

Market Commentary Monday, December 26, 2022

December 26, 2022

EXECUTIVE SUMMARY

Week in Review – Value Beats Growth

Billionaire Talk – Time in the Market Trumps Market Timing

Growth – Long-Term Trend in Corporate Profits and GDP is Up

Recession – Contractions Not Unusual; But Expansions Always have Followed

Econ Data – Mixed Numbers

Valuations – Inexpensive Multiples for our Portfolios

Sentiment – Major AAII Buy Signal

Stock News – Updates on FDX & MU

Market Review

We hope everyone is enjoying the long Christmas weekend. Given the holiday, we offer a relatively brief update this week as we might argue that not a whole lot happened over the past five trading sessions, given that the broad-based S&P 500 and Russell 3000 indexes ended the week down just a smidge.

Of course, it was nice to see Value again outperforming Growth by a wide margin,...



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 big moves in both directions again happening last week, pushing the Nasdaq Composite index down 32.3% and the Russell 3000 Growth index down 28.7% on the year. There are no awards for the losses on Value in 2022, but inexpensive stocks have held up better, which is in keeping with the historical evidence when inflation is high, when the Fed is tightening and when interest rates are moving up.

Total Returns Matrix												
2000	2001		Week	Q4 '22	YTD	Last 12 Months	Since 10.31.20	Since 3.23.20	Last 3 Years	Last 5 Years	Name	Symbol
-4.71	-5.44	M	0.86	16.21	-6.70	-5.70	30.85	88.90	23.75	49.58	Dow Jones Industrial Average	INDU Index
1.01	-10.21	A	1.18	13.38	-9.22	-8.09	28.68	85.12	17.67	34.95	New York Stock Exchange Composite	NYA Index
-39.18	-20.81	R	-1.93	-0.50	-32.33	-32.36	-2.12	56.43	20.35	58.16	Nasdaq Composite Index	CCMP Index
-22.43	-9.23	K	-0.46	4.01	-26.44	-26.69	-2.70	57.45	1.25	18.28	Russell 2000 Growth	RU20GRTR Index
22.83	14.02	E	0.22	8.37	-14.52	-13.87	41.18	106.05	14.80	21.73	Russell 2000 Value	RU20VATR Index
-3.02	2.49	T	-0.12	6.14	-20.50	-20.33	17.46	81.69	9.21	21.80	Russell 2000	RU20INTR Index
-11.75	-20.15	O	-0.82	6.88	-26.73	-26.62	-1.82	62.83	11.84	44.40	Russell Midcap Growth Index Total Return	RUMCGRTR Index
19.18	2.33	F	0.54	10.55	-11.95	-10.32	34.83	106.09	19.05	32.33	Russell Midcap Value Index Total Return	RUMCVATR Index
8.25	-5.62	O	0.06	9.24	-17.27	-16.25	20.84	91.50	18.96	41.03	Russell Midcap Index Total Return	RUMCINTR Index
-22.42	-19.63	F	-1.28	2.63	-28.75	-28.62	4.09	67.02	24.21	64.20	Russell 3000 Growth	RU30GRTR Index
8.04	-4.33	S	0.82	12.00	-8.13	-6.87	36.42	90.69	18.73	36.49	Russell 3000 Value	RU30VATR Index
-7.46	-11.46	S	-0.21	7.25	-19.15	-18.56	19.08	79.64	23.05	52.01	Russell 3000	RU30INTR Index
9.64	-0.39	T	0.30	11.66	-11.43	-10.03	36.84	106.91	29.77	54.51	S&P 500 Equal Weighted	SPXEWTR Index
-9.10	-11.89	O	-0.17	7.68	-18.02	-17.30	21.56	79.56	25.23	56.55	S&P 500	SPXT Index
-22.08	-12.73	C	-0.74	1.91	-29.08	-28.82	6.90	67.29	25.42	63.12	S&P 500 Growth	SPTRSGX Index
6.08	-11.71	K	0.46	13.29	-5.48	-4.11	37.92	87.55	19.79	43.44	S&P 500 Value	SPTRSVX Index
3.18	1.57	S	-0.82	4.90	-15.97	-15.86	-17.37	-9.95	-11.95	-6.90	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index
11.63	8.44	S	-1.47	2.54	-12.44	-12.30	-12.82	-8.27	-7.10	1.29	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index

As of 12.23.22. Source Kovitz using data from Bloomberg

...with the returns gap due in part to a prominent billionaire hedge fund manager proclaiming, "I'm leaning short on the equity markets. The upside/downside just doesn't make sense to me when I have so many...central banks telling me what they are going to do." Never mind that said hedge-fund manager has previously offered strong evidence that the only problem with market timing is getting the timing right.



Ray Dalio predicts a coronavirus depression: 'This is bigger than what happened in 2008'

Published Thu, Apr 9 2020 8:01 PM EDT

Tom Haddock Jr.



April 9, 2020

Hedge fund Elliott says stocks could fall 50% from February highs

Published Thu, Apr 16 2020 6:48 EDT | Updated Thu, Apr 16 2020 11:50 AM EDT

Chris Jones

KEY POINTS

- The novel coronavirus weighed against a backdrop of record low interest rates coupled with record high leverage as markets were propped up by excessive government aid, the fund said.
- "Our gut tells us that a 50% or deeper decline from the February top might be the ultimate path of global stock markets," the letter said.



April 16, 2020

Icahn Sees Further Market Crash From Coronavirus, Says He's Shorting Commercial Real Estate

Updated Apr 25, 2020 10:23 AM EDT

Samuel H. Williams

Yikes: One of Wall Street's most successful investors, billionaire Carl Icahn, warned in a recent interview with Bloomberg that stocks are overvalued, and although there will be "good opportunities" to buy, he expects that the coronavirus will lead to a further market sell-off.



April 25, 2020

Jeffrey Gundlach is shorting the market, says a retest of the low 'very plausible'

Published Mon, Apr 27 2020 12:48 PM EDT | Updated Mon, Apr 27 2020 7:08 PM EDT

David L. Johnson

KEY POINTS

- DoubleLine CEO Jeffrey Gundlach said the market could retest its March low as investors could be underestimating the social disruptions from the coronavirus.
- "I think a retest of the low is very plausible," Gundlach said. "People don't understand the magnitude of... the social upside at least that's going to happen when... 25 million-plus people have lost their job."
- The so-called bond king revealed he just established a short position against the stock market.



April 25, 2020

Legendary investor Stanley Druckenmiller says he doesn't like the way the market is set up

Published Thu, May 12 2020 4:38 PM EDT | Updated Thu, May 12 2020 4:40 PM EDT

John Pineda

KEY POINTS

- Hedge fund manager Stanley Druckenmiller told the Economic Club of New York on Tuesday that "the risk reward for equity is maybe as bad as I've seen it in my career," Druckenmiller said, according to the organization's Twitter account.
- The hedge fund manager also said he thought the market was overreacting to news of progress on antimal drugs, such as Gilead's remdesivir.
- "I don't see why anybody would change their behavior because there's a small thing out there," he said, according to the club.



May 12, 2020

David Tepper says this is the second-most overvalued stock market he's ever seen, behind only '99

Published Wed, May 12 2020 10:48 AM EDT | Updated Wed, May 12 2020 4:50 PM EDT

David L. Johnson

KEY POINTS

- Appaloosa Management founder David Tepper's comments helped escalate a stock sell-off.
- The S&P 500's forward price-earnings ratio based on estimates for the next 12 months has ballooned to above 20, a level not seen since 2002.
- "The market is pretty high and the Fed has put a lot of money in here," Tepper said. "There's been different reallocations of capital to the market... the market is by anybody's standard pretty full."
- He also said some Big Tech stocks like Amazon, Facebook and Alphabet may be "fully valued."



May 13, 2020

To be sure, many of these folks have accumulated superb long-term track records, despite more than a few incorrect calls along the way, but we will always believe that the secret to success in stocks is not to get scared out of them.



Seems like the airwaves have been filled with purveyors of doom-and-gloom, which is par for the course whenever stocks have headed south. Of course, about all the supposed experts have proved over the years is to remind investors that time in the market trumps market timing.

PRO: FOLLOW THE PROS

Ray Dalio says higher interest rates to squash inflation could tank stock prices by 20%

Billionaire investor Ray Dalio issued a dismal outlook for the markets and the economy, predicting a 20% plunge in stock prices, as the Federal Reserve ...

Yun Li 9/15/2022 6:42:14 AM PST



PRO: FOLLOW THE PROS

Hedge fund Elliott Management sees world on path to hyperinflation and worst crisis since WWII

Elliott Management, one of the world's biggest hedge funds, issued a dire warning on the markets and the economy, saying the world could be headed ...

Yun Li 11/3/2022 2:53:40 PM PST



MARKETS

Carl Icahn says he still thinks we are in a bear market despite Thursday's rally

Famed investor Carl Icahn said Thursday's relief rally didn't change his negative view on the market, and he believes a recession is still on the ...

Yun Li 11/10/2022 1:03:56 PM PST



PRO: FOLLOW THE PROS

Jeffrey Gundlach says yield curve inversions are 'reliable signals of economic trouble'

DoubleLine Capital CEO Jeffrey Gundlach urged investors to pay attention to the worsening recession signals from the bond market. In a tweet Tuesday evening, Gundlach pointed ...

Yun Li 8/31/2022 6:02:36 AM PST



DELIVERING ALPHA

Stanley Druckenmiller sees 'hard landing' in 2023 with a possible deeper recession than many expect

Billionaire investor Stanley Druckenmiller believes the Federal Reserve's attempt to quickly unwind the excesses it helped build up for a decade with easy monetary policy ...

Yun Li 9/28/2022 6:00:01 AM PST



PRO: FOLLOW THE PROS

Leon Cooperman still sees a recession coming, but he is finding stocks to buy

Billionaire investor Leon Cooperman cautioned that the final bottom of the stock market is yet to come as the economy is poised to hit a ...

Yun Li 11/1/2022 5:49:42 AM PST



After all, corporate profits have grown over time,...



Q3 earnings reporting season was very good, even as outlooks continued to be subdued and stock prices sometimes have reacted negatively. For the S&P 500, 69.5% of companies beat EPS expectations and 59.2% exceeded revenue forecasts, while present projections call for corporate profit growth in 2023 and 2024.

S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2023	\$59.13	\$226.51
9/30/2023	\$58.09	\$220.99
6/30/2023	\$55.91	\$213.25
3/31/2023	\$53.38	\$204.21
12/31/2022	\$53.61	\$200.19
9/30/2022	\$50.35	\$203.31
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

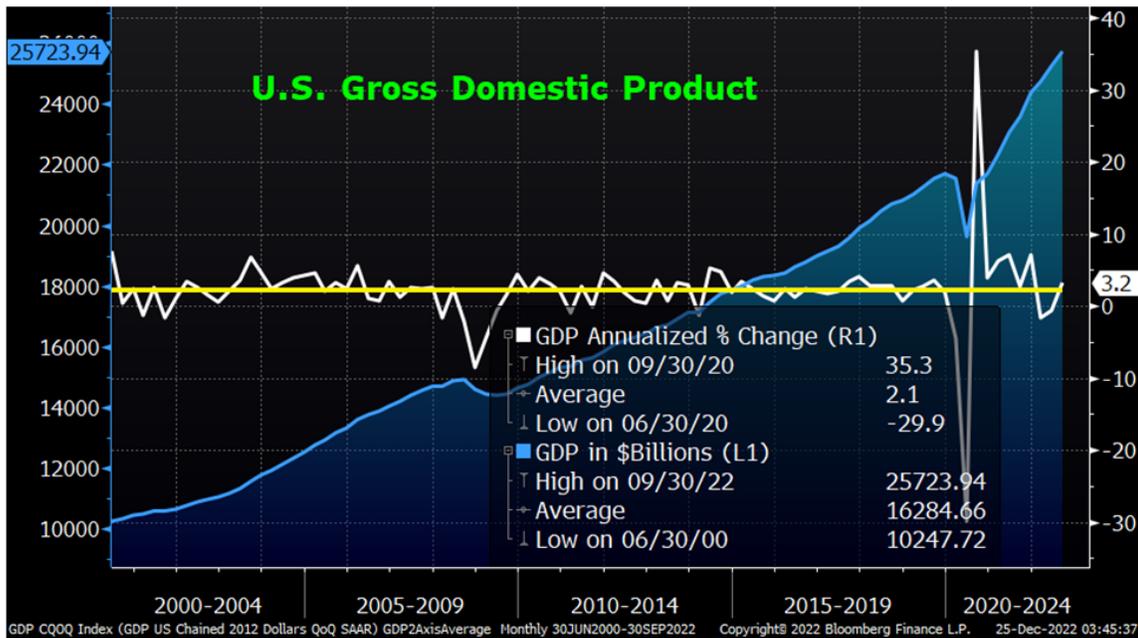
Source: Standard & Poor's. As of 12.22.22



...as the economy has expanded.



Third quarter 2022 real (inflation-adjusted) domestic economic growth came in better than expected at a 3.2% growth rate on an annualized basis, while the current-dollar nominal GDP figure of \$25.7 trillion soared by 9.2% on an annualized basis to an all-time high.



Certainly, that growth has not been linear and there have been many bumps in the road, including more than few recessions, all of which have been overcome in the fullness of time.



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	Year Prior	Recession Start	1 Year	1 Year	3 Year	3 Year	5 Year	5 Year	10 Year	10 Year
S&P 500 TR	FF Value TR	Date	S&P 500 TR	FF Value TR	S&P 500 TR	FF Value TR	S&P 500 TR	FF Value TR	S&P 500 TR	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

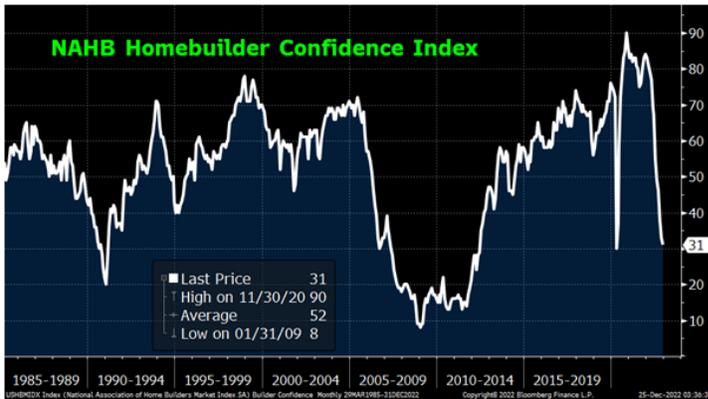
No doubt, the chance of an economic contraction is highly elevated today,...



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 65.0%, even as the consensus forecast for GDP growth this year is 1.9% and 0.3% for 2023.



...with disappointing numbers on the outlook for new home sales,...



The National Association of Home Builders' monthly confidence index for December trailed forecasts, skidding to 31, down 2 points from November and coming in well below the long-term average on the 35-year-old gauge. High prices and the spike in mortgage rates did not help, and ground was broken on just 1.43 million homes last month, in line with what was reported in October. Building permits came in below expectations in November, dipping to 1.34 million units, down from 1.48 million the month prior.

...and the latest reading on the Leading Economic Index adding to worries,...



“The U.S. LEI fell sharply in November, continuing the slide it’s been on for most of 2022 after peaking in February. Only stock prices contributed positively to the U.S. LEI in November. Labor market, manufacturing, and housing indicators all weakened—reflecting serious headwinds to economic growth. Interest rate spread and manufacturing new orders components were essentially unchanged in November, confirming a lack of economic growth momentum in the near term. Despite the current resilience of the labor market...the U.S. LEI suggests the Federal Reserve’s monetary tightening cycle is curtailing aspects of economic activity, especially housing. As a result, we project a U.S. recession is likely to start around the beginning of 2023 and last through mid-year.”



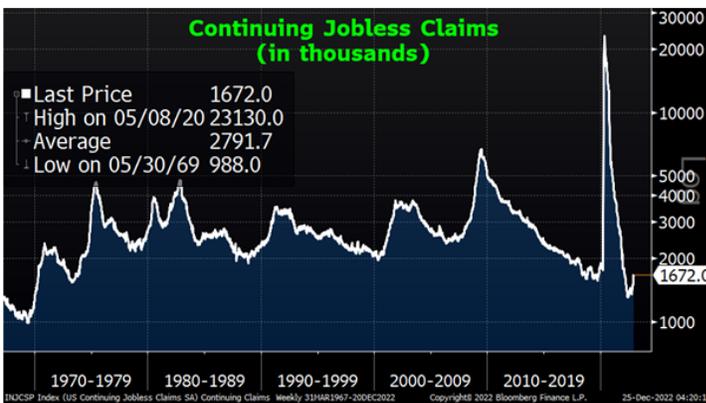
...even as the most recent gauges on the health of the consumer were better than expected,...



Consumer confidence, per data from the Conference Board, jumped for the first time in three months, rising to 108.1 in December, significantly above forecasts as concerns about inflation ebbed. Also showing improvement, the University of Michigan's gauge of consumer sentiment inched up to 59.7 in December from 59.1 the month prior though the tally remains well below average at a very pessimistic level.



...the labor picture remains strong,...

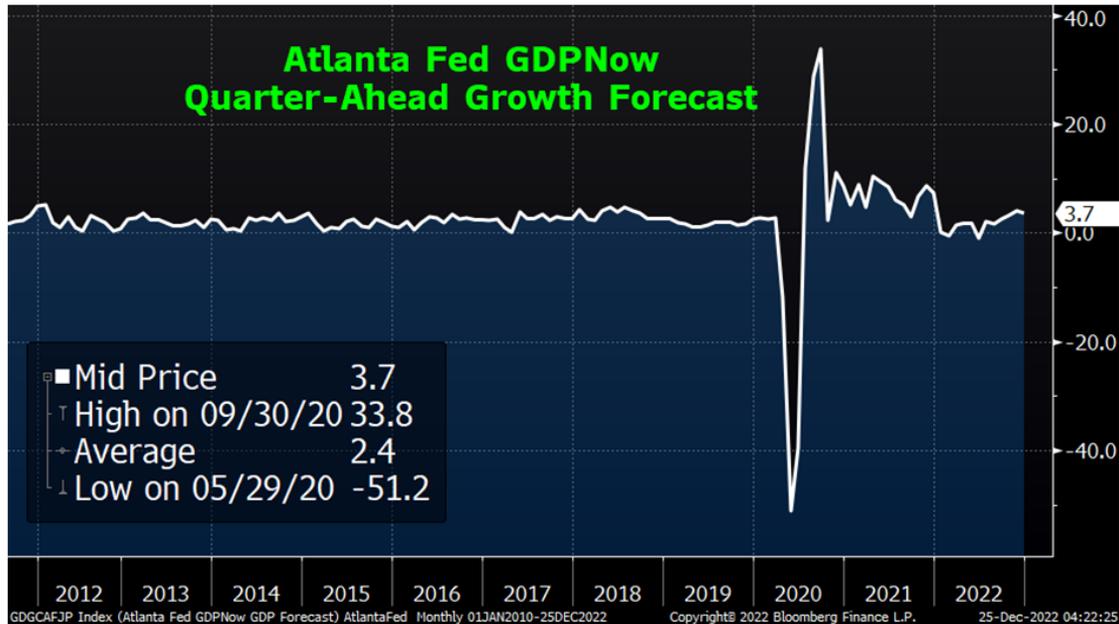


While higher than readings earlier in the year with a 1-handle, yet still coming in near the lowest levels since 1969 when the work force was much smaller, new filings for unemployment benefits for the period ended December 17 were a seasonally adjusted 216,000, up from a revised 214,000 the week prior. Continuing claims filed through state programs held steady at 1.67 million, as businesses continue to hold onto most workers with qualified labor difficult to obtain, though the tally has been moving up.

...and the Atlanta Fed just saw a big jump in its Q4 GDP growth projection.



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 3.2% and the Atlanta Fed's projection for Q4 2022 real GDP growth on an annualized basis as of December 23 stood at a robust 3.7%.



We'll see if we get a post-Christmas Santa Claus Rally, but whether we do or not will not change our optimism for the long-term prospects of our broadly diversified portfolios of what we believe to be undervalued stocks,...



CURRENT PORTFOLIO AND INDEX VALUATIONS

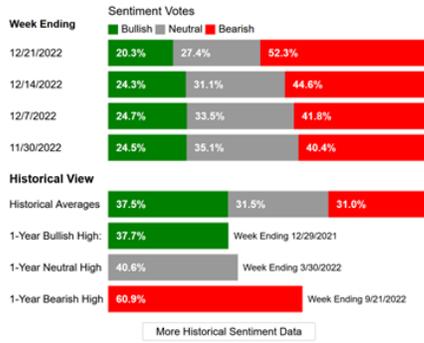
Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	11.7	11.7	0.8	2.2	2.9
ValuePlus	12.3	12.2	1.1	2.3	2.4
Dividend Income	11.5	11.8	0.7	2.1	3.3
Focused Dividend Income	13.1	12.9	1.1	2.6	2.8
Focused ValuePlus	13.0	12.9	1.2	2.6	2.6
Small-Mid Dividend Value	10.7	10.1	0.5	1.7	3.0
Russell 3000	20.0	18.1	2.0	3.6	1.7
Russell 3000 Growth	27.8	24.0	3.0	8.9	1.1
Russell 3000 Value	15.8	14.7	1.6	2.3	2.3
Russell 1000	19.3	17.9	2.2	3.8	1.7
Russell 1000 Growth	26.1	23.8	3.3	9.3	1.1
Russell 1000 Value	15.5	14.5	1.6	2.4	2.3
S&P 500 Index	18.8	17.7	2.3	3.9	1.7
S&P 500 Growth Index	22.2	20.8	3.9	6.7	1.0
S&P 500 Value Index	16.7	15.7	1.7	2.9	2.3
S&P 500 Pure Value Index	10.6	10.3	0.6	1.5	2.7

As of 12.16.22. 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.

...especially as many investors are very pessimistic and we strongly believe it is better to be greedy when others are fearful.



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



CURRENT AAI 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.](#)



The gauge is widely viewed with a contrarian eye, so the tally of Bulls in the latest AAI Sentiment Survey falling to 20.3% and the number of Bears jumping to 52.3% is a major positive, with the minus 32.0% Bull-Bear spread in the most favorable (highest future returns) 1st decile of the weekly figures going back to 1987.

AAII Bull-Bear Spread											
Decile	Low Reading of the Range	High Reading of the Range	R3K 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 = 7.34											
BELOW	-54.0	7.2	923	0.23%	0.19%	1.13%	0.99%	3.25%	2.86%	6.45%	5.68%
ABOVE	7.3	62.9	922	0.17%	0.15%	0.55%	0.46%	2.01%	1.76%	4.67%	4.19%
Ten Groupings of 1844 Data Points											
1	-54.0	-16.8	185	0.45%	0.38%	2.10%	1.85%	4.57%	4.02%	8.51%	7.27%
2	-16.7	-8.6	184	0.21%	0.17%	0.77%	0.64%	3.24%	2.88%	5.99%	5.22%
3	-8.6	-2.3	185	0.35%	0.32%	1.23%	1.12%	3.22%	2.79%	7.46%	6.74%
4	-2.1	2.8	185	0.10%	0.06%	0.99%	0.90%	2.63%	2.27%	5.43%	4.86%
5	2.8	7.2	183	0.07%	0.04%	0.62%	0.52%	2.65%	2.38%	4.91%	4.37%
6	7.2	11.7	185	0.21%	0.19%	0.69%	0.61%	2.01%	1.77%	4.79%	4.34%
7	11.8	16.1	184	0.12%	0.10%	0.45%	0.31%	2.40%	2.15%	5.30%	4.80%
8	16.1	21.9	185	0.14%	0.13%	0.88%	0.82%	2.28%	2.04%	5.84%	5.42%
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 12.22.22. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

We'll close this missive with a reminder that despite the trials and tribulations this year, equities like those that we have long favored, have offered handsome intermediate and long-term rewards.



Annualized Total Returns Matrix							
Last 2 Years	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years	Last 20 Years	Name	Symbol
Value Equities							
8.0	5.9	6.4	8.8	10.1	8.7	Russell 3000 Value	RAV Index
9.6	6.2	7.5	9.8	10.8	8.8	S&P 500 Value	SVX Index
Global Equities							
-0.3	4.7	5.9	8.6	8.6	8.6	MSCI ACWI	MXWD Index
-3.5	0.7	1.6	5.3	4.4	7.3	MSCI ACWI excluding United States	MXWDU Index
-1.1	1.6	2.3	5.2	5.2	7.1	MSCI EAFE (Europe, Australasia, Far East)	MXEA Index
7.8	3.7	5.0	5.5	7.4	6.9	MSCI Europe	MXEU Index
-10.4	-2.3	-0.8	5.4	1.9	8.9	MSCI Emerging Markets	MXEF Index
9.2	6.7	8.7	10.5	10.3	10.3	S&P/ASX 200 - Australia	AS51 Index
11.4	5.2	6.9	8.0	9.2	7.2	CAC 40 Index - France	CAC Index
1.3	1.6	1.3	3.8	6.2	8.0	Deutsche Boerse - Germany	DAX Index
-11.2	-8.4	-4.9	1.7	2.1	7.3	Hang Seng - Hong Kong	HSI Index
-3.5	-1.8	7.8	13.9	6.0	11.9	Ibovespa - Brazil	IBOV Index
-2.8	3.3	0.8	-0.2	6.0	6.0	Shanghai - China	SHCOMP Index
14.8	14.2	13.3	14.1	13.5	17.2	Sensex - India	SENSEXTR Index
1.4	5.3	4.8	6.9	12.3	7.6	Nikkei 225 - Japan	NKY Index
11.1	2.9	3.6	6.6	6.3	7.2	FTSE 100 Index - United Kingdom	UKX Index
Other Assets							
22.4	11.8	7.1	9.9	-0.5	4.7	S&P GSCI Commodities	SPGSCI Index
-5.9	8.0	9.1	15.9	-1.5	3.5	Gold & Silver Index	XAU Index
-7.0	-2.4	0.3	1.0	1.1	3.2	Bloomberg Barclays U.S. Agg Bond	LBSTRUU Index
-10.3	-4.2	-1.4	0.2	-0.4	2.8	Bloomberg Barclays Global Agg Bond	LEGATRUU Index
-8.7	-2.9	0.1	0.5	0.8	NA	ICE U.S. Treasury 7 - 10 Year	IDCOT7TR Index
-5.7	-1.5	0.5	0.7	0.8	NA	ICE U.S. Treasury 3 - 7 Year	IDCOT3TR Index
-2.2	-0.4	0.8	0.7	0.7	NA	ICE U.S Treasury 1 - 3 Year	IDCOT1TR Index

As of December 23, 2022. Annualized Returns.

2022 has been a miserable year for equities...and most financial assets, but we think the perspective gained via a longer-term lens is highly valuable. This is especially true for those invested in Value stocks, which have been maligned in recent years. Believe it or not, including this year's downturn, the Russell 3000 Value and S&P 500 Value indexes since December 23, 2012, has gained 10.1% and 10.8% PER ANNUM, a terrific 10-year annualized return (in dollar terms) that compares very favorably to stocks around the world, not to mention bonds, commodities and U.S. Treasuries. The relatively modest two-, three- and five-year return numbers also are solid, especially versus supposedly safer fixed income indexes.

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://theprudentpeculator.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.

FedEx (FDX – \$175.93) earned an adjusted \$3.18 per share in fiscal Q2 ended November, beating the consensus analyst guess (which had been nearly cut in half since September) by 13%. The parcel mover has had to navigate falling volumes from weakening demand, particularly within the FedEx Express segment where operating income fell by 65%. However, price increases and cost reduction measures boosted operating income for FedEx Ground and Freight segments by a respective 24% and 32% year-over-year.

CEO Raj Subramaniam commented, “Two things we flagged were that the industrial economy is slowing around the world and with Europe being the hardest hit and that there is an e-commerce

reset and both those things happened exactly like we said were going to happen. The good news was we reacted — we moved much faster to adjust to the circumstances and we are absolutely focused on what we can control.”

He added, “We are fundamentally focused on restructuring our cost base, driving profitable growth and improving our operating margin performance. So, we can’t control what the external environment is. We are focused on things we can control. And with the base that we have in ’23, we will use that to come out of this external environment situation much, much better than we went in and [FedEx’s new productivity program] is a significant component of that.”

Even as the economy is apparently slowing, FDX has been aggressive in its cost reduction programs, including the renewal of its aircraft and truck fleets (at low interest rates no less!). The TNT acquisition in Europe also has yet to add meaningfully to net income. FedEx says it has identified an incremental \$1 billion in cost savings beyond its September forecast, and now expects to generate total fiscal 2023 cost savings of approximately \$3.7 billion relative to its initial fiscal 2023 business plan, reaching more than \$4 billion in annualized structural cost reductions by fiscal 2025. Apart from mark-to-market adjustments of the company’s retirement plan, management forecasts current year earnings per diluted share of \$13.00 to \$14.00. We like how FedEx has evolved over the last two decades and that it remains a leader in its industry. Shares change hands at just 11.6 times NTM earnings and our Target Price has been bumped up to \$332.

Micron Tech (MU – \$50.20 said on Wednesday that the memory chip maker lost \$0.04 per share in fiscal Q1 that ended November. However, it was likely the somber commentary from the company’s leadership that rippled through stocks in the chip space. CEO Sanjay Mehrotra said that “the industry is experiencing the most severe imbalance between supply and demand in both DRAM and NAND in the last 13 years,” which undoubtedly holds consequences for businesses like **Lam Research** (LRCX – \$412.12), the maker of capital equipment for the industry, and **Apple** (AAPL – \$131.86), the behemoth consumer of chips for its devices, on both sides of Micron’s supply chain.

Micron also intends to cut its capital expenditures in the next two fiscal years, let go of 10% of its workforce and reduce executive pay among other methods to cope with the environment. Management said it was prepared to take further action to reduce costs should it need to pull additional levers.

Shares dipped over 3% on the news but were already off more than 40% year-to-date going into the release. And CFO Mark Murphy warned just a few weeks ago, “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.”

Mr. Mehrotra added last week, “Customer inventory, which is impacting near-term demand, is expected to continue improving and we expect most customers to have reduced inventory to relatively healthy levels by mid-calendar 2023. Consequently, we expect the fiscal second-half revenue to improve versus the first half of our fiscal year. We expect our days of inventory to

peak in our current fiscal Q2 and gradually improve over the next few quarters as our bit shipments improve and our supply growth is significantly reduced.”

The near-term for Micron, its peers and suppliers is not pretty, but cycles for the memory market are notoriously volatile. Happily, the upside has long outweighed loss-making episodes and earnings are expected to return to more than \$5 per share by 2025 and we note that good years can be really, really good! Indeed, Micron earned just under \$12 in 2018 alone. These types of drawdowns test the patience and nerves of investors, but we continue to think highly of management and the company’s technological prowess, while the balance sheet is presently in great shape. Our Target Price for MU has been trimmed to \$87.

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