Market Commentary Monday, January 9, 2023

January 8, 2023

EXECUTIVE SUMMARY

Newsletter Purchases – 4 Buys for 2 Portfolios
Week in Review – Great Start to the Year; Value Beats Growth
Econ News – Weak ISM Numbers
Fed Speak – Hawkishness in the FOMC Minutes & from Kashkari
Goldilocks – Solid Jobs Growth, But Wage Growth Moderates
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
Sentiment – AAII Still Very Bearish
Stock News – Undervalued *TPS* Bargains Hit Hard By Tax-Loss Selling Rebound Nicely; GBX, ADM, ELV & MSFT Retreat

Market Review

As discussed in the January edition of *The Prudent Speculator*, we bought the following on Friday, January 6, for Buckingham Portfolio:

105 **Synchrony Fin’l** (SYF – $32.80) at $32.6566
9 **Whirlpool** (WHR – $151.50) at $152.0695
21 **Zimmer Biomet** (ZBH – $125.70) at $126.785

In our hypothetical portfolios, we added the following to Millennium Portfolio, also on January 6:

34 **Walt Disney** (DIS – $93.92) at $91.92

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It was a terrific start to 2023 as an up-and-down trading week ended on a high note,…

THE PRUDENT SPECULATOR

S&P 500 ROLLER COASTER RIDE

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 ended the first week of 2023 solidly in the green with a 1.45% price advance.

…with Value stocks beating Growth by a wide margin in the returns race, adding to the advantage seen last year and since Halloween 2020,…

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 and economic reports still the main catalysts, stocks and bonds have been very volatile, with big moves in the positive direction happening last week. Of course, returns over the last 12 months have not been good, with the Nasdaq Composite off 29.3% and the Russell 3000 Growth index down 25.9%. Value has held up much 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	YTD	Since 9.30.22	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	1.50	1.50	17.75	-5.23	32.59	91.40	24.68	48.26	Dow Jones Industrial Average	INDU Index
1.01	-10.21		2.37	2.37	16.08	-7.03	31.76	89.54	19.98	34.83	New York Stock Exchange Composite	NYA Index
-39.18	-20.81		1.01	1.01	0.22	-29.29	-1.41	57.57	19.50	55.29	Nasdaq Composite Index	CCMP Index
-22.43	-9.23		1.38	1.38	5.57	-22.24	-1.25	59.81	3.45	18.09	Russell 2000 Growth	RU20GRTR Index
22.83	14.02		2.24	2.24	10.85	-13.04	44.41	110.77	17.97	23.68	Russell 2000 Value	RU20VATR Index
-3.02	2.49		1.81	1.81	8.15	-17.57	19.68	85.12	11.91	22.65	Russell 2000	RU20INTR Index
-11.75	-20.15		0.95	0.95	7.92	-21.34	-0.87	64.41	11.93	41.71	Russell Midcap Growth Index Total Return	RUMCGRTR Index
19.18	2.33		2.84	2.84	13.59	-9.53	38.54	111.76	22.57	34.18	Russell Midcap Value Index Total Return	RUMCVATR Index
8.25	-5.62		2.18	2.18	11.56	-13.66	23.41	95.58	21.21	41.19	Russell Midcap Index Total Return	RUMCINTR Index
-22.42	-19.63		0.39	0.39	2.71	-25.88	4.18	67.16	22.65	59.86	Russell 3000 Growth	RU30GRTR Index
8.04	-4.33		2.49	2.49	14.98	-6.20	40.05	95.75	21.95	38.06	Russell 3000 Value	RU30VATR Index
-7.46	-11.46		1.47	1.47	8.76	-16.57	20.75	82.17	23.95	50.91	Russell 3000	RU30INTR Index
9.64	-0.39		2.82	2.82	14.79	-8.57	40.67	112.71	33.37	55.52	S&P 500 Equal Weighted	SPXEWTR Index
-9.10	-11.89		1.47	1.47	9.15	-15.68	23.22	82.01	25.99	55.12	S&P 500	SPXT Index
-22.08	-12.73		0.08	0.08	1.52	-26.76	6.49	66.65	23.11	58.08	S&P 500 Growth	SPTRSGX Index
6.08	-11.71		2.99	2.99	16.99	-3.22	42.44	93.69	23.80	45.56	S&P 500 Value	SPTRSVX Index
3.18	1.57		1.39	1.39	6.00	-14.08	-16.50	-9.00	-11.93	-6.64	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index
11.63	8.44		1.85	1.85	3.76	-10.27	-11.79	-7.18	-6.60	2.29	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index

As of 1.6.23. Source Kovitz using data from Bloomberg

…and since 1927.

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	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 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	13.2%	26.0%
Growth Stocks	9.5%	21.4%
Dividend Paying Stocks	10.7%	18.1%
Non-Dividend Paying Stocks	8.8%	29.3%
Long-Term Gov't Bonds	5.1%	8.7%
Intermediate Gov't Bonds	4.9%	4.3%
Treasury Bills	3.2%	0.9%
Inflation	3.0%	1.8%

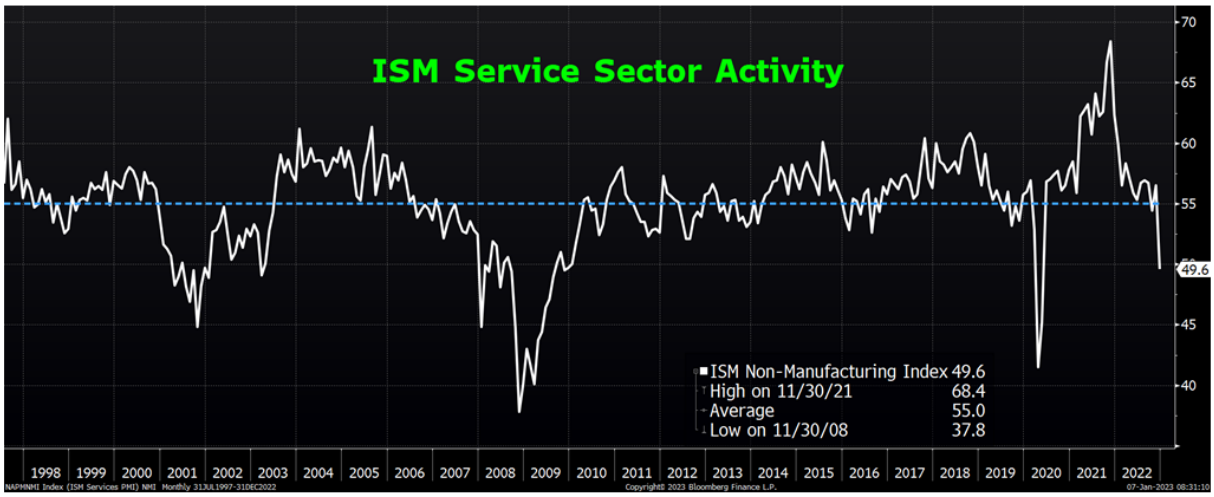
From 06.30.27 through 11.30.22. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the 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

Interestingly, the week was shaping up to be red for many stocks, as disappointing readings on the health of the services sector,…

THE PRUDENT SPECULATOR

ISM NON-MANUFACTURING TUMBLES: 0.2% ANNUALIZED GDP GROWTH

The latest read on the health of the service sector skidded to 49.6 in December, down sharply from November's tally of 56.5. The figure was much weaker than expected and was well below average, suggesting a very soft non-manufacturing economy. The Institute for Supply Management stated, "The past relationship between the Services PMI and the overall economy...corresponds to a 0.2% increase in real gross domestic product (GDP) on an annualized basis."

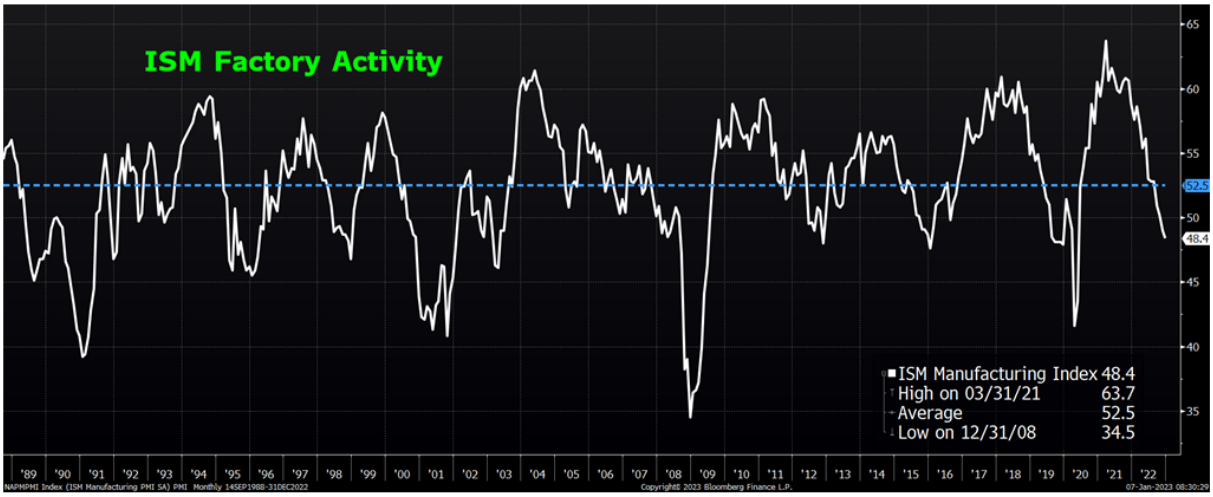


…and the factory sector,…

THE PRUDENT SPECULATOR

ISM MANUFACTURING FALLS: 0.1% ANNUALIZED GDP CONTRACTION

The latest data point on the health of the manufacturing sector came in slightly below expectations at 48.4 in December, down from November's tally of 49.0 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% decrease in real gross domestic product (GDP) on an annualized basis."



…supported the argument that a recession might be on the horizon,…

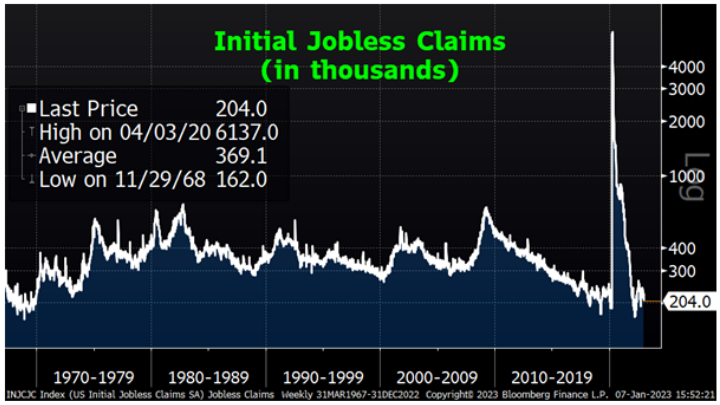
THE PRUDENT SPECULATOR

PLENTY OF DOOM & GLOOM TALK, ODDS OF RECESSION NOW 65%

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 already was in recession, but the odds of an official declaration stand today at 65%, even as the consensus forecast for GDP growth for 2022 is 1.9% and 0.3% for 2023.

…while too many job openings and not enough layoffs added to worries articulated in the Minutes of the December FOMC Meeting that were released on Wednesday: "The risks to the inflation outlook remained tilted to the upside. Participants cited the possibility that price pressures could prove to be more persistent than anticipated, due to, for example, the labor market staying tight for longer than anticipated."

SURPRISINGLY STRONG JOB OPENINGS AND LOW UNEMPLOYMENT FILINGS

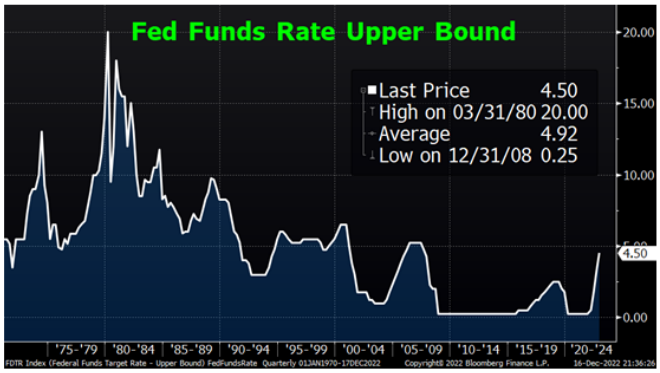


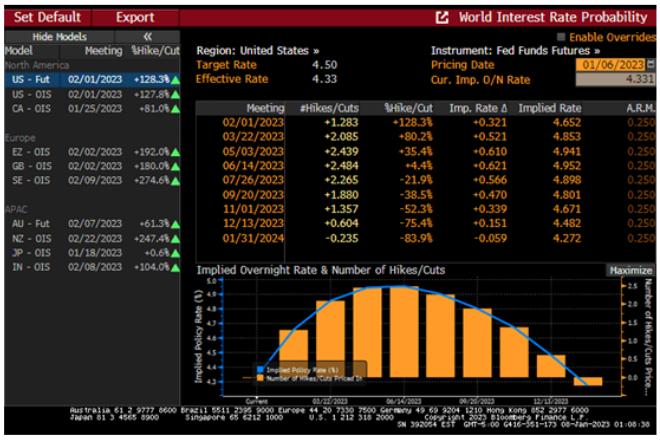
With the "Great Resignation" continuing as 4.2 million people quit their jobs in November, the labor market remains healthy as job openings came in at 10.46 million that month, well above expectations. There were 1.7 job openings for each unemployed person in November, much higher than pre-pandemic levels near 1.2. Looking at more current data, first-time filings for jobless benefits dipped by 19,000 to 204,000 in the week ending December 31, though we are likely to see an increase this month.

Minneapolis Fed President Neel Kashkari on Wednesday suggested that the Federal Reserve may need to be even more aggressive than the markets presently believe as he argued that the Fed may not pause its rate hikes until a peak rate of 5.4%. "Wherever that end point is, we won't immediately know if it is high enough to bring inflation back down to 2% in a reasonable period of time," he said. "Any sign of slow progress that keeps inflation elevated for longer will warrant, in my view, taking the policy rate potentially much higher."

FED FIGHTING INFLATION – INTEREST RATES STILL BELOW AVERAGE

Although the estimate for real GDP growth in 2023 was pared to 0.5% in December, down from 1.2% in September, the Federal Reserve lifted its target for the Fed Funds rate by 50 basis points this month, following 75 basis point hikes at each of the June, July, September and November FOMC meetings. Jerome H. Powell & Co. are now projecting that the Fed Funds rate will likely end 2023 at 5.1%, and the Fed Funds futures became a bit less hawkish last week as they are now estimating a 4.48% year-end 2023 Fed Funds rate and a 4.95% peak in June 2023, with a pivot lower coming in July.

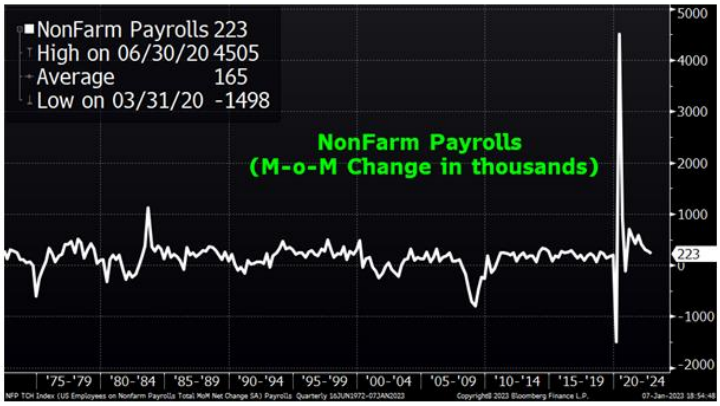


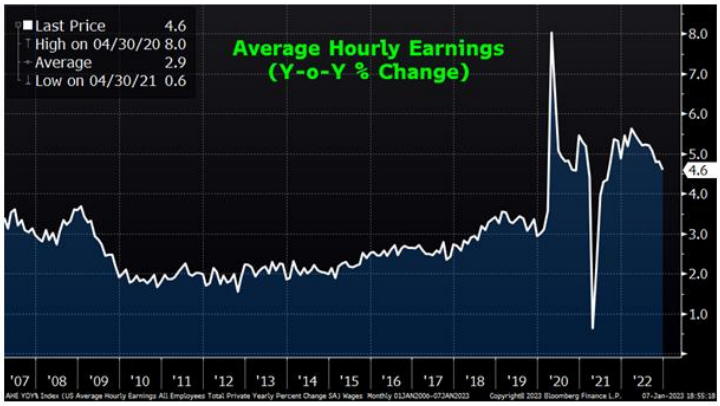


Of course, Mr. Kashkari's comments came before the incredibly well received monthly jobs report on Friday morning, in which more new payrolls than expected were created in the U.S. during December, BUT the growth in wages slowed more than predicted, with a proverbial "soft landing" for the economy evidently back on the table, given some real progress on inflation.

THE PRUDENT SPECULATOR

WALL STREET CHEERS HEALTHY JOBS PICTURE & SLOWING WAGE GROWTH





Economists were looking for a gain of 200,000 payrolls, so the increase of 223,000 in December was above expectations, though the October and November tallies were revised down by a combined 28,000 jobs. Notable job gains were in leisure and hospitality, health care, construction and social assistance. While the labor market remains very healthy, wage gains pulled back on a year-over-year basis, rising 4.6% in December, down from a 5.1% increase the month prior, and cheering those worried about inflation.

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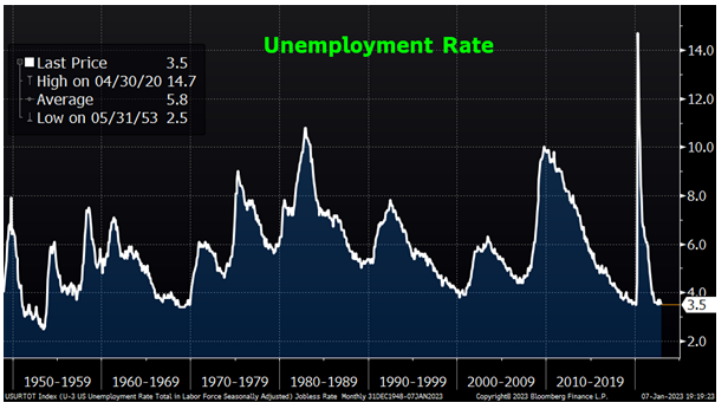
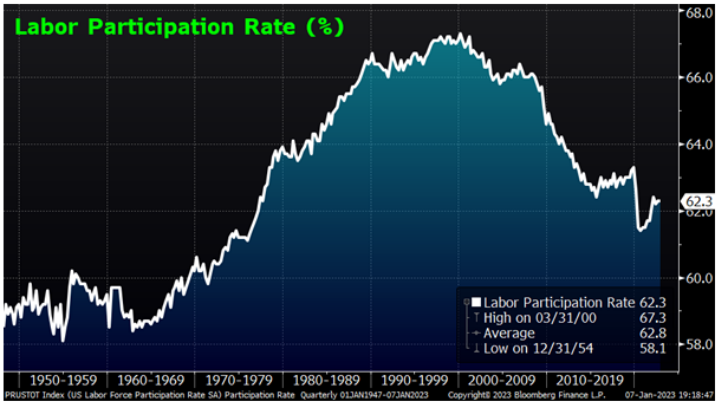
Of course, there have been plenty of layoff announcements of late, especially from big technology companies, so we expect the unemployment rate to move higher. Still, it is hard to have an economic contraction when the jobs picture arguably has not been better since the 1960s,…

THE PRUDENT SPECULATOR

RECORD-LOW JOBLESS RATE & NEAR PANDEMIC HIGH PARTICIPATION RATE





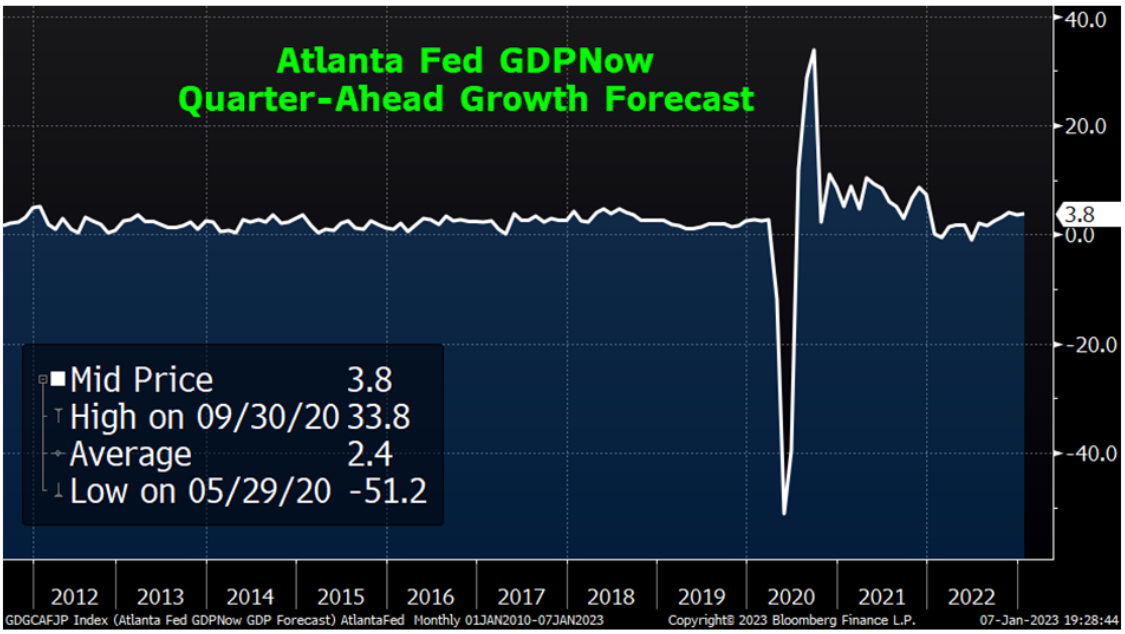
With more jobs created than expected last month, the unemployment rate for December dipped to 3.5% and the number of unemployed folks dropped to 5.7 million, down from 6.0 million in November. The jobless percentage dipped to the lowest level since 1969. The so-called participation rate ticked up to 62.3% in December, though the tally is 1.0 percentage point below the value in February 2020, prior to the beginning of the COVID -19 pandemic.

…and the latest projection for Q4 GDP growth is very robust.

THE PRUDENT SPECULATOR

Q4 U.S. REAL GDP GROWTH PROJECTION NOW STANDS AT A ROBUST 3.8%

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 3.2% and the Atlanta Fed's projection for Q4 2022 real GDP growth on an annualized basis as of January 5, 2023, stood at 3.8%.



As we said last week, we understand that the Federal Reserve expects a pick-up in the jobless rate to 4.6% in 2023 and a lackluster 0.5% increase in inflation-adjusted GDP,…

FED: HIGHER INFLATION AND FED FUNDS & LOWER GDP GROWTH EXPECTED

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

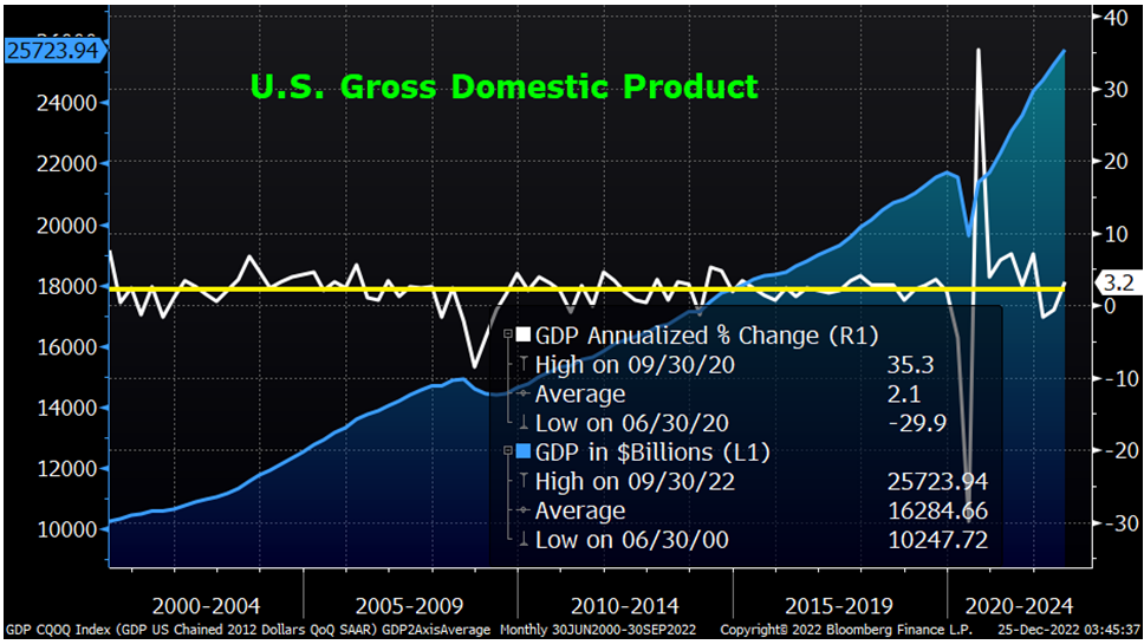
Source: Federal Reserve, December 14, 2022

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

THE PRUDENT SPECULATOR

HUGE 9.2% JUMP IN Q3 NOMINAL GDP, AND REAL GDP GROWS BY 3.2%

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.

THE PRUDENT SPECULATOR

2023 AND 2024 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. 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	$59.15	$226.49
9/30/2023	$58.09	$220.88
6/30/2023	$55.89	$213.14
3/31/2023	$53.36	$204.12
12/31/2022	$53.54	$200.12
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 12.30.22

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,…

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

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

…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	11.7	11.7	0.8	2.2	2.9
ValuePlus	12.3	12.2	1.1	2.3	2.4
Dividend Income	11.6	11.9	0.7	2.1	3.3
Focused Dividend Income	13.0	12.9	1.1	2.5	2.8
Focused ValuePlus	13.0	13.0	1.2	2.6	2.6
Small-Mid Dividend Value	10.5	10.1	0.5	1.6	3.0
Russell 3000	19.7	17.1	2.0	3.5	1.8
Russell 3000 Growth	26.7	21.2	2.9	8.6	1.1
Russell 3000 Value	15.9	14.5	1.6	2.3	2.3
Russell 1000	19.0	16.9	2.1	3.7	1.8
Russell 1000 Growth	25.0	21.0	3.1	8.9	1.1
Russell 1000 Value	15.6	14.4	1.6	2.4	2.3
S&P 500 Index	18.4	16.8	2.2	3.8	1.8
S&P 500 Growth Index	18.8	17.7	3.0	6.5	1.5
S&P 500 Value Index	18.0	16.0	1.8	2.7	2.1
S&P 500 Pure Value Index	10.9	10.5	0.7	1.6	2.6

As of 01.06.23. 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 always, we are braced for volatility,…

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 reversed over the ensuing month and a half, even as we are now enduring another trip south. Of course, ups and downs are not unusual for equities, as there have been 38 advances and 37 declines 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 we remain of the mind that stocks in general are still reasonably priced,…

THE PRUDENT SPECULATOR

INTEREST RATES STILL SUPPORTIVE OF STOCKS

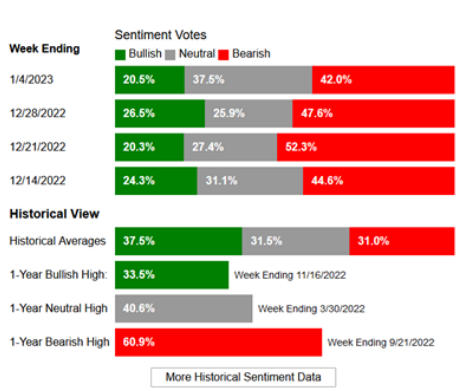
The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. Though many dismiss the Fed Model, investing is always a choice of this or that, and we still like today's rich earnings yield (5.30% vs. 3.56% 10-Year), despite last year's jump in interest rates.

…while we like from a contrarian perspective that few share our optimistic stance toward equities.

THE PRUDENT SPECULATOR

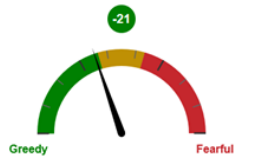
MAJOR AAII CONTRARIAN BUY SIGNAL: BULL-BEAR SPREAD = -21.5%

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



CURRENT AAII SENTIMENT BULL-BEAR SPREAD:

The Sentiment Survey is a contrarian indicator. Above-average market returns have often followed unusually low levels of optimism, while below-average market returns have often followed unusually high levels of optimism. Click here to learn more.



BULL-BEAR SPREAD TRENDS:

Previous Week	1 Month Ago	3 Months Ago	6 Months Ago
-21	-20	-34	-12
Greedy	Greedy	Greedy	Neutral

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 = 7.20											
BELOW	-54.0	7.2	924	0.23%	0.19%	1.13%	0.99%	3.26%	2.87%	6.45%	5.68%
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 1846 Data Points											
1	-54.0	-16.9	185	0.38%	0.32%	2.01%	1.77%	4.36%	3.83%	8.17%	6.96%
2	-16.8	-8.6	185	0.26%	0.23%	0.81%	0.66%	3.51%	3.13%	6.33%	5.53%
3	-8.6	-2.3	184	0.32%	0.29%	1.15%	1.04%	3.23%	2.80%	7.48%	6.75%
4	-2.3	2.7	185	0.13%	0.09%	1.04%	0.94%	2.58%	2.21%	5.43%	4.88%
5	2.8	7.2	184	0.08%	0.06%	0.69%	0.60%	2.68%	2.41%	4.98%	4.45%
6	7.2	11.7	185	0.20%	0.18%	0.65%	0.57%	1.97%	1.73%	4.65%	4.19%
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 01.05.23. 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 coming in at 20.5% and the number of Bears residing at 42.0% 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 21.5% Bull-Bear spread is in the most favorable (highest future returns) 1st decile of the weekly figures going back to 1987.

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*.

No doubt, it was a good week for many of the stocks hit hardest in 2022,…

UNDERVALUED TPS BARGAINS LIKELY HIT HARD BY TAX-LOSS SELLING

Undervalued January Bounce Candidates

Sector	Symbol	Company	01.06.23 Price	Target Price	Dividend Yield	2023 TR	2022 TR	52-Week High	52-Week Low
Retailing	BIG	Big Lots	$16.89	$31.24	7.1%	14.9%	-65.6%	$49.37	$12.87
Media & Entertainment	META	Meta Platforms	$130.02	$228.26	-	8.0%	-64.2%	$336.37	$88.09
Health Care Eq/Srvcs	PHG	Koninklijke Philips NV	$16.47	$26.30	4.7%	9.9%	-57.7%	$38.77	$11.75
Autos & Components	GT	Goodyear Tire	$10.97	$17.30	-	8.1%	-52.4%	$24.17	$9.66
Technology Hardware	STX	Seagate Tech	$55.91	$93.08	5.0%	6.3%	-51.4%	$117.03	$47.47
Technology Hardware	LITE	Lumentum Holdings	$55.16	$132.81	-	5.7%	-50.7%	$108.84	$48.73
Semiconductors	INTC	Intel	$28.73	$44.24	5.1%	8.7%	-46.7%	$56.28	$24.59
Retailing	KSS	Kohl's	$27.24	$47.71	7.3%	7.9%	-46.0%	$64.38	$23.38
Semiconductors	MU	Micron Tech	$56.77	$87.17	0.8%	13.6%	-45.9%	$98.11	$48.43
Media & Entertainment	DIS	Walt Disney	$93.92	$149.12	-	8.1%	-43.9%	$158.99	$84.07
Autos & Components	GM	General Motors	$35.91	$62.82	1.0%	6.7%	-42.4%	$63.38	$30.33
Real Estate	DLR	Digital Realty Trust	$101.38	$154.00	4.8%	1.1%	-40.9%	$161.00	$85.76
Semiconductors	LRCX	Lam Research	$445.27	$598.76	1.5%	5.9%	-40.7%	$730.75	$299.59
Consumer Durables	MDC	MDC Holdings	$34.48	$57.36	5.8%	9.1%	-40.1%	$56.29	$27.04
Media & Entertainment	GOOG	Alphabet	$88.16	$162.55	-	-0.6%	-38.7%	$152.10	$83.45
Semiconductors	QCOM	Qualcomm	$115.34	$199.20	2.6%	4.9%	-38.6%	$192.10	$101.93
Transportation	DPSGY	Deutsche Post AG	$39.64	$70.64	3.4%	5.7%	-38.6%	$63.28	$28.66
Consumer Durables	HAS	Hasbro	$64.86	$110.73	4.3%	6.3%	-37.9%	$105.13	$54.65
Autos & Components	VWAGY	Volkswagen AG	$17.07	$29.85	3.1%	9.1%	-37.9%	$28.41	$13.67
Materials	CE	Celanese	$116.62	$188.58	2.4%	14.1%	-37.8%	$175.30	$86.71
Consumer Durables	WHR	Whirlpool	$151.50	$247.97	4.6%	7.1%	-37.2%	$230.74	$124.43
Consumer Services	RCL	Royal Caribbean	$54.99	$71.20	-	11.2%	-35.7%	$90.55	$31.09
Diversified Financials	COF	Capital One Financial	$97.07	$169.84	2.5%	4.4%	-34.6%	$162.40	$86.98
Retailing	TGT	Target	$160.15	$212.13	2.7%	7.5%	-34.3%	$254.87	$137.16
Technology Hardware	NTAP	NetApp	$63.65	$99.37	3.1%	6.8%	-32.9%	$96.82	$58.08

As of 01.06.23. Source: Kovitz using data from Bloomberg

One week hardly a trend makes, but it was a terrific four days, on average, for some of the hardest hit stocks in 2022. In theory, they were poised to rebound as the negative catalyst of year-end selling was removed when the calendar turned to January. There is still a long way to go, but the average gain last week for the 25 undervalued bargains was 7.6%.

…but Jason Clark, Chris Quigley and Zack Tart offer updates on the four TPS stocks off to the worst start in 2023.

Greenbrier Cos (GBX – $28.66) watched its shares sink more than 14% last week, with all of the loss and then some coming on Friday after the railcar manufacturer revealed a mere $0.05 per share of profit in fiscal Q1, far below the $0.50 expected by the Street. Greenbrier delivered 4,800 units in the quarter (1,000 fewer units vs. fiscal Q4) and the reduced volume had an impact on manufacturing segment gross margin, which fell to 9.1% vs. 13.4% in fiscal Q4.

The diversified backlog currently stands at nearly 28,300 units with a total value of $3.4 billion, not including 1,800 units from a refurbishment program valued at more than $150 million. Management expects Greenbrier to generate full-year revenue between $3.2 billion and $3.6 billion on deliveries between 22,000 and 24,000 units including approximately 1,000 units in Greenbrier-Maxion (Brazil). The Board also renewed and extended a $100 million share repurchase program through January 2025.

CEO Lorie Tekorius explained, “Greenbrier’s business momentum continued in our fiscal first quarter, driven by a strong commercial performance that led to a book-to-bill of 1.2x. However, as new railcar production ramped, manufacturing margins were impacted by higher costs for

outsourced parts, material shortages, supplier issues and lingering supply chain complications. We have been executing a plan to source key components internally, which we expect will be completed by the fourth quarter of this fiscal year. This will meaningfully reduce our input costs and provide us greater control over our supply chains. Likewise, concluding manufacturing activity at our Portland facility will drive higher performance by optimizing production capacity and reducing our cost structure."

She added, "Additionally, Greenbrier's recent agreement to purchase the outstanding interest in GBX Leasing demonstrates our commitment to grow the leasing business. We are developing our railcar leasing platform and increased the owned fleet to 14,100 units, or nearly 65% since April 2021. Rising lease rates and high fleet utilization support our confidence in the value of leasing to our overall business. Managing through near-term economic uncertainty, we remain focused on execution and are confident in our outlook as railcar demand and our production efficiency normalizes through the fiscal year. In the meantime, Greenbrier is well-positioned with strong liquidity and a $3.4 billion manufacturing backlog."

We understand that traders do not like earnings misses, but we hardly think the punishment fits the crime as railcar manufacturing is a highly cyclical business. True, we realize that the overall economy is likely to cool this year, but we continue to think GBX is undervalued and welcome willingness by management to repurchase shares at current levels. The firm's still-recent expansion into servicing and leasing should modestly stabilize performance going forward, although manufacturing remains a substantial portion of the pie, with the tripling in operating profit in fiscal Q4. and subsequent drawdown in the latest quarter demonstrating both the pros and cons of operating leverage. Shares trade for 11 times the NTM EPS projection and offer a 3.8% dividend yield. Our Target Price is now $50.

Shares of agricultural giant **Archer-Daniels-Midland** (ADM – $85.95) gave back more than 7% last week. Of course, the recent action follows a strong performance in 2022 in which ADM returned a whopping 40%, as a decade of portfolio decisions intended to optimize the business meant Archer was set to capitalize on tight conditions for agriculture markets going into the year.

This tightness from imbalances in the supply chain, further exacerbated by geopolitical conflict propelled ADM's sales to levels not seen for nearly a decade. We acknowledge that cycles tend to characterize most refining businesses owing to the commoditized nature of both inputs and end markets. But even as food prices have cooled modestly from their peak last year, we are hesitant to think the show is over for outsized profits as China has yet to fully reopen its economy and geopolitical turmoil remains.

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, and we respect that the stock might still be a source of funds today. However, ADM now trades for just 13 times NTM estimated profits, while the dividend yield is 1.9%. Our Target Price is $108.

Another very good performer in 2022, returning nearly 12% as the broader markets headed south, shares of managed care provider **Elevance Health** (ELV – $475.48) shed about 7% in the first trading week of the new year. We suspect a combination of profit-taking/portfolio

repositioning, anticipation of elevated healthcare utilization and updates to Medicaid eligibility are to blame for the recent trading action. As one of the largest managed care organizations in the U.S., Elevance (formerly called Anthem) boasts offerings in commercial (both large and small employers), Medicare, Medicaid and individual markets. Given its broad portfolio of options, we find it likely that the company will find alternative insurance plans for those deemed ineligible for their current government-backed plan.

An abundance of RSV, COVID and the flu this winter likely boosted healthcare utilization in recent months, while elective procedure volumes should eventually pick up following several fits and starts since the pandemic began. These stand to reduce the margins for insurers but did not prevent management from boosting its EPS outlook for a third consecutive quarter in October. CEO Gail Boudreaux said, "Based on our year-to-date results and confidence in our momentum, we are increasing our full year adjusted earnings guidance to greater than $28.95 per share, representing growth of approximately 15% off of the adjusted baseline we provided at the beginning of the year."

We think ELV's competitive position remains intact, particularly within the 14 states in which it is the exclusive licensee of the Blue Cross Blue Shield brand where it holds significant market share. We also believe the firm's scale enables it to adapt to inevitable future shifts in regulation. Longer term, demographic trends remain in its favor as a major player in the Medicare Advantage market. Despite the outperformance in the last year, we find the 15 times forward P/E multiple attractive as management strives to grow adjusted earnings by 12% to 15% for at least the next several years. Our Target Price for ELV is now $624.

Shares of **Microsoft** (MSFT – $224.93) were under pressure last week on a note by UBS cautioning that the software and computing behemoth's cloud segment would slow faster than most anticipated. Then, later in the week the tech, the tech titan's CEO Satya Nadella highlighted in an interview with *CNBC*, "The next two years are probably going to be the most challenging because, after all, we did have a lot of acceleration during the pandemic and there's some amount of normalization of that demand and, on top of it, there is a real recession in large parts of the world."

He went on to add, "The combination of pull-forward and recession means we will have to adjust and will cycle through the demand cycle and, in fact, come out of it with what can be another massive growth cycle for the tech industry."

Of course, Mr. Nadella also commented several months ago on the firm's strategy as workforce reductions took hold across the Tech landscape. He said, "In this environment, we are focused on 3 things: first, no company is better positioned than Microsoft to help organizations deliver on their digital imperative so that they can do more with less. From infrastructure and data to business applications and hybrid work, we provide unique differentiated value to our customers. Second, we will invest to take share and build new businesses and categories where we have long-term structural advantage. Lastly, we will manage through this period with an intense focus on prioritization and executional excellence in our own operations to drive operational leverage."

And in an interview late last year with *CNBC*, the CEO highlighted his enthusiasm about the future, particularly regarding Asia as a growth market. He said, "We're very, very bullish about what's happening in Asia…We're absolutely committed to all of these countries and in China too. Today, we primarily work to support multinational companies that operate in China and multinational companies out of China…Microsoft's presence in India was about mostly multinational companies operating in India. But for now, it's completely changed."

Meantime, Microsoft's remains in a spat with the Federal Trade Commission (FTC) over its purchase of Activision Blizzard. Reuters reported the FTC's attorney, James Weingarten, told the Court in a pre-trial hearing "there are no 'substantive' settlement discussions between the two sides under way." The government is concerned the deal will cut down on competition in the gaming space, while Microsoft contends it's offering plenty of concessions to allay those concerns.

The enterprise computing giant's position at the intersection of digital transformations and cloud adoption continue to make it an immensely critical and indispensable IT mega-vendor, with a massive installed base of solutions that makes it easier to roll out new technologies to customers in addition to updates for existing products. Indeed, even as vendor spending is affected by a potential winter in the Tech sector, and software in particular, it could be argued that much of enterprise is built on the back of Microsoft's often mission critical enterprise software suite, whose productivity features make it a must have in the effort to do more with less.

The cloud build-out was swift during the pandemic, with companies working quickly to ditch on-premises computing power for distributed computing power. The transition helped Microsoft earnings (and share price) soar in 2020, but momentum began to slow the following year. To be sure, the Cloud business is still in growth mode and the margins continue to be fantastic, but the threat of a recession is feared to cause a near-term slowdown in business spending, with major IT projects in managements' crosshairs to push down the road (albeit not indefinitely).

Tremendous profitability also contributes to significant cash flow generation, enabling the firm to invest further in its products. As such, we continue to be comfortable with the stock's elevated position in our portfolios as the greater than 33% drawdown from a 2021 peak brings the current P/E multiple to as low a point as it has been in the past couple of years. Our Target Price for MSFT is $341.