Market Commentary Monday, January 30, 2023

January 30, 2023

EXECUTIVE SUMMARY

Week – January Rally Continues
Sentiment – Be Greedy When Others are Fearful
Patience – Volatility is Normal But Long-Term Trend is Up
Econ Numbers – Mixed Picture: Solid Q4 GDP and Jobs Numbers; LEI Weakens Further
Corporate Profits – Q4 Report Cards OK Thus Far
Inflation – PCE Pulls Back; Modest Increase in Market Projections for Peak Fed Funds Rate
Valuations – Inexpensive Metrics for our Portfolios
Stock News – Updates on MSFT, MMM, ONB, SYF, COF, GD, ABT, NSC, STX, LRCX, IBM, INTC & HAS

Market Review

Stocks, especially those of the value variety, closed Friday on a less-than-stellar note, but it was another terrific week for equities, with January continuing to see sizable gains across the board. Of course, while we know that returns over the last 12 months have not been grand,…

Total Returns Matrix

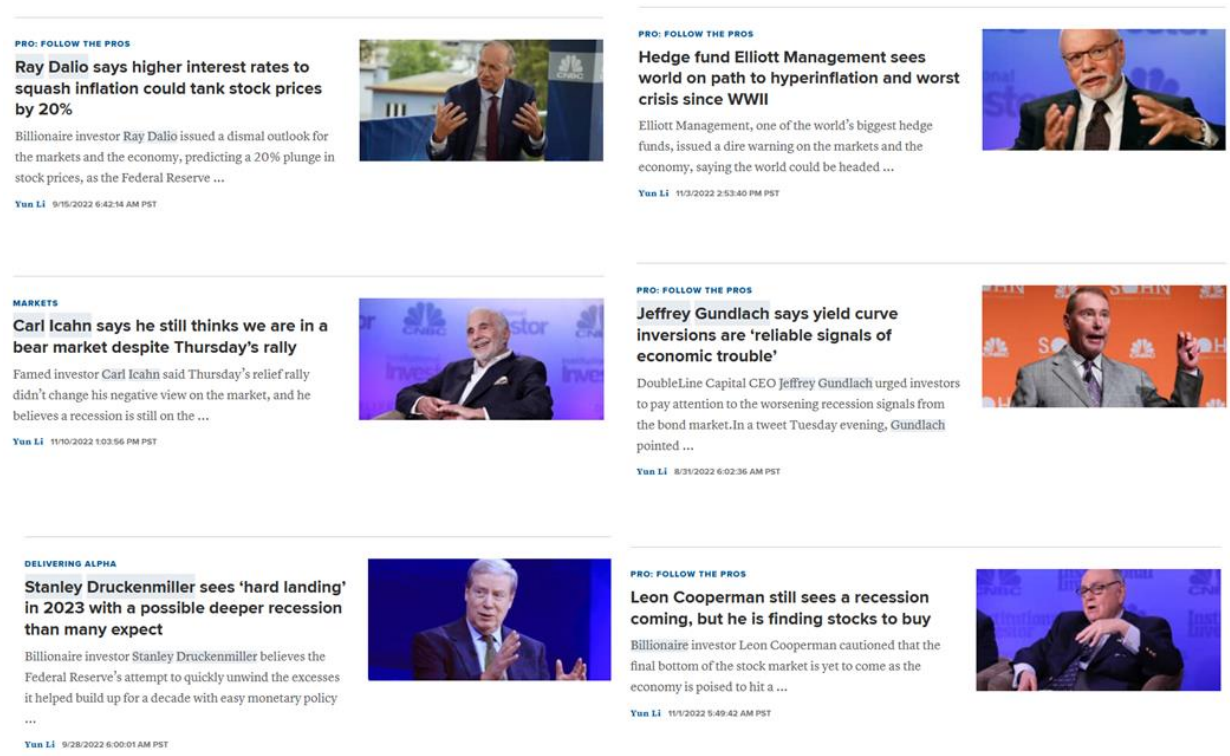
2000	2001		Week	YTD	Since 9.30.22	Last 12 Months	Since 10.31.20	Since 3.23.20	Last 3 Years	Last 5 Years	Name	Symbol
-4.71	-5.44	MARKET OF STOCKS	1.81	2.60	19.03	1.57	34.03	93.49	26.71	42.36	Dow Jones Industrial Average	INDU Index
1.01	-10.21		1.19	5.25	19.35	1.46	35.47	94.88	24.80	33.10	New York Stock Exchange Composite	NYA Index
-39.18	-20.81		4.32	11.07	10.21	-12.19	8.41	73.27	30.42	62.35	Nasdaq Composite Index	CCMP Index
-22.43	-9.23		2.52	9.10	13.61	-0.82	6.28	71.99	10.65	22.32	Russell 2000 Growth	RU20GRTR Index
22.83	14.02		2.22	8.04	17.13	1.42	52.59	122.72	28.42	27.82	Russell 2000 Value	RU20VATR Index
-3.02	2.49		2.37	8.58	15.34	0.40	27.63	97.43	20.69	26.87	Russell 2000	RU20INTR Index
-11.75	-20.15		2.79	8.18	15.65	-2.39	6.23	76.18	18.84	45.19	Russell Midcap Growth Index Total Return	RUMCGRTR Index
19.18	2.33		2.52	7.25	18.46	1.83	44.47	120.83	28.46	35.93	Russell Midcap Value Index Total Return	RUMCVATR Index
8.25	-5.62		2.62	7.58	17.45	0.45	29.92	105.90	27.51	43.38	Russell Midcap Index Total Return	RUMCINTR Index
-22.42	-19.63		3.35	8.38	10.89	-9.92	12.47	80.47	31.05	64.27	Russell 3000 Growth	RU30GRTR Index
8.04	-4.33		1.80	4.96	17.74	1.75	43.42	100.46	26.30	35.92	Russell 3000 Value	RU30VATR Index
-7.46	-11.46		2.56	6.62	14.27	-4.22	26.87	91.40	30.23	51.65	Russell 3000	RU30INTR Index
9.64	-0.39		2.24	6.75	19.17	2.08	46.05	120.84	39.21	55.03	S&P 500 Equal Weighted	SPXEWTR Index
-9.10	-11.89		2.48	6.11	14.14	-4.35	28.85	90.33	31.77	54.80	S&P 500	SPXT Index
-22.08	-12.73		2.67	5.75	7.27	-13.47	12.52	76.09	28.70	58.49	S&P 500 Growth	SPTRSGX Index
6.08	-11.71		2.27	6.51	20.99	5.24	47.31	100.31	29.66	44.53	S&P 500 Value	SPTRSVX Index
3.18	1.57		-0.03	3.30	8.00	-11.68	-14.93	-7.29	-10.67	-6.26	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index
11.63	8.44		0.09	2.99	4.92	-8.40	-10.80	-6.14	-6.64	4.10	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index

As of 1.27.23. 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.

…we suspect that some market players were guilty of buying high at the start of 2022 and selling near the lows later in the year. After all, *Bloomberg* reported that going into 2022, Wall Street strategists were predicting another good year, with an S&P 500 target near 4950. The index finished the year at 3840.

As is often par for the course whenever stocks have headed south, negativity dominated the financial press last fall. Indeed, purveyors of doom-and-gloom were all over the airwaves, seemingly counseling to close the proverbial barn doors after the horses had run out,…



PRO: FOLLOW THE PROS

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

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

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

PRO: FOLLOW THE PROS

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

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

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

MARKETS

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

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

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

PRO: FOLLOW THE PROS

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

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

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

DELIVERING ALPHA

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

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

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

PRO: FOLLOW THE PROS

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

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

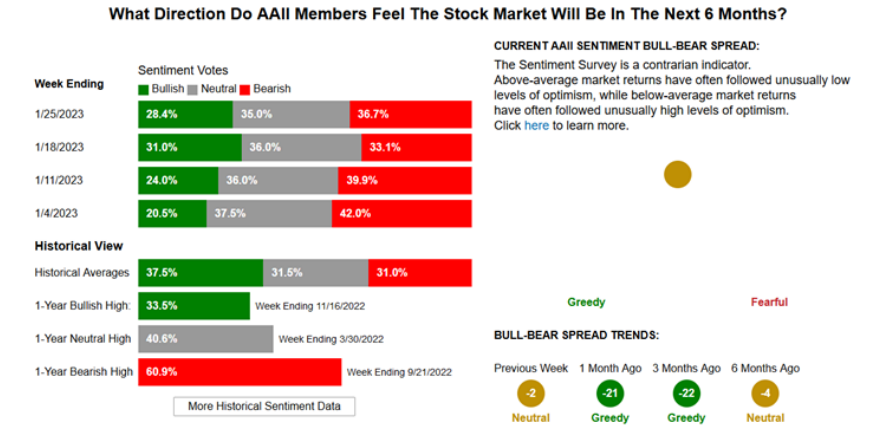
Yun Li 11/1/2022 5:49:42 AM PST

About all the supposed experts have proved over the years is to remind investors that time in the market trumps market timing.

…so much so that there was little enthusiasm for stocks as 2023 began. The consensus prognostication from those same Wall Street strategists was 4078 (the S&P 500 topped that mark on Friday, before dipping below at the close), the 6% estimated gain for this year well below the usual upside target.

Further illustrating the point that the only problem with market timing is getting the timing right, folks on Main Street were even less enchanted with the outlook as the first Sentiment Survey from the American Association of Individual Investors (AAII) of 2023 showed a score of 20.5% to 42.0% in favor of the Bears, versus the usual seven-point Bull advantage.

The gauge is widely viewed with a contrarian eye, so the tally of Bulls in the most recent AAII Survey edging down to 28.4% versus the week prior and the number of Bears climbing to 36.7% means the measure is still suggesting investors should be greedy when others are fearful.



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 = 7.16										
BELOW	-54.0	7.1	925	0.24%	0.20%	1.14%	1.00%	3.28%	2.88%	6.45%	5.69%
ABOVE	7.2	62.9	925	0.17%	0.15%	0.54%	0.45%	2.01%	1.75%	4.64%	4.16%
	Ten Groupings of 1849 Data Points										
1	-54.0	-16.9	185	0.41%	0.34%	2.04%	1.80%	4.48%	3.95%	8.20%	6.99%
2	-16.8	-8.7	185	0.23%	0.20%	0.82%	0.67%	3.49%	3.12%	6.24%	5.44%
3	-8.6	-2.5	185	0.33%	0.29%	1.12%	1.01%	3.31%	2.89%	7.46%	6.74%
4	-2.3	2.7	185	0.18%	0.14%	1.04%	0.94%	2.45%	2.08%	5.38%	4.83%
5	2.7	7.1	185	0.07%	0.04%	0.67%	0.58%	2.65%	2.38%	5.00%	4.46%
6	7.2	11.6	185	0.20%	0.18%	0.70%	0.61%	2.00%	1.76%	4.76%	4.29%
7	11.7	16.0	185	0.12%	0.10%	0.41%	0.28%	2.44%	2.19%	5.26%	4.75%
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 01.26.23. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

The good folks in the AAII Sentiment Survey were more pessimistic last week than the week prior, which is not a bad thing based on 36 years of data for this contrarian gauge.

None of this is meant to suggest that the big rebound will continue as we move forward, as history shows that selloffs, downturns, pullbacks, corrections and even Bear Markets are events with which 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	1/27/2023

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 1.27.23. 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% per annum.

Still, we have long believed that time in the market trumps market timing as far too many folks zig when they should have zagged. For example, per data analytics firm DALBAR, equity fund investors had awful relative returns in 2021, gaining only 18.4% on average, compared to a 28.7% return for the S&P 500, for a whopping 1030 basis point (10.3%) difference in performance. The longer-term historical numbers are even worse for bonds as Fixed Income fund investors had an annual return 500 basis points lower than the U.S. Aggregate Bond index over the past three decades.

Individual Investor Returns vs. Broad Benchmarks							
	Stocks			Bonds			Inflation
Time Period	Average Equity Investor Return	S&P 500 Return	Difference	Average Bond Investor Return	U.S. Aggregate Bond Index Return	Difference	U.S. Consumer Price Index
1 Year	18.4%	28.7%	-10.3%	-1.6%	-1.5%	-0.1%	7.0%
3 Years	21.6%	26.1%	-4.5%	1.7%	4.8%	-3.1%	3.5%
5 Years	14.8%	18.5%	-3.7%	0.8%	3.6%	-2.8%	2.9%
10 Years	13.4%	16.6%	-3.2%	0.4%	2.9%	-2.5%	2.2%
20 Years	8.1%	9.5%	-1.4%	0.4%	4.3%	-3.9%	2.3%
30 Years	7.1%	10.7%	-3.6%	0.3%	5.3%	-5.0%	3.4%

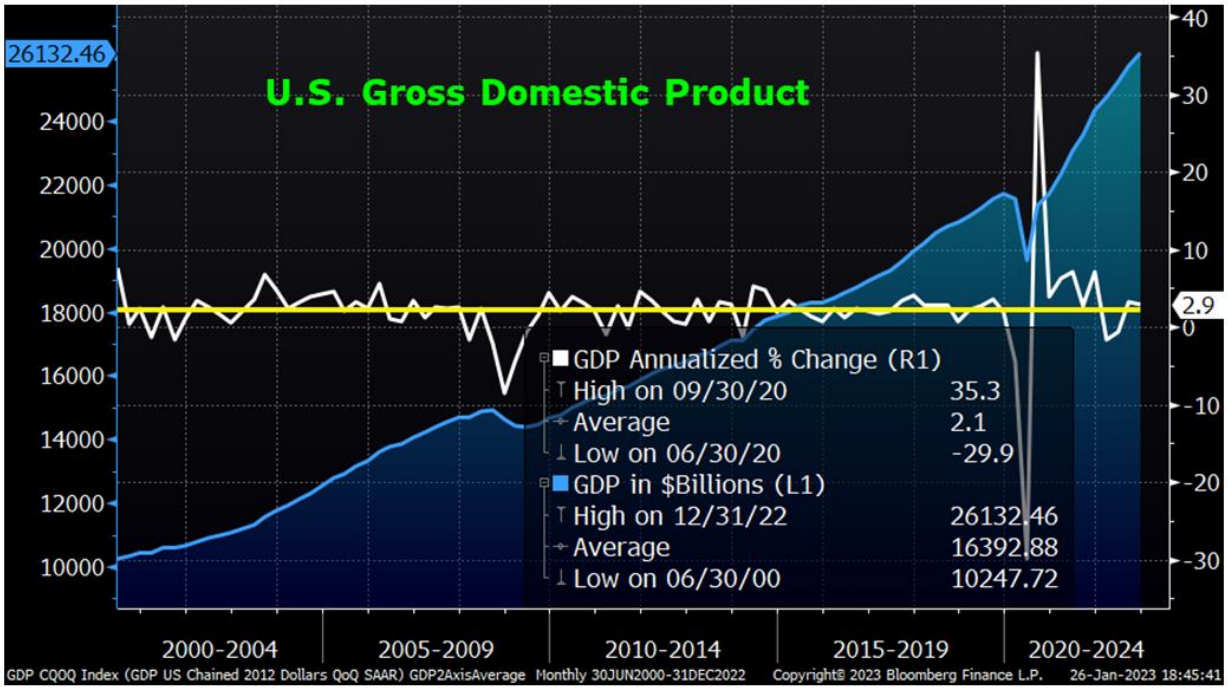
From 12.31.1984 through 12.31.2021. Annualized returns. SOURCE: Kovitz using data from DALBAR and Bloomberg Finance L.P.

Data compiled by DALBAR show that equity (and fixed income) fund investors generally have been awful at timing their moves into and out of stocks (and bonds), with very detrimental long-term consequences.

*****

We would argue that some of the rationale for the move higher this year, and in the fourth quarter of 2022, is that the plunge in stock prices over the first nine months of 2022 had discounted far worse news on the economy than what has occurred.

For example, Q4 2022 real (inflation-adjusted) domestic economic growth came in better than expected at a 2.9% growth rate on an annualized basis, while the current-dollar nominal GDP figure of $26.1 trillion soared by 7.3% on an annualized basis to an all-time high.

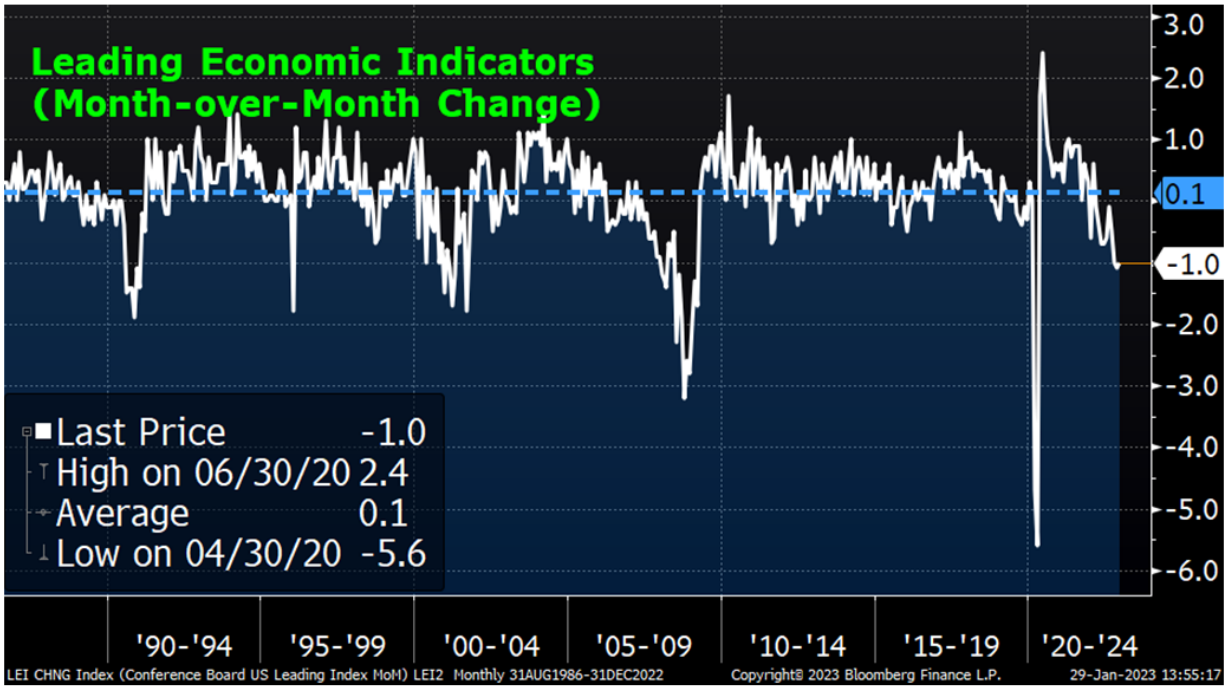


There was a huge 7.3% jump in Q4 nominal GDP, even as real (inflation-adjusted) growth was “only” 2.9%.

Certainly, the outlook for 2023 is hardly robust, with most forecasters of the mind that real GDP growth for the full year will be only modestly positive and the majority of prognosticators thinking that the U.S. economy will endure a recession at some point over the next 12 months.

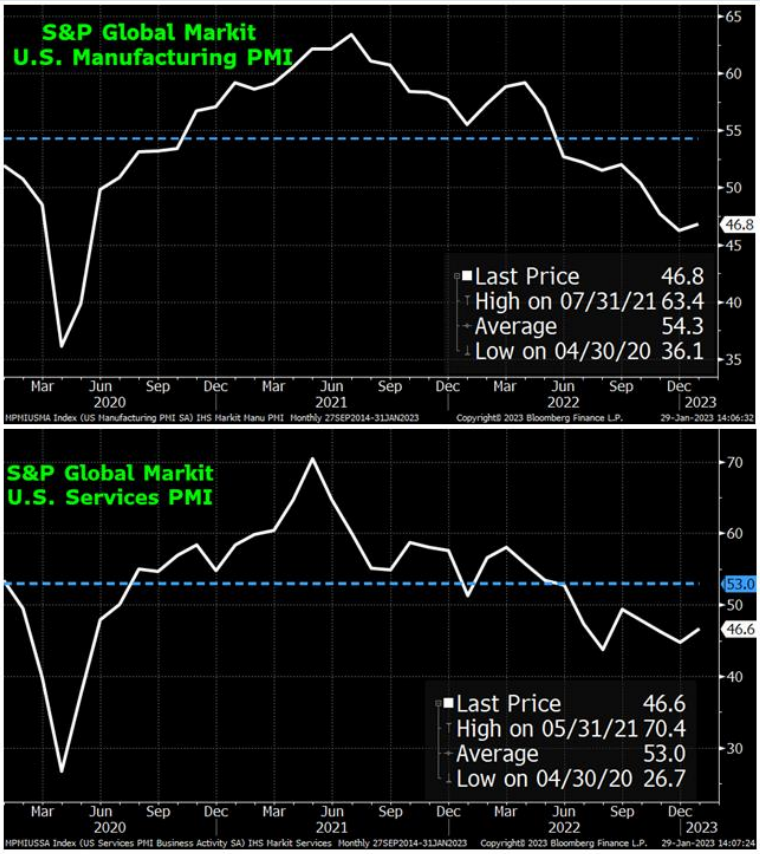
Economic forecasts are often fraught with peril, but the prognosticators now project a nearly two-thirds chance of a U.S. recession occurring in the next 12 months.

Last week, The Conference Board reported that its Leading Economic Index (LEI) for the U.S. decreased by 1.0% in December, following a decline of 1.1% in November. The LEI is now down 4.2% over the six-month period between June and December 2022. “The U.S. LEI fell sharply again in December—continuing to signal recession for the U.S. economy in the near term,” said Ataman Ozyildirim, Senior Director, Economics, at The Conference Board. “There was widespread weakness among leading indicators in December, indicating deteriorating conditions for labor markets, manufacturing, housing construction, and financial markets in the months ahead…Overall economic activity is likely to turn negative in the coming quarters before picking up again in the final quarter of 2023.”



The forward-looking Leading Economic Indicators (LEI) fell again in December.

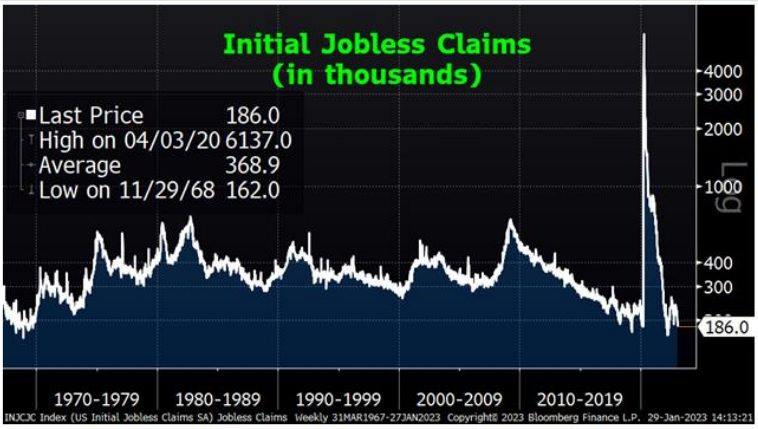
Tempering that LEI negativity a tad, the respective S&P Global Markit preliminary U.S. PMIs for the factory and services sectors improved in January, coming in at 46.8 and 46.2, both above expectations. S&P Global commented, "The U.S. economy has started 2023 on a disappointingly soft note, with business activity contracting sharply again in January according to the latest survey business data from S&P Global. Although moderating compared to December, the rate at which output is declining is among the steepest seen since the global financial crisis, reflecting falling activity across both manufacturing and services."



S&P Global Markit PMI readings moved higher in January.

S&P continued, "Jobs growth has also cooled, with January seeing a far weaker increase in payroll numbers than evident throughout much of last year, reflecting a hesitancy to expand capacity in the face of uncertain trading conditions in the months ahead. Although the survey saw a moderation in the rate of order book losses and an encouraging upturn in business sentiment, the overall level of confidence remains subdued by historical standards. Companies cite concerns over the ongoing impact of high prices and rising interest rates, as well as lingering worries over supply and labor shortages."

Speaking of labor, there have been plenty of job cuts in the headlines of late, but new filings for unemployment benefits for the period ended January 21 were a seasonally adjusted 186,000, well below expectations and down from a revised 192,000 the week prior. Continuing claims filed through state programs inched up to 1.68 million, but businesses continue to hold onto most workers with qualified labor difficult to obtain, though the tally is expected to move up. Both of those numbers are stunningly low versus historical comparisons, which makes it difficult to believe that a recession, were it to occur, would be severe.

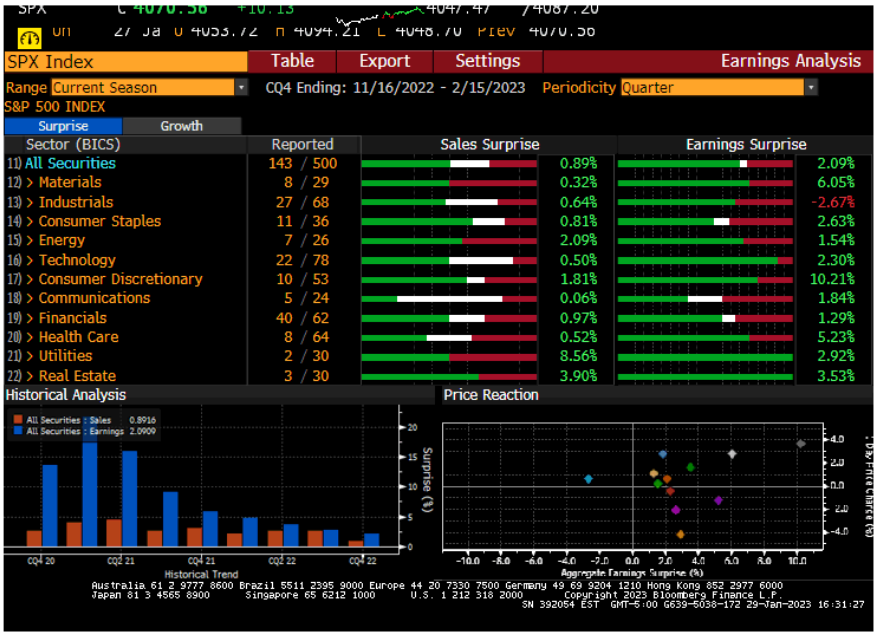


The labor market remains robust with jobless claims still near five-decade-plus lows.

Other stats out last week were also relatively positive. The headline number for durable goods orders in December jumped 5.6%, compared to a 1.7% drop the month prior, with the improvement well above expectations. Excluding volatile transportation orders, orders inched down 0.1%, with pundits thinking the manufacturing economy is already in or soon will be entering recession. Meanwhile, new-home sales rose 2.3% in December, better than pessimistic projections, though the naysayers argue that this is a small segment of the overall housing market.

Both Durable Goods Orders and New Home Sales topped expectations in December.

Time will tell how the economy evolves, but we believe it will remain healthy enough to provide solid support for corporate profits this year. In fact, Corporate America has been turning in decent report cards with 69.2% of the S&P 500 members that have posted results thus far beating bottom-line expectations. True, only half of companies have exceeded top-line projections, and management teams generally have been subdued in their outlooks, but analyst forecasts are still calling for handsome EPS growth this year, even as the full-year guesses have been trending lower.



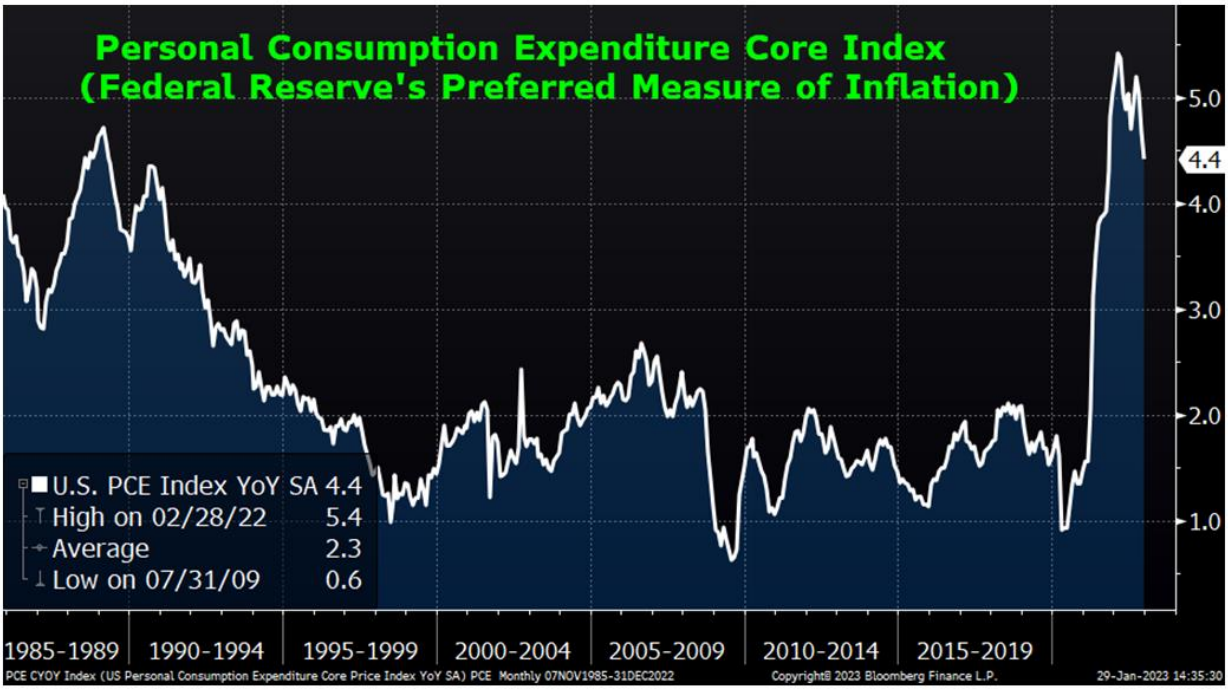
S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2023	$58.40	$223.63
9/30/2023	$57.52	$217.38
6/30/2023	$55.22	$210.21
3/31/2023	$52.49	$201.86
12/31/2022	$52.15	$198.73
ACTUAL		
9/30/2022	$50.35	$203.31
6/30/2022	$46.87	$204.98
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 1.26.23

Certainly, we realize that analysts are often overly optimistic in their earnings outlooks, but Q4 2022 results have been solid thus far and the outlook for 2023 is still for significantly higher EPS.

*****

On the inflation front, the news out last week was pretty good with the Federal Reserve's preferred measure, the core Personal Consumption Expenditure (PCE), rising in December by 4.4%, above the 2.0% target but in line with Wall Street expectations. The figure was down from November's 4.7% increase, and continued to alleviate concern that the Fed will further aggressively hike interest rates.



Inflation continues to head in the right direction as the December Core PCE rose “only” 4.4%.

The next Fed get-together happens this week and the consensus forecast is that there will be a 25-basis-point hike in the Fed Funds rate. 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. projected last month that the Fed Funds rate will likely end 2023 at 5.1%, but the Fed Funds futures are now estimating a 4.47% year-end 2023 Fed Funds rate and a 4.91% peak in June 2023, with a pivot lower coming in July.

The Fed has been rapidly tightening monetary policy, but the Fed Funds rate of 4.5% today is still below the historical average of 4.92% dating back to 1971.

The equity futures are pointing to a lower opening when trading resumes this week and it will not be surprising if stock prices are volatile before and after Wednesday's decision on interest rates and Chair Powell's Press Conference, but we see no reason to alter our enthusiasm for the long-term prospects of our broadly diversified portfolios of what we believe to be undervalued stocks.

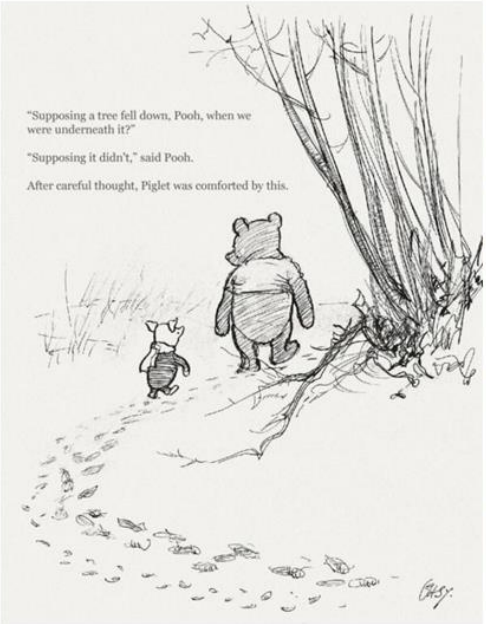
CURRENT PORTFOLIO AND INDEX VALUATIONS

Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	12.7	12.8	0.9	2.4	2.7
ValuePlus	13.2	13.2	1.2	2.5	2.3
Dividend Income	12.2	12.7	0.8	2.2	3.2
Focused Dividend Income	13.4	13.5	1.1	2.5	2.8
Focused ValuePlus	13.8	13.8	1.3	2.7	2.5
Small-Mid Dividend Value	11.1	10.8	0.5	1.7	2.8
Russell 3000	21.1	18.7	2.1	3.8	1.6
Russell 3000 Growth	29.3	23.7	3.1	9.3	1.0
Russell 3000 Value	16.6	15.6	1.6	2.4	2.2
Russell 1000	20.4	18.5	2.3	3.9	1.6
Russell 1000 Growth	27.5	23.4	3.4	9.6	1.0
Russell 1000 Value	16.3	15.4	1.7	2.5	2.2
S&P 500 Index	19.7	18.3	2.4	4.1	1.7
S&P 500 Growth Index	20.3	19.5	3.2	6.9	1.4
S&P 500 Value Index	19.2	17.2	1.8	2.8	2.0
S&P 500 Pure Value Index	11.6	11.3	0.7	1.7	2.4

As of 01.28.23. 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.

No doubt, there remains plenty about which to worry today, including the war in Ukraine, supply-chain disruptions, inventory management woes, corporate-profit question marks, elevated inflation readings, the slowing economy and increased risk of recession, not to mention comments and actions from the Federal Reserve and the debt-ceiling drama, but history is filled with plenty of frightening events, yet equities have provided handsome rewards…for those who stick with them.



Event	Reaction Dates		S&P Start Value	S&P End Value	Event Gain/Loss	12 Months Later	36 Months Later	60 Months Later	Event End thru Present
Pearl Harbor	12/6/1941	12/10/1941	9.32	8.68	-7%	8%	51%	76%	46796%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	27037%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	24289%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	9453%
Suez Canal Crisis	10/30/1956	10/31/1956	46.37	45.58	-2%	-10%	26%	51%	8831%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	10343%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	7510%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	5748%
MLK Assassination	4/3/1968	4/5/1968	93.47	93.29	0%	8%	8%	16%	4263%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	5296%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	4317%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	5716%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	3769%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	4044%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	3307%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	2414%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	1563%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	1710%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	1187%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	981%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	889%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	818%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	791%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	706%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	364%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	324%
Clinton Impeachment	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	231%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	203%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	321%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	344%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	273%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	240%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	502%
Price Changes Only - Does Not Include Dividends				**Averages:**	**-7%**	**18%**	**39%**	**66%**	**5593%**

As of 1.27.23. Source: Kovitz using Bloomberg and Ned Davis Research Events & Reaction Dates

There have been numerous frightening events over the years, but equities in the fullness of time have overcome all setbacks.

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 13 of our recommendations.

As has been the case on more than a few occasions this earnings seasons, investors didn't know what to make of results from **Microsoft** (MSFT – $248.16). Shares of the software giant jumped and then plunged in the hours after the company reported fiscal Q2-2023 results, before steadily climbing from a low on Wednesday morning near $230 to end the full trading week more than 3% higher.

Microsoft earned $2.32 per share in the quarter, $0.02 ahead of analyst consensus estimates, and revenue of $52.75 billion was in line with analyst expectations. Microsoft's Productivity and Business Processes segment had $17 billion of revenue (vs. $16.81 billion est.), the Intelligent Cloud segment had revenue of $21.51 billion (vs. $21.43 billion est.) and More Personal Computing came up short with $14.24 billion of revenue (vs. $14.74 billion est.).

CEO Satya Nadella said, "Just as we saw customers accelerate their digital spend during the pandemic, we are now seeing them optimize that spend. Also, organizations are exercising caution given the macroeconomic uncertainty. And the next major wave of computing is being born as we turn the world's most advanced AI models into a new computing platform. In this environment, we remain convicted on three things. This is an important time for Microsoft to work with our customers, helping them realize more value from their tech spend and building long-term loyalty and share position, while internally aligning our own cost structure with our revenue growth. This, in turn, sets us up to participate in the secular trend where digital spend as a percentage of GDP is only going to increase. And lastly, we're going to lead in the AI era, knowing that maximum enterprise value gets created during platform shifts. With that as the backdrop, the Microsoft Cloud exceeded $27 billion in quarterly revenue, up 22% and 29% in constant currency."

CFO Amy Hood added, "Our second quarter revenue was $52.7 billion, up 2% and 7% in constant currency. When adjusted for the charge, gross margin dollars increased 2% and 8% in constant currency; operating income decreased 3% and increased 6% in constant currency; and earnings per share was $2.32, which decreased 6% and increased 2% in constant currency. In our consumer business, the PC market was in line with our expectations, but execution challenges impacted our Surface business. Advertising spend declined slightly more than expected, which impacted Search and news advertising and LinkedIn Marketing Solutions. In our Commercial Business, we delivered strong growth in line with our expectations. However, as you heard from Satya, we are seeing customers exercise caution in this environment, and we saw results weaken through December. We saw moderated consumption growth in Azure and lower-than-expected growth in new business across the standalone Office 365, EMS, and Windows Commercial products that are sold outside the Microsoft 365 suite."

Ms. Hood continued, "We expect COGS to grow between 1% and 2% in constant currency or to be between $15.65 billion and $15.85 billion, and operating expense to grow between 11% and 12% in constant currency or be $14.7 billion to $14.8 billion…Now, some thoughts on H2 and the full year. First, in our commercial business, revenue grew 20% on a constant currency basis in H1. However, we now expect to see a deceleration in H2 given how we exited December. Next, higher energy costs for the full year are now expected to be $500 million compared to our previous estimate of $800 million. Third, as we continue to prioritize our investments and anniversary the Nuance and Xandr acquisitions, our Q4 operating expense growth should be in the low-single digits in constant currency. Finally, we remain committed to operational excellence, aligning cost and growth, investing our customers' success, and leading the AI platform wave. As a result, when excluding the Q2 charge and favorable impact from the change in accounting estimate, we expect full year operating margins to be down roughly 1 point in constant currency and roughly 2 points in USD, even with the headwinds from materially lower OEM revenue and higher energy cost."

The company's comments about slower Cloud growth and 'optimization' worried some investors, as the segment has been a major source of MSFT's earnings momentum lately. Still, it's not exactly surprising that businesses are hunkering down amid some economic uncertainty, and we suspect at an aggregate level, it's not a bad thing to do some spring cleaning. Shares are down 25% since the end of 2021, but earnings continue to grow and the tremendous profitability contributes to significant cash flow generation, enabling the firm to invest further in its products. We continue to be comfortable with the stock's elevated position in our portfolios despite some high-ish valuation metrics compared to other companies or sectors. Comparing Microsoft to itself, the current forward P/E multiple near 25 is a far cry from the 30-times multiple in 2021. Our Target Price is now $340.

Shares of **3M** (MMM – $115.25) sank 4.5% as the industrial conglomerate reported Q4 results that underwhelmed analysts. MMM earned an adjusted $2.28 per share in the quarter, compared to the analyst consensus estimate of $2.36, while revenue of $8.08 billion came in just ahead of the consensus. The financials will likely need adjustment as the company exits its PFAS business by the end of 2025 and spins off its health care business later this year (making some relative analyses difficult).

Although slowing inflation and a reduction in supply chain disruptions helped 3M in Q4, the company's 0.4% organic growth figure still trailed the 1% to 3% guidance range. There was a weakening in consumer trends, offset in part by $250 million of "inventory improvement." CEO Mike Roman said, "With supply chain stabilizing, we are focused on improving manufacturing operations and driving working capital. These are our most significant opportunities to improve margins and cash flow. As we navigate the external environment, we continue to position 3M for the future by investing in growth, productivity and sustainability."

Mr. Roman offered the outlook, "We expect market and macroeconomic challenges to persist in 2023. Based on this outlook, we expect organic growth of minus 3% to flat, along with adjusted EPS of $8.50 to $9.00. And adjusted free cash flow conversion of 90% to 100%. Our expectations reflect the slowing in demand we are seeing as we start 2023. Supply chains are improving, however, we still see headwinds from material availability and inflation, albeit at a lower level."

Aside from litigation, we think 3M is moving in a positive direction to refine its edge in the industrial space, which includes spinning off its health care division to be merged with Neogen. We expect 3M will exit its remaining stake over time, and we think the focus on the performing businesses will prove helpful to MMM shareholder returns, even if the spin's cheaper valuation appears tempting when it trades on its own. There are many obstacles that may still impact the bottom line, but we think shareholders lured by an inexpensive valuation and hefty yield will find an eventual shift in headwinds more than favorable for a stock that had long enjoyed a premium…or at least market…price-to-earnings multiple.

Now trading for 13 times the 2023 EPS estimate, which should mark a cyclical trough in the bottom line, while boasting a dividend yield of 5.2%, our Target Price for the fallen Blue Chip stands at $178.

Old National Bank (ONB – $17.07) Q4 Summary

EPS 67c vs. 34c y/y
Common equity Tier 1 ratio 10% vs. 12% y/y
NIM on taxable-equivalent basis 3.85% vs. 2.77% y/y, estimate 3.77%
Provision for credit losses $11.4 million vs. recovery $1.9 million y/y, estimate $15.2 million
Net charge- offs $4.0 million, estimate $7.88 million

Given that Old National Bank is predominately a lending operation, it fared better than several of our other regionals (particularly the other midwest-centric banks). Indeed, without a significant drag from fee-generating operations (mortgage, capital markets, etc.), higher net interest margins and loan growth pushed net interest income (NII) 37% higher year-over-year even after accounting for the merger with First Midwestern Bank last February. ONB's traditionally low-cost deposit franchise also proved beneficial as deposits rates rose much slower than the Federal Reserve's benchmark rate. The company also reported a gain on the sale of its HSA portfolio, moving further away from niche businesses to focus on its core lending operation.

Nevertheless, management was cautious in its outlook for lending profits in 2023. CFO Brendon Falconer admitted that "specific margin guide is a challenging beyond Q1," and said that the bank had moved "a long way towards" positioning the balance sheet "towards a more neutral position."

He went on to elaborate, "But assuming the Fed policies in Q2 and deposit repricing persists, we would expect pressure on margin in the back half of 2023." Also, while we remain well-positioned for rising rates, we have been proactively adding downgrade protection, including an additional $400 billion of new hedges this quarter with an average floor strike of 4%."

We do still favor the conservative culture, particularly since the Great Financial Crisis, and an above-average dividend payout that puts the yield at 3.3%. Share repurchases are likely to stay on pause during the merger integration, but we are happy that net interest metrics have turned in our favor. Still, with each stock fighting for a place in our broadly diversified portfolios and a relatively lighter weight stake in Old National, our ownership is not permanent. Our Target Price now resides at $23.

Synchrony Financial (SYF – $37.06) posted EPS of $1.26 (vs. $1.11 est. and $1.48 a year ago) as the consumer finance leader took a $1.2 billion provision for credit losses. Net interest margin was in line with Q4 2021 as deposits grew 15.2%, while net charge-offs normalized higher to $776 million, a 59% increase year-over-year. Investors evidently liked what they heard as the stock rose more than 4.5% on the week.

CEO Brian Doubles stated, "Synchrony's strong fourth quarter performance reflected the strength of our differentiated business model: our diversified portfolio across industries, our scalable technology platform, our deep industry expertise and sophisticated underwriting, and the flexibility and choice of our digitally-powered product suite. We closed the year with record purchase volume and double digit receivables growth, while also driving strong risk-adjusted margins, improved operating efficiency and robust capital returns to our shareholders."

He added, “As Synchrony continues to execute on our key strategic priorities – growing existing partner programs and adding new ones; further diversifying our programs, products, and markets; and delivering best-in-class customer experiences – we are excited about the opportunities we see to continue driving sustainable, profitable growth and meaningful long-term value for all our stakeholders.”

We continue to appreciate that Synchrony is one of the largest issuers of private label credit cards in the U.S., while also offering co-branded products, installment loans and consumer financing for small- and medium-sized businesses, as well as healthcare providers. Purchase volumes and loan receivable balances continue to find growth across all platform sectors while Synchrony’s balance sheet appears robust with a 12.8% Tier 1 Common Equity ratio. There always is the risk that SYF may face churn in its stable of partners, but major players like Sam’s Club, TJX Cos and Belk have been with the firm for over a decade.

Synchrony management continues to return capital back to shareholders, buying back 44% of the shares outstanding in the past 5 years and driving an increase in book value per share of a similar magnitude. The stock also sports a dividend yield of 2.5%. We acknowledge the company’s economic sensitivities, but shares remain inexpensive trading for a forward P/E multiple of just 7, and our Target Price is now $56.

Capital One Financial (COF – $117.58) earned an adjusted $2.82 per share in Q4 (vs. $3.79 estimated and $5.41 in Q4 of 2021), predominately a result of higher provisioning for future loan losses. The lender took a $2.42 billion provision for potential credit losses versus just $381 million in the year-ago quarter, as credit-card charge-offs ticked higher than expected (3.27% vs. 2.96% est.) and to account for 13% loan growth. Net interest income grew 12% to $7.2 billion, bringing total revenue to $9.0 billion.

CEO Richard D. Fairbank commented, “We posted strong top line growth throughout 2022. As a result of our investments to transform our technology and to drive resilient growth, we’re in a strong position to deliver compelling long-term shareholder value and thrive in a broad range of possible economic scenarios.”

Capital One continues to market heavily, spending $1.12 billion toward the effort in the latest quarter, but this remains in line with the company’s strategy to keep branch overhead low while it goes after higher-end customers. Despite an initial negative reaction to the results in after-hours trading on Tuesday, the stock rallied nearly 13% in price last week, supported by a strong release by peer American Express on Friday. Even so, shares trade for just 8 times a drastically reduced 2023 consensus EPS estimate with a 2.0% dividend yield.

We continue to think the nearly 4% of loans set aside as reserves for future loan losses should be more than enough to handle all but the worst-case scenarios (think Great Financial Crisis) and a Tier 1 Common Equity ratio of 12.5% offers additional cushion. We have long been a proponent of Capital One’s reliance on technology over a large physical presence, even as the company is weighted toward higher-risk lending in the credit card and auto spheres. Our Target Price is currently $166.

Giant defense contractor **General Dynamics** (GD – $227.49) reported EPS of $3.58 in Q4 (vs. $3.54 est.), a 5.6% increase year-over year. Revenue grew by roughly the same percentage to $10.85 billion vs. ($10.67 billion est.) bolstered by respective year-over-year growth of 15.0% and 9.3% in the Technology and Combat systems segments, with a modest increase for Marine Systems (up 3.4%) and a decline for Aerospace (down 4.3% year-over-year).

CFO Phebe Novakovic said, "We're seeing demand signals resulting from the war in Ukraine, but we've only just begun to see that manifest in our backlog at this point, to the extent those demand signals start to convert into order activity, we could see some opportunity for additional revenue in latter part of the year, particularly in the armaments ammunition business."

She added, "Companywide, we expect to see approximately $41.2 billion to $41.3 billion of revenue, an increase of almost 5%. We anticipate operating margin of 10.9%, up 20 basis points from 2022. This all goes up to a forecast range of $12.60 to $12.65 per fully diluted share. On a quarterly basis, we expect a pattern similar to what we've seen in recent years, with sequential increases in revenue and operating margin throughout the year."

A very strong relative performer in 2022, shares have given back 8% thus far in 2023, with softer-than-expected guidance for the defense portfolio not helping the cause. Revenue for these segments is projected to remain flat owing to supply bottlenecks, while the outlook for Aerospace was much more enthusiastic, and is the driving force for a 4% bump to the company's backlog to $91.14 billion, which should help lift overall operating margin. We also expect that there is a bit of conservatism baked into this guidance given the latest kerfuffle over keeping the government funded. So, there could be some upside to the defense budget once that subsides.

With the latest pullback, shares trade a touch below the market multiple at 17 times forward EPS estimates with a dividend yield of 2.2%. Our Target Price for GD is now $285.

Abbott Labs (ABT – $109.95) reported Q4 financial results which included top- and bottom-line beats. The major healthcare products and services provider said it had adjusted EPS of $1.03, versus the consensus analyst estimate of $0.91. Revenue of $10.1 billion was 4.4% better than the average expectation. The quarter saw strong performance in the Established Pharmaceuticals and Medical Device divisions. Medical Device sales growth was driven by Diabetes Care and Structural Heart products. However, Q4 was negatively impacted by a decline in COVID-19 testing-related sales.

CEO Robert Ford said, "As you know, macrobusiness conditions have been highly dynamic and challenging over the last few years, particularly for U.S. base multinational companies. COVID-19 pandemic played a big role in this, of course. We saw the U.S. dollar strengthen significantly and inflation reached new heights last year. Supply chains continue to face challenges, and our healthcare customers have been navigating staffing challenges that are negatively impacting certain medical device procedure trends and routine diagnostic testing volumes. As we start the new year however, while these factors remain headwinds, I am cautiously optimistic that we are starting to see them peak, and in some cases, ease a bit."

While on the quarterly call the company acknowledged the COVID-19 testing has slowed and will continue to do so and most likely become more seasonal, Mr. Ford commented, "It (COVID-19 testing) enabled us to increase investments in priority growth areas across the company, including R&D and commercial initiatives in support of several recent and upcoming new product launches. While at the same time, increasing returns to our shareholders in the forms of dividend growth and share repurchases. And lastly, it further strengthened our overall financial health and balance sheet, which will provide significant strategic flexibility as we look to build and grow the company even further. I'm proud of the role we played infighting COVID the last few years, it reinforced our purpose, had a meaningful impact on society, and enhanced our long-term strategic position going forward."

Management announced its initial full-year 2023 guidance for adjusted EPS from continuing operations of $4.30 – $4.50. Additionally, the company projects full-year 2023 organic sales growth, excluding COVID-19 testing-related sales, of high-single digits and COVID-19 testing-related sales of around $2.0 billion.

Despite what we saw as a solid release, ABT shares ended the week down, likely negatively impacted by news that the U.S. Justice Department was looking into the company's infant formula plant in Michigan that was shut down for months last year due to contamination. The company is "cooperating fully," Abbott spokesperson Scott Stoffel said. We will monitor the situation, but at this point aren't materially concerned.

We continue to think very highly of Abbott and believe its diversified revenue stream offers resiliency to our portfolios despite the latest struggles. We agree with Mr. Ford about the attractive setup for medical devices in the coming years, particularly with the Freestyle Libre 3 gaining FDA clearance. The Freestyle Libre line of continuous glucose monitoring systems was named the "Best Medical Technology" of the last 50 years by the Galien Foundation. Additionally, we are quite constructive on ABT's R&D pipeline and believe it continues to be highly productive with several recent and upcoming new product launches that position the company well going forward. High-quality Abbott shares are still down more than 10% over the last year and offer a dividend yield of almost 2.0%. Our Target Price has been adjusted to $139.

Shares of **Norfolk Southern** (NSC – $238.31) fell almost 6% last week after the railroad operator reported Q4 financial results that came up just shy of consensus analyst expectations. Revenue for the period of $3.2 billion, lagged expectations of $3.21 billion, and adjusted EPS of $3.42 was a step below the $3.43 average forecast. While the year-over-year top line grew 13.5%, driven by core pricing gains and higher fuel surcharges, strong yield gains during the quarter were offset by lower-than-expected overall volumes.

Consolidated volume fell 1% year over year, led by lower domestic intermodal container activity. General merchandise came in roughly flat as growth in sand, corn and soybeans offset lower steel and auto volumes. Auto has been a bright spot thanks to recovering OEM production, but it ran into headwinds from equipment availability. Coal remained strong, rising 8% on improved cycle times and solid export activity.

Norfolk's adjusted operating ratio (expenses/revenue) deteriorated 310 basis points year over year, to 63.5%. The measure worsened due to significant wage inflation from the new union agreement (secured in December), general cost inflation and an unfavorable claims accrual. During the quarterly call, management said it is expecting a flattish revenue and operating ratio in 2023, which lags what many analysts were looking for.

CEO Alan H. Shaw explained, "In the fourth quarter and throughout 2022, Norfolk Southern made significant progress in our financial performance, service improvement, and engagement with our craft team members. Our team delivered double-digit percentage growth in revenue as well as earnings per share and achieved record revenue and operating income for the year. We also outlined a bold new strategic plan to create long-term shareholder value and a pathway for future growth for Norfolk Southern."

Faced with labor renegotiations and service hiccups in the past year, management has tweaked its game plan for capitalizing on network efficiency toward a focus on the intermodal and truck-to-rail conversion. We find this to be a reasonable strategy given NSC's robust intermodal segment and as an operator of the most extensive network in the East. Norfolk will likely have to stomach higher wages as it is faced with building its workforce (even as it has recently trimmed its conductor pipeline) and a slower economy could impact volumes. Nevertheless, share price consolidation over the last couple of years makes the valuation reasonable at 17.4 times forward earnings estimates. We continue to appreciate the competitive benefit that rail networks are virtually impossible to replicate, along with their efficiency in transporting certain freight. The dividend yield is 2.3%, after the 9% hike last week in the payout, and our Target Price is currently $321.

Shares of **Seagate Technology PLC** (STX – $68.99) soared more than 16% last week as the hard-disk maker reported fiscal Q2 2023 results that topped expectations. STX earned an adjusted $0.16 per share (vs. $0.12 est.) and had $1.89 billion of revenue (vs. $1.83 billion est.). Seagate benefitted from a reduction in operational costs and was able to retire almost $200 million of debt in the quarter, bringing the long-term debt count down to $5.1 billion. Seagate was negatively impacted by an economic slowdown in China, cautious inventory management by customers and macroeconomic disruptions.

CEO Dave Mosley said, "Seagate is executing with speed and agility through the near-term macro challenges. We've made meaningful improvements to our cost structure and balance sheet, whilst steadily advancing our product and technology roadmaps. With signs starting to emerge that market conditions could improve as we progress through the calendar year, Seagate is well-positioned with an industry-leading mass capacity portfolio that we believe supports the return to our long-term financial model over time."

CFO Gianluca Romano added, "Total average drive shipments were 113 exabyte in the December quarter, down 5% quarter-over-quarter, with HDD revenues declining 6% sequentially to $1.7 billion. Multiple factors led to an expected decline in the mass capacity business, including the inventory correction among cloud and enterprise customers, COVID-related disruption in China, and Seagate's own action to reduce production. Mass capacity sales were offset by a slight seasonal improvement in the legacy market."

Mr. Romano offered the outlook, "For the March quarter, the broader market economic and geopolitical uncertainties continue to impact the business environment and shape our recovery. However, as indicated earlier, we are encouraged by the action being taken to improve economic condition in Asia and the early indication that cloud and enterprise customer inventory levels are trending lower. As a result, we expect March quarter revenue to be in the range of $2 billion, plus or minus $150 million, at about 6% quarter-over-quarter as the midpoint. We project incremental improvement in the mass capacity business from cloud and enterprise customers, and higher system sales to offset seasonal decline in the legacy market. At the midpoint of our revenue guidance, we expect non-GAAP operating margin to be in the mid to upper single-digit range, which includes both underutilization costs and inefficiencies associated with resuming production output. And we expect non-GAAP EPS to be in the range of $0.25, plus or minus $0.20."

The range of earnings outcomes for next quarter is wide, given the lumpiness of STX's business and plenty of uncertainty related to Cloud spending. Analysts project a trough year for EPS around $1.50 in FY 2023, a figure which improves to above $5 in fiscal 2024 and $7 in fiscal 2025. Of course, the strong bounce-back in earnings is predicated on things going in STX's favor. While Microsoft and others have indicated there's some optimization going on in the Cloud industry, we think the long-term outlook for the segment remains robust and the centralization of computing power is a winner in many respects. STX maintained its $0.70 quarterly dividend payment, which pencils out to a yield around 4%, and our Target Price stands at $92.

Lam Research (LRCX – $482.88) reported fiscal Q2 2023 results that came in far ahead of analyst expectations. The semiconductor capital equipment maker earned an adjusted $10.71 per share (vs. $10.00 est.) with revenue of $5.28 billion (vs. $5.09 billion est.). The figures were well-received by Wall Street and shares now have risen nearly 15% this year, coming off a 40% drop in 2022.

Lam CEO Tim Archer said, "Overall, Lam executed well in 2022. We delivered solid results in an environment of acute supply chain constraints and strong inflationary pressures. Still, there are elements of our performance, where we recognize the opportunity for additional focus and with the pressures of the COVID pandemic and the global chip shortage of abating, our attention this year is on the actions needed to hit our long-term growth and profitability objectives, we laid out in March 2020. Beginning early in the COVID pandemic, Lam and others throughout the supply chain, quickly ramped investments in infrastructure and resources to meet unprecedented demand, driven by remote work trends, and the accelerated digitization of the global economy. As seen in our results today, these investments have enabled Lam to achieve revenues of greater than $5 billion per quarter. Approximately 70% higher than what we saw in the last up cycle. As we look forward into 2023, however, we see a substantially weaker demand environment and the corresponding need to make prudent changes to our near-term operations and priorities. Customers across all segments are exercising caution, especially those in the memory markets. Inventory levels in both NAND and DRAM remain very high. And customers are not only reducing new capacity additions, but also lowering fab utilization levels to bring excess inventory into balance as quickly as possible. In addition, the U.S. government's new restrictions

on sales of equipment, parts and services for specific technologies for customers in China are further impacting equipment demand in a declining market."

CFO Doug Bettinger added, "As we sit here today, I expect to have some level of these type of deposits in the deferred balance through a calendar 2023, keeping deferred revenue at somewhat higher levels than we have historically seen. I anticipate that the deferred revenue from backorders will be at a normalized level as we exit the March quarter. As turning to revenue segment details for the December quarter, memory represented 50% of systems revenue, which is slightly down from the prior quarter level of 52%. Included in memory the NAND segment represented 39% of our systems revenue, flat with the September quarter. The spending was primarily focused on 192-layer and above class devices. The DRAM segment concentration decreased sequentially from the prior quarter coming in at 11% of systems revenue compared to 13% in the September quarter. The DRAM investments were mainly targeted towards 1Z and 1 alpha nodes. I expect that we will see both NAND and DRAM revenue decline meaningfully in the March quarter. For calendar 2023, I expect NAND spending to decline more than DRAM. We continue to see strength in the foundry segment with the December quarter concentration comprising 31% of our systems revenues. While this percentage is a little bit lower than September quarter level of 34%, the dollar amount was flat with a mix of investments in both leading and mature node devices."

In the upcoming March quarter, Lam expects to report revenue between $3.5 billion and $4.1 billion with adjusted earnings per share between $5.75 and $7.25. Analysts expect a solid 2023 with a drop in earnings for 2024 before recovering in 2025. The lumpiness of the business is somewhat expected, and we surmise that some stabilization in inflation and demand dynamics may improve 2024's figures. Lam continues to have an active share repurchase program, which saw the buy back of 6 million shares in 2022 (there were 135.4 million shares outstanding at the end of last quarter). Shares yield 1.4%, while the balance sheet remains healthy. Our Target Price for LRCX is $594.

Shares of **International Business Machines** (IBM – $134.39) dropped 5% last week, even as the IT services concern turned in adjusted Q4 EPS of $3.60, in line with the consensus analyst estimate, and said sales were flat year-over-year. IBM attributed the good quarter to strong demand in Software, Consulting and Infrastructure segments, though inflation, demographic shifts, supply chain headwinds and sustainability requirements were noted as headwinds.

CEO Arvind Krishna commented, "I'm pleased with the progress we have made with our portfolio, our go-to-market, and our ecosystem. I'm confident in our ability to leverage hybrid cloud and AI to have clients turn business challenges into opportunities. Our strategy continues to strongly resonate our clients and partners, and this gives us a solid foundation to build upon in this year. While there is more to be done, we enter the new year as a more capable and nimble company well-equipped to meet our client needs."

CFO Jim Kavanaugh added, "Looking at the first quarter, our constant currency revenue growth should be fairly consistent with the full-year. Reported growth will also include about a 3-point currency headwinds at current spot rates. With operating leverage, we'd expect operating pre-tax margin to expand 50 basis points to 100 basis points in the first quarter, and that's before the

charge I just mentioned for the remaining stranded costs. Given the timing of currency and stranded costs dynamics, we'd expect about one-third of our net income in the first half, and about two-thirds in the second half. To sum it all up, we have made a lot of progress this past year. While there's always more work to do, we're confident in the fundamentals of our business and how we're positioned as we enter the new year."

IBM expects free cash flow around $10.5 billion, which is a $500 million improvement over last quarter's guidance. The balance sheet ended Q4 with $8.7 billion of cash on hand. Steady IT spending and IBM's focus have helped the company beat analyst EPS estimates in four of the last five quarters, which is an enormous accomplishment given the company's preceding losing streak. Shares were positive this year before the Q4 report, and the disappointing reaction to the results didn't make much sense in our view. While there was nothing to knock our socks off, it wasn't negative either. Under Arvind Krishna, IBM has made progress revitalizing the company and we think IBM's streamlined business gives it more opportunities to win in the future.

IBM's forward P/E ratio is still a reasonable 14, while EPS are expected to grow steadily between 2023 and 2025, indicating that there's more room for the stock to run before it might be considered fairly valued. Our Target Price for IBM, which yields 4.9%, is now $166.

An awful outlook from chipmaker **Intel** (INTC – $28.16) sent shares plunging on Friday. In Q4, the company said it earned an adjusted $0.10, half of the analyst consensus estimate, and had revenue of $14.0 billion, $500 million behind the consensus. It's hard to believe, but the outlook was even more grim. The company expects adjusted revenue between $10.5 billion and $11.5 billion, compared with the analyst consensus estimate of $14 billion. Intel expects to lose $0.15 per share next quarter, while analysts were expecting a $0.25 gain. The gross margin is also not great, expected by Intel to be 39%, versus the 46% consensus estimate. In research notes, analysts called the results "astonishingly bad", "stunning" and "extremely weak".

CEO Pat Gelsinger explained, "Q4 revenue came in at the low end of guide and was impacted by persistent macro headwinds which began in Q2 and underscored a 2022 characterized by unprecedented volatility which will continue in the near-term. We made meaningful progress on several fronts in calendar year '22, notwithstanding all the challenges but we readily admit our results and our Q1 guidance are below what we expect of ourselves. We are working diligently to address the challenges brought on by current demand trends and remain confident in our long-term plans and trajectory. Accordingly, we are even more aggressively executing on the cost measures we described in Q3 even as we keep the investments critical to our long-term transformation intact with a clear eye of making the right capital allocation decision to drive the most long-term value."

Mr. Gelsinger's comment about the lack of ability to see more than a quarter in advance was not taken well, "On the macro [view], we expect macro weakness to persist at least through the first half of the year with the possibility of second half improvements. However, given the uncertainty in the current environment, we are not going to provide revenue guidance beyond Q1."

Mr. Gelsinger closed, "We take our commitments to all our stakeholders extremely seriously and ultimately we strive to create value for each of them. For our customers, it is rebuilding our

execution engine to provide a predictable cadence of best-in-class products to support their ambitions. For employees, it is to provide them with the opportunity to develop and bring to market, world changing technologies. It is what inspires each of us inside of the company. For our external owners, it is to make thoughtful deliberate decisions around capital allocation which drives the highest return on investment we make with your capital. Our ambitions are equaled by our passions and our efforts across manufacturing, design, products and foundry are well on their way to driving our transformation and creating the flywheel which is IDM 2.0."

The reaction for many shareholders seemed to be to sell, even as the stock is still up over 6% in 2023. Our knee-jerk reaction as Value investors was to pile in on the buy side. However, we have not yet made additional purchases. Our thinking is that Q4 might be a "kitchen sink" quarter, in which management throws in all of the bad news possible, which makes subsequent quarters look excellent. Of course, we think the kitchen-sink argument might work better if Intel didn't have massive manufacturing complexities that will take years to work out. The company has spent enormous sums on its manufacturing, yet it continues to lose market share to the likes of AMD and in-house designs. It's difficult to watch, considering the company once had a virtual lock on all high-powered processors in the world.

The downside case is that this is the beginning of the end for Intel. Mr. Gelsinger is simply rearranging the deck chairs on the Titanic.

Our expectations are somewhere in the middle. Intel is not dead–far from it. The company has a good balance sheet ($34 billion of cash and $8 billion of net debt) and does have products that stack up well with competitor offerings. The challenge is that Intel designs and builds its chips, whereas competitors design them but send them out to other "fabs" to be manufactured. Getting both the design and manufacturing right contributed to INTC's early success, but the advantage has been reversed lately. While we think the stock is on sale and is highly discounted from its risk-adjusted fair value (high risk, high upside requirement), there are likely to be many fits and starts before the company gains momentum (and market share). Almost certainly, the stock price will rise in advance of the improvements, so we are reminded that the hardest part of market timing is getting the timing right.

For the moment, we are content with our other IT exposure, so we are OK sitting on our hands as of this writing, although we might find value in bringing INTC up to a full position sooner rather than later. Our Target Price for INTC has been pared to $38.

Shares of **Hasbro** (HAS – $58.61) skidded more than 7% last week after releasing preliminary financial results and announcing plans to trim its workforce. The toymaker said it earned between $1.29 and $1.31 on an adjusted basis in Q4, with the top end below the $1.49 per share estimated by the Street. Preliminary net revenue also came in below expectations at $1.68 billion (vs. the $1.93 billion estimate).

CEO Chris Cocks stated, "Despite strong growth in Wizards of the Coast and Digital Gaming, Hasbro Pulse, and our licensing business, our Consumer Products business underperformed in the fourth quarter against the backdrop of a challenging holiday consumer environment. We are focused on implementing transformational changes aimed at substantially reducing costs and

increasing our growth rates and profitability. While the full-year 2022, and particularly the fourth quarter, represented a challenging moment for Hasbro, we are confident in our Blueprint 2.0 strategy, unveiled in October, which includes a focus on fewer, bigger brands; gaming; digital; and our rapidly growing direct to consumer and licensing businesses. Through this strategy, we are putting the consumer at the center of everything we do, and our Operational Excellence program is on track to drive significant cost savings across the business and improve our overall competitiveness. These strategic pillars helped to improve our results, particularly operating profit margin and revenue growth in key categories, in a challenging fourth quarter, and lay the groundwork for continued progress in 2023."

HAS announced its intention to cut about 1,000 global full-time positions (about 15% of the workforce) along with the departure of current COO Eric Nyman. There are likely additional leadership adjustments on tap as a part of organizational changes planned by the company. This will apparently include a new organizational model, commercial alignment and leadership changes that management says will be discussed in more detail on the upcoming earnings conference call. The latest reshuffling is a continuation from the whirlwind of a year that was 2022, as pressure from activist investors since the death of former CEO Brian Goldner resulted in the retirement of two board members.

Hasbro said it has considered the sale or restructuring of its entertainment business eOne, another of the activists' apparent goals, which it purchased right before the pandemic. Of course, it has already taken one step in that direction, having sold eOne's music business. Such moves are in a different direction from Hasbro's previous strategy of using an entertainment platform to promote its toy licenses but could potentially unlock shareholder value and offer a fresh start, allowing it to focus on its strengths in toy making and gaming. A series of COVID lockdowns in China, the company's largest supplier, had undoubtedly impacted results but that could improve as the country embarks on a path to reopen.

Down by a third over the past year, shares are priced well below their historical market premium, trading for 13 times NTM EPS estimates. The near-term is undoubtedly murky, with the range of outcomes still wide given lots of change seemingly on the way. And while the company is far from being free of debt, the maturity structure is not burdensome as significant repayments aren't due until 2024 and schedule out to 2044. For the time being, investors are being paid for their patience given the 4.8% dividend yield. Our Target Price for HAS now resides at $100.