Market Commentary Monday, April 24, 2023

April 24, 2023

EXECUTIVE SUMMARY

Vegas MoneyShow – 30 Undervalued 3%+ Yielders
Higher Interest Rates – No Reason to Sell Value Stocks or Dividend Payers
Valuations – Value Stocks are Attractive and We Like the Metrics for our Portfolios
Wall of Worry – Stock Have Overcome Plenty of Disconcerting News in the Fullness of Time
Recession? – Mixed Econ Numbers & Historical Equity Return Perspective
Earnings – Healthy Corporate Profits in '23 and '24 Still the Projection
Contrarian Sentiment – AAII Still Pessimistic
Stock News – Update on KEY, CMA, TFC, CFG, OZK, GS, BK, LRCX, IBM, OMC, STX, ABT, MAN, SNA, ELV & JNJ

Market Review

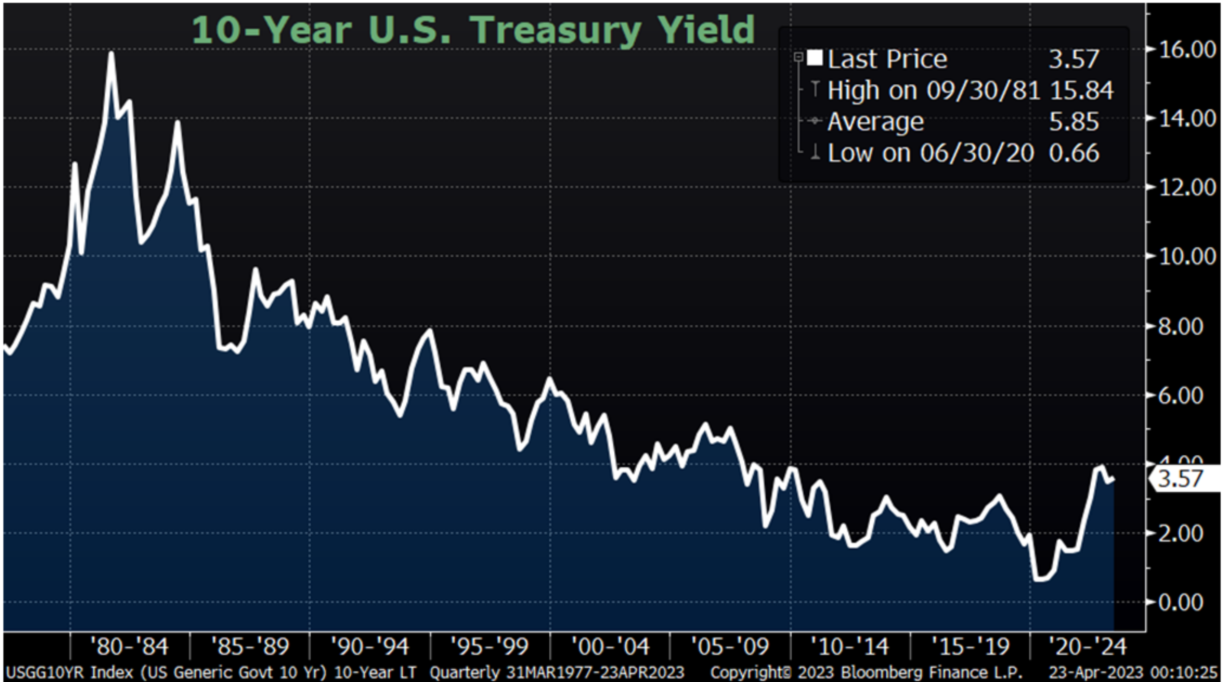
Your Editor is off to the *MoneyShow Las Vegas* later today to give a couple of presentations – *The Value of Dividends* and *Value Investing 101a and 101b*. I hope to see some of our readers at the show, but understanding that most won't be able to attend, we provide a slide from the second talk featuring a 30-stock listing of what we believe to be undervalued stocks, all of which yield at least 3%.

TPS UNDERVALUED STOCKS YIELDING > 3.0%

Industry	Ticker	Company	4/21/2023 Price	Target Price	Price Multiples EPS	S	TBV	ROCE	EV/ EBITDA	FCF Yield	Debt/ Eq (%)	Div Yld	Mkt Cap
Biotechnology	AMGN	Amgen	$243.86	$309.28	13.8	4.9	nmf	126.5	12.4	6.7	nmf	3.5%	130,274
Electronic Equipment	BHE	Benchmark Electronics	$21.65	$36.96	10.3	0.3	1.0	6.8	6.5	-29.0	52%	3.0%	771
Pharmaceuticals	BMY	Bristol-Myers Squibb	$70.49	$102.06	9.2	3.2	nmf	18.9	9.7	8.0	nmf	3.2%	147,943
Banks	C	Citigroup	$49.03	$79.14	11.0	nmf	0.6	7.6	nmf	nmf	nmf	4.2%	95,452
Media	CMCSA	Comcast	$37.74	$60.98	10.3	1.3	nmf	6.1	9.4	9.4	nmf	3.1%	159,114
Communications Equipment	CSCO	Cisco Systems	$47.03	$71.96	13.7	3.6	nmf	27.9	11.3	7.9	875%	3.3%	192,627
Health Care Providers & Srvcs	CVS	CVS Health	$72.84	$138.84	11.0	0.3	nmf	5.7	12.4	14.0	nmf	3.3%	93,223
Oil, Gas & Consumable Fuels	DINO	HF Sinclair	$44.33	$75.08	3.1	0.2	1.6	38.8	2.4	35.1	62%	4.1%	8,544
Banks	FITB	Fifth Third Bancorp	$27.48	$41.74	7.8	nmf	1.7	13.9	nmf	nmf	nmf	4.8%	18,701
Specialty Retail	FL	Foot Locker	$41.18	$54.00	8.5	0.4	1.8	10.5	8.4	-2.9	129%	3.9%	3,847
Leisure Products	HAS	Hasbro	$51.69	$94.32	11.6	1.2	nmf	6.9	14.7	2.8	nmf	5.4%	7,145
Technology Hardware	HPE	Hewlett Packard Enterprise	$14.46	$21.20	6.8	0.6	9.8	4.2	8.5	2.9	396%	3.3%	18,738
IT Services	IBM	Int'l Business Machines	$125.73	$167.22	13.8	1.9	nmf	9.0	13.1	8.3	nmf	5.2%	114,050
Containers & Packaging	IP	Int'l Paper	$36.04	$56.74	9.3	0.6	2.4	17.1	6.6	9.5	97%	5.1%	12,591
Broadline Retail	JWN	Nordstrom	$16.17	$29.13	9.6	0.2	5.3	37.1	4.6	18.2	894%	4.7%	2,610
Professional Services	MAN	Manpower	$74.59	$135.77	9.3	0.2	11.6	14.3	5.9	10.7	386%	3.6%	3,788
Household Durables	MDC	M.D.C. Holdings	$39.51	$56.19	6.9	0.5	0.9	19.7	3.7	42.5	54%	5.1%	2,868
Industrial Conglomerates	MMM	3M	$104.48	$170.67	10.3	1.7	nmf	38.8	8.3	6.5	nmf	5.7%	57,617
Technology Hardware	NTAP	NetApp	$63.21	$93.75	11.6	2.1	nmf	129.8	9.8	7.3	nmf	3.2%	13,521
Chemicals	NTR	Nutrien	$70.62	$118.39	5.4	0.9	3.2	31.0	3.6	nmf	80%	3.0%	35,283
Banks	NYCB	New York Community Bank	$9.02	$13.80	9.2	nmf	1.1	8.4	nmf	nmf	nmf	7.5%	6,514
Media	OMC	Omnicom Group	$93.85	$109.76	14.1	1.3	nmf	40.3	9.6	4.5	nmf	3.0%	18,724
Pharmaceuticals	PFE	Pfizer	$40.21	$64.68	6.1	2.3	nmf	36.3	6.1	11.5	3878%	4.1%	226,961
Banks	PNC	PNC Financial	$123.38	$208.32	8.4	nmf	1.3	12.8	nmf	nmf	nmf	4.9%	49,229
Insurance	PRU	Prudential Finl	$85.71	$128.35	9.1	nmf	2.2	-3.7	nmf	nmf	nmf	5.8%	31,453
Food Products	TSN	Tyson Foods	$61.00	$95.07	9.1	0.4	7.6	12.8	6.4	0.0	274%	3.1%	21,693
Automobiles	VWAPY	Volkswagen AG	$13.35	$27.10	3.9	0.9	1.0	10.6	0.8	9.5	179%	4.8%	27,528
Diversified Telecommunication	VZ	Verizon Communications	$37.32	$62.71	7.2	1.1	nmf	24.6	7.0	9.0	nmf	7.0%	156,744
Household Durables	WHR	Whirlpool	$140.98	$241.75	7.2	0.4	nmf	-42.3	-24.5	11.0	nmf	5.0%	7,684
Oil, Gas & Consumable Fuels	XOM	Exxon Mobil	$116.01	$136.22	8.3	1.2	2.4	30.7	5.7	12.0	23%	3.1%	470,919

As of 4.21.23. nmf=Not meaningful. TBV = Tangible book value. ROCE = Return on common equity. EV/EBITDA = Enterprise value-to-earnings before interest taxes depreciation and amortization. FCF Yield = Free cash flow yield.

Certainly, we understand that some may not be as enthused about dividend=paying stocks in a higher interest rate environment, but we point out that the 3.57% current yield on the benchmark 10-Year U.S. Treasury is still well below the 5.85% average since the launch of *The Prudent Speculator* in March 1977,…



…while history shows that Payers have performed well, on average, whether interest rates are high or low, and they actually have done better on a go-forward basis when the Fed Funds rate is above the current 5.0% level.

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 L.P 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.

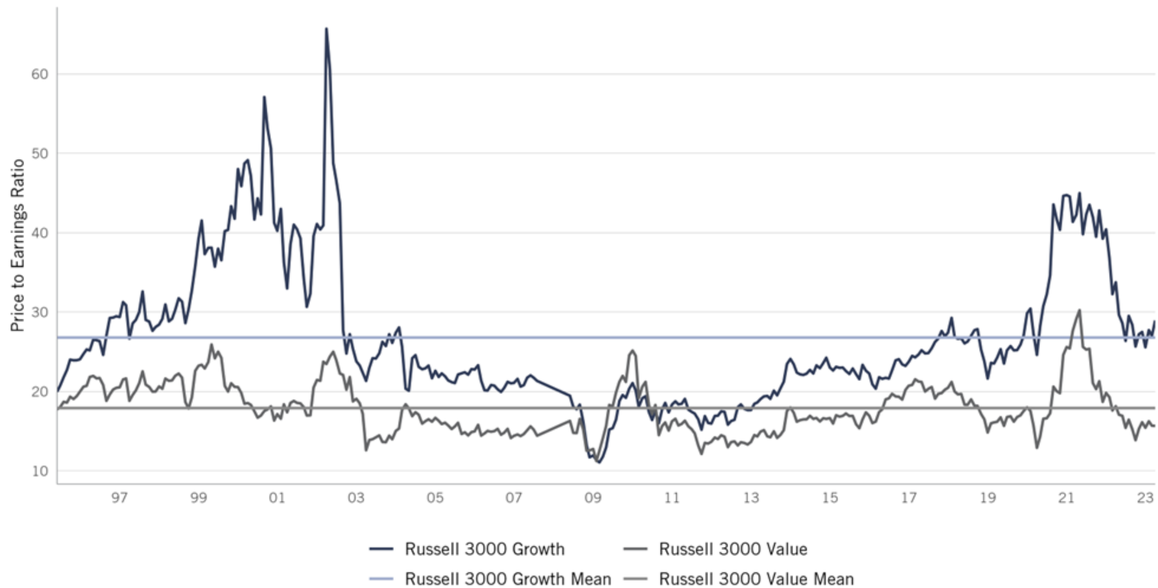
	Value 1 Year	Payers 1 Year	Value 3 Years	Payers 3 Years	Value 5 Years	Payers 5 Years
10-Year Treasury Yield Above 3.47%						
Mean	16.3%	11.8%	55.3%	38.6%	107.6%	73.1%
Median	18.6%	12.9%	55.3%	37.7%	104.7%	69.7%
Max	75.2%	64.8%	167.7%	133.7%	307.1%	260.6%
Min	-52.3%	-42.9%	-53.2%	-38.2%	-38.1%	-26.7%
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 L.P and Professors Fama and French

We also note, given concerns some have about equity valuations, that Value Stocks are today priced below their average since 1995, which is the date that numbers are available for the Russell 3000 Value and Growth indexes,…

THE PRUDENT SPECULATOR

Value stocks are today trading below their long-term average on a P/E basis, while Growth stocks are priced above their long-term norm.



From 05.31.95 through 03.31.23. SOURCE: Kovitz using data from Bloomberg Finance L.P.

…while we continue to sleep well at night with the reasonable valuations on our broadly diversified portfolios.

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	12.2	0.8	2.2	3.0
ValuePlus	12.5	12.5	1.1	2.2	2.5
Dividend Income	11.8	12.3	0.7	2.1	3.4
Focused Dividend Income	12.7	12.7	1.0	2.3	3.0
Focused ValuePlus	13.1	13.2	1.2	2.5	2.7
Small-Mid Dividend Value	10.2	10.1	0.5	1.5	3.2
Russell 3000	20.6	19.3	2.1	3.7	1.7
Russell 3000 Growth	28.9	25.2	3.3	9.1	1.0
Russell 3000 Value	15.8	15.6	1.5	2.3	2.4
Russell 1000	20.2	19.1	2.2	3.9	1.6
Russell 1000 Growth	28.3	24.9	3.6	10.0	1.0
Russell 1000 Value	15.5	15.4	1.6	2.4	2.3
S&P 500 Index	19.8	18.9	2.3	4.1	1.7
S&P 500 Growth Index	20.5	20.9	3.3	7.1	1.4
S&P 500 Value Index	19.0	17.2	1.8	2.8	2.0
S&P 500 Pure Value Index	9.8	9.8	0.6	1.4	2.9

As of 04.21.23. 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.

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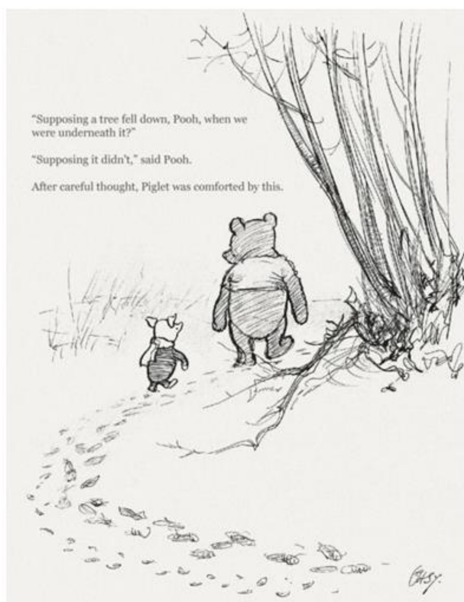
Equity investors have plenty about which to be concerned these days, which if we study market history is no different than usual, but stocks have long climbed a wall of worry.

THE PRUDENT SPECULATOR

Recessions fears, geopolitics, higher interest rates and inflation are some of the bogeymen now spooking investors, but history is filled with plenty of frightening events, yet equities have provided handsome rewards for those who stick with stocks through thick and thin.



Event	Date	S&P End Value	3 Months Later	6 Months Later	12 Months Later	36 Months Later	60 Months Later	Event to Present
Flash Crash	5/6/2010	1,128.15	-1%	9%	19%	43%	84%	266%
Japan Tsunami	3/11/2011	1,304.28	-3%	-12%	5%	43%	55%	217%
S&P Downgrade	8/6/2011	1,199.38	4%	12%	16%	60%	82%	245%
Hurricane Sandy	10/22/2012	1,433.82	4%	9%	22%	43%	80%	188%
Fiscal Cliff	1/1/2013	1,426.19	10%	13%	30%	43%	87%	190%
Taper Tantrum	5/22/2013	1,655.35	0%	9%	14%	24%	65%	150%
Russia and Ukraine	2/20/2014	1,839.78	2%	8%	15%	28%	51%	125%
Ebola Scare	9/4/2014	1,997.65	4%	5%	-4%	24%	47%	107%
Charlie Hebdo	1/7/2015	2,025.90	2%	3%	-4%	35%	60%	104%
Greek Default	6/30/2015	2,063.11	-7%	0%	2%	32%	50%	100%
China Devalues Yuan	8/10/2015	2,104.18	-1%	-12%	3%	35%	60%	96%
Paris Bataclan	12/13/2015	2,012.37	0%	3%	13%	32%	82%	105%
U.S. Interest Rate Hike	12/16/2015	2,073.07	-2%	0%	9%	25%	79%	99%
China GDP Slowing	1/19/2016	1,881.33	12%	15%	20%	42%	102%	120%
Brexit Vote	6/23/2016	2,113.32	2%	7%	15%	40%	101%	96%
Trump Victory	11/8/2016	2,139.56	7%	12%	21%	45%	120%	93%
Trump Trade War	3/2/2018	2,691.25	2%	8%	4%	44%	48%	54%
COVID-19 Pandemic	3/11/2020	2,741.38	10%	22%	44%	41%		51%
Biden Victory	11/3/2020	3,369.16	14%	24%	38%			23%
Georgia Runoff	1/5/2021	3,726.86	9%	17%	26%			11%
Price Changes Only								
Does Not Include Dividends		**Averages:**	**3%**	**8%**	**15%**	**38%**	**74%**	**122%**

Source: Kovitz using data from Bloomberg. As of 4.21.23

Perhaps the biggest concern at this moment is the risk of an economic contraction. Believe it or not, calculations from *Bloomberg* have shown a 50% or greater chance of recession over the ensuing 12 months since last August, yet real GDP growth for Q4 2022 came in at an impressive 2.6%, the Atlanta Fed's current estimate for Q1 2023 growth is 2.5%,…

…and the latest projections from the Federal Reserve call for real (inflation-adjusted) GDP to grow 0.4% this year and 1.2% in 2024.

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

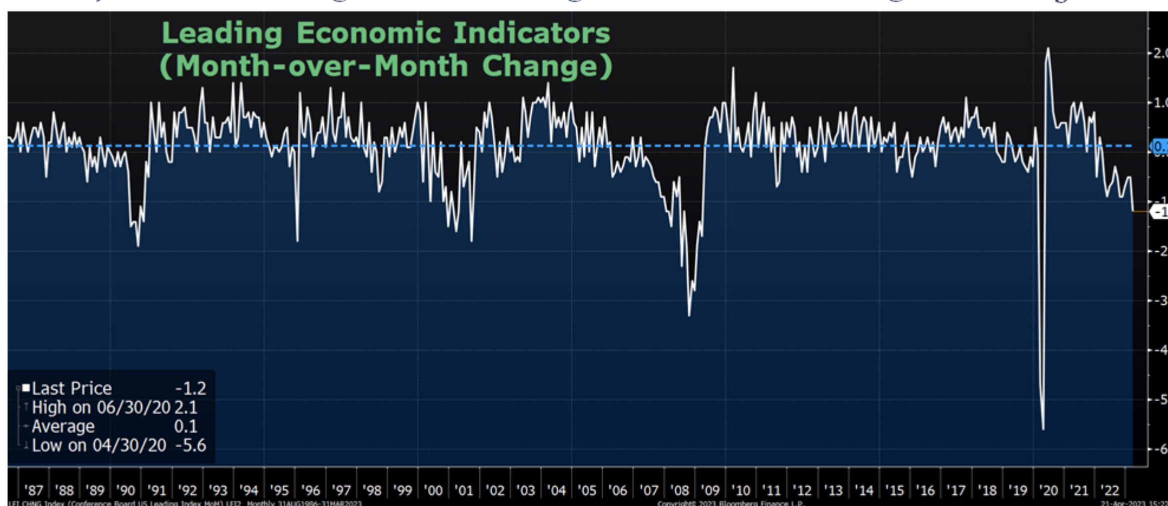
Percent

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

To be sure, the *Bloomberg* recession estimate now stands at 65%,…

…while the latest read on the forward-looking Leading Economic Index (LEI) fell by 1.2% in March. The keeper of that gauge, The Conference Board, asserted, “The U.S. LEI fell to its lowest level since November of 2020, consistent with worsening economic conditions ahead. The weaknesses among the index’s components were widespread in March and have been so over the past six months, which pushed the growth rate of the LEI deeper into negative territory. Only stock prices and manufacturers’ new orders for consumer goods and materials contributed positively over the last six months. The Conference Board forecasts that economic weakness will intensify and spread more widely throughout the US economy over the coming months, leading to a recession starting in mid-2023.”

"The U.S. LEI fell to its lowest level since November of 2020, consistent with worsening economic conditions ahead," said Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators, at The Conference Board. "The weaknesses among the index's components were widespread in March and have been so over the past six months, which pushed the growth rate of the LEI deeper into negative territory. Only stock prices and manufacturers' new orders for consumer goods and materials contributed positively over the last six months. The Conference Board forecasts that economic weakness will intensify and spread more widely throughout the U.S. economy over the coming months, leading to a recession starting in mid-2023."



That sounds ominous, but we note that famed American Economist Paul Samuelson years ago joked, "Economists have predicted nine of the last five recessions," and forecasting today remains as fraught with peril as ever. For example, we recently heard from two executives of prominent American financial institutions with conflicting views.

Bank of America (BAC – $29.87) CEO Brian Moynihan said inflation is showing signs of cooling, but the U.S. economy will still face a recession. Nevertheless, on BAC's quarterly conference call, Mr. Moynihan hedged when he said, "Everything points to a relatively mild recession given the amount of stimulus that was paid to people and the money they have left over."

On the other hand, **BlackRock** (BLK – $680.94) CEO Larry Fink cited stimulus from the Infrastructure Bill, the Chips and Science Act, and the Inflation Reduction Act as reason to think a U.S. recession won't occur. In a television interview, Mr. Fink elaborated, "Those three bills are a trillion dollars of stimulus over the next few years. Think about how many jobs infrastructure creates. Think about the demand for commodities as we build infrastructure."

Needless to say, the economic crystal ball is cloudy, with many investors likely sitting on the sidelines, even as crunching nearly a century of data on recessions and stock returns supports the view that the time in the market trumps market timing.

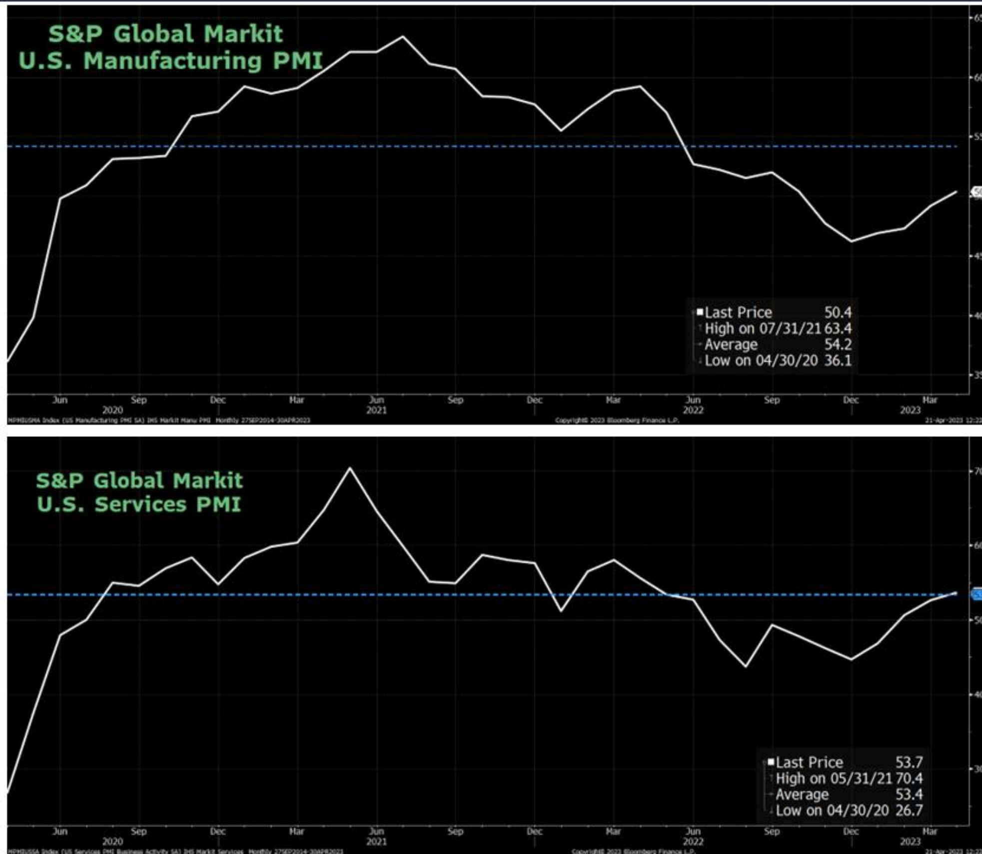
THE PRUDENT SPECULATOR

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.

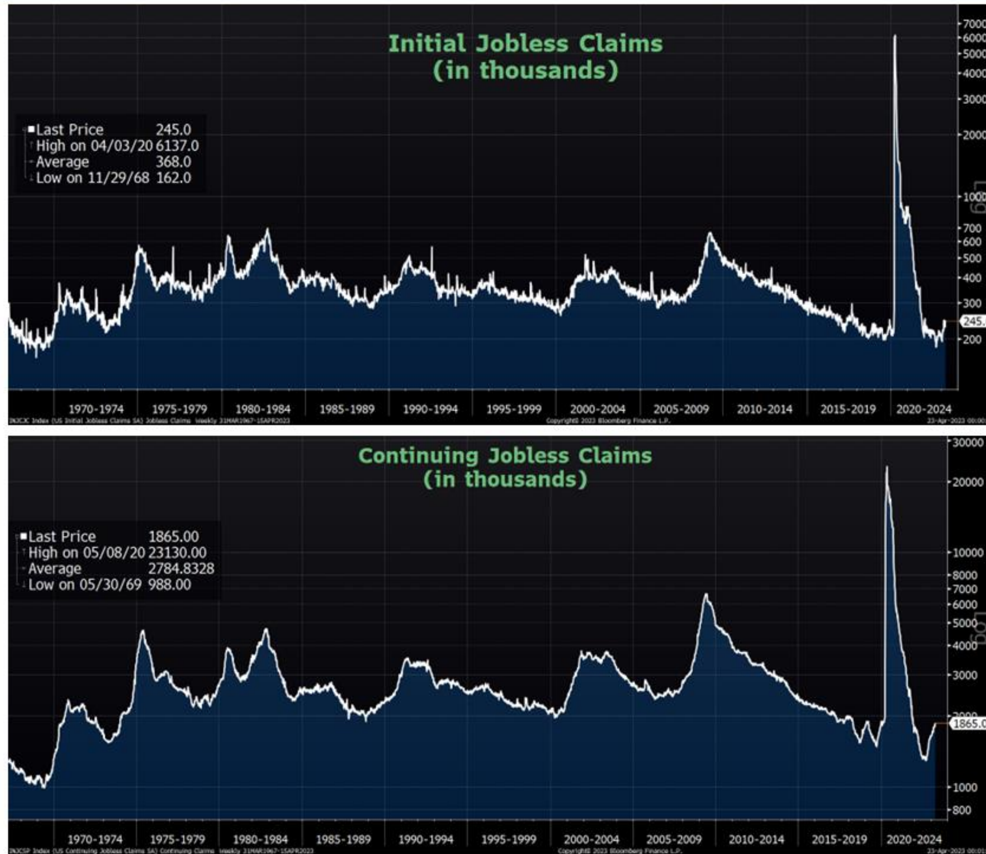
Recession Start Date	Recession End Date	One Year Prior Value	One year Prior Div Payers	Return During Value	Return During Div Payers	One Year Post Value	One Year Post Div Payers	Five Years Post Value	FIve Years Post Div Payers
08.31.1929	03.31.1933	30.9%	44.4%	-81.0%	-77.8%	205.5%	101.9%	123.3%	99.3%
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 L.P and Professors Fama and French

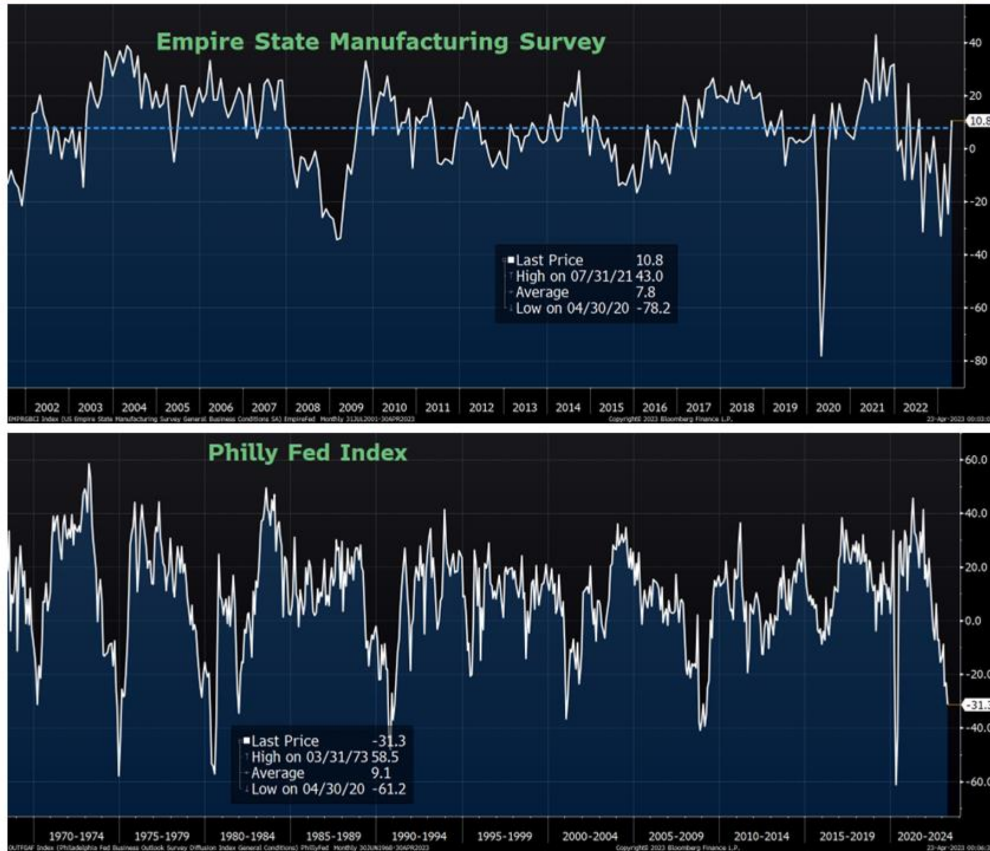
We might also point out that the first economic numbers for April from S&P Global showed stronger figures than expected on the outlook for the factory and services sectors, with both gauges hitting their highest levels in nearly a year,…



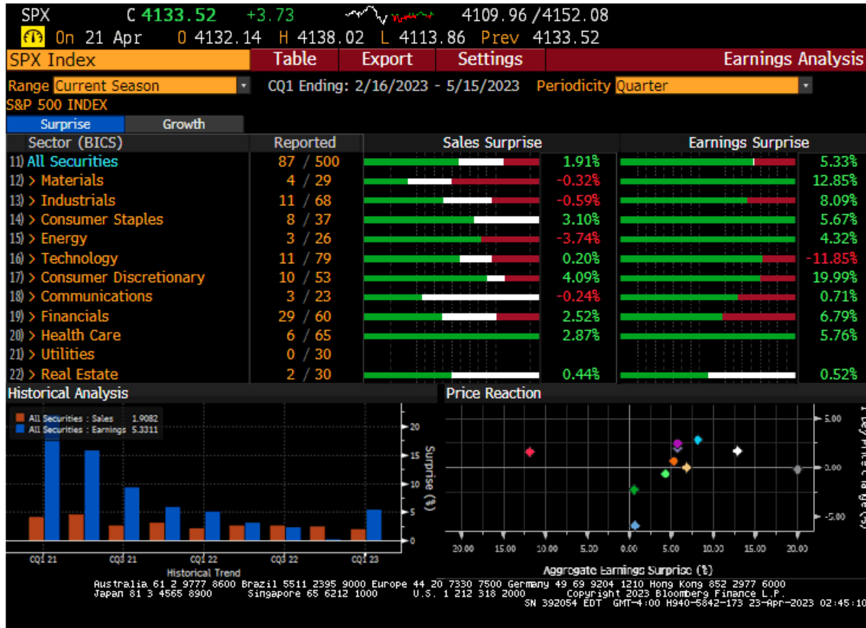
…and the labor picture remains remarkably robust, even as weekly initial filings for jobless benefits have ticked up from half-century lows.



Other economic data points out last week were mixed. On the positive side, the Empire State manufacturing index for April rocketed up more than 35 points to a much-stronger-than-expected of 10.8, a tally better than the average over the past two decades. Countering that bit of good news, the more-important Philadelphia Fed factory survey dropped 8 points to a worse-than-expected minus 31.3. Of course, the last two times that Philly Fed figure was lower was April 2020 and February 2009, both fantastic times for investors to be buying stocks.



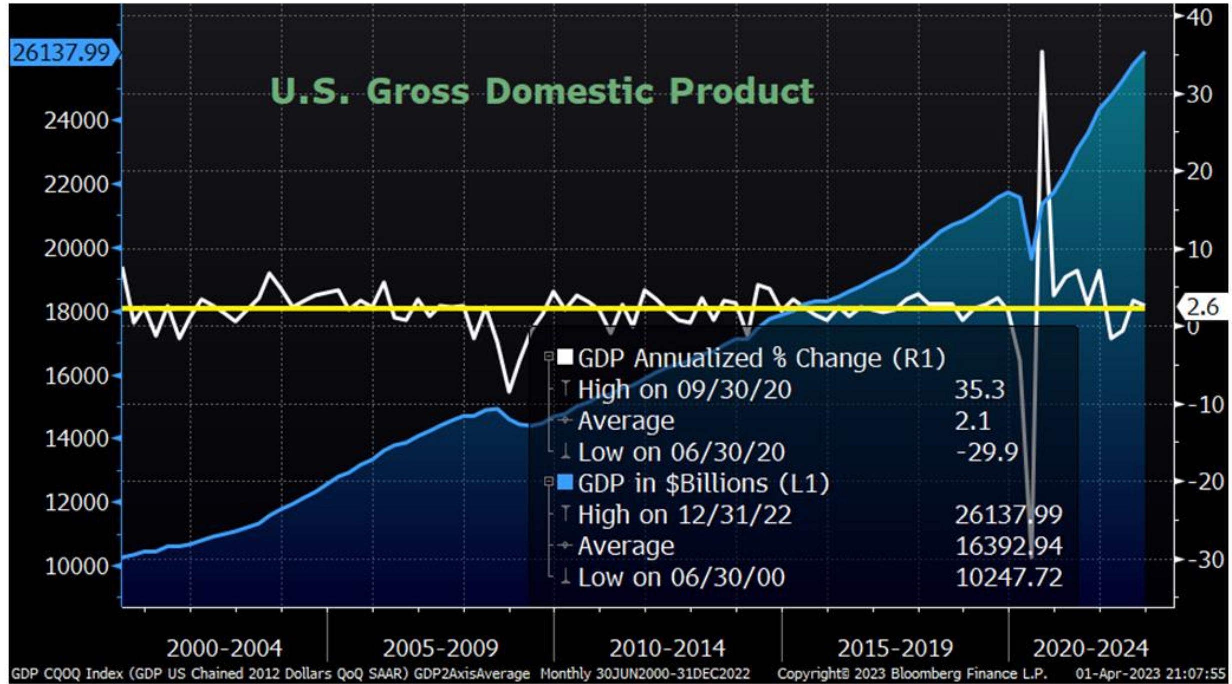
In addition, Q1 report cards from Corporate America generally have come in better-than-pessimistic forecasts thus far, with a greater-than-usual 75.9% of companies beating estimates on the bottom line. True, forward guidance has been guarded, as has been the case for quite some time, and analysts are often overly optimistic in their outlooks, but earnings are still expected to show solid growth this year and next.



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

We might argue that this is due to the fact that while many are fixated on real (inflation-adjusted) GDP numbers, sales and profits, as well as stock prices, are measured in nominal (actual) dollars. As the chart below illustrates, the long-term and near-term trends in nominal GDP growth have been higher.



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We continue to be braced for downside volatility (the equity futures are pointing to a poor start to the week) as it is a the price that investors must pay to achieve handsome long-term gains,…

Selloffs, downturns, pullbacks, corrections and even Bear Markets are events that equity investors always have had to endure on their way to the best long-term performance of any of the financial asset classes.

Advancing Markets

Minimum Rise %	Average Gain	Average # Days	Count	Frequency (in Years)	Last Start	Last End
20.0%	113.4%	995	27	3.4	3/23/2020	1/3/2022
17.5%	68.2%	583	39	2.3	3/23/2020	1/3/2022
15.0%	64.7%	545	47	2.0	10/12/2022	2/2/2023
12.5%	44.3%	333	74	1.3	10/12/2022	2/2/2023
10.0%	34.8%	243	101	0.9	10/12/2022	2/2/2023
7.5%	23.6%	148	161	0.6	3/13/2023	4/18/2023
5.0%	14.7%	72	316	0.3	3/13/2023	4/18/2023

Declining Markets

Minimum Decline %	Average Loss	Average # Days	Count	Frequency (in Years)	Last Start	Last End
-20.0%	-35.1%	286	27	3.4	1/3/2022	10/12/2022
-17.5%	-30.3%	219	39	2.4	1/3/2022	10/12/2022
-15.0%	-28.0%	185	46	2.0	8/16/2022	10/12/2022
-12.5%	-22.7%	137	73	1.3	8/16/2022	10/12/2022
-10.0%	-19.6%	101	100	0.9	8/16/2022	10/12/2022
-7.5%	-15.4%	65	160	0.6	2/2/2023	3/13/2023
-5.0%	-10.9%	36	315	0.3	2/2/2023	3/13/2023

From 02.20.28 through 4.18.23. S&P 500 Price return series. We defined a Declining Market as an instance when stocks dropped the specified percentage or more without a recovery of equal magnitude, and an Advancing Market as in instance when stocks appreciated the specified percentage or more without a decline of equal magnitude. SOURCE: Kovitz using data from Bloomberg, Morningstar and Ibbotson Associates

LONG-TERM RETURNS

	Annualized Return	Standard Deviation
Value Stocks	13.2%	25.9%
Growth Stocks	9.5%	21.4%
Dividend Paying Stocks	10.6%	18.1%
Non-Dividend Paying Stocks	8.9%	29.3%
Long-Term Gov't Bonds	5.2%	8.7%
Intermediate Gov't Bonds	4.9%	4.4%
Treasury Bills	3.2%	0.9%
Inflation	3.0%	1.8%

From 06.30.27 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

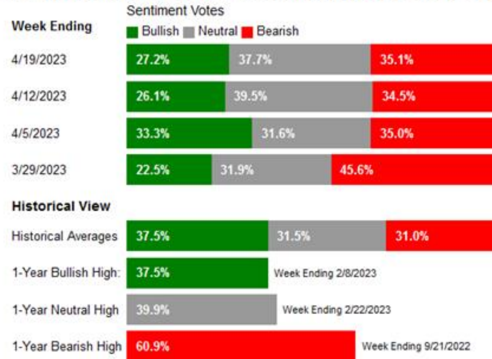
…while the weight of the historical evidence shows that those who attempt to sidestep the trips south usually end up with lousy returns in the process.

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

With the latest measure of Main Street investor sentiment (the contrarian AAII Bull-Bear Survey showing 27.2% Bulls and 35.1% Bears) continuing to be skewed in favor of the pessimists,…



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 = 7.00										
BELOW	-54.0	7.0	933	0.24%	0.20%	1.15%	1.01%	3.30%	2.91%	6.44%	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 1862 Data Points										
1	-54.0	-17.0	188	0.41%	0.34%	2.14%	1.90%	4.61%	4.09%	8.42%	7.24%
2	-17.0	-8.9	185	0.23%	0.20%	0.90%	0.76%	3.46%	3.08%	6.03%	5.24%
3	-8.9	-2.7	186	0.32%	0.29%	1.01%	0.90%	3.42%	3.02%	7.55%	6.84%
4	-2.6	2.5	186	0.16%	0.12%	0.96%	0.87%	2.30%	1.92%	5.29%	4.73%
5	2.6	7.0	188	0.07%	0.04%	0.72%	0.62%	2.71%	2.45%	4.88%	4.35%
6	7.0	11.4	184	0.20%	0.19%	0.71%	0.63%	2.24%	2.02%	4.98%	4.52%
7	11.4	16.0	188	0.18%	0.16%	0.40%	0.26%	2.18%	1.90%	5.02%	4.50%
8	16.0	21.7	184	0.11%	0.09%	0.87%	0.80%	2.23%	1.99%	5.80%	5.38%
9	21.7	29.0	188	0.15%	0.13%	0.38%	0.30%	1.84%	1.54%	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 04.20.23. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

…and stocks in general remaining attractively valued,…

The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. Though many dismiss the Fed Model, investing is always a choice of this or that, and we still like today's rich earnings yield (5.06% vs. 3.57% 10-Year), despite last year's jump in interest rates.

…we see no reason to alter our enthusiasm for the long-term prospects for equities.

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.

Regional bank **KeyCorp** (KEY – $11.59) earned $0.30 per share in Q1, down from $0.45 in 2022 and $0.38 in Q4, as higher deposit costs cut into net interest margin. Deposits grew, however, as did earning assets, keeping the loan-to-deposit ratio stable since the end of Q4. Noninterest income sources also remained under pressure with most categories like trust & investment income, investment banking and corporate services down versus both last quarter and the prior year. Concurrently, higher personnel and other costs drove noninterest expenses 10% higher year-over-year and worsened the efficiency ratio by 8% from Q4 to 68%.

Nonetheless, CEO Chris Gorman stated, “Key’s durable business model continues to provide stability while driving sound, profitable growth through all market conditions. Our strong balance sheet and our focus on relationship banking yields a diverse, stable deposit base and high-quality lending opportunities. Importantly, our long-standing commitment to primacy continues to serve us well, resulting in an increase in period-end deposits on a linked quarter basis. As a strong, core-funded institution, we are well positioned to continue to serve and support our clients and prospects.”

He added, “The successful de-risking of our loan portfolios over the last decade positions Key to outperform, from a credit perspective. In the first quarter, we added to our allowance for credit losses to reflect changes in our economic outlook, with our allowance now representing over 7 years of annualized net charge-offs. Additionally, we delivered another quarter of strong credit performance, with net charge-offs of 15 basis points. I remain confident in Key and the long-term outlook for our business. We have a relationship-based business model that will continue to serve our clients and our prospects and deliver value to our shareholders.”

Operating performance in the latest quarter left a lot to be desired, but KEY’s conservative posture kept it out of trouble in last month’s banking crisis. We don’t know when fee generating segments will turn a corner to the upside, but we do appreciate KEY’s diversification across both core and noninterest banking, while management expects expenses to hold flat for the remainder of 2023. KEY’s tempered outlook for net interest income has weighed on the shares but owners are still rewarded with a remarkably inexpensive valuation of 7 times forward EPS estimates and a 7% dividend as we wait for the clouds to part. Our Target Price for KEY is now $21.

Comerica (CMA – $43.73) turned in EPS of $2.39 in Q1 (vs. $2.29 est.). Net interest income fell slightly vs. Q4 from contracted margin but remains substantially higher year-over-year. Management said deposits had decreased by $3.7 billion since March 9 largely due to diversification efforts by customers with excess balances significantly above those of the average relationship profile; the largest declines were in Technology and Life Sciences, Corporate Banking and general Middle Market (California). The bank added $13.8 billion in liquidity during the first quarter of 2023 to provide a buffer in excess of normal operating levels, primarily comprised of FHLB advances. At the end of Q1, uninsured deposits as calculated per regulatory guidance decreased $10.5 billion to $35.0 billion, or 54% of total deposits. Excluding affiliate deposits, uninsured deposits totaled $30.7 billion, or 47% of total deposits.

CEO Curt Farmer said, “Beyond our strong financial results, I am incredibly proud of Comerica’s successful navigation of the disruption recently experienced across the banking industry. Our colleagues immediately mobilized, executed on our prepared strategy, conservatively enhanced our liquidity position and seamlessly supported new and existing customers.”

He added, “We successfully protected our core customer relationships as deposit pressure was largely localized to select portfolios. I feel our strong deposit franchise is now more attractive as we retained our favorable noninterest-bearing orientation diversified across multiple businesses and geographies while improving risk characteristics, thereby creating an even more consistent funding profile. In fact, relative to pre-pandemic, we have a higher level of deposits, a better loan

to deposit ratio and a lower percentage of uninsured deposits. Our business model was tested, and we emerged in a better position for long-term success."

First Quarter 2023 Overview

Successful execution; strategic investment in the future of our company & community

Earnings Per Share

$2.39

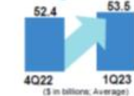
Net Income

$324MM

"We affirmed the strength of our core deposit base by successfully retaining our relationships. While we saw some deposit pressure, it was predominately localized and very manageable. Our prudent risk management had us well-prepared. Our effective liquidity strategy allowed us to remain laser focused on seamlessly supporting customers as we opened a significant number of new accounts. We remained focused on business as usual, winning new opportunities, attracting talent, underwriting credit, and expanding relationships. We believe our strong deposit franchise is now even more attractive and stable with a lower percentage of uninsured, excess deposits and less concentration with price sensitive customers."

Curtis C. Farmer, Comerica Chairman, President & CEO

Average Loans



Noninterest Income

Net Charge-Offs (Recoveries)

Efficiency Ratio[1]

Return on Equity[2]

Tier 1 Capital Ratio

Stronger Profile than Pre-Pandemic

($ in billions)	YE2019	YE2022	3/31/2023
Loan-to Deposit Ratio	88%	75%	85%
Total Deposits (Period-End)	$57.3	$71.4	$64.7
% Uninsured Deposits			
Per Call Report	60%	64%	54%[4]
Adjusted for Affiliate Deposits[3]	54%	57%	47%

Diversified Deposit Base
(1Q23 average)

Deposit Portfolio has better risk characteristics

- Less concentrated in more vulnerable businesses
- Lower price sensitivity
- Lower percent of uninsured & excess deposits
- Retained favorable mix of 53% noninterest-bearing

[1]Noninterest expenses as a percentage of the sum of net interest income and noninterest income excluding net gains (losses) from securities, a derivative contract tied to the conversion rate of Visa Class B shares and changes in the value of shares obtained through monetization of warrants [2]Return on average common shareholders' equity [3]Represents uninsured deposits using total deposits at the consolidated level for Comerica Inc. & subsidiaries, which is consistent with the presentation on the consolidated balance sheet, & excludes uninsured deposits eliminated in consolidation. Affiliate deposits represent $4.3B 1Q23, $4.5B 4Q22 & $3.2B 4Q19 [4]3/31/23 is estimated

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Whether due to a high exposure to variable-rate loans or its large percentage of uninsured deposits, we have long viewed Comerica as a stock with above-average risk and reward. The company benefitted from the rapid rise in interest rates from pandemic lows over the past year as evidenced by net interest income growing by 33%. But with a significant portion of deposits earning no interest, fears the bank could suffer from deposit flight sent the stock reeling by 40% in March, even as management argues that it boasts advisor-style relationships with its small and midsize business clients. On the plus side, "hidden" losses from held-to-maturity investments are not an issue as Comerica has classified all its investment securities as available-for-sale. We believe CMA has the capital and experience to navigate the near-term regional-bank uncertainty and investors will be well rewarded in the fullness of time for accepting greater risk. The dividend was hiked at the end of February and the yield is now 6.5%. Our Target Price is $84.

Truist (TFC – $31.47) earned $1.05 per share in Q1, below the $1.14 expected by analysts, and the company trimmed its outlook for the year amid higher funding costs, which contracted net interest margin by 8 basis points compared to Q4. Of course, the regional bank still expects to grow revenue 5% to 7% this year, though this is down from prior guidance of 7% to 9% growth.

CEO Bill Rogers said, “In a challenging and unique quarter for the banking industry, Truist demonstrated strength and leadership that reflects our diverse business model, granular and relationship-oriented deposit base, and strong capital and liquidity position. We also closed on the sale of a 20% minority stake in Truist Insurance Holdings in early April, which adds approximately 30 basis points to our risk-based capital ratios and, longer term, provides strategic and financial flexibility for both Truist and [Truist Insurance Holdings].”

He added, “Truist earned $1.4 billion of net income and had an ROTCE of 24.1% in the first quarter. We continued to experience the benefits of our shift to operating, including improving organic production and integrated relationship management momentum, although these benefits were offset by higher-than-expected funding costs. As a result, adjusted pre-provision net revenue decreased 7.2% sequentially, consistent with our prior guidance. We have started the year with 310 basis points of positive adjusted operating leverage, although work remains. Asset quality metrics remain strong and we prudently increased our [Allowance for Loan and Lease Losses] ratio by 3 basis points to reflect increased uncertainty. Our focus on clients was unwavering, both during the first two months of the quarter and in March. I am proud of how our teammates continue to care for our clients and stakeholders and live our purpose to inspire and build better lives and communities. I remain highly confident in Truist’s trajectory and ability to be a source of strength and stability for our clients and communities.”

We continue to find the marriage of Southeastern banking leaders BB&T and SunTrust that created Truist to be favorable, given the conservative lending culture and competitive brands that both had independently, and the potential for cost savings. We like that TFC trades at just 7 times estimated earnings and think the company isn’t getting the credit it deserves given its size and geographic reach. The dividend yield is 6.6% and our Target Price now resides at $56.

Rhode Island-based regional bank **Citizens Financial** (CFG – $28.80) turned in adjusted EPS of $1.10 (vs. $1.13 est.) in Q1. Management said that churn in the deposit market continues to diminish since the bank failures, with deposits stabilizing in March.

CEO Bruce Van Saun stated, “The first quarter brought unexpected challenges in the environment, but we proved adaptable and resilient, successfully navigating through them and delivering solid financial results. Our capital, liquidity and funding position remains strong, and our deposits were broadly stable over the month of March. We remain focused on our deposit initiatives, taking care of our customers and protecting key investments while trimming expenses where we can. We are hopeful that market turmoil continues to subside, and we expect that we will be able to deliver attractive mid-teens ROTCE for the year.”

He added, “Our outlook for 2023 still shows attractive proxy for the full year, despite the challenging environment. There’s still a great deal of uncertainty which makes forecasting more difficult, but we remain confident in the strength of our franchise and the ability to weather the storm. We are building a great bank and we remain excited about our future. Our capital strength and attractive franchise should position us to be nimble and to take advantage of opportunities as they arise.”

Following the purchase of HSBC branches within its market and the acquisition of Investors Bancorp in 2021, Citizens has grown its deposit franchise by over 17% year-over-year. We think the moves complement and round out its existing territory, while adding JMP Group (securities) into the fold (also in 2021) brings diversification through additional fee generation. Fee generating activity has slowed, although not as much as for some, while a focus on maximizing operating leverage for an expanded operation prime the bank for higher returns in the current year. Shares trade for 6 times estimated earnings and now offer a 5.8% dividend yield. Our Target Price is $55.

Bank OZK (OZK – $35.39) shares have fallen more than 27% since their early-February highs as they have been a victim of the steep selloff in U.S. regional bank shares driven by the fallout from the failures of Silicon Valley and Signature Bank. It is worth noting that shares have rebounded almost 10% off their early April lows, and we might have expected an even stronger gain last week (up 5%) given what appeared to be the release of solid Q1 results.

OZK announced that Q1 net income was a record $165.9 million, a 29% increase from the $128.0 million for the first quarter of 2022. Diluted EPS were a record $1.41, up 38% from the $1.02 posted in the year-ago period. The bank's annualized returns on average assets, average common stockholders' equity and average tangible common stockholders' equity were 2.41%, 15.24% and 17.94%, respectively, compared to 1.97%, 11.67% and 13.73%, respectively, for Q1 of 2022.

Total loans were $22.06 billion at the end of Q1, a 16.5% year-over-year increase. Deposits were $22.28 billion, a 9.6% year-over-year increase and up 3.6% since the start of the year. Concerning deposits, management released the following statement, "Most of our deposits are generated through our network of 229 retail branches in Arkansas, Georgia, Florida, North Carolina, and Texas. Because of the substantial 'retail' nature of our deposit base, the majority of our deposits are insured (67% at March 31, 2023) and, in the case of public funds and certain other deposits, collateralized (12% at March 31, 2023). As of March 31, 2023, our average account balance was approximately $37,000. The diversity of our deposit base is an important factor in the stability of our deposits, as demonstrated in the quarter just ended."

The Q1 provision for credit losses was $35.8 million, compared to $4.2 million for the first quarter of 2022 and $32.5 million for the fourth quarter of 2022. The total allowance for credit losses was $393.8 million, compared to $293.5 million a year ago. The ratio of nonperforming non-purchased loans to total loans (excluding purchased loans) ended Q1 at 0.15%, compared to 0.21% in the same period last year. OZK's ratio of nonperforming assets to total assets (excluding purchased loans, except for their inclusion in total assets) was 0.34%, compared to 0.16% in Q1 of 2022. The jump in nonperforming assets seemed to spook some investors as it was driven by a foreclosure on a land loan with a repricing at 60% loan-to-value.

CEO George Gleason commented, "We are pleased to report our record results for the first quarter. These results could not be achieved without the outstanding performance of our teammates. Our strong capital, liquidity and profitability have us well-positioned for the future."

We continue to favor Bank OZK's strategy of growth through the slow building and acquisition of individual branches rather than the consolidation of entire banks. Mr. Gleason has stated this strategy makes culture assimilation easier, likely contributing to the impressive efficiency ratio that OZK consistently sports. We also like the unique exposure OZK offers to commercial and industrial lending, a typically more volatile segment of banking, as it has been able to produce above average net interest margin while experiencing mild loan losses (relative to peers) throughout its history. With the current banking industry uncertainty, coupled with a dividend yield of 4%, a NTM P/E below 7 and the fact that management continues to buy back stock, our Target Price for OZK shares has been fine-tuned to $59.

The release of bank earnings last week included diversified financial titan **Goldman Sachs** (GS – $341.66). Despite a solid bottom-line beat, weakness in overall revenue, continued softness in investment banking and additional unwinding of part of the retail consumer facing business that a David Solomon-led Goldman dove headfirst into for further diversification, kept the shares mostly in check, ending the week with a modest increase. Goldman earned an adjusted $8.79 per share (vs. $8.21 est.) on $12.2 billion of revenue (vs. the consensus expectation of $12.8 billion).

During Q1, trading was a relative bright spot, down just 13% from the previous year but up 46% sequentially. However, revenue from trading fixed income trailed peers and expectations. Also during the period, GS sold a portion of its Marcus loans, booking $470 million of credit losses on the Marcus portfolio, and management said it is exploring the sale of its GreenSky point-of-sale loan platform. The company isn't completely exiting its consumer and more-traditional banking business, though, as it recently launched a high-yield savings account for Apple Card holders and it remains committed to its transaction banking platform. Asset & Wealth Management generated quarterly net revenues of $3.22 billion, including record management and other fees. Assets under supervision increased $125 billion during the quarter to a record $2.67 trillion.

CEO David Solomon said about the quarter, "The events of the first quarter acted as another real-life stress test, demonstrating the resilience of Goldman Sachs and the nation's largest financial institutions. Our deeply rooted risk management culture, strong liquidity and robust capital position enabled us to continue to support our clients and deliver solid performance. We are operating from a position of strength and remain focused on executing our strategy to further grow our leading Global Banking & Markets and Asset & Wealth Management franchises."

We continue to believe that Goldman is one of the best financial franchises in the world, and amongst the strongest risk managers. The company remains tremendously profitable, while shares trade for an inexpensive 10 times NTM EPS estimates and offer a 2.9% dividend yield. Our Target Price for GS now stands at $418.

Earnings for global custodian and asset servicer **Bank of New York** (BK – $44.05) grew 31% year-over-year in Q1 to $1.13 per share, but they were a touch below those of Q4 2022. Securities and Market & Wealth Services grew revenue by double digits, offset by lower Investment and Wealth Management revenue. BNY continues to benefit from higher interest rates as net interest margin expanded a second consecutive quarter to 1.29%, resulting in net interest income increasing 7% sequentially and 62% from the year-ago period.

CEO Robin Vince commented, "BNY Mellon delivered solid results in the first quarter. Revenue of $4.4 billion was up 11% year-over-year, we closely managed expenses, up 3% year-over-year, and we generated a healthy return on tangible common equity of 20%. Our Tier 1 leverage ratio as well as our liquidity coverage ratio remained strong and unchanged compared to the prior quarter at 5.8% and 118%, respectively."

"The strength of BNY Mellon's highly liquid, lower credit-risk and well-capitalized balance sheet in combination with the resilience of our platforms is the bedrock that supports our client franchise. Time and again, BNY Mellon has been a port in the storm for our clients in times of market turmoil, and the recent weeks have been no different as we help our clients with solutions to navigate this complicated backdrop," he added.

"While we will remain vigilant given the heightened uncertainty in the current environment, we are pushing forward with our strategic agenda to reinvigorate underlying growth by doing more for our clients across our extensive suite of products and services, while driving greater efficiency," Mr. Vince concluded.

Bank of New York performs an essential service critical to the function of financial market participants across the globe but is subject to multiple macroeconomic factors and the whims of markets often beyond its control. This role somewhat necessitates that the bank maintain a conservative posture relative to other of our financial holdings, although we do appreciate efforts to move into new product areas and enhance its technological offering. BK trades for 9 times forward EPS estimates and offers a 3.4% dividend yield. Our Target Price is now $66.

Lam Research (LRCX – $517.19) reported fiscal Q3 2023 results that exceeded analyst expectations. The semiconductor capital equipment maker earned an adjusted $6.99 per share (vs. $6.50 est.) with revenue of $3.87 billion (vs. $3.82 billion est.). In the upcoming quarter, LRCX expects adjusted earnings per share between $4.25 and $5.75 (vs. $5.55 est.) with revenue between $2.8 billion and $3.4 billion (vs. $3.45 billion est.). Even though the Q4 estimates came up short of analyst projections, the report was well-received by Wall Street and shares now have rebounded 23% this year, coming off a 40% drop in 2022.

Lam CEO Tim Archer said, "As our June quarter guidance indicates the near-term demand environment remains challenging. We expect 2023 WFE spending to be in the low-to mid $70 billion range. With additional weakness primarily from memory customers, partially offset by domestic China-related demand. On the China front, we see incremental strength in mature node logic and memory segments. Recently, the US government notified us for the clarification to the rules issued last October governing exports to China. This notification, allows us to ship certain products that we had originally excluded from our expectations. We expect to ship these tools in the second-half of 2023. Overall, memory customers continue to lower fabulous sessions, slow technology conversions and reduced investments in capacity additions to limit bit output can drive inventory down to normalized levels. We expect memory spending for the year to decline approximately 50% from 2022, led by NAND. Memory spending in 2023 is at a historic low as a percentage of total WFE. We believe this level of investment is unsustainable to support long-term growth in bit demand, especially considering the data-intensive applications such as AI are

still in the early stages of adoption and can have approximately three times the DRAM and eight times the storage content of regular server."

Mr. Archer concluded, "We are working through a lower WFE year in 2023 by managing near-term expenses, strengthening our operational capabilities and prioritizing R&D investments by the critical manufacturing inflections. Our focus remains on ensuring that when WFE growth resumes, the criticalities of our products to our customers, plans and the value of our installed-base which has grown nearly 40% since the last downturn put us in a strong position outperform."

CFO Doug Bettinger added, "2023 is proving to be a challenging environment for our memory shipments, but I'm pleased with the progress we're accomplishing against this challenging backdrop. We continue to make progress on growing our technology leadership. And focusing on our operational efficiencies. We will emerge from this number of led downturn is stronger. Better-positioned, more efficient company."

The Q4 estimate is not particularly good, though analysts have become less negative in their full-year 2023 earnings per share estimates. Analysts expect fiscal 2023 EPS to come in slightly ahead of fiscal 2022, before encountering a $7 + drop for fiscal 2024 and a sharp recovery in 2025. The lumpiness of the business is expected, given supply-demand mismatches, geopolitical tension and component challenges. We surmise the recent stabilization in inflation and demand dynamics may improve 2024's figures sooner than analysts are expecting. Lam continues to have an active share repurchase program, through which it repurchased $483 million of shares in the March quarter. Management says it is "continues to track" on its goal to return 75% to 100% of the company's free cash flow to shareholders. LRCX yields 1.3%, while the balance sheet remains healthy. Our Target Price is now $601.

Shares of **International Business Machines** (IBM – $125.73) slipped last week even as the IT services concern turned in adjusted Q1 EPS of $1.36, ahead of the $1.25 analyst consensus estimate. Sales rose at a pedestrian pace year-over-year to $14.25 billion, which we consider an accomplishment given IBM's history of revenue growing in reverse. IBM's Software segment grew 2.6% year-over-year and accounted for just over one third of the company's overall revenue. The Consulting segment grew at a similar rate, while Infrastructure was down 3.8%.

CEO Arvind Krishna commented, "We had a good start to the year, with mid-single-digit revenue growth at constant currency in line with our mid-term model and growth in free cash flow. Performance was led by software and consulting, as clients continue to accelerate their digital transformations, modernize their applications, automate their workflows, and create flexible and secure hybrid cloud environments. More recently clients are prioritizing digital transformation projects that focus on cost takeout, productivity, and quick returns. While demand for our offerings that support these priorities remain solid, we are seeing some deceleration in consulting from the previous robust growth levels, especially in the United States. Globally, our clients continue to see technology as a fundamental source of competitive advantage. Technology helps them scale and enhance productivity, which is especially important in the face of inflation, demographic shifts, cyber security, supply chain issues, and sustainability goals."

CFO Jim Kavanaugh added, "On the top line, we expect constant currency revenue growth of 3% to 5%. And we continue to expect free cash flow of about $10.5 billion, which is up over $1 billion year-to-year. Inherent in our mid-term model is margin expansion, driven by improving business mix efficiency initiatives and productivity enhancements. Driving efficiency and productivity, has always been a part of our operating and financial models."

IBM expects free cash flow around $10.5 billion, which is the same as last quarter's guidance. Steady IT spending and IBM's focus have helped the company beat analyst EPS estimates in five of the last six quarters, which is an enormous accomplishment given the company's challenges competing with other Cloud companies. After turning in a better 2022 than its peers, the company's shares have slumped 11% this year. Analysts expect the company to grow its net income from $8.3 billion in 2022 to nearly $10 billion by 2025, which is a good indication that IBM's turnaround under Mr. Krishna's leadership is working. Certainly, there's lots of work left to do in the Cloud and we are thinking IBM may make a late run to recapture some of its lost market share. Our Target Price for IBM, which yields 5.2%, has been edged up to $167.

Advertising, marketing and corporate communications services firm **Omnicom** (OMC – $93.85) earned $1.10 per share in Q1 (vs. $1.38 est.) and had revenue of $3.44 billion (vs. $3.39 billion est.). Shares slumped on the news, but the YTD advance still exceeds 15%. Omnicom said the company's growth was driven by the Advertising & Media, Precision Marketing, and Public Relations segments. Management says its primary uses of free cash flow in the near future are dividends, acquisitions and share repurchases.

CEO John Wren commented, "We are pleased with how the year has started and remain on track to meet the targets we set for the year. At the same time, we remain cautious as to how inflation, interest rates, the war in Ukraine, increasing tensions in the Middle East and the recent banking and credit events in the United States could impact the economy and our operations. Many of these risks have been evident for quite some time and we've developed plans to appropriately respond to any potential headwinds and minimize the effect on our financial performance."

CFO Phil Angelastro said, "As 2023 begins, we continue to review our cost to better align with our estimated revenues in an uncertain economy and our decision to exit certain real estate in Q1 is consistent with this approach. Our Q1 performance was solid and a first step toward delivering on our full-year guidance of an operating income margin between 15% and 15.4%, excluding the impact of the real estate repositioning charge. as 2023 begins, we continue to review our cost to better align with our estimated revenues in an uncertain economy and our decision to exit certain real estate in Q1 is consistent with this approach. Our Q1 performance was solid and a first step toward delivering on our full-year guidance of an operating income margin between 15% and 15.4%, excluding the impact of the real estate repositioning charge."

Mr. Angelastro concluded, "Our approach always includes the opportunity for strategic and accretive acquisitions. And if those opportunities are not immediately available, we will continue to use our free cash flow to boost total shareholder returns through dividends and share repurchases."

We believe OMC turned in a good Q1, despite the generally cautious tone from management related to customer advertising spending. The organic growth target range of 3% to 5% is solid, in our view, given near-term headwinds and we think the company's strong balance sheet leaves management with plenty of flexibility. The company's debt has an average maturity in late 2028 and carries a meager 2.8% coupon, which is especially low given the current Federal Funds rate. Analysts expect earnings per share in excess of $8.00 in 2025, compared with $6.36 in 2022, while they expect revenue to grow in the low-single-digit range (slightly below management expectations).

Omnicom has relationships with big clients, including Philips, Mercedes, Nike and Diageo, and we think that there will be growing opportunities for the company to offer its expertise in a world dominated by a handful of large advertising platforms and their algorithms. OMC continues to score well against its peer group in our proprietary valuation framework. The stock sports a 3.0% dividend yield. Our Target Price has been fine-tuned to $110

Shares of **Seagate Technology PLC** (STX – $56.42) were hammered almost 12% last week after the hard-disk maker reported fiscal Q3 2023 results that were weaker than expectations. STX said adjusted EPS for the quarter was a loss of $0.28, versus the consensus estimate of a positive $0.21. Revenue for the period of $1.86 billion also fell short of the average analyst estimate of $1.99 billion. Q3 sales dropped 34% year over year and 1% sequentially. Seagate said it is seeing weakness essentially everywhere as concerns over the macroeconomic environment weigh on spending.

The negative STX share response probably wasn't helped by the announcement of a new round of layoffs, a pause in share buybacks and a trade violations settlement that cost the company $300 million ($15 million per quarter over the next 5 years). However, the settlement with the U.S. Department of Commerce, Bureau of Industry and Security (BIS) does remove uncertainty regarding the ultimate amount, and management said it intends to continue to defend the dividend.

CEO Dave Mosley commented "We are seeing a more elongated customer inventory correction that led to weaker than expected nearline demand among a few large customers late in the quarter. Consequently, our March quarter revenue came in at the low-end of our guidance range, which along with underutilization charges and other factors had a severe impact on our reported margins and profitability. Looking ahead, we now expect demand recovery to begin towards the end of the calendar year. In response to this dynamic environment, we are taking aggressive actions to lower our cost structure while still positioning Seagate to thrive over the long-term and sustain our technology leadership. To that end, we continue to execute on our product roadmap, including our strategically vital HAMR platform that we launched in April, as anticipated."

The range of earnings outcomes over the next few quarters is definitely wide, given the lumpiness of STX's business and plenty of uncertainty related to Cloud spending. Analysts project a trough year for EPS barely positive for fiscal 2023, but the projected figure improves to $2.66 in fiscal 2024 and $5.77 in fiscal 2025. Of course, the strong bounce-back in earnings is predicated on things going in STX's favor. While Microsoft and others have indicated there's some optimization going on in the Cloud industry, we think the long-term outlook for the

segment remains robust and the centralization of computing power is a winner in many respects. STX continue to maintain its $0.70 per share quarterly dividend payment, which pencils out to a yield around 5%, and our Target Price has been trimmed to $83.

Shares of **Abbott Labs** (ABT – $111.66) jumped more than 7% last week on the heals of solid Q1 financial results, with the stock now back into the green for 2023. The major healthcare products and services provider said it had adjusted EPS of $1.03, versus the consensus analyst estimate of $0.98. Revenue of $9.75 billion was 1% better than the average analyst expectation. ABT's base business grew 10% in Q1 (well ahead of the Street's consensus expectation of 6.4%) while medical devices grew 12.4% year-over-year. Devices ex-diabetes was even better than expected at around 8% (vs analysts at 6%). In contrast to the past few quarters, ABT saw a better base and no upside from COVID which came in at $730 million vs $750 million guidance. The company's glucose monitoring Libre line continues to show good worldwide and U.S. growth.

CEO Robert Ford said, "Our first-quarter results reflect a very strong start to the year. Growth in our underlying base businesses accelerated, including particularly strong results in Medical Devices, Established Pharmaceuticals and Nutrition."

Management announced that projected full-year adjusted EPS from continuing operations of $4.30 to $4.50 remains unchanged and now reflects an increased outlook for the underlying base business offset by a lower predicted earnings contribution from COVID-19 testing-related sales. Abbott now looks for full-year 2023 organic sales growth, excluding COVID-19 testing-related sales, of at least high single-digits and COVID-19 testing-related sales of approximately $1.5 billion.

We continue to think very highly of Abbott and believe its diversified revenue stream offers resiliency to our portfolios. We continue to see an attractive setup for medical devices in the coming years, and were encouraged by Medicare approving reimbursements for the Freestyle Libre 3 for type 2 diabetics that use basal insulin. Remember that the Freestyle Libre line of continuous glucose monitoring systems was named the "Best Medical Technology" of the last 50 years by the Galien Foundation. Additionally, we are quite constructive on ABT's R&D pipeline and believe it continues to be highly productive with several recent and upcoming new product launches that position the company well going forward. Our Target Price has been adjusted upward to $138.

Global staffing firm **Manpower** (MAN – $74.59) saw its shares slide more than 6% last week following a weaker than expected Q1 earnings release, and a Q2 forecast that came in below forecasts. The three-month period saw MAN deliver adjusted EPS of $1.51 on revenue of $4.75 billion (versus the consensus analyst estimates of $1.63 and $4.81 billion, respectively).

Q1 organic adjusted sales fell 4%, below the -2.5% guidance mid-point and a flat Q4. Customers became more cautious on hiring amid greater macro uncertainty. Experis sales (professional staffing) fell 5%, while its Manpower brand (blue collar staffing) fell just 1%. Within Experis, demand was especially weak from its larger clients, while mid- and small accounts were solidly holding up. And while higher margin permanent staffing softened in the U.S., it held up nicely internationally.

CEO Jonas Prising explained, “Our first quarter results reflect a challenging operating environment in the U.S. and Europe. Despite a softening demand environment for our brands, labor markets remained strong during the first quarter. Employers are intent on holding on to the staff they have and are hiring new talent more selectively at a measured pace. We continue to adjust our cost base in the parts of our business where demand has decreased. Our steadfast commitment to our Diversification, Digitization and Innovation initiatives positions us for improved growth when economic conditions strengthen. We anticipate diluted earnings per share in the second quarter will be between $1.58 and $1.68, which includes an estimated unfavorable currency impact of 3 cents.”

We like that MAN continues to shift toward higher-value solutions and services, such as its Talent Solutions and Experis brands. Additionally, we see the company maintaining its focus on higher-margin human resource solutions as multinationals increasingly look to outsource large-scale recruiting activities. We think growth in these areas will provide increased profitability, while potentially reducing overall cyclicality. We believe the company’s services will prove valuable whichever course the global economy takes. A persistently tight labor market requires flexible staffing solutions. On the other hand, companies may also rely on MAN should they need to downsize or rehire. And, despite the weaker-than-expected numbers of late, the company remains highly profitable.

Manpower has weathered many crises over its 70-plus-year history, while its solid financial footing has allowed it to continue to make acquisitions, pay dividends and buy back stock along the way. The stock still trades at an attractive forward P/E ratio of less than 12, with an almost double-digit free-cash-flow yield and a dividend yield of 3.6%. Our Target Price for MAN has been pared to $136.

Shares of **Snap-on Inc.** (SNA – $263.01) bounded almost 10% higher last week after the tool maker and distributor reported Q1 results that were better than the consensus analyst estimates for both the top- and bottom-lines. Revenue of $1.18 billion was more than 4% above expectations, and represented an increase of $85.2 million, or 7.8%, from 2022 levels, reflecting a $109.2 million, or 10.2%, organic sales gain, partially offset by $24.0 million of unfavorable foreign currency translation. Adjusted EPS for the quarter of $4.60 was more than 11% greater than the consensus forecast of $4.14. The strong quarter was aided by organic growth in Repair Systems, up 14%, thanks to higher sales of undercar equipment and diagnostic products to independent shops, as well as increased activity with OEM dealerships. SNA’s C&I segment performed solidly as well, up 11% year-over-year organically as supply chain constraints continued to dissipate.

CEO Nick Pinchuk commented, “We’re again encouraged by our performance, achieved against the general uncertainty and turbulence of these times. Our results validate the extraordinary resilience of our critical markets and demonstrate the ongoing and upward momentum present across our operations. Our experienced and capable team overcame the difficulties of the day, further building our strategic and tactical advantages in our product and in our brand, all while maintaining our established trajectory of continuing progress. We believe our quarter is clear testimony to the abundant opportunities along our runways for growth. Our businesses serving critical industries are well positioned to extend our activities outside the garage, and within

automotive repair, we are poised to sustain our advance in that robust market, by enhancing the van channel and expanding with repair shop owners and managers. At the same time, we believe the period confirms the power of our Snap-on Value Creation Processes and our considerable capacity for improvement."

We continue to think Snap-on is positioned to benefit as in 2022 the North American vehicle fleet was estimated to be almost 12 years old, on average, with an ever-growing need to improve technician productivity given specialized labor constraints. And as the appetite for new car purchases finally gets met with more supply over the near and intermediate term, we expect service departments at dealerships across the country to increasingly rely on SNA's specialty tools and sophisticated diagnostic solutions. Snap-on is fairly conservatively financed with little debt on the balance sheet and the franchise remains competitively positioned within its market. The stock offers a solid dividend yield of 2.5% and even after the run up, shares trade at less than 15 times NTM projected adjusted EPS. We will continue to evaluate the go-forward risk/reward profile of SNA against potential new opportunities, should they arise, in our portfolios. Our Target Price for SNA has been boosted to $308.

Shares of **Elevance Health** (ELV – $450.74) shed 7% last week despite the managed care provider turning in Q1 EPS ahead of the Street consensus estimate ($9.46 vs. $9.23 est.). Medical membership grew 2.8% year-over-year (boosted by Medicare and Medicaid membership) to 48.1 million, supporting 11% and 17% respective sales and operating profit growth.

CEO Gail Boudreaux said, "Alongside a diversified portfolio of solutions spanning commercial, Medicaid, and Medicare coverage, we are uniquely well-positioned to ensure access to quality health care. Medicare posted strong growth in Dual Eligible Special Needs Plan and group members, which more than offsets slower growth within individual Medicare Advantage. As we stated at our investor conference last month, Medicare Advantage is a strategically important market for Elevance Health over the long term and we were pleased to see CMS move to phase in the risk model revision it had proposed in the 2024 advance notice. This will provide time to help the industry adapt to the changes."

Management slightly raised its full-year financial outlook and now expects to earn above $32.70, up from the previous guidance of above $32.60.

We think ELV's competitive position remains intact, particularly within the 14 states in which it is the exclusive licensee of the Blue Cross Blue Shield brand where it holds significant market share. We also believe the firm's scale enables it to adapt to inevitable future shifts in regulation. Longer term, demographic trends remain in its favor as a major player in the Medicare Advantage market. As shares have consolidated over the past 15 months, we find the less-than-14 times forward P/E multiple attractive as management strives to grow adjusted earnings by 12% to 15% for at least the next several years. Our Target Price for ELV is now $622.

Johnson & Johnson (JNJ – $162.69) posted Q1 EPS of $2.68 (vs. $2.52 est.) after adjusting for costs to spin off its consumer health business, a COVID-19-vaccine-related write-down and a $6.9 billion charge from its proposal to resolve litigation alleging injuries from the company's

talc powder products. Sales rose 5.6% year-over-year to $24.75 billion (vs. $23.65 billion est.), boosted by demand across its businesses as the Consumer and MedTech segments each grew more than 7%.

CFO Joseph Wolk commented, "Neither LTLs' [JNJ's bankruptcy entity for talc litigation] original filing nor this refiling is an acknowledgment of wrongdoing, nor an indication that the company has changed its long-standing position that its talcum powder products are safe. Our goal continues to be for an equitable and efficient resolution of the cosmetic talc litigation against the company, and we believe this refiling represents progress towards that goal. As a reminder, LTLs' bankruptcy filing will not have an impact upon the Kenvue [Consumer Health] separation and the talc liabilities in the United States and Canada will remain with Johnson & Johnson. As part of the refiling, we have proposed a reorganization plan that has significant support from claimants and includes payment of $8.9 billion in present value over a 25-year period. LTL will continue to work through the process set forth by the bankruptcy court and expects to present the reorganization plan to the court in mid-May."

The talc-related bankruptcy proposal is subject to approval by 75% of the talc claimants, but last week Judge Michael Kaplan granted a request to freeze new cases requiring trial in a hearing in New Jersey. The Judge said he would revisit the latest ruling in late May.

J&J lifted its adjusted EPS and sales guidance for the full year. It now expects to earn an adjusted $10.60 to $10.70 per share (up from $10.45 to $10.65 previously) on between $97.9 billion to $98.9 billion of sales (up from $96.9 billion to $97.9 billion previously). This excludes the contribution from JNJ's COVID-19 vaccine which is expected by sell-side analysts to fall by more than half in 2023 vs 2022.

Regarding the firm's capital allocation priorities, Mr. Wolk added, "R&D investment remains our number one priority and driver of long-term growth and value creation. We know the value our investors place on our dividend and we were pleased to announce this morning that our Board of Directors has authorized a 5.3% increase, marking our 61st consecutive year of dividend increases. In addition, we continuously evaluate strategic business development opportunities that enable Johnson & Johnson to create value for patients, customers and shareholders. Our final priority is share repurchase programs when appropriate. In fact, this past quarter, we completed the $5 billion share repurchase program announced late last year. We are confident in our strong financial position, including our AAA-rated balance sheet and our ability to deploy capital across all strategic priorities. We believe this strength differentiates Johnson & Johnson and enables us to pull the appropriate levers to set us up for long-term success."

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 as the earnings multiple is below that of the market, but we note that every stock is fighting for its spot in our portfolios amidst ongoing market volatility. Still, with a dividend yield of 2.9%, our Target Price for JNJ is now $209.

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