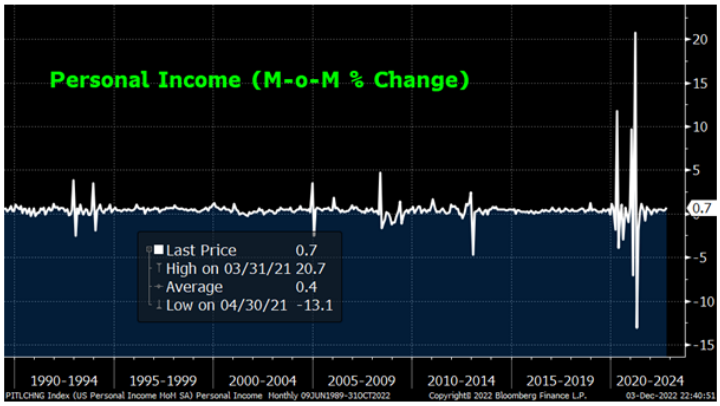
Obviously, soaring mortgage rates have crimped housing affordability, so home prices continue to be impacted, falling 1.2% in September as compared to August. Still, folks who own the roof over their heads have accumulated substantial wealth over the past decade and especially over the past 12 months, with the quarterly S&P CoreLogic Case-Shiller National Home Price Index up a hefty 10.6% year-over-year in September. Meanwhile, pending home sales skidded 4.6% in October, a smaller drop than forecast, but the eleventh month out of the last 12 with a decline.

…but consumer spending and incomes have been holding up very well,…

THE PRUDENT SPECULATOR

CONSUMER SPENDING & PERSONAL INCOMES BOTH RISE



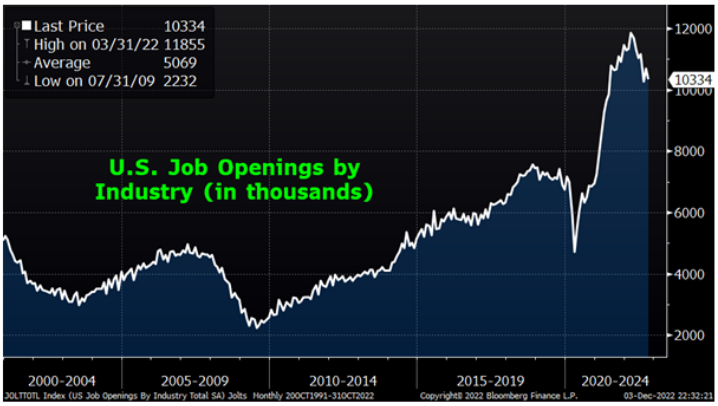


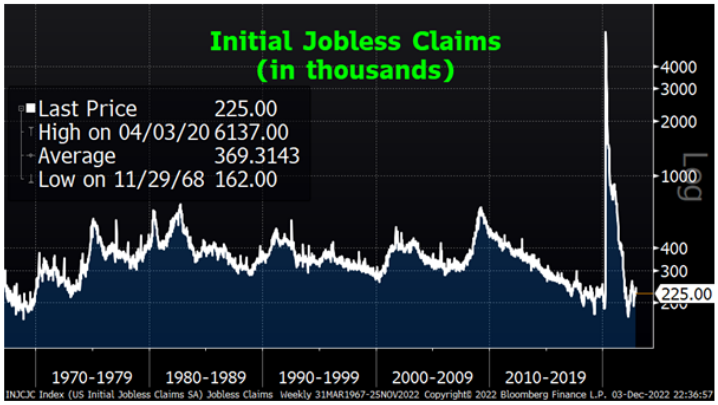
Despite a slowing economy and sky-high inflation levels, consumer spending rose 0.8% on a nominal basis in October and 0.5% on an inflation-adjusted basis, with travel and new cars leading the charge and the advance suggesting that the economy is not yet tipping into recession. Shoppers did not have to reach too deeply into their wallets as personal income gained 0.7% in October and the savings rate came in at 2.3%, though the latter figure represented a 17-year low.

…as jobs remained plentiful in October,…

THE PRUDENT SPECULATOR

PULLBACK IN JOB OPENINGS BUT LOW UNEMPLOYMENT FILINGS



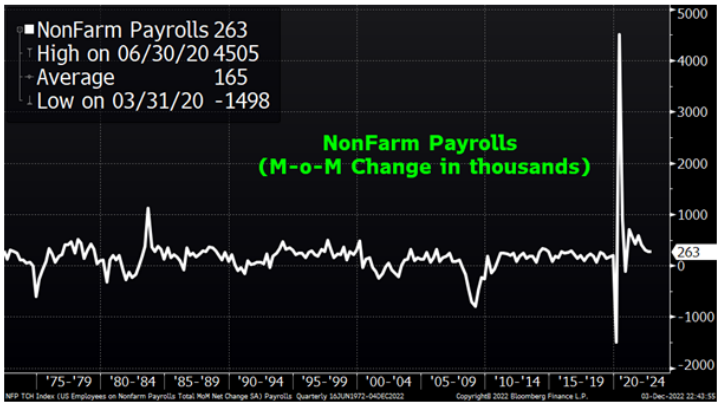


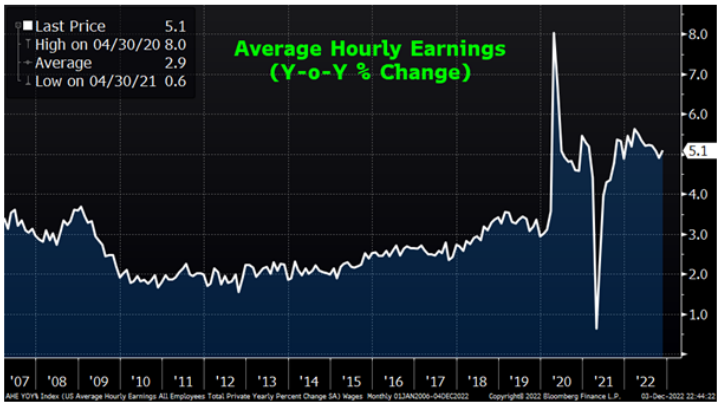
With the "Great Resignation" continuing as 4.0 million people quit their jobs in October, the labor market remains healthy, even as job openings dipped to 10.3 million which was below expectations as well as the September figure. Still, there were 1.7 job openings for each unemployed person. Looking at more current data, first-time filings for jobless benefits dipped by 16,000 to 225,000 in the week ending November 26, a figure that still suggests a slowing U.S. economy is not yet triggering wide layoffs.

…and more payrolls were created in November,…

THE PRUDENT SPECULATOR

STILL VERY HEALTHY JOBS PICTURE



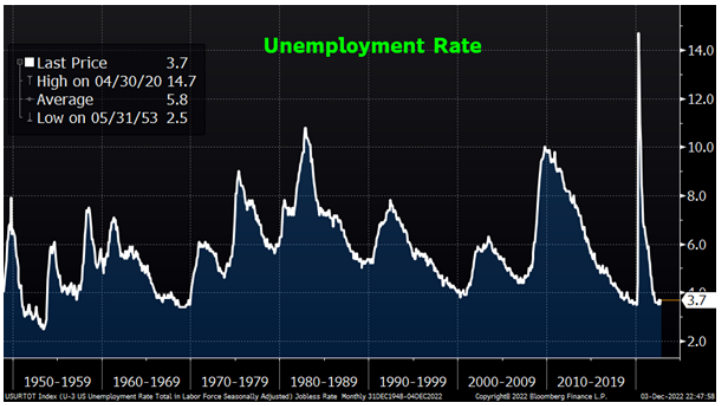


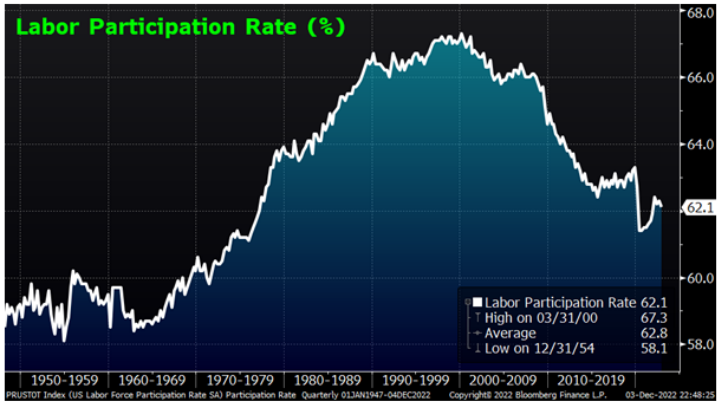
Economists were looking for a gain of 200,000 payrolls, so the increase of 263,000 in November was well above expectations, though the September and October tallies were revised down by a combined 23,000 jobs. Notable job gains were in in leisure and hospitality, health care and government. With strong demand for labor, wage gains continued on a year-over-year basis, rising 5.1% in November as employers still struggled to fill positions with qualified applicants.

…with the unemployment rate remaining near record low levels.

THE PRUDENT SPECULATOR

VERY-LOW JOBLESS RATE & NEAR PANDEMIC HIGH PARTICIPATION RATE





Though more jobs were created than expected last month, the unemployment rate for November held steady at 3.7% and the number of unemployed folks came in at 6.0 million, roughly unchanged since October. The jobless percentage was not far off the lowest since 1969. The so-called participation rate was essentially unchanged in November at 62.1%, still near the highest level since the beginning of the pandemic.

All of those stats did little to alter the current projections of supposed experts for the likelihood of recession in the U.S. in the next 12 months,…

THE PRUDENT SPECULATOR

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

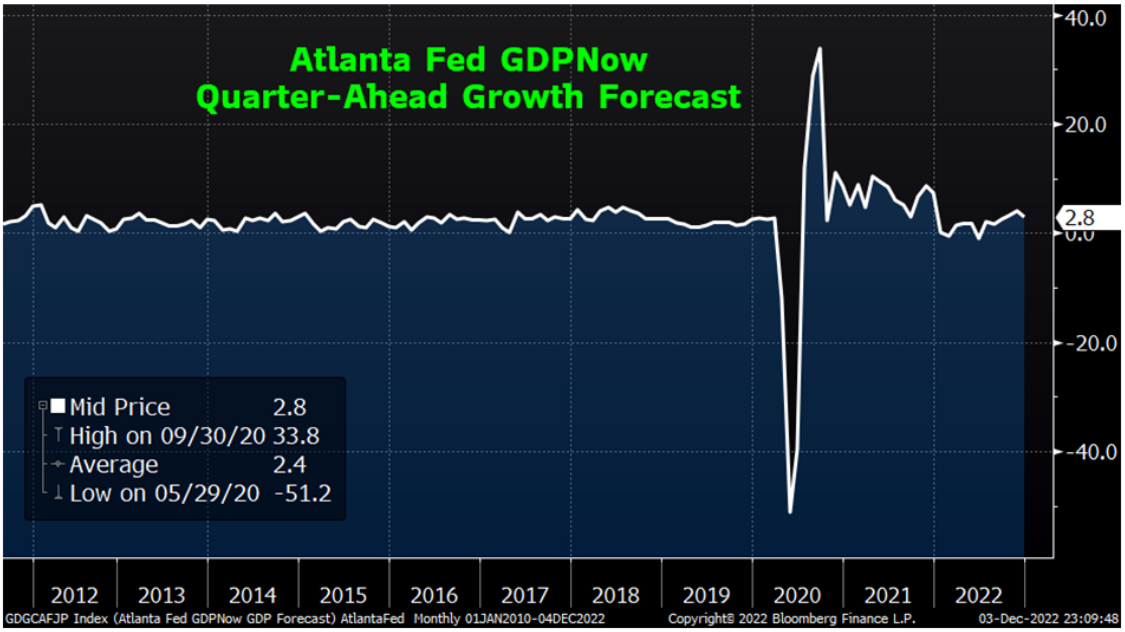
The respective 1.6% and 0.6% contractions in Q1 and Q2 2022 real (inflation-adjusted) GDP means economists could say that the U.S. economy was already in recession, but the odds of an official declaration stand today at 62.5%, even as the consensus forecast for GDP growth this year is 1.8% and 0.4% for 2023.

…even as they contributed to the Atlanta Fed's current Q4 GDP growth, yes growth, projection of 2.8%,…

THE PRUDENT SPECULATOR

Q4 U.S. REAL GDP GROWTH PROJECTION NOW STANDS AT A SOLID 2.8%

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 2.9% and the Atlanta Fed's projection for Q4 2022 real GDP growth on an annualized basis as of December 1 stood at 2.8%.

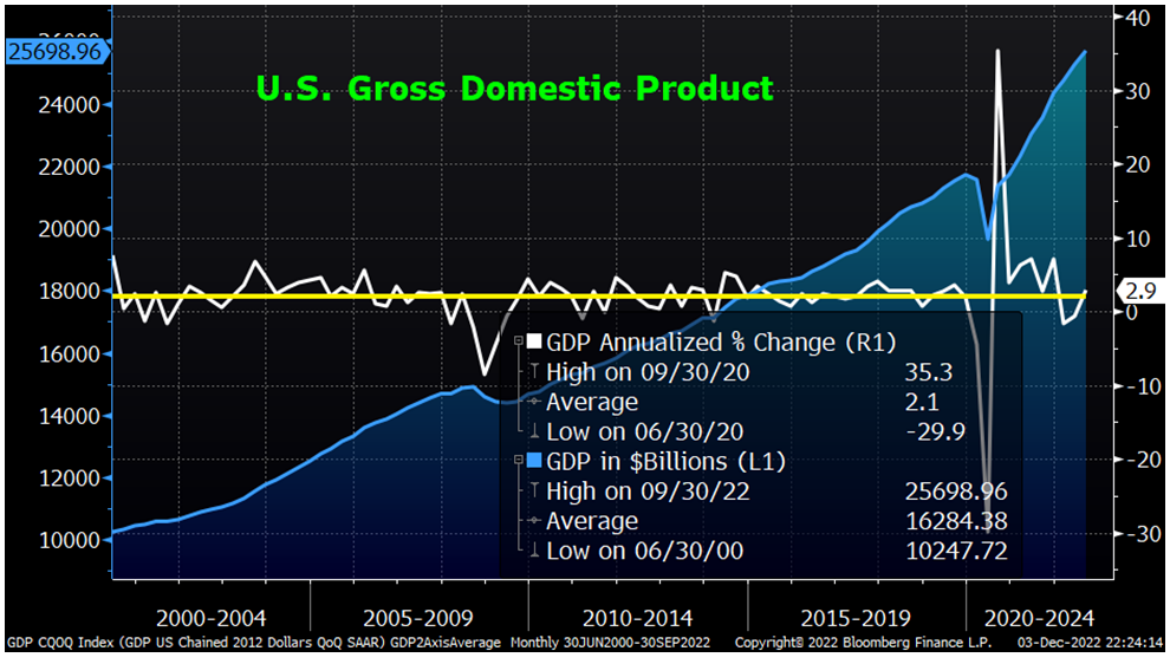


…which would about match the growth seen in Q3.

THE PRUDENT SPECULATOR

HUGE 9.1% JUMP IN Q3 NOMINAL GDP, AND REAL GDP GROWS BY 2.9%

Third quarter 2022 real (inflation-adjusted) domestic economic growth came in better than expected at a 2.9% growth rate on an annualized basis, while the current-dollar nominal GDP figure of $25.7 trillion soared by 9.1% on an annualized basis to an all-time high.



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The economic outlook is clear as mud, and we like the Neils Bohr quote, “Prediction is very difficult, especially if it’s about the future.” Still, it is reassuring, we think, to look at what has happened historically when conditions similar to what we are seeing today have existed, such as the supposedly dreaded inversion of the yield curve,…

THE PRUDENT SPECULATOR

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

THE WALL STREET JOURNAL.

WEDNESDAY, NOVEMBER 30, 2022 - VOL. CCLXXX NO. 128 WSJ.com ★★★★ $5.00

U.S. Defeats Iran 1-0 to Move to Next Round at World Cup

Treasury Yield Curve Inverts To Deepest Level Since 1981

Inverted Yield Curve Deepens

Spread between the U.S. 10-year and two-year Treasury yields, weekly

CORRECTIONS & AMPLIFICATIONS

With the 3.49% yield on the 10-Year U.S. Treasury now 83 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%	22717%
9/8/1966	28.4%	34.2%	58.3%	97.0%	27418%
12/19/1968	-11.8%	4.3%	4.8%	30.6%	18090%
2/12/1973	-19.1%	-2.6%	-4.4%	105.0%	14466%
7/4/1978	13.3%	58.4%	131.5%	352.6%	14013%
9/1/1980	5.6%	56.7%	96.8%	300.4%	9651%
5/29/1989	16.0%	42.6%	66.2%	423.9%	2449%
9/10/1998	39.8%	15.7%	10.7%	48.2%	553%
1/20/2006	15.5%	-36.2%	16.0%	84.3%	343%
5/23/2019	6.8%	48.0%			53%
S&P Total Return	**8.8%**	**24.0%**	**44.2%**	**165.4%**	**10975.3%**

As of 12.02.22. Source: Kovitz using data from Bloomberg and Refinitiv via The Wall Street Journal

…and the lead up to and aftermath of actual economic contractions,…

THE PRUDENT SPECULATOR

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

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

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

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

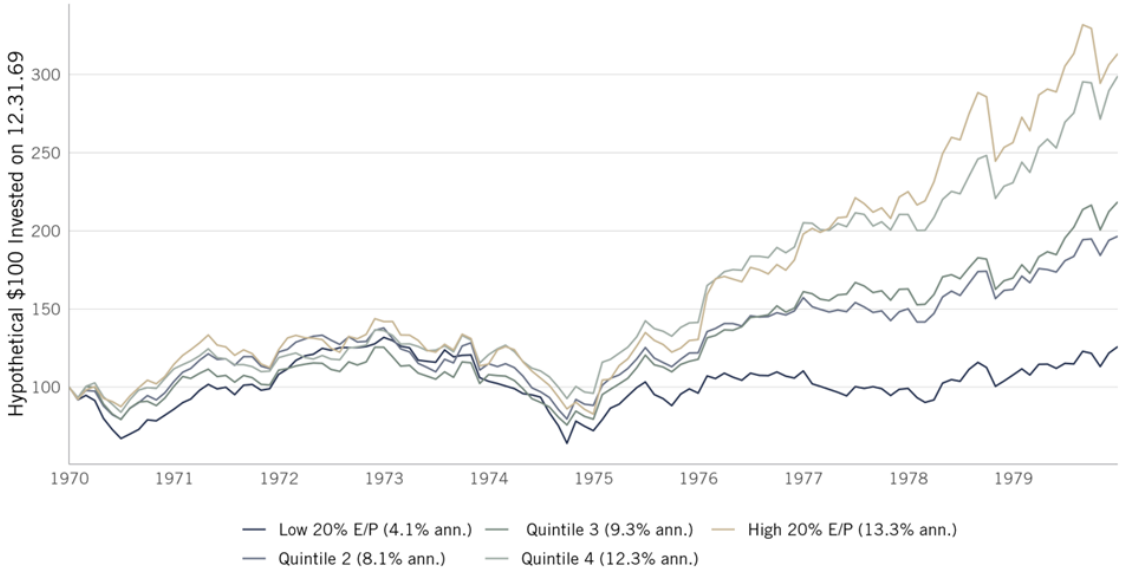
TR = Total Return. FF Value = Value Weighted Book to Market Portfolios - Blend of Small Value and Big Value.Source: Kovitz Investment Group using data from Bloomberg, Professors Eugene F. Fama & Kenneth R. French and the National Bureau of Economic Research

…and the high inflation of the 1970s,…

THE PRUDENT SPECULATOR

THE SEVENTIES – HIGH INFLATION & TERRIFIC EQUITY RETURNS…FOR VALUE

During the 1970s, as inflation climbed, the anticipation of high inflation became entrenched in the economic decisionmaking of households and businesses. The more inflation rose, the more people came to expect it to remain high, and they built that belief into wage and pricing decisions. As former Chairman Paul Volcker put it at the height of the Great Inflation in 1979, "Inflation feeds in part on itself, so part of the job of returning to a more stable and more productive economy must be to break the grip of inflationary expectations." – Jerome H. Powell



From 12.31.69 through 12.31.79. E/P is the Earnings to Price ratio. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

…which led to an unprecedented tightening of monetary policy from the Paul Volcker Federal Reserve in the early-1980s.

THE PRUDENT SPECULATOR

EQUITIES CLEARLY DIDN'T MIND THE VOLCKER SHOCK

The approach took two tries to get its intended effect. Volcker's tightening slowed economic activity enough that by January 1980, the U.S. was in recession. But Fed interest rates actually began falling sharply after April, which limited the effectiveness of the Fed's anti-inflation efforts. The Fed tightened again after that and sparked another recession in July 1981. This one was far worse than the first; while unemployment peaked at 7.8 percent during the 1980 recession, it would peak at 10.8 percent in December 1982 in the middle of the 16-month second Volcker recession. That's a higher level than at the peak of the Great Recession in 2009. Over the course of the 1980s, this policy regime would become known as the "Volcker shock."

– Vox.com

Volcker Vanquishes The Great Inflation

Equity Returns

Year	FF Value	FF Growth	FF Div Payers	FF Non Div	Inflation	Fed Funds Rate
1979	30.5%	32.3%	22.5%	60.5%	13.3%	14.0%
1980	19.5%	44.2%	30.8%	63.3%	12.4%	18.0%
1981	16.0%	-9.0%	-1.1%	-16.1%	8.9%	12.0%
1982	34.1%	20.8%	21.7%	13.6%	3.9%	8.5%
1983	37.5%	17.5%	22.8%	20.7%	3.8%	9.5%
1984	11.9%	-7.3%	5.1%	-18.3%	4.0%	8.3%
1985	32.5%	31.2%	33.7%	24.0%	3.8%	7.8%
1986	18.1%	8.6%	18.2%	2.2%	1.1%	6.0%
Annualized	**24.7%**	**15.9%**	**18.7%**	**15.3%**	**6.3%**	

Total Return. Value Weighted Equity Portfolios. Year-End Federal Funds Rate. Source: Kovitz Investment Group using data from Bloomberg and Professors Eugene F. Fama & Kenneth R. French

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And speaking of the Fed, the catalyst for the equity move higher last week was an important speech by Jerome H. Powell. The Fed Chair concluded his remarks with the following:

Returning to monetary policy, my FOMC colleagues and I are strongly committed to restoring price stability. After our November meeting, we noted that we anticipated that ongoing rate increases will be appropriate in order to attain a policy stance that is sufficiently restrictive to move inflation down to 2 percent over time.

Monetary policy affects the economy and inflation with uncertain lags, and the full effects of our rapid tightening so far are yet to be felt. Thus, it makes sense to moderate the pace of our rate increases as we approach the level of restraint that will be sufficient to bring inflation down. ***The time for moderating the pace of rate increases may come as soon as the December meeting.*** *Given our progress in tightening policy, the timing of that moderation is far less significant than the questions of how much further we will need to raise rates to control inflation, and the length of time it will be necessary to hold policy at a restrictive level. It is likely that restoring price stability will require holding policy at a restrictive level for some time. History cautions strongly against prematurely loosening policy. We will stay the course until the job is done.*

The ”moderating” part in bold spurred a big rally in stocks on Wednesday, as government bonds soared in price and yields plunged,…

THE PRUDENT SPECULATOR

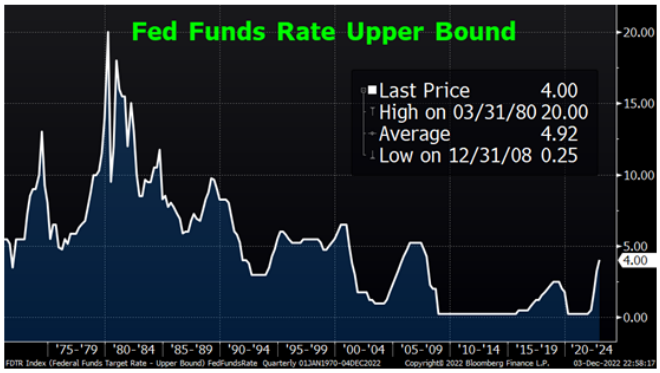
BENCHMARK TREASURY YIELD DROPS 19 BASIS POINTS

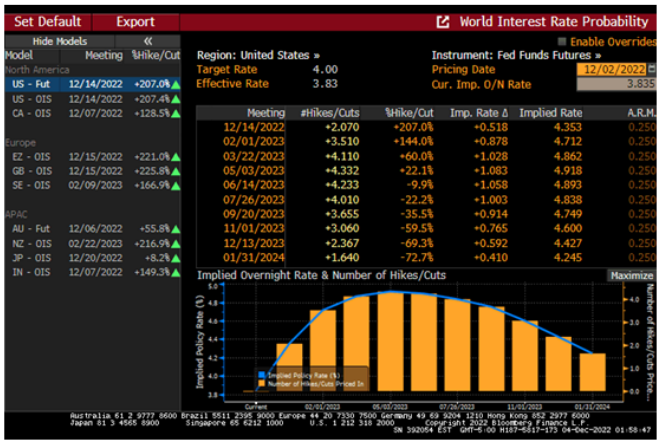
Despite only a modest drop in the Personal Consumption Expenditure inflation measure, Jerome H. Powell's intimation that he and his colleagues at the Federal Reserve may moderate the pace of interest rate hikes this month sent the yield on the benchmark U.S. Treasury down to 3.49 last week.

…while expectations for the peak in the Fed Funds rate came down to below 5.0%,…

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 4.35% year-end Fed Funds rate and a 4.92% peak for May 2023, with a pivot coming in June 2023.



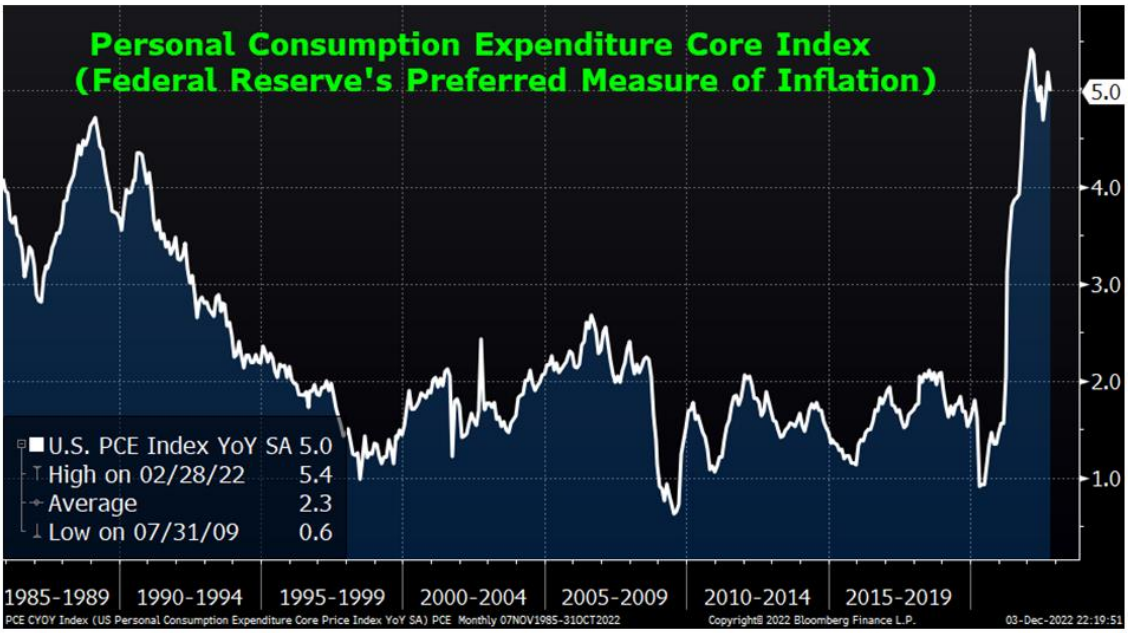


…with a better-than-expected (lower-than-forecast) tally on the Fed's favored inflation gauge supporting the case that the rate hiking cycle may be nearing an end.

THE PRUDENT SPECULATOR

FED SLOWING THE PACE OF RATE HIKES? OCTOBER CORE PCE TICKS LOWER

The Federal Reserve's preferred gauge of inflation, the core Personal Consumption Expenditure (PCE), rose in October by 5.0%, above the 2.0% target but below Wall Street expectations. The figure was down from September's 5.1% increase, and the number alleviated some of the concerns that the Fed will continue to aggressively hike interest rates as the full PCE index climbed 6.0%, down 0.2% from September.



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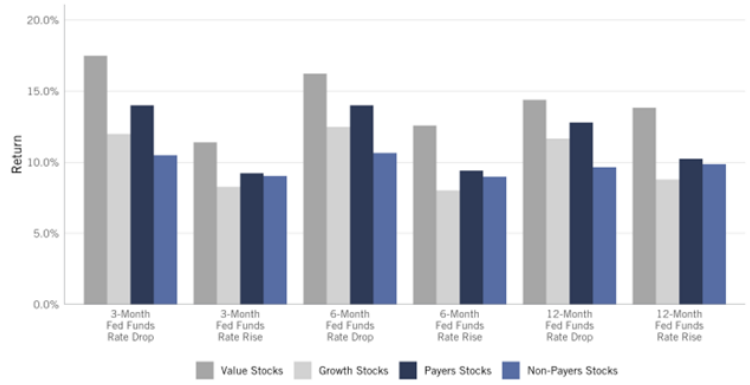
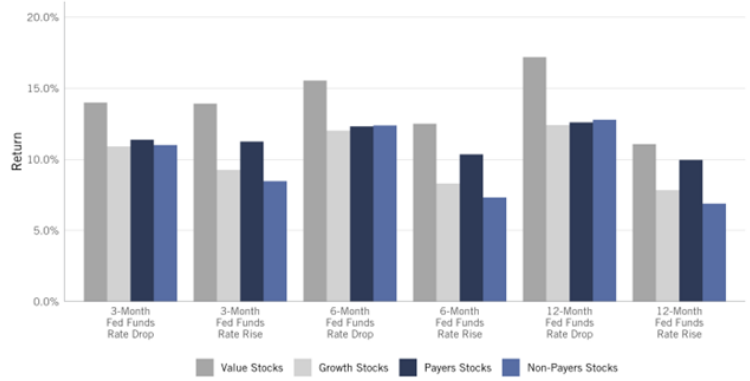
While many fret about the Federal Reserve, nearly seven decades of market history argue that we shouldn't lose much sleep over Fed actions,…

THE PRUDENT SPECULATOR

FED FUNDS RATE Δ EQUITY RETURNS – VALUE THE PLACE TO BE



From 07.31.54 through 08.31.22. Concurrent annualized 12-month returns. SOURCE: Kovitz using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French



From 07.31.54 through 08.31.22. Subsequent annualized 12-month returns. SOURCE: Kovitz using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French

Many think the Federal Reserve hiking the Fed Funds rate will prove to be a big headwind for equities, but seven decades of returns data show that stocks in general have performed admirably on average, both concurrent with and subsequent to increases (as well as decreases) in the Fed Funds rate over 3-, 6-, and 12-month time spans, with Value Stocks leading the charge no matter the direction.

…so we retain our enthusiasm for the long-term prospects of our broadly diversified portfolios of what we believe to be undervalued stocks,…

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	12.2	12.2	0.8	2.3	2.7
ValuePlus	12.9	12.8	1.2	2.4	2.3
Dividend Income	12.1	12.3	0.7	2.2	3.2
Focused Dividend Income	13.5	13.3	1.1	2.6	2.7
Focused ValuePlus	13.8	13.7	1.3	2.8	2.5
Small-Mid Dividend Value	10.8	10.5	0.5	1.7	2.8
Russell 3000	21.0	19.0	2.1	3.8	1.6
Russell 3000 Growth	29.3	25.3	3.2	9.4	1.0
Russell 3000 Value	16.4	15.3	1.6	2.4	2.2
Russell 1000	20.2	18.7	2.3	4.0	1.6
Russell 1000 Growth	27.6	25.0	3.5	9.9	1.0
Russell 1000 Value	16.1	15.1	1.7	2.5	2.2
S&P 500 Index	19.7	18.5	2.4	4.1	1.6
S&P 500 Growth Index	23.4	21.9	4.1	7.1	1.0
S&P 500 Value Index	17.3	16.3	1.7	3.0	2.2
S&P 500 Pure Value Index	11.0	10.7	0.7	1.6	2.5

As of 12.03.22. 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.

…as we think valuations remain reasonable, even with the jump in interest rates this year,…

THE PRUDENT SPECULATOR

INTEREST RATES STILL SUPPORTIVE OF STOCKS

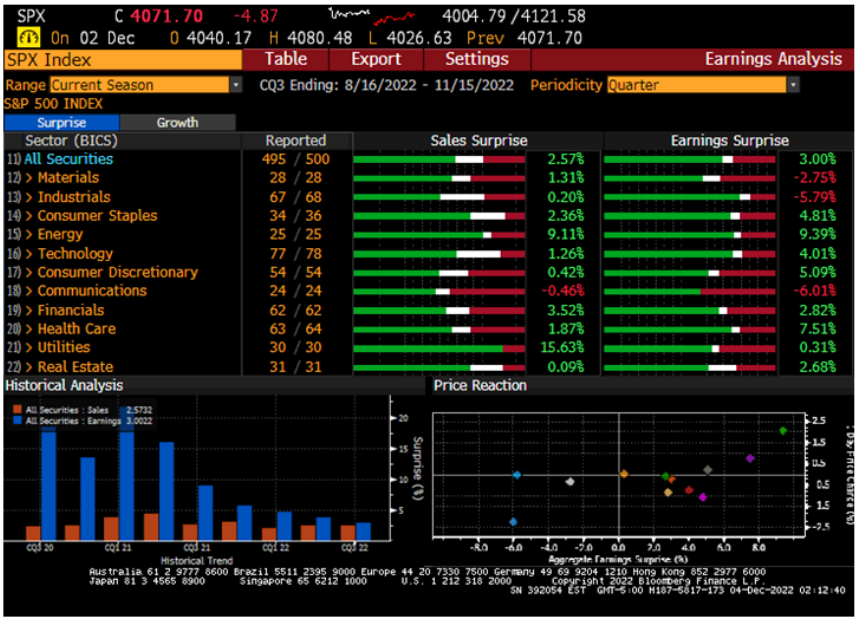
The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. Though many dismiss the Fed Model, investing is always a choice of this or that, and we still like today's rich earnings yield (5.08% vs. 3.49% 10-Year), despite this year's jump in interest rates.

…while corporate profits are still expected to be solid in 2023.

THE PRUDENT SPECULATOR

2023 EARNINGS GROWTH STILL THE ESTIMATE

Q3 earnings reporting season was very good, even as outlooks continued to be subdued and stock prices sometimes have reacted negatively. Of the 495 S&P 500 companies that have posted results, 69.5% beat EPS expectations and 59.2% 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	$59.40	$228.37
9/30/2023	$58.35	$223.07
6/30/2023	$56.49	$215.33
3/31/2023	$54.13	$205.71
12/31/2022	$54.10	$200.94
9/30/2022	$50.61	$203.57
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 11.30.22

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 **Hewlett Packard Enterprise** (HPE – $16.69) jumped more than 5% last week as the firm released fiscal Q4 financial results that beat analyst estimates. The enterprise storage and networking concern earned an adjusted $0.570 per share in Q2 (versus $0.565 est.). Revenue for the company's largest segment, Compute, was $3.74 billion (vs. $3.14 billion est.), while Intelligent Edge had revenue of $965 million and HPC & AI grew to $862 million. The 33.1% adjusted gross margin was behind the consensus estimate by 1.2%. Cash flow from operations totaled $3.0 billion (vs. $2.63 billion est.).

CEO Antonio Neri commented, “In 2018, we introduced a clear strategy to deliver sustainable long-term value for shareholders. And in 2019, we began our pivot to prioritize recurring revenue through our HP GreenLake edge-to-cloud platform. We have refocused our portfolio and our customer value proposition toward high growth and higher gross margin solutions. We also improved our operating leverage across the company. We are now seeing these strategic actions paying off. In Q4, orders remained steady, showing continued interest in our differentiated Edge-to-Cloud solutions across industries, from enterprises large and small. Demand over the course of the year was enduring and proved to be better than we anticipated. We closed this fiscal year with a significantly larger order book than we had at the start of the year. I am very proud of our performance in the quarter and in fiscal year 2022. Faced with ongoing macroeconomic challenges, supply constraints and adverse foreign exchange, HPE executed exceptionally well.”

Mr. Neri continued, “Our fourth quarter and year-end results position us for continued durable profitable growth in fiscal year 2023, and we are confident in the guidance targets we gave last month at SAM. Going into next quarter, we are optimistic demand will sustain globally. It is clear that customers view their data first digital transformation critical to their success and are prioritizing hybrid cloud solutions to propel them forward, particularly in these dynamic times. As we look ahead for the next fiscal year, after many quarters of supply constrained in our market, we are beginning to see some improvements. Demand from the consumer sector is slowing, allowing some substrate capacity to shift to enterprise IT technologies. As a result, we have been able to reduce anticipated lead times for some products. We are continuing to take proactive measures to mitigate supply chain challenges and we are working through our large order book, which has experienced no material cancellations. Over the course of 2023, we expect to see great and easy but not an end to supply shortages.”

For 2023, HPE said it expects currency-adjusted revenue growth between 2% and 4% with free cash flow in the $1.9 billion to $2.1 billion range and EPS between $1.96 and $2.04. Next quarter, HPE expects revenue between $7.2 billion and $7.6 billion and EPS between $0.50 and $0.58.

CFO Tarek Robbiati added, “While we are pleased with our Q1 outlook, we are cognizant given the macroeconomic environment and FX headwinds that it is too early at this stage to rethink our fiscal year ’23 guidance. Given the points above, we consider it prudent to assume our year may be more weighted to the first half than is typical…In terms of capital returns, we are maintaining our dividends and expect to buy back at least $500 million worth of shares in fiscal year ’23, just like we did in fiscal year ’22.”

HPE’s transformation is underway, while the stock price movement this past week and this year would seem to indicate that investors are warming to the story. Shares are up about 6% this year, compared with a greater than 20% drop for the S&P 500 Information Technology sector index, while the earnings improvements still result in single-digit P/E and almost 3% dividend yield. We think with some sustainable execution, a little bit of relief on the currency front and growth in the underlying figures like earnings and revenue, HPE’s future is bright. Our Target Price has been bumped up to $22.

Kroger (KR – $47.57) said that it earned an adjusted $0.88 per share in Q3, beating the $0.82 expected by analysts, as overall sales grew 7.3% year-over-year to $34.2 billion, with identical-store sales excluding fuel 6.9% higher (vs. 4.5% est.) and a gross margin of 21.4% (vs. 21.2% est.). Shares dipped 3% on the week despite a lift to the grocer's profit outlook for the year. Kroger expects same-store sales growth of 5.1% to 5.3% in the fiscal fourth quarter, bringing the outlook to between $4.05 and $4.15 of EPS for the year, both ranges slightly better than analyst expectations.

CEO Rodney McMullen said, "Kroger achieved strong results in the third quarter as we continue to execute our Leading with Fresh and Accelerating with Digital strategy. Our associates are doing an outstanding job delivering a full, fresh and friendly experience across our seamless store and digital ecosystem. Kroger's value proposition, which includes providing great quality, fresh products at affordable prices, data-driven promotions, trusted Our Brands products and an industry-leading fuel rewards program, is resonating with shoppers and driving increased customer loyalty. This quarter demonstrates the strength of our approach to growing our business. By delivering for our customers, investing in our associates and supporting our communities, we are creating attractive and sustainable total returns for our shareholders."

Management also testified before the Senate Judiciary Subcommittee on Antitrust Competition Policy in Consumer Rights last week, suggesting that its planned merger with Albertsons will lower prices for customers, while the combined entity continues to investment in our associates, stores and the customer experience. Mr. McMullen added, "We are making early progress on our integration planning as expected and we continue to engage with all of our stakeholders and regulators. We are advancing our roadmap to close the transaction in early 2024. We look-forward to working with the regulators as they review the transaction. I do not have a substantial update at this time. We would ask that you focus your questions on our quarterly performance and our progress on our strategy."

We continue to like the competitive portfolio of house brands at Kroger, particularly within the fresh category, and appreciate the ballast that the stock has offered our portfolios through some rocky moments over the past couple of years. Nevertheless, with every stock fighting for a spot in our broadly diversified portfolios, we continue to weigh our stake against other battered names in our opportunity set, especially given the significant relative performance advantage KR has enjoyed this year. Our Target Price is $63.

Big Lots (BIG – $18.19) reported another adjusted loss that widened to $2.99 per share in fiscal Q3, compared to a $2.91 loss in Q2 and the $2.93 loss per share expected by analysts. Management pinned the 12% year-over-year reduction in sales on the impact inflation is having on consumer discretionary purchases. The discount retailer also continues to work through a massive jump in inventory from four quarters ago, while trying to refresh its offering. The effort has weighed on gross margin, which has fallen from 38.9% a year ago to 34% in the recent quarter.

CEO Bruce Thorn said, "Each quarter that goes by, we are learning and adjusting our assortments and promotions to meet wage where we can. We are making good progress, and we expect that to be increasingly evident as we go forward. In a challenged economic environment,

it is important now more than ever to help our customers stretch their dollar even further. We see a tremendous opportunity to draw more trade-down customers, leverage our deep experience in bargains and offer incredible value for our customers. We are taking this moment as an opportunity to strengthen our business model by creating a better shopping experience, offering even more deals, more exciting products, and making these bargains and treasures even easier to find."

The company expects the fourth quarter comparable sales to remain down by low double-digits relative to the prior year, and for the gross margin rate to improve sequentially versus Q3 but remain in the mid-30s range. It also continues to project over 50 store openings in 2022 with a focus on rural markets, offset by a similar or slightly higher level of closures, which includes an outright sale of approximately 25 owned stores.

The current environment has affected retailers both large and small, although some businesses have definitely weathered the storm better than others. We think there is still room to right the ship at BIG as bargain shopping is arguably more valuable to consumers than ever today. As disappointing as the losses from the last few quarters have been, shares have fallen two thirds from their pandemic high. The Street projects a return to profitability next quarter but we are weighing our continued ownership versus other battered retailers. The dividend yield is 6.6%, but the recent red ink has us questioning its sustainability. Our Target Price for BIG has been pared to $34.

High-flying shares of **Archer-Daniels-Midland** (ADM – $91.71) fell 6% last week as investors digested proposed changes to biofuel mandates in the U.S. by the EPA under the Biden Administration. The updates are designed to raise the amount of biofuel that must be mixed into gasoline and diesel over the next three years to as much as 22.68 billion gallons in 2025, up from this year's 20.87 billion gallons. At first glance, the news appears positive for crop traders like ADM but the bump to biofuel mixes were apparently less than anticipated.

ADM reported stellar Q3 results just over month ago, boosted by strong crush margins which are expected to be negatively impacted by the EPA's proposal as it broadens the source of biofuel feedstock beyond traditional sources like ethanol, even as management suggested the recent momentum would carry into next quarter, due to feeding animals around the world and extra demand for biodiesel around the globe. Of course, lots can change before the rules are ultimately set in stone. And the Biden administration is faced with encouraging traditional gasoline production today to keep prices in check while incentivizing biofuel production will likely further compel refineries to convert their facilities to produce biofuels. According to the Energy Information Administration, production capacity of renewable diesel would go from half a billion gallons a year in 2020 to 5 billion gallons a year a few years from now should refiners such as Phillips 66, Valero & **Holly Sinclair** (DINO – $56.42) follow through with their announced plans to convert facilities.

The agency has scheduled a hearing for public comment January 10 in an effort to meet a court mandate to finalize the biofuel quotas by June 14 next year. EPA Administrator Michael S. Regan said the agency was "focused on strengthening the economics of our critical energy infrastructure," while Energy Secretary Jennifer Granholm suggested the proposal was a way to

"drive forward fuel innovations while balancing the need to maintain and strengthen critical domestic refining capacity and support the union workers who operate these facilities."

As a refiner of various agricultural commodities like soybeans and corn subject to changes in both supply and demand, we acknowledge the cyclical and often volatile nature that characterizes ADM's business. Still, the tightness in ag markets from imbalances in the supply chain, further exacerbated by geopolitical conflict have pushed ADM's sales to levels not seen for nearly a decade, with profits even higher given improvements in productivity. Despite the recent dip, shares have enjoyed fantastic gains this year (up 35% year-to-date), and we mentioned back on Halloween that we would not fault anyone for cashing in some of their chips for more badly bruised opportunities in the marketplace. Shares now trade for less than 14 times NTM estimated EPS, while the dividend yield is 1.7%. Our Target Price for ADM is $108.

Memory chip maker **Micron's** (MU – $54.68) CFO, Mark Murphy, attended the Wells Fargo TMT Summit on November 29, and his comments spooked investors, pushing shares down 6% for the week.

Mr. Murphy said, "It is a really tough environment. We still see customers doing inventory adjustments. That continues. And then in a number of markets, we see weak end-market demand. So we're working through that, but it's been very difficult. And again, that's why we chose to take the supply action. I'll talk a bit more about that later. I'm not going to provide a full update on the guidance today. But what I would say is that pricing has trended well below what we thought it would be when we had our earnings call. So the pricing environment has been difficult. And that's despite what we think have been very good and disciplined actions on our part around pricing. We have been walking away from deals where we think the market — or the price doesn't reflect market. So it's been difficult."

Since Micron is a supplier to companies like Kingston, **Apple** (AAPL – $147.81), Dell, Lenovo, LG and a customer of Applied Materials, **Lam Research** (LRCX – $457.67), ASML and Powertech Technology, the company's comments are scrutinized by a wide range of investors. Therefore, it was no surprise that Mr. Murphy's negative remarks sent shares tumbling, dragging down peers and companies up/down the supply chain with it.

Despite a decent Q4 EPS print, the chip market has weakened dramatically in the second half of this year, and Micron's capital expenditure, production cuts and market comments have ramped up the worry among 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 $0.17 per share in 2023, before climbing back above $8.00 in fiscal 2026 (MU earned $8.35 per share in 2022). We understand 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 earnings may advance as quickly as they receded this year if geopolitical conflict eases. Our Target Price for MU has been trimmed to $90.

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