

Market Commentary Monday, January 2, 2023

January 1, 2023

EXECUTIVE SUMMARY

Week in Review – Value Beats Growth

Market of Stocks – 2022 A Tough Year All the Way Around

Perspective – Equities Very Rewarding When Viewed Through Longer-Term Lens

Sentiment – Major AAIH Buy Signal

Econ Outlook – Mixed Numbers Last Week; Real Recession in '23 Projected

Corporate Profits – Nominal GDP Growth Should Support EPS Growth in '23

Market History – Stock Returns and Recessions / Volcker Inflation Fight

Valuations – Inexpensive Multiples for our Portfolios

Stock News – Undervalued *TPS* Bargains Hit Hard By Tax-Loss Selling

Market Review

All of us at *The Prudent Speculator* wish our readers a prosperous, joyous and tranquil New Year!

The final trading week of 2022 was much like week prior. There was plenty of volatility on a single-day basis, but little change when evaluated with a slightly longer measuring stick,...



As was the case the week prior, there was significant volatility in the latest trading week, with the S&P 500 moving sharply in both directions. However, when all was said and done, the widely followed equity benchmark was little changed, losing a modest 0.14%, even as it took a sizable final-hour rebound on the last trading day of the year to pare the weekly decline.



...and the Value indexes outperformed Growth by a fair amount, adding to their significant advantage in the overall returns race since Halloween 2020,...



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 32.5% and the Russell 3000 Growth index down 29.0% 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 A R K E T O F S T O C K S	-0.17	16.01	-6.86	-7.02	30.63	88.58	23.93	49.53	Dow Jones Industrial Average	INDU Index
1.01	-10.21		0.02	13.39	-9.20	-9.20	28.70	85.15	17.80	34.75	New York Stock Exchange Composite	NYA Index
-39.18	-20.81		-0.28	-0.78	-32.51	-32.93	-2.39	56.00	19.99	58.97	Nasdaq Composite Index	CCMP Index
-22.43	-9.23		0.12	4.13	-26.36	-26.59	-2.59	57.64	2.20	18.80	Russell 2000 Growth	RU20GRTR Index
22.83	14.02		0.04	8.42	-14.48	-14.47	41.24	106.14	15.12	22.41	Russell 2000 Value	RU20VATR Index
-3.02	2.49		0.08	6.23	-20.44	-20.56	17.55	81.84	9.88	22.41	Russell 2000	RU20INTR Index
-11.75	-20.15		0.02	6.90	-26.72	-27.04	-1.80	62.85	12.32	44.52	Russell Midcap Growth Index Total Return	RUMCGRTR Index
19.18	2.33		-0.09	10.45	-12.03	-11.90	34.71	105.90	19.02	32.07	Russell Midcap Value Index Total Return	RUMCVATR Index
8.25	-5.62		-0.05	9.18	-17.32	-17.36	20.77	91.40	19.14	40.91	Russell Midcap Index Total Return	RUMCINTR Index
-22.42	-19.63		-0.30	2.31	-28.97	-29.33	3.77	66.51	23.90	64.35	Russell 3000 Growth	RU30GRTR Index
8.04	-4.33		0.16	12.18	-7.98	-7.98	36.64	90.99	19.12	36.99	Russell 3000 Value	RU30VATR Index
-7.46	-11.46		-0.06	7.18	-19.21	-19.43	19.00	79.53	23.10	52.37	Russell 3000	RU30INTR Index
9.64	-0.39		-0.02	11.64	-11.45	-11.41	36.81	106.88	30.04	54.61	S&P 500 Equal Weighted	SPXEWTR Index
-9.10	-11.89		-0.11	7.56	-18.11	-18.32	21.43	79.36	25.16	56.88	S&P 500	SPXT Index
-22.08	-12.73		-0.46	1.45	-29.41	-29.76	6.41	66.53	24.68	63.09	S&P 500 Growth	SPTRSGX Index
6.08	-11.71		0.27	13.59	-5.22	-5.21	38.30	88.06	20.43	44.13	S&P 500 Value	SPTRSVX Index
3.18	1.57	-0.34	4.55	-16.25	-16.06	-17.65	-10.25	-12.72	-8.01	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index	
11.63	8.44	-0.65	1.87	-13.01	-12.88	-13.39	-8.87	-8.00	0.12	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index	

As of 12.30.22. Source Kovitz using data from Bloomberg

...and over the past nine-plus decades.



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	314	0.3	11/30/2022	12/28/2022

From 02.20.28 through 12.28.22. S&P 500 Price return series. We defined a Declining Market as an instance when stocks dropped the specified percentage or more without a recovery of equal magnitude, and an Advancing Market as an 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	13.0%	25.9%
Growth Stocks	9.4%	21.4%
Dividend Paying Stocks	10.5%	18.0%
Non-Dividend Paying Stocks	8.8%	29.3%
Long-Term Gov't Bonds	5.1%	8.7%
Intermediate Gov't Bonds	4.9%	4.4%
Treasury Bills	3.2%	0.9%
Inflation	3.0%	1.8%

From 06.30.27 through 09.30.22. 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

To be sure, there was little to crow about in 2022, as it was a lousy year for the average stock,...



The Russell 3000 index ended the year down more than 19%, with the Growth members leading the charge to the downside. The median return in 2022 for Russell 3000 Value members was more than 500 basis points better than for Russell 3000 Growth constituents, with a huge gap in the median return for the largest 10 members of those indexes.

Market of Stocks - Russell 3000								
R3K Members	% of Market Cap	Median YTD Total Return	Median Price to Earnings	Median NTM P/E	Median Price to Sales	Median Price to Book Value	Average Dividend Yield	Number of Holdings
All 2960	100.0	-19.0	15.9	14.4	2.1	2.0	1.69	2960
Largest 10	20.8	-19.5	21.1	18.7	3.5	5.4	1.17	10
Top 11-20	8.5	-4.2	28.7	23.6	5.0	14.4	1.71	10
Top 21-30	6.1	-15.3	18.8	18.3	3.4	5.8	1.91	10
Top 31-40	4.5	-15.5	25.1	23.7	4.6	4.3	2.34	10
Top 41-50	3.9	5.3	16.9	17.1	3.5	6.4	2.86	10
Largest 50	43.9	-10.2	21.3	20.4	4.1	5.8	2.00	50
Next 950	50.9	-11.6	19.1	17.1	2.5	3.0	1.85	950
Bottom 2010	5.2	-25.6	13.2	12.2	1.7	1.7	1.56	2010
Market of Stocks - Russell 3000 Value								
All Value	100.0	-14.6	14.2	13.0	1.8	1.6	2.01	2235
Largest 10 Value	17.2	-2.8	11.2	11.3	2.7	2.5	2.16	10
Market of Stocks - Russell 3000 Growth								
All Growth	100.0	-19.9	19.1	16.8	2.3	3.4	0.91	1621
Largest 10 Growth	39.0	-33.3	28.6	23.1	5.2	10.0	0.48	10

From 12.31.21 - 12.30.22. Source: Kovitz using data from Bloomberg.

...but we note that negative performance years are not unusual. After all, Value Stocks and Dividend Payers have posted positive respective returns “only” 73.2% and 75.8% of the time on a 12-month basis. Of course, and illustrating why we always say that time in the market trumps market timing, the risk of loss drops the longer stocks are held,...



Given that the most folks are investing for long-term objectives, we remain puzzled that so many continue to think about risk in terms of volatility of one-month returns. After all, while there is no assurance that past is prologue, the odds of losing money in Value Stocks or Dividend Payers is far lower over three-, five- and 10-year periods.

PATIENCE IS VIRTUOUS

VALUE STOCKS

	Count >0%	Count <=0%	Percent >0%
1 Month	724	421	63.2%
3 Months	774	369	67.7%
6 Months	807	333	70.8%
1 Year	830	304	73.2%
2 Year	938	184	83.6%
3 Year	971	139	87.5%
5 Year	973	113	89.6%
7 Year	1026	36	96.6%
10 Year	992	34	96.7%
15 Year	966	0	100.0%
20 Year	906	0	100.0%

DIVIDEND PAYERS

	Count >0%	Count <=0%	Percent >0%
1 Month	724	421	63.2%
3 Months	794	349	69.5%
6 Months	822	318	72.1%
1 Year	860	274	75.8%
2 Year	959	163	85.5%
3 Year	952	158	85.8%
5 Year	1000	86	92.1%
7 Year	1022	40	96.2%
10 Year	992	34	96.7%
15 Year	966	0	100.0%
20 Year	906	0	100.0%

From 07.31.27 through 11.30.22. Value stocks represented by 50% small value and 50% large value returns rebalanced monthly. Dividend payers represented by 30% top of dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

...with returns on the Value indexes over the last two, three, five, seven, 10 and 20 years vividly supporting that assertion.



Annualized Total Returns Matrix							Name	Symbol
Last 2 Years	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years	Last 20 Years			
Value Equities								
7.4	5.8	6.5	9.0	10.1	8.8	Russell 3000 Value	RAV Index	
8.8	6.2	7.6	10.0	10.8	8.9	S&P 500 Value	SVX Index	
Global Equities								
-1.2	4.5	5.8	8.7	8.6	8.6	MSCI ACWI	MXWD Index	
-4.4	0.6	1.4	5.3	4.3	7.3	MSCI ACWI excluding United States	MXWDU Index	
-1.9	1.4	2.1	5.1	5.3	7.0	MSCI EAFE (Europe, Australasia, Far East)	MXEA Index	
7.0	3.7	4.9	5.5	7.4	7.0	MSCI Europe	MXEU Index	
-11.6	-2.4	-1.1	5.5	1.8	9.0	MSCI Emerging Markets	MXEF Index	
9.2	6.8	8.5	9.9	10.1	10.3	S&P/ASX 200 - Australia	AS51 Index	
10.9	5.3	7.0	8.0	9.2	7.2	CAC 40 Index - France	CAC Index	
0.7	1.7	1.5	3.8	6.2	8.2	Deutsche Boerse - Germany	DAX Index	
-12.2	-8.4	-4.9	2.0	2.1	7.5	Hang Seng - Hong Kong	HSI Index	
-4.0	-1.7	7.5	14.2	6.1	12.0	Ibovespa - Brazil	IBOV Index	
-3.4	2.8	1.0	0.4	5.6	6.4	Shanghai - China	SHCOMP Index	
14.2	15.2	13.6	14.2	13.6	17.2	Sensex - India	SENSEXTR Index	
-0.6	5.3	4.8	6.7	11.7	7.5	Nikkei 225 - Japan	NKY Index	
11.3	3.1	3.2	6.6	6.3	7.1	FTSE 100 Index - United Kingdom	UKX Index	
Other Assets								
22.1	11.8	6.6	10.1	-0.6	4.9	S&P GSCI Commodities	SPGSCI Index	
-6.7	5.8	8.6	16.3	-1.9	3.5	Gold & Silver Index	XAU Index	
-7.5	-2.7	0.0	0.9	1.1	3.1	Bloomberg Barclays U.S. Agg Bond	LBUSTRUU Index	
-10.7	-4.5	-1.7	0.1	-0.4	2.7	Bloomberg Barclays Global Agg Bond	LEGATRUU Index	
-9.2	-3.2	-0.1	0.4	0.7	NA	ICE U.S. Treasury 7 - 10 Year	IDCOT7TR Index	
-5.9	-1.8	0.4	0.6	0.7	NA	ICE U.S. Treasury 3 - 7 Year	IDCOT3TR Index	
-2.2	-0.5	0.7	0.7	0.7	NA	ICE U.S. Treasury 1 - 3 Year	IDCOT1TR Index	

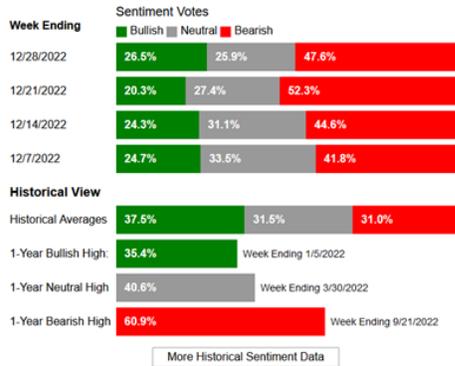
As of December 31, 2022. Annualized Returns.

2022 was 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 31, 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.

Despite the historical evidence in favor of equities, we realize that there is plenty of investor consternation as the calendar rolls over to 2023,...



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.



AAII Bull-Bear Spread												
Decile	Low Reading of the Range		High Reading of the Range	R3K Count	Next 1-Week		Next 1-Month		Next 3-Month		Next 6-Month	
	Range	Count			Arithmetic Average TR	Geometric Average TR						
Below & Above Median Bull Bear Spread = 7.22												
BELOW	-54.0	7.2	923	0.23%	0.20%	1.14%	1.00%	3.27%	2.87%	6.46%	5.69%	
ABOVE	7.2	62.9	923	0.17%	0.15%	0.54%	0.45%	2.01%	1.75%	4.66%	4.17%	
Ten Groupings of 1845 Data Points												
1	-54.0	-16.8	185	0.40%	0.33%	1.99%	1.75%	4.44%	3.90%	8.30%	7.08%	
2	-16.8	-8.6	184	0.25%	0.22%	0.86%	0.72%	3.45%	3.08%	6.24%	5.45%	
3	-8.6	-2.3	185	0.35%	0.32%	1.19%	1.08%	3.21%	2.78%	7.44%	6.71%	
4	-2.3	2.7	184	0.10%	0.06%	0.99%	0.89%	2.59%	2.22%	5.46%	4.91%	
5	2.8	7.2	185	0.07%	0.05%	0.65%	0.55%	2.64%	2.38%	4.84%	4.30%	
6	7.2	11.7	184	0.21%	0.19%	0.70%	0.62%	2.00%	1.76%	4.79%	4.33%	
7	11.7	16.1	185	0.12%	0.10%	0.44%	0.31%	2.41%	2.15%	5.31%	4.80%	
8	16.1	21.8	184	0.15%	0.13%	0.90%	0.83%	2.29%	2.04%	5.83%	5.41%	
9	21.9	29.0	185	0.15%	0.13%	0.36%	0.28%	1.83%	1.53%	4.78%	4.21%	
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 12.29.22. 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 AAI Sentiment Survey coming in at 26.5% and the number of Bears residing at 47.6% is still a major positive. After all, there are usually more optimists than pessimists and history suggests that it is good to be greedy when others are fearful. The minus 21.1% Bull-Bear spread is in the most favorable (highest future returns) 1st decile of the weekly figures going back to 1987.

...with economists predicting high odds of recession this year,...



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.

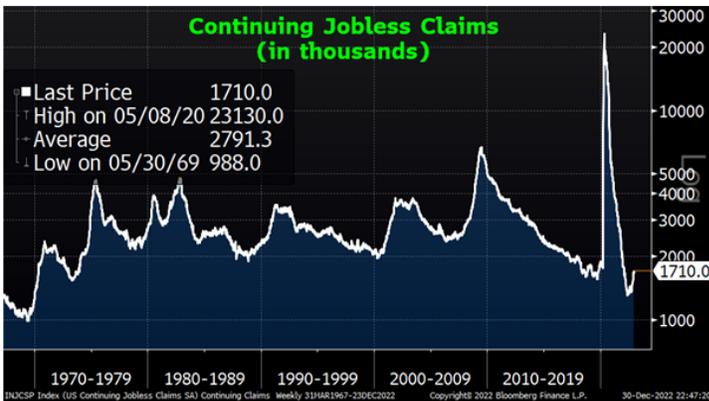
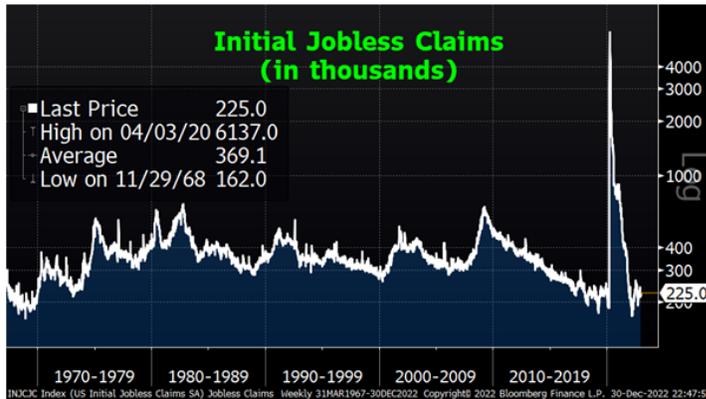


...even as there were mixed economic stats out last week,...



While mortgage rates ticked lower in December, affordability has weighed mightily on the housing market, with pending home sales skidding 4.0% in November, a worse-than-expected drop and the sixth straight monthly decline. On the other hand, the Chicago Business Barometer, also known as the regional manufacturing PMI, rebounded to a much-better-than-expected reading of 44.9 in December, up from 37.2 in November, but well below the historical average.

...the jobs picture remains healthy, though an increase in layoffs is expected post the Holidays,...

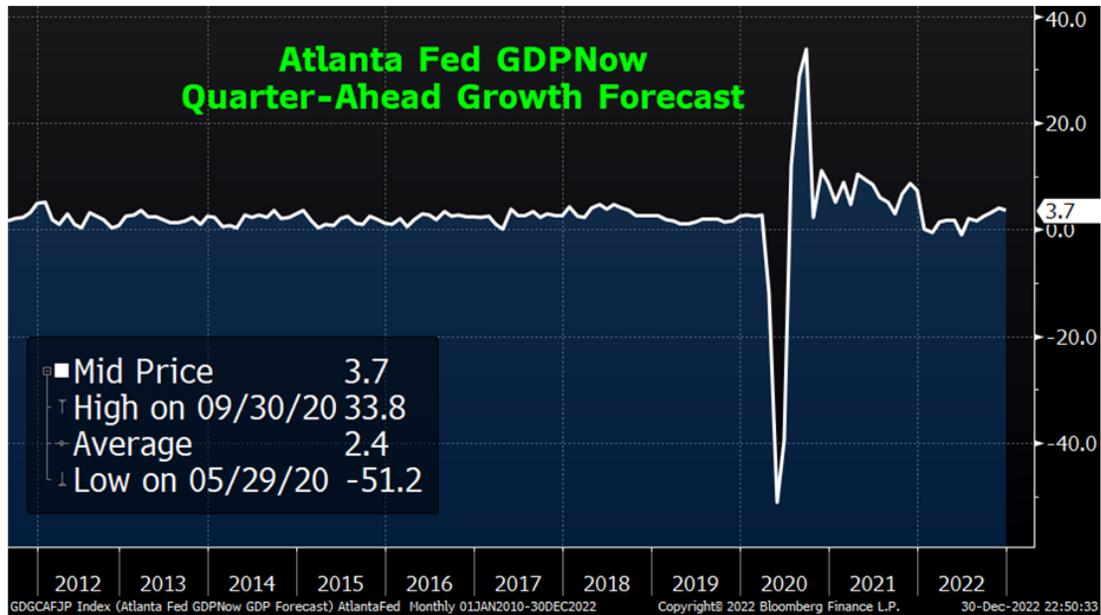


While higher than readings earlier in the year with a 1-handle, yet still coming in near the lowest levels since 1969 when the work force was much smaller, new filings for unemployment benefits for the period ended December 24 were a seasonally adjusted 225,000, up from a revised 216,000 the week prior. Continuing claims filed through state programs edged up to 1.71 million, though businesses continue to hold onto most workers with qualified labor difficult to obtain, even as the tally has been moving up.

...and the last outlook for Q4 real U.S. GDP growth from the Atlanta Fed was a very-solid 3.7%.



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 understand that the Federal Reserve expects a pickup in unemployment to 4.6% in 2023 and a lackluster 0.5% increase in inflation-adjusted GDP,...



With inflation remaining elevated, reflecting supply and demand imbalances related to the pandemic, higher food and energy prices, and broader price pressures, not to mention Russia's ongoing war against Ukraine, Federal Reserve members continued to hike the Fed Funds rate in December. Estimates for the 2023 rate also climbed to 5.1%, up from 4.6% in September, with the median PCE inflation projection for 2023 now standing at 3.1% and the real GDP forecast residing at 0.5%.

Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, December 2022

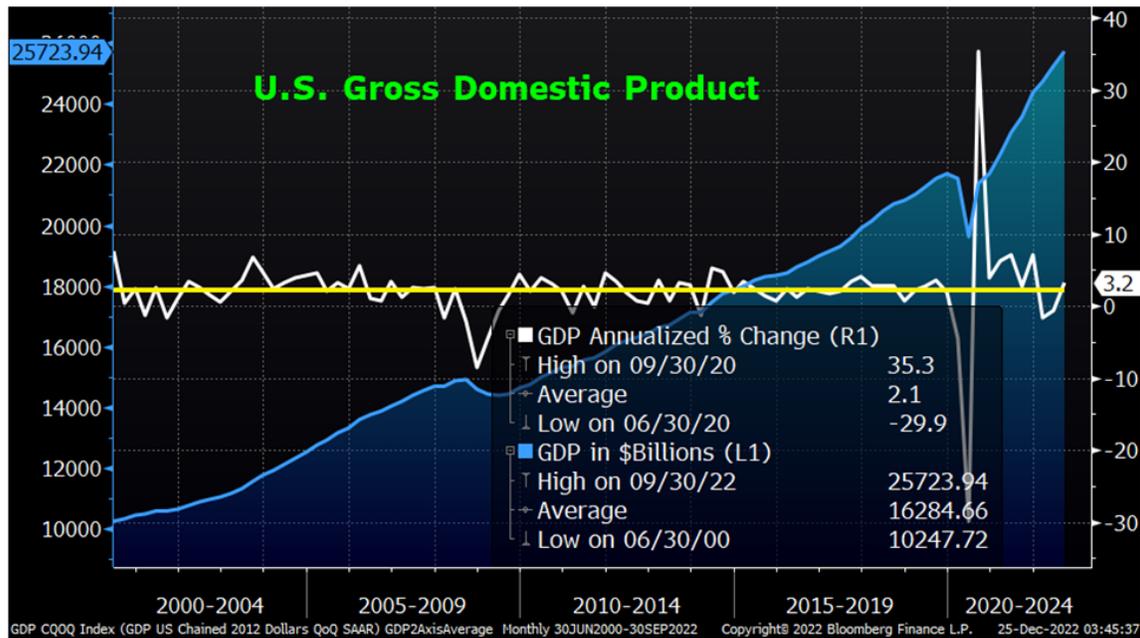
Percent															
Variable	Median ¹					Central Tendency ²					Range ³				
	2022	2023	2024	2025	Longer run	2022	2023	2024	2025	Longer run	2022	2023	2024	2025	Longer run
Change in real GDP	0.5	0.5	1.6	1.8	1.8	0.4-0.5	0.4-1.0	1.3-2.0	1.6-2.0	1.7-2.0	0.2-0.5	-0.5-1.0	0.5-2.4	1.4-2.3	1.6-2.5
September projection	0.2	1.2	1.7	1.8	1.8	0.1-0.3	0.5-1.5	1.4-2.0	1.6-2.0	1.7-2.0	0.0-0.5	-0.3-1.9	1.0-2.6	1.4-2.4	1.6-2.2
Unemployment rate	3.7	4.6	4.6	4.5	4.0	3.7	4.4-4.7	4.3-4.8	4.0-4.7	3.8-4.3	3.7-3.9	4.0-5.3	4.0-5.0	3.8-4.8	3.5-4.8
September projection	3.8	4.4	4.4	4.3	4.0	3.8-3.9	4.1-4.5	4.0-4.6	4.0-4.5	3.8-4.3	3.7-4.0	3.7-5.0	3.7-4.7	3.7-4.6	3.5-4.5
PCE inflation	5.6	3.1	2.5	2.1	2.0	5.6-5.8	2.9-3.5	2.3-2.7	2.0-2.2	2.0	5.5-5.9	2.6-4.1	2.2-3.5	2.0-3.0	2.0
September projection	5.4	2.8	2.3	2.0	2.0	5.3-5.7	2.6-3.5	2.1-2.6	2.0-2.2	2.0	5.0-6.2	2.4-4.1	2.0-3.0	2.0-2.5	2.0
Core PCE inflation ⁴	4.8	3.5	2.5	2.1		4.7-4.8	3.2-3.7	2.3-2.7	2.0-2.2		4.6-5.0	3.0-3.8	2.2-3.0	2.0-3.0	
September projection	4.5	3.1	2.3	2.1		4.4-4.6	3.0-3.4	2.2-2.5	2.0-2.2		4.3-4.8	2.8-3.5	2.0-2.8	2.0-2.5	
Memo: Projected appropriate policy path															
Federal funds rate	4.4	5.1	4.1	3.1	2.5	4.4	5.1-5.4	3.9-4.9	2.6-3.9	2.3-2.5	4.4	4.9-5.6	3.1-5.6	2.4-5.6	2.3-3.3
September projection	4.4	4.6	3.9	2.9	2.5	4.1-4.4	4.4-4.9	3.4-4.4	2.4-3.4	2.3-2.5	3.9-4.6	3.9-4.9	2.6-4.6	2.4-4.6	2.3-3.0

Source: Federal Reserve, December 14, 2022

...but such an increase in real growth would represent a significant economic expansion in nominal dollars...



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.



...which is the unit of measurement for stock prices and corporate profits.



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



True, stocks have not performed all that well before and after the commencement of a recession, but the numbers have been green, on average, with Value leading the returns race,...



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

...and the last major battle the Federal Reserve fought with inflation saw equities enjoy fantastic returns,...



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



...so we see no reason to diminish 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	11.6	11.6	0.8	2.2	2.9
ValuePlus	12.2	12.1	1.1	2.3	2.4
Dividend Income	11.4	11.8	0.7	2.1	3.3
Focused Dividend Income	12.9	12.9	1.0	2.5	2.8
Focused ValuePlus	12.8	12.9	1.2	2.6	2.6
Small-Mid Dividend Value	10.5	10.1	0.5	1.6	2.9
Russell 3000	19.8	18.0	2.0	3.6	1.7
Russell 3000 Growth	27.2	23.4	2.9	8.7	1.1
Russell 3000 Value	15.8	14.8	1.5	2.3	2.3
Russell 1000	19.1	17.7	2.1	3.7	1.7
Russell 1000 Growth	25.5	23.1	3.2	9.1	1.1
Russell 1000 Value	15.4	14.6	1.6	2.4	2.3
S&P 500 Index	18.5	17.5	2.2	3.9	1.8
S&P 500 Growth Index	19.3	17.9	3.1	6.6	1.5
S&P 500 Value Index	17.8	17.1	1.7	2.7	2.1
S&P 500 Pure Value Index	10.5	10.3	0.6	1.5	2.7

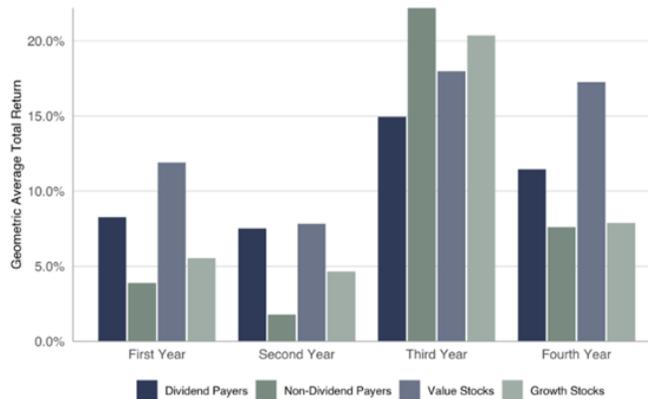
As of 12.31.22. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Kovitz using data from Bloomberg Finance L.P.

...especially as there are other favorable historical precedents.



**Figure 6:
The Third Year Stands
Out from the Others**

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



It is said that while history may not repeat, it often rhymes, so we like that the calendar has rolled 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.

**Figure 9:
Investors Seem to be
Rewarded by Democrats**

Two-year, non-annualized total return. Geometric Average. SOURCE: Kowitz 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%

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*.

With little in the way of specific company news out last week, we offer a listing of undervalued stocks that could be set up for a January bounce, given that they likely experienced significant tax-loss-related selling in the latter part of 2022.



Undervalued January Bounce Candidates

Sector	Symbol	Company	12.30.22 Price	Target Price	Dividend Yield	2022 TR	52-Week High	52-Week Low
Retailing	BIG	Big Lots	\$14.70	\$31.24	8.2%	-65.6%	\$50.87	\$12.87
Media & Entertainment	META	Meta Platforms	\$120.34	\$229.07	-	-64.2%	\$343.09	\$88.09
Health Care Eq/Srvcs	PHG	Koninklijke Philips NV	\$14.99	\$26.30	5.2%	-57.7%	\$38.77	\$11.75
Autos & Components	GT	Goodyear Tire	\$10.15	\$17.30	-	-52.4%	\$24.17	\$9.66
Technology Hardware	STX	Seagate Tech	\$52.61	\$93.08	5.3%	-51.4%	\$117.67	\$47.47
Technology Hardware	LITE	Lumentum Holdings	\$52.17	\$132.81	-	-50.7%	\$108.90	\$48.73
Semiconductors	INTC	Intel	\$26.43	\$44.24	5.5%	-46.7%	\$56.28	\$24.59
Retailing	KSS	Kohl's	\$25.25	\$49.44	7.9%	-46.0%	\$64.38	\$23.38
Semiconductors	MU	Micron Tech	\$49.98	\$87.17	0.9%	-45.9%	\$98.45	\$48.43
Media & Entertainment	DIS	Walt Disney	\$86.88	\$149.12	-	-43.9%	\$160.32	\$84.07
Autos & Components	GM	General Motors	\$33.64	\$62.31	1.1%	-42.4%	\$67.21	\$30.33
Real Estate	DLR	Digital Realty Trust	\$100.27	\$156.83	4.9%	-40.9%	\$177.15	\$85.76
Semiconductors	LRGX	Lam Research	\$420.30	\$598.76	1.6%	-40.7%	\$731.85	\$299.59
Consumer Durables	MDC	MDC Holdings	\$31.60	\$57.36	6.3%	-40.1%	\$56.53	\$27.04
Media & Entertainment	GOOG	Alphabet	\$88.73	\$162.55	-	-38.7%	\$152.10	\$83.45
Semiconductors	QCOM	Qualcomm	\$109.94	\$199.20	2.7%	-38.6%	\$193.58	\$101.93
Transportation	DPSGY	Deutsche Post AG	\$37.50	\$70.64	3.6%	-38.6%	\$65.24	\$28.66
Consumer Durables	HAS	Hasbro	\$61.01	\$110.73	4.6%	-37.9%	\$105.73	\$54.65
Autos & Components	VWAGY	Volkswagen AG	\$15.65	\$29.85	3.4%	-37.9%	\$28.41	\$13.67
Materials	CE	Celanese	\$102.24	\$188.58	2.7%	-37.8%	\$176.50	\$86.71
Consumer Durables	WHR	Whirlpool	\$141.46	\$247.97	4.9%	-37.2%	\$245.44	\$124.43
Consumer Services	RCL	Royal Caribbean	\$49.43	\$71.20	-	-35.7%	\$90.55	\$31.09
Diversified Financials	COF	Capital One Financial	\$92.96	\$169.84	2.6%	-34.6%	\$162.40	\$86.98
Retailing	TGT	Target	\$149.04	\$212.13	2.9%	-34.3%	\$254.87	\$137.16
Technology Hardware	NTAP	NetApp	\$60.06	\$99.37	3.3%	-32.9%	\$96.82	\$58.08

As of 12.30.22. Source: Kovitz using data from Bloomberg

It was an ugly year for the majority of stocks, but some were hit much harder than others, with year-end tax-loss selling likely providing additional pressure to the downside. Of course, with that negative catalyst having passed as the calendar has turned to 2023, one might think a near-term rebound could be in the cards.

Kovitz Investment Group Partners, LLC ("Kovitz") is an investment adviser registered with the Securities and Exchange Commission. This report should only be considered as a tool in any investment decision matrix and should not be used by itself to make investment decisions. Opinions expressed are only our current opinions or our opinions on the posting date. Any graphs, data, or information in this publication are considered reliably sourced, but no representation is made that it is accurate or complete and should not be relied upon as such. This information is subject to change without notice at any time, based on market and other conditions. Past performance is not indicative of future results, which may vary.