Market Commentary Monday, February 27, 2023

February 26, 2023

EXECUTIVE SUMMARY

Contrarian Buy Signal – Big Jump in AAII Pessimism
Inflation – PCE Higher than Expected; Fed Likely to Remain Hawkish
Econ Numbers – GDP Growth Outlook Increases; More Positive than Negative Data
Corporate Profits – Solid Q4 EPS and Decent Outlook for 2023
History Lessons – Recessions, Fed Tightening & High Inflation No Reason to Sell Stocks
Reader Mail Bag – Stocks Did Not Go Nowhere From 1966 – 1982
Buffett's Latest – Don't Bet Against America
Valuations – Inexpensive Metrics & Generous Dividend Yield for TPS Portfolio
Stock News – Updates on INTC, NTAP, CIVI, MRNA, MOS, AMT, EOG, INT, CE & BASFY

Market Review It was a tough week for the equity markets, to say the least, with a sizable 3% setback dragging the Dow Jones Industrial Average into the red for the year,…

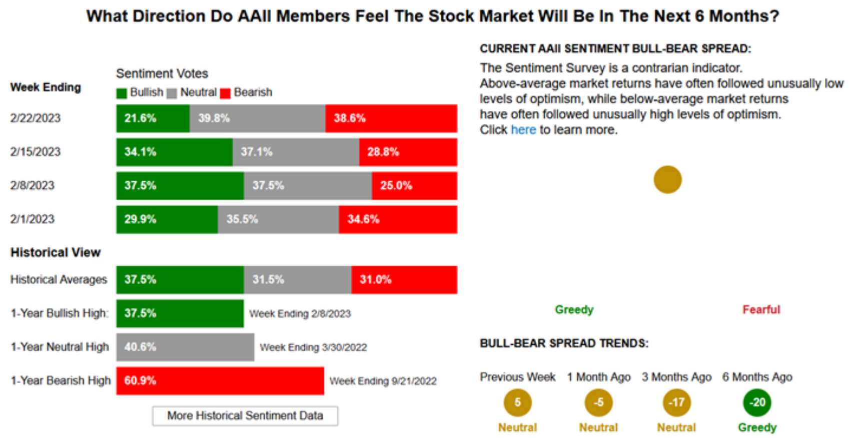
Total Returns Matrix

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	M	-2.97	-0.69	15.21	0.88	29.73	87.28	24.82	44.54	Dow Jones Industrial Average	INDU Index
1.01	-10.21	A	-2.35	2.14	15.82	-0.76	31.46	89.12	22.98	36.40	New York Stock Exchange Composite	NYA Index
-39.18	-20.81	R	-3.31	9.02	8.18	-14.66	6.41	70.08	26.67	62.80	Nasdaq Composite Index	CCMP Index
-22.43	-9.23	K	-2.74	8.12	12.59	-6.23	5.32	70.43	9.62	24.89	Russell 2000 Growth	RU20GRTR Index
22.83	**14.02**	E	**-2.97**	**6.86**	**15.85**	**-1.85**	**50.92**	**120.28**	**29.44**	**32.07**	**Russell 2000 Value**	**RU20VATR Index**
-3.02	2.49	T	-2.86	7.49	14.19	-3.90	26.36	95.46	20.56	30.26	Russell 2000	RU20INTR Index
-11.75	-20.15		-3.11	7.30	14.70	-6.50	5.36	74.74	18.00	49.49	Russell Midcap Growth Index Total Return	RUMCGRTR Index
19.18	**2.33**		**-2.64**	**4.75**	**15.70**	**-0.90**	**41.11**	**115.69**	**25.92**	**39.42**	**Russell Midcap Value Index Total Return**	**RUMCVATR Index**
8.25	-5.62	O	-2.81	5.64	15.34	-2.72	27.59	102.20	25.54	47.10	Russell Midcap Index Total Return	RUMCINTR Index
-22.42	-19.63	F	-2.93	6.70	9.17	-11.70	10.73	77.67	28.24	66.68	Russell 3000 Growth	RU30GRTR Index
8.04	**-4.33**		**-2.46**	**2.10**	**14.53**	**-0.30**	**39.51**	**95.00**	**24.16**	**39.62**	**Russell 3000 Value**	**RU30VATR Index**
-7.46	-11.46	S	-2.69	4.33	11.82	-6.14	24.15	87.29	27.66	54.75	Russell 3000	RU30INTR Index
9.64	-0.39	T	-2.74	3.97	16.07	-0.77	42.24	115.09	36.68	58.25	S&P 500 Equal Weighted	SPXEWTR Index
-9.10	-11.89	O	-2.66	3.66	11.50	-5.86	25.88	85.93	29.19	57.82	S&P 500	SPXT Index
-22.08	-12.73	C	-2.46	3.54	5.04	-14.95	10.18	72.43	25.49	59.35	S&P 500 Growth	SPTRSGX Index
6.08	**-11.71**	K	**-2.88**	**3.79**	**17.90**	**3.68**	**43.55**	**95.19**	**27.98**	**49.63**	**S&P 500 Value**	**SPTRSVX Index**
3.18	1.57	S	-1.19	-0.37	4.16	-13.08	-17.95	-10.59	-13.94	-8.87	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index
11.63	8.44		-0.89	0.16	2.04	-9.13	-13.25	-8.72	-10.31	2.46	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index

As of 2.24.23. 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.

Not surprisingly, the downturn soured the mood of folks on Main Street as the latest read on Sentiment from the American Association of Individual Investors (AAII) saw the number of Bulls plunge by 12.5 percentage points and the count of Bears jump by 9.8 percentage points.



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 = 7.12										
BELOW	-54.0	7.1	927	0.24%	0.20%	1.16%	1.02%	3.30%	2.91%	6.42%	5.66%
ABOVE	7.1	62.9	927	0.17%	0.15%	0.54%	0.45%	2.00%	1.75%	4.64%	4.16%
	Ten Groupings of 1853 Data Points										
1	-54.0	-16.9	186	0.40%	0.34%	2.11%	1.88%	4.52%	3.99%	8.15%	6.95%
2	-16.8	-8.7	185	0.23%	0.20%	0.83%	0.69%	3.49%	3.12%	6.23%	5.43%
3	-8.6	-2.5	185	0.32%	0.28%	1.10%	0.99%	3.32%	2.91%	7.37%	6.64%
4	-2.5	2.7	186	0.19%	0.16%	1.08%	0.98%	2.51%	2.14%	5.41%	4.86%
5	2.7	7.1	185	0.05%	0.02%	0.67%	0.57%	2.65%	2.38%	4.95%	4.42%
6	7.1	11.6	185	0.21%	0.19%	0.72%	0.63%	2.04%	1.81%	4.90%	4.45%
7	11.6	16.0	186	0.12%	0.09%	0.38%	0.25%	2.35%	2.10%	5.08%	4.56%
8	16.0	21.7	185	0.14%	0.12%	0.90%	0.83%	2.26%	2.02%	5.84%	5.42%
9	21.8	29.0	186	0.16%	0.14%	0.39%	0.30%	1.84%	1.55%	4.78%	4.22%
10	29.0	62.9	185	0.23%	0.21%	0.30%	0.23%	1.51%	1.29%	2.60%	2.15%

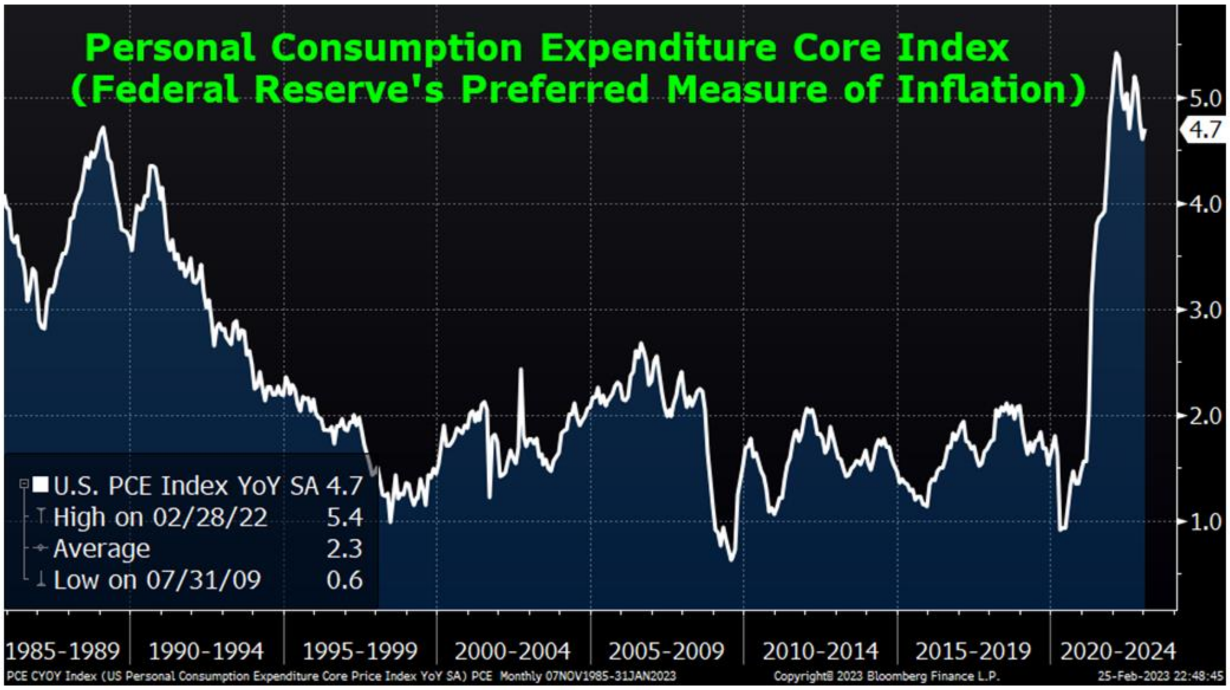
From 07.31.87 through 02.23.23. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

The good folks in the AAII Sentiment Survey became a lot more pessimistic last week, which is a good thing for potential near-term equity market gains.

Of course, the AAII gauge historically has been a very good contra-indicator for returns going forward and the current Bull-Bear reading of negative 17.0 is in first decile (most pessimistic) of the readings since the inception of the data in 1987. As the chart above illustrates, returns over the ensuing week, month, three months and six months for that first decile have been the best of the lot, illustrating why it can pay to be greedy when others are fearful.

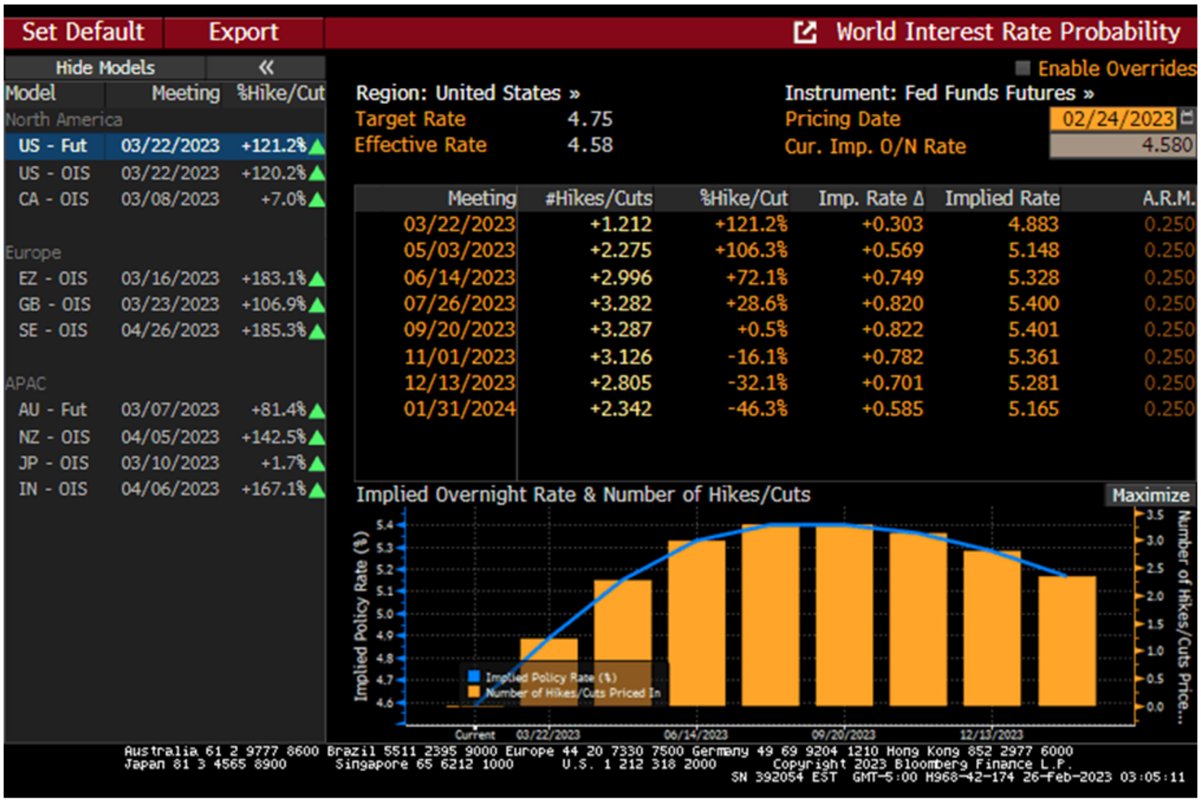
No doubt, that is easier said than done, as the financial press usually does its part to instill fear. For example, the front page of Saturday's *The Wall Street Journal* trumpeted, *Stocks Post Worst Week of 2023*, warning, "Hot economic data rekindled worries that a more restrictive Federal Reserve policy will persist."

We respect that many are worried about Jerome H. Powell & Co., especially as the Fed's preferred measure of inflation, the core personal consumption expenditure (PCE) index rose 4.7% in January, above the consensus forecast for a 4.4% advance, and higher than the revised year-over-year advance of 4.6% in December.



Inflation headed in the wrong direction in January as the Core PCE rose 4.7%.

Cleveland Fed President Loretta Mester was quick to remind, “Inflation is too high,” and the futures market moved higher the peak of the Fed Funds rate this year to 5.4%, with the year-end guesstimate pushed up to 5.28%.



Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
03/22/2023	+1.212	+121.2%	+0.303	4.883	0.250
05/03/2023	+2.275	+106.3%	+0.569	5.148	0.250
06/14/2023	+2.996	+72.1%	+0.749	5.328	0.250
07/26/2023	+3.282	+28.6%	+0.820	5.400	0.250
09/20/2023	+3.287	+0.5%	+0.822	5.401	0.250
11/01/2023	+3.126	-16.1%	+0.782	5.361	0.250
12/13/2023	+2.805	-32.1%	+0.701	5.281	0.250
01/31/2024	+2.342	-46.3%	+0.585	5.165	0.250

The Fed Fund futures became more hawkish last week, projecting a peak in the rate at 5.4% this summer.

Interestingly, the most recent published estimates from Federal Reserve Board members called for 4.6% unemployment, 3.5% core PCE inflation and a 5.1% Fed Funds rate at the end of the year.

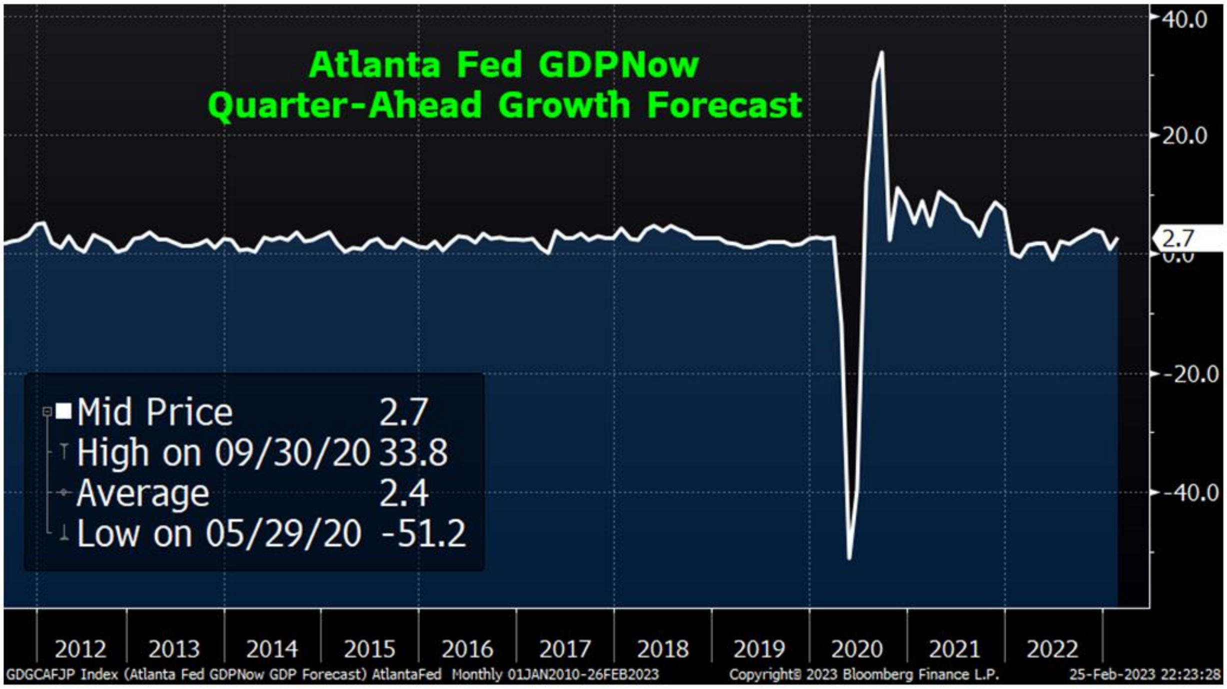
Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, December 2022

Percent

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

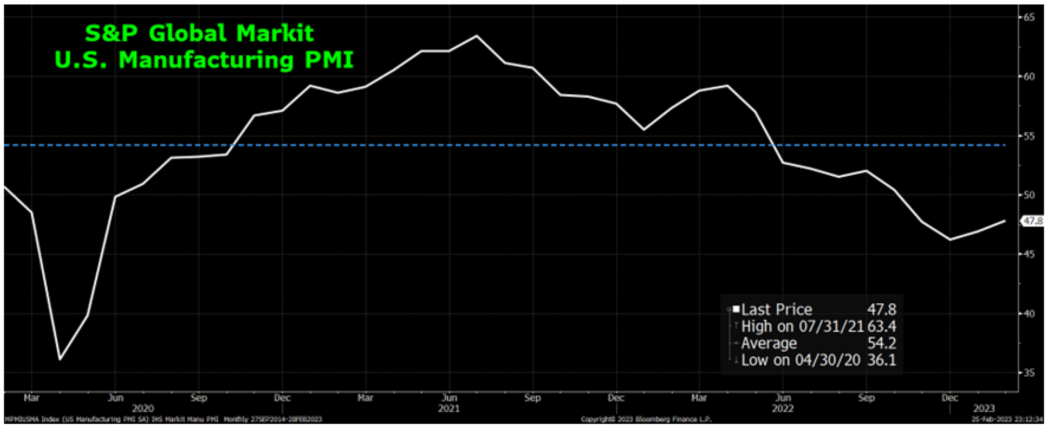
The latest projections from the FOMC.

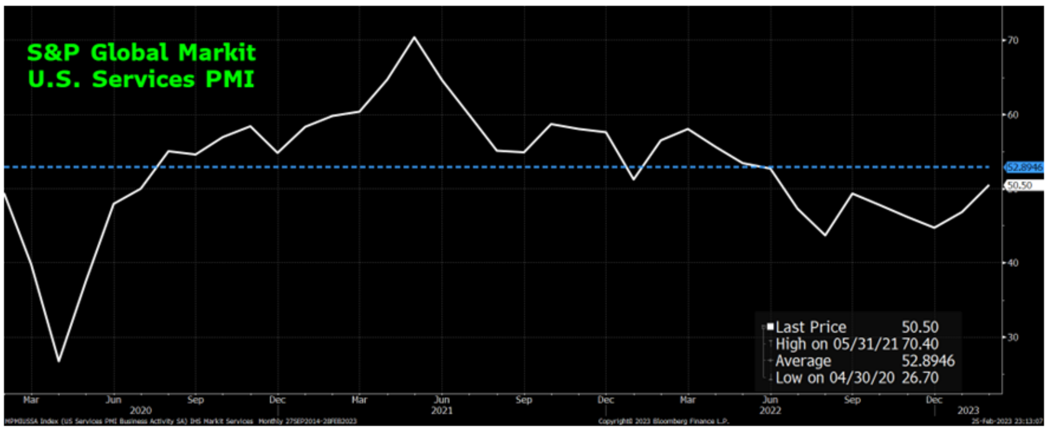
Economic forecasting is fraught with peril, so only time will tell how accurate those projections will be, including the prediction of 0.5% real GDP growth. After all, even as stock prices headed south, the outlook for the economy improved last week, with the Atlanta Fed boosting its forecast for Q1 real U.S. GDP growth to 2.7%,…



It is fascinating to see so much pessimism toward the U.S. economy when the current estimate for Q1 real (inflation-adjusted) GDP growth stands at a decent level.

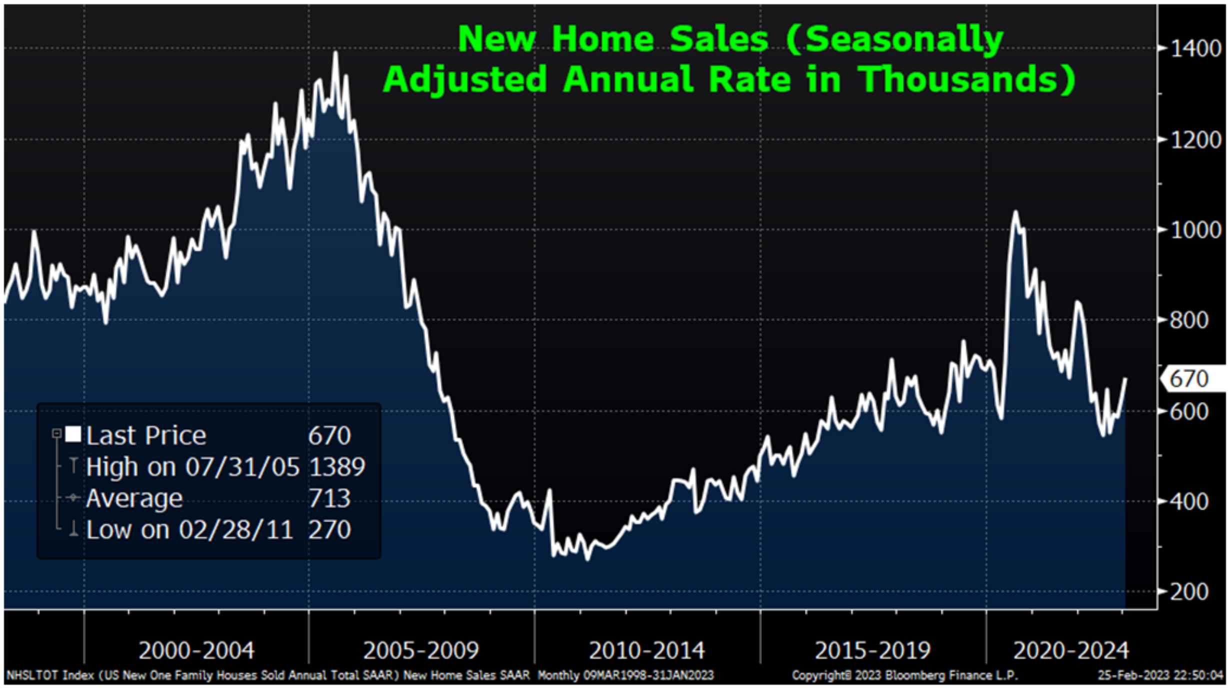
…due in part to improved and better-than-expected preliminary tallies for the S&P Global Markit Manufacturing and Services PMIs,…





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

…higher-than-forecast new homes sales in January,…

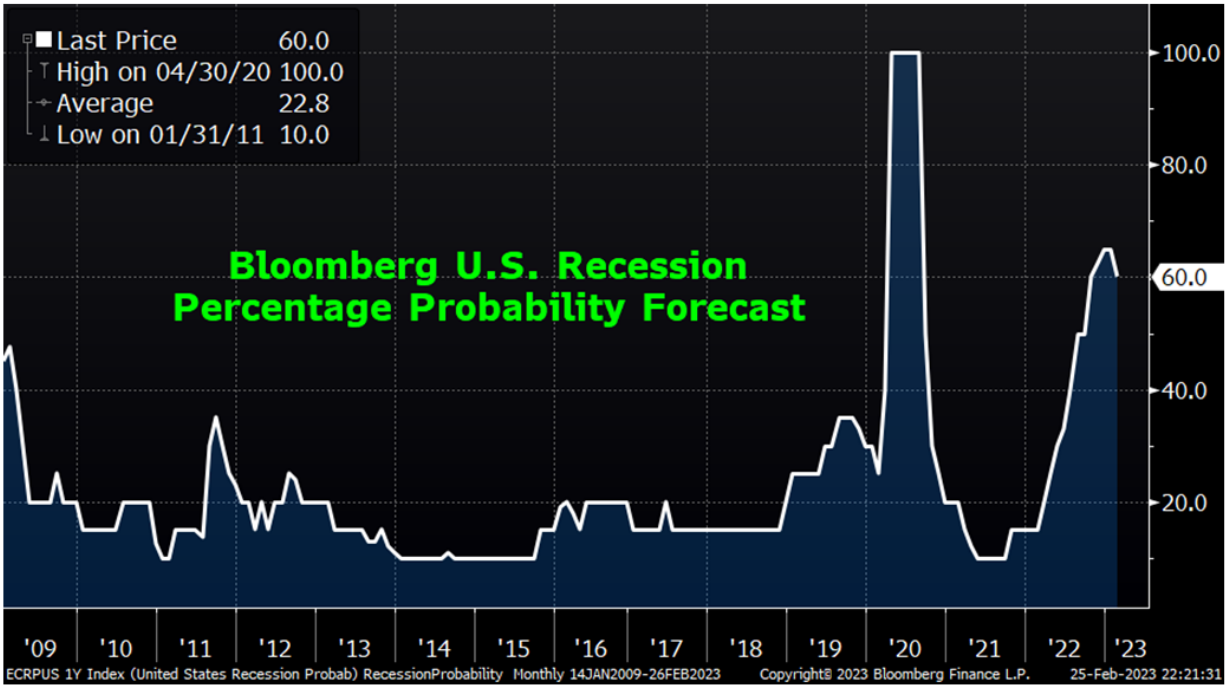


New Home Sales topped expectations in January.

…and continued strength in the labor market.

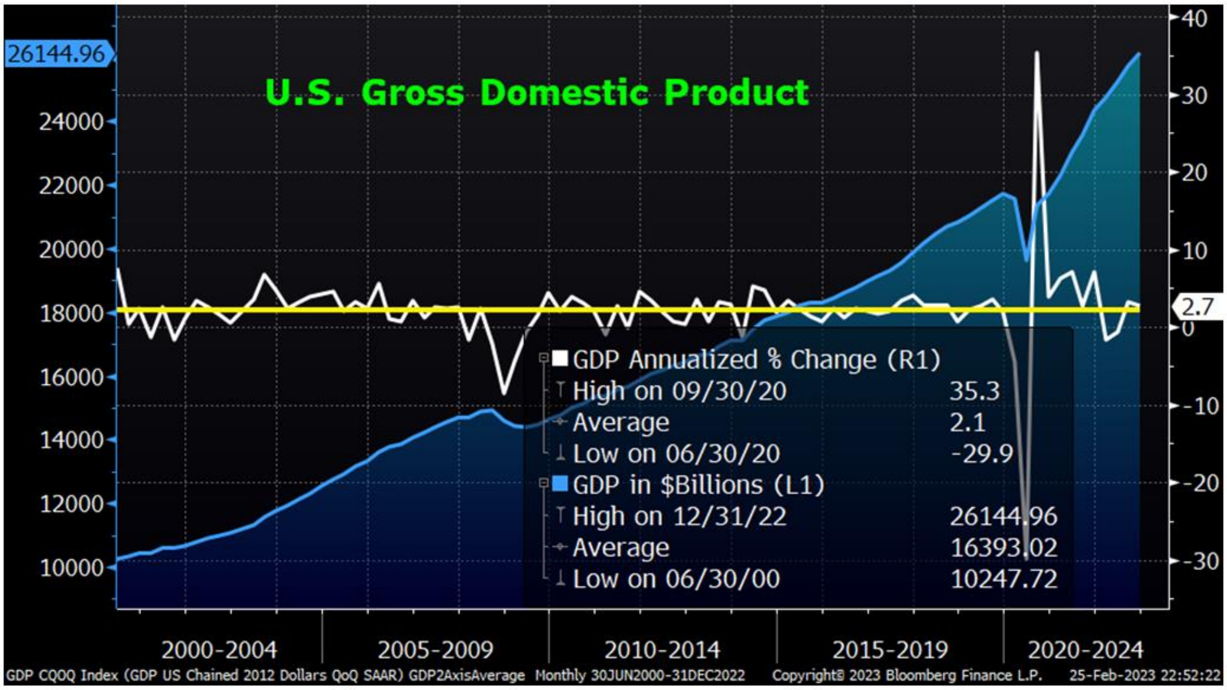
The labor market remains robust with jobless claims still near five-decade-plus lows.

What’s more, the odds of recession over the next 12 months, as tabulated by *Bloomberg*, retreated to 60% last week, down from the 65% level that had been in place for the past few months.



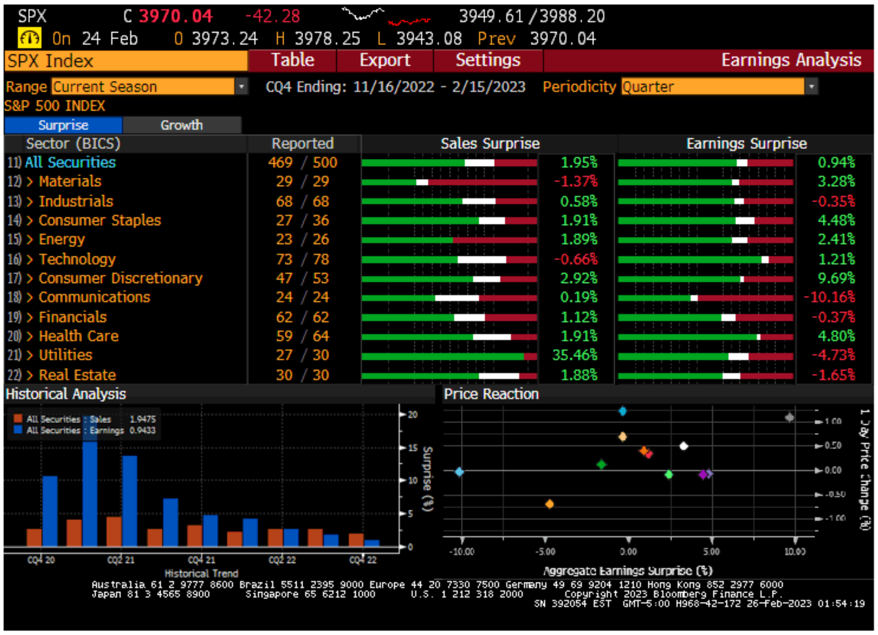
Prognosticators now project a 60% chance of a U.S. recession occurring in the next 12 months, down from 65% a week ago.

Certainly, we do not mean to suggest that a so-called soft landing for the economy is in the cards, but it seems certain that nominal GDP will continue to grow, even if there is a modest decline in inflation-adjusted growth,…



There was a huge 7.4% jump in Q4 nominal GDP, even as real (inflation-adjusted) growth was “only” 2.7%.

…while we can’t forget that corporate profits (which still are expected to show significant growth this year) and stock prices are not tabulated on a real basis.



S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2023	$58.01	$219.71
9/30/2023	$56.85	$211.54
6/30/2023	$54.16	$205.04
3/31/2023	$50.69	$197.75
12/31/2022	$49.84	$196.42
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 2.22.23

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.

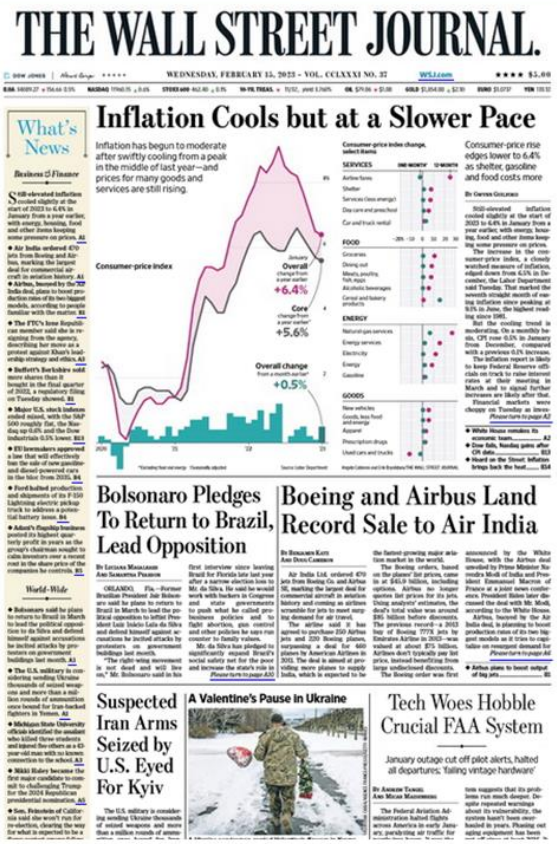
We also offer the reminder that even if we knew in advance when a recession would arrive, long-term-oriented investors we would not want to bail out of equities, given positive average equity returns before and after the start of an economic downturn,…

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 U.S. economy officially enters a recession, long-term-oriented investors should stick with stocks.

…while history shows that stocks have been a very good hedge, on average, against high inflation.


THE WALL STREET JOURNAL.

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What's News

Inflation Cools but at a Slower Pace

Inflation has begun to moderate after swiftly cooling from a peak in the middle of last year—and prices for many goods and services are still rising.

Consumer-price rise edges lower to 6.4% as shelter, gasoline and food costs more

Bolsonaro Pledges To Return to Brazil, Lead Opposition

Boeing and Airbus Land Record Sale to Air India

Suspected Iran Arms Seized by U.S. Eyed For Kyiv

A Valentine's Pause in Ukraine

Tech Woes Hobble Crucial FAA System

January outage cut off pilot alerts, halted all departures; 'failing vintage hardware'

Inflation Rate >= 6.4% 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	4.7%	2.3%	10.6%	6.3%	24.6%	15.7%
Geometric Average	4.1%	1.7%	9.2%	5.0%	21.9%	13.3%
Median	3.9%	2.0%	6.7%	4.7%	18.4%	13.3%
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	159	159	156	156	156	156

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

Inflation Rate <6.4% 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%	3.1%	8.0%	6.1%	16.1%	12.1%
Geometric Average	3.0%	2.4%	6.0%	4.7%	11.9%	9.2%
Median	4.0%	3.5%	8.0%	6.4%	16.3%	12.7%
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	978	978	978	978	972	972

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

Inflation Rate >= 6.4% 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	4.8%	2.7%	10.6%	7.6%	24.2%	18.6%
Geometric Average	4.3%	2.0%	9.5%	6.0%	22.5%	15.6%
Median	4.8%	2.7%	7.6%	6.3%	22.9%	20.8%
Max	39.6%	32.9%	63.0%	60.8%	75.1%	84.2%
Min	-16.5%	-27.6%	-26.4%	-35.9%	-28.0%	-48.0%
Count	98	98	95	95	95	95

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

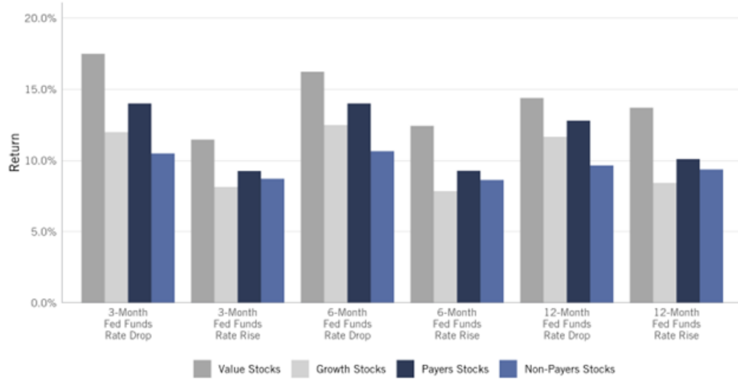
Inflation Rate < 6.4% and Ensuing Value/Growth Returns Since 1957

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%	2.9%	7.4%	5.7%	15.2%	11.4%
Geometric Average	3.2%	2.4%	6.4%	4.7%	13.2%	9.5%
Median	4.0%	3.3%	8.0%	6.1%	16.9%	12.3%
Max	37.8%	32.5%	68.5%	46.3%	105.8%	93.6%
Min	-39.5%	-34.9%	-54.2%	-41.7%	-52.2%	-39.9%
Count	681	681	681	681	675	675

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

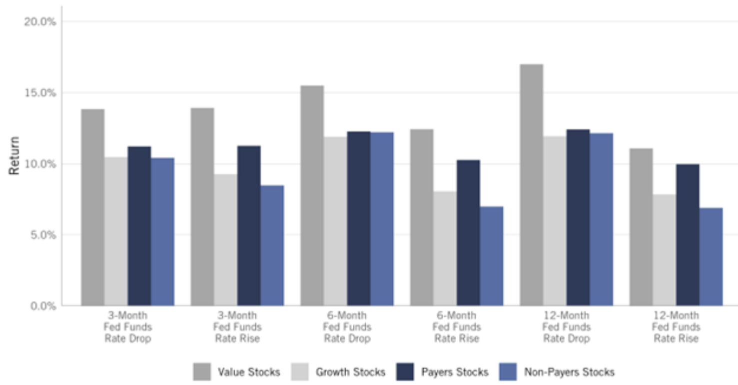
There is plenty of consternation about elevated inflation levels, but history suggests that equities, especially Value stocks, have performed better when the CPI is 6.4% or higher than when it is lower than that mark.

In addition, equities, especially those of the Value variety, have performed admirably, on average, both concurrent with and subsequent to Fed rate hikes,…



From 07.31.54 through 12.31.22. Concurrent annualized 12-month returns. SOURCE: Kovitz using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French

Concurrent Returns



From 07.31.54 through 12.31.22. Subsequent annualized 12-month returns. SOURCE: Kovitz using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French

Subsequent Returns

Contrary to popular belief, equities, especially Value stocks, have performed admirably, on average, both concurrent with and subsequent to hikes in the Fed Funds rate.

…with then-Fed-Chair Paul Volcker's slaying of the Great Inflation in the 1980s leading to fantastic performance numbers, including a 24.7% average annualized return for Value from the end of 1978 to the end of 1986.

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

It is puzzling that so many fret about today's Fed battle with inflation, given that the Volcker Fed's fight against the Great Inflation saw sensational equity market returns despite two recessions along the way.

*****

To be sure, past performance is no guarantee of future returns and anything can happen as we move forward, but we present tons of data to try to keep our readers on the path to achieving their long-term investment objectives. After all, as Lao Tzu stated, "If you do not change direction, you may end up where you are heading."

Our recent *Special Report* showed that stocks historically have been indifferent to rising interest rates (and inflation). Alas, one reader took issue with our arguments and we paraphrase his comments:

I appreciate and commend your stock market investment approach. However, some of these charts are hard to believe. For those of us who invested in the 70's during a time frame of escalating interest rates, the stock market gyrated but the bottom line is it just moved sideways…as you may or may not recall, during this 'nowhere' time for stocks, money market mutual funds were yielding 12% to 14% and U.S. Treasuries and investment grade bonds even higher. With the rampant inflation, it just wasn't a prudent time to be in the stock market.

We always welcome challenges to our data, but this fellow was not the first to make the "stocks went nowhere" claim.

In fact, *The Wall Street Journal* wrote last year:

It helps, whenever markets turn worrisome, to look at historical precedents. How bad could things get?

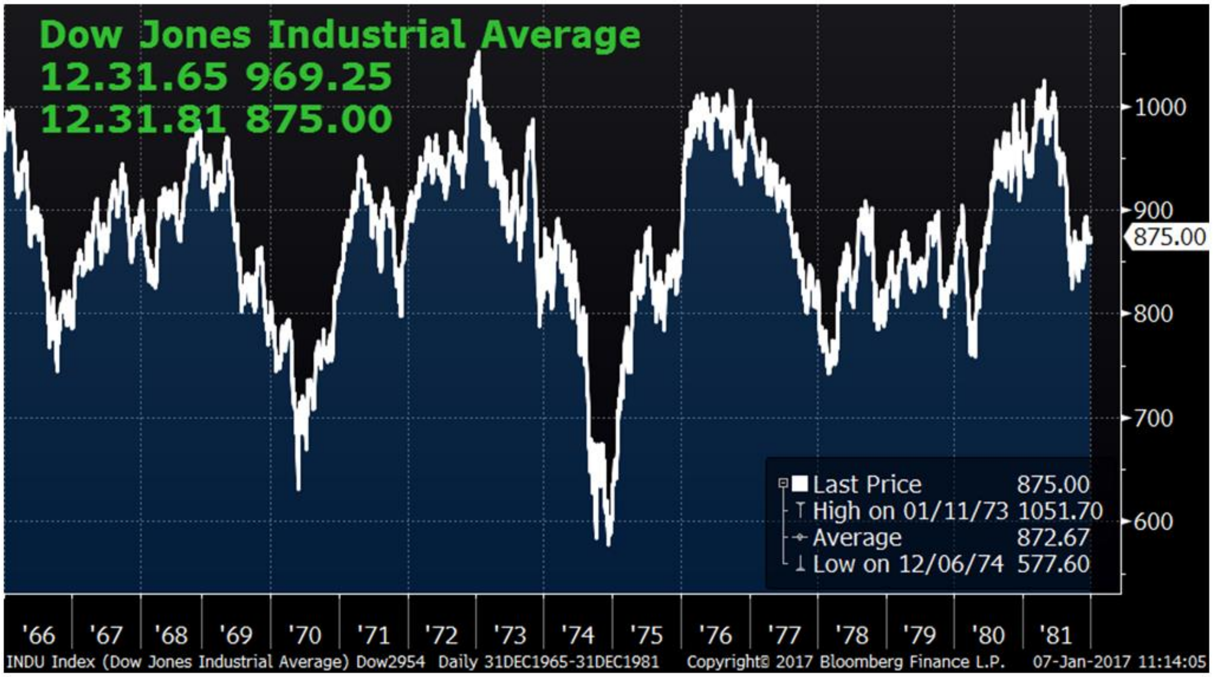
In this case, what U.S. investors should probably fear the most is a replay of the stagflationary slog from 1966 to 1982, when economic growth was spotty, inflation stayed double digits for years and stocks went utterly nowhere.

On Feb. 9, 1966, the S& P 500 closed at a then-record 94.06. More than 16 years later, on Aug. 12, 1982, it stood at 102.42.

Corporate earnings, after inflation, shrank 15%, according to data from Yale University economist Robert Shiller.

Yes, stocks paid generous dividends, reaching nearly 6% by the end of the period, but inflation devoured them whole.

That period was such an ordeal it turned the individual investor into an endangered species.



The Dow Jones Industrial Average (on a price basis) went nowhere from the beginning of 1966 to the beginning of 1982.

Such a claim sounds accurate in that the Dow Jones Industrial Average lost ground from 12.31.65 to 12.31.81, but that assessment ignores dividends and the impact of their reinvestment.

Some have suggested that dividends don't count. However, if this were true, the income received on bonds should not count either, which would negate the entire point of investing in the fixed income asset class. Same thing with money markets funds and most bank savings instruments as the price return on those instruments is always zero, and real estate would also likely be of much less interest as rental income would not count.

Obviously, it is silly to ignore the income an investment produces and a total-return analysis of how stocks and bonds performed over those 16 years is eye-opening to say the least. After all, despite losing nearly 10% on a price basis, the Dow's total return during the period was 3.94% per annum and the S&P 500's was 5.95% per annum. Yes, that is correct, those are the average returns PER YEAR for the 16 years. True, those numbers hardly are stellar, but they are far better than zero.

And illustrating why we find value in applying rigor to stock selection, from the beginning of 1966 to the beginning of 1982, the total return on Value stocks was a superb 13.39% PER YEAR. As that Value number compounds over 16 years to 647%, we can only hope that we have another "nowhere" market!

To be sure, short-term cash-like instruments were a decent investment during those same 16 years, even as the 6.8% annualized return on 30-Day U.S. Treasuries trailed the 7.0% annualized inflation tally.

Of course, bonds were miserable investments back then as Long-Term Corporate Bonds returned 2.9% per annum and Long-Term Government Bonds returned 2.5% per annum, so there was a massive loss of purchasing power in those supposedly safe fixed-income instruments.

Yes, bonds had large yields, but a big reason they were so high during that time is that their prices plunged!

In reality, about the only conclusion we can draw with certainty is that rising long-term interest rates are bad for long-term bonds.

Rising Long-Term Government Rates - Annual Returns Review

Name	Value Stocks	Growth Stocks	Dividend Payers	Non-Dividend Payers	Long-Term Corp Bonds	Long-Term Government Bonds	Intermediate-Term Govt Bonds	U.S. Treasury Bills
Arithmetic Average	18.2%	12.5%	11.6%	15.7%	0.9%	-1.1%	2.0%	3.6%
Geometric Average	14.0%	9.5%	9.5%	10.3%	0.8%	-1.2%	2.0%	3.6%
Median	18.2%	12.9%	14.3%	11.4%	1.1%	-0.3%	1.8%	3.1%
Max	126.6%	93.1%	69.8%	88.2%	14.6%	9.2%	9.7%	14.7%
Min	-54.0%	-42.2%	-47.4%	-50.9%	-8.1%	-14.9%	-5.1%	0.0%
Count	47	47	47	47	47	47	47	47

Source: Kovitz using data from Ibbotson Associates SBBI. From 1930 to 2021.

Falling Long-Term Government Rates - Annual Returns Review

Name	Value Stocks	Growth Stocks	Dividend Payers	Non-Dividend Payers	Long-Term Corp Bonds	Long-Term Government Bonds	Intermediate-Term Govt Bonds	U.S. Treasury Bills
Arithmetic Average	15.7%	12.7%	14.3%	11.5%	12.3%	13.4%	8.5%	2.9%
Geometric Average	12.9%	10.5%	12.6%	7.6%	12.0%	13.1%	8.4%	2.9%
Median	16.4%	13.8%	14.9%	12.3%	10.8%	10.7%	7.8%	2.1%
Max	71.1%	48.3%	53.5%	90.5%	42.6%	40.4%	29.1%	10.5%
Min	-43.6%	-37.0%	-34.8%	-48.6%	2.6%	2.8%	1.4%	0.0%
Count	45	45	45	45	45	45	45	45

Source: Kovitz using data from Ibbotson Associates SBBI. From 1930 to 2021.

The only thing the historical data show is that rising long-term interest rates are bad for…longer-term bonds.

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As we live by the Vannevar Bush quotation, "Fear cannot be banished, but it can be calm and without panic; it can be mitigated by reason and evaluation," we will always challenge assertions based on factually incorrect or incomplete data. That does not mean that the past will always be prologue, but we like what Warren Buffett wrote in the latest *Berkshire Hathaway Letter to Shareholders*, which was released this weekend.

America's dynamism has made a huge contribution to whatever success Berkshire has achieved – a contribution Berkshire will always need. We count on the American Tailwind and, though it has been becalmed from time to time, its propelling force has always returned.

I have been investing for 80 years – more than one-third of our country's lifetime. Despite our citizens' penchant – almost enthusiasm – for self-criticism and self-doubt, I have yet to see a time when it made sense to make a long-term bet against America. And I doubt very much that any reader of this letter will have a different experience in the future.

The evidence overwhelmingly supports the Oracle of Omaha. Despite plenty of ups and downs (including the current 5% dip, the 315th since 1928) along the way, equities have proved very rewarding for those with the courage to stick with them,…

THE PRUDENT SPECULATOR

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%	64.7%	545	47	2.0	10/12/2022	2/2/2023
12.5%	44.3%	333	74	1.3	10/12/2022	2/2/2023
10.0%	34.8%	243	101	0.9	10/12/2022	2/2/2023
7.5%	23.6%	148	160	0.6	10/12/2022	2/2/2023
5.0%	14.7%	72	315	0.3	12/28/2022	2/2/2023

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	315	0.3	2/2/2023	2/24/2023

From 02.20.28 through 2.24.23. 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.

…with inexpensively stocks like those that we have long championed leading the long-term performance derby.

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	12.2	12.4	0.8	2.4	2.9
ValuePlus	12.8	12.9	1.1	2.4	2.4
Dividend Income	12.2	12.5	0.7	2.3	3.3
Focused Dividend Income	13.0	13.0	1.0	2.4	2.9
Focused ValuePlus	13.7	13.3	1.2	2.7	2.6
Small-Mid Dividend Value	11.0	10.8	0.5	1.9	2.9
Russell 3000	20.1	18.5	2.0	3.6	1.7
Russell 3000 Growth	27.2	23.4	3.1	8.5	1.0
Russell 3000 Value	16.0	15.4	1.5	2.3	2.3
Russell 1000	19.7	18.3	2.2	3.8	1.7
Russell 1000 Growth	26.6	23.1	3.3	9.3	1.1
Russell 1000 Value	15.7	15.2	1.6	2.4	2.3
S&P 500 Index	19.2	18.1	2.2	3.9	1.7
S&P 500 Growth Index	19.7	19.6	3.1	6.6	1.4
S&P 500 Value Index	19.2	17.0	1.7	2.7	2.0
S&P 500 Pure Value Index	10.7	10.5	0.6	1.6	3.1

As of 02.25.23. 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.

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 more than a few of our recommendations.

Beleaguered chipmaker **Intel** (INTC – $25.14) whacked its dividend from $0.365 per share quarterly to just $0.125 per share. Some are surprised Intel decided to keep the dividend payment going at all, given the company's need for cash to support its turn-around effort. Via press release, Intel offered four points related to its capital allocation plans:

• Delivering $3 billion in cost savings in 2023, on the path to $8 billion to $10 billion in annualized savings by the end of 2025. This includes the difficult steps previously taken to reduce headcount and the company's ongoing efforts to reduce other operating expenses. The company is also temporarily reducing compensation and rewards programs for employees and executives, and the board has decided to temporarily reduce its compensation as well. This is in addition to the exit of seven non-core businesses since early 2021, as the company continues to sharpen its focus and drive a best-in-class operating structure.

• Operating net CapEx intensity in the low 30% range in 2023 as the company prioritizes investment in strategic capital and adjusts the timing of capacity expansion in response to near-term changes in demand.

• Establishing an internal foundry model that will help Intel unleash the structural advantages of IDM 2.0 with a competitive cost structure and optimized operating model while providing further transparency into its strategic progress and performance against industry benchmarks.

• Advancing its Smart Capital strategy, which allows Intel to access new pools of capital that provide additional financial flexibility to invest for the long term while executing its transformation. This includes the innovative Semiconductor Co-Investment Program (SCIP), for which Intel intends to announce a second partner later this year.

While the points aren't particularly profound, or even easy to accomplish, our observation is that CEO Patrick Gelsinger is working with great purpose to right the ship. We continue to believe Intel is not dead, as does Mr. Gelsinger, who just bought 9,700 INTC shares at $25.68, even though the road ahead is full of potholes, challenges and steep cliffs. At this point, the only thing saving Intel from our most risky classification in our Target Price engine is its relatively strong balance sheet. Of course, the heightened risk factor results in a higher Target Price, which helps ensure that we are compensated (by more capital appreciation potential) for greater risk-taking, given that less of our expected total return will come from dividend income. Our Target Price for INTC is $39, while the reduced yield now stands at 2.0%.

NetApp (NTAP – $65.38) reported a solid fiscal Q3 and raised some parts of the company's guidance for the full year. In the third quarter, the data management services concern earned $1.37 per share (vs. $1.31 est.) and had revenue just above of $1.5 billion, compared to the consensus estimate of $1.61 billion. A slowdown in IT spending and a softening business environment caused NetApp to implement cost controls, freeze hiring and trim some of its workforce over the past year. The company is still seeing strong demand in hybrid flash and QLC-based all-flash arrays, as well as positive traction for optimization projects. Though they retreated 3% this week, shares have rebounded 9% this year.

CEO George Kurian commented, "We continued to see increased budget scrutiny, requiring higher level approvals, which resulted in smaller deal sizes, longer selling cycles and some deals pushing out. We are feeling this most acutely in large enterprise and the Americas tech and service provider sectors. Customers are looking to stretch their budget dollars, sweating assets, shifting spend to hybrid flash and capacity flash arrays from higher-cost performance flash arrays and as our cloud partners have described, optimizing cloud spending."

Mr. Kurian continued, "We have seen tangible success from our efforts to manage the elements within our control in a challenging environment. Despite our lowered revenue outlook, we have preserved free cash flow and EPS expectations. In the first three fiscal quarters of this year, we have returned over $1 billion to shareholders and reduced share count by 4%. We are sharpening our execution to accelerate near-term results and enhance our position for the long-term. We are taking these steps now, so that, as we begin FY'24, we are in a new, more focused operating model to attack the opportunity ahead, drive growth and deliver shareholder value."

Looking ahead, CFO Mike Berry said, "We expect Q4 net revenues to range between $1.475 billion and $1.625 billion, which at the midpoint, implies an 8% decrease year-over-year, or a 6% decrease in constant currency. In this macro environment, we expect customers to continue to optimize their cloud spend at our three major hyperscaler partners. As a result, we expect cloud revenue and ARR to be approximately flat sequentially in Q4. Please note as we head into fiscal '24, we plan to anchor our cloud segment guidance on revenue dollars, instead of ARR. To be clear, we will continue to disclose cloud ARR as a key metric as we go through the year."

The expected adjusted EPS range is $5.30 to $5.50 range for fiscal 2023. We think the company's cost-saving efforts and emphasis on improving workloads for existing customers should help NTAP endure a slower IT spending environment. Overall, we remain confident in our broad-portfolio thesis that the Cloud is a source of growth in the Information Technology space, and we expect it to remain a critical part of IT planning going forward. The dividend has been increased at a rapid rate since initiation (in 2013) and with the 26% drop from the end of 2021, the stock now yields 3.1%, while the company's balance sheet shows the ability to hike the payout in the future. Our Target Price is presently $96.

Shares of **Civitas Resources** (CIVI – $68.92) climbed more than 5% last week after the Rockies-based oil and gas concern reported Q4 financial results that included the announcement of a $1 billion share repurchase program and an increase in the fixed-plus-variable dividend. CIVI posted adjusted EPS for Q4 of $2.49, almost 6% below the consensus analyst estimate, on revenue of $814.3 million (almost 6% better than the analyst forecast). Revenue was down significantly from the $1 billion that was generated in Q3, with the decrease primarily related to 12%, 22% and 25% lower respective crude oil, natural gas and natural gas liquids realized prices. Crude oil accounted for approximately 68% of total revenue for the quarter. At quarter end, Civitas had proved reserves of 416.0 million Boe, a 5% increase from year-end 2021 reserves. The company's year-end 2022 proved reserves were comprised of 152.6 million barrels of crude oil, 867.5 billion cubic feet of natural gas and 118.8 million barrels of natural gas liquids.

The fixed-plus-variable quarterly dividend was increased by more than 10% from $1.95 to $2.15. The split of the quarterly dividend is $0.50 fixed and $1.65 variable. The $1 billion share repurchase authorization currently represents 17% of the CIVI market capitalization.

CEO Chris Doyle commented, "Civitas reported outstanding results this quarter, with production coming in at the high end of our guidance range despite the cold temperatures we experienced in December. Recently, we've seen a meaningful pullback in commodity prices while service costs remain high given current utilization. As a result, we are choosing to moderate our capital spending in 2023 to maximize capital efficiency. With capital spending down year-over-year and production broadly flat, we expect to generate significant free cash flow in 2023 and return the vast majority of it to shareholders through dividends and the newly authorized share repurchase program."

CIVI claims to have industry-low lease-operating and per-barrel expenses with balance production of oil, gas and natural gas liquids. Management has a propensity for deals, which it has mostly financed with equity. We think this has given prospective investors pause, even as global energy supply constraints and favorable commodity prices have enabled massive income payments ($8.43 per share) over the past five quarters. A clean balance sheet should support the stock should demand fade and energy prices weaken further. Still, the valuation is very attractive at just 6.3 times EPS projected for 2023. Our Target Price is now $91.

Super-volatile shares of **Moderna** (MRNA – $139.26) skidded more than 16% last week after the vaccine maker reported Q4 results that came up short of analyst expectations. Moderna earned $3.61 per share (vs. $4.67 est.) and had revenue of $5.1 billion (vs. $5.0 billion est.). In 2022, Moderna spent $3.3 billion on R&D, a company record, and $3.3 billion repurchasing 23 million shares.

CEO Stephane Bancel commented, "I am proud of the strong results by our team in 2022, as we made history with a number of outstanding accomplishment for patients. In respiratory vaccines, we developed new products with remarkable speed, getting our mRNA-1273.214 against Omicron BA.1, the strain recommended by WHO, and mRNA-1273.222 against Omicron BA.5, the strain asked by the US-FDA. We developed 1273.222 in less than two months. We were able to protect the millions of people from potentially severe disease, resulting from new COVID strains. Our RSV vaccine went from Phase 1 start to Phase 3 data in 24 months, and met its primary efficacy endpoint in a Phase 3 trial. In oncology, our personalized cancer vaccine was a first demonstration of positive results from an mRNA cancer treatment in a randomized clinical trial. In rare diseases, our propionic acidemia program showed early positive clinical results in a repeat dose, chronic disease setting, and reducing metabolic decompensation events in patients. And we announced what we hope will become the first effective inhaled mRNA therapy in humans, as our partner Vertex entered the Phase 1 trial, using our technology in a therapy for cystic fibrosis patients who lacked the CFTR protein."

Mr. Bancel continued, "The company continues to expand at a rapid pace. We now have three commercial COVID-19 vaccine products. We have four development programs in Phase 3. We hope to expand our commercial portfolio very soon. Overall, we have 48 programs underway, we have a team of 3,900 team members, and now present on the ground in 16 commercial subsidiary across Americas, Europe and Asia-Pacific. Our $18 billion of cash balance at the end of the year is enabling us to scale across research, clinical development, manufacturing, commercial, and G&A."

CFO Jamey Mock added, "We expect first-half '23 sales to be approximately $2 billion. Our total cost-of-sales includes the cost of goods manufactured, third-party royalties, as well as logistics and warehousing costs. We expect full-year 2023 reported cost of sales to be 35% to 40% of sales…The increase in cost of sales as a percent of product sales compared to 2022 is primarily driven by presentation mix change, as we moved from a pandemic to endemic setting with single-dose application significantly increasing in volume. Longer term, as the endemic market normalizes, and we add additional respiratory and other products, we expect our cost of sales as a percent of sales will significantly decrease from the rates we are experiencing in 2023."

We continue to believe our position in MRNA is equal parts Health Care and Technology, with the company able to leverage its mRNA technology and massive cash war chest to tackle other viruses and illnesses. Even though shares have given up the gains made towards the end of 2022, we continue to appreciate MRNA's position in our broadly diversified portfolios. We expect the road to be rockier than for our other mature health care companies, but we continue to believe that substantial COVID-19 revenue will be generated going forward, while we think the longer-term potential for mRNA technologies are very promising. Our Target Price has been reduced to $218.

Mosaic (MOS – $51.51) reported adjusted earnings per share for the fourth quarter that missed the average analyst estimate. The crop nutrient provider turned in adjusted EPS of $1.74 in Q4 vs. the consensus estimate of $2.14 and $1.95 a year ago. High average selling prices boosted sales, more than offsetting lower volumes across segments, while higher raw material input prices negatively impacted gross margin and the bottom line. Management expects the latter to normalize as we move through the year.

CEO Joc O'Rourke explained, "Mosaic delivered record results in 2022, and we expect favorable agricultural markets to continue in 2023. Despite significant volatility through the year, our business was able to deliver strong free cash flow and return significant capital to shareholders, while also reinvesting in the business. Mosaic is well positioned to continue delivering strong results in 2023, thanks to our low cost potash operations, our portfolio of value-added phosphate products, and our leading footprint in Brazil, the world's fastest-growing major agricultural market."

Looking to 2023, Mr. O'Rourke said, "Global stocks-to-use ratios are at 25-year lows and remain under pressure because of elevated risks that threaten output in 2023. The world continues to watch the war in Ukraine. We have consulted with top military and foreign policy leaders who share our concern that the conflict seems unlikely to be resolved in the near-term and will have long-lasting impacts, particularly in the production of key crops like wheat and sunflowers, which is a source of significant amount of the world's edible oils…As we enter 2023, phosphate and potash prices are now half of what they were at the peak. With crop prices still very strong, farmer affordability for nutrients has improved significantly and is now back to the levels seen in 2020 and 2021. This suggests a strong rebound in demand as growers seek to maximize yields with sufficient fertilization. The world is still short of potash, certain markets are seeing more readily available supply, but this means other markets are not able to get what they need. Belarusian supply remains constrained because of the ongoing sanctions. We believe Belarus (inaudible) exports were down about 8 million tonnes in 2022 and we expect only modest recovery in 2023 with total exports of around 6 million to 7 million tonnes or half of their pre-sanction export volumes."

The board authorized an accelerated share repurchase program of $300 million and special dividend of $0.25 per share payable at the end of March. Mosaic has reduced its share count by about 11% since Q3 of 2021 not including the latest announcement.

It is hard for us to expect the tightness that characterizes global ag markets to alleviate overnight, but we acknowledge that both fertilizer and crop prices can be extremely volatile in either direction. As shares remain a third below their high from last April, we are pleased with our decision to trim our MOS position around that time, but with the forward P/E ratio today of less than 7 times the 2023 EPS estimate, we like management's decision to buy shares hand over fist. Comfortable with our exposure at present, our Target Price for MOS now resides at $84.

American Tower (AMT – $195.73) generated $2.34 of per share adjusted funds from operations (AFFO), above the $2.10 from a year ago and the $2.26 Street estimate. Solid billings growth for the wireless communications and broadcast tower REIT in Latin America (from inflation escalators) and Africa offset currency headwinds in Europe and Asia/Pacific markets.

CEO Tom Bartlett stated, "We closed out 2022 with another quarter of strong performance, including double digit AFFO per Share and common stock dividend growth. Throughout the year, we saw compelling organic leasing trends, accelerated new site construction and achieved a record year of signed new business within our CoreSite business. We also prudently managed our investment grade balance sheet, successfully executed on the permanent financing plan for our CoreSite acquisition and maintained a disciplined approach to capital allocation."

Looking to 2023, he added, "We expect to continue leveraging our global portfolio of communications infrastructure to benefit from ongoing carrier network investments, including record organic new business growth contributions in the U.S. and Canada. Longer-term, American Tower is positioned to serve as a key infrastructure provider and partner in an evolving 5G ecosystem, while delivering sustainable growth and attractive returns for our shareholders."

Management expects organic full-year tenant billings to grow about 5% in 2023 with $6.86 billion to $6.97 billion of adjusted EBITDA and AFFO between $4.68 billion and $4.79 billion.

As a leading independent owner, operator and developer of multitenant communications real estate with a portfolio of approximately 225,000 communications sites around the globe, we find that AMT is well-positioned to benefit from an accelerating rollout of communication technology. We think the runway for growth remains long in the tower business as carriers continue to upgrade or install rural networks, and urban networks need higher tower density and upgraded equipment following three decades of transition to site-sharing by network carriers. A significant portion of its contracts are linked to measures of inflation, which should continue to prove beneficial in the current year, even if inflation moderates somewhat. More than 40% of revenue is from international markets like India that are less consolidated and roughly a decade behind the U.S technologically. Shares trade for a nearly one-third discount to the five-year average Price to AFFO ratio and the dividend yield is 3.2%. Our Target Price is $279.

Despite another solid quarter, shares of **EOG Resources** (EOG – $114.26) fell almost 9% last week as Q4 bottom-line results came up short of the consensus analyst estimate, there were concerns about management's projected capital spend for 2023 ($5.8 billion to $6.2 billion versus expectations of $5.8 billion) and the special dividend was cut. For the quarter, the oil & gas concern reported revenue of $6.72 billion, versus the average forecast of $6.53 billion, while adjusted EPS came in at $3.30, versus the $3.39 estimate. Additionally, the energy play generated $1.7 billion of free cash flow and continued to improve an already solid balance sheet where net cash stands at $894 million.

The quarterly dividend of $0.825 from last quarter was maintained, but the special dividend was reduced to $1.00 per share from $1.50. Management continues to target an overall dividend payout above 60% of annual free cash flow and we like the two-part dividend and the flexibility it provides.

CEO Ezra Jacob commented, "EOG's 2022 results benefited from our growing portfolio of high-return plays. In a challenging inflationary environment, we leveraged the flexibility provided by our multi-basin plays and decentralized structure to deliver exceptional performance that was within two percent of our original plan for volumes and capital expenditures. Credit goes to the innovative and entrepreneurial teams working collaboratively across our multi-basin portfolio."

He continued, "Our commitment to decentralized exploration resulted in the addition of a new premium play –the Ohio Utica Combo –and advancements in our other emerging plays, South Texas Dorado and Southern Powder River Basin. We also progressed several exploration prospects. We reduced our GHG intensity and methane emissions percentage, achieving our 2025 targets. We also deployed a new continuous leak detection system called iSenseSM and recently began operations at our first carbon capture and storage site."

Mr. Jacob added, "EOG's financial performance was equally strong, highlighted by record net income and returns on capital. We returned $5.1 billion to shareholders, representing 67% of free cash flow, well above our minimum 60% commitment. The strong price environment in 2022 also allowed us to improve our financial position, reducing net debt by $794 million.

Looking ahead, he concluded, "EOG is in a better position than ever to play a significant role in the long-term future of energy and deliver value for our shareholders. And we continue to get better – our 2023 plan positions us to continue to lower our cost structure. We remain committed to returning cash through a sustainable, growing regular dividend, which is supported by our low-cost structure and an impeccable balance sheet."

EOG has some of the lowest-cost Permian assets of the U.S. oil and gas producers, and we continue to think there is a mid-term supply/demand imbalance that will keep energy prices elevated, especially with China coming back online. Management continues to return capital to shareholders with an annualization of this quarter's regular and special dividends working out to a 6.4% yield. There is no guarantee that such a high payout will be maintained, but the total distribution in 2022 was $8.87 per share. We continue to think very highly of management and note that with the recent pullback shares are trading for 8.4 times NTM adjusted EPS forecasts. Our Target Price has been adjusted to $155.

Shares of **World Fuel Services** (INT – $27.06) sank nearly 11% on Friday, even as the provider of aviation and marine fuel services reported adjusted earnings per share for Q4 that beat the average analyst estimate. World Fuel turned in adjusted EPS of $0.54 ($0.48 est.) vs. $0.28 a year ago as revenue surged 40% year-over-year to $13.88 billion. Strong performance was achieved in the Land (up 54% in Q4 and 58% for all of 2022) – principally attributable to the Flyers Energy acquisition – and the Marine segments (up 85% in Q4 and 60% for the year) – due to higher bunker fuel prices and volatility.

CEO Michael Kasbar explained, "The adaptability of our diversified portfolio of complementary businesses enabled us to successfully navigate an increasingly turbulent market in 2022 to produce a solid full year result. We have established a strong foundation for ratable growth and will leverage our global expertise to provide an expanding suite of products and services, including our evolving sustainability offerings, to deliver long-term value to our customers, suppliers and shareholders."

CFO Ira Burns offered, "In 2022, our Adjusted EBITDA improved significantly year-over-year. Despite higher energy prices in 2022, our strong EBITDA performance further enhanced our liquidity profile which provides greater capacity to invest in growth opportunities, while also continuing to return capital to shareholders through share buybacks and dividends."

Mr. Burns added that Aviation gross profit should improve in Q1 and for all of 2023 despite a sequential seasonal slowdown. A severe market backwardation (when the price of a commodity's forward or futures contract is trading below the expected spot price at contract maturity) had affected the segment's results early last year.

We were puzzled at the share price reaction to the results, but one might attribute the decline to the broader market slide. Through nearly two-dozen acquisitions over the past two decades, INT has grown into a leader in a highly fragmented market. Admittedly unexciting or flashy, World Fuel provides an essential service for its customers and we like the direction management has gone with its latest acquisitions. Earnings have climbed each year since the pandemic bottom, and shares trade for just 11 times the current year projection. The dividend yield is 2.1% and our Target Price has been bumped up to $38.

Celanese (CE – $117.72) was a rare gainer in trading on Friday, with shares rising more than 2% after the company beat Q4 free cash flow estimates, despite missing earnings expectations and lowering guidance for the year. The chemical producer reported adjusted EPS of $1.44 per share (vs. $4.91 a year ago and the $1.65 est.) and generated $395 million of free cash flow ($239 million est.) on $2.35 billion of net sales. Its two business segments, Engineered Materials and Acetyl Chain, represent about half of total sales, though the former saw 75% year-over-year growth to $1.24 billion in the quarter.

Management expects adjusted EPS of $1.50 and $1.75 in Q1, which includes approximately $0.30 per share from the Dow Mobility & Materials transaction amortization.

CEO Lori Ryerkerk said, "Our team delivered resilient performance despite an exceptionally challenging end to 2022 including accelerated destocking, poor sequential demand in Asia due to

COVID, challenging competitive dynamics in Europe, and the impact of Winter Storm Elliott. Our 2022 adjusted earnings per share performance was within 12 percent of our all-time high delivered in 2021 and 44 percent higher than our next best year. Despite the impact of elevated volatility across a number of external dynamics, our Celanese team continues to execute our business models and demonstrate a long-term underlying lift in the earnings power of the company."

Ms. Ryerkerk added, "Natural gas pricing has come down significantly at the end of the fourth quarter and in the first-quarter, especially in the U.S., that's a big help for us in Acetyls, the largest plants in Clear Lake, we have a lot of other facilities in the U.S. that benefit from that lower natural gas pricing. We actually see really good improvement here in March in our order books…So this is a big deal, usually at this time in the month, we — our orders have stopped, and we don't see new orders come in until the next month. But we're still seeing orders for EM, for M&M for February. And our March, both quite frankly, it has filled up for both the legacy EM and the legacy M&M businesses, consistent with the order book that we received in March of 2022."

Celanese has been busy making deals not only with the M&M purchase from Dow but has separately announced two JV actions with Mitsui to extend a current partnership and stand up a food ingredients venture.

We like that the firm has typically enjoyed a cost advantage in many of its markets and has been able to weather these inflationary times with price increases. A 17% slide over the past 12 months puts the stock price at less than 10 times NTM adjusted EPS expectations, which we find attractive for the high-quality chemical producer. The dividend yield now stands at 2.4%. We continue to like the company's exposure to secular growth markets like electric vehicles and 5G through its Engineered Materials segment and think it is positioned to win from customer sustainability efforts. Our Target Price for CE is $192.

BASF SE (BASFY – $12.84) released preliminary Q4 results last week. In euro terms, the chemical maker had adjusted EBIT of 373 million euros, below the 420 million estimate, on sales of 19.3 billion euros, compared to the 20.1 billion estimate. Shares of the German chemical maker skidded more than 7% on the news, even as the 2023 full-year outlook seemed positive. The company sees a weak first half and a stronger second half with adjusted EBIT between 4.8 billion and 5.4 billion euros on sales of 84 billion euros to 87 billion euros. Both of those figures were supposedly ahead of estimates.

CEO Dr. Martin Brudermueller said, "In Q4 2022, global chemical production increased by only 1%. A considerable increase, which was surprising in the overall weak environment was only seen in China. This was particularly driven by a base effect as chemical production in China had been negatively impacted by electricity cuts in the fourth quarter of 2021. All other regions recorded a decline in chemical production, which was most pronounced in Europe… In the full year 2022, EBIT before special items decreased by EUR890 million to EUR6.9 billion compared with a very strong performance in 2021. Considerably higher earnings in BASF's downstream segments partially compensated for significantly lower earnings in BASF's upstream segments.

Margins in the Chemicals and the Materials segments were extraordinarily high in 2021 and in the first half of 2022, but declined significantly in the second half of the year."

Dr. Brudermueller offered the outlook, "We anticipate elevated and very volatile gas prices in Europe. In few of these factors, we forecast BASF Group to generate sales of between EUR84 billion and EUR87 billion in 2023. EBIT before special items is expected to decline to between EUR4.8 billion and EUR5.4 billion. We expect a weak first half of 2023, followed by an improved earnings environment in the second half of the year due to recovery effects, especially in China. Based on the weaker earnings performance and slightly higher cost of capital basis forecast for BASF Group in 2023, we anticipate a ROCE of between 7.2% and 8%. We expect CO2 emissions of between 18.1 million metric tons and 19.1 million metric tons as a result of moderate growth in production and slightly higher capacity utilization at emission intensive plants."

BASF shares have gained some ground this year as economic environments around the world improve, even though the company is making difficult business decisions in light of much-higher energy prices in Europe. Challenges remain, including those related to demand and input pricing, but we aren't ready to throw in the towel just yet. Of course, we have a small position and every stock is fighting for its spot in our broadly diversified portfolios, but our Target Price is $19 and BASFY yields around 5% after taxes.