Market Commentary Monday, February 6, 2023

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EXECUTIVE SUMMARY

Week – Rally Continues
Fed – 25-Basis-Point Rate Hike; Historical Equity Returns & Tightening
Econ Numbers – Mixed Picture But Blowout Jobs Report
Econ Outlook – IMF Raises Forecast
Recessions – No Reason, On Average, to Sell Stocks
Corporate Profits – Q4 Report Cards OK Thus Far
Valuations – Inexpensive Metrics for our Portfolios
Sentiment – AAII Still Bearish
Market of Stocks – 2023 Winners & Losers
Stock News – Updates on AAPL, GOOG, META, BHE, KLIC, QCOM, GLW, GEN, PHG, WRK, GM, CAT, MET, APD & GILD

Market Review

It is always fascinating to listen to the so-called experts explain the short-term gyrations of the equity markets. For example, stocks began the latest trading week with a sizable setback on Monday, prompting one pundit to state, "The market has had a flying couple of weeks. But as we get closer to the Fed meeting, cautiousness is certainly going to creep in."

Another proclaimed, "The reality is that earnings are proving to be even worse than feared based on the data, especially as it relates to margins. Investors seem to have forgotten the cardinal rule of 'Don't Fight the Fed.' Perhaps this week will serve as a reminder."

The "certain" cautiousness and "cardinal rule" did not exactly play out as expected over the ensuing four days. Indeed, the S&P 500 jumped 2.95%, helping to propel the popular index to its fourth winning week out of five this year, and pushing several of the Value benchmarks into Bull Market territory since the end-of-Q3 lows.

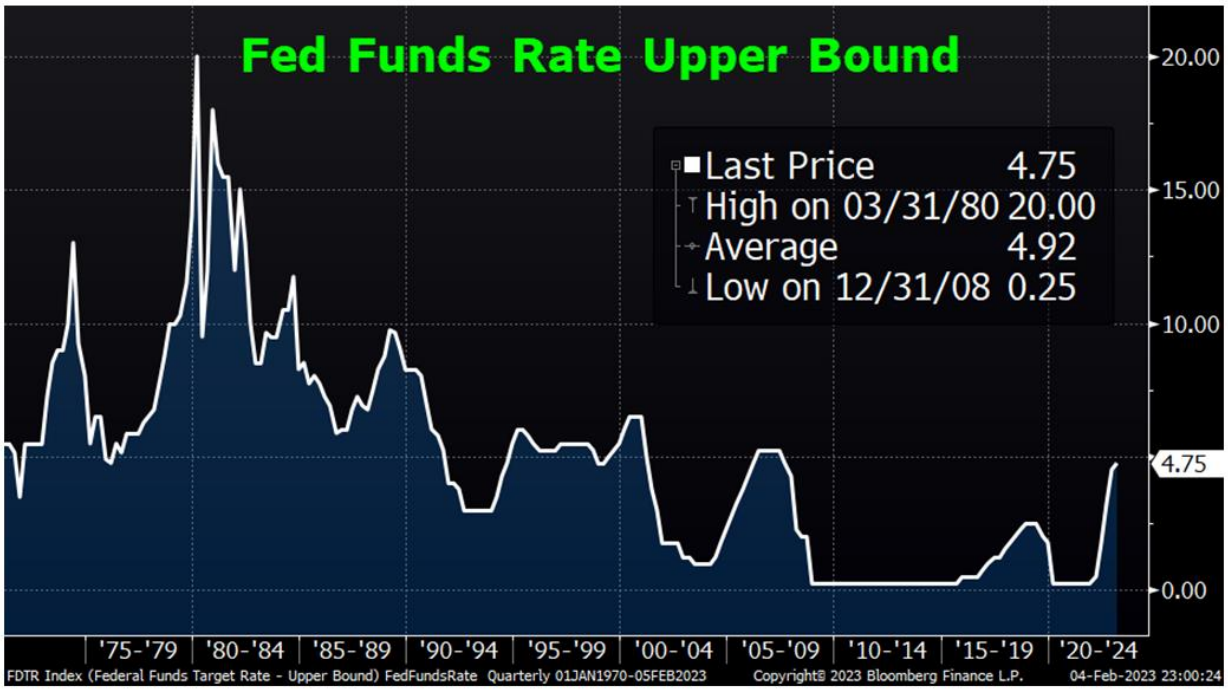
Total Returns Matrix

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	-0.15	2.44	18.85	-1.33	33.82	93.19	27.11	48.23	Dow Jones Industrial Average	INDU Index
1.01	-10.21		0.25	5.52	19.66	-1.51	35.81	95.38	25.92	39.00	New York Stock Exchange Composite	NYA Index
-39.18	-20.81		3.33	14.77	13.88	-12.71	12.02	79.04	32.72	73.86	Nasdaq Composite Index	CCMP Index
-22.43	-9.23		3.61	13.04	17.71	-1.25	10.11	78.20	15.08	31.63	Russell 2000 Growth	RU20GRTR Index
22.83	14.02		4.20	12.57	22.05	3.35	59.00	132.06	35.26	38.47	Russell 2000 Value	RU20VATR Index
-3.02	2.49		3.90	12.81	19.84	1.17	32.61	105.13	26.30	36.97	Russell 2000	RU20INTR Index
-11.75	-20.15		2.92	11.34	19.02	-4.28	9.33	81.32	22.29	55.46	Russell Midcap Growth Index Total Return	RUMCGRTR Index
19.18	2.33		1.71	9.08	20.48	0.21	46.94	124.60	30.95	43.92	Russell Midcap Value Index Total Return	RUMCVATR Index
8.25	-5.62		2.13	9.87	19.96	-1.24	32.69	110.29	30.40	52.40	Russell Midcap Index Total Return	RUMCINTR Index
-22.42	-19.63		2.80	11.41	13.99	-11.04	15.61	85.51	33.39	75.42	Russell 3000 Growth	RU30GRTR Index
8.04	-4.33		1.03	6.03	18.95	-0.20	44.89	102.52	28.35	42.78	Russell 3000 Value	RU30VATR Index
-7.46	-11.46		1.90	8.64	16.44	-5.74	29.28	95.03	32.38	60.60	Russell 3000	RU30INTR Index
9.64	-0.39		1.53	8.39	21.00	0.24	48.29	124.23	42.09	64.08	S&P 500 Equal Weighted	SPXEWTR Index
-9.10	-11.89		1.64	7.86	16.01	-6.07	30.97	93.45	33.67	63.58	S&P 500	SPXT Index
-22.08	-12.73		1.50	7.33	8.88	-15.64	14.21	78.73	29.14	66.95	S&P 500 Growth	SPTRSGX Index
6.08	-11.71		1.80	8.43	23.17	4.10	49.95	103.91	33.21	53.25	S&P 500 Value	SPTRSVX Index
3.18	1.57		0.18	3.49	8.19	-11.69	-14.78	-7.12	-10.77	-5.23	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index
11.63	8.44		0.03	3.02	4.95	-8.18	-10.77	-6.11	-6.96	5.05	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index

As of 2.3.23. Source Kovitz using data from Bloomberg

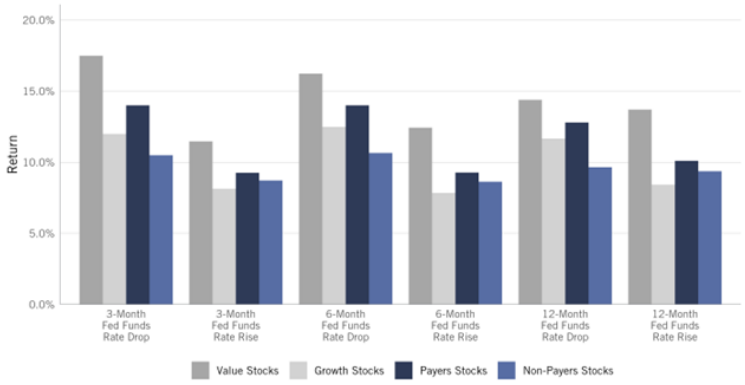
It is a market of stocks and returns over the last couple of years show wide dispersion, similar in magnitude to what was seen after the bursting of the Tech Bubble in the year 2000.

Obviously, short-term fluctuations don't mean much in the overall scheme of things, but *The Wall Street Journal* on Thursday ran the "shocking" headline, "Stocks Climb After Fed Rate Hike," as Jerome H. Powell & Co. lifted the upper end of the target for the Fed Funds rate by another 25 basis points to 4.75%.



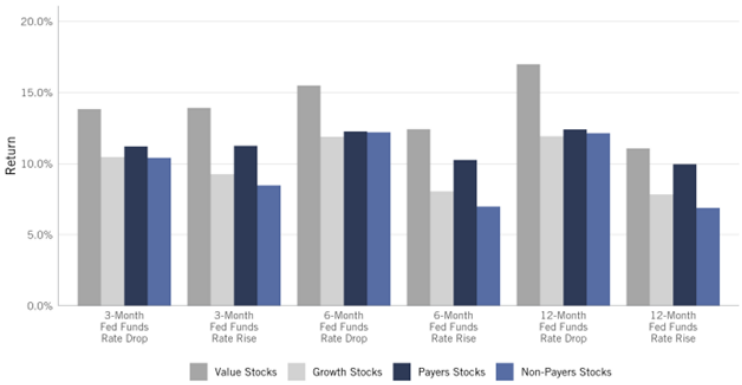
The Fed has been rapidly tightening monetary policy, but the Fed Funds rate of 4.75% today is still below the historical average of 4.92% dating back to 1971.

We put "shocking" in quotations as many think the Federal Reserve hiking the Fed Funds rate is a big headwind for equities. However, seven decades of returns data show that stocks in general have performed well on average, both concurrent with and subsequent to increases (as well as decreases) in the Fed Funds rate over 3-, 6-, and 12-month time spans, with Value Stocks leading the charge no matter the direction.



Concurrent Returns

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



Subsequent 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

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.

The FOMC Statement that accompanied the decision on interest rates included:

Recent indicators point to modest growth in spending and production. Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation has eased somewhat but remains elevated.

In determining the extent of future increases in the target range, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments.

And Chair Powell had this to say in the opening remarks of his press conference that followed the release of the Statement:

My colleagues and I understand the hardship that high inflation is causing, and we are strongly committed to bringing inflation back down to our 2 percent goal. Over the past year, we have taken forceful actions to tighten the stance of monetary policy. We have covered a lot of ground, and the full effects of our rapid tightening so far are yet to be felt. Even so, we have more work

to do. Price stability is the responsibility of the Federal Reserve and serves as the bedrock of our economy. Without price stability, the economy does not work for anyone. In particular, without price stability, we will not achieve a sustained period of labor market conditions that benefit all.

Today, the FOMC raised our policy interest rate by 25 basis points. We continue to anticipate that ongoing increases will be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time. In addition, we are continuing the process of significantly reducing the size of our balance sheet. Restoring price stability will likely require maintaining a restrictive stance for some time.

There always are plenty of other factors that influence stock prices, but the fact that stocks moved up on the Fed news had market watchers seemingly deciding for the moment that the Fed might be closer to the end of the rate-hiking cycle than previously thought. After all, Chair Powell went on to say:

We are seeing the effects of our policy actions on demand in the most interest-sensitive sectors of the economy, particularly housing. It will take time, however, for the full effects of monetary restraint to be realized, especially on inflation. In light of the cumulative tightening of monetary policy and the lags with which monetary policy affects economic activity and inflation, the Committee decided to raise interest rates by 25 basis points today, continuing the step down from last year's rapid pace of increases. Shifting to a slower pace will better allow the Committee to assess the economy's progress toward our goals as we determine the extent of future increases that will be required to attain a sufficiently restrictive stance. We will continue to make our decisions meeting by meeting, taking into account the totality of incoming data and their implications for the outlook for economic activity and inflation.

Of course, one prominent economist cited in *The Wall Street Journal* offered, "Markets rallied fiercely despite the hawkish message because investors know the Fed isn't omniscient nor is it dogmatic." Not quite sure that we heard a hawkish tone as the Chair confirmed, "We can now say for the first tome the disinflationary process has started," but it is good to know that investors now realize that the Fed does not have a crystal ball!
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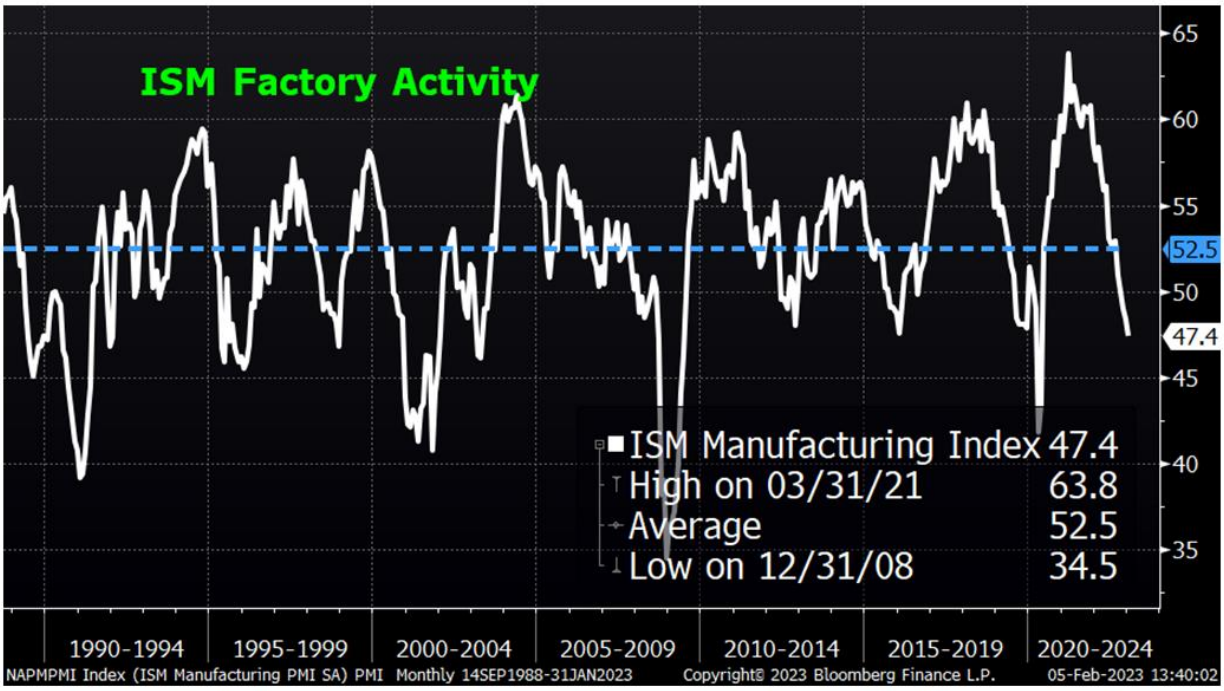
When it comes to the Fed, about the only thing we can say for sure is that we agree with the Powell statement, "We will continue to make our decisions meeting by meeting, taking into account the totality of incoming data and their implications for the outlook for economic activity and inflation."

And that incoming data was relatively weak for much of last week, at least as far as the health of the economy is concerned. Consumer confidence, per data from the Conference Board, pulled back to a reading of 107.1 in January, down from 109.0 in December and below expectations of 109.5. Still, the measure is above the average dating back to the 1980s. For its part, the Chicago Business Barometer, also known as the regional manufacturing PMI, fell to a worse-than-expected 44.3 in January, down from 45.1 in December and well below its historical average.

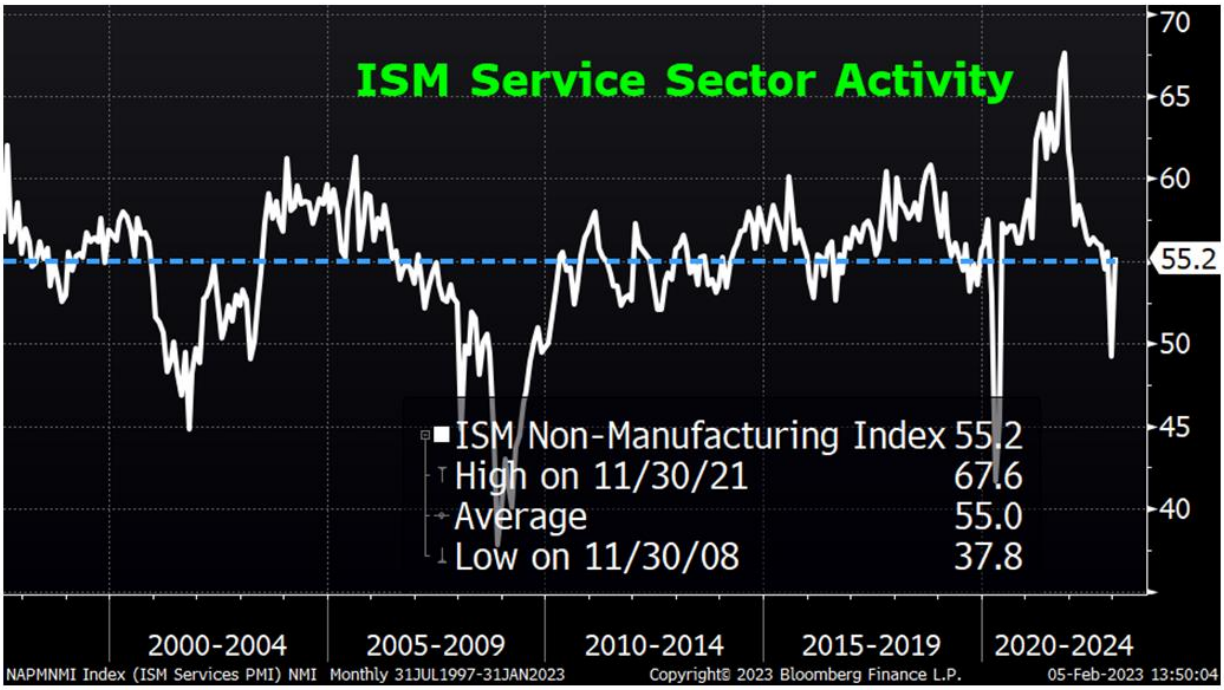
Both Consumer Confidence and the Chicago Business Barometer fell in January

And speaking of business barometers, the latest data point on the health of the national manufacturing sector came in below projections at 47.4 in January, down from December's tally of 48.4, to a level below average for the 30-plus-year history of the gauge. The Institute for Supply Management stated, "The past relationship between the Manufacturing PMI and the overall economy… corresponds to a -0.5% decrease in real gross domestic product (GDP) on an annualized basis."



ISM PMI Drops – Now suggesting a 0.5% contraction in real GDP on an annualized basis.

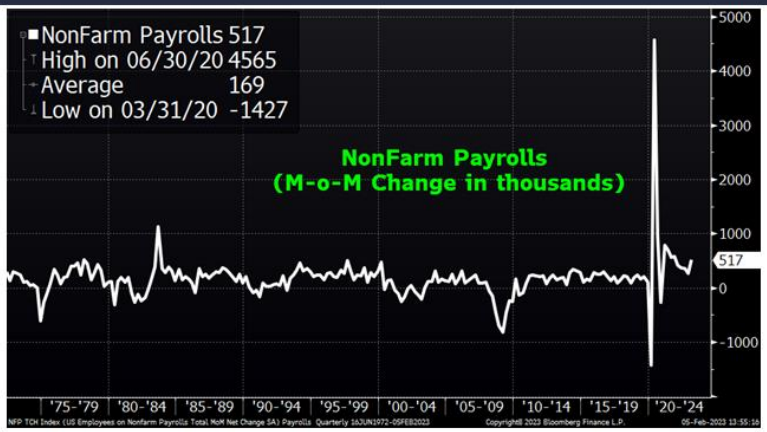
On the other side of the coin, Friday brought a series of positive economic statistics. The latest read on the health of the service sector soared to 55.2 in January, up sharply from December's figure of 49.6. The number was much better than expected and was slightly above average, suggesting a solid non-manufacturing economy. The Institute for Supply Management stated, "The past relationship between the Services PMI and the overall economy…corresponds to a 1.8% increase in real gross domestic product (GDP) on an annualized basis."

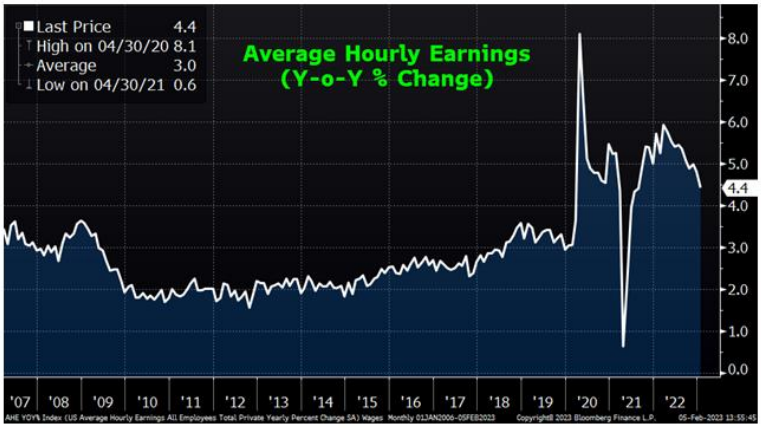


ISM NMI Jumps – Now suggesting a 1.8% increase in real GDP on an annualized basis.

Even better, for those who prefer a strong economy, the all-important monthly labor report blew away expectations.

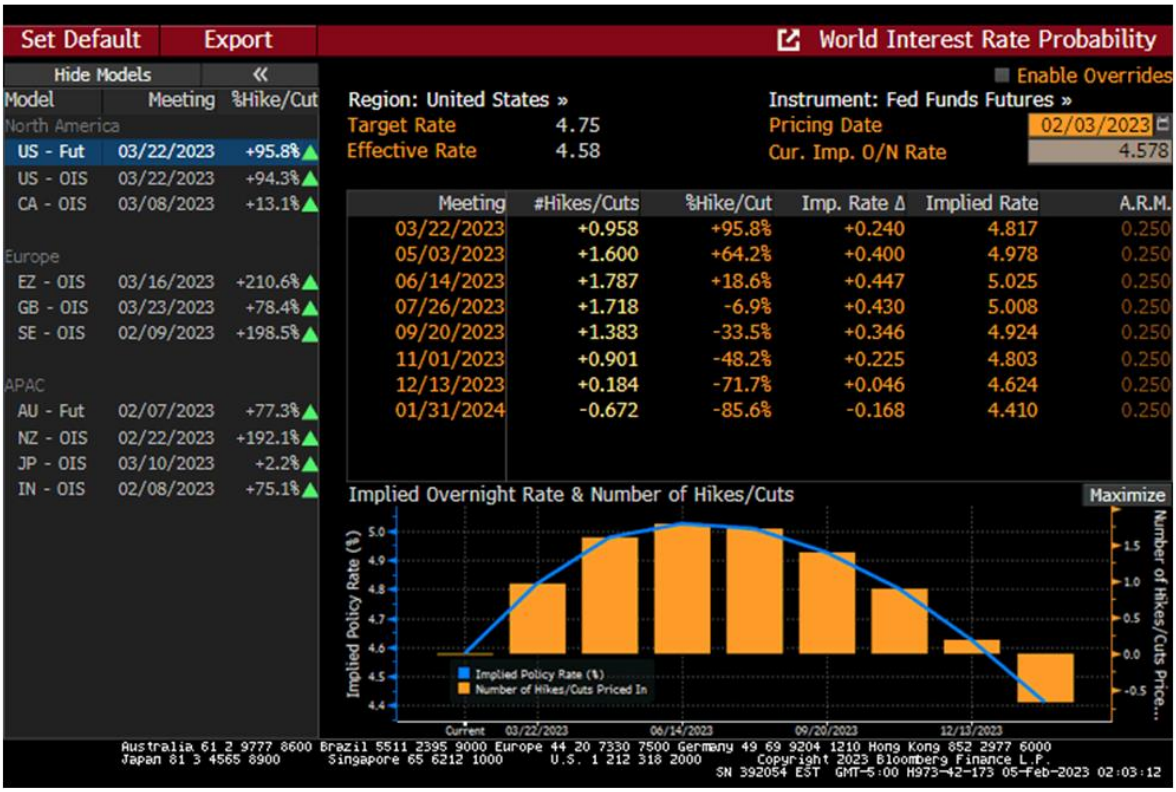
Economists were looking for a gain of 187,000 payrolls, so the increase of 517,000 in January shattered projections, while there were an additional 304,000 jobs created in the second half of 2022 than previously estimated. Notable job gains were in in hospitality, health care and white-collar professional businesses. While the labor market remains very healthy, wage gains pulled back on a year-over-year basis, rising 4.4% in January, down from a 4.6% increase the month prior, and potentially cheering those worried about inflation.





January Jobs numbers were incredibly robust, but wage pressure continued to lessen.

With the unemployment rate also falling to a 54-year-low of 3.4%, we suppose we shouldn't be surprised that with the strong labor picture the Fed Funds futures are now estimating a 4.62% Fed Funds rate for the end of 2023, up from 4.47% a week ago, with a 5.03% peak in June 2023, before a potential pivot lower arrives in July.



The Fed Fund futures became more hawkish last week, projecting a peak in the rate at more than 5% this summer.

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No doubt, there is still plenty of uncertainty about the economic outlook but when is there ever certainty? Interestingly, Bloomberg continues to calculate a 65% chance of recession in 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.

…even as the International Monetary Fund (IMF) just raised its forecast for global and U.S. GDP growth.

WORLD ECONOMIC OUTLOOK UPDATE, JANUARY 2023

Table 1. Overview of the *World Economic Outlook* Projections
(Percent change, unless noted otherwise)

	Year over Year						Q4 over Q4 2/		
		Estimate	Projections		Difference from October 2022 WEO Projections 1/		Estimate	Projections	
	2021	2022	2023	2024	2023	2024	2022	2023	2024
World Output	**6.2**	**3.4**	**2.9**	**3.1**	**0.2**	**–0.1**	**1.9**	**3.2**	**3.0**
Advanced Economies	**5.4**	**2.7**	**1.2**	**1.4**	**0.1**	**–0.2**	**1.3**	**1.1**	**1.6**
United States	5.9	2.0	1.4	1.0	0.4	–0.2	0.7	1.0	1.3
Euro Area	5.3	3.5	0.7	1.6	0.2	–0.2	1.9	0.5	2.1
Germany	2.6	1.9	0.1	1.4	0.4	–0.1	1.4	0.0	2.3
France	6.8	2.6	0.7	1.6	0.0	0.0	0.5	0.9	1.8
Italy	6.7	3.9	0.6	0.9	0.8	–0.4	2.1	0.1	1.0
Spain	5.5	5.2	1.1	2.4	–0.1	–0.2	2.1	1.3	2.8
Japan	2.1	1.4	1.8	0.9	0.2	–0.4	1.7	1.0	1.0
United Kingdom	7.6	4.1	–0.6	0.9	–0.9	0.3	0.4	–0.5	1.8
Canada	5.0	3.5	1.5	1.5	0.0	–0.1	2.3	1.2	1.9
Other Advanced Economies 3/	5.3	2.8	2.0	2.4	–0.3	–0.2	1.4	2.1	2.2
Emerging Market and Developing Economies	**6.7**	**3.9**	**4.0**	**4.2**	**0.3**	**–0.1**	**2.5**	**5.0**	**4.1**
Emerging and Developing Asia	7.4	4.3	5.3	5.2	0.4	0.0	3.4	6.2	4.9
China	8.4	3.0	5.2	4.5	0.8	0.0	2.9	5.9	4.1
India 4/	8.7	6.8	6.1	6.8	0.0	0.0	4.3	7.0	7.1
Emerging and Developing Europe	6.9	0.7	1.5	2.6	0.9	0.1	–2.0	3.5	2.8
Russia	4.7	–2.2	0.3	2.1	2.6	0.6	–4.1	1.0	2.0
Latin America and the Caribbean	7.0	3.9	1.8	2.1	0.1	–0.3	2.6	1.9	1.9
Brazil	5.0	3.1	1.2	1.5	0.2	–0.4	2.8	0.8	2.2
Mexico	4.7	3.1	1.7	1.6	0.5	–0.2	3.7	1.1	1.9
Middle East and Central Asia	4.5	5.3	3.2	3.7	–0.4	0.2	...	...	...
Saudi Arabia	3.2	8.7	2.6	3.4	–1.1	0.5	4.6	2.7	3.5
Sub-Saharan Africa	4.7	3.8	3.8	4.1	0.1	0.0	...	...	...
Nigeria	3.6	3.0	3.2	2.9	0.2	0.0	2.6	3.1	2.9
South Africa	4.9	2.6	1.2	1.3	0.1	0.0	3.0	0.5	1.8
Memorandum									
World Growth Based on Market Exchange Rates	6.0	3.1	2.4	2.5	0.3	–0.1	1.7	2.5	2.5
European Union	5.5	3.7	0.7	1.8	0.0	–0.3	1.8	1.2	2.0
ASEAN-5 5/	3.8	5.2	4.3	4.7	–0.2	–0.2	3.7	5.7	4.0
Middle East and North Africa	4.1	5.4	3.2	3.5	–0.4	0.2	...	...	...
Emerging Market and Middle-Income Economies	7.0	3.8	4.0	4.1	0.4	0.0	2.5	5.0	4.1
Low-Income Developing Countries	4.1	4.9	4.9	5.6	0.0	0.1	...	...	...
World Trade Volume (goods and services) 6/	**10.4**	**5.4**	**2.4**	**3.4**	**–0.1**	**–0.3**	...	...	...
Advanced Economies	9.4	6.6	2.3	2.7	0.0	–0.4	...	...	...
Emerging Market and Developing Economies	12.1	3.4	2.6	4.6	–0.3	0.0	...	...	...
Commodity Prices									
Oil 7/	65.8	39.8	–16.2	–7.1	–3.3	–0.9	11.2	–9.8	–5.9
Nonfuel (average based on world commodity import weights)	26.4	7.0	–6.3	–0.4	–0.1	0.3	–2.0	1.4	–0.2
World Consumer Prices 8/	**4.7**	**8.8**	**6.6**	**4.3**	**0.1**	**0.2**	**9.2**	**5.0**	**3.5**
Advanced Economies 9/	3.1	7.3	4.6	2.6	0.2	0.2	7.8	3.1	2.3
Emerging Market and Developing Economies 8/	5.9	9.9	8.1	5.5	0.0	0.2	10.4	6.6	4.5

The International Monetary Fund just raised the outlook for global and U.S. GDP growth in 2023.

The IMF stated:

Global growth, estimated at 3.4 percent in 2022, is projected to fall to 2.9 percent in 2023 before rising to 3.1 percent in 2024 (Table 1). Compared with the October forecast, the estimate for 2022 and the forecast for 2023 are both higher by about 0.2 percentage point, reflecting positive surprises and greater-than-expected resilience in numerous economies. Negative growth in global GDP or global GDP per capita—which often happens when there is a global recession—is not expected. Nevertheless, global growth projected for 2023 and 2024 is below the historical (2000–19) annual average of 3.8 percent.

The forecast of low growth in 2023 reflects the rise in central bank rates to fight inflation—especially in advanced economies—as well as the war in Ukraine. The decline in growth in 2023 from 2022 is driven by advanced economies; in emerging market and developing economies, growth is estimated to have bottomed out in 2022. Growth is expected to pick up in China with the full reopening in 2023. The expected pickup in 2024 in both groups of economies reflects gradual recovery from the effects of the war in Ukraine and subsiding inflation. Following the path of global demand, world trade growth is expected to decline in 2023 to 2.4 percent, despite an easing of supply bottlenecks, before rising to 3.4 percent in 2024.

In the United States, growth is projected to fall from 2.0 percent in 2022 to 1.4 percent in 2023 and 1.0 percent in 2024. With growth rebounding in the second half of 2024, growth in 2024 will be faster than in 2023 on a fourth-quarter-over-fourth-quarter basis, as in most advanced economies. There is a 0.4 percentage point upward revision for annual growth in 2023, reflecting carryover effects from domestic demand resilience in 2022, but a 0.2 percentage point downward revision of growth in 2024 due to the steeper path of Federal Reserve rate hikes, to a peak of about 5.1 percent in 2023.

The IMF may be overly optimistic, but as the saying goes, the stock market (and economists) has predicted nine of the last five recessions. And the 15 prior instances of actual negative real economic growth illustrate that long-term-oriented investors (on average) should stay invested (in Value, preferably) no matter what.

THE PRUDENT SPECULATOR

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%**

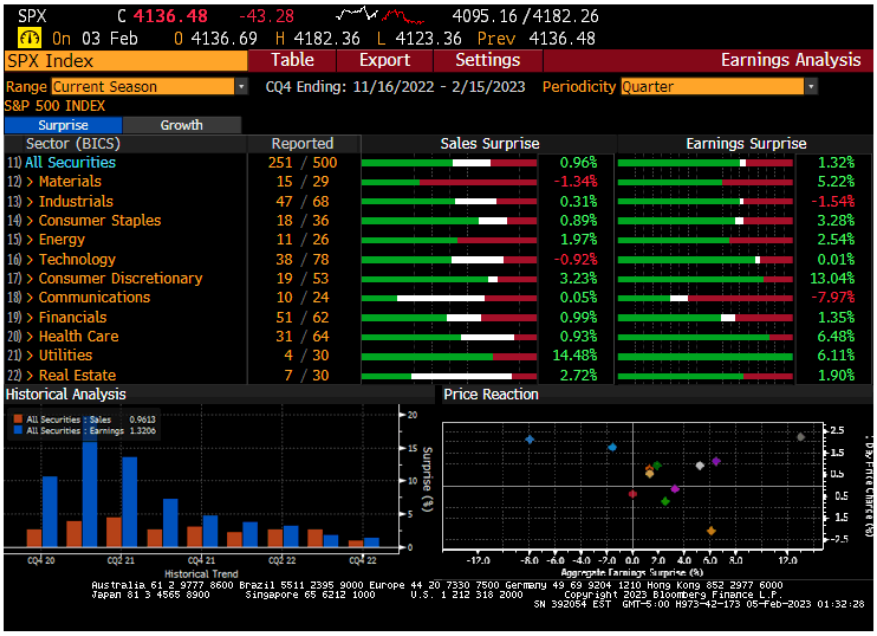
TR = Total Return. FF Value = Value Weighted Book to Market Portfolios - Blend of Small Value and Big Value.Source: Kovitz Investment Group using data from Bloomberg, Professors Eugene F. Fama & Kenneth R. French and the National Bureau of Economic Research

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.

Further, we believe that even a mild recession would not put a big dent in corporate profits. We are now about half-way through fourth quarter earnings season and despite those who argue that results have been disappointing, the numbers have been OK, even as outlooks continued to be

subdued and stock prices sometimes have reacted negatively. For the S&P 500, 69.8% of companies have beat EPS expectations and 52.0% have exceeded revenue forecasts, while present projections call for decent growth this year.

THE PRUDENT SPECULATOR



S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2023	$57.89	$221.00
9/30/2023	$56.97	$214.80
6/30/2023	$54.53	$208.18
3/31/2023	$51.61	$200.52
12/31/2022	$51.69	$198.27
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 2.2.23

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.

*****

Not surprisingly, we remain optimistic about 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	13.0	13.1	0.9	2.5	2.7
ValuePlus	13.5	13.5	1.2	2.6	2.3
Dividend Income	12.8	13.0	0.8	2.3	3.2
Focused Dividend Income	13.8	13.8	1.1	2.6	2.8
Focused ValuePlus	14.3	14.0	1.3	2.8	2.5
Small-Mid Dividend Value	11.7	11.2	0.5	1.8	2.8
Russell 3000	20.8	20.4	2.2	3.9	1.6
Russell 3000 Growth	28.6	27.9	3.3	9.4	1.0
Russell 3000 Value	16.3	16.4	1.6	2.5	2.2
Russell 1000	20.2	20.1	2.3	4.1	1.6
Russell 1000 Growth	27.7	27.5	3.6	10.2	1.0
Russell 1000 Value	16.0	15.9	1.7	2.6	2.2
S&P 500 Index	19.6	19.6	2.4	4.2	1.6
S&P 500 Growth Index	22.8	20.1	4.0	7.2	1.4
S&P 500 Value Index	17.9	19.4	1.8	3.2	1.9
S&P 500 Pure Value Index	11.7	12.3	0.7	1.8	2.4

As of 02.05.23. 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.

That does not mean that we expect the recent run northward to continue without interruption, as we know that selloffs, downturns, pullbacks, corrections and even Bear Markets are events that equity investors always have had to endure on their way to the best long-term performance of any of the financial asset classes.

Advancing Markets

Minimum Rise %	Average Gain	Average # Days	Count	Frequency (in Years)	Last Start	Last End
20.0%	113.4%	995	27	3.4	3/23/2020	1/3/2022
17.5%	68.2%	583	39	2.3	3/23/2020	1/3/2022
15.0%	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	314	0.3	11/30/2022	12/28/2022

From 02.20.28 through 2.2.23. 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%

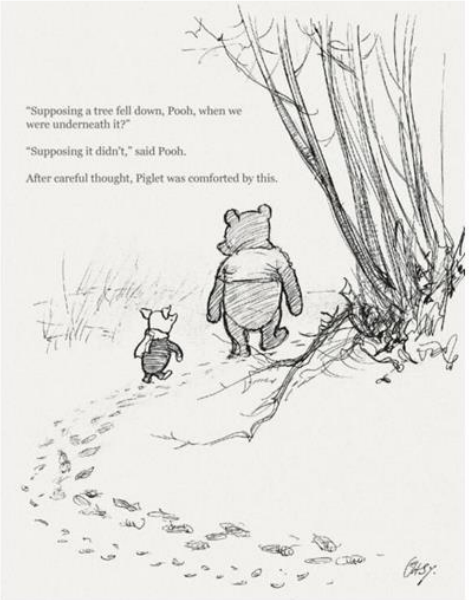
From 06.30.27 through 11.30.22. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the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

We are always braced for downside volatility and we note that the equity futures are suggesting the new trading week will begin on a sour note, with the China Spy Balloon drama the latest news to spook investors. However, we remember what Warren Buffett said during the depths of the Great Financial Crisis (GFC) back in 2008:

Over the long term, the stock market news will be good. In the 20th century, the United States endured two world wars and other traumatic and expensive military conflicts; the Depression; a dozen or so recessions and financial panics; oil shocks; a flu epidemic; and the resignation of a disgraced president. Yet the Dow rose from 66 to 11,497.

And we can say the same so far in the 21st century. Even with 9/11, the GFC and plenty of disconcerting events since that terrible GFC Bear Market ended on March 9, 2009, those who remember that time in the market trumps market timing have been handsomely rewarded as the Dow stands at nearly 34,000 today.

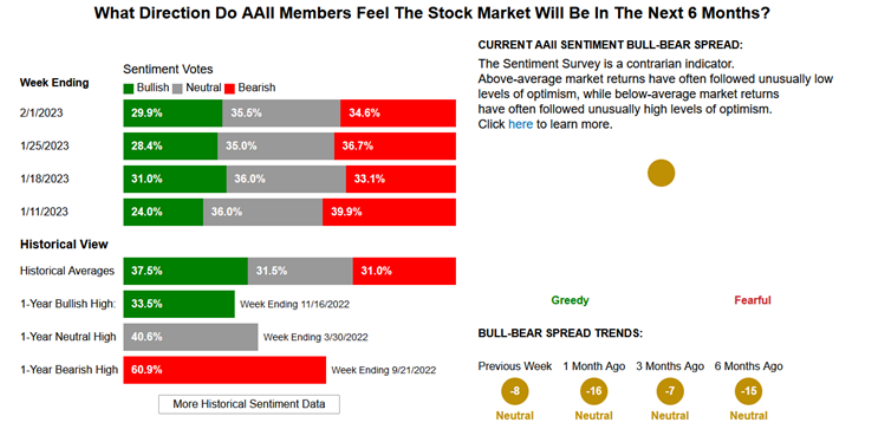


Event	Date	S&P End Value	3 Months Later	6 Months Later	12 Months Later	36 Months Later	60 Months Later	Event to Present
Flash Crash	5/6/2010	1,128.15	-1%	9%	19%	43%	84%	267%
Japan Tsunami	3/11/2011	1,304.28	-3%	-12%	5%	43%	55%	217%
S&P Downgrade	8/6/2011	1,199.38	4%	12%	16%	60%	82%	245%
Hurricane Sandy	10/22/2012	1,433.82	4%	9%	22%	43%	80%	188%
Fiscal Cliff	1/1/2013	1,426.19	10%	13%	30%	43%	87%	190%
Taper Tantrum	5/22/2013	1,655.35	0%	9%	14%	24%	65%	150%
Russia and Ukraine	2/20/2014	1,839.78	2%	8%	15%	28%	51%	125%
Ebola Scare	9/4/2014	1,997.65	4%	5%	-4%	24%	47%	107%
Charlie Hebdo	1/7/2015	2,025.90	2%	3%	-4%	35%	60%	104%
Greek Default	6/30/2015	2,063.11	-7%	0%	2%	32%	50%	100%
China Devalues Yuan	8/10/2015	2,104.18	-1%	-12%	3%	35%	60%	97%
Paris Bataclan	12/13/2015	2,012.37	0%	3%	13%	32%	82%	106%
U.S. Interest Rate Hike	12/16/2015	2,073.07	-2%	0%	9%	25%	79%	100%
China GDP Slowing	1/19/2016	1,881.33	12%	15%	20%	42%	102%	120%
Brexit Vote	6/23/2016	2,113.32	2%	7%	15%	40%	101%	96%
Trump Victory	11/8/2016	2,139.56	7%	12%	21%	45%	120%	93%
Trump Trade War	3/2/2018	2,691.25	2%	8%	4%	44%		54%
COVID-19 Pandemic	3/11/2020	2,741.38	10%	22%	44%			51%
Biden Victory	11/3/2020	3,369.16	14%	24%	38%			23%
Georgia Runoff	1/5/2021	3,726.86	9%	17%	26%			11%
Price Changes Only								
Does Not Include Dividends		**Averages:**	**3%**	**8%**	**15%**	**38%**	**75%**	**122%**

Source: Kovitz using data from Bloomberg. As of 2.3.23

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

Happily, for those of us with a contrarian bent, there is still plenty of fear on Main Street, given that the latest AAII Bull-Bear Sentiment Survey still shows more of the latter, when the historical norm is for the optimists to outweigh the pessimists by seven full 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 = 7.16										
BELOW	-54.0	7.1	926	0.25%	0.21%	1.14%	1.00%	3.28%	2.89%	6.45%	5.68%
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 1850 Data Points										
1	-54.0	-16.9	185	0.41%	0.34%	2.07%	1.84%	4.52%	3.99%	8.20%	6.99%
2	-16.8	-8.7	185	0.23%	0.20%	0.82%	0.67%	3.49%	3.12%	6.23%	5.43%
3	-8.6	-2.5	185	0.33%	0.30%	1.10%	0.99%	3.30%	2.88%	7.40%	6.67%
4	-2.5	2.6	185	0.19%	0.16%	1.03%	0.94%	2.44%	2.07%	5.40%	4.85%
5	2.7	7.1	185	0.06%	0.03%	0.69%	0.59%	2.67%	2.41%	4.99%	4.45%
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	185	0.12%	0.09%	0.39%	0.25%	2.36%	2.11%	5.11%	4.59%
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 02.02.23. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

The good folks in the AAII Sentiment Survey are still pessimistic, which is not a bad thing based on 36 years of equity returns data for this contrarian gauge.

True, quite a few names have posted sizable gains so far in 2023, but it is a market of stocks and not simply a stock market, so those looking to put money to work might consider shopping from the list of undervalued companies that are in the red thus far this year.

Market of Stocks: 2023 Advancers & Decliners

TPS Winners									TPS Losers								
Sector	Symbol	Company	02.03.23 Price	Target Price	YTD 2023 TR	2022 TR	52-Week High	52-Week Low	Sector	Symbol	Company	02.03.23 Price	Target Price	YTD 2023 TR	2022 TR	52-Week High	52-Week Low
Retailing	JWN	Nordstrom	$26.38	$31.12	63.4%	-26.2%	$29.59	$15.53	Pharma, Biotech	PFE	Pfizer	$44.06	$68.11	-13.2%	-10.4%	$56.32	$41.45
Media/Entertain	META	Meta Platforms	$186.53	$252.82	55.0%	-64.2%	$238.30	$88.09	Food, Beverage	ADM	Archer-Daniels	$82.28	$107.32	-11.4%	39.9%	$98.88	$70.02
Consumer Services	RCL	Royal Caribbean	$68.44	$72.66	38.5%	-35.7%	$90.55	$31.09	Materials	APD	Air Products	$285.02	$349.29	-7.5%	3.9%	$328.56	$216.24
Retailing	KSS	Kohl's	$34.76	$44.89	37.7%	-46.0%	$63.74	$23.38	Health Care Eq/Srv	CVS	CVS Health	$85.77	$136.61	-7.3%	-7.6%	$111.25	$84.82
Tech Hardware	STX	Seagate Tech	$70.89	$92.20	34.7%	-51.4%	$113.50	$47.47	Pharma, Biotech	MRK	Merck & Co	$102.94	$129.69	-7.2%	49.4%	$115.49	$72.88
Materials	ALB	Albemarle	$287.23	$394.34	32.4%	-6.6%	$334.55	$169.93	Health Care Eq/Srv	ELV	Elevance Health	$477.71	$626.45	-6.9%	11.8%	$549.52	$432.03
Diverse Financials	COF	Capital One Fin'l	$121.44	$166.19	31.3%	-34.6%	$160.54	$86.98	Pharma, Biotech	JNJ	Johnson & Johnson	$164.61	$206.86	-6.8%	6.0%	$186.69	$155.72
Semiconductors	KLIC	Kulicke & Soffa	$56.53	$69.72	27.7%	-25.8%	$62.16	$35.95	Pharma, Biotech	AMGN	Amgen	$245.17	$309.28	-6.7%	20.4%	$296.67	$214.39
Consumer Durables	MDC	MDC Holdings	$40.33	$55.96	27.6%	-40.1%	$45.93	$27.04	Capital Goods	GD	General Dynamics	$231.54	$285.00	-6.2%	21.7%	$256.86	$207.42
Media/Entertain	DIS	Walt Disney	$110.71	$149.12	27.4%	-43.9%	$157.50	$84.07	Capital Goods	LMT	Lockheed Martin	$459.08	$533.47	-5.6%	40.4%	$498.95	$373.67
Semiconductors	LRCX	Lam Research	$529.25	$594.19	25.9%	-40.7%	$615.99	$299.59	Tech Hardware	BHE	Benchmark Elect	$25.26	$38.06	-5.4%	1.2%	$30.00	$21.11
Semiconductors	MU	Micron Tech	$62.41	$85.77	24.9%	-45.9%	$96.50	$48.43	Capital Goods	DE	Deere & Co	$406.06	$530.33	-5.3%	26.6%	$448.40	$283.81
Retailing	FL	Foot Locker	$46.39	$51.92	24.0%	-9.0%	$47.22	$23.85	Pharma, Biotech	SNY	Sanofi	$46.02	$65.84	-5.0%	0.4%	$57.79	$36.91
Transportation	FDX	FedEx	$214.67	$332.20	23.9%	-31.7%	$248.76	$141.92	Capital Goods	GBX	Greenbrier Cos	$31.68	$50.27	-4.6%	-24.8%	$53.46	$23.80
Transportation	DPSGY	Deutsche Post AG	$46.09	$70.64	22.9%	-38.6%	$61.88	$28.66	Tech Hardware	JNPR	Juniper Networks	$30.73	$40.07	-3.8%	-8.1%	$38.14	$25.18
Semiconductors	QCOM	Qualcomm	$135.02	$193.17	22.8%	-38.6%	$184.00	$101.93	Comm/Pro Srvcs	WM	Waste Mgmt	$151.06	$185.19	-3.7%	-4.5%	$175.98	$138.58
Capital Goods	TKR	Timken	$86.77	$94.40	22.8%	3.9%	$87.36	$50.85	Insurance	MET	MetLife	$69.79	$92.75	-3.6%	19.2%	$77.36	$57.41
Materials	CE	Celanese	$125.45	$188.58	22.7%	-37.8%	$162.08	$86.71	Pharma, Biotech	MRNA	Moderna	$173.25	$246.36	-3.5%	-29.3%	$217.25	$115.03
Auto & Components	GM	General Motors	$41.13	$65.01	22.3%	-42.4%	$52.00	$30.33	Energy	EOG	EOG Resources	$124.62	$161.43	-3.2%	56.9%	$149.10	$89.96
Banks	OZK	Bank OZK	$48.26	$66.32	21.5%	-11.3%	$49.52	$34.79	Insurance	ALL	Allstate	$131.33	$154.14	-3.1%	18.3%	$144.46	$111.85
Consumer Durables	TPR	Tapestry	$46.11	$61.88	21.1%	-3.3%	$47.48	$26.39	Software	IBM	IBM	$136.94	$165.96	-2.8%	10.7%	$153.21	$115.55
Tech Hardware	JBL	Jabil Inc	$82.17	$96.45	20.5%	-2.6%	$82.69	$48.80	Energy	TTE	TotalEnergies SE	$60.60	$101.00	-2.4%	34.6%	$65.05	$43.84
Materials	IP	International Paper	$41.36	$58.07	19.4%	-23.1%	$50.23	$30.69	Capital Goods	MMM	3M	$117.49	$178.12	-2.0%	-29.6%	$164.26	$107.07
Banks	NYCB	NY Community Bk	$10.08	$14.60	19.2%	-24.6%	$11.88	$8.17	Pharma, Biotech	GILD	Gilead Sciences	$84.50	$97.20	-1.6%	23.6%	$89.74	$57.17

As of 2.3.23. Source: Kovitz using data from Bloomberg

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

Stock Updates

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

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

Shares of investor favorite **Apple** (AAPL – $154.50) rose on Friday after the company reported fiscal Q1 results. The iPhone maker earned $1.88 per share (vs. $1.94 est.) and had revenue of $117 billion (vs. $121 billion est.). iPhone segment revenue was $65.8 billion (vs. $68.3 billion est.; -8.2% y/y), overall Products segment revenue was $96.4 billion (vs $99.0 billion est.; -7.7% y/y), and Service revenue was $20.8 billion (vs. $20.5 billion est.; +6.4% y/y). China revenue fell 7.3% year-over-year to $23.9 billion. The company has $165.5 billion of cash and equivalents on its balance sheet.

CEO Time Cook said, “As a result of a challenging environment, our revenue was down 5% year-over-year. But I’m proud of the way we have navigated circumstances seen and unforeseen over the past several years, and I remain incredibly confident in our team and our mission and in the work we do every day. Let me discuss the three factors that impacted our revenue performance during the quarter. The first was foreign exchange headwinds, which had a nearly 800 basis point impact. The second factor, which we described in a November 6th update was COVID-19-related challenges, which significantly impacted the supply of iPhone 14 Pro and iPhone 14 Pro Max and lasted through most of December. The third factor was a challenging macroeconomic environment, as the world continues to face unprecedented circumstances from inflation, to war in Eastern Europe, to the enduring impacts of the pandemic, and we know that Apple is not immune to it.”

“Given the continued uncertainty around the world in the near term, we are not providing revenue guidance, but we are sharing some directional insights based on the assumption that the macroeconomic outlook and COVID-related impacts to our business do not worsen from what we are projecting today for the current quarter. In total, we expect our March quarter year-over-year revenue performance to be similar to the December quarter. This represents an acceleration in our underlying year-over-year business performance, as the December quarter benefited from an extra week,” added CFO Luca Maestri.

Apple maintained its $0.23 quarterly dividend, which translates to a yield around 0.6%. While headwinds continued to have an adverse impact and production-related challenges once again disrupted key product distribution, Apple managed to put together a respectable quarter. While the stock doesn’t have some of the price momentum it had in 2021, we think there’s plenty to like about the Cupertino-based computing giant. Shares trade for 25 times forward earnings (not cheap for a tech company, but not expensive either) and the mountain of cash leaves us wondering if they’ll use the whack in 2022 to make any strategic acquisitions of companies with previously high-flying valuations. Our Target Price for AAPL is now $174.

Shares of **Alphabet** (GOOG – $104.78) rallied 20% to start the year before a disappointing Q4 report pulled them down about 3% on Friday. The Communications Services company reported weaker-than-expected advertising revenue as the macroeconomic challenges took their toll on business spending. By segment, Advertising revenue was $59.0 billion (vs. $60.6 billion est.), YouTube Ads revenue was $8.0 billion (vs. $8.3 billion est.), Google Services revenue was $67.8 billion (vs. $68.9 billion est.) and Google Cloud revenue was $7.32 billion (vs. $7.3 billion est.).

CEO Sundar Pichai commented, “It’s clear that after a period of significant acceleration in digital spending during the pandemic, the macroeconomic climate has become more challenging. We continue to have an extraordinary business and provide immensely valuable services for people and our partners. For example, during the World Cup final on December 18, Google Search saw its highest query per second volume of all time. And beyond our advertising business, we have strong momentum in Cloud, YouTube subscriptions, and hardware. However, our revenues this quarter they impacted by pullbacks in advertiser spend and the impact of foreign exchange.”

Mr. Pichai continued, “We are all standing on the cusp of an era of amazing opportunities. We are going to be bold, responsible and focused as we move into it. A healthy disregard for the impossible has been core to our company culture from the very beginning. When I look around Google today, I see that same spirit and energy driving our efforts. Thanks to our employees, our partners and people everywhere who use our services. I’m excited for what’s next.”

CFO Ruth Porat offered some insight on the headcount reductions that have been making their way through the news cycle, “With respect to our recent announcement that we are reducing our workforce by approximately 12,000 roles, most of the impact will be seen in Q1. We will take a severance charge of $1.9 billion to $2.3 billion, which will be reported in corporate costs. We will continue hiring in priority areas with a particular focus on top engineering and technical talent as well as on the global footprint of our talent. Second, we have a longer-term effort underway to reengineer our cost base in three broad categories. First, using AI and automation to improve productivity across Alphabet for operational tasks as well as the efficiency of our technical infrastructure. Second, managing our spend with suppliers and vendors more effectively. And third, optimizing how and where we work.”

While Alphabet has recaptured investor affection this year, the stock tumbled almost 40% in 2022. Even with the softening advertising environment, we think shares of Alphabet should be highly attractive to Value investors. The company sits on a mountain of cash ($114 billion of cash versus $30 billion of debt), the valuation remains very reasonable by historical norms and the company has been retiring shares. The jobs market in the U.S. continues to be tight and we think businesses might use a recession as an excuse to get rid of excess capacity and/or underperforming segments, but we’ve seen little indication that a massive upheaval in advertising and searching is on the horizon. Our Target Price for GOOG remains $159.

Shares of **Meta Platforms** (META – $186.53), formerly known as Facebook, soared 23% last week after the social media titan posted Q4 results, announced a massive share buyback, disclosed organizational improvements and discussed plans to streamline the business.

META reported Q4 EPS of $1.76 on revenue of $32.2 billion. The former was well below expectations, but the latter beat analyst projections, while top line guidance for Q1 of as much as $28.5 billion was music to Wall Street’s ears, given that the number could potentially exceed Q1 sales in 2021, right before Apple changed its privacy rules, a move that drastically impacted Meta’s advertising sales. CEO Mark Zuckerberg stated, “2022 was a challenging year, but I think we ended it having made good progress on our main priorities and setting ourselves up to deliver better results this year as long as we keep pushing on efficiency. As I said last quarter that I thought our product trends look better than most of the commentary out there suggests and I think that’s even more the case now, we reached more than 3.7 billion people monthly across our family of apps. On Facebook, we now reached 2 billion daily actives and almost 3 billion monthly. The number of people daily using Facebook, Instagram and WhatsApp is the highest has ever been.”

In Q4, META bought back $6.9 billion worth of its common stock, which pushed the full-year repurchase to $27.9 billion. Even better, the company unveiled a new $40 billion repurchase authorization.

More importantly, perhaps, Mr. Zuckerberg declared, "Now, before getting into our product priorities, I wanted to discuss my management team for 2023, which is the year of efficiency. We closed last year with some difficult layoffs and restructuring some teams and when we did this, I said clearly that this was the beginning of our focus on efficiency and not the end. And since then, we've taken some additional steps like working with our infrastructure team on how to deliver our roadmap while spending less on CapEx. Next, we're working on flattening our org structure and removing some layers of middle management to make decisions faster as well as deploying AI tools to help our engineers to be more productive. As part of this, we're going to be more proactive about cutting projects that aren't performing or may no longer be as crucial but my main focus is on increasing the efficiency of how we execute our top priorities. So I think that there's going to be some more that we can do to improve our productivity, speed and cost structure, and by working on this over a sustained period, I think we'll both build a stronger technology company and become more profitable."

We have had long debates about the future of Facebook (the platform, not META). We think the acquisitions of WhatsApp and Instagram have worked out fabulously, while the flagship Facebook struggled to keep its place in the tech world. Zuckerberg's bet on the metaverse was ambitious and reasonable, but we felt (and feel) that too much capital is pouring into it. We suspect the collapse of some tech 'innovations' recently might have caused Mr. Zuckerberg to have a change of heart. No doubt, we gush about Alphabet's projects and it would be unfair to slam META for similar work, but it's the amount of capital that had us concerned.

The streamlined business and other improvements, we believe, will help the company to have a better balance between current profitability and the future portfolio. Now up 55% this year, following a horrific plunge in 2022, META shares trade for a still-inexpensive 16 times forward earnings and our Target Price has been hiked to $253.

Shares of **Benchmark Electronics** (BHE – $25.26) fell more than 7% last week as the electronics designer and manufacturer delivered a Q4 report that included an outlook that disappointed investors. For the three-month period, BHE said its revenue reached $751 million, versus expectations of $780 million. Adjusted EPS in Q4 was $0.600, compared to the forecast of $0.603.

"In the fourth quarter, although we saw some greater-than-expected softening in the Semi-Cap sector late in the quarter, we still managed to grow Semi-Cap well into the double-digits year-on-year. Coupled with the continued strength in EMS and the diversity of our model, we delivered quarterly earnings at the midpoint of our guidance range," said CEO Jeff Benck. "Despite these challenges, we never lost focus on our execution and ultimately met or exceeded each of these targets across every metric. However, we recognize this as a journey and while 2022's results represented a key way point, we have much room for further improvement… We've invested for sustainable growth while further demonstrating our resiliency to overcome unforeseen challenges. I just want to reiterate, despite our near-term Semi-Cap headwinds, we believe the long-term targets that were introduced at our Analyst Day in November are still achievable by 2025. With the anticipated return to Semi-Cap growth beyond '23, coupled with the growing frequency of manufacturing outsourcing discussions in key growth sectors and the larger trend toward near sourcing, the leading companies of today and tomorrow need partners like us more

than ever to help develop and ultimately build their increasingly complex and innovative products. We look forward to updating you on our progress in the quarters to come."

CFO Roop Lakkaraju added, "We expect revenue to range from $640 million to $680 million, which at the midpoint represents a 4% year-over-year growth. As we are no longer including supply chain premiums in our outlook, excluding these, we are guiding to a midpoint equal to 14% year-on-year growth on a comparable basis. We expect that our gross margin will be between 9.5% to 9.7% for Q1, sequentially lower due to reduced Semi-Cap revenue, higher payroll taxes and merit increases throughout the enterprise. Our first quarter gross margins are holding up better than our forecasted revenue levels might indicate due to favorable EMS mix. Continuing through 2023, we do have a number of new program wins that are expected to ramp, which will provide some temporary headwinds to gross margins. As we proceed through the second half of 2023, we expect sequential improvement in margins."

Mr. Lakkaraju continued, "Our non-GAAP diluted earnings per share is expected to be in the range of $0.39 to $0.45 or a midpoint of $0.42. Other net expenses are expected to be $6 million due primarily to interest expense. Our interest expense is growing sequentially and year-over-year as a function of the additional borrowings to support our growth as well as the higher interest rate environment. We expect to reduce our borrowings and our interest expense throughout 2023 as we generate free cash flow. We expect that for Q1, our non-GAAP effective tax rate will be between 18% and 20%, with a weighted average share count of 35.5 million in the period."

Certainly, BHE didn't have a strong quarter on the top line and the outlook was weaker than we might have hoped (especially given that many peers are improving their views), but BHE has steadily increased its earnings and revenue over the course of our ownership, and we do not think this crime was worthy of the severe punishment. Benchmark continues to invest in growth projects, while paying out a 2.6% yield to shareholders and maintaining a solid balance sheet. Our Target Price for BHE remains $38.

Kulicke & Soffa (KLIC – $56.53), a manufacturer and designer of semiconductor capital equipment, reported Q1 2023 earnings results that blew away analyst expectations. KLIC earned $0.37 per share (vs. $0.26 est.) and had revenue of $176.2 million (vs. $177.2 million). The company attributed the beat to growth in the automotive business, margin optimization from technical improvements and a gain in market share in the wire bonding business. In the upcoming quarter, Kulicke expects to earn between $0.225 and $0.275 per share with revenue between $150 million and $190 million.

Looking ahead, CEO Fusen Chen said, "Over the past few years, we have consistently executed and have fundamentally expanded our long-term opportunity. There is no shortage of new opportunity and our global team have been very focused on supporting our customers by delivering the solution and driving acceptance. While consumer-driven softness is anticipated to create an ongoing headwind for our high volume product line over the near term we remain very optimistic and continue to anticipate a seasonal recover in second half followed by broader capacity and the technological growth in fiscal 2024."

CFO Lester Wong added, "We remain very focused on controlling and limiting any non-critical activities and have recently initiated a hiring freeze and placed limitations on non-essential travel and non-critical project expenses. Non-GAAP net income expected to be approximately $14 million with non-GAAP earnings per share of approximately $0.25. It remains an exciting time at K&S as we continue to execute and increase our participation across several long-term fundamental trends within the semiconductor, advanced display, electronics assembly and automotive markets. As we look into 2024, we remain optimistic on broader macro demand trends and remain extremely focused to support the technology needs of our customers. This concludes our prepared comments. Operator, please open the call for questions."

KLIC spent $45.4 million on share repurchases in the December quarter, reducing the share count by roughly 1 million shares. Management raised the quarterly dividend last quarter from $0.17 to $0.19 (1.3% yield), which we expect to be the rate for 2023. Mr. Chen says he expects to continue to buy back shares opportunistically.

Kulicke shares have rallied nearly 30% this year, following a tough 2022. The valuation has ramped up recently, though we expect that's partly in anticipation of an improving operating environment. The forward P/E ratio is 27, which drops to 17 times by 2024. The company has just $47 million of long-term debt (lease obligations) and $796 million of cash on its balance sheet, versus a market capitalization of $3.2 billion, which should give it ample ability to navigate a choppy operating environment. Our Target Price for KLIC now stands at $70.

Despite reporting fiscal Q1 bottom-line results that were better than expectations, semiconductor designer **Qualcomm** (QCOM – $135.02) saw its shares dip on Friday as the company's forecast for weak smartphone demand disappointed the analyst community. For the quarter, QCOM posted adjusted EPS of $2.37 on revenue of $9.46 billion, versus the respective consensus estimates of $2.35 and $9.61 billion.

CEO Cristiano Amon commented, "In fiscal Q1, despite the ongoing macroeconomic headwinds and short-term challenges impacting the semiconductor industry, we delivered revenues of $9.5 billion and non-GAAP earnings of $2.37 per share, including year-over-year growth in QCT Automotive and IoT. QCT revenues of $7.9 billion were down 11% year-over-year, as a result of weaker handset demand and inventory drawdown."

He added, "In the current quarter, combined Auto and IoT revenues represent 27% of total QCT revenues, reflecting continued progress on revenue diversification…The overall long-term growth opportunity for Qualcomm remains unchanged as demand for our technology extends to virtually every device at the edge. Our track record of innovation provides a unique perspective and capability to be at the forefront of the digital transformation across new and diverse end markets."

For fiscal Q1, Qualcomm expects revenue between $8.7 billion and $9.5 billion (est. $9.58 billion) and EPS between $2.05 and $2.25 (est. $2.29). Excess inventory and a slowdown in sales for smartphones were noted in many analyst notes as concerns, but the company's longer-term theses tended to remain intact. Shares have gained 23% this year after a very difficult 2022. The valuation remains reasonable, though, and perhaps could be considered cheap. Shares trade for

13 times forward earnings with a 2.2% yield. The balance sheet sports $8 billion of cash (though there is $17 billion of debt), giving QCOM plenty of room to make it through any headwinds that linger. Our Target Price for QCOM now resides at $193.

Electronic components maker **Corning** (GLW – $35.74) earned an adjusted $0.47 per share in fiscal Q4 2022 (vs. $0.44 est.). GLW had revenue of $3.63 billion, versus the $3.54 billion estimate. It was a rocky ride for GLW in 2022, with shares struggling to gain ground amid a highly uncertain operating environment. The 12% gain this year is welcomed, but GLW remains a long way from what we think is its fair valuation.

CEO Wendell Weeks commented, "I'm pleased with the sales growth we continue to deliver, despite confronting what is essentially recession level demand in markets that constitute about half of our sales. Cars, televisions, smartphones, laptops and tablets are all well below what we estimate as the normal range. Now we've offset this weak consumer demand with the strength of our positions in the growing Optical Communications and Solar markets as well as ongoing outperformance by our businesses versus our end markets. That said, profitability and free cash flow are not where we need them to be."

Mr. Weeks concluded, "Since the start of the pandemic, we protected our people and, as evidenced in our sales growth, delivered for our customers. We've now completed significant additional actions to improve our profitability and cash generation. The unfolding situation in China certainly impacts our sales in the short-term. But despite this, we expect to see the benefits of these recent pricing and productivity actions take hold in the first quarter. Overall, we will continue to focus on operating each of our businesses well and adjusting to meet the needs of the moment, while simultaneously advancing growth initiatives and capabilities that will drive success as the global economy stabilizes. Our focused and cohesive portfolio provides strategic resilience that is evident in our results even in the current environment. And we remain confident in our ability to deliver durable, multi-year growth with improved margins and cash generation."

Apple remains a key customer of Corning, and GLW's ceramic shield boosted sales in an otherwise soft environment. In addition to the Apple business, another strong area for Corning was in gasoline particulate filters. Corning has carved out several niche markets under Mr. Weeks' leadership, and we believe the company will continue to build on its successes. For Q1, Corning expects to earn between $0.35 and $0.42 per share with revenue between $3.2 billion an $3.4 billion. While those figures are down year-over-year (2022 was a revenue and earnings record), analysts project GLW will rebound, earning $2.07 in 2023 and just under $3 by 2025. Shares yield 3.0% and our Target Price for GLW is $47.

Gen Digital (GEN – $21.30) earned an adjusted $0.45 per share (vs. $0.43 est.) in fiscal Q3 ended December, little changed sequentially or versus the prior year, on $936 million of revenue. Fiscal '23 Q4 revenue is expected to be in the range of $935 million to $945 million and EPS between $0.44 and $0.46, with the digital security firm targeting annualized EPS of approximately $3 exiting fiscal year 2025. Gen added Czech multinational cybersecurity software firm Avast last September to its lineup with includes Norton and LifeLock.

Gen CFO Natalie Derse said, "We continue to improve the structural profitability of our business model…Gen's Q3 results reflect another quarter of consistent and focused execution and driving growth in a challenging environment."

CEO Vincent Pilette added, "In this soft environment, we continue to strategically deploy our marketing spend to achieve the highest returns and efficiency, prioritizing higher ARPU and customer retention, but not taking our eyes off the ball on the top of the funnel. Growth was supported by strong cross-sell, especially with double-digit growth in our privacy offerings, and slight sequential improvement in Avast retention, while our direct cyber-safety customers count declined by slightly over 200,000 quarter-over-quarter."

The greater than 6% drop for GEN shares last week as the market digested the guidance was puzzling as the company remains very profitable and was not expensive to begin with. We realize nearly all things tech have faced a winter of sorts in the past 12 months, but we continue to view digital/cybersecurity as a secular growth market. Shares trade for a P/E of 12 with a 2.4% dividend yield. Our Target Price for GEN has been bumped up to $36.

Plagued by prolonged COVID lockdowns and an ever-expanding recall over the past couple of years, shares of **Koninklijke Philips** (PHG – $17.71) extended the rebound since Halloween last week on the release of Q4 financial results. The health-equipment concern grew sales 10% year-over-year, with the $0.41 of profit per share well-above the consensus estimate, albeit 28% lower compared to the prior-year quarter. Philips cited strong sales growth of ultrasound, imaging & monitoring equipment that was offset by lower demand for COVID-19 products, and said that 90% of replacement units owed from the recall of sleep care equipment had been produced. The company also announced 6,000 additional job cuts to the 4,000 already in play, with 3,000 expected to be implemented in 2023.

Given the recall, quality control and supply chain issues at hand, the firm's Quality Chief Francis Kim stated:

Patient safety and qualities are our highest priority. Today, I'd like to explain how this translates into changes we have made and will be implementing to our personnel, structure, and approach. Firstly, we're enhancing patient safety and quality by continuing to drive a cultural shift, ensuring a greater level of accountability within the business. We are elevating leadership to the executive committee and holding all business leaders directly accountable for patient safety and quality within the businesses they run.

This involves continuous and deep engagement with quality, regulatory, and clinical functions. Moreover, patient safety and quality is now a KPI for all employees structurally embedded into the performance appraisal process. We continue to strengthen our competencies to ensure we have the best team in the industry. This includes recruiting more quality regulatory clinical and medical device experts across the enterprise. We are making progress. However, we fully acknowledge there is still much more work to do, which is why we view our efforts as a multi-year journey and have expanded our patient safety and quality program.

Our next major area of focus is to ensure that all product design starts with a patient safety and quality in mind to avoid further issues. Technology has been one of our core strength at Philips. Going forward, as Shez has mentioned, we need to make sure that our great product innovation starts with a patient centric lens. Over 70% of the issues we faced in the past few years have been design related. Therefore, our primary task has been to ensure the design processes extremely robust. This means linking product development from inception with a patient view and the highest product performance requirements embedded throughout.

Our thesis for the stock from the outset was that the eventual loosening of global supply chains would lead to a recovery in revenue and earnings. This is still our base case even as the range of potential future outcomes remains wide. The plethora of growing struggles had tempered our appetite to average down at the extraordinarily low levels experienced not long ago for the stock. And while it is possible PHG could be heading down a much more amenable path, it is still early days. So, we remain comfortable with our lighter than usual weighting for the time being. PHG trades for a forward P/E of 16 and the net dividend yield is 4.4%. Our Target Price has been bumped up to $28.

Corrugated packaging solutions provider **Westrock** (WRK – $34.89) posted fiscal Q1 adjusted EPS $0.55, a year-over-year decline and shy of consensus ($0.63). Sales also came in light of estimates at $4.92 billion (vs. $5.11 billion) as paper segment revenue declined year-over-year, sending consolidated EBITDA 4% lower versus the prior year.

Shares sank over 10% on Wednesday as investors reacted to management pulling guidance for the year. CFO Alex Pease said, "WestRock's diverse portfolio of sustainable fiber-based packaging and complementary machinery uniquely position us to serve our customers. We are focused on serving our customers and growing our business through cross-selling, packaging innovations and plastics replacement solutions."

He continued, "At the same time, we see significant opportunity to reduce costs by the following actions; one, leveraging our scale to capture cost savings and procurement; two, optimizing our logistics and planning; three, driving productivity in our mills and converting network; and fourth, streamlining our back-office operations. That said, we're not immune from macroeconomic conditions, which have created uncertainty in the near term. As such, we're removing our full year guidance."

We view the reaction as short-sighted even as an economic slowdown in many parts of the world might be a near-term wet blanket on aggregate demand. We continue to think that WRK produces important products that aren't easily replaced, and that the firm will be a beneficiary of long-term e-commerce tailwinds (via shipping boxes). After slashing its dividend during the early part of the pandemic, a rebound in sales has allowed WRK to resume more generous payments, including a recent 11% hike, leaving the current yield at 3.2%. The stock is also inexpensive, trading for a forward P/E ratio of 11.4, with EPS expected to hit a trough in 2023. Our Target Price for WRK is now $59.

Shares of **General Motors** (GM – $41.13) continued a strong 2023 rise last week, jumping more than 8% (the automaker is now up more than 22% on the year). This follows a tough year for the

stock, which fell more than 40% in 2022. The price increase last week was supported by better-than-expected Q4 financial results. GM reported revenue of $43.1 billion, 6.4% more than the consensus analyst forecast. Adjusted EPS for the quarter came in at $2.12, an impressive 27% better than the average estimate of covering Wall Street analysts.

The excellent numbers were driven largely by North America, followed by GM's International segment. The beat in North America was powered by strong volume and robust pricing, partially offset by mix normalization and higher costs. Management called out a total $5.5 billion raw material and logistics headwind for 2022, which seemingly implies that these pressures continued well into Q4. The strength in International was driven by China equity income, which is benefitting from the reopening of the economy. GM Financial was below expectations and down year-over-year, due to lower lease gains and higher funding costs.

CEO Mary Barra commented, "We expect that our momentum will help us deliver strong results once again in 2023. In fact, we have all the essential ingredients to deliver EBIT-adjusted in a range of $10.5 billion to $12.5 billion thanks to our strong operating performance (equating to $6 to $7 of adjusted EPS)."

She continued, "2023 will also be a breakout year for the Ultium Platform. By leveraging U.S.-made battery cells produced by our Ultium Cells joint venture and the scalability and flexibility of the Ultium Platform, we are accelerating production of the Cadillac LYRIQ, GMC HUMMER EV and BrightDrop Zevo 600, and we will launch exciting vehicles like the Chevrolet Silverado EV, Blazer EV and Equinox EV. This keeps us on track to produce 400,000 EVs in North America from 2022 through the first half of next year."

She concluded, "Our EVs are transformational in so many ways. We're earning new customers. Our investments are creating new jobs. We're moving closer to a world with zero crashes, zero emissions and zero congestion, and we believe our R&D, supply chain, manufacturing scale and distribution network will unlock the profitability of EVs. Executing an EV and AV strategy like ours takes experience, skill and teamwork. We're succeeding because of our team, great vehicles, industry-leading customer loyalty and the relationships we have with dealers, suppliers and labor partners."

We continue to find the company's move away from sedans and towards trucks and SUVs as an important catalyst that helps supply huge amounts of cash flow needed to execute its "Transformation Roadmap," which includes launching more than 30 EVs in the very near term. The investment in its future (EVs, Autonomous, etc.) is well funded, but despite the much-improved GM today and a bright long-term outlook, shares change hands at just 6.9 times NTM earnings projections. Our Target Price for GM now stands at $65.

Caterpillar (CAT – $247.76) reported $3.86 of earnings per share in Q4. Results for the construction equipment titan missed the average analyst estimate for the first time since 2020, even as the figure was 43% higher than the comparable quarter a year ago. Revenue grew 20% year-over-year to $16.6 billion on strong machinery sales as dealer inventories increased $700 million compared to the end of Q3.

CEO Jim Umpleby said, “Despite the strong sales in the fourth quarter, backlog grew by $400 million in the quarter to end the year at $30.4 billion, a 32% year-over-year increase. As I’ve mentioned, we did see some improvement in certain areas of the supply chain in the fourth quarter, however, pockets of challenge continue, particularly with some suppliers related to energy and transportation and resource industries.”

He added, “Similar to previous quarters, our sales would have been higher, if not for these supply chain issues. Our global team delivered one of the best years in our nearly 100 year history, including record full year adjusted profit per share. Despite the supply chain challenges, our team achieved double-digit top-line growth and generated strong ME&T free cash flow. We remain committed to serving our customers, executing our strategy and investing for long-term profitable growth.”

We continue to think CAT’s dominance in the U.S is intact, and despite hurdles (COVID shutdowns and property development woes) in China, runways for growth still exist in emerging economies like the Middle Kingdom, India, Africa and the Middle East. Moreover, an increase in U.S. infrastructure spending should extend elevated demand into next year and beyond, with the Street projecting EPS topping $18.50 by 2025.

A shift toward leaner operations and digital solutions continues to be evident in operational results. CAT was a strong outperformer in 2022, returning over 18%, versus a loss of comparable magnitude for the S&P 500. Yet, shares continue to look attractive to us with a forward P/E ratio less than that of the S&P. One of our core Industrial holdings, the dividend yield is 1.9% and our Target Price for CAT now resides at $285.

Shares of **MetLife** (MET – $69.79) fell more than 3% last week after the insurer reported Q4 financial results that fell short of consensus analyst estimates. Revenue of $16.3 billion in the quarter came in $1 billion under forecasts, and adjusted EPS of $1.55 trailed the $1.64 that was expected.

Q4 results were impacted by lower variable investment income, which was partially offset by favorable underwriting margins, especially in the U.S. group benefits business. The company posted variable investment income of $24 million compared with $1.3 billion in the fourth quarter of the previous year, as the weakness in private equity valuations dramatically impacted the tally. On the brighter side, management said it realized robust growth in both its Japanese and Mexican markets (with a year-over-year sales improvement of 26.5% and 35%, respectively). Management also said it believed the company could deliver a return on equity of 13% to 15% in 2023.

CEO Michael Khalaf commented, “As I look back on 2022, I am pleased with the relevance of our Next Horizon strategy and how it positioned us to absorb the challenges presented in the year and to succeed going forward. 2022 was a year still affected by COVID, and we incurred an impact of more than $650 million pretax. For the year, we saw pretax variable investment income come in 19% lower than our outlook expectation on lower returns in our private equity portfolio. And from a macroeconomic perspective, we felt pressure from rising inflation, a falling equity market and the stronger dollar. Yet despite these hurdles, MetLife performed. Our

strategy proved its resilience and our consistent execution, driven by discipline and determination paid off in 2022. We delivered an adjusted return on equity of 12.3% for the year, meeting our target for this important metric."

He continued, "We pushed ourselves, driven by our efficiency mindset and succeeded in posting a full-year direct expense ratio of 12.2%. Our strong 2022 free cash flow generation enabled us to hit our two-year free cash flow ratio target of 65% to 75%. This fueled the return of $4.9 billion of cash to our shareholders. And finally, we ended the year with $5.4 billion of cash and liquid assets at our holding companies, arming us with ample financial flexibility. With our great set of market-leading businesses, good growth prospects around the world and the strength of our balance sheet and our free cash flow generation, I believe MetLife is very well positioned for the future."

While Metlife shares have performed solidly over the last few years, we still believe there is attractive upside available, as we don't think that investors have fully grasped MET's improved global business mix following the Brighthouse spin-off. We also expect MET shares to benefit from management's focus on cost savings and capital deployment. Shares trade for less than 9 times NTM adjusted EPS expectations and offer a respectable 2.9% dividend yield. Our Target Price has been adjusted to $93.

Shares of **Air Products** (APD – $285.02) sank about 10% last week with the release of fiscal Q1 financial results that came in on the lower end of management guidance. The industrial gas company earned an adjusted $2.64 per share in the quarter (vs. the $2.71 est.). Modest relief of energy costs was to the benefit of EBITDA margin even as currency movements detracted from sales in foreign markets.

CEO Seifi Ghasemi updated investors on the firm's strategy, "As I have mentioned before, there are two pillars for growth strategy at Air Products and sustainability is the foundation for both of them. Through our core industrial gas business, we supply customers in dozens of industries with critical products and services at lower emissions and increased efficiency and productivity. Through our blue and green hydrogen (inaudible) the future, we would commit more than $15 billion by 2027 to deliver clean hydrogen at a scale, helping to drive the energy transition and moving humanity forward. These two pillars, which support each other for success, put us in the heart of solving the world's needs for sustainable energy and environmental solution. I am proud to say that the people of Air Products have continued to drive these results in the near-term and make excellent progress in executing our growth projects as we move forward."

With regard to returns of capital to shareholders, Mr. Ghasemi added, "We are committed to reporting our shareholders, while pursuing our long-term growth strategy. I am pleased to say that we have again raised our quarterly dividend, this time by 8% to $1.75 per share per quarter or $7 a share on an annual basis, extending our record of more than 40 consecutive years of dividend increase. We expect to pay out more than $1.5 billion to our shareholders in 2023, reflecting our commitment to return cash to our shareholders."

Management forecasts $11.20 to $11.50 of earnings per share from continuing operations in the current year.

Industrial gases are often an indispensable input, yet they account for a small fraction of overall costs for those who use them. This leads customers to pay up for reliability and to pursue long-term contracts to assure uninterrupted and timely supply. This combination of factors also contributes to onsite investments with customers and provides the company with stable cash flows. Despite the slowing global economy, analysts expect per-share earnings to grow handsomely over the next five years, with the worldwide energy transition and exposure to increasing demand for alternative fuels providing tailwinds. APD yields 2.5%. Our Target Price has been trimmed to $349.

Gilead Sciences (GILD – $84.50) turned in profits of $1.67 per share on $7.4 billion of revenue in Q4, with both figures beating their respective analyst estimate. Sales of Veklury ($1 billion), which remains the only antiviral approved for hospitalized COVID-19 patients in the U.S., contributed, despite a big drop from the year-ago period, as revenue grew 2% year-over year, while 85% and 65% respective growth from cancer drugs Yescarta and Trodelvy also cheered investors.

Gilead also received FDA approval for Trodelvy for an additional indication of breast cancer, which has been recommended as a Category 1, preferred treatment for metastatic HR+/HER2- breast cancer by the National Comprehensive Cancer Network.

COO Johanna Mercier added, "We're pleased to see the building momentum of CAR-T cell therapy as a treatment class with curative potential and Yescarta and Tecartus as the leading cell therapies of choice globally. More patients are getting access due to Kite's industry-leading reliable manufacturing capabilities. And the team's expanding footprint of authorized treatment centers around the world."

Management expects Gilead to earn $6.63 per share in 2023 on $25.38 billion of estimated product sales, of which Veklury is projected to represent $1.4 billion.

We are pleased with the strides Gilead is making with its oncology portfolio, with strong performers in Yescarta and Trodelvy (from the acquisitions of Kite Pharma in 2017 and Immunomedics in 2020, respectively) that should each top $1 billion in sales this year. Robust cash-flow generation provides additional spending for R&D and/or additional bolt-on acquisitions. Shares outperformed the Healthcare sector in 2022, rallying 18% on a price basis. We continue to appreciate the stock for its large dividend yield (the payout was just boosted) that is still over 4.5%, while the valuation is not expensive at 12.5 times NTM EPS despite the latest run. Our Target Price for GILD has been raised to $97.