Market Commentary Monday, March 6, 2023

March 5, 2023

EXECUTIVE SUMMARY

Week – Late Rebound…On Soured Sentiment?
DALBAR QAIB – Stock and Especially Bond Fund Investors are Awful Market Timers
Patience – The Longer the Hold the Lower the Chance of Loss
Econ Numbers – Mixed Picture…as is Often the Case
Fed Rate Hikes – Market Grows More Hawkish
Valuations – Inexpensive Metrics & Generous Dividend Yield for TPS Portfolio
46th Anniversary – Equities Very Rewarding Since the Launch of *The Prudent Speculator* in 1977
Corporate Profits – Solid Q4 EPS and Decent Outlook for 2023
Stock News – Updates on PNW, TGT, GS, LOW, KSS, BIG, KR, HPE, JWN & AVGO

Market Review

With Growth leading the charge, cutting the deficit against Value since the recent September 30, 2022, market lows, equities enjoyed a terrific last two days of the trading week, which stopped a three-week losing streak and pushed the Dow Jones Industrial Average back into the green for the year.

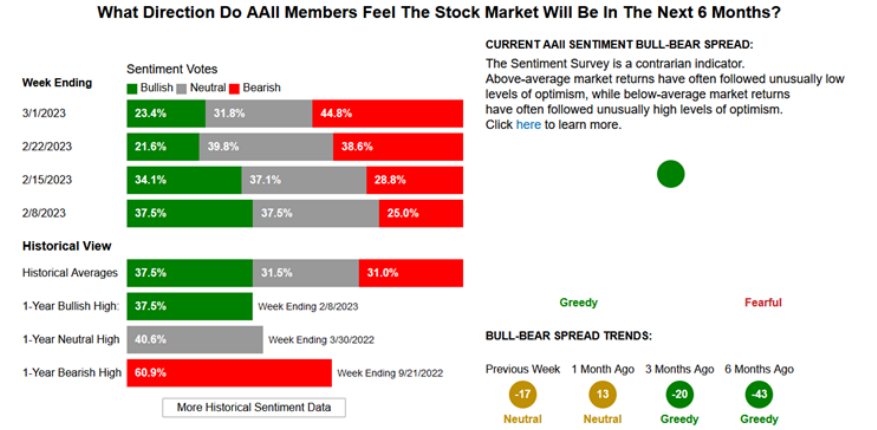
Total Returns Matrix

2000	2001		Week	YTD	Since 9.30.22	Last 12 Months	Since 10.31.20	Since 3.23.20	Last 3 Years	Last 5 Years	Name	Symbol
-4.71	-5.44	MARKET OF STOCKS	1.85	1.15	17.34	0.93	32.13	90.75	37.03	51.72	Dow Jones Industrial Average	INDU Index
1.01	-10.21		1.74	3.91	17.83	-0.89	33.74	92.40	34.88	42.28	New York Stock Exchange Composite	NYA Index
-39.18	-20.81		2.61	11.87	11.00	-12.87	9.19	74.51	37.98	68.82	Nasdaq Composite Index	CCMP Index
-22.43	-9.23		2.72	11.06	15.65	-4.16	8.19	75.07	22.65	28.80	Russell 2000 Growth	RU20GRTR Index
22.83	14.02		1.36	8.31	17.42	-3.53	52.97	123.27	44.51	36.13	Russell 2000 Value	RU20VATR Index
-3.02	2.49		2.05	9.70	16.53	-3.73	28.95	99.47	34.72	34.27	Russell 2000	RU20INTR Index
-11.75	-20.15		3.04	10.55	18.18	-4.08	8.56	80.04	30.61	56.22	Russell Midcap Growth Index Total Return	RUMCGRTR Index
19.18	2.33		1.68	6.51	17.64	-1.93	43.47	119.31	40.80	44.68	Russell Midcap Value Index Total Return	RUMCVATR Index
8.25	-5.62		2.16	7.92	17.83	-2.54	30.34	106.57	39.70	52.94	Russell Midcap Index Total Return	RUMCINTR Index
-22.42	-19.63		2.49	9.36	11.90	-10.08	13.49	82.10	39.99	73.83	Russell 3000 Growth	RU30GRTR Index
8.04	-4.33		1.52	3.65	16.27	-1.56	41.63	97.96	37.46	44.50	Russell 3000 Value	RU30VATR Index
-7.46	-11.46		2.00	6.41	14.06	-5.88	26.63	91.04	40.24	60.77	Russell 3000	RU30INTR Index
9.64	-0.39		1.84	5.88	18.21	-1.28	44.86	119.05	51.46	64.54	S&P 500 Equal Weighted	SPXEWTR Index
-9.10	-11.89		1.96	5.69	13.68	-5.70	28.34	89.57	41.42	64.16	S&P 500	SPXT Index
-22.08	-12.73		2.02	5.63	7.16	-14.02	12.40	75.91	36.02	65.42	S&P 500 Growth	SPTRSGX Index
6.08	-11.71		1.89	5.76	20.14	2.90	46.26	98.89	41.77	55.99	S&P 500 Value	SPTRSVX Index
3.18	1.57		0.02	-0.35	4.18	-13.47	-17.93	-10.56	-15.55	-9.00	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index
11.63	8.44		0.12	0.28	2.16	-9.55	-13.15	-8.61	-11.40	2.56	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index

As of 3.3.23. Source Kovitz using data from Bloomberg

Interestingly, the rebound came as the good folks at *MarketWatch* proclaimed, "Data Shows Investors Running Toward Safety of Cash as Stock Market Stumbles, Yields Rise." In a column called *The Tell*, *MarketWatch* explained, "Investors poured $68.1 billion into cash funds in the week to Wednesday as concerns over additional Federal Reserve rate hikes continue to rattle financial markets, according to figures from Bank of America, Goldman Sachs and TD Securities, all citing EPFR data [which also showed that $7.4 billion left stock funds] in their weekly notes."

A couple of days does not a trend make but zigging when they should have zagged is not an unusual occurrence, with data from the American Association of Individual Investors (AAII) vividly illustrating the point. The latest AAII weekly sentiment gauge saw a big jump to 44.8% in the number of respondents who say they are Bearish on the prospects for stocks over the next six months, with their lead over those who say they are Bullish widening to 21.4 percentage points and putting the Bull-Bear spread in the lowest decile of all the readings dating back to 1987. Incredibly, 1-week, 1-month, 3-month, and 6-month forward returns are best when the folks on Main Street are very pessimistic…like they are today.



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 = 7.09											
BELOW	-54.0	7.1	928	0.24%	0.20%	1.15%	1.01%	3.29%	2.90%	6.42%	5.65%
ABOVE	7.1	62.9	927	0.17%	0.15%	0.54%	0.45%	2.00%	1.75%	4.64%	4.16%
Ten Groupings of 1853 Data Points											
1	-54.0	-17.0	186	0.40%	0.34%	2.11%	1.87%	4.50%	3.97%	8.17%	6.97%
2	-16.9	-8.7	185	0.23%	0.20%	0.82%	0.67%	3.49%	3.11%	6.13%	5.33%
3	-8.7	-2.5	186	0.32%	0.28%	1.07%	0.96%	3.32%	2.90%	7.42%	6.69%
4	-2.5	2.6	185	0.19%	0.16%	1.06%	0.96%	2.51%	2.13%	5.40%	4.85%
5	2.7	7.0	185	0.04%	0.02%	0.68%	0.58%	2.69%	2.43%	5.00%	4.46%
6	7.1	11.6	186	0.21%	0.20%	0.73%	0.64%	2.01%	1.78%	4.87%	4.42%
7	11.6	16.0	185	0.16%	0.14%	0.41%	0.28%	2.39%	2.14%	5.10%	4.58%
8	16.0	21.7	186	0.10%	0.08%	0.87%	0.80%	2.22%	1.98%	5.81%	5.39%
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 03.03.23. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

We have long admonished that the only problem with market timing is getting the timing right, and numbers further confirming this view arrived this week as the 2022 DALBAR Quantitative Analysis of Investor Behavior returns were released. The data provider's calculations show just how bad the average stock fund investor has performed, with the 3% or so deficit versus the S&P 500's return last year in line with the dismal returns endured over the past three decades.

And if you think the 6.8% annualized return over the last 30 years for the average equity fund investor versus the 9.7% return for the S&P 500 is bad, take a gander at the average fixed income investor. Believe it or not, DALBAR calculates that folks actually have lost money on average in bond funds over the past 30 years! And stocks are supposed to be the risky asset class?

SUMMARY RETURNS: DALBAR'S 2022 QAIB STUDY

Period	Average Equity Fund Investor	S&P 500 Index Return	Difference	Average Fixed Income Fund Investor	Bloomberg U.S. Aggregate Bond Index Return	Difference	Inflation (U.S. Consumer Price Index)
1 Year	-21.2%	-18.1%	-3.1%	-13.8%	-13.0%	-0.8%	6.5%
3 Years	4.0%	7.7%	-3.6%	-5.2%	-2.7%	-2.4%	4.9%
5 Years	5.2%	9.4%	-4.2%	-2.3%	0.0%	-2.3%	3.8%
10 Years	9.3%	12.6%	-3.2%	-1.3%	1.1%	-2.4%	2.6%
20 Years	9.0%	9.8%	-0.8%	-0.3%	3.1%	-3.4%	2.5%
30 Years	6.8%	9.7%	-2.8%	-0.1%	4.6%	-4.7%	2.5%

As of 12.31.2022. DALBAR Quantitative Analysis of Investor Behavior. SOURCE: DALBAR

Certainly, bond prices are less volatile than stock prices, but given that the average fixed income investor lost money in every period DALBAR studied, we remain puzzled that so many continue to think about risk in terms of volatility of one-month returns. This is especially true in that most are investing for long-term objectives. We know that we won't win any *Stocks are not as Risky as Bonds* debates, and there is no assurance that past is prologue, but we can't help but point out that there has not been a 15-year or 20-year period in which Value Stocks or Dividend Payers lost money, provided those who owned them did not stray from their course along the way.

PATIENCE IS VIRTUOUS

VALUE STOCKS

	Count >0%	Count <=0%	Percent >0%
1 Month	725	422	63.2%
3 Months	776	369	67.8%
6 Months	809	333	70.8%
1 Year	831	305	73.2%
2 Year	940	184	83.6%
3 Year	973	139	87.5%
5 Year	975	113	89.6%
7 Year	1028	36	96.6%
10 Year	994	34	96.7%
15 Year	968	0	100.0%
20 Year	908	0	100.0%

DIVIDEND PAYERS

	Count >0%	Count <=0%	Percent >0%
1 Month	725	422	63.2%
3 Months	796	349	69.5%
6 Months	824	318	72.2%
1 Year	860	276	75.7%
2 Year	961	163	85.5%
3 Year	954	158	85.8%
5 Year	1002	86	92.1%
7 Year	1024	40	96.2%
10 Year	994	34	96.7%
15 Year	968	0	100.0%
20 Year	908	0	100.0%

From 07.31.27 through 01.31.23. Value stocks represented by 50% small value and 50% large value returns rebalanced monthly. Dividend payers represented by 30% top of dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

No doubt, keeping the faith through thick and thin is not easy, with the significant downturn endured in 2022 fresh on investor minds. Certainly, we do not wish to downplay the war in Ukraine, supply-chain issues, inflation, high interest rates, Federal Reserve tightening, a slowing economy and other headwinds, but there have been more than a few frightening events throughout history, yet stocks have still managed to move substantially higher in the fullness of time.

Event	Reaction Dates		S&P Start Value	S&P End Value	Event Gain/Loss	12 Months Later	36 Months Later	60 Months Later	Event End thru Present
Pearl Harbor	12/6/1941	12/10/1941	9.32	8.68	-7%	8%	51%	76%	46509%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	26871%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	24140%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	9395%
Suez Canal Crisis	10/30/1956	10/31/1956	46.37	45.58	-2%	-10%	26%	51%	8776%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	10279%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	7463%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	5712%
MLK Assassination	4/3/1968	4/5/1968	93.47	93.29	0%	8%	8%	16%	4237%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	5263%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	4290%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	5680%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	3745%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	4019%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	3286%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	2399%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	1553%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	1699%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	1180%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	975%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	883%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	812%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	785%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	701%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	361%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	322%
Clinton Impeachment	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	229%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	201%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	319%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	342%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	271%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	238%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	498%
Price Changes Only - Does Not Include Dividends				**Averages:**	**-7%**	**18%**	**39%**	**66%**	**5558%**

As of 3.3.23. Source: Kovitz using Bloomberg and Ned Davis Research Events & Reaction Dates

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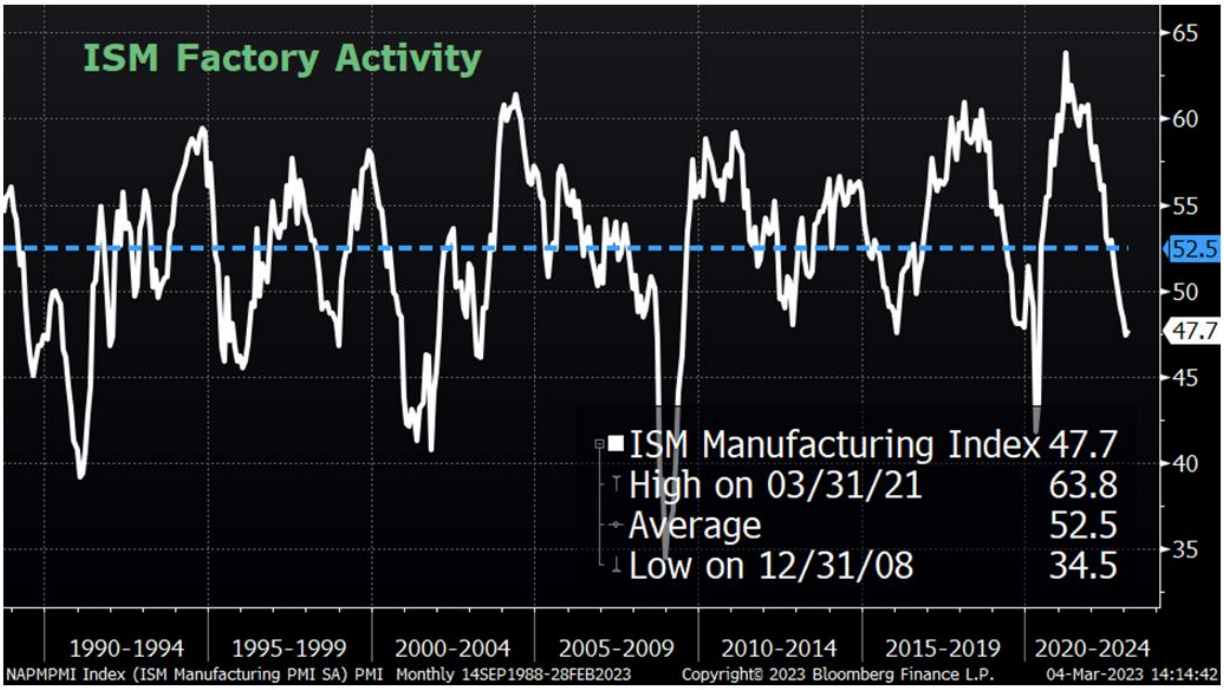
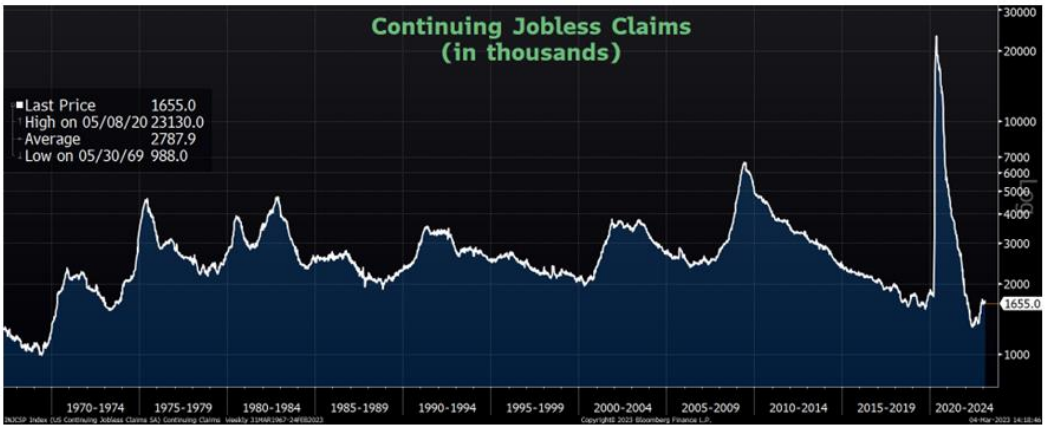
While the long-term trend has been up, many think they can bail out and avoid the inevitable trips south and somehow get back into stocks before the next upswing. Alas, the path stock prices traverse will always be bumpy and there is no way that anyone can predict with any certainty the short-term direction.

After all, consider that stocks were moving lower last week, with *The Wall Street Journal's Market's* column on Thursday morning explaining, "S&P Ticks Down as Data Point to Factory Rebound." We are not sure that that is what the factory data showed as the ISM Manufacturing Index that the *WSJ* was referencing did come in better than expected at a tally of 47.7, but such a reading historically has suggested a 0.3% contraction in real U.S. GDP on an annual basis.



Considering that there were weaker-than-expected numbers on durable goods orders and consumer confidence out earlier in the week, we might argue that stocks were pulling back on concerns about the health of the economy, rather than on worries that strong economic data would compel the Federal Reserve to be more aggressive in hiking interest rates.

However, the latter seemed to be a better explanation as stocks again headed lower in trading on Thursday morning after yet another robust report on weekly jobless claims. Indeed, the number of first-time filings came in at 190,000, remaining near five-decade-plus lows,…

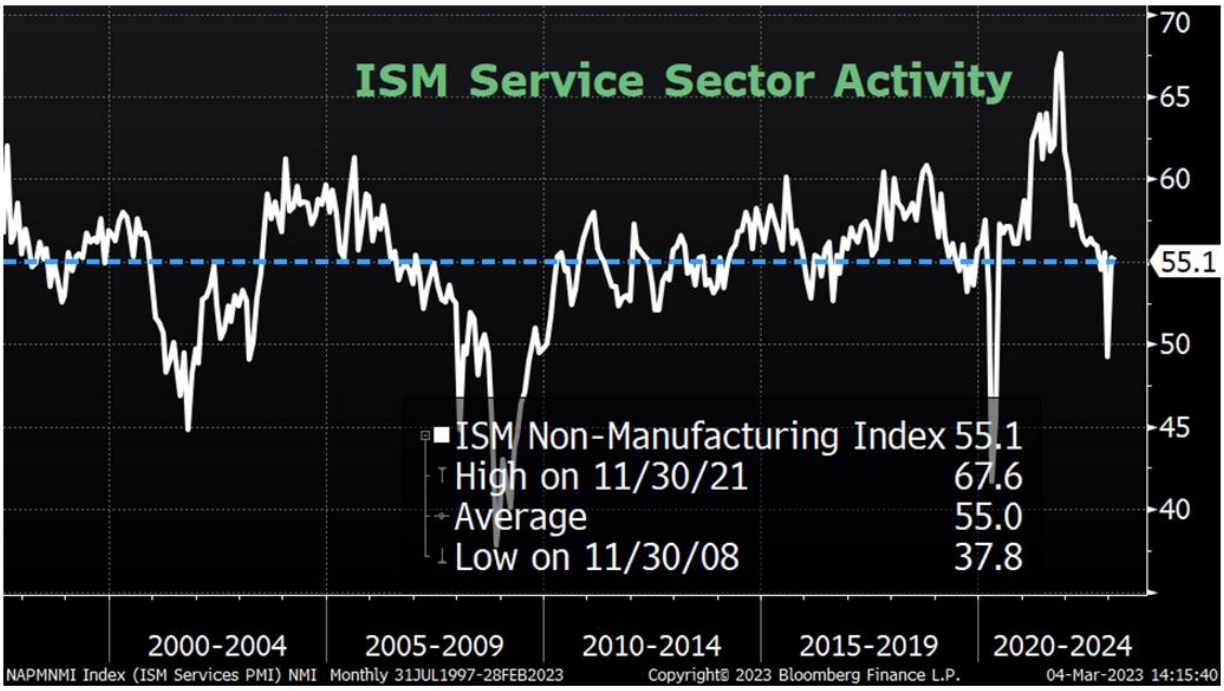


…and confounding the doom-and-gloom crowd who have been of the mind that a recession must be in the near-term cards. Though down from a 2023 high of 67.5%, the odds of an economic contraction, per Bloomberg, now stand at 60%,…

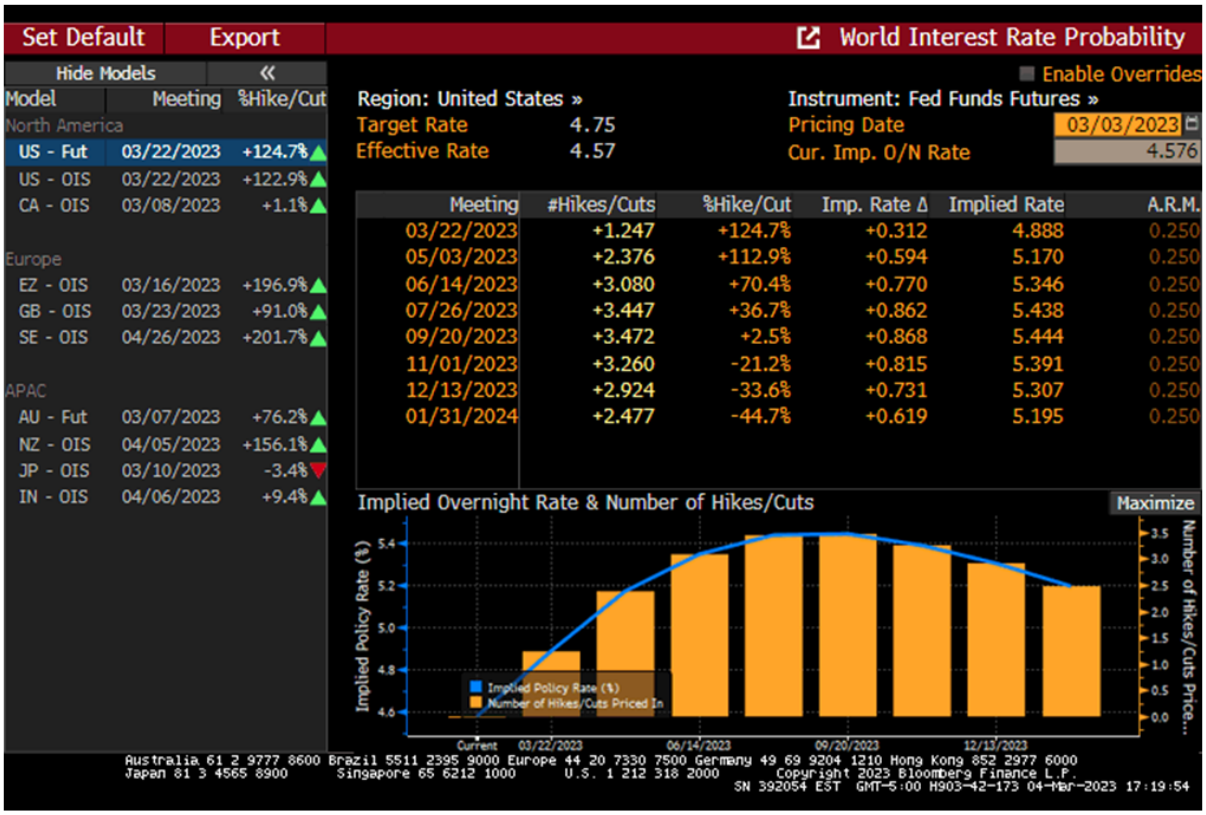
…which is interesting in that the latest projection for Q1 real (inflation-adjusted) GDP growth from the Atlanta Fed resided at a solid 2.3%.

The economic outlook evidently is clear as mud, with the same seemingly to be said for the path of future Federal Reserve interest rate hikes. While some had begun to price in a 50-basis-point boost to the Fed Funds rate at this month's FOMC meeting, equities staged a big rebound later on Thursday when Atlanta Fed President Raphael Bostic said that he supports a 25-basis-point increase, adding that there is a "plausible case" that prior hikes would still slow the economy.

That rally gained steam on Friday, even as the important ISM Services index beat Wall Street forecasts in scoring 55.1 in February, a number that coincides with a decent 1.8% increase in real GDP growth on an annual basis,…



…and the futures market ended the week with a more hawkish view of the peak (now 5.44%) in the Fed Funds rate as well as the year-end level than at the end of the prior week.



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As more or less has been the case for our entire 46-year history of publishing *The Prudent Speculator*, we believe that time in the market trumps market timing and we see no reason to alter our optimism for the long-term prospects of our broadly diversified portfolios of what we believe to be undervalued stocks.

CURRENT PORTFOLIO AND INDEX VALUATIONS

Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	12.5	12.6	0.8	2.3	2.8
ValuePlus	13.2	13.1	1.1	2.3	2.4
Dividend Income	12.6	12.7	0.7	2.3	3.3
Focused Dividend Income	13.4	13.2	1.0	2.5	2.9
Focused ValuePlus	13.8	13.5	1.2	2.7	2.6
Small-Mid Dividend Value	11.1	11.0	0.5	1.8	2.9
Russell 3000	20.4	18.9	2.1	3.7	1.7
Russell 3000 Growth	27.8	24.0	3.2	8.7	1.0
Russell 3000 Value	16.1	15.6	1.6	2.3	2.3
Russell 1000	19.9	18.7	2.2	3.9	1.7
Russell 1000 Growth	27.1	23.7	3.4	9.6	1.0
Russell 1000 Value	15.7	15.4	1.6	2.4	2.3
S&P 500 Index	19.4	18.4	2.3	4.0	1.7
S&P 500 Growth Index	19.3	19.5	3.1	6.7	1.4
S&P 500 Value Index	18.8	16.9	1.7	2.7	2.0
S&P 500 Pure Value Index	10.6	10.4	0.6	1.6	3.1

As of 03.04.23. 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.

That does not mean that there won't be downside volatility with which to contend and we concede that we have managed to avoid precisely zero of the 37 corrections of 10% or more that have taken place since the inaugural edition of our publication in March 1977.

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

However, every one of those downturns was followed by a rebound of far greater magnitude, so much so that returns on equities, especially Value Stocks and Dividend Payers have been fantastic over the past nearly 46 years.

LONG-TERM RETURNS

	Annualized Return	Standard Deviation
Value Stocks	14.1%	17.9%
Growth Stocks	10.9%	19.0%
Dividend Paying Stocks	12.3%	14.7%
Non-Dividend Paying Stocks	11.6%	22.4%
Long-Term Corporate Bonds	7.7%	10.1%
Long-Term Gov't Bonds	7.4%	11.2%
Intermediate Gov't Bonds	6.3%	5.3%
Treasury Bills	4.2%	1.0%
Inflation	3.6%	1.3%

From 03.31.77 through 01.31.23. 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

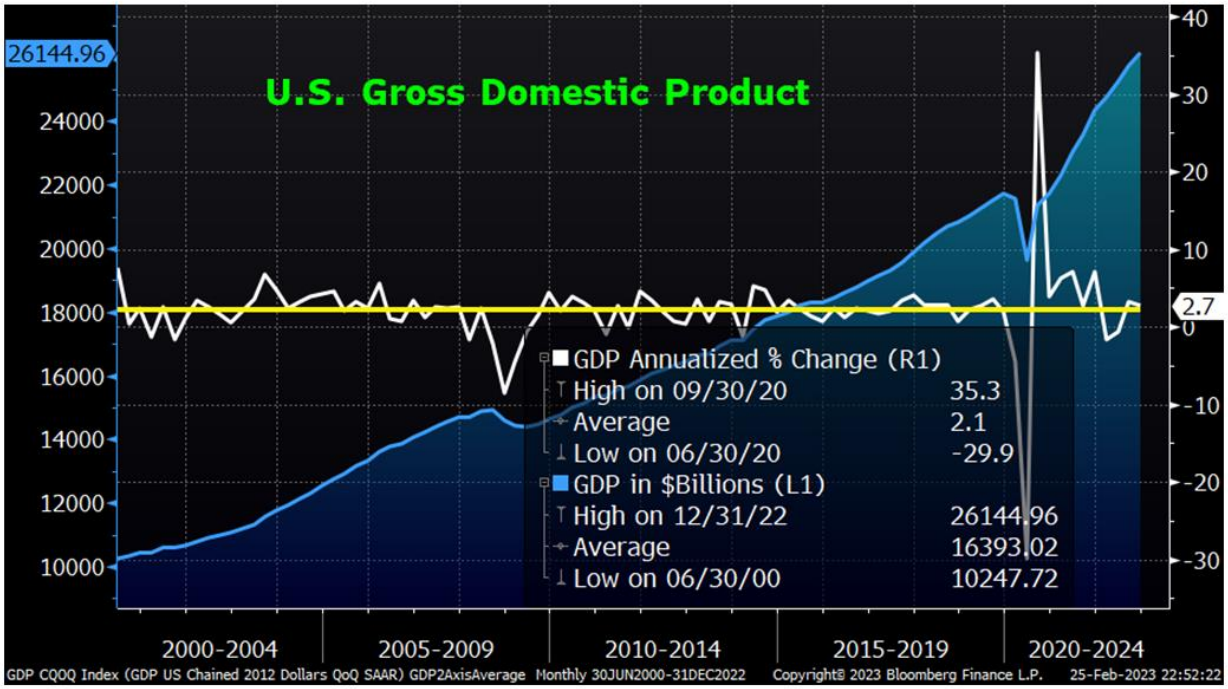
We would also add that even if we could somehow predict when a recession would begin and end, history suggests that on average anyone with a long-term time horizon would want to maintain their equity exposure.

U.S. Recession Commencement (per NBER) & Equity Returns
S&P 500 and Fama/French Value Performance

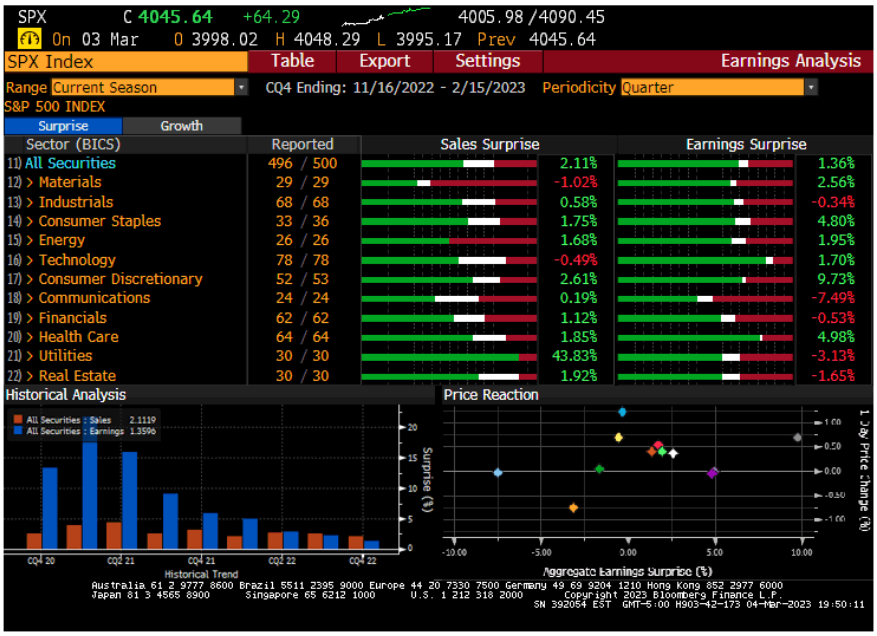
Year Prior S&P 500 TR	Year Prior FF Value TR	Recession Start Date	1 Year S&P 500 TR	1 Year FF Value TR	3 Year S&P 500 TR	3 Year FF Value TR	5 Year S&P 500 TR	5 Year FF Value TR	10 Year S&P 500 TR	10 Year FF Value TR
51.9%	30.6%	August 1929	-32.6%	-32.0%	-73.5%	-65.1%	-71.1%	-61.7%	-58.0%	-48.4%
18.2%	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

This would seem to go double for the current environment as nominal GDP is likely to show a healthy advance, even if inflation-adjusted growth suffers the modest retreat that so many have been projecting…



…with a relatively favorable economic environment continuing to provide a solid backdrop for corporate profits, which are still expected to show a sizable increase in 2023.



S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2023	$57.90	$219.13
9/30/2023	$56.75	$210.74
6/30/2023	$53.99	$204.34
3/31/2023	$50.49	$197.22
12/31/2022	$49.51	$196.09
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 2.28.23

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 Arizona utility **Pinnacle West** (PNW – $76.42) rose following the release of Q4 2022 financial results. Historically a weaker quarter for the utility, the stock rallied 4% last week as the company posted a loss of $0.21 per share versus the $0.18 loss expected by analysts. Revenue was $1.01 billion, compared to $799 million in the year-ago period.

CEO Jeff Guldner commented, "In looking back on 2022, it was no doubt one of our most challenging years in recent memory is we faced major financial headwinds and a financial reset resulting from the outcome of our last rate case. I'm going to provide several updates today and share the successes we were able to achieve, despite the challenges we faced. Coming out of last

rate case, we laid out a comprehensive plan and strategy and we met or exceeded nearly every target we set for ourselves, including delivering strong service reliability to our customers. We made significant progress in the last year but we're not done and we look forward to continuing to execute our plan."

Mr. Guldner added, "Looking forward, our goals for 2023 include, continuously improving our customer communication and engagement; achieving a constructive outcome in our pending rate case; and reliably serving customers through the tremendous growth in our service territory. And I want to once again recognize the near-term headwinds that are created by the unfavorable outcome of our previous rate case and how it will continue to make 2023 challenging. However, we believe in our ability to provide long-term value to both customers and shareholders and we look forward to executing our plan and continuing our proven cost management efforts all against the backdrop of Arizona's extraordinary economic expansion."

CFO Andrew Cooper said, "Our 2023 earnings guidance range is $3.95 to $4.15 per share. Although this is a decline from 2022 actual results, the range is comparable to our weather-normalized 2022 guidance range of $3.90 to $4.10 per share. We forecast steady customer growth and robust sales growth ahead in 2023. Headwinds for 2023 include higher benefit expense, interest expense and plant D&A. We continue to target declining O&M per megawatt-hour and believe our proven track record of cost management and lean initiatives will help us successfully navigate through this inflationary period. We continue to have a strong focus on O&M and look for opportunities to create efficiencies, reduce risk and keep our costs low to maintain affordable rates for our customers."

Mr. Cooper continued, "Looking at our forecasted customer growth, we expect it to remain strong and are maintaining the 1.5% to 2.5% guidance range for 2023. On sales growth we expect continued strength particularly in the C&I segments as economic diversification takes hold in areas such as semiconductor hubs, other large manufacturing and distribution. In fact, TSMC recently announced plans to build a second fab of the North Phoenix location increasing its original $12 billion investment to $40 billion. TSMC estimates site will employ 4,500 permanent jobs and increase from the earlier projection of 2,000. In addition, Procter & Gamble, also announced plans for $500 million investments in the manufacturing facility, creating 500 new jobs. Anchored by examples like these, we are expecting our weather-normalized sales growth range to be 3.5% to 5.5% for 2023."

Since opening the position in PNW, we believed it should benefit from rapid long-term growth potential in the Phoenix metropolitan area that is bolstered by major corporations committing to building infrastructure in the state. It was reassuring to hear management call that trend out in their quarterly commentary. PNW will always battle the Arizona Commission over rates, and we are unsurprised they have been able to work within the confines demanded upon them by the regulators. Shares have rallied sharply from the $59 low point in October and the 4.5% yield plus modest capital appreciation potential should be considered attractive as a low-beta exposure in a diversified portfolio. Our Target Price is now $88.

Target (TGT – $166.00) shares rallied over 3% at one point in trading on Tuesday before giving back those gains by the end of the week as the retailing giant turned in $1.89 of adjusted EPS for

Q4, which was higher than the Street's $1.48 estimate. Target continued to work through inventory, which affected gross and operating margins versus the prior year even as comparable sales grew 0.7%. Indeed, inventory at Q4 end was 3% lower than year ago, despite an increase in early receipts, while inventory in discretionary categories was 13% lower than a year ago.

CEO Brian Cornell commented, "We're focused on executing our long-term strategy, including continued differentiation through affordability, assortment, ease and convenience. At the same time, we're planning our business cautiously in the near term to ensure we remain agile and responsive to the current operating environment. We're pleased that we entered the year in a very healthy inventory position, reflecting our conservative approach in discretionary categories and our commitment to reliability in our frequency businesses. As we plan for the year ahead, we will continue to make robust capital investments and pursue efficiency opportunities in support of our long-term growth. We're proud of the loyalty and trust we've built with our guests, and want to thank our team for their ongoing commitment to delivering a truly exceptional and differentiated retail experience."

He added, "We recognize that the landscape is unpredictable and there are plenty of near-term challenges on the horizon. We believe 2023 will be a year in which the durability of our model allows us to flex up the categories and the value proposition that are most relevant to our guests today. We'll double down on execution. So, our guests get all they've been promised every time they turn to Target. And we'll stay focused on gaining share across our portfolio. Underpinning all that with the work we're doing around efficiency to provide fuel for longer term growth. We're optimistic about what this team can deliver. And realistic about how 2023 will keep challenging us to be agile, resilient, and responsive for our guests, our communities for each other and for our shareholders."

Target's EPS forecasts were lower than the Street's target, with the company projection between $1.50 and $1.90 for Q1 (vs. 2.19 est.) and between $7.75 to $8.75 for all of 2024 (vs. $9.25 est.) Nevertheless, management expects its operating income margin will reach, and begin to move beyond, its pre-pandemic rate of 6% by 2026, and aims for 6% as early as fiscal 2024, depending on the speed of recovery for the economy and consumer demand. Operating income in dollar terms is expected to grow more than $1 billion despite a flat sales projection at the midpoint.

The company has experienced missteps in the past and has done a good job correcting course under the guidance of Mr. Cornell. We expect more of the same going forward with significant progress in reducing inventory over the past year and we think the considerable appeal Target holds for consumers remains intact even as the Fed's tightening policy could affect consumer sentiment in the near term. The dividend yield is 2.6% and $9.7 billion remains under the share repurchase program. Our Target Price for TGT has been fine-tuned to $211.

Shares of **Goldman Sachs** (GS – $357.09) rode a roller coaster last week, dipping in the front half as management faced analyst questions at its *Investor Day* about recent decisions to pump the breaks on efforts to build a mass-market consumer banking division, before rallying with the overall market into the weekend. We had noted the business shift upon the release of Goldman's Q4 financial results when CEO David Solomon acknowledged that the financial titan "tried to do too much too quickly."

Mr. Solomon said at the latest event that Goldman's "Asset and Wealth management platform is the key driver for growth," a strategy that has worked for **Morgan Stanley** (MS – $98.33), in a push to drive a steadier earnings stream. Of course, the big bucks spent to transform the bank were masked in recent years as large investment banking fees and trading revenues carried the day.

It isn't ideal to watch the formerly venerable Wall Street giant undergo an identity crisis, but we do support efforts to make the business less volatile going forward. Meantime, the company remains tremendously profitable, while we expect deal-making to normalize. Despite the latest volatility, shares have outperformed the S&P 500 by about 15% over the past 12 months, yet they still trade for an inexpensive 10.6 times NTM EPS estimates. The dividend yield is 2.9% and our Target Price for GS is $430.

Shares of **Lowe's** (LOW – $199.73) finished the week slightly lower after the company reported fiscal Q4 financial results that included a top-line result below expectations and a bottom-line that outpaced the consensus analyst estimate. Adjusted EPS of $2.28 came in 3% better than the $2.21 expected on revenue for the home-improvement retailer of $22.45 billion (vs. the 22.73 billion forecast). U.S. comparable store sales for the three-month period were down a tad (-0.7%).

Management offered a 2023 full-year outlook that included: total sales between $88 billion and $90 billion, flat to -2% same stores sales comps, cap-ex of up to $2 billion and adjusted EPS between $13.60 to $14.00.

CEO Marvin Ellison commented, "Despite a modest decrease in sales, we once again improved our adjusted operating margin, while maintaining our disciplined focus on productivity. During the quarter, adjusted operating margin expanded approximately 88 basis points, leading to adjusted diluted earnings per share of $2.28, a 28% increase compared to last year."

He continued, "We continue to make strides on our Total Home strategy, with 10% Pro growth in the U.S. and 5% increase in Lowes.com sales. I am confident we are making the right investments – in our associates and in our business – to drive long-term growth. We also continue to improve operating margin, demonstrating our ongoing focus on driving productivity across the company."

Mr. Ellison concluded, "Turning to Canada. We completed the sale of our Canadian retail business to Sycamore Partners this quarter. As a result, we're now solely focused on the transformation of our US business. Well, we estimate that we have a $1 trillion addressable home improvement market, enabling us to invest more into higher return opportunities to grow our business and to take market share. I'd like to extend my appreciation to the entire Canadian team for their commitment to serving our customers and I wish them the best as they move forward under new ownership."

During the quarter, the company repurchased approximately 10 million shares of its stock for $2.0 billion. Given recent trends, we would not be surprised to see Lowe's buy back $8 billion to $10 billion more during 2023 (if business remains solid). We continue to like that Lowe's is

focused on improving its return on invested capital and that the company continues to share the wealth with stockholders. Shares are still down 15% from March 2022 highs and we believe this presents a nice entry point, given the reasonable 15 times NTM P/E multiple and significant EPS growth expected over the next three-to-five years. Our Target Price now resides at $264 and the dividend yield on LOW is 2.1%.

Shares of **Kohl's** (KSS – $27.94) fell more than 4% last week after the department-store retailer reported a surprise loss for Q4. Some could have argued that the share price downdraft should have been much greater given the poor results and the suspension of share repurchases, but investors seemingly have some belief in new CEO's Tom Kingsbury turnaround plan (aided by his past transformational work at Burlington). While the consensus analyst estimate was $1.01 for Q4, KSS reported a loss of -$2.49 per share. Revenue of $5.78 billion also came in 5% below the average expectation.

The quarter was materially impacted by the company's need for high discounting to get inventory back in check. Kohl's continues to struggle to find the optimal merchandising and pricing strategies to hold or gain share. While we think Mr. Kingsbury has reasonable plans to fix these and other problems (including initiatives around merchandising and pricing changes, enhancements to loyalty and credit card programs, debt reduction, and better inventory and cost control) they will take time to implement. For the coming year, management guided to a sales decline of 2% to 4%, an operating margin of 4.0%, and EPS of $2.10 to $2.70, while it drives strategic initiatives to get KSS back on track.

Mr. Kingsbury stated, "Kohl's fourth quarter results reflect meaningful proactive measures we took to better position the business for 2023, as well as sales pressure driven by the ongoing persistent inflationary environment. Kohl's has a solid foundation and a highly motivated team with a set of priorities to capitalize on what I see as a substantial opportunity to make a difference in the retail landscape."

He continued, "Our efforts to drive the business are already underway. We are refining our strategy and re-establishing merchandise disciplines with a customer-centric focus across the organization. I am confident that our efforts will drive improved, and more consistent, sales and earnings performance over the long-term."

Management still seems committed to paying the juicy dividend (current yield of 7.2%), and we like that the company retired $164 million of bonds that matured in February 2023 and expects to retire $111 million of bonds maturing in December 2023.

There is plenty to be concerned about with Kohl's (and retailers like it) but we see glimmers of optimism under Mr. Kingsbury's leadership and given grim sentiment following a throw-in-the-kitchen-sink Q4. Taking tough action seemingly leaves KSS with an improved chance for upside surprises, especially in the second half of the year. There is also reason to think Kohl's growing partnership with makeup brand Sephora will prove fruitful, and the company sits on valuable real estate that is attracting institutional investor interest. Earnings have been very volatile, but even after the terrible quarter and reduced guidance, KSS still trades at 11 times NTM earnings estimates. Our Target Price has been marked down to $42.

Despite a 3% bounce on Friday, shares of discount retailer **Big Lots** (BIG – $14.98) ended the week relatively flat. Of course, the company turned in another quarterly loss, but the adjusted Q4 EPS of -$0.28 was substantially better than the consensus analyst estimate of -$0.70. Revenue for the period of $1.54 billion was in line with the average forecast.

CEO Bruce Thorn said, "Despite the extremely difficult consumer environment throughout 2022, we've taken action to strengthen and transform our business model. Against that backdrop, we made sequential progress to improve our margins, tightly manage expenses, and right-size our inventories over the last few quarters…Even though our furniture business was adversely impacted by the unexpected closure of our largest vendor, we were able to deliver fourth quarter sales and gross margins that were in line with guidance. Further, our year-over-year inventories came down materially to appropriate levels. We also saw favorability in SG&A, as we tightly managed costs, and have further strengthened our balance sheet through asset monetization efforts. I remain impressed by the agility and efforts of the team, who once again delivered on our targets under challenging conditions."

Looking ahead, Mr. Thorn added, "As we enter 2023, we remain excited about the opportunity to provide more value to our customers, while improving our sales and earnings momentum as the year progresses. We continue to accelerate the transformation of our business through key action points. These include offering even more compelling opening price points and better bargains and treasures, which are easier to find and more convenient to shop. In addition, we will continue to take strides to meet our customer's needs, grow our relevance, and be more efficient across our fleet. We remain focused on growing margin, reducing expenses, and making highly disciplined investment decisions."

With regard to the full year, management said earnings momentum will be weighted towards the back half of the year, as key actions to improve the business gain traction, and as freight cost reductions continue to be realized. Given greater-than-usual uncertainty in the macroeconomic environment, the company said it is not providing formal full-year guidance.

BIG maintained its dividend of $0.30 per quarter, which leaves the current dividend yield at a whopping 8.0%, and the company still has $159 million of its authorized share repurchase program remaining. The $159 million still left represents 36% of the company's current market capitalization, though we doubt any additional shares will be bought back until the business sees dramatic improvement. We note that as the company continues to attempt to transform its business model, but we still think there is a better than average opportunity to right the ship at BIG as bargain shopping is arguably more valuable to consumers than ever today. As disappointing as the losses from the last few quarters have been, shares have fallen almost 60% over the last year. We continue to keep a close eye on BIG shares and weigh the risk/reward of ownership versus potentially swapping into other beaten-down retailers. Our Target Price for BIG has been pared to $25.

Kroger (KR – $45.98) reported $0.99 of adjusted EPS in Q4, a tally that beat the average analyst estimate ($0.91). Sales were $34.82 billion, up 5.4% year-over-year and in line with the $34.88 billion estimated, with a gross margin roughly in-line with the year-ago period. The grocer said it will make an incremental investment of more than $770 million in 2023 to raise average hourly

pay, improve healthcare options and build development opportunities for its associates. The stock gained 5% last week on the results.

CEO Rodney McMullen commented, "Kroger achieved exceptional results in 2022 as we executed on our Leading with Fresh and Accelerating with Digital strategy, building on record years in 2020 and 2021. We appreciate our associates for remaining customer-focused, delivering the products customers want, when and how they want them, with zero compromise on quality, convenience and selection. Our associates enable our success, and we are committed to investing in theirs by continuing to improve wages, comprehensive benefits and career development opportunities."

He added, "Providing affordable food is even more essential at a time when inflation is affecting so many of our customers' lives. We do this by delivering fresh products at a great value, trusted Our Brands items, and personalized promotions. Our proven go-to-market strategy enables Kroger to successfully navigate many operating environments. We believe that by delivering value for our customers, investing in our associates and serving our communities, Kroger will continue to achieve attractive and sustainable total returns for our shareholders."

We continue to like the competitive portfolio of house brands at Kroger, particularly within the fresh category, and appreciate the ballast that the stock has offered our portfolios through some rocky moments over the past couple of years. Shares have retreated 20% in the past 12 months, making the valuation an attractive 10 times forward EPS estimates. The dividend yield is 2.3% and our Target Price has been bumped up to $64.

Though they had initially been nicely higher in after-hours trading on Thursday, shares of **Hewlett Packard Enterprise** (HPE – $15.28) fell more than 1% on Friday after the company reported fiscal Q1 financial results that beat analyst estimates. The enterprise storage and networking concern earned an adjusted $0.63 per share in Q1 (versus $0.54 est.). Revenue for the company's largest segment, Compute, was $3.46 billion (vs. $3.35 billion est.), while Intelligent Edge had revenue of $1.13 billion and HPC & AI grew to $1.06 million. The 34.2% adjusted gross margin was ahead of the consensus estimate by 0.8%. Cash flow from operations totaled $829 million (vs. $1.42 billion est.).

CEO Antonio Neri commented, "From a macro perspective, the supply chain challenges we faced during several quarters continued to ease and we expect more of that throughout fiscal year 2023. As we mentioned at the close of fiscal year 2022, we do not anticipate all supply shortages coming to an end, but we do expect supply availability to continue to improve. Our order book at the start of Q1 was larger than it was a year ago. And as we exit that quarter, it is more than twice the size of normalized historical levels. Our Intelligent Edge, HPC & AI and other as-a-Service order books continue to stand at extremely elevated levels. Against today's macroeconomic backdrop, demand for our solutions continue, though it is uneven across our portfolio. We also see more elongated the sell cycles, specifically in Compute, than we have seen in recent quarters."

Mr. Neri continued, "We have kicked off fiscal year 2023 with another set of standout results, giving us the confidence to raise our revenue and non-GAAP earnings per share guidance for the

full fiscal year. Our customers are responding to the hybrid cloud value proposition we uniquely provide as they seek better ways to drive value from data from edge-to-cloud. We are attracting more customers and executing with discipline. As we look-forward, we remain laser-focused on executing our winning strategy, which is delivering unmatched innovation and significant results for our customers and shareholders. We are confident in our strategy and execution for the long-term."

For Q2 2023, HPE said it expects currency-adjusted revenue between $7.1 billion and $7.5 billion with EPS between $0.44 and $0.52. For the full year, HPE expects revenue growth between 5% and 7% and EPS between $1.40 and $1.48.

CFO Tarek Robbiati added, "We also believe our portfolio differentiation will continue to drive market share gains and are entering Q2 '23 with a substantial order book relative to pre-pandemic levels. We had strong momentum in Q1 '23, and we are now turning our focus to invest in sustaining that momentum in the second half of '23 and fiscal year '24 in a context of continuous macroeconomic uncertainty."

While the stock posted modestly positive returns in 2022 (amid broadly negative Information Technology returns), those gains have been given up in 2023. We think HPE has a healthy backlog and trades at a very reasonable single-digit P/E valuation with a 3.1% yield. The company's growth trajectory isn't as steep as some tech companies, which seems to explain the relative discount at least partially. We think with some sustainable execution, a little bit of relief on the currency front and growth in the underlying figures like earnings and revenue, HPE's future is bright. Our Target Price remains $22.

High-end department store **Nordstrom** (JWN – $19.80) reported Q4 results that matched analyst expectations, though the company's updated guidance several weeks ago led to significant target whacks. In the quarter, JWN earned $4.32 billion (vs. $4.37 billion est.), while net sales dropped 4.1% (vs. -3.6% est.). The company had 358 stores and digital sales represented 40% of total sales.

CEO Erik Nordstrom said, "Given the uncertain environment, we are executing with agility who took actions starting in Q3 to clear excess inventory and optimize our product mix. As a result, we are now in a much healthier position, with inventory levels down 15% from last year and in line with 2019 level. Well, this was the right strategy to better position our inventory levels for 2023. We implemented more markdowns than we had initially planned to achieve our goal. This was compounded by the softening trend, excess inventory levels and promotional intensity in our sector. As a result, our margins were lower than expected in the fourth quarter."

Mr. Nordstrom continued, "With [the business environment] in mind, we have decided to wind down our Canadian business over the next few months to simplify our operations and increase our focus on our core US business. We entered Canada in 2014 because we believed it presented a compelling opportunity and we are grateful for the many customer relationships we have built over the years. Despite our team's best efforts, including multiple initiatives to improve our outcomes, our Canadian business has not been profitable. The impact from COVID drove further losses with no realistic path to sustainable profitability."

Mr. Nordstrom closed, "The substantial disruptions and volatility in our business over the past 3 years had a significant impact on our inventory management and outcomes, including buy plans, receipt flows, stock levels, markdowns and turns. As supply chains have stabilized, we have an opportunity to return to pre-pandemic norms across these elements of our inventory management… As we enter 2023, we are ready to move forward. We have a clear set of priorities that we expect will drive improved performance in the near term while positioning us for longer-term profitable growth. We have made difficult decisions to increase our focus on executing against those priorities in our core business. We have a strong balance sheet and healthy cash flows, and we remain committed to putting the customer at the center of everything we do."

In fiscal 2023, JWN expects revenue to grow 4% to 6% with adjusted EPS between $1.80 and $2.20. Both windows have been modestly reduced compared to the figures offered in November. Shares have bounced more than 20% this year, but they continue to trade well below historical peaks. The valuation remains reasonable, too, with a forward P/E ratio near 11 and a dividend yield of 3.8%. Our Target Price is $30.

Broadcom (AVGO – $632.76) posted earnings of $10.33 (vs. $10.16 est.) per share in fiscal Q1 2023, sending shares 7% higher. The designer and supplier of semiconductor equipment reported revenue near $8.92 billion, roughly matching the analyst consensus estimate. Semiconductor Solutions revenue came in barely ahead of expectations at $7.11 billion, while Infrastructure Software revenue trailed slightly at $1.81 billion. In fiscal Q2, Broadcom expects to see $8.7 billion of revenue.

Broadcom CEO Hock Tan said, "From our view, infrastructure spending continues to be up, particularly in service providers even as hyperscale and enterprise sustain. Spending in technology for infrastructure has been strong, showing double-digit growth for nine consecutive quarters. We continue to be booked for fiscal '23 and our lead times and visibility on semiconductors remain largely at 50-weeks. While there have been a small number of requests to push out certain orders, we know that these are the exceptions and they have not had a material impact on our business. Because we ship linearly throughout the quarter to our customers, inventory on our books has been consistent around 80 days and overall inventory of Broadcom products across the ecosystem remains very well managed. We continue, needless to say, to be very disciplined in shipping our backlog only as and when needed by our end customers."

Mr. Tan updated investors on the VMWare acquisition, "We continue to make progress with our various regulatory filings around the world, having now receive legal merger clearance in Brazil, South Africa and Canada, and foreign investment control clearance in Germany, France, Austria, Denmark, Italy and New Zealand. As we stated on our last earnings call, we continue to anticipate that the timeline for the review process will be extended in other key regions, especially given the size of this transaction."

We like the company's purchase of VMware, which is only the latest transaction in a long string of acquisitions under Mr. Tan. Despite high valuations paid for some companies, AVGO continues to have a strong balance sheet and free cash flow is substantial. The yield is 2.9% and

the shares still trade for a reasonable 15 times NTM earnings. Our Target Price has been boosted to $756.