Market Commentary Monday, April 10, 2023

April 9, 2023

EXECUTIVE SUMMARY

Newsletter Trades – 5 Buys for 3 Portfolios, 1 Buy Still Left to Do
Sentiment – AAII Bulls Jump and Bears Plunge
Market Timing – Only Problem is Getting the Timing Right
Fear Sells – Accentuating the Negative from the Jamie Dimon Shareholder Letter
Opportunities – Dimon Perspective & Historical Evidence
Econ News – Weaker Data; But Monthly Jobs Numbers Impress
Valuations – Still Liking the Metrics for our Portfolios
Earnings – Healthy Corporate Profits in '23 and '24 Still the Projection
Stock News – Update on Energy, ALB, JNJ, WMT, AYI and LITE

Market Review

As discussed in the April edition of *The Prudent Speculator*, we bought the following for TPS Portfolio on Wednesday, April 5.

260 **Comerica** (CMA – $41.28) at $38.48
82 **PNC Fin'l** (PNC – $121.88) at $121.21
122 **Prudential Fin'l** (PRU – $83.36) at $81.88

As we always believe in full transparency, your editor also mistakenly bought 223 shares of **Bank of New York Mellon** (BK – $44.85) at $44.5952 for TPS Portfolio on August 5, when an additional $10,000 worth of **Bank of America** (BAC – $27.84) was the trade that was supposed to take place. We like and hold both companies in TPS Portfolio, but we will sell the extra BK and buy the desired BAC shares when trading resumes later today.

Also on Wednesday, April 5, in our hypothetical accounts we added 468 shares of **Gen Digital** (GEN – $17.27) at $17.02 to Millennium Portfolio and 216 shares of **Kohl's** (KSS – $22.66) at $23.50 to PruFolio.

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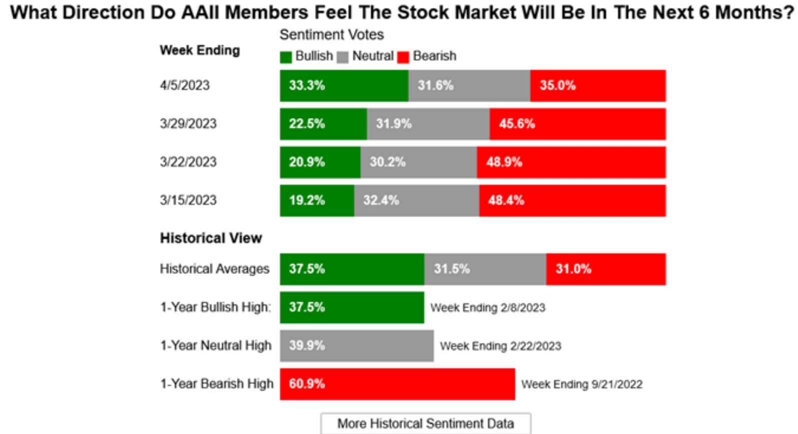
Perhaps the pullback last week in which the average stock in the Russell 3000 index dropped 2.5% can be blamed on the good folks at the American Association of Individual Investors (AAII). After weeks of significant pessimism on the Sentiment gauge, the sizable equity-market rebound over the last week of March moved a significant number of AAII members out of their negativity. Indeed, the tally of Bears fell by 10.6 percentage points to 35.0% and the count of Bulls rose by 10.8 percentage points to 33.3%, with the Bull-Bear spread rising to -1.7% from -23.1% the week prior.



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 = 7.01										
BELOW	-54.0	7.0	930	0.24%	0.20%	1.14%	1.01%	3.30%	2.91%	6.43%	5.67%
ABOVE	7.0	62.9	929	0.17%	0.16%	0.53%	0.44%	2.00%	1.75%	4.64%	4.15%
	Ten Groupings of 1859 Data Points										
1	-54.0	-17.0	188	0.41%	0.34%	2.12%	1.88%	4.61%	4.09%	8.31%	7.12%
2	-17.0	-9.0	184	0.23%	0.19%	0.88%	0.74%	3.44%	3.06%	6.01%	5.22%
3	-8.9	-2.6	186	0.33%	0.29%	1.02%	0.91%	3.45%	3.05%	7.65%	6.94%
4	-2.6	2.6	186	0.17%	0.13%	0.96%	0.86%	2.30%	1.91%	5.28%	4.71%
5	2.6	7.0	187	0.06%	0.03%	0.72%	0.63%	2.69%	2.43%	4.87%	4.34%
6	7.0	11.4	185	0.21%	0.20%	0.72%	0.64%	2.19%	1.97%	4.94%	4.49%
7	11.5	16.0	187	0.17%	0.15%	0.39%	0.25%	2.23%	1.96%	5.05%	4.54%
8	16.0	21.7	185	0.10%	0.09%	0.86%	0.79%	2.21%	1.97%	5.80%	5.38%
9	21.7	29.0	187	0.15%	0.13%	0.39%	0.31%	1.85%	1.55%	4.80%	4.24%
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 04.06.23. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

To be sure, the Bulls are still below the 37.5% average and the Bears are above the 31.0% average, but forward returns historically have been best when the AAII Bull-Bear Spread is tilted heavily toward fear and worst when greed is the dominant emotion. Indeed, investor sentiment is usually a contrarian measure as it is often far better to be greedy when others are fearful and fearful when others are greedy.

Of course, suppressing emotions is the hardest part of the investment process. Buying and selling is relatively easy – it is the holding that seems to cause the most problems. Unfortunately, far too many zig when they should have zagged, as the latest numbers on investor behavior from DALBAR vividly show that the only problem with market timing is getting the timing right. And, it is fascinating that bond-fund investors are even worse at remembering that time in the market trumps market timing!

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

The problem for many is that they are constantly bombarded with scary headlines that can lead to a detrimental decision to exit a long-term-oriented investment plan. As Lao Tzu states, “If you do not change direction, you may end up where you are heading,” but the sensationalistic 24/7 media world in which we reside today doesn’t make it easy to stay the course through thick and thin. However, no matter how disconcerting events may seem, history shows that the key to success in stocks is not to get scared out of them!

Event	Reaction Dates		S&P Start Value	S&P End Value	Event Gain/Loss	12 Months Later	36 Months Later	60 Months Later	Event End thru Present
Pearl Harbor	12/6/1941	12/10/1941	9.32	8.68	-7%	8%	51%	76%	47193%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	27267%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	24496%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	9534%
Suez Canal Crisis	10/30/1956	10/31/1956	46.37	45.58	-2%	-10%	26%	51%	8906%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	10431%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	7574%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	5797%
MLK Assassination	4/3/1968	4/5/1968	93.47	93.29	0%	8%	8%	16%	4300%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	5341%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	4354%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	5765%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	3801%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	4079%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	3336%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	2435%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	1577%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	1726%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	1198%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	990%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	897%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	826%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	798%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	712%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	368%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	328%
Clinton Impeachment	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	234%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	206%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	325%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	348%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	276%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	243%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	507%
Price Changes Only - Does Not Include Dividends				**Averages:**	**-7%**	**18%**	**39%**	**66%**	**5642%**

As of 4.6.23. Source: Kovitz using Bloomberg and Ned Davis Research Events & Reaction Dates

Alas, fear sells much better than greed and financial television, web sites and newspapers are in the business of attracting eyeballs, which often has little to do with helping those focused on multi-year time horizons achieve their long-term investment goals. A good example were headlines last week like, *Jamie Dimon Says Effects of Banking Crisis Will Be Felt for "Years to Come"* in conjunction with the release of the 2022 *Annual Report* letter from the **JPMorgan Chase** (JPM – $127.47) CEO.

Certainly, we do not mean to suggest that Mr. Dimon offered unicorns and rainbows as he wrote:

We are prepared for potentially higher interest rates, and we may have higher inflation for longer.

If we have higher inflation for longer, the Fed may be forced to increase rates higher than people expect despite the recent bank crisis. Also, QT may have ongoing impacts that might, over time, be another force, pushing longer-term rates higher than currently envisioned. This may occur even if we have a mild – or not-so-mild – recession, as we saw in the 1970s and 1980s.

Today's inverted yield curve implies that we are going into a recession. As someone once said, an inverted yield curve like this is "eight for eight" in predicting a recession in the next 12 *months. However, it may not be true this time because of the enormous effect of QT. As previously stated, longer-term rates are not necessarily controlled by central banks, and it is possible that the inversion we see today is still driven by prior QE and not the dramatic change in supply and demand that is going to take place in the future.*

However, there was little mention in the press that, historically speaking, Value Stocks and Dividend Payers, like those that we have long championed, have performed well no matter where the Fed Funds rate and benchmark 10-Year Treasury yield reside.

THE PRUDENT SPECULATOR

FED FUNDS RATE & EQUITY RETURNS

Consternation about the Fed is rampant, but Value Stocks and Dividend Payers have fared best at higher Fed Funds rate levels.

	Value 1 Year	Payers 1 Year	Value 3 Years	Payers 3 Years	Value 5 Years	Payers 5 Years
Federal Funds Rate Above 5.0%						
Mean	18.1%	14.5%	60.4%	45.3%	117.4%	81.7%
Median	20.5%	16.3%	59.3%	43.8%	114.4%	86.4%
Max	75.2%	64.8%	167.7%	133.7%	307.1%	260.6%
Min	-29.5%	-36.6%	-33.2%	-27.7%	-25.2%	-17.4%
Count	345	345	345	345	345	345
	Value 1 Year	**Payers 1 Year**	**Value 3 Years**	**Payers 3 Years**	**Value 5 Years**	**Payers 5 Years**
Federal Funds Rate Below 5.0%						
Mean	14.2%	10.3%	45.0%	35.0%	87.3%	68.6%
Median	14.9%	11.5%	47.8%	35.5%	82.2%	65.1%
Max	106.8%	58.4%	129.2%	117.8%	236.4%	215.9%
Min	-52.3%	-42.9%	-53.2%	-38.2%	-38.1%	-26.7%
Count	376	376	352	352	327	327

From 01.31.1962 through 01.31.2023. Rolling-12-Month subsequent returns. SOURCE: Kovitz using data from Bloomberg Finance LP and Professors Fama and French

10-YEAR YIELD & EQUITY RETURNS

Historically speaking, the yield on the 10-Year U.S. Treasury is low, but Value Stocks have performed well no matter the benchmark rate.

	Value 1 Year	Payers 1 Year	Value 3 Years	Payers 3 Years	Value 5 Years	Payers 5 Years
10-Year Treasury Yield Above 3.47%						
Mean	16.3%	11.8%	55.3%	38.6%	107.6%	73.1%
Median	18.6%	12.9%	55.3%	37.7%	104.7%	69.7%
Max	75.2%	64.8%	167.7%	133.7%	307.1%	260.6%
Min	-52.3%	-42.9%	-53.2%	-38.2%	-38.1%	-26.7%
Count	568	568	568	568	568	568
	Value 1 Year	**Payers 1 Year**	**Value 3 Years**	**Payers 3 Years**	**Value 5 Years**	**Payers 5 Years**
10-Year Treasury Yield Below 3.47%						
Mean	15.2%	14.4%	40.9%	47.0%	76.3%	87.7%
Median	11.9%	14.4%	38.9%	45.0%	77.2%	88.6%
Max	106.8%	58.4%	110.0%	94.9%	236.4%	177.7%
Min	-46.2%	-37.4%	-27.9%	7.6%	-12.6%	29.7%
Count	153	153	129	129	104	104

From 01.31.1962 through 01.31.2023. Rolling-12-Month subsequent returns. SOURCE: Kovitz using data from Bloomberg Finance LP and Professors Fama and French

The same can be said for inflation levels and when interest rates are moving higher or lower. Believe it or not, Value Stocks have performed very well, on average, over the ensuing one, three and five years when the consumer price index is at the current 6.0% level or higher, while the only thing that can be said with certainty when interest rates are rising is that long-term bonds do not perform well.

INFLATION (CPI) & EQUITY RETURNS

High inflation readings since 1962 have been quite positive, on average, for forward returns on Value Stocks and Dividend Payers.

	Value 1 Year	Payers 1 Year	Value 3 Years	Payers 3 Years	Value 5 Years	Payers 5 Years
CPI Above 6.0%						
Mean	23.6%	15.6%	91.5%	52.8%	190.9%	110.1%
Median	21.8%	17.1%	88.1%	51.5%	197.3%	110.0%
Max	75.2%	64.8%	167.7%	107.4%	307.1%	260.61%
Min	-28.0%	-36.6%	25.2%	16.7%	-7.5%	-10.5%
Count	110	110	106	106	106	106
	Value 1 Year	**Payers 1 Year**	**Value 3 Years**	**Payers 3 Years**	**Value 5 Years**	**Payers 5 Years**
CPI Below 6.0%						
Mean	14.7%	11.7%	45.7%	37.8%	86.2%	68.8%
Median	16.7%	12.9%	45.9%	37.0%	84.5%	67.0%
Max	106.8%	58.4%	149.4%	133.7%	278.3%	235.3%
Min	-52.3%	-42.9%	-53.2%	-38.2%	-38.1%	-26.7%
Count	611	611	591	591	566	566

From 01.31.1962 through 01.31.2023. Rolling-12-Month subsequent returns. SOURCE: Kovitz using data from Bloomberg Finance L.P and Professors Fama and French

INTEREST RATE DIRECTION & EQUITY RETURNS

A rising 10-Year U.S. Treasury yield often has been a significant headwind for long-term bonds...and a nice tailwind for Value stocks.

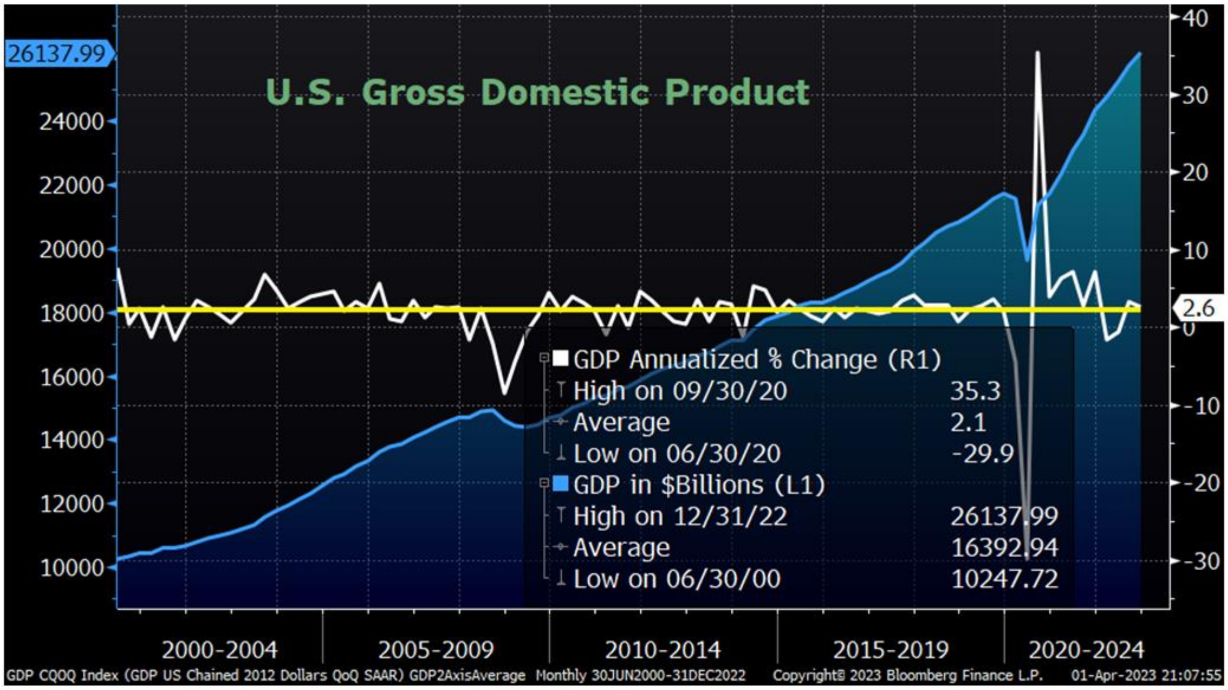
	Value 1 Year	Payers 1 Year	30-Day 1 Year	IT Govt 1 Year	LT Corp 1 Year	LT Govt 1 Year
10-Year Treasury Up Over 12 Months						
Mean	17.8%	11.6%	4.8%	2.5%	0.8%	-0.7%
Median	17.5%	12.8%	4.6%	2.8%	1.5%	0.4%
Max	106.8%	58.4%	15.2%	16.2%	24.4%	15.3%
Min	-29.5%	-36.6%	0.0%	-11.8%	-31.3%	-28.7%
Count	376	376	376	376	376	376
	Value 1 Year	**Payers 1 Year**	**30-Day 1 Year**	**IT Govt 1 Year**	**LT Corp 1 Year**	**LT Govt 1 Year**
10-Year Treasury Down Over 12 Months						
Mean	14.2%	13.1%	4.1%	10.4%	14.6%	15.6%
Median	16.7%	13.4%	4.6%	9.7%	14.3%	13.5%
Max	75.2%	64.8%	14.1%	32.7%	46.7%	54.4%
Min	-52.3%	-42.9%	0.0%	1.3%	-14.9%	2.7%
Count	345	345	345	345	345	345

From 01.31.1962 through 01.31.2023. Rolling-12-Month concurrent returns. IT is Intermediate Term. LT is Long Term. SOURCE: Kovitz using data from Bloomberg Finance L.P and Professors Fama and French

We realize that past performance is never a guarantee of future results, but we think the plunge in the prices of many stocks over the last year or so discounts a significant amount of bad news that may or may not materialize.

Further, as Mr. Dimon stated, “While focusing on the risks, it’s also important not to forget the opportunities. The transition to a green economy will eventually require $4 trillion a year in capital expenditures. The IRA, CHIPS Act and Bipartisan Infrastructure Law combined will create huge opportunities for companies, investors and entrepreneurs across virtually every industry group in the United States. You can rest assured that our company is organizing to help clients make the most of these opportunities.”

He concluded, “Finally, when one talks about risk for too long, it begins to cloud your judgment. Looking ahead, the positives are huge. However events play out, it is likely that 20 years from now, America’s GDP will be more than twice the size it is today, and hundreds of millions of people around the world will have been lifted out of poverty.”



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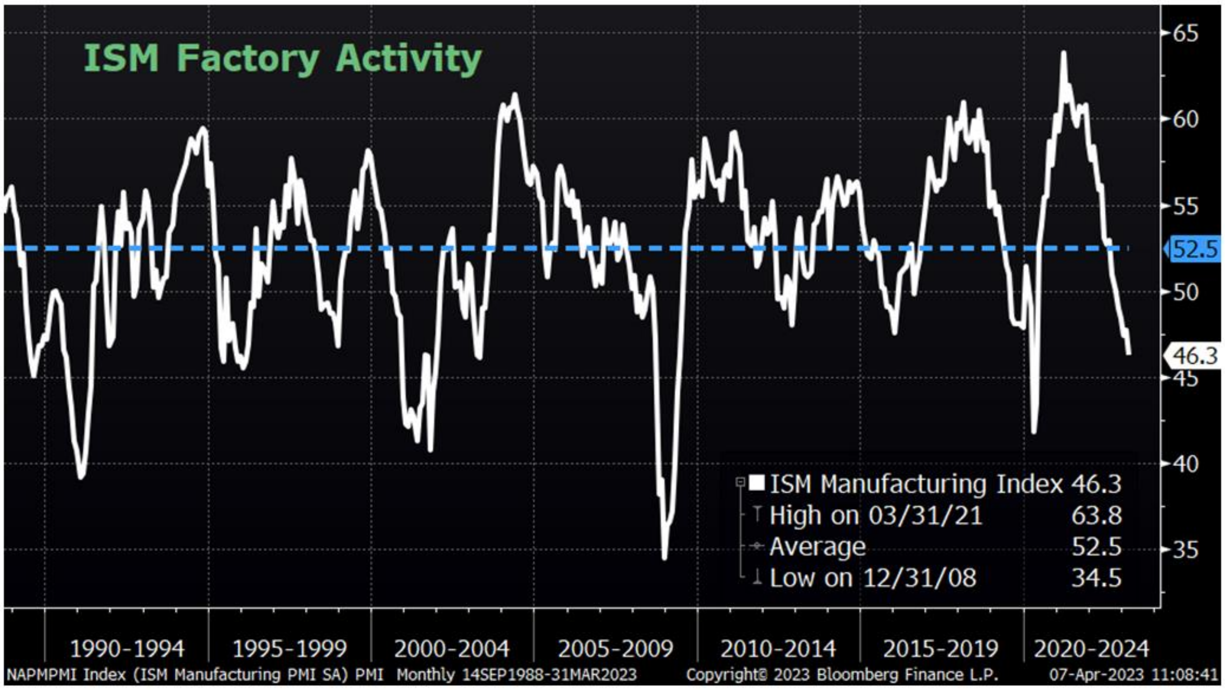
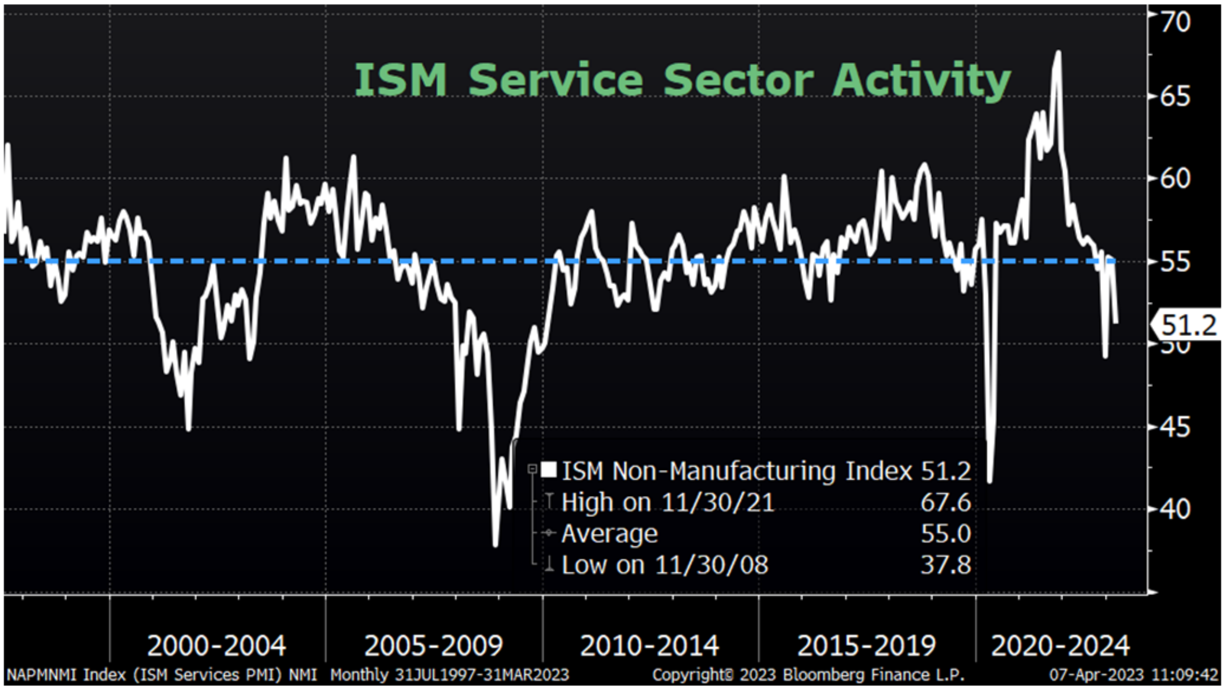
While the long-term trend in GDP growth is significantly higher, we realize that short-term equity market movements will be heavily influenced by the constant stream of economic statistics. Last week's figures generally were pointing to a weaker near-term economic outlook as the number of job openings in February came in lower than expected, while the count of first-time filings for unemployment benefits in the most recent week hit 228,000, above levels we had been seeing in prior weeks.

In addition, the important March read on the health of the factory sector from the Institute of Supply Management (ISM) was weaker than expected at 46.3, down from 47.7 in February. ISM stated, “The past relationship between the Manufacturing PMI® and the overall economy indicates that the March reading (46.3 percent) corresponds to a change of minus-0.9 percent in real gross domestic product (GDP) on an annualized basis.”



The ISM gauge on the health of the even-more-important services sector also was below projections, falling to 51.2 in March, down from 55.1 the month prior. Of course, ISM said, “The past relationship between the Services PMI® and the overall economy indicates that the Services PMI® for March (51.2 percent) corresponds to a 0.5-percent increase in real gross domestic product (GDP) on an annualized basis.”



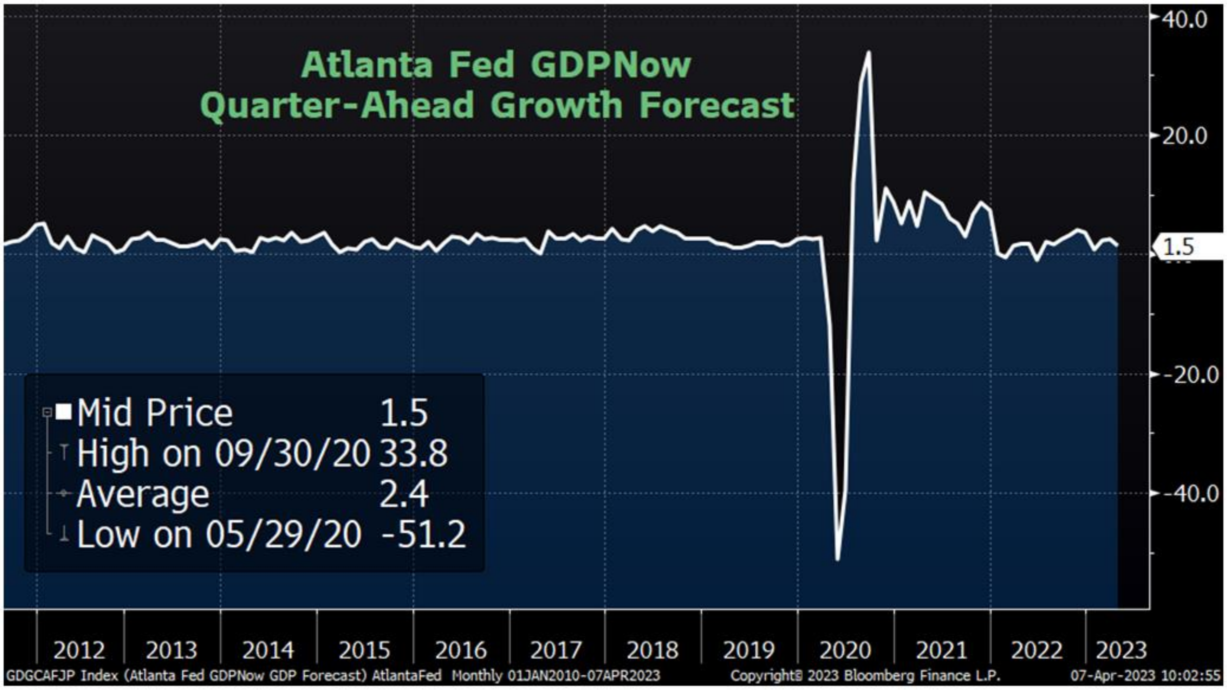
Interestingly, that 0.5% increase in GDP is in line with the most recent full-year 2023 U.S. growth projection from the Federal Reserve,…

Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, March 2023

Percent

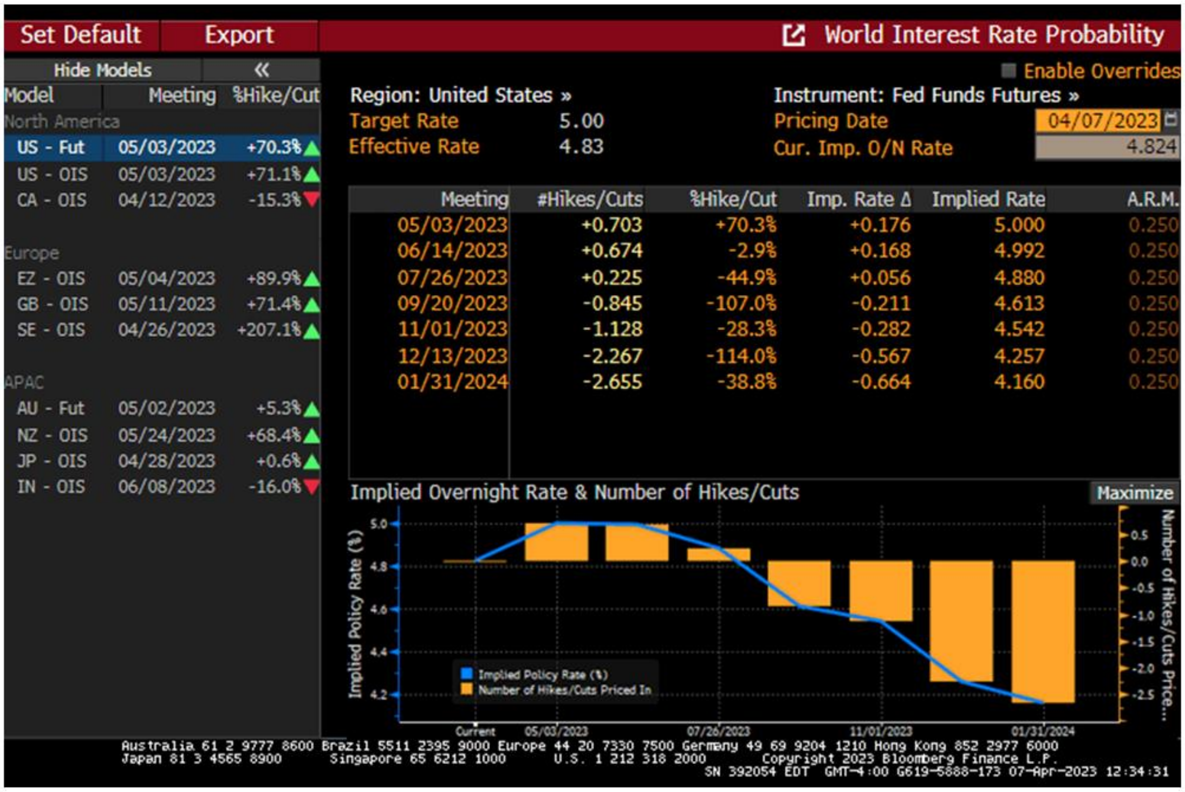
Variable	Median[1]				Central Tendency[2]				Range[3]			
	2023	2024	2025	Longer run	2023	2024	2025	Longer run	2023	2024	2025	Longer run
Change in real GDP	0.4	1.2	1.9	1.8	0.0–0.8	1.0–1.5	1.7–2.1	1.7–2.0	-0.2–1.3	0.3–2.0	1.5–2.2	1.6–2.5
December projection	0.5	1.6	1.8	1.8	0.4–1.0	1.3–2.0	1.6–2.0	1.7–2.0	-0.5–1.0	0.5–2.4	1.4–2.3	1.6–2.5
Unemployment rate	4.5	4.6	4.6	4.0	4.0–4.7	4.3–4.9	4.3–4.8	3.8–4.3	3.9–4.8	4.0–5.2	3.8–4.9	3.5–4.7
December projection	4.6	4.6	4.5	4.0	4.4–4.7	4.3–4.8	4.0–4.7	3.8–4.3	4.0–5.3	4.0–5.0	3.8–4.8	3.5–4.8
PCE inflation	3.3	2.5	2.1	2.0	3.0–3.8	2.2–2.8	2.0–2.2	2.0	2.8–4.1	2.0–3.5	2.0–3.0	2.0
December projection	3.1	2.5	2.1	2.0	2.9–3.5	2.3–2.7	2.0–2.2	2.0	2.6–4.1	2.2–3.5	2.0–3.0	2.0
Core PCE inflation[4]	3.6	2.6	2.1		3.5–3.9	2.3–2.8	2.0–2.2		3.5–4.1	2.1–3.1	2.0–3.0	
December projection	3.5	2.5	2.1		3.2–3.7	2.3–2.7	2.0–2.2		3.0–3.8	2.2–3.0	2.0–3.0	
Memo: Projected appropriate policy path												
Federal funds rate	5.1	4.3	3.1	2.5	5.1–5.6	3.9–5.1	2.9–3.9	2.4–2.6	4.9–5.9	3.4–5.6	2.4–5.6	2.3–3.6
December projection	5.1	4.1	3.1	2.5	5.1–5.4	3.9–4.9	2.6–3.9	2.3–2.5	4.9–5.6	3.1–5.6	2.4–5.6	2.3–3.3

…while the current estimate for Q1 GDP growth from the Atlanta Fed is 1.5%.

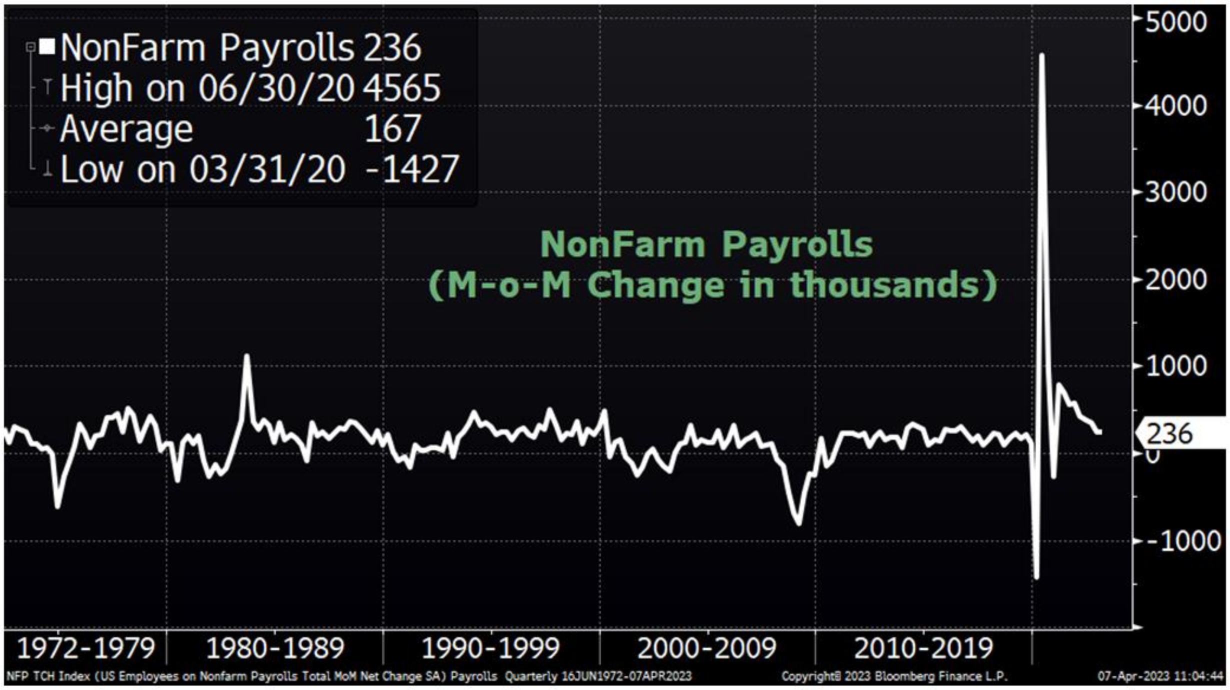


Those positive GDP figures would seem to be optimistic, if the latest calculation from *Bloomberg* of a 65% probability of a recession in the next 12 months is to believed,…

…while the Fed Funds futures market is projecting a much-less-hawkish Federal Reserve going forward, given a current view of a 4.26% year-end rate, down from the current target rate of 5.0%.



Lest anyone think the economy is falling off a cliff, Friday's jobs report was of the Goldilocks variety (not-too-hot and not-too-cold) as a solid and roughly in-line-with-estimates 236,000 new payrolls were created,…



…while the unemployment rate edged down to 3.5%, but average hourly earnings rose "only" 4.2% on a year-over-year basis, with wage pressures falling to a nearly two-year low and dropping from 4.6% in February.

Obviously, the economic crystal ball is cloudy, and there very well could be a recession in the cards. So, in the April edition of *The Prudent Speculator*, we looked at all of the National Bureau of Economic Research's (NBER) declared recessions since 1929 and calculated returns for Value Stocks and Dividend Payers preceding, during and following each economic contraction.

THE PRUDENT SPECULATOR

Modest equity losses could be avoided if one knew in advance when a recession officially began and when it ended, but unless one's timing was perfect, it is likely that a trader would be sitting on the sidelines before and after an economic contraction, missing out on sizable rewards.

Recession Start Date	Recession End Date	One Year Prior Value	One year Prior Div Payers	Return During Value	Return During Div Payers	One Year Post Value	One Year Post Div Payers	Five Years Post Value	FIve Years Post Div Payers
08.31.1929	03.31.1933	30.9%	44.4%	-81.0%	-77.8%	205.5%	101.9%	123.3%	99.3%
05.31.1937	06.30.1938	42.0%	14.3%	-43.1%	-21.5%	-14.5%	2.1%	128.7%	58.2%
02.28.1945	10.31.1945	54.5%	30.0%	25.6%	20.0%	-2.3%	-4.5%	75.7%	58.1%
11.30.1948	10.31.1949	4.8%	2.4%	11.4%	15.7%	43.4%	31.2%	174.6%	153.9%
07.31.1953	05.31.1954	4.7%	3.0%	13.6%	22.8%	60.2%	38.1%	200.7%	151.2%
08.31.1957	04.30.1958	-0.4%	-1.0%	-2.0%	-0.2%	61.1%	42.7%	129.3%	102.3%
04.30.1960	02.28.1961	-6.4%	-2.5%	21.5%	21.5%	16.9%	14.6%	136.8%	73.7%
12.31.1969	11.30.1970	-20.9%	-10.9%	1.1%	-2.3%	11.1%	12.5%	44.1%	28.7%
11.30.1973	03.31.1975	-19.3%	-17.5%	13.0%	-3.3%	51.7%	31.4%	156.1%	76.4%
01.31.1980	07.31.1980	30.5%	24.0%	3.5%	8.7%	23.2%	16.4%	207.3%	109.4%
07.31.1981	11.30.1982	23.2%	16.4%	33.1%	15.7%	39.5%	25.6%	122.8%	99.8%
07.31.1990	03.31.1991	-7.3%	4.2%	5.1%	8.6%	25.6%	13.4%	150.6%	102.1%
03.31.2001	11.30.2001	22.3%	7.9%	3.7%	0.5%	-11.6%	-10.1%	93.4%	47.3%
12.31.2007	06.30.2009	-7.9%	4.9%	-39.2%	-34.4%	24.5%	14.2%	156.5%	136.5%
02.29.2020	04.30.2020	-9.7%	5.6%	-16.9%	-3.4%	85.8%	47.0%	N/A	N/A
	AVERAGE	**9.4%**	**8.4%**	**-3.4%**	**-2.0%**	**41.3%**	**25.1%**	**126.7%**	**86.5%**

Returns are not annualized. SOURCE: Kovitz using data from Bloomberg Finance LP and Professors Fama and French

Equity returns in the lead-up to the recessions are generally good (averaging 9%) and we think one wouldn't want to miss out on those gains. Not owning stocks during recessions would spare modest losses, but the NBER doesn't determine recessions in real time, meaning the recording lag significantly complicates timing this type of trade. And, the performance numbers have been stellar, on average, coming out of recessions!

Not surprisingly, though we always are braced for near-term downside volatility, we see little reason to alter our enthusiasm for the long-term prospects of our broadly diversified portfolios of what we believe to be undervalued stocks,…

CURRENT PORTFOLIO AND INDEX VALUATIONS

Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	11.9	12.1	0.8	2.1	3.0
ValuePlus	12.6	12.3	1.1	2.1	2.6
Dividend Income	11.8	12.1	0.7	2.0	3.4
Focused Dividend Income	12.6	12.5	1.0	2.3	3.1
Focused ValuePlus	13.1	13.0	1.2	2.4	2.7
Small-Mid Dividend Value	10.1	9.9	0.5	1.5	3.1
Russell 3000	20.4	19.0	2.1	3.7	NA
Russell 3000 Growth	28.6	24.8	3.3	9.0	NA
Russell 3000 Value	15.7	15.3	1.5	2.3	NA
Russell 1000	20.0	18.8	2.2	3.9	NA
Russell 1000 Growth	28.0	24.6	3.5	9.9	NA
Russell 1000 Value	15.4	15.1	1.6	2.4	NA
S&P 500 Index	19.6	18.7	2.3	4.0	NA
S&P 500 Growth Index	20.3	20.6	3.3	7.0	NA
S&P 500 Value Index	18.8	16.9	1.7	2.7	NA
S&P 500 Pure Value Index	9.7	9.8	0.6	1.4	NA

As of 04.06.23. 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.

…especially as corporate profits still are expected to remain healthy even with the economic headwinds.

S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2024	$65.04	$244.52
9/30/2024	$62.90	$237.23
6/30/2024	$59.92	$230.65
3/31/2024	$56.66	$224.40
12/31/2023	$57.75	$217.77
9/30/2023	$56.32	$210.39
6/30/2023	$53.67	$204.42
3/31/2023	$50.03	$197.62
ACTUAL		
12/31/2022	$50.37	$196.95
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

Source: Standard & Poor's. As of 4.6.23

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 several of our recommendations.

Energy stocks rallied to open trading last week with the S&P Energy Index gaining 5% at the Monday market open as a group of major international oil producers led by Saudi Arabia said they would reduce production by over one million barrels per day (b/d) starting in May. The move came just two weeks after the band of producers raised its forecast for China oil demand growth by over 100,000 b/d, to 710,000 b/d (from 590,000 b/d), and up from its 510,000 b/d forecast in February.

Of course, as discussed above, economic growth in the U.S. is in question, while the same can be said for the rest of the world, so we respect that the demand side of the energy price equation is problematic. However, we also are of the mind that limited investment in exploration and development in recent years, along with political rhetoric against fossil fuel production is likely to lead to reduced supply in the years ahead. And, if the past decade is any guide, forecasting crude price gyrations with any precision remains an elusive endeavor..

Nonetheless, we remain optimistic about our exposure to a basket of energy names that includes pure producers, refiners and integrated majors. With earnings for several of our companies in the energy patch due over the next month, we continue to look for opportunities to potentially trim some of our bigger positions, while perhaps adding a new name.

Turning to alternative energy companies, shares of specialty chemicals maker **Albemarle** (ALB – $194.68) fell almost 12% last week as the stock received a few downgrades over concerns about additional near-term lithium pricing weakness. Lithium prices have fallen some 30% this year, after a wild two-year period that saw them rocket upwards. Slowing demand for electric vehicles, especially in China, is to blame, though we wonder if this changes course as the Middle Kingdom continues to reopen from COVID shutdowns.

"It will be a bumpy couple of months," said Eric Norris, president of lithium at ALB. Despite the recent lithium pricing pullback, prices are still high enough to motivate Albemarle and others to move forward with new projects, such as ALB's recently announced plans to build a $1.3 billion lithium-processing facility in South Carolina. According to Mr. Norris, ALB expects the retreat in lithium prices to be short-lived.

As we often point out, our investment time horizons (3-to-5 year minimum) do not align with the 6-to-12-month target prices of the average Wall Street analyst. Our focus continues to be on the long-term demand for lithium as major parts of the world move towards not only encouraging electric vehicle purchases but limiting or eliminating sales of internal combustion engine vehicles over the next decade or two.

In addition, ALB has been in the news over the last few weeks as the company continues to look to expand its long-term lithium sources (which is pre-production spodumene). These efforts include an unsolicited buyout bid of Australian miner Liontown Resources (LTR). It wasn't the first offer ALB has made for LTR. The latest bid of $3.4 billion is the third proposal, after ALB twice proposed lower prices on March 3, 2023, and October 20, 2022. ALB has been accumulating LTR shares in the open market, with its ownership now at nearly 5% of shares outstanding. LTR's primary prospect is the Kathleen Valley mine in Australia, which is expected to begin spodumene concentrate production by mid-2024. If ALB was somehow successful in an LTR acquisition, this would be the 4th leg of its spodumene portfolio (including Greenbushes, Wodgina and Kings Mountain).

With decades of experience, we realize that commodity prices go through booms and busts, which is why we have previously taken money off the table on our ALB position. But with the recent weakness in shares, we see a long-term opportunity to add to holdings or establish a new position. 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 company guidance of $29.50. ALB trades for less than 7 times NTM earnings, and it is worth considering even if we cut the consensus analyst 2024 expectation of $27.53 by 25%, the P/E ratio would still be below 10 (a nice margin of safety in our view). While we do not believe near-term pricing weakness or analyst downgrades change the intermediate-to-long-term thesis of ALB at this point, our Target Price for ALB is now $387.

Shares of health care titan **Johnson & Johnson** (JNJ – $165.15) jumped 6.5% last week after the company said it would pay up to $8.9 billion over 25 years to settle thousands of lawsuits alleging that cosmetic talc in its products was connected to cancers, asbestos poisoning and other illnesses.

The proposed settlement would be paid through a subsidiary, which filed for bankruptcy to enable the $8.9 billion trust, Johnson & Johnson said in a court filing. If a bankruptcy court approves, the agreement will resolve all current and future claims involving JNJ products that contain talc, such as baby powder.

In a statement, a group of lawyers who represent nearly 70,000 plaintiffs, described the deal as a "landmark." Still, for the terms to become final, the court would first have to accept a new bankruptcy filing by the Johnson & Johnson subsidiary, LTL Management, and the settlement itself, while the company also needs to persuade enough claimants to support the settlement plan.

Johnson & Johnson created LTL in 2021 in a maneuver to shield itself from the talc litigation, but an earlier bankruptcy filing by the unit was challenged by the plaintiffs and dismissed this year by a U.S. appeals court, which ruled that a bankruptcy wasn't the right way to resolve the matter. If approved, the settlement would end a long-running legal drama that has weighed on Johnson & Johnson's image and kept a cloud over its stock price.

On a Wednesday conference call, J&J management emphasized that the bankruptcy filing this time around is different from last time because it now has a majority of claimants (~60K out of 90K estimated total claimants) who are supportive of the resolution based on the current terms. As such, it is confident that it can meet the 75% threshold of claimants' support to get the deal approved in accordance with the bankruptcy code. In addition, the company believes that it has also addressed the "technical" dismissal of the bankruptcy case, whereby the court stated that LTL was not in immediate distress because of J&J's promise of funding support regardless of the bankruptcy case by revising the funding agreement such that J&J only provides funding through bankruptcy. That said, the terms are not finalized yet, and there is work left to do, so there is still a possibility that a higher settlement amount may be needed to pass the 75% hurdle. Still, any incremental amount would likely keep the total in the $8.9 billion to $10.5 billion range.

Despite a lot of overall operational momentum for JNJ, the company has continued to face plenty of litigation. This settlement would remove numerous questions, but we note the ultimate outcome remains somewhat uncertain. We have long liked our exposure to the name even as the earnings multiple is roughly in line with the market and we note that every stock is fighting for its spot in our portfolios amidst ongoing market volatility. Still, with a dividend yield is 2.7%, our Target Price for JNJ is now $207.

Shares of mega-discount retailer **Walmart** (WMT – $150.80) rose last week following the company's Investment Community Meeting that kicked off on Tuesday.

WMT reiterated fiscal 2024 guidance (total company sales +2.5%-3.0% (constant currency basis), Sam's Club comps (ex-fuel) of +5.0%, International sales growth of +6.0% and EPS of $5.90 to $6.05. The company also confirmed its three-to-five year outlook for 4% sales growth & 4%+ EBIT growth. Revenue momentum should be supported by continued strength in grocery as well as WMT's increasing focus on gaining share in general merchandise. Continued momentum in pickup/delivery (where WMT has seen a 40% compound annual growth rate over the last 5 years) should also be a key driver, especially as these customers shop more frequently across all channels. WMT also sees sustained mid-single digit sales growth at Sam's Club from new clubs (30 in next few years) and membership growth, with International posed to grow even faster at high-single digits or better with all major markets contributing (especially Mexico & India).

"We are in a unique position to serve our customers and members however they want to shop, which will fuel continued growth," said CEO Doug McMillon. "As we grow, we will improve our operating margin through productivity advancements and our category and business mix, and drive returns through operating margin expansion and capital prioritization."

WMT said it is focused on reengineering its supply chain to fulfill customer needs with a more intelligent and connected omnichannel network that is enabled by greater use of data, more intelligent software and automation. The outcomes should improve in-stock, inventory accuracy and flow whether customers shop in stores, pickup or have a delivery.

Management showcased its supply chain innovation at a Brooksville, Fla., regional distribution center, as one piece of how the company is building a scaled system of supply chain capabilities that uses a combination of data, software and robotics. Through automation and state-of-the-art technology, the company illustrated how the increased item storage allows the distribution center to provide a more consistent, predictable and higher quality delivery service to stores and customers and react more quickly to customer demand. By the end of fiscal year 2026, Walmart believes roughly 65% of stores will be serviced by automation, approximately 55% of the fulfillment center volume will move through automated facilities and unit cost averages could improve by approximately 20%.

Walmart also shared how the company expects its growth investments to transform its financial profile, centering on three key building blocks: sales growth from its omni-channel business model; diversifying earnings streams through improved category and business mix; and scaling proven, high-return investments that drive operating leverage and improve incremental operating margins.

"We believe that we have the building blocks in place to help define the next chapter of retail and do so while driving strong growth and shareholder returns," said CFO John David Rainey. "Looking at where we are today, we believe that approximately 4% sales growth, and growing operating income at a faster rate, are still the appropriate targets for our business over the next 3-5 years. The investments we've made have positioned us well and stand to generate steady and sustained growth at higher margins. Achieving our targeted 4% sales growth over the next five years would add more than $130 billion of sales on top of our roughly $600 billion base today. On top of that, we think the opportunity for operating income growth over the next 3-5 years could be better than what we've outlined."

We continue to be optimistic about WMT shares and see them as a cornerstone consumer holding in our portfolios. We think it is reasonable to assume margin expansion will continue over the next several years as WMT's business model evolves (advertising, fulfillment services and investments in FinTech and HealthCare) and efficiencies are realized from various automation and supply-chain projects. Our Target Price has been boosted to $168.

Acuity Brands (AYI – $158.66) posted EPS of $3.06 in fiscal Q2 ended February, vs. the $2.74 Street estimate. The figure was 19% higher year-over-year although the $943.6 million of sales came in lighter than Wall Street consensus ($958.6 million). Gross and operating margins improved year-over-year, however, to 43% and 14%, respectively, which management says is a result of price and cost management. Investors seemed to zero in on management's comments about the lighting and control systems company's slowing order rate as the stock shed 13% of its value last week.

CEO Neil Ashe elaborated, "As you know, there are meaningful changes in the economic climate. During the quarter, we began to see a slowing in the order rate for our project business, while we continue to work through our extended backlog. We believe that the slower order rate is driven by the lead time compression that we discussed last quarter, and now the changing C&I lending environment."

He continued, "At the same time, our Contractor Select business continue to be strong. We will continue our focus on end markets and identifying new ways to grow. As we deal with these changing market conditions, our focus is on generating profits and turning those profits into cash. We are continuing to manage the price cost relationship and will continue to generate strong cash flow."

We continue to think Acuity is sufficiently capitalized to weather the obstacles facing most businesses today and we are patient in waiting for the company to realize the multiple channels for growth once the tide eventually turns for the economy, particularly within its Intelligent Spaces segment. Following the recent slide, shares trade for less than 12 times EPS estimates that have been drastically reduced for the next couple of years. Our Target Price for AYI has been tapered to $240.

Already depressed shares of **Lumentum** (LITE – $46.33) fell 14% after the networking equipment concern reported preliminary results for fiscal Q3 via press release.

"Late in our fiscal 2023 third quarter, a network equipment manufacturer who represented more than 10 percent of our fiscal second quarter revenue informed us that due to their inventory management, they would not take the shipments we had originally projected for the quarter," said Alan Lowe, Lumentum CEO. "This shortfall is the primary reason that our fiscal 2023 third quarter revenue will be below the low end of our prior guidance range. Looking ahead, we expect a similar level of shipments to this customer in our fiscal Q4, as we saw in Q3.

Nevertheless, our customer relationship remains strong, and we continue to work together closely to help them achieve success. We have confidence in our long-term strategy and operating model, and today we are announcing an increase in our share repurchase program."

That increase in the total repurchase authorization was to $1.2 billion, up from the prior $1.0 billion, with $615 million of stock already bought back on the existing program. Still, given that the market capitalization of LITE is $3.2 billion, management could make a huge dent in the share count if the company put some of its capital to work.

While the near-term sales miss is not grand, the disclosure seems to indicate the customer is cutting their order to manage inventory, rather than a permanent pivot away from LITE products. According to *Bloomberg*, **Apple** (AAPL – $164.66) is 28.7% of LITE's revenue, while Ciena is 12.6%. There are no other customers listed with revenue above 10%.

THE PRUDENT SPECULATOR

We have cut our Target Price to $107, but the shares now change hands at less than 12 times the lowest analyst EPS estimate for either of the next two years. Such a figure is far below the historical average that has been north of 20 and we still think the business offers attractive growth potential.