Market Commentary Monday, January 16, 2023

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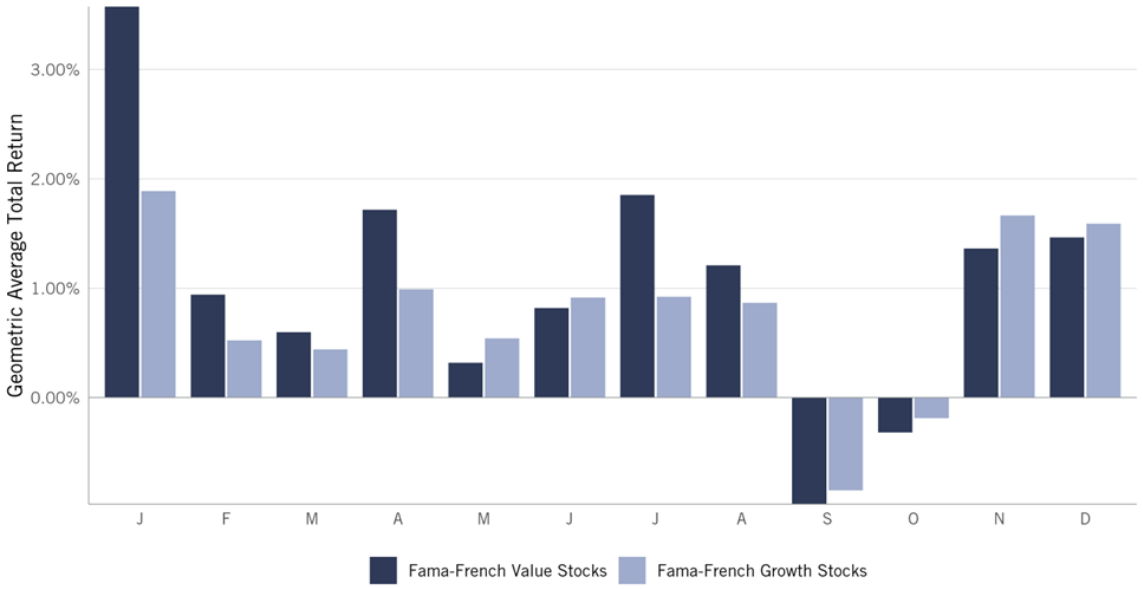
EXECUTIVE SUMMARY

Week in Review – Great Start to the Year Continues
Econ News – World Bank Reduces 2023 Global & U.S. Outlooks; Labor Market & Q4 2022 GDP Forecast Remain Strong
Jamie Dimon – Continuing to Invest for the Long-Term at JPMorgan
Inflation – CPI Pulls Back; Historical Returns for Equities
Valuations – Falling Bond Yields Add to the Case for Stocks
Sentiment – Main Street Not Enthusiastic
Corporate Profits – Solid EPS Projected
Market of Stocks – *TPS* Winners and Losers Thus Far in 2023
Stock News – Updates on AAPL, AVGO, QCOM, PFE, GM, AYI, JPM, BAC, C, BK & BLK

Market Review

The terrific start to 2023 for the equity markets,…

Mark Twain said, "October: This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August and February." Of course, history shows that, on average, we are now in the very favorable November - January period.



From 12.31.27 through 12.31.21. Geometric average. 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. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

Thus far January has lived up to its historical propensity for very good equity market returns even as history is merely a guide and not the gospel since December was an ugly month for stocks

…continued last week,…

THE PRUDENT SPECULATOR

2023 is off to a terrific start, though the 12 month return tallies offer vivid reminder that stock prices move in both directions. While Growth stocks had the upper hand in the latest week, Value has been winning the performance derby for quite a while now.

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	2.01	3.54	20.11	-3.01	35.25	95.25	26.27	48.25	Dow Jones Industrial Average	INDU Index
1.01	-10.21		2.49	4.92	18.98	-5.32	35.04	94.27	22.04	36.14	New York Stock Exchange Composite	NYA Index
-39.18	-20.81		4.83	5.88	5.06	-24.51	3.35	65.17	22.52	59.99	Nasdaq Composite Index	CCMP Index
-22.43	-9.23		6.01	7.47	11.92	-14.48	4.69	69.42	8.31	22.90	Russell 2000 Growth	RU20GRTR Index
22.83	14.02		4.52	6.87	15.86	-8.48	50.94	120.30	23.93	26.39	Russell 2000 Value	RU20VATR Index
-3.02	2.49		5.27	7.17	13.85	-11.35	25.98	94.88	17.34	26.51	Russell 2000	RU20INTR Index
-11.75	-20.15		4.30	5.30	12.57	-15.21	3.40	71.48	14.73	45.33	Russell Midcap Growth Index Total Return	RUMCGRTR Index
19.18	2.33		2.92	5.85	16.91	-6.94	42.58	117.94	25.25	36.23	Russell Midcap Value Index Total Return	RUMCVATR Index
8.25	-5.62		3.40	5.65	15.35	-9.76	27.60	102.22	23.92	43.80	Russell Midcap Index Total Return	RUMCINTR Index
-22.42	-19.63		4.16	4.57	6.99	-21.00	8.51	74.12	25.13	63.85	Russell 3000 Growth	RU30GRTR Index
8.04	-4.33		2.07	4.62	17.36	-4.74	42.95	99.81	23.89	38.63	Russell 3000 Value	RU30VATR Index
-7.46	-11.46		3.07	4.59	12.11	-13.19	24.47	87.77	26.10	53.04	Russell 3000	RU30INTR Index
9.64	-0.39		2.61	5.51	17.78	-6.05	44.34	118.26	35.51	57.02	S&P 500 Equal Weighted	SPXEWTR Index
-9.10	-11.89		2.71	4.22	12.10	-12.74	26.56	86.94	27.71	56.80	S&P 500	SPXT Index
-22.08	-12.73		2.75	2.82	4.31	-23.31	9.41	71.23	23.78	60.00	S&P 500 Growth	SPTRSGX Index
6.08	-11.71		2.67	5.74	20.11	-1.07	46.24	98.85	26.67	46.92	S&P 500 Value	SPTRSVX Index
3.18	1.57		1.91	3.33	8.03	-13.15	-14.91	-7.26	-9.74	-5.15	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index
11.63	8.44		0.88	2.74	4.67	-9.44	-11.02	-6.37	-5.76	3.38	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index

As of 1.13.23. Source Kovitz using data from Bloomberg

It is a market of stocks and returns over the last couple of years show wide dispersion similar in magnitude to what was seen after the bursting of the Tech Bubble in the year 2000

…even as the World Bank lowered its projections for economic growth around the world, with World Bank President David Malpass stating, “Global growth has slowed to the extent that the global economy is perilously close to falling into recession.”

The World Bank Global Economic Prospects January 2023

TABLE 1.1 Real GDP[1]
(Percent change from previous year unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	Percentage point differences from June 2022 projections 2022e	2023f	2024f
World	**-3.2**	**5.9**	**2.9**	**1.7**	**2.7**	**0.0**	**-1.3**	**-0.3**
Advanced economies	**-4.3**	**5.3**	**2.5**	**0.5**	**1.6**	**-0.1**	**-1.7**	**-0.3**
United States	-2.8	5.9	1.9	0.5	1.6	-0.6	-1.9	-0.4
Euro area	-6.1	5.3	3.3	0.0	1.6	0.8	-1.9	-0.3
Japan	-4.3	2.2	1.2	1.0	0.7	-0.5	-0.3	0.1
Emerging market and developing economies	**-1.5**	**6.7**	**3.4**	**3.4**	**4.1**	**0.0**	**-0.8**	**-0.3**
East Asia and Pacific	1.2	7.2	3.2	4.3	4.9	-1.2	-0.9	-0.2
China	2.2	8.1	2.7	4.3	5.0	-1.6	-0.9	-0.1
Indonesia	-2.1	3.7	5.2	4.8	4.9	0.1	-0.5	-0.4
Thailand	-6.2	1.5	3.4	3.6	3.7	0.5	-0.7	-0.2
Europe and Central Asia	-1.7	6.7	0.2	0.1	2.8	3.2	-1.4	-0.5
Russian Federation	-2.7	4.8	-3.5	-3.3	1.6	5.4	-1.3	-0.6
Türkiye	1.9	11.4	4.7	2.7	4.0	2.4	-0.5	0.0
Poland	-2.0	6.8	4.4	0.7	2.2	0.5	-2.9	-1.5
Latin America and the Caribbean	-6.2	6.8	3.6	1.3	2.4	1.1	-0.6	0.0
Brazil	-3.3	5.0	3.0	0.8	2.0	1.5	0.0	0.0
Mexico	-8.0	4.7	2.6	0.9	2.3	0.9	-1.0	0.3
Argentina	-9.9	10.4	5.2	2.0	2.0	0.7	-0.5	-0.5
Middle East and North Africa	-3.6	3.7	5.7	3.5	2.7	0.4	-0.1	-0.5
Saudi Arabia	-4.1	3.2	8.3	3.7	2.3	1.3	-0.1	-0.7
Iran, Islamic Rep.[2]	1.9	4.7	2.9	2.2	1.9	-0.8	-0.5	-0.4
Egypt, Arab Rep.[3]	3.6	3.3	6.6	4.5	4.8	0.5	-0.3	-0.2
South Asia	-4.5	7.9	6.1	5.5	5.8	-0.7	-0.3	-0.7
India[2]	-6.6	8.7	6.9	6.6	6.1	-0.6	-0.5	-0.4
Pakistan[3]	-0.9	5.7	6.0	2.0	3.2	1.7	-2.0	-1.0
Bangladesh[3]	3.4	6.9	7.2	5.2	6.2	0.8	-1.5	-0.7
Sub-Saharan Africa	-2.0	4.3	3.4	3.6	3.9	-0.3	-0.2	-0.1
Nigeria	-1.8	3.6	3.1	2.9	2.9	-0.3	-0.3	-0.3
South Africa	-6.3	4.9	1.9	1.4	1.8	-0.2	-0.1	0.0
Angola	-5.8	0.8	3.1	2.8	2.9	0.0	-0.5	-0.3
Memorandum items:								
Real GDP[1]								
High-income countries	-4.3	5.3	2.7	0.6	1.6	0.0	-1.6	-0.4
Middle-income countries	-1.2	6.9	3.2	3.4	4.3	-0.1	-0.8	-0.2
Low-income countries	1.6	3.9	4.0	5.1	5.6	0.0	-0.1	0.0
EMDEs excl. China	-3.9	5.7	3.8	2.7	3.6	1.1	-0.7	-0.4
Commodity-exporting EMDEs	-3.7	4.9	2.8	1.9	2.8	1.6	-0.7	-0.4
Commodity-importing EMDEs	-0.4	7.6	3.6	4.1	4.8	-0.8	-0.8	-0.2
Commodity-importing EMDEs excl. China	-4.2	6.8	5.0	3.8	4.5	0.4	-0.7	-0.4
EM7	-0.4	7.4	3.0	3.5	4.5	-0.3	-0.8	-0.2

Global growth is expected to decelerate sharply to 1.7 percent in 2023—the third weakest pace of growth in nearly three decades, overshadowed only by the global recessions caused by the pandemic and the global financial crisis. This is 1.3 percentage points below previous forecasts, reflecting synchronous policy tightening aimed at containing very high inflation, worsening financial conditions, and continued disruptions from Russia's invasion of Ukraine. The United States, the euro area, and China are all undergoing a period of pronounced weakness, and the resulting spillovers are exacerbating other headwinds faced by emerging market and developing economies (EMDEs).
— The World Bank, January 2023

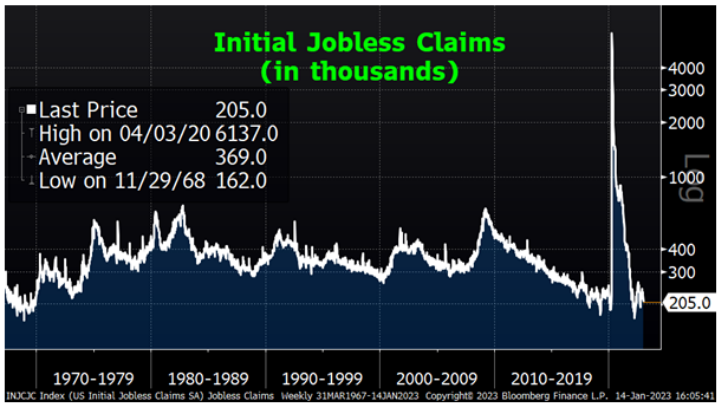
The World Bank lowered its outlook for real inflation adjusted Global and US GDP growth to less than 2 percent and less than 1 percent but neither figure would represent an economic contraction

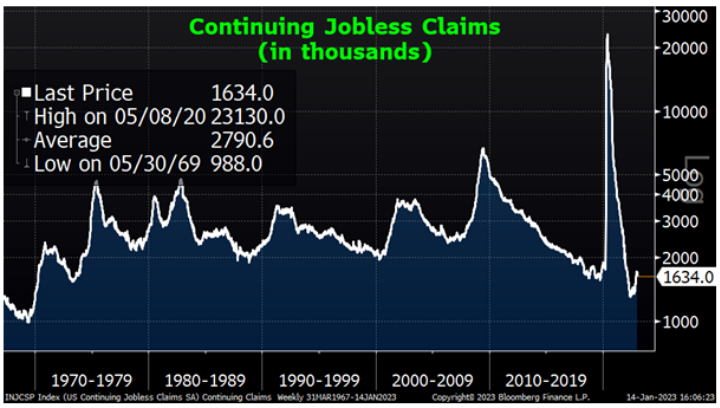
Of course, the downgrade in the *World Economic Outlook* hardly came as a surprise, given that the odds of a U.S. recession, per the economic estimates compiled by *Bloomberg*, have been high for quite some time,…

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 0.4% and 1.3% for 2024.

Economic forecasts are often fraught with peril but the prognosticators now project a nearly two thirds chance of a US recession occurring in the next 12 months

…even as the all-important jobs picture has remained remarkably robust,…



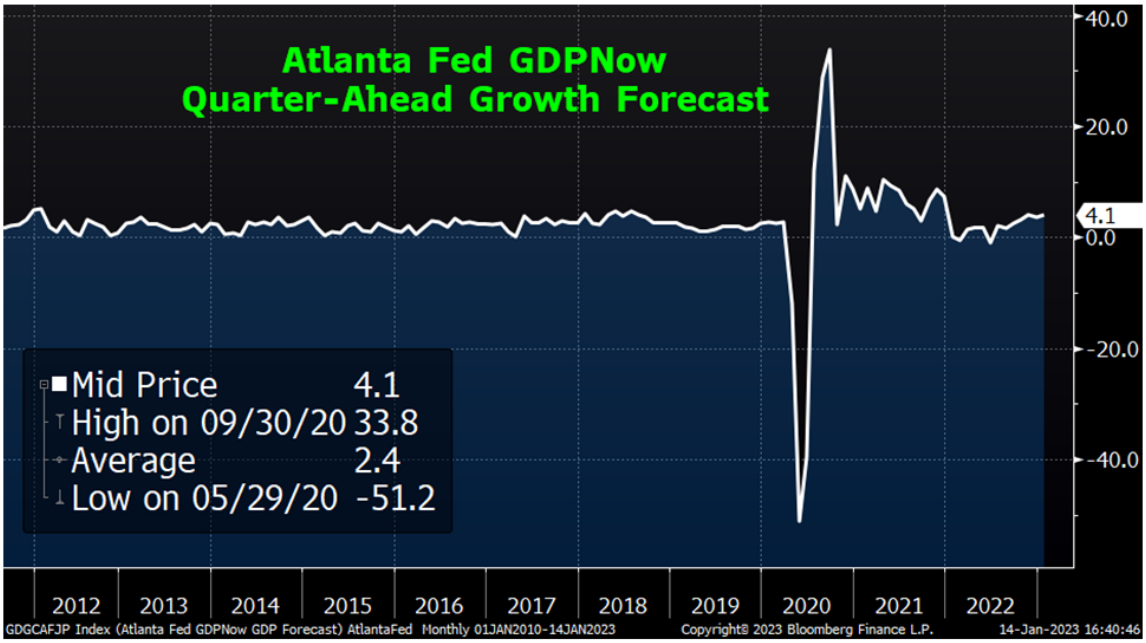


While higher than readings earlier in 2022 with a 1-handle, yet still coming in near the lowest levels since 1969 when the work force was much smaller, new filings for unemployment benefits for the period ended January 7 were a seasonally adjusted 205,000, down from a revised 206,000 the week prior. Continuing claims filed through state programs inched lower to 1.63 million, as businesses continue to hold onto most workers with qualified labor difficult to obtain, though the tally is expected to move up.

The labor market remains robust with jobless claims still near five decade plus lows

…and the latest estimate for Q4 domestic GDP growth stood at a very strong 4.1%.

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 10 stood at a very healthy 4.1%.



It is fascinating to see so much pessimism toward the US economy when the current estimate for Q4 real inflation adjusted GDP growth resides above 4 percent

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Obviously, nobody knows what the future will hold, but it was reported last week by the Conference Board, "98% of CEOs in the U.S. think there is going to be a recession-but it's going to be short and shallow."

Time will tell, but we found interesting Jamie Dimon's update to statements made last June in which he warned of a potential economic hurricane. Last week, the **JPMorgan Chase** (JPM – $143.01) CEO explained, "I shouldn't have ever used the word 'hurricane.' What I said was there were storm clouds which may mitigate. People said they didn't think it was a big deal, and I said no, those storm clouds could be a hurricane. And so I'm saying this stuff, I'm talking about…it could be nothing [or] it could be bad, and I think we should understand, I'm not predicting one or the other."

Mr. Dimon went on to say, "So far, we're still in the hiring mode. We have a lot of growth plans. You know, I tend not to stop growing because you have a recession. Even in a recession, we're

opening in new countries we're talking about. And we think those things are very good for shareholders over the long run."

Speaking of the long run, sticking with stocks through thick and thin historically has proved very rewarding for equity investors,…

THE PRUDENT SPECULATOR

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	315	0.3	12/28/2022	1/13/2023

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 1.13.23. 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

The secret to success in stocks is not to get scared out of them as every downturn has been followed by an upswing of far greater magnitude so much so that long term returns for Value stocks have exceeded 13 percent per annum

…even if they somehow had a crystal ball to know when a recession might begin or end as time in the market has long trumped market timing.

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

There is much hand wringing over a hard or soft landing but the historical evidence shows that even if the US economy officially enters a recession long term oriented investors should stick with stocks

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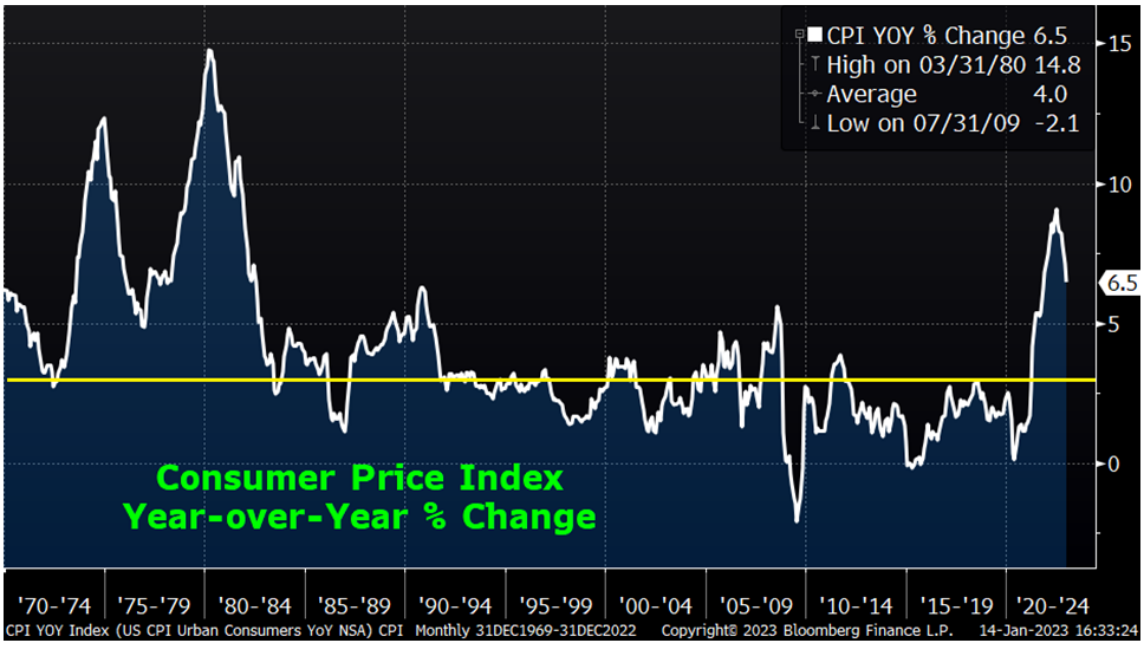
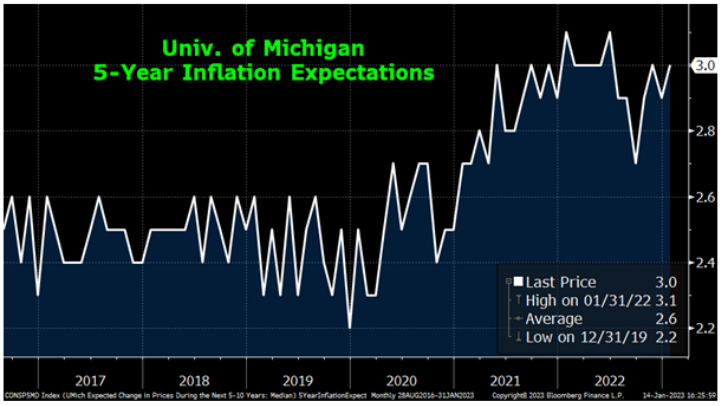
Certainly, the big event last week was the release of the CPI, with the gauge showing a continued pullback in inflation at the consumer level. Of course, the reading came in about as expected,…

While overall inflation in the U.S. soared by 6.5% in December, the jump in the Consumer Price Index was in line with the increase expected by economists and was down sharply from the 7.1% advance the month prior. The "core" rate, which excludes food and energy, also met forecasts, rising by 5.7%, down from 6.0% in November, with the CPI numbers leading to a decent Wall Street advance.



Inflation at the consumer level pulled back to in December

…while longer-term measures of inflation expectations were more or less unchanged,…

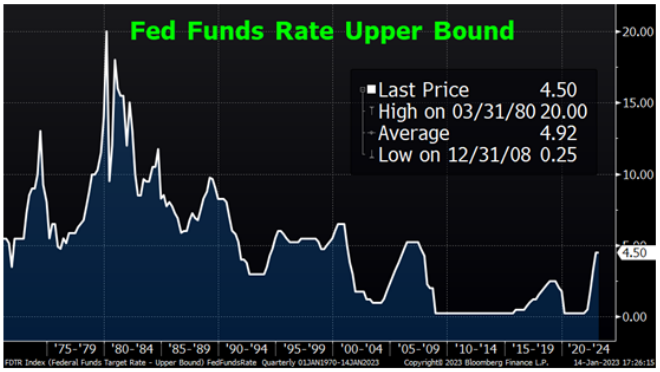


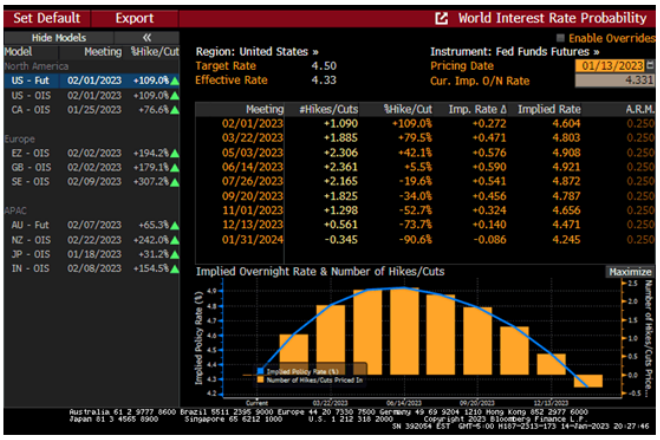
The New York Fed's latest Survey of Consumer Expectations saw another drop in the one-year inflation outlook to 5.0% in December, down from 5.2% the month prior, while the three-year projection held steady at 3.0%. The Univ. of Michigan's one-year inflation outlook dipped to 4.0% in January versus 4.4% in December, and with the five-year outlook holding at 3.0%, Fed Chair Jerome H. Powell's recent assertion, "Longer-term inflation expectations appear to remain well anchored," seems to be well supported

Longer term inflation expectations from the New York Fed and the University of Michigan both remain reasonably well anchored

…and the outlook over the next 12 months for additional interest rate hikes from the Federal Reserve did not move much.

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 last 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%, but the Fed Funds futures became a bit less hawkish last week as they are now estimating a 4.47% year-end 2023 Fed Funds rate and a 4.92% peak in June 2023, with a pivot lower coming in July.





The Fed has been rapidly tightening monetary policy but the Fed Funds rate today is still below the historical average dating back to 1971

We understand that equity market trading these days seemingly is dominated by those with time horizons measured in minutes, so a two-week rally does not a trend make, but we remind readers that stocks historically have been a good hedge against inflation,…

THE WALL STREET JOURNAL.

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What's News

Business & Finance

Inflation Pace Slows for Sixth Straight Month

Markets, Fed Split On Rate Forecasts

Special Counsel to Probe Biden Over Files

Disney's Board Shift Doesn't Sway Peltz

Ukraine Braces for Attack as Russia Regroups

Inflation Rate >= 6.5% and Ensuing Value/Growth Returns Since 1927

Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	4.5%	2.1%	10.3%	5.9%	24.6%	15.6%
Geometric Average	3.9%	1.5%	9.0%	4.7%	21.9%	13.1%
Median	3.8%	1.7%	6.6%	4.2%	18.5%	13.4%
Max	50.9%	32.9%	82.7%	60.8%	134.0%	84.2%
Min	-19.2%	-27.6%	-26.4%	-35.9%	-28.0%	-48.0%
Count	154	154	151	151	151	151

Source: Kovitz using data from Ibbotson Associates 06.30.27 - 4.30.22.

Inflation Rate <6.5% and Ensuing Value/Growth Returns Since 1927

Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	4.1%	3.2%	8.0%	6.1%	16.1%	12.1%
Geometric Average	3.0%	2.5%	6.0%	4.8%	12.0%	9.2%
Median	4.0%	3.6%	8.0%	6.4%	16.3%	12.6%
Max	200.5%	136.1%	244.7%	140.3%	357.8%	221.9%
Min	-43.1%	-40.4%	-56.1%	-47.0%	-71.3%	-64.8%
Count	983	983	983	983	977	977

Source: Kovitz using data from Ibbotson Associates 06.30.27 - 4.30.22.

Inflation Rate >= 6.5% and Ensuing Value/Growth Returns Since 1957

Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	4.4%	2.2%	10.0%	6.7%	23.9%	18.1%
Geometric Average	3.9%	1.5%	8.9%	5.2%	22.2%	15.1%
Median	4.6%	2.4%	7.5%	5.7%	23.7%	20.8%
Max	39.6%	32.9%	63.0%	60.8%	72.6%	84.2%
Min	-16.5%	-27.6%	-26.4%	-35.9%	-28.0%	-48.0%
Count	94	94	91	91	91	91

Source: Kovitz using data from Ibbotson Associates 03.31.57 - 04.30.22.

Inflation Rate < 6.5% and Ensuing Value/Growth Returns Since 1957

Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	3.7%	3.0%	7.5%	5.8%	15.3%	11.5%
Geometric Average	3.3%	2.5%	6.5%	4.8%	13.3%	9.6%
Median	4.0%	3.3%	8.1%	6.1%	16.9%	12.3%
Max	37.8%	32.5%	68.5%	49.8%	105.8%	93.6%
Min	-39.5%	-34.9%	-54.2%	-41.7%	-52.2%	-39.9%
Count	685	685	685	685	679	679

Source: Kovitz using data from Ibbotson Associates 03.31.57 - 04.30.22.

There is plenty of consternation about elevated inflation levels but history suggests that equities especially Value stocks have performed better when inflation is high than when it is low

…and the last big battle the Federal Reserve fought against high consumer prices ended very well for stock market participants, provided they had a long-term time horizon.

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

The last time the Federal Reserve faced sky high inflation levels Paul Volcker Co raised interest rates repeatedly triggering two economic recessions AND sensational equity market returns

*****

To be sure, the rally in bonds this year,…

The big rally in the price of U.S. Treasuries (plunge in yields) so far in 2023 has been a support for equities, with a continued decline in inflation bolstering interest in government debt, even as economic data has remained solid.

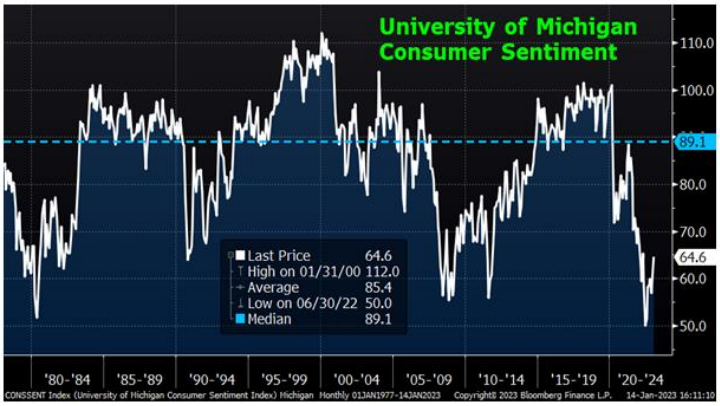
While the spike in bond yields in 2022 was a headwind for stock prices both fixed income and equities are off to a strong start in 2023

…has added to the appeal of equities,…

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 (5.16% vs. 3.50% 10-Year), despite last year's jump in interest rates.

Yes interest rates are much higher today than in the past several years but stocks remain attractively priced relative to bonds on an earnings yield basis

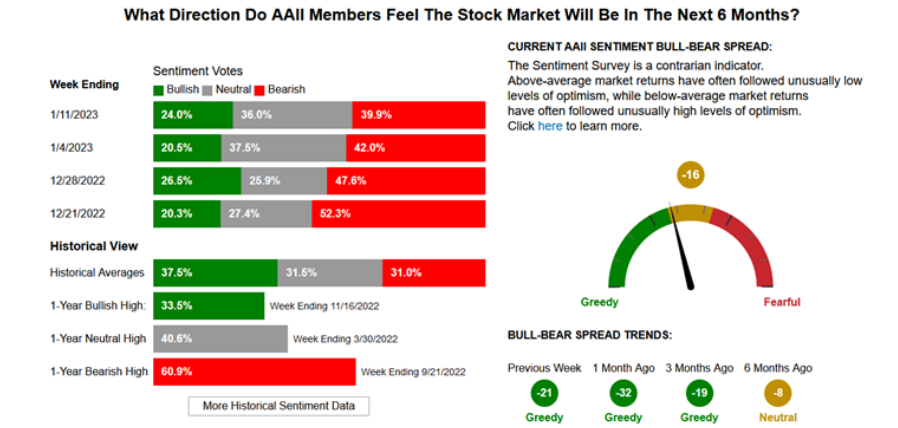
…even as there is still little enthusiasm for current economic conditions for folks on Main Street,…



The NFIB Small Business Index for December came in below expectations at 89.8, down from 91.9 in November. Business owners are not optimistic about 2023 as sales and business conditions are expected to deteriorate. On the other hand, the University of Michigan gauge of consumer sentiment jumped this month to a much-better-than-forecast reading of 64.6, up from a revised 59.7 in December to the highest level in nine months.

While Small Business Optimism fell in December the University of Michigan preliminary Consumer Sentiment gauge for January saw a big improvement in the outlook on Main Street

…which is echoed in their views about the prospects for stocks.



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	0.24%	0.20%	1.14%	1.00%	3.27%	2.88%	6.48%	5.71%
ABOVE	7.2	62.9	924	0.17%	0.15%	0.53%	0.44%	2.00%	1.75%	4.63%	4.15%
Ten Groupings of 1847 Data Points											
1	-54.0	-16.9	185	0.41%	0.34%	2.00%	1.76%	4.38%	3.85%	8.19%	6.98%
2	-16.8	-8.7	185	0.25%	0.21%	0.82%	0.67%	3.49%	3.12%	6.24%	5.45%
3	-8.6	-2.3	185	0.34%	0.30%	1.14%	1.03%	3.22%	2.80%	7.53%	6.80%
4	-2.3	2.7	184	0.15%	0.12%	1.02%	0.92%	2.51%	2.14%	5.34%	4.79%
5	2.7	7.2	185	0.06%	0.03%	0.71%	0.61%	2.74%	2.47%	5.07%	4.54%
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	16.0	184	0.12%	0.10%	0.43%	0.29%	2.43%	2.18%	5.31%	4.81%
8	16.1	21.8	185	0.15%	0.13%	0.91%	0.84%	2.26%	2.02%	5.82%	5.40%
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 01.12.23. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

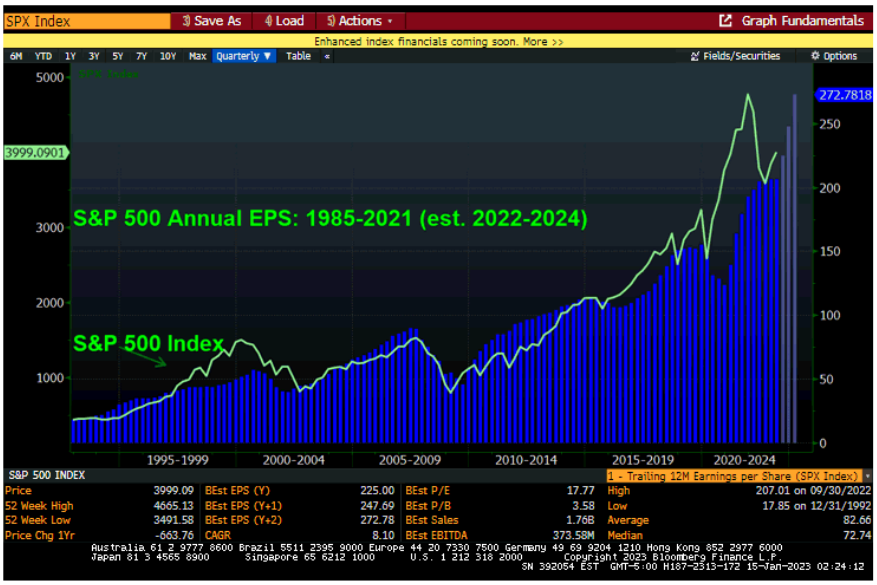
The gauge is widely viewed with a contrarian eye, so the tally of Bulls in the latest AAII Sentiment Survey coming in at 24.0% and the number of Bears residing at 39.9% is still a major positive. After all, there are usually more optimists than pessimists and history suggests that it is good to be greedy when others are fearful. The minus 15.9% Bull-Bear spread is in the favorable (higher future returns) 2nd decile of the weekly figures going back to 1987.

The good folks in the AAII Sentiment Survey are not quite as pessimistic today as they were before the big rally to start 2023 but we are happy given that they often zig when they should have zagged that they hardly are optimistic

*****

Stocks often climb a wall of worry, and there is plenty about which to be concerned these days, with Q4 earnings reporting season the big even for the next couple of weeks. We expect a lot of volatility, especially in response to individual company results, but we think corporate profits on the whole will hold up reasonably well,…

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	$58.86	$225.35
9/30/2023	$57.87	$219.67
6/30/2023	$55.59	$212.15
3/31/2023	$53.03	$203.43
12/31/2022	$53.18	$199.76
ACTUAL		
9/30/2022	$50.35	$203.31
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 1.12.23

Certainly we realize that analysts are often overly optimistic in their earnings outlooks but if EPS in 2023 and 2024 come close to the current projections stocks should be significantly higher

…so we see no reason to alter 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	12.3	12.3	0.8	2.3	2.8
ValuePlus	12.9	12.9	1.2	2.4	2.3
Dividend Income	12.1	12.5	0.7	2.2	3.2
Focused Dividend Income	13.6	13.5	1.1	2.6	2.7
Focused ValuePlus	13.5	13.5	1.3	2.7	2.5
Small-Mid Dividend Value	11.0	10.5	0.5	1.7	2.8
Russell 3000	20.7	18.1	2.1	3.7	1.6
Russell 3000 Growth	28.4	22.7	3.0	9.1	1.0
Russell 3000 Value	16.6	15.3	1.6	2.4	2.2
Russell 1000	20.0	17.9	2.2	3.9	1.7
Russell 1000 Growth	26.6	22.4	3.3	9.4	1.1
Russell 1000 Value	16.2	15.1	1.7	2.5	2.2
S&P 500 Index	19.4	17.8	2.3	4.0	1.7
S&P 500 Growth Index	19.8	18.7	3.2	6.8	1.4
S&P 500 Value Index	19.0	16.9	1.8	2.8	2.0
S&P 500 Pure Value Index	11.5	11.1	0.7	1.6	2.5

As of 01.14.23. 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.

We sleep very well at night given the inexpensive valuation multiples and generous dividend yields associated with our managed account portfolios

…especially as we have long understood that it is a market of stocks and not simply a stock market.

Market of Stocks: 2023 Advancers & Decliners

TPS Winners									TPS Losers								
Sector	Symbol	Company	01.13.23 Price	Target Price	YTD 2023 TR	2022 TR	52-Week High	52-Week Low	Sector	Symbol	Company	01.13.23 Price	Target Price	YTD 2023 TR	2022 TR	52-Week High	52-Week Low
Consumer Services	RCL	Royal Caribbean	$63.48	$71.20	28.4%	-35.7%	$90.55	$31.09	Capital Goods	GBX	Greenbrier Cos	$29.31	$50.27	-12.6%	-24.8%	$53.46	$23.80
Retailing	BIG	Big Lots	$18.18	$29.20	23.7%	-65.6%	$44.60	$12.87	Capital Goods	LMT	Lockheed Martin	$449.83	$534.99	-7.5%	40.4%	$498.95	$365.34
Materials	CE	Celanese	$121.29	$188.58	18.6%	-37.8%	$172.75	$86.71	Pharma, Biotech	PFE	Pfizer	$47.85	$71.09	-6.6%	-10.4%	$56.32	$41.45
Materials	BASFY	BASF SE	$14.31	$19.62	16.3%	-24.7%	$19.87	$9.01	Health Care Eq/Srv	ELV	Elevance Health	$483.00	$624.32	-5.8%	11.8%	$549.52	$420.73
Semiconductors	KLIC	Kulicke & Soffa	$51.23	$70.83	15.7%	-25.8%	$62.16	$35.95	Food, Beverage	ADM	Archer-Daniels	$88.40	$107.82	-4.8%	39.9%	$98.88	$65.64
Health Care Eq/Srv	PHG	Koninklijke Philips	$17.30	$26.30	15.4%	-57.7%	$34.93	$11.75	Health Care Eq/Srv	CVS	CVS Health	$89.92	$137.68	-3.5%	-7.6%	$111.25	$86.28
Materials	NEM	Newmont Corp	$54.35	$66.44	15.1%	-20.8%	$86.37	$37.45	Health Care Eq/Srv	ZBH	Zimmer Biomet	$123.38	$162.21	-3.2%	4.3%	$135.05	$100.39
Media/Entertain	DIS	Walt Disney	$99.40	$149.12	14.4%	-43.9%	$157.50	$84.07	Capital Goods	GD	General Dynamics	$240.29	$287.11	-3.2%	21.7%	$256.86	$200.65
Retailing	KSS	Kohl's	$28.83	$47.71	14.2%	-46.0%	$64.38	$23.38	Pharma, Biotech	JNJ	Johnson & Johnson	$173.43	$206.98	-1.8%	6.0%	$186.69	$155.72
Semiconductors	INTC	Intel	$30.11	$44.24	13.9%	-46.7%	$55.65	$24.59	Commercial/Pro	WM	Waste Mgmt	$154.19	$183.77	-1.7%	-4.5%	$175.98	$138.58
Consumer Durables	TPR	Tapestry	$43.38	$61.88	13.9%	-3.3%	$43.58	$26.39	Utilities	PNW	Pinnacle West	$75.37	$87.23	-0.9%	13.1%	$80.60	$59.03
Semiconductors	MU	Micron Tech	$56.93	$87.17	13.9%	-45.9%	$96.50	$48.43	Insurance	MET	MetLife	$71.92	$95.71	-0.6%	19.2%	$77.36	$57.41
Tech Hardware	JBL	Jabil Inc	$77.66	$96.45	13.9%	-2.6%	$77.69	$48.80	Software & Services	MSFT	Microsoft	$239.23	$340.84	-0.2%	-28.0%	$315.95	$213.43
Media/Entertain	META	Meta Platforms	$136.98	$228.26	13.8%	-64.2%	$328.00	$88.09	Tech Hardware	JNPR	Juniper Networks	$31.94	$39.85	-0.1%	-8.1%	$38.14	$25.18
Autos	GT	Goodyear Tire	$11.52	$17.30	13.5%	-52.4%	$24.14	$9.66	Health Care Eq/Srv	CAH	Cardinal Health	$76.87	$88.80	0.0%	54.1%	$81.57	$49.09
Capital Goods	SIEGY	Siemens AG	$77.70	$89.40	13.0%	-18.3%	$83.99	$46.37	Energy	DINO	HF Sinclair	$52.01	$76.88	0.2%	61.9%	$66.19	$29.14
Tech Hardware	GLW	Corning	$36.07	$48.10	12.9%	-11.6%	$43.47	$28.98	Pharma, Biotech	GILD	Gilead Sciences	$86.27	$93.94	0.5%	23.6%	$89.74	$57.17
Semiconductors	LRCX	Lam Research	$473.67	$598.76	12.7%	-40.7%	$717.40	$299.59	Energy	EOG	EOG Resources	$129.46	$161.43	0.6%	56.9%	$149.10	$89.96
Consumer Durables	MDC	MDC Holdings	$35.55	$57.36	12.5%	-40.1%	$54.00	$27.04	Real Estate	KIM	Kimco Realty	$21.35	$29.21	0.8%	-10.8%	$26.57	$17.71
Banks	NYCB	NY Comm Banc	$9.67	$15.74	12.4%	-24.6%	$13.43	$8.17	Materials	APD	Air Products	$311.40	$350.99	1.0%	3.9%	$328.56	$216.24
Semiconductors	COHU	Cohu Inc	$35.98	$43.28	12.3%	-15.9%	$37.66	$24.06	Pharma, Biotech	MRK	Merck & Co	$112.25	$125.28	1.2%	49.4%	$115.49	$72.88
Media/Entertain	CMCSA	Comcast	$38.93	$59.21	12.2%	-28.7%	$51.62	$28.39	Food/Staples Retail	KR	Kroger	$45.22	$63.19	1.4%	0.4%	$62.78	$41.82
Materials	ALB	Albemarle	$242.23	$382.61	11.7%	-6.6%	$334.55	$169.93	Insurance	PRU	Prudential Fin'l	$101.00	$133.85	1.5%	-3.9%	$124.22	$85.46
Autos	VWAGY	Volkswagen AG	$17.45	$29.85	11.5%	-37.4%	$27.31	$13.55	Pharma, Biotech	BMY	Bristol-Myers	$72.51	$101.75	1.6%	19.0%	$81.44	$61.19

As of 1.13.23. Source: Kovitz using data from Bloomberg

There has been significant dispersion in TPS stock returns so far in 2023 with many of last years largest losers up the most and some of last years biggest winners taking a breather

Stock Updates

Keeping in mind that all stocks are rated as a "Buy" until such time as they are a "Sell," a listing of all current recommendations is available for download via the following link: https://theprudentspeculator.com/dashboard/. We also offer the reminder that any sales we make for our newsletter strategies are announced via our *Sales Alerts*.

Jason Clark, Chris Quigley and Zack Tart take a look at earnings reports and other market-moving news of note out last week for several of our recommendations.

Apple (AAPL – $134.76) said it continues to develop its own chips and the transition reportedly is due to impact **Broadcom** (AVGO – $579.00) and **Qualcomm** (QCOM – $120.24) sooner rather than later. Apple is a key customer of the duo, and the revenue losses are likely to be significant, but it was a little surprising to see the news push shares down last week since we knew this already.

Under CEO Tim Cook, Apple has been laser-focused on developing its own products, both for cost and design benefits. For a time, we did wonder if Apple would take a run at fledgling chipmaker **Intel** (INTC – $30.11), although that ship has probably sailed (despite INTC's discounted valuation) because the technology in Apple products is different. The *Bloomberg* article that sent shares tumbling last week suggested the end dates for some of the relationships might come as early as 2025, but Apple's timelines are sometimes aggressive, and the company has backtracked on replacements before. As holders of all three technology companies in our broadly diversified portfolios, the net impact is probably neutral. We continue to maintain our positions of AAPL, AVGO and QCOM in our broadly diversified portfolios and appreciate the risk and reward characteristics they bring.

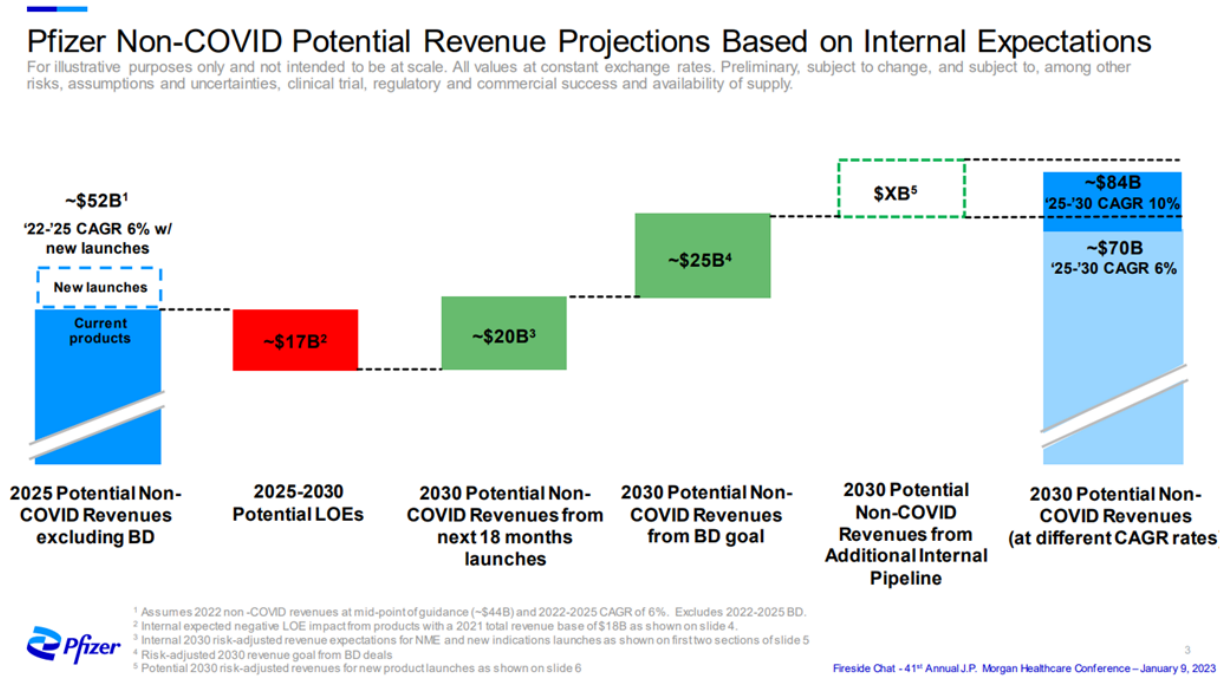
Our Target Price for Apple is $176, for Broadcom is $721 and for Qualcomm is $196.

Shares of **Pfizer** (PFE – $47.85) slid over 6% last week as investors digested a slew of news items ranging from a lost appeal to the Supreme Court on a statute that prevents drugmakers from offering financial support to Medicare enrollees to deadlock with China over settling on a price for COVID-19 pill Paxlovid.

Pfizer has proposed offering financial assistance for users of two of the company's drugs to treat certain heart conditions, which typically cost around $225K per year, and require a $13K annual co-pay for Medicare enrollees. Pfizer says it is willing to subsidize it for some seniors who don't qualify for reduced co-pays so they only pay $35 a month.

Then on Friday, the U.S. Centers for Disease Control and Prevention (CDC) and the Food and Drug Administration (FDA) said that the CDC's Vaccine Safety Datalink database had uncovered a possible safety issue in which people 65 and older were more likely to have an ischemic stroke 21 days after receiving the Pfizer/BioNTech bivalent shot, compared with days 22-44.

Despite the negative press, we continue to appreciate the diversity of Pfizer's current revenue base (in addition to COVID-19 therapies) as well as management's increasing confidence for organic growth potential from its emerging pipeline of products as trial data is set to cone out over the next few years. At a recent *Fireside Chat*, management discussed the company's path to offset $17 billion of lost revenue through Loss of Exclusivity to reach $84 billion of revenue by 2030.



We like the potential of drugs in the Pfizer pipeline in addition to its COVID 19 opportunities

Also, even as COVID sales are expected to wane in the coming years, the success Pfizer has had has loaded up the company's balance sheet with over $30 billion of cash, while the average maturity of its debt is 2034 (with individual maturities as far as 2050). We like that shares trade for just 10 times expected 2023 EPS with a robust dividend yield of 3.4%. Our Target Price for PFE is now $71.

Shares of **General Motors** (GM – $36.51) fell nearly 5% (they are up more than 8% on the year, though) after EV rival Tesla announced price cuts across its model lines. The discounts, between 6% and 20%, put significant pressure on other EV manufacturers, especially as Tesla vehicles again qualify for a federal tax credit of up to $7,500. There is concern that GM, Ford and others, which trade at fundamental discounts significantly lower than Tesla, may struggle to compete with some of Tesla's offerings if pricing is more similar.

Of course, GM's model range is much wider than other EV manufacturers and its production slate is chock full of new models that are embedded with significant advances in technology on par with those in Tesla cars. A challenge is that Tesla's cost of production is lower than some

other manufacturers, but even Mr. Musk is finding cost cutting harder than he might have imagined. Input price inflation, particularly for battery components, is doing the industry no favors.

We continue to like GM and appreciate its strong balance sheet and reasonable valuation metrics (including a forward P/E ratio of 5.8 and forward P/S ratio of 0.33). Our Target Price is now $61.

GM shares have tumbled by nearly 40% since the end of 2021, while Tesla shares have fallen by almost two thirds. While the latter is not yet in the Value camp, we might lean more towards putting it in a peer group with tech companies over car manufactures, as our view is that Tesla's true value is in the software that makes their cars go. Of course, if Tesla is merely a car company, the current forward P/E ratio of 26 is extraordinarily expensive.

Acuity Brands (AYI – $173.78) earned an adjusted $3.29 per share in fiscal Q1 ended November, vs. the $2.97 Street estimate. The figure was 15% higher year-over-year on $997.9 million of sales that also beat Wall Street consensus. Gross margin held up quarter-to-quarter, owing to productivity improvements and previous price increases, although a stated investment in commissions modestly ate into operating profit margin even as profit increased on an absolute basis.

Turning to the outlook for 2023, CEO Neil Ashe said, "There are two themes that we are focused on. First, there is, obviously, uncertainty around the economy, inflation, and interest rates, which we know will affect our business over time. Second, we believe that as component availability improves, lead times will improve and backlog levels will return to normal. We are beginning to see this in our business. We are well-positioned in a variety of our end markets, and our continuing investment in product vitality and service positions us well for these dynamic environments. Our organization continues to adapt to the changing requirements of our customers, and as a result, we have positioned ourselves not to predict the future perfectly, but rather to adapt to whatever comes our way."

CFO Karen Holcom said back in October that she expected Acuity to earn between $13.00 and $14.00 per share next year, as it turns from a goal to grow market share in the past couple of years towards enhanced profitability. Management also has been busy repurchasing shares, reducing the share count by about 20% since May 2020, but this pace will likely take a back seat to other capital allocation priorities the new fiscal year.

We continue to think Acuity is sufficiently capitalized to weather the obstacles facing most businesses today and we are patient in waiting for the company to realize the multiple channels for growth on the horizon, particularly within its Intelligent Spaces segment. Shares trade for less than 13 times the NTM EPS estimate. Our Target Price for AYI has been boosted to $251.

Financial journalists were forced to rewrite their headlines rather quickly on Friday as shares of the country's largest banks dipped on the release of Q4 earnings, before reversing course mid-session to end solidly in the green.

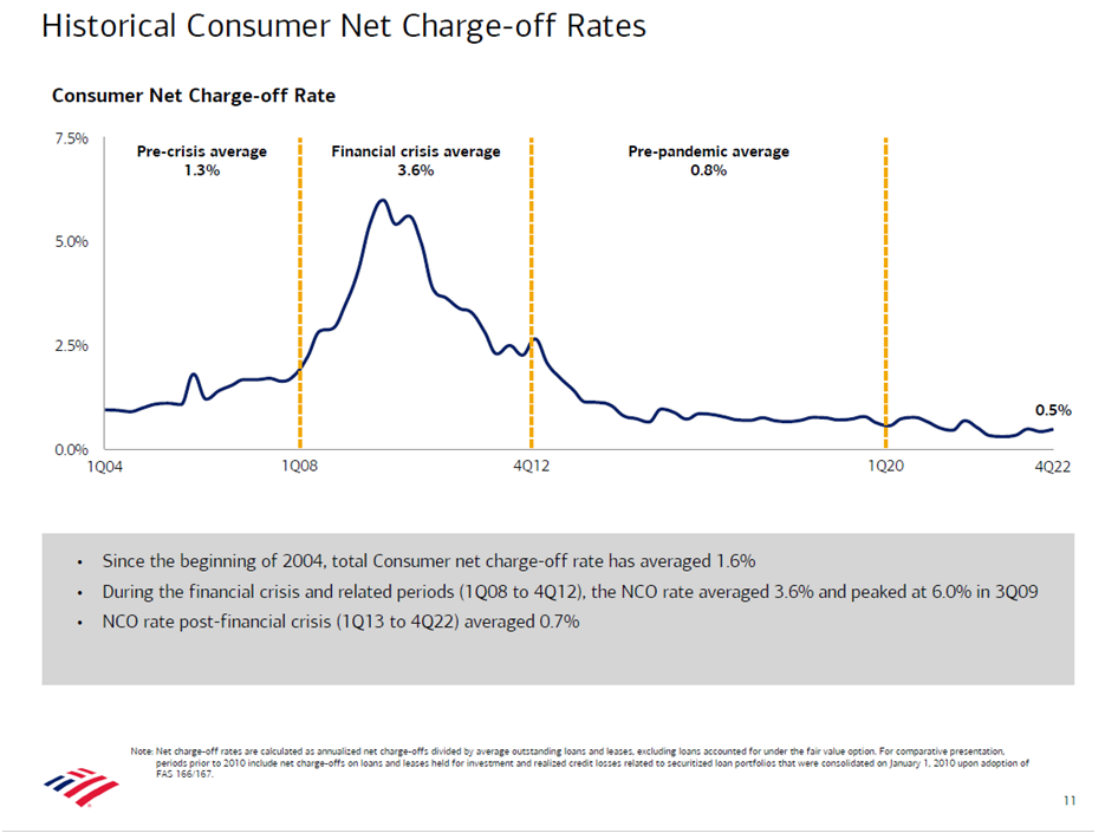
JPMorgan Chase, **Bank of America** (BAC – $35.23) and **Citigroup** (C – $49.92) posted respective Q4 EPS of $3.57 (vs. $3.10 est.), $0.85 (vs. $0.78 est.) and $1.10 (vs. 1.16 est.). Profits were fueled in large part by strong growth of net interest income of 48%, 29% and 23%, respectively, versus the prior year.

But a major reason for the early morning dip for shares was uncertainty around the core lending profit in quarters to come, amid rising deposit costs and concerns that recession could impede loan growth and ramp credit costs.

Tighter financial conditions and higher interest rates likely mean that folks with idle cash are apt to demand that it isn't so idle anymore. Elaborating on the topic, JPM CEO Jamie Dimon said, "So, the Federal Reserve reduces balance sheet by $400 billion. $1.5 trillion came out of bank deposits. And so, investors can invest in T-Bills, money market funds and, of course, banks are competing for the capital money now. And banks are all in different places. Some banks start to compete heavily, some have a lot of excess cash and maybe compete less…We've never had rates go up this fast. So, I expect there will be more migration to CD, more migration to money market funds. Lot of people out there competing for it, and we're going to change savings rates."

But the future is always uncertain, while a perception of elevated uncertainty could add volatility to the markets. Each of these three banks possess trading operations that stand to benefit from lingering volatility as demonstrated in the latest quarter. Fixed income trading were high points for BAC and C last quarter as segment revenue grew 49% and 31%, respectively, year-over-year.

Mr. Dimon also suggested that a mild recession was the base case scenario in the bank's economic forecast, but that consumer financial health remains in decent shape even as delinquencies approach pre-pandemic levels and charge-offs are expected to follow suit. BAC CEO Brian Moynihan echoed, "Consumer deposit balances continue to show strong liquidity with the lower cohorts of our consumers continue to hold several multiples of balance that they have as a pandemic begin. These balances are drifting down, but they still have plenty of cushion left."



Bank of America like its peers has yet to see much in the way of credit issues

We maintain our fondness for Mr. Dimon, who is willing to take a long-term view, investing in enhancing various capabilities, such as wealth management, even if there is limited near-term payoff. JPM shares trade at 11 times the consensus EPS estimate and sport a dividend yield of 2.8%. Our Target Price for JPM has been boosted to $186.

We also continue to like the multiple levers available to generate fee revenue that compliment Bank of America's prominent consumer franchise. Notably, 56% of the $1 trillion in consumer deposits remain in no-interest checking accounts. BAC shares also look inexpensive to us as they trade for 10 times forward EPS estimates with a dividend yield of 2.5%. Our Target Price has been bumped up to $56.

The turnaround story continues at Citigroup as CEO Jane Fraser executes a plan of consumer business divestitures across Mexico, Asia and Europe, while addressing deficiencies in technology and internal controls. Ms. Fraser explained, "We will make further progress on our international consumer exits, enabling us to simplify the firm and reduce our cost base, and we will of course focus on our clients, deepening relationships, and bringing on new clients in-line

with our strategy. We will continue making disciplined investments in our franchise including the investments in our transformation and controls…Looking further out, we will begin to bend the curve of our expenses to deliver against our major-term target. We'll do so through a combination of our divestitures realizing the financial benefits of our transformation and further simplification…We fully recognize this depresses our returns in the near term, but we are deliberately taking the tough strategic actions and the investments necessary to reach our medium-term return target and to create long-term shareholder value."

Recognizing that this effort will take several years to play out, we like that shares trade for just 8 times forward earnings and for 60% of tangible book value, with a dividend yield of 4.1%. Our Target Price for C remains $87.

Global custodian and asset servicer **Bank of New York** (BK – $49.03) saw its shares continue to rebound in 2023, following its Q4 earnings release on Friday. BK shares are now up more than 7% on the year. For the recently completed quarter, BK said its revenue equaled $4.38 billion, versus the consensus analyst estimate of $4.19 billion. Adjusted EPS of $1.30 came in more than 13% above the average analyst forecast. The bank is benefiting from higher interest rates as net interest margin expanded from 1.05% in the prior quarter to 1.19%, resulting in net interest income increasing 14% sequentially and 56% from the year-ago period.

Securities services revenue grew 18%, driven by higher net interest income and client activity. Market and wealth services grew 19%, due to higher net interest income and lack of fee waivers. Not surprisingly, wealth and investment management was weak, with a 19% decline in revenue due to the decline in equity and fixed-income markets weighing on asset levels.

CEO Robin Vince commented, "BNY Mellon delivered solid underlying performance in the fourth quarter. We continued to derive benefit from higher interest rates, and we saw healthy growth across several of our businesses despite the significant downdraft in market levels across global equity and fixed income markets. Our reported results in the quarter also reflect the impact of a number of deliberate actions to improve our revenue growth and efficiency trajectory for 2023 and beyond."

"As we enter 2023, we remain focused on growing and deepening our strong client franchise, together with driving greater efficiency in our operating model. I am confident in BNY Mellon's ability to create further value for all our stakeholders in the years ahead," Mr. Vince concluded.

Bank of New York performs an essential service critical to the function of financial market participants across the globe but is subject to multiple macroeconomic factors and the whims of markets often beyond its control. This role somewhat necessitates that the bank maintain a conservative posture relative to other of our financial holdings, although we do appreciate efforts to move into new product areas and enhance its technological offering. BK trades for 10 times forward EPS estimates and offers a 3.0% dividend yield. Our Target Price has been raised to $69.

Shares of **BlackRock** (BLK – $753.99) are off to a nice start to 2023, up more than 6% on the year. The investment management firm reported Q4 2022 financial results on Friday, which

included top- and bottom-line results that were ahead of the consensus analyst estimate. BLK had revenue of $4.34 billion, versus the average forecast of $4.24 billion, while adjusted EPS came in more than 10% above expectations ($8.93 vs $8.08). Given the challenging market backdrop, long-term net flows of $146 billion were quite impressive.

CEO Laurence D. Fink shared thoughts on the quarter and 2022 as a whole:

BlackRock delivered over $300 billion of net inflows and positive organic base fee growth in 2022. These industry-leading results reflect the decisions by thousands of organizations and investors that continually place their trust in BlackRock. The consistency of our results – across all market environments – comes from our clients' confidence in BlackRock's performance, guidance, and fiduciary standards.

BlackRock's diversified investment and technology capabilities provide clients with more choice to address their unique risk preferences and priorities. In the United States alone, we generated $230 billion of long-term net inflows. Flows were positive across each of our three regions. iShares led the global ETF industry with $220 billion of net inflows, including record flows into bond ETFs. We continued to scale our private markets platform, raising $35 billion of capital, with particular strength in private credit and infrastructure. And we saw record net new sales of Aladdin, further underscoring its importance in periods of market volatility.

We ended the year with strong momentum, generating $114 billion of fourth quarter net inflows, representing 3% annualized organic base fee growth, reflecting continued strength in ETFs and significant outsourcing mandates.

Like our clients – pensions, insurers, governments, and individual savers – BlackRock's focus remains on investing for the long term. The current environment offers incredible opportunities for long-term investors, and we enter 2023 well-positioned and confident in our ability to deliver for our clients, employees, and shareholders.

We like that BlackRock's diversified investment & technology platform has demonstrated an all-weather track record of generating positive organic growth across good and bad times. This is driven by its broad suite of secular growth products where BLK is a leader or first-mover, including ETFs, technology solutions, ESG, outsourced solutions, retirement and alternative investments. Considering a broad spectrum of investment markets and general performance of 2022, we are expecting BLK's organic growth to accelerate in 2023 given we should see significant rebalancing activity from institutional and individual investors. BLK carries a current dividend yield of 2.6% and the company continues to buy back shares. Our Target Price now resides at $857.