Market Commentary Monday, February 20, 2023

February 20, 2023

EXECUTIVE SUMMARY

Interest Rates – Stocks Historically Indifferent to Rising/Falling Rates
Volatility – Ups and Downs Aplenty, but Long-Term Trend is Higher
Sentiment – AAII More Pessimistic than Usual
Econ Numbers – Mixed Picture; More Good than Bad
Inflation – CPI & PPI Higher than Expected; Fed Likely to Remain Hawkish
Fed Tightening & High Inflation – Historical Equity Return Perspective
Valuations – Inexpensive Metrics for our Portfolios
Corporate Profits – Solid Q4 EPS and Decent Outlook for 2023
Stock News – Updates on NSC, REG, HAS, CSCO, ALB, NTR, COHU, DLR, ALIZY & DE

Market Review

Saturday's edition of *The New York Times* told us, "Stocks Drop On Worries About Rates," which we found interesting in that interest rates fell on Friday, with the yield on the 10-Year U.S. Treasury now a few basis points below where it began the year.

The yield on the 10-Year U.S. Treasury is today about where it was at the start of 2023.

Of course, as we discuss in our latest Special Report, https://theprudentspeculator.com/special-reports/special-report-consider-cheering-higher-rates/, the historical evidence shows that equities have performed well, on average, whether interest rates are rising or falling,…

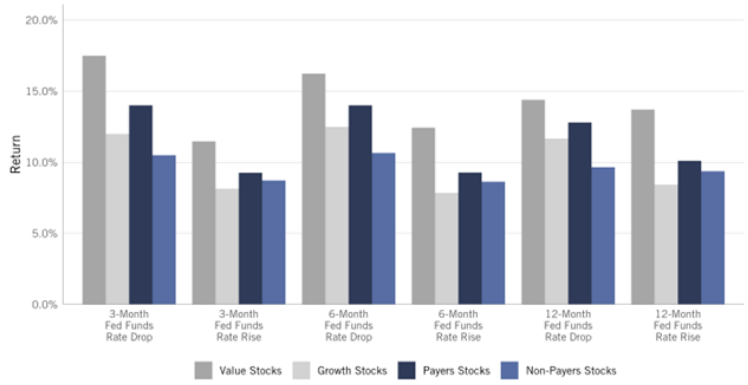
Value has Risen, Even as Rates Rise and Fall

Value Stocks Outperform Irrespective of the Interest Rate Environment				
Interest Rate Environment	Number of Months	Value Stocks Annualized Excess Return	Growth Stocks Annualized Excess Return	Value Advantage
Rising	310	9.31%	3.64%	5.68%
Falling	327	11.98%	8.84%	3.13%

From 12.31.1969 through 12.31.2022. Index performance is presented as excess total return (index returns less the risk-free rate). Rising rate environments are defined as periods where the Federal Funds Effective Rate rose at least 1% over one year or more. Falling rate environments are defined as periods where the Federal Funds Effective Rate fell at least 1% over one year or more. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French, Morningstar and Bloomberg Finance L.P.

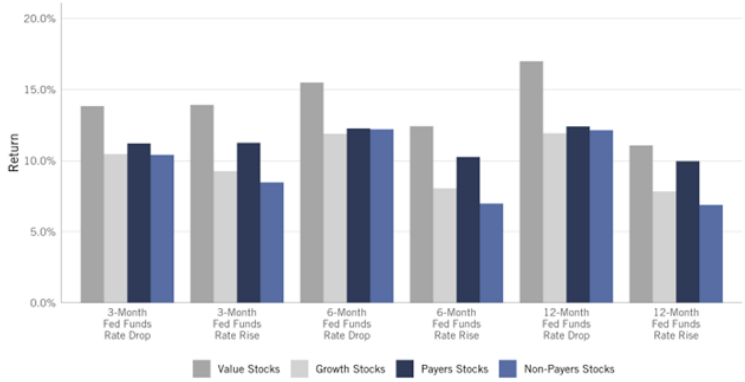
Value has been the place to be whether the Fed is dovish or hawkish, but the advantage is even greater when the U.S. central bank is raising interest rates.

…no matter how the data are sliced and diced.



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.

The *NY Times* further explained, "Stocks have oscillated between gains and losses as new economic data have clouded the outlook for investors, marking a notable shift in the market after stocks jumped more than 6 percent in January."

With all due respect to the financial journalism profession, the outlook for investors is always uncertain. About the only thing that is clear is that the equity markets will always endure substantial volatility over time as the significant number of 10% rallies and corrections since the launch of *The Prudent Speculator* 46 years ago will attest.

S&P 500 Moves (on a Closing Basis) of 10% Without a Comparable Move in the Other Direction

9/12/1978	11/14/1978	-13.55%	BEAR	1/4/2002	7/23/2002	-31.97%	BEAR	3/6/1978	9/12/1978	23.12%	BULL	9/21/2001	1/4/2002	21.40%	BULL
10/5/1979	11/7/1979	-10.25%	BEAR	8/22/2002	10/9/2002	-19.31%	BEAR	11/14/1978	10/5/1979	20.30%	BULL	7/23/2002	8/22/2002	20.68%	BULL
2/13/1980	3/27/1980	-17.07%	BEAR	11/27/2002	3/11/2003	-14.71%	BEAR	11/7/1979	2/13/1980	18.59%	BULL	10/9/2002	11/27/2002	20.87%	BULL
11/28/1980	9/25/1981	-19.75%	BEAR	10/9/2007	3/10/2008	-18.64%	BEAR	3/27/1980	11/28/1980	43.07%	BULL	3/11/2003	10/9/2007	95.47%	BULL
11/30/1981	3/8/1982	-15.05%	BEAR	5/19/2008	10/10/2008	-36.97%	BEAR	9/25/1981	11/30/1981	12.04%	BULL	3/10/2008	5/19/2008	12.04%	BULL
5/7/1982	8/12/1982	-14.27%	BEAR	10/13/2008	10/27/2008	-15.39%	BEAR	3/8/1982	5/7/1982	11.30%	BULL	10/10/2008	10/13/2008	11.58%	BULL
10/10/1983	7/24/1984	-14.38%	BEAR	11/4/2008	11/20/2008	-25.19%	BEAR	8/12/1982	10/10/1983	68.57%	BULL	10/27/2008	11/4/2008	18.47%	BULL
8/25/1987	10/19/1987	-33.24%	BEAR	1/6/2009	3/9/2009	-27.62%	BEAR	7/24/1984	8/25/1987	127.82%	BULL	11/20/2008	1/6/2009	24.22%	BULL
10/21/1987	10/26/1987	-11.89%	BEAR	4/23/2010	7/2/2010	-15.99%	BEAR	10/19/1987	10/21/1987	14.92%	BULL	3/9/2009	4/23/2010	79.93%	BULL
11/2/1987	12/4/1987	-12.45%	BEAR	4/29/2011	10/3/2011	-19.39%	BEAR	10/26/1987	11/2/1987	12.33%	BULL	7/2/2010	4/29/2011	33.35%	BULL
10/9/1989	1/30/1990	-10.23%	BEAR	5/21/2015	8/25/2015	-12.35%	BEAR	12/4/1987	10/9/1989	60.68%	BULL	10/3/2011	5/21/2015	93.85%	BULL
7/16/1990	10/11/1990	-19.92%	BEAR	11/3/2015	2/11/2016	-13.31%	BEAR	1/30/1990	7/16/1990	14.23%	BULL	8/25/2015	11/3/2015	12.97%	BULL
10/7/1997	10/27/1997	-10.80%	BEAR	1/26/2018	2/8/2018	-10.16%	BEAR	10/11/1990	10/7/1997	232.74%	BULL	2/11/2016	1/26/2018	57.07%	BULL
7/17/1998	8/31/1998	-19.34%	BEAR	9/20/2018	12/24/2018	-19.78%	BEAR	10/27/1997	7/17/1998	35.32%	BULL	2/8/2018	9/20/2018	13.55%	BULL
9/23/1998	10/8/1998	-10.00%	BEAR	2/19/2020	3/23/2020	-33.92%	BEAR	8/31/1998	9/23/1998	11.37%	BULL	12/24/2018	2/19/2020	44.02%	BULL
7/16/1999	10/15/1999	-12.08%	BEAR	1/3/2022	3/8/2022	-13.05%	BEAR	10/8/1998	7/16/1999	47.88%	BULL	3/23/2020	1/3/2022	114.38%	BULL
3/24/2000	4/14/2000	-11.19%	BEAR	3/29/2022	6/16/2022	-20.83%	BEAR	10/15/1999	3/24/2000	22.45%	BULL	3/8/2022	3/29/2022	11.05%	BULL
9/1/2000	4/4/2001	-27.45%	BEAR	8/16/2022	10/12/2022	-16.91%	BEAR	4/14/2000	9/1/2000	12.10%	BULL	6/16/2022	8/16/2022	17.41%	BULL
5/21/2001	9/21/2001	-26.43%	BEAR					4/4/2001	5/21/2001	19.00%	BULL	10/12/2022	2/2/2023	16.85%	BULL
				Average Drop		-18.24%						Average Gain		40.18%	

SOURCE: Kovitz using data from Bloomberg

Ups and downs are not unusual for equities, as there have been 38 advances and 37 declines of 10% or greater since the launch of The Prudent Speculator 46 years ago.

Happily, the magnitude of the gains during the times in the green have dwarfed that of the losing periods, so much so that those who stick with stocks through thick and thin have been handsomely rewarded in the fullness of time with annualized returns ranging from 8.8% to 13.2%.

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

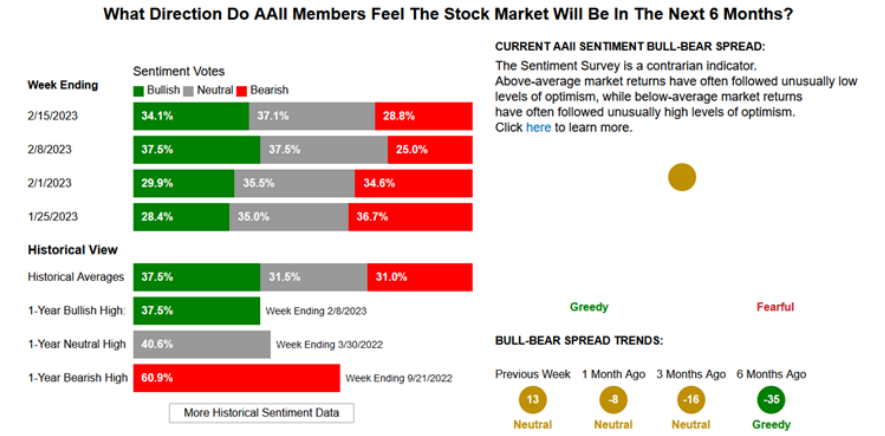
LONG-TERM RETURNS

	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.

Easier said than done, we know, as far too many folks end up zigging when they should have zagged, which is why sentiment gauges like the one compiled each week since 1987 from the American Association of Individual Investors (AAII) have proven to be contra-indicators. Indeed, the admonition to be greedy when others are fearful is based on sound empirical evidence and today we continue to see less optimism and more pessimism than usual from the folks on Main Street.



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 = 7.14										
BELOW	-54.0	7.1	927	0.24%	0.20%	1.15%	1.02%	3.30%	2.90%	6.43%	5.67%
ABOVE	7.2	62.9	926	0.17%	0.15%	0.54%	0.45%	2.00%	1.75%	4.64%	4.15%
	Ten Groupings of 1852 Data Points										
1	-54.0	-16.8	186	0.42%	0.35%	2.10%	1.86%	4.59%	4.06%	8.27%	7.07%
2	-16.8	-8.6	185	0.24%	0.20%	0.84%	0.70%	3.43%	3.06%	6.20%	5.40%
3	-8.6	-2.5	185	0.31%	0.28%	1.12%	1.02%	3.30%	2.88%	7.35%	6.62%
4	-2.3	2.7	185	0.18%	0.14%	1.04%	0.94%	2.52%	2.14%	5.38%	4.83%
5	2.7	7.1	185	0.06%	0.03%	0.67%	0.57%	2.65%	2.38%	4.95%	4.42%
6	7.1	11.6	186	0.21%	0.19%	0.70%	0.62%	1.99%	1.75%	4.78%	4.31%
7	11.7	16.0	185	0.12%	0.10%	0.40%	0.27%	2.41%	2.16%	5.21%	4.70%
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 02.16.23. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

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

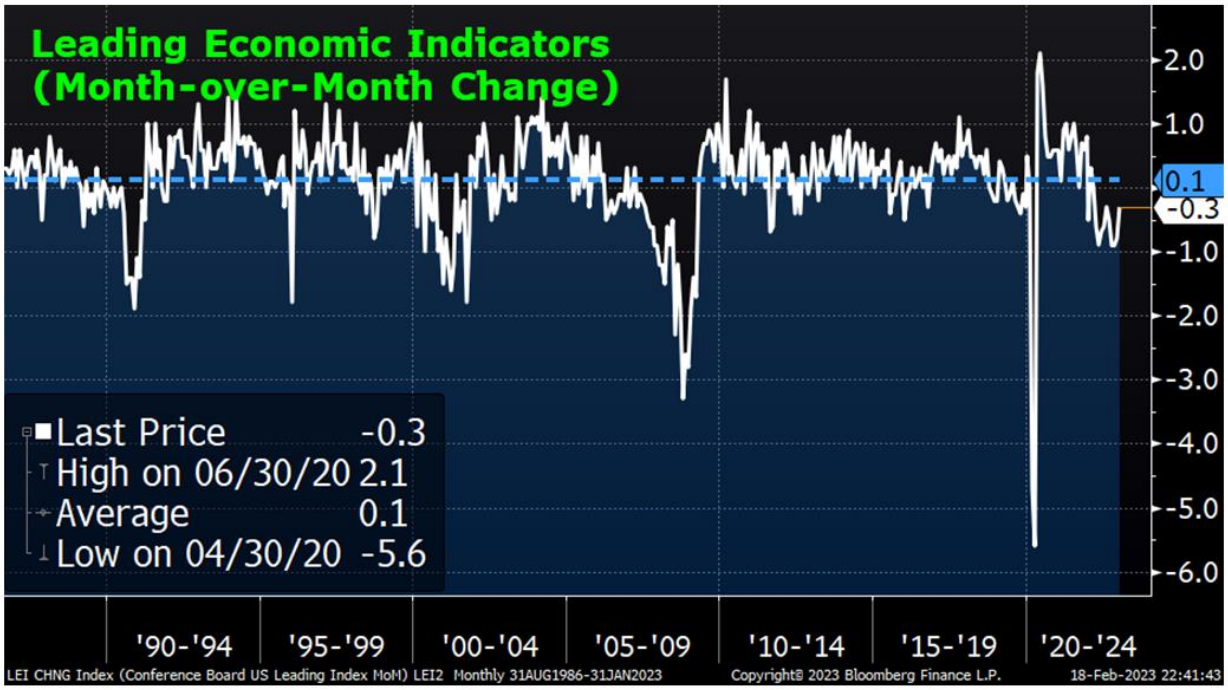
*****

To be fair to our friends at the *Times*, the economic outlook is especially confounding these days as economists suggest the odds of recession are very high,…

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.

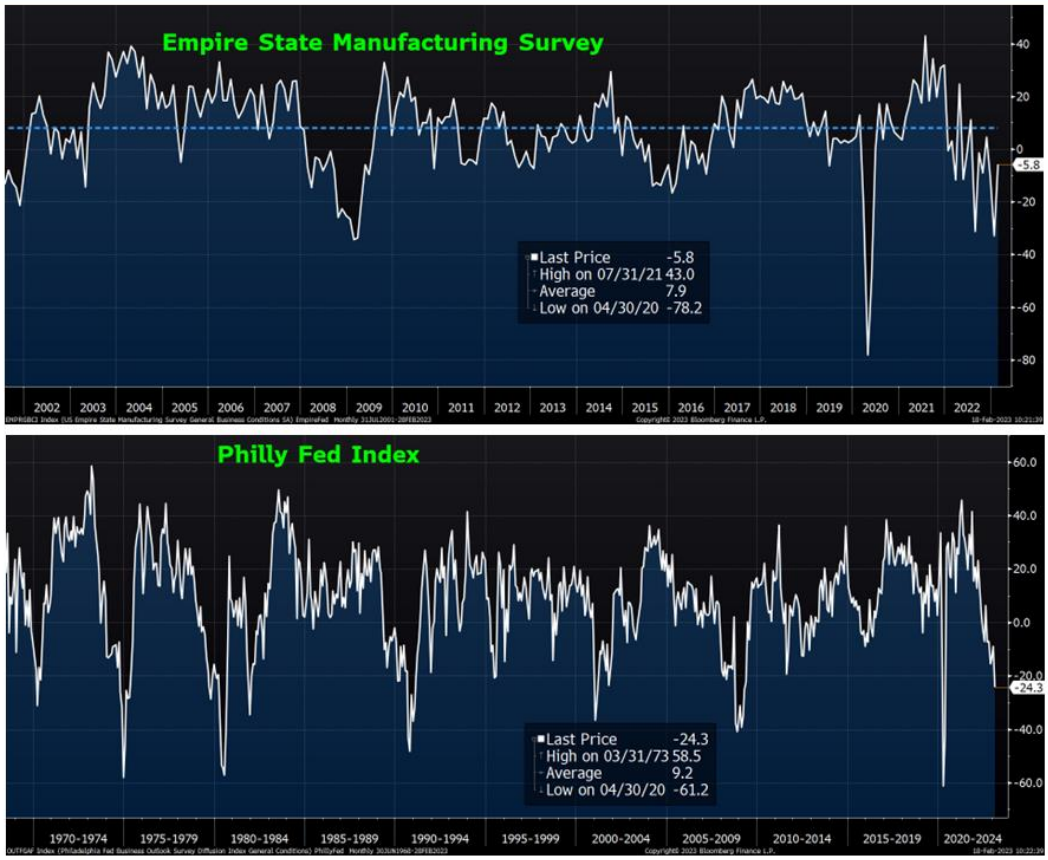
…while the latest Leading Economic Index fell by 0.3% in January. The keeper of that gauge, the Conference Board, explained:

The U.S. LEI remained on a downward trajectory, but its rate of decline moderated slightly in January. Among the leading indicators, deteriorating manufacturing new orders, consumers' expectations of business conditions, and credit conditions more than offset strengths in labor markets and stock prices to drive the index lower in the month. The contribution of the yield spread component of the LEI also turned negative in the last two months, which is often a signal of recession to come. While the LEI continues to signal recession in the near term, indicators related to the labor market—including employment and personal income—remain robust so far. Nonetheless, The Conference Board still expects high inflation, rising interest rates, and contracting consumer spending to tip the US economy into recession in 2023.



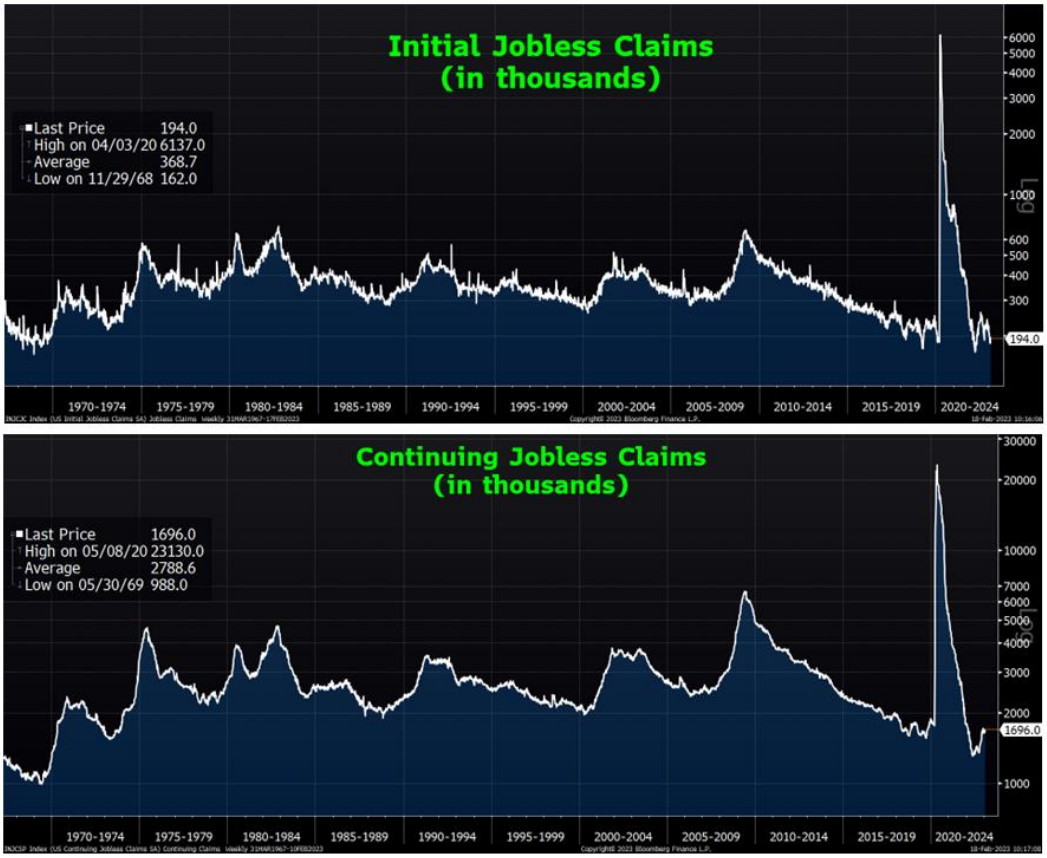
The Conference Board's Leading Economic Index dropped "only" 0.3% in January, an improvement from December's 0.8% decline.

That outlook sounds ominous, especially as the manufacturing sector is arguably already in contraction, given the latest negative readings on East Coast factory activity,…



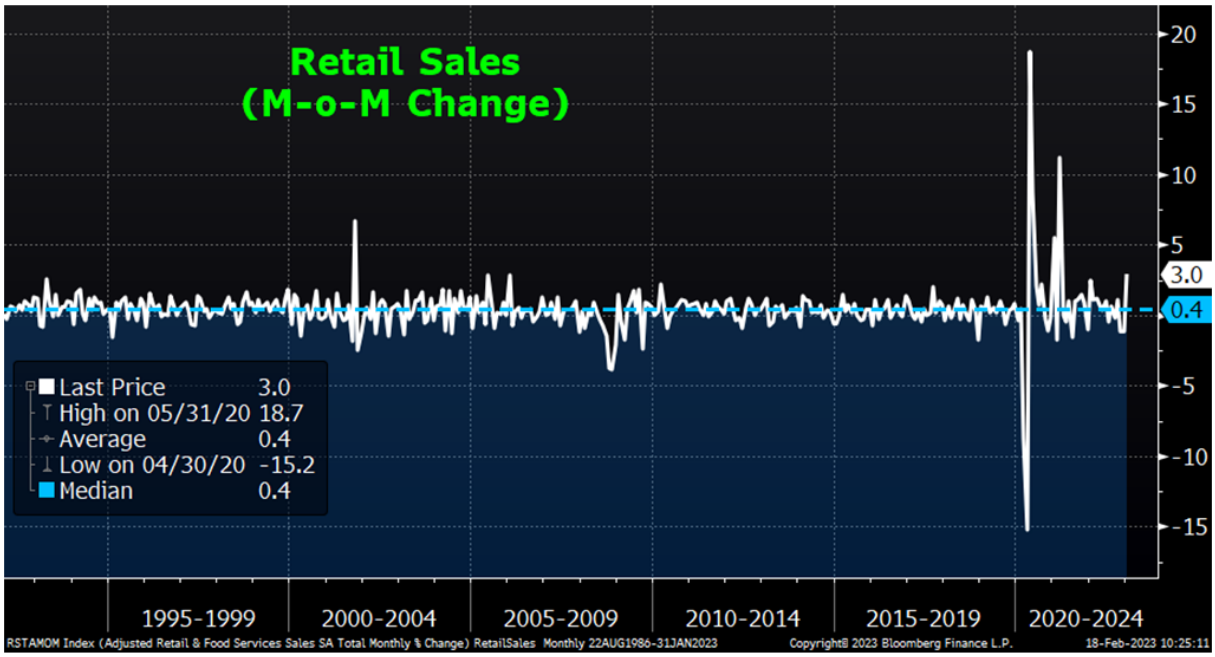
Two key manufacturing gauges are in contraction, though the Empire Fed factory index improved markedly this month.

…but the labor picture remains incredibly strong, with weekly initial filings for jobless claims still below 200,000, a level not seen since the 1960s when the workforce was much smaller,…



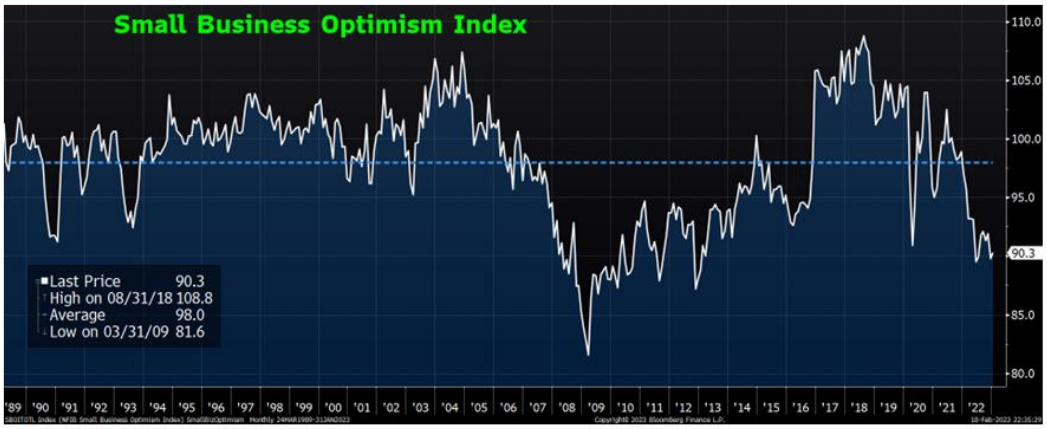
The labor market remains robust with jobless claims still near five-decade-plus lows.

…and consumer spending has held up remarkably well as evidenced by a much-better-than-expected retail sales tally in January.



Retail sales started the year strong, with the 3% jump in January the best monthly gain in nearly two years.

Though they are still at very depressed levels, even the latest sentiment gauges for small business and homebuilders ticked higher,…



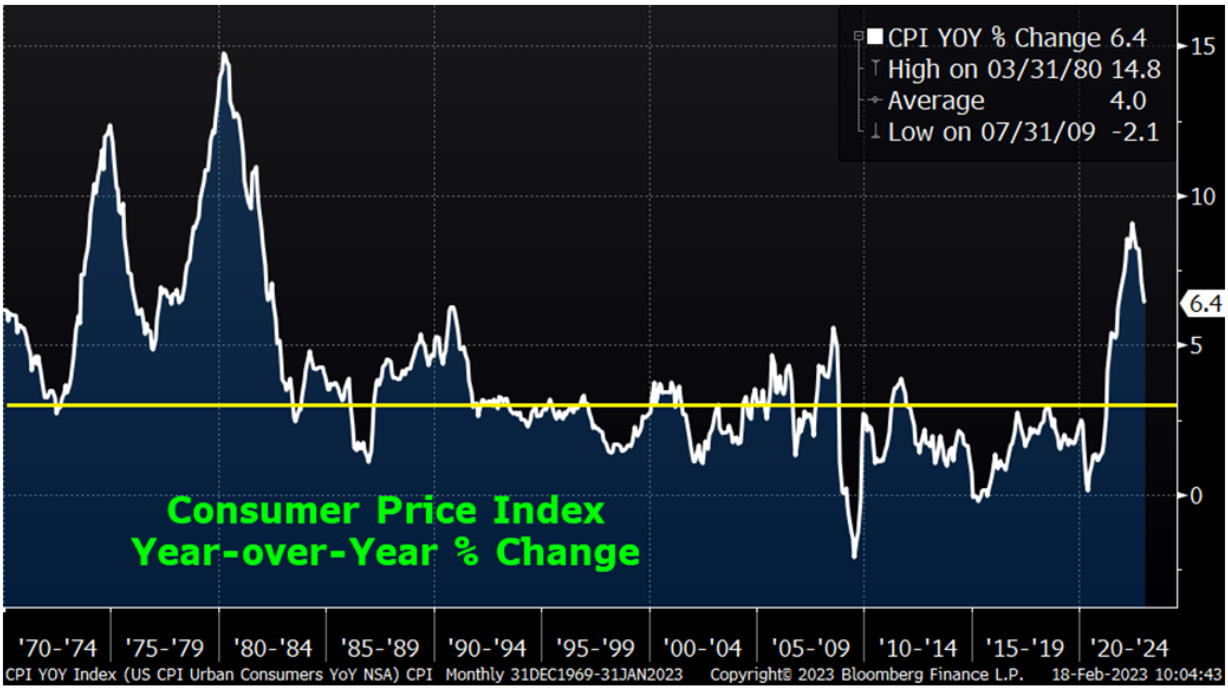
The measures are still well below average, but the latest readings for small business and homebuilder optimism came in better than expected and rose from the prior month.

…with the net result of the latest economic numbers leading to an increase in the outlook for Q1 U.S. GDP growth from the Atlanta Fed last week.

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.

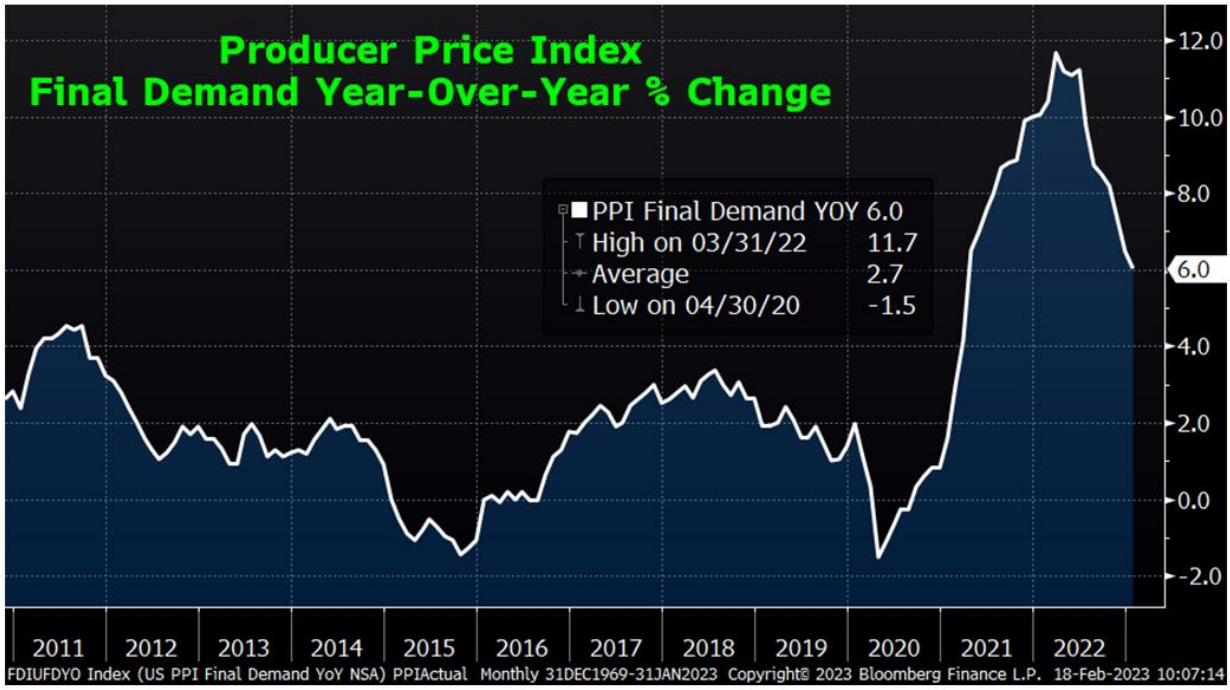
*****

These days, healthy economic data seems to be more of a negative than a positive for stocks, as all eyes are on the Federal Reserve and its battle to keep inflation in check. Said fight is not going as well as some would like, given that the cost of living rose 0.5% in January, the largest hike in three months, with the year-over-year increase coming in at 6.4%, well above the long-term target for Jerome H. Powell & Co. of 2.0%.



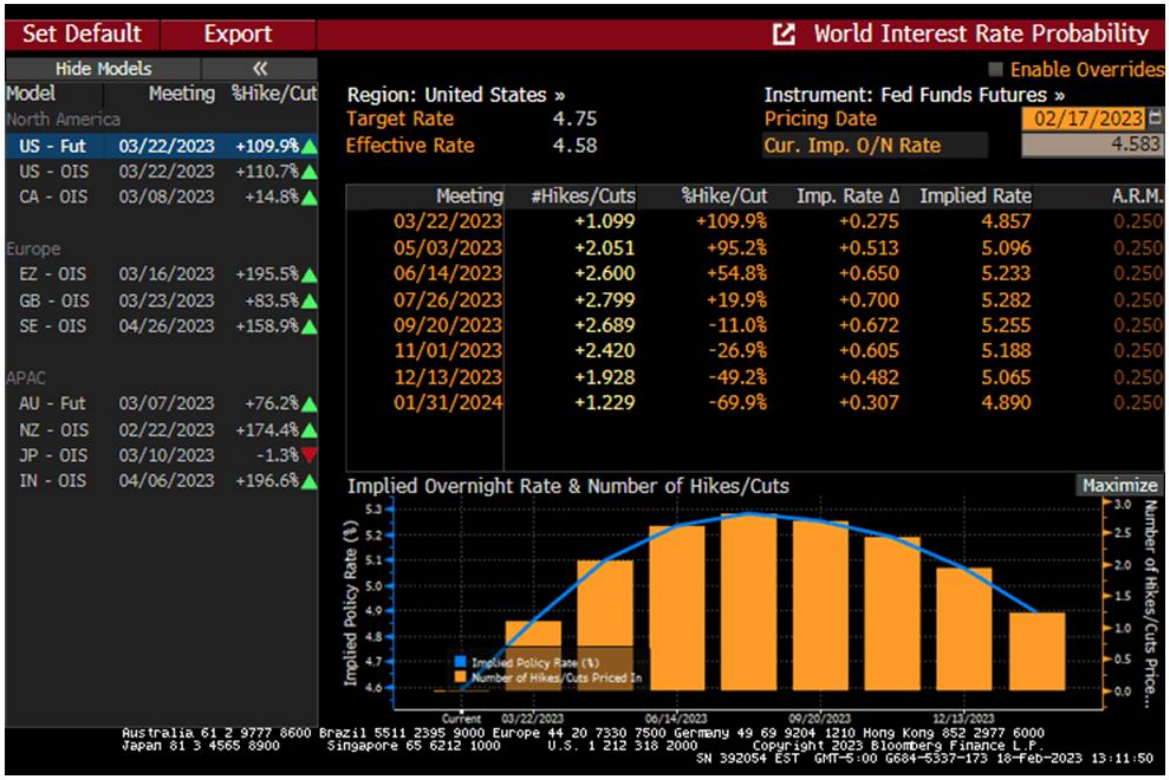
Inflation at the consumer level pulled back a tad to 6.4% in January, while the core rate inched down to 5.6%.

With prices at the wholesale level also remaining stubbornly high as the year-over-year increase in the Producer Price Index (PPI) came in at 6.0% last month,…



Though the January tally increased by 0.7% from December, the year-over-year rise in inflation at the wholesale level continued to fall.

…expectations that the Fed will remain tighter for longer increased last week, with the year-end 2023 market projection for the Fed Funds rate of 5.07% now in line with the FOMC's most recent median forecast of 5.1% offered in December.



The Fed Fund futures became more hawkish last week, projecting a peak in the rate at more than 5.25% this summer.

No doubt, there is plenty of hand wringing about the inflation level, even as equities since 1927 and since 1957 have proved to be a terrific hedge, on average, with Value stocks enjoying sensational ensuing returns when the Consumer Price Index (CPI) has been at 6.4% or higher.

THE WALL STREET JOURNAL.

WEDNESDAY, FEBRUARY 15, 2023 - VOL. CCLXXXI NO. 37

What's News

Business & Finance

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 index

Overall +6.4%

Core +5.6%

Overall change +0.5%

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 inflation is 6.4% or higher than when it is lower than that mark.

We also can't forget that the last time the Federal Reserve had to confront sky-high inflation levels at the end of the 1970s, Fed Chair Paul Volcker ended up pushing the economy into recession on two occasions in 1980 and 1981. Interestingly, equity returns during his tenure from 1979 through 1986 were off the charts in a good way, with Value stocks gaining 24.7% PER ANNUM!

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.

The Volcker years were different, of course, but we also point out that even if we knew that a recession was about to begin, the subsequent return numbers argue for staying the course with equities, on average, even for those with shorter-term time horizons.

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.

*****

We continue to see no reason to alter our long-term enthusiasm for the long-term prospects of our broadly diversified portfolios of what we believe to be undervalued stocks,…

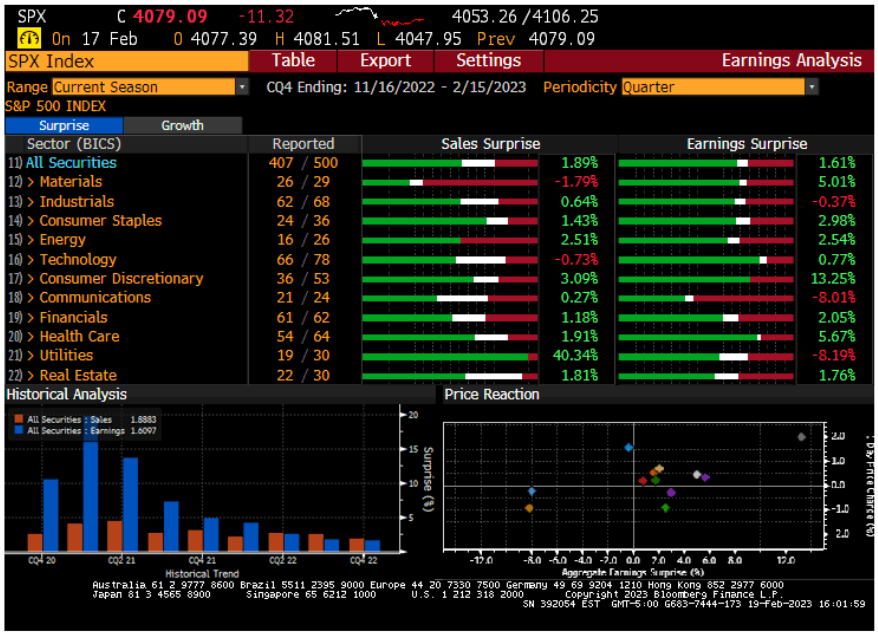
CURRENT PORTFOLIO AND INDEX VALUATIONS

Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	12.6	12.8	0.8	2.5	2.8
ValuePlus	13.2	13.3	1.2	2.5	2.3
Dividend Income	12.5	12.8	0.7	2.4	3.2
Focused Dividend Income	13.3	13.4	1.1	2.6	2.9
Focused ValuePlus	13.9	13.7	1.2	2.8	2.6
Small-Mid Dividend Value	11.4	10.9	0.5	1.8	2.8
Russell 3000	20.5	20.5	2.2	3.8	NA
Russell 3000 Growth	28.3	28.2	3.3	9.3	NA
Russell 3000 Value	16.1	15.7	1.6	2.4	NA
Russell 1000	20.1	18.8	2.2	3.9	NA
Russell 1000 Growth	27.3	23.9	3.5	9.6	NA
Russell 1000 Value	15.9	15.5	1.7	2.5	NA
S&P 500 Index	19.5	18.6	2.3	4.0	NA
S&P 500 Growth Index	19.9	19.9	3.2	6.8	NA
S&P 500 Value Index	19.1	17.3	1.8	2.8	NA
S&P 500 Pure Value Index	11.2	11.6	0.7	1.6	NA

As of 02.17.23. 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.

…as we believe corporate profits will remain healthy with sizable EPS growth expected in 2023 over 2022.



S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2023	$58.09	$220.16
9/30/2023	$56.96	$211.80
6/30/2023	$54.29	$205.19
3/31/2023	$50.82	$197.77
12/31/2022	$49.73	$196.31
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 2.15.23

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.

And it isn't like we have much to complain about with stock returns so far in 2023,…

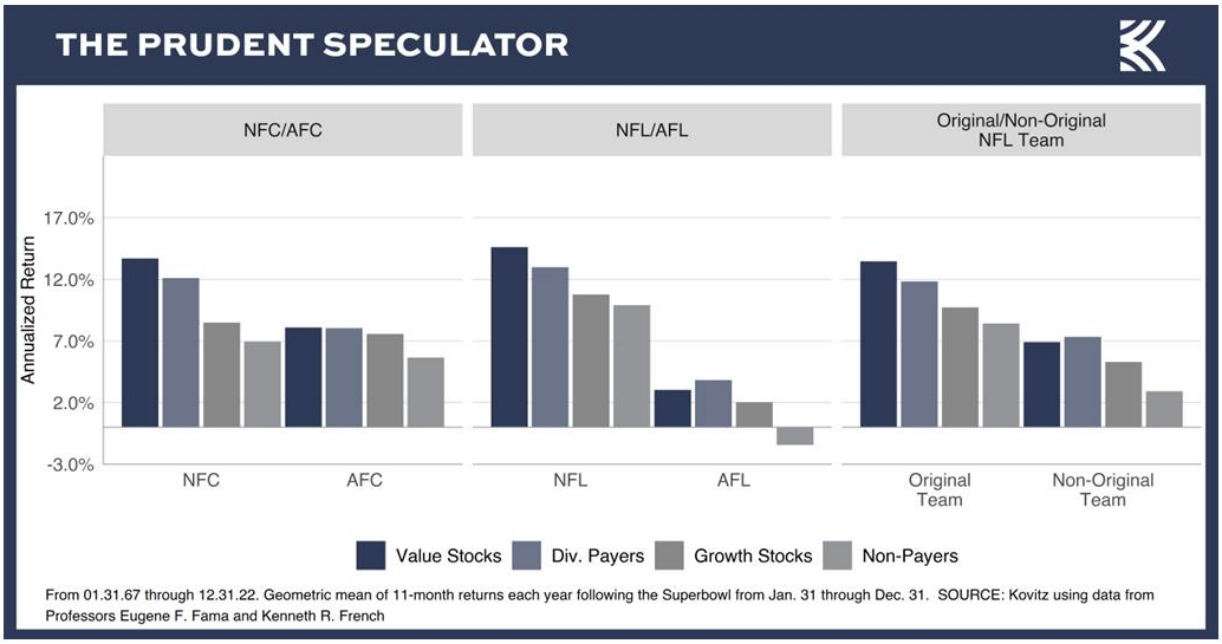
Total Returns Matrix

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	0.02	2.35	18.73	0.71	33.69	93.00	22.40	49.49	Dow Jones Industrial Average	INDU Index
1.01	-10.21	A	-0.36	4.60	18.61	-1.37	34.62	93.67	20.96	39.86	New York Stock Exchange Composite	NYA Index
-39.18	-20.81	R	0.63	12.76	11.89	-13.29	10.06	75.90	24.19	70.67	Nasdaq Composite Index	CCMP Index
-22.43	-9.23	K	1.63	11.16	15.76	-4.79	8.29	75.24	8.53	29.38	Russell 2000 Growth	RU20GRTR Index
22.83	14.02	E	1.31	10.13	19.40	-0.73	55.55	127.03	29.00	36.07	Russell 2000 Value	RU20VATR Index
-3.02	2.49	T	1.47	10.65	17.54	-2.63	30.07	101.21	19.74	34.60	Russell 2000	RU20INTR Index
-11.75	-20.15		1.29	10.74	18.38	-4.73	8.74	80.34	16.62	55.53	Russell Midcap Growth Index Total Return	RUMCGRTR Index
19.18	2.33		0.24	7.59	18.84	-0.56	44.93	121.53	25.09	43.13	Russell Midcap Value Index Total Return	RUMCVATR Index
8.25	-5.62	O	0.61	8.69	18.67	-1.88	31.27	108.03	24.43	51.85	Russell Midcap Index Total Return	RUMCINTR Index
-22.42	-19.63	F	0.29	9.92	12.47	-10.55	14.07	83.03	25.47	73.57	Russell 3000 Growth	RU30GRTR Index
8.04	-4.33		-0.16	4.67	17.42	-0.21	43.03	99.92	22.78	43.05	Russell 3000 Value	RU30VATR Index
-7.46	-11.46	S	0.06	7.21	14.91	-5.49	27.58	92.48	25.51	59.88	Russell 3000	RU30INTR Index
9.64	-0.39	T	0.03	6.90	19.34	-0.09	46.25	121.15	35.01	63.29	S&P 500 Equal Weighted	SPXEWTR Index
-9.10	-11.89	O	-0.20	6.50	14.55	-5.29	29.32	91.01	26.72	63.07	S&P 500	SPXT Index
-22.08	-12.73	C	-0.50	6.15	7.69	-14.26	12.95	76.77	21.97	65.30	S&P 500 Growth	SPTRSGX Index
6.08	-11.71	K	0.13	6.87	21.40	4.13	47.80	100.97	26.88	53.92	S&P 500 Value	SPTRSVX Index
3.18	1.57	S	-0.95	0.83	5.41	-12.86	-16.97	-9.51	-12.45	-8.17	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index
11.63	8.44		-0.47	1.07	2.96	-8.56	-12.47	-7.89	-8.66	3.38	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index

As of 2.17.23. Source Kovitz using data from Bloomberg

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

…even as the Super Bowl Indicator argues that the wrong team won the big game!



The Chiefs victory in a thrilling Super Bow LVII was not what the Bulls might have liked, given that Kansas City is an AFC/AFL/Non-Original Team.

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 **Norfolk Southern** (NSC – $228.15) have skidded more than 10% since the widely publicized derailment of 50 train cars in East Palestine, Ohio on February 3. While the event isn't a first for rail service providers and won't be the last, we are certainly empathetic for the residents of East Palestine, as NSC management in cooperation with local officials elected to pursue a controlled burn of chemical carloads to avoid a potential explosion.

Any potential hazardous impacts from the event are likely to be long-term in nature, so it's possible the public won't know about them for some time, even as government agencies investigate the matter. The evacuation order that had been in place has been rescinded while EPA Administrator Michael Regan has continued to say that East Palestine air and water is safe, but the issue has become a hot political item. Elected officials have pledged to hold NSC accountable, with Senate Transportation Committee Chair Maria Cantwell one politician requesting information from CEOs of Norfolk, Burlington Northern Santa Fe, Canadian National, Canadian Pacific, CSX, Kansas City Southern and Union Pacific on safety practices. Not surprisingly, the Senator is reportedly considering new safety measures.

Obviously, the event is not great for any party (citizens, the company or shareholders) and we expect management to take a sizable charge against financial results in Q1. This is the case even as Norfolk maintains insurance coverage for third-party liability and first-party property damage, which provides coverage above $75 million and below $800 million per occurrence and/or policy year. There are likely to be a litany of proposals for additional rail safety measures floated in the coming weeks and months ahead, while the lawsuits have already started to fly.

We will continue to monitor the situation as it unfolds, but history shows that a company of Norfolk's stature and resources will persevere through this sort of hardship. We do not mean to sound cavalier, but we expect rail to retain its advantage in hauling certain freight over other methods of transport that are inherently dangerous in their own ways. Still, we have cut our Target Price for NSC to $305.

Shares of **Regency Centers** (REG – $64.33) dipped 2% last week as interest rates climbed, offsetting a move higher the week prior on solid Q4 financial results. The shopping-center REIT said it had funds from operations (FFO) of $1.05 per share, compared with the consensus analyst estimate of $0.98, and revenue of $314.5 million, versus the $306.3 million consensus. Regency increased its same property net operating income year-over-year, excluding lease termination fees and the collection of 2020 and 2021 receivables reserved, by 5.8% in the fourth quarter.

REG introduced 2023 per share FFO guidance of $4.03 to $4.11, with the midpoint coming in slightly above the consensus forecast of $4.05. Management included 100 basis points of credit loss impact into its net operating income guidance to account for potential above-average uncollectible lease income, tenant bankruptcies and flat-to-lower occupancy, with plenty of folks concerned about the chances of a U.S. recession in 2023.

Despite the macroeconomic headwinds, Regency reported strong tenant demand and rent growth. Management said the company and its tenants are not immune to higher inflation and rising interest rates, but it believes its balance sheet and established history of resiliency suggest that any challenges on the horizon can be overcome.

CEO Lisa Palmer commented, "We are incredibly proud of our strong performance in 2022, a testament to the quality of our shopping centers, the health and resiliency of our tenants, and the hard work of our team. Our leasing and value creation pipelines are supported by continued robust tenant demand, providing us great momentum into 2023, while our balance sheet strength allows us to remain opportunistic."

Regency shares have a flat total return over the last year, which is solid when compared to the -8.5% return of the S&P 500 Real Estate Index. Approximately 80% of the REIT's properties have a grocery store as an anchor tenant, and they are predominately located in and around major metropolitan areas. Of course, higher interest rates and a slowing economy will likely generate turbulence for the entire sector, but Regency's focus on quality should prevent cap rates for its properties from getting out of control. REG sports a dividend yield of 4.0% and our Target Price has been bumped up to $82.

Shares of **Hasbro** (HAS – $59.36) rallied a bit last week after the toy and game maker released its final Q4 2022 results and hosted its quarterly analyst call. In late-January, the company had warned that it would earn between $1.29 and $1.31 per share on an adjusted basis for the quarter, which was well below the then consensus analyst estimate of $1.49. The final release showed adjusted EPS coming in at $1.31 on revenue of $1.68 billion (below the $1.9 billion forecast that existed before the January warning). By segment in Q4, Consumer Products declined 26% year-over-year while Entertainment declined 12%, and Digital Gaming increased 22% due to strength in MAGIC: THE GATHERING (+40%). Q4 adjusted operating margin expanded 5.1% to 16% due to improvements in Entertainment and Digital Gaming becoming a larger portion of revenue which carries a higher margin profile. Management guided for EPS to be flat to up low-single digits in 2023 with revenues down low-single digits.

CEO Chris Cocks stated, "As we announced previously, our fourth quarter and full-year 2022 results came in below our expectations. Despite this, we delivered our first billion-dollar brand in MAGIC: THE GATHERING and another record year at Wizards of the Coast and Digital Gaming, we grew key investment areas including licensing and direct to consumer, and we improved adjusted operating profit margin. We also reduced owned and retail inventory levels from the third quarter peak and we are working to reduce them further this year. Only a few months in, we have made meaningful progress in implementing Blueprint 2.0 with a heightened focus on innovation, data driven investment in key brands and disciplined cost management."

He continued, "For 2023, we have a focused plan to grow share in our key categories and further improve our margins. We are capitalizing on a fantastic entertainment slate, including Dungeons & Dragons: Honor Among Thieves in March and exciting new product launches, while facing a challenging consumer discretionary environment and approximately $300 million in revenue headwinds from exited licenses, brands and markets as well as foreign exchange. Our strategy is centered on what makes our brands great – play, supported by compelling storytelling and disciplined brand management."

"We are making significant headway in the execution of Blueprint 2.0 – including investing in higher return brands and projects, ending low return initiatives, modernizing our organization and lowering our cost base," said CFO Deborah Thomas. "We forecasted a challenging 2022, and that came to fruition. We also invested to grow, including the $146 million acquisition of D&D Beyond, which was earnings accretive in Q4, and returned $510 million to shareholders through dividends and share repurchase. Our current cash position adequately supports our business needs in the short-term, and operating cash flow is expected to nearly double in 2023."

Down by 37% over the past year, shares are priced well below their historical market premium, trading for 13 times NTM EPS estimates. The near term continues will be uncertain, with the range of outcomes still wide. Happily, while the company is far from being free of debt, the maturity structure is not burdensome as significant repayments aren't due until 2024 and schedule out to 2044. For the time being, investors are being paid for their patience, given the 4.7% dividend yield. Our Target Price for HAS now resides at $98.

Cisco Systems (CSCO – $50.77) reported Q2 financial results last week that lifted shares, with the stock price rallying more than 7% on the news. The networking giant earned $0.88 per share, a touch above the $0.86 Street estimate and higher than the $0.84 posted a year ago. Strong networking segment revenue growth drove the top line nearly 7% higher year-over-year. Recurring revenue now represents 44% of total revenue.

CEO Chuck Robbins said, "We have built up nearly $32 billion in remaining performance obligations and our backlog remains robust. Even, as we drew down backlog by 6% sequentially, our total backlog still grew year-over-year. These metrics along with our increasing visibility led us to raise our full year outlook which Scott will address in a moment. This quarter, we also achieved record operating cash flow, enabling today's dividend increase and the buyback of over $1 billion. We continue to deliver on our commitment to drive returns to our shareholders."

On supply constraints, he added, "While components for a few product areas remain highly constrained, we did see an overall improvement. Combined with the aggressive actions our supply chain and engineering teams took to redesign hundreds of our products, we increased product deliveries and saw significant reductions in customer lead times. As our product deliveries increased, channel inventories also declined as our partners were able to complete customer projects. Like I shared last quarter, as supply constraints ease and lead times shorten, we expect orders would normalize from previously elevated levels as customers return to more typical buying patterns. As a result, sequential quarterly order growth is a better indicator than year-over-year growth. And in Q2, despite improving lead times, our quarter-over-quarter order growth was again in line with our historical ranges across most of our geographies and customer markets."

Management raised its full year outlook citing a "growing recurring revenue base and RPO, along with our healthy backlog and the steps we have taken to improve supply." Revenue is expected to rise between 9.0% and 10.5%, with adjusted EPS in the range of $3.73 to $3.78, up from the previous guidance of $3.51 to $3.58 (vs. $3.55 est.). For Q3, adjusted EPS is now projected to come in between $0.96 and $0.98 per share (vs. $0.89 est.) on 11% to 13% revenue growth.

CSCO has exceeded analyst EPS projections for 11 straight quarters, and we remain enthusiastic about its competitive position in the commodity switching space along with the progress being made in converting more revenue toward a recurring model. Shares trade for a very reasonable 13 times NTM EPS and yield 3.1% after management just bumped up the quarterly payout to $0.39 per share from $0.38. Our Target Price has been lifted to $74.

Shares of **Albemarle** (ALB – $258.01) were all over the place last week, ending the five days on a very sour note, even as the North Carolina-based lithium producer reported fantastic Q4 financial results and offered terrific guidance for full-year 2023 numbers. The company said adjusted EPS for Q4 came in at $8.62 (vs. $8.19 est.) on revenue of $2.62 billion (vs. $2.61 billion est.).

CEO Kent Masters explained, "Albemarle's full-year 2022 net sales of over $7 billion is more than double our results from 2021, and the adjusted EBITDA of approximately $3.5 billion is nearly four times that of the prior year. Our outstanding 2022 results demonstrate our durable advantages, particularly in the growing lithium market, and the relentless focus of our global teams in supporting our customers to enable better mobility, energy, connectivity and health. Our growth potential extends well beyond the current EV opportunity. Even as we expand capacity to respond to growing demand, we are maintaining a disciplined approach to capital allocation in order to drive long-term value."

For fiscal 2023, ALB now expects revenue between $11.3 billion and $12.9 billion with adjusted diluted EPS between $26 and $33. Considering that the stock changes hands at less than 10 times the low end of the earnings estimate, while the prior consensus EPS forecast for 2023 had been $28.43, well below the $29.50 mid-point of the new projection, we were perplexed by the round of profit-taking on Friday. Of course, we respect that lithium is a commodity and strong growth in China is a big part of the 2023 demand equation, but given the rush around the globe to transition to electric vehicles, we think demand growth is only constrained by adequate supplies of the metal. And buy-in for EVs is starting to come from all levels, even if it driven in part by government mandates and subsidies around the world.

ALB looks to be less expensive today than it was when we made our initial recommendation four years ago at $81.98 as EPS growth has accelerated rapidly. Incredibly, the company's 2020 earnings were a modest $4.12 per share, a far cry from 2022's $21.96 and the 2023 projection. ALB trades for less than 9 times NTM earnings so we maintain great comfort in our current position. True, we realize that commodity prices go through booms and busts, which is why we have previously taken money off the table on our position. However, for those looking for EV exposure, we think ALB is a very attractive name, especially as we have seen interest from the major auto makers in entering into longer-term supply contracts and even talking ownership stakes in lithium producers. We don't see how last week's news was anything but positive and our Target Price for ALB has powered ahead to $409.

Crop nutrient provider **Nutrien** (NTR – $74.71) posted adjusted EPS of $2.02 (vs. estimate $2.58) on $7.53 billion of sales ($7.64 billion est.) in Q4. Revenue rose 6.6% versus the prior year even as volumes declined. Management forecasts adjusted EPS from $8.45 to $10.65 in 2023 with the ability to ramp phosphate production if demand strengthens during the year.

CEO Ken Seitz commented, "2022 was an unprecedented year on many fronts. Political events most notably the war between Russia and Ukraine contributed to significant supply disruptions, across agriculture, energy and fertilizer markets. The supply shocks were most pronounced for global fertilizer markets leading to higher prices, increased volatility and major shifts in buying patterns throughout the year. Nutrien delivered record earnings and cash flow in this

environment, due to the advantages of our world-class production, distribution and retail network. We invested $2.9 billion to sustain our assets and grow our business, while returning $5.6 billion in capital to our shareholders through share repurchases and dividends. We progressed our sustainability priorities and most importantly continued to achieve industry-leading safety performance across our business."

Looking ahead, CFO Pedro Farah said he expects Nutrien "to deliver historically strong earnings across each of [the company's] segments in 2023." Mr. Seitz added. "The global grain stocks-to-use ratio is at its lowest point in more than 25 years, and we expect it will take multiple cropping cycles to restore stocks to more adequate levels."

We have thought for some time that long-term trends in agriculture are favorable, irrespective of global conflict, and we like that Nutrien's Board of Directions seems to agree, as they approved a 10% increase in the quarterly dividend and authorized a new 5% share repurchase program that provides optionality for additional share repurchases in 2023. NTR trades for 8 times the mid-point of management's 2023 EPS guidance and yields 2.8%. Our Target Price is now $118.

Semiconductor equipment maker **Cohu Inc.** (COHU – $35.37) earned $0.70 per share in Q4 on $191.1 million of revenue, the former well above the $0.59 consensus estimate and the latter a touch above the $188.5 million Street forecast. Gross margin expanded 470 basis points year-over-year to a company record of 48.8%, a product of growing recurring revenue, which represented 45% of fourth quarter revenue.

CEO Luis Muller said, "Q4 was an outstanding quarter in terms of financial metrics, albeit your typical seasonally slow revenue at year-end. Revenue of $191.1 million was about flat year-over-year with a strong non-GAAP EPS result. More importantly, we continue to make great progress managing costs, growing Cohu's recurring business in selling differentiated products. In the last four quarters, recurring revenue was $338 million, delivering a very profitable and resilient revenue stream through industry cycles. Our recurring business is primarily made up of test interface hardware and device application kits that are IC design-driven and benefit from the introduction of new semiconductor products by our customers."

Regarding Cohu's semiconductor test business, Mr. Muller added, "Annual revenue was about flat year-over-year, but with a significant diversification out of the mobility segment that was particularly weak in 2022. Our analog and power management sales grew to about 32% of Semi Test business mostly serving automotive and industrial end markets. Display Driver grew from a single-digit percent of revenue in 2021 to approximately 60% of the total Semi Test revenue in 2022. We've had a remarkable year in pivoting revenue to new applications and customer design wins that help build a more sustainable path forward predominantly with the Diamondx platform."

One might have thought that the above would have led to a big jump in the stock price, but such was not the case as management's projection of sales of about $173 million to $187 million in Q1 was below expectations.

COHU has steadily converted more of its business to a subscription model, but results can still be cyclical and lumpy. While 2023 is anticipated to be a trough year, EPS are projected to be nearly double the 2020 figure. We can't help but think the long term is bright, and management has positioned the firm to benefit from the proliferation of chips in nearly everything with some 280 customers in 31 countries and over 1 million part shipments per year. The dividend was discontinued early in the pandemic and remains suspended, but the growing cash pile adds a lot of financial flexibility in the current environment. Our Target Price for COHU is now $44.

Data infrastructure REIT **Digital Realty** (DLR – $110.76) generated $1.65 of per share funds from operations (FFO) versus vs. $1.67 a year ago and the $1.67 Street target, bringing full-year FFO to $6.03 (down 8% year-over-year). Former CFO Andy Power transitioned into the CEO slot in January after taking over as company president. The move comes after former Chief Bill Stein was terminated by the Board last December.

Mr. Power commented, "Importantly, pricing on new leases signed, increased yet again in the fourth-quarter in each of our business segments, marking the fourth consecutive quarter of price improvements in 2022. We also continue to add more CPI-based escalators with approximately 25% of the newly signed leases in the quarter continuing inflation-linked increases with fixed-rate escalators on the balance. We also saw another quarter of positive leasing spreads on renewals in the fourth-quarter, helping to support a positive inflection for the full-year 2022."

He added, "While we acknowledge that the turn was driven by the strength in the 0 to 1 megawatt renewals, we are beyond the point of excuses and callous and prefer to highlight the forest rather than the trees and point to the overall inflection in-market rents and re-leasing spreads that took place in 2022 as a whole. We expect market conditions to remain supportive this year and our guidance reflects a further inflection in this positive trend."

Dollar strength had been a headwind given aggressive expansion abroad but was a roughly 5% benefit to revenue in the latest quarter. Elevated power cost stands to reduce margin in the near term, but we think the long-term dynamics for DLR remain positive. While we aren't fond of the amount of share issuance over the past few years, we acknowledge that this often comes with the REIT territory, and we continue to believe DLR's valuation is reasonable, with shares trading around 16 times FFO expected in 2023 and funds from operations projected to grow handsomely over the next three-to-five years. The dividend yield is 4.4% and our Target Price is $150.

Multinational financial services titan **Allianz SE** (ALIZY – $23.23) posted $0.51 of EPS for Q4, ahead of the $0.47 estimate. Full-year operating profit grew 5.7% vs. 2021, above the Street estimate. The combined ratio in P&C insurance was 94.7 in the quarter, a touch higher vs. the 94.0 in Q3, but Allianz doesn't expect a significant financial hit from the Turkey earthquake.

CEO Oliver Bate said, "We had a very strong year given the environment. And revenues and profit at all-time high, EUR14.2 billion, and that's already conservative as we will discuss a little later. So, much more than I would have anticipated in the middle of the year, and it shows really the resilience of the franchise…One of the things that we've been talking about for a long time is, can we create consistent improvements across the portfolio, particularly around productivity."

He added, “What is very good, has been pricing power. You see that in the P&C revenues up and the margin up, and it keeps on being consistently tested. Sometimes when we have been raising prices to balance inflation, then you see lapses increasing. We haven’t really seen that, which is very important and testimony to the strength of the brand.”

The past year has been one to forget for Allianz with the Alpha fund blowup and a historic drawdown for fixed income assets from rising rates. Still, we continue to like that management is working hard to improve operating ratios, minimize losses and grow the insurance business, as the P&C market is hardening. Shares continue to look attractive from a valuation standpoint as profits are expected to rebound markedly in 2023, while they boast a net dividend yield of 3.4%. Our Target Price for ALIZY is $28.

Shares of **Deere & Co.** (DE – $433.31) plowed ahead 7.5% on Friday after the industrial concern reported its fiscal Q1 2023 financial results. Adjusted EPS was more than 18% above the consensus Street forecast ($6.55 vs. $5.53 est.) on revenue of $11.4 billion, versus the average estimate of $11.2 billion. Year-over-year net revenue jumped more than 33%, and adjusted EPS more than doubled over the same period last year. The quarter saw standout strength in Precision Ag on solid contributions from both price and volume. Management increased its full-year earnings guidance from $8 billion to $8.5 billion.

CEO John May commented, “Deere’s first-quarter performance is a reflection of favorable market fundamentals and healthy demand for our equipment as well as solid execution on the part of our employees, dealers, and suppliers to get products to our customers. We are, at the same time, benefiting from an improved operating environment, which is contributing to higher levels of production.”

He continued, “Deere is looking forward to another strong year on the basis of positive fundamentals, low machine inventories, and a continuation of solid execution. We are proud of our recent performance and remain fully committed to helping our customers do their jobs in a more profitable, productive, and sustainable way. We have confidence in our ability to execute on our leap ambitions and run our businesses with real purpose, real technology, and real impact.”

With its leading brand, we think Deere is the key enabler of low-cost agriculture, particular in the U.S. and Canada, which account for over half of the company’s revenues. Deere’s substantial dealer network places customer service closer to farms than competitors. And a massive installed base of machines offers a continual source of data with which to improve its products as farming becomes increasingly automated. Although the landscape could shift, favorable pricing for agricultural markets is primed to support a strong 2023, and we appreciate the diversification afforded by the company’s construction products. Even as shares have performed solidly over the last year, the forward earnings multiple is now less than 15 times projected EPS for 2023 and is still quite reasonable versus the last 5-year average P/E of 17.8. Our Target Price has been hiked to $545.