Market Commentary Monday, May 1, 2023

May 1, 2023

EXECUTIVE SUMMARY

Probabilities – The Longer the Hold, the Less the Chance of Loss
Growth – GDP, Corporate Profits and Dividends Rise Over Time
Econ Data – Mixed Numbers; 1.7% Q2 GDP Growth Projected
Interest Rates – 10-Year Yield Low By Historical Standards
Valuations – Liking the Multiples on our Portfolios
Contrarian Sentiment – AAII Still Very Pessimistic
Stock News – Updates on PHG, WHR, ARE, ADM, ONB, GOOG, MSFT, JNPR, NSC, META, CMCSA, IP, INTC, GILD, DLR, COF, INT & NYCB

Market Review

It was another roller-coaster ride with a mid-week plunge giving way to a big month-end rally that pushed the major market averages into the green for the past five trading sessions. Certainly, it doesn't always work out that holding for a week will quickly recoup one or two days of losses, but history does suggest that patience is a virtue when it comes to investing.

Indeed, having been in Sin City last week for the *MoneyShow*, there is no better place to emphasize the probabilities of winning. After all, baccarat, blackjack, craps or roulette offer the best odds and slot machines generally the worst chance of winning, but the house always has the edge. Play long enough and you will lose.

PATIENCE IS VIRTUOUS

VALUE STOCKS

	Count >0%	Count <=0%	Percent >0%
1 Month	725	424	63.1%
3 Months	776	371	67.7%
6 Months	811	333	70.9%
1 Year	831	307	73.0%
2 Year	942	184	83.7%
3 Year	975	139	87.5%
5 Year	977	113	89.6%
7 Year	1030	36	96.6%
10 Year	996	34	96.7%
15 Year	970	0	100.0%
20 Year	910	0	100.0%

DIVIDEND PAYERS

	Count >0%	Count <=0%	Percent >0%
1 Month	726	423	63.2%
3 Months	797	350	69.5%
6 Months	826	318	72.2%
1 Year	860	278	75.6%
2 Year	963	163	85.5%
3 Year	956	158	85.8%
5 Year	1004	86	92.1%
7 Year	1026	40	96.2%
10 Year	996	34	96.7%
15 Year	970	0	100.0%
20 Year	910	0	100.0%

From 07.31.27 through 03.31.23. Value stocks represented by 50% small value and 50% large value returns rebalanced monthly. Dividend payers represented by 30% top of dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

Contrast that with the equities market, where the chance of making money in Value Stocks and Dividend Payers increases the longer the hold. True, there is no assurance that the past is prologue, but looking at data since 1927 from Professors Eugene F. Fama and Kenneth R. French shows the chance of a positive return rises from an already impressive 63% for a one-month hold to 73.0% for Value and 75.6% for Dividend Payers for a one-year hold. And the chance of making money rises to more than 96% for 10-year holding periods.

Certainly, there have been plenty of ups and downs along the way, but stocks have proved very rewarding for those who remember that the secret to success is not to get scared out of them.

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	4/28/2023
5.0%	14.7%	72	316	0.3	3/13/2023	4/28/2023

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 4.28.23. 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

The reason that stocks have performed so well is that companies generally become more valuable over time, given that corporate profits have grown,…

S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2024	$64.81	$243.81
9/30/2024	$62.81	$236.42
6/30/2024	$59.69	$229.57
3/31/2024	$56.50	$223.18
12/31/2023	$57.42	$217.87
9/30/2023	$55.96	$210.82
6/30/2023	$53.30	$205.21
3/31/2023	$51.19	$198.78
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 4.25.23

…and dividend payouts have risen.

Dividends are never guaranteed, as we saw in the wake of COVID-19 and the Great Lockdown, but the historical data show that Corporate America has a long history of raising payouts. In fact, per share dividends for the S&P 500 were higher (modestly) in 2020 vs. 2019.

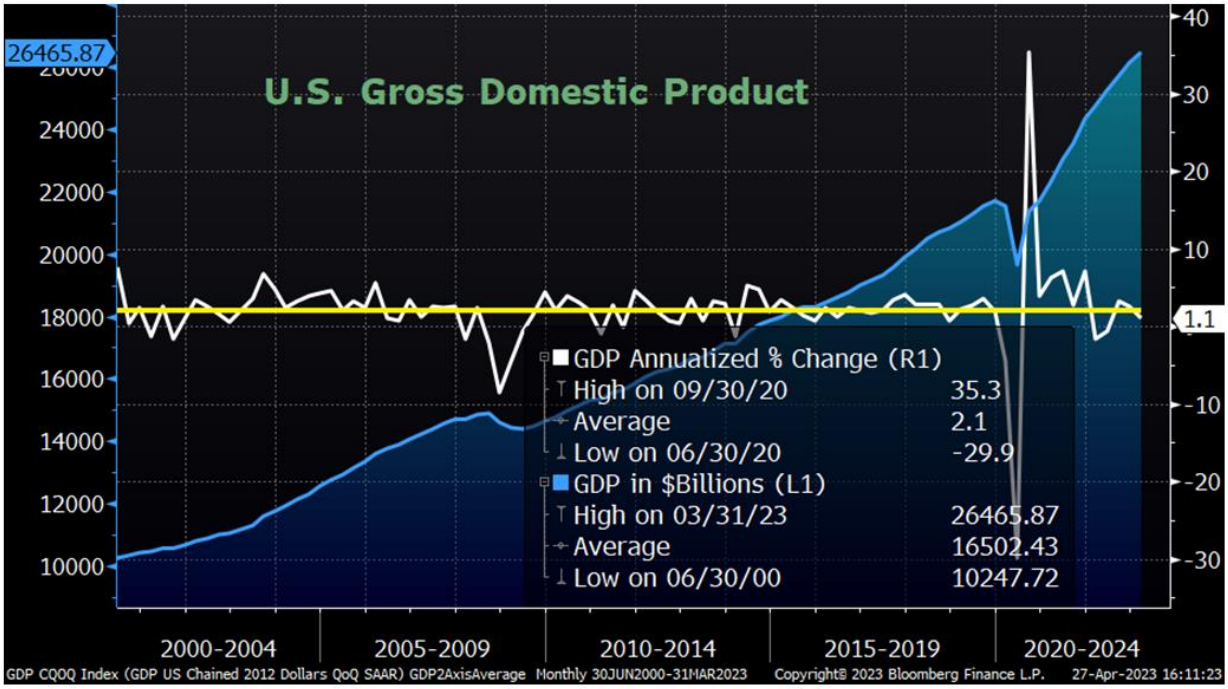
COUNT OF S&P 500 DIVIDEND ACTIONS	INCREASES	INITIATIONS	DECREASES	SUSPENSIONS
2022	377	7	5	0
2021	353	19	4	1
2020	287	11	27	42
2019	355	6	7	0
2018	374	6	3	0
2017	351	5	9	2
2016	344	7	19	2
2015	344	7	16	3
2014	375	8	8	0
2013	366	15	12	0
2012	333	15	11	1
2011	320	22	5	0
2010	243	13	4	1
2009	151	6	68	10
2008	236	5	40	22

Source: Standard & Poor's.

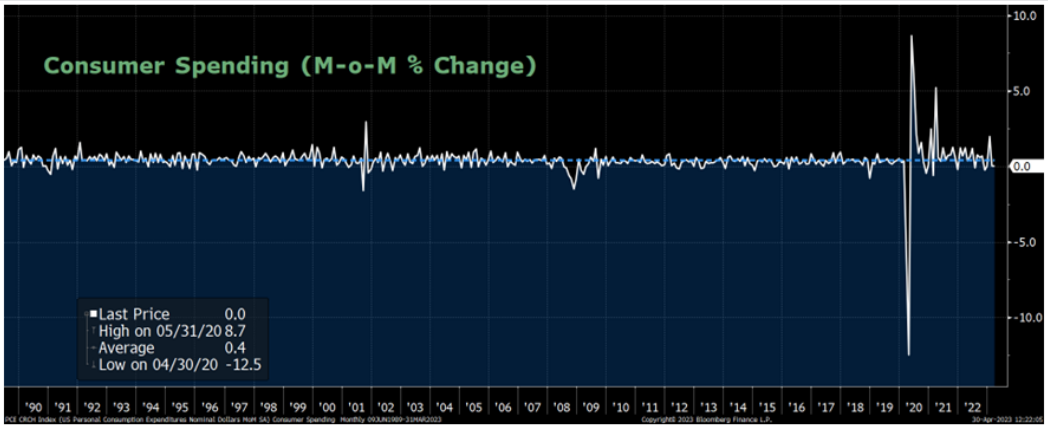
S&P 500 DIVIDENDS PER SHARE	
2024 (Est.)	$74.82
2023 (Est.)	$70.11
2022	$67.57
2021	$60.54
2020	$58.95
2019	$58.69
2018	$53.86
2017	$50.47
2016	$46.73
2015	$43.49
2014	$39.44
2013	$34.99
2012	$31.25
2011	$26.43
2010	$22.73

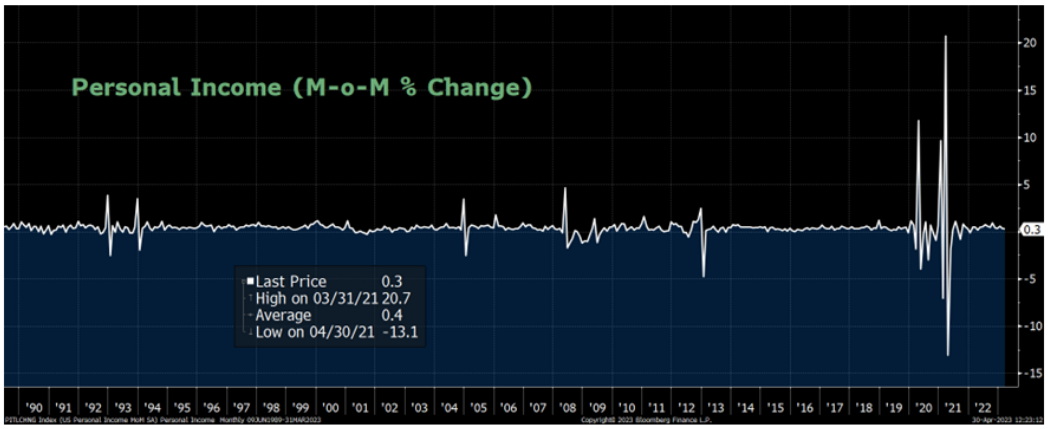
Source: Bloomberg. As of 4.20.23

It isn't rocket science. After all, U.S. GDP (the blue line in the chart below) on a nominal (absolute) basis grows over time, with only two dips over the past 25 years. In fact, in the first quarter of 2023, nominal GDP rose to $26.465 trillion, up an impressive 7.0% on a year-over-year basis, even as so many have been concerned about a recession.

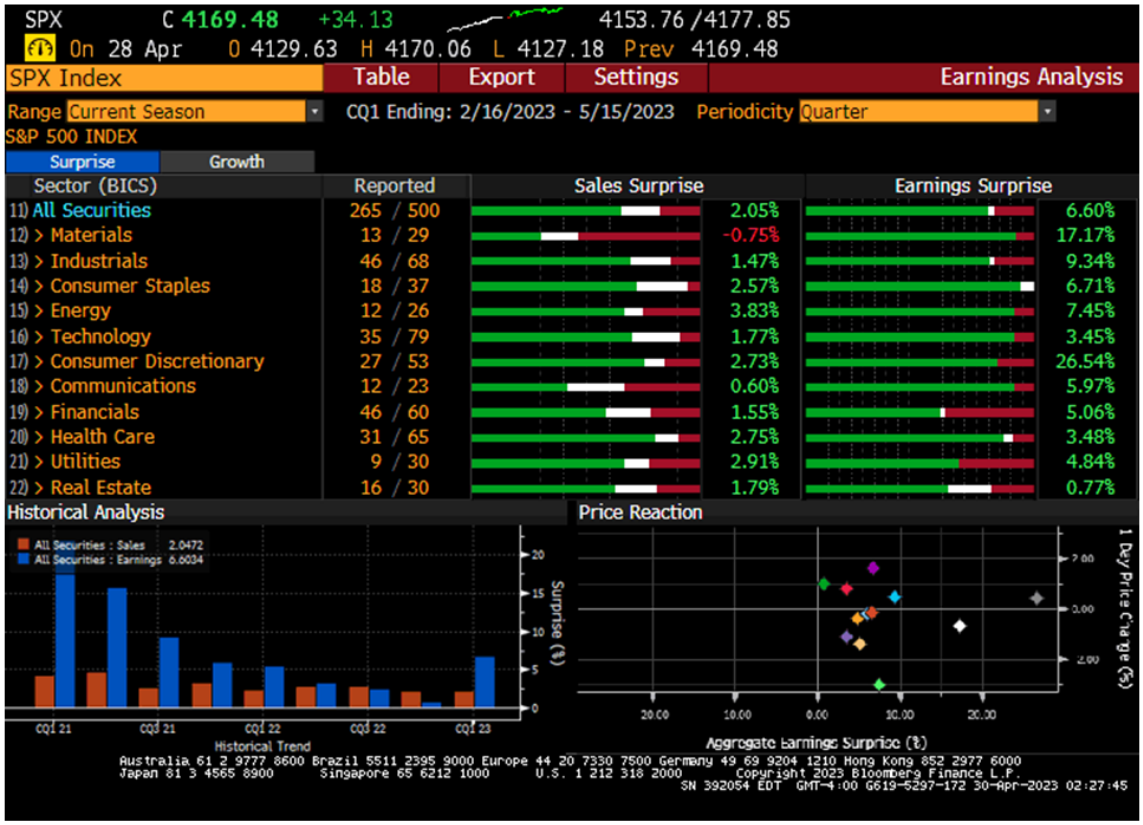


Yes, the economy grew only 1.1% in Q1 2023 on an inflation-adjusted basis, while consumer spending and personal income tallies for March were below average,…





…but Q1 report cards from Corporate America generally have been terrific. In fact, of the 265 members of the S&P 500 to have announced results thus far, a much-greater-than-usual 80.2% have topped bottom-line expectations, while 66.2% have beaten top-line projections.

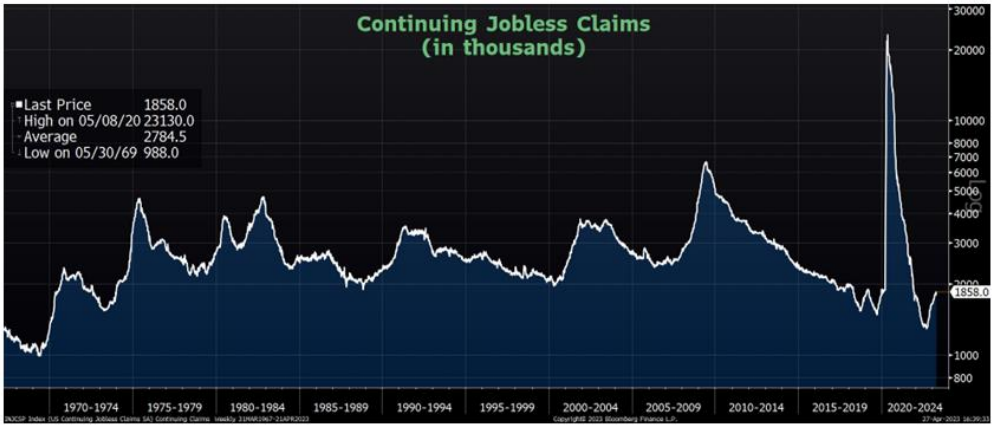


To be sure, market reactions to the Q1 results have not always been positive as management teams have been cautious in their outlooks. That is not surprising in that the odds of an economic contraction over the next 12 months, as calculated by *Bloomberg*, remain at 65%,…

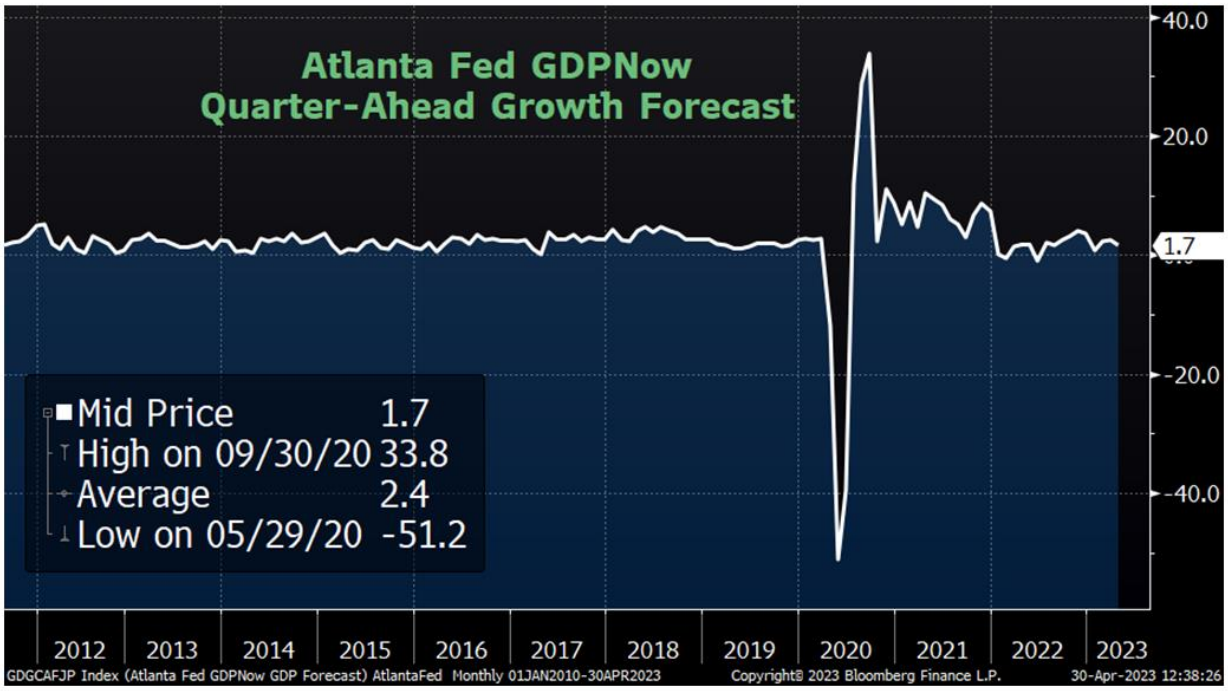
…with the latest readings on the mood of the consumer coming in at levels that aren't exactly inspiring a lot of confidence.

On the other hand, both durable good orders and new homes sales for March showed solid improvement over February…

…while the labor picture remains healthy, with a dip in the number of initial jobless claims in the latest week,…



…and the initial estimate for Q2 inflation-adjusted GDP growth from the Atlanta Fed stood at a solid 1.7%.



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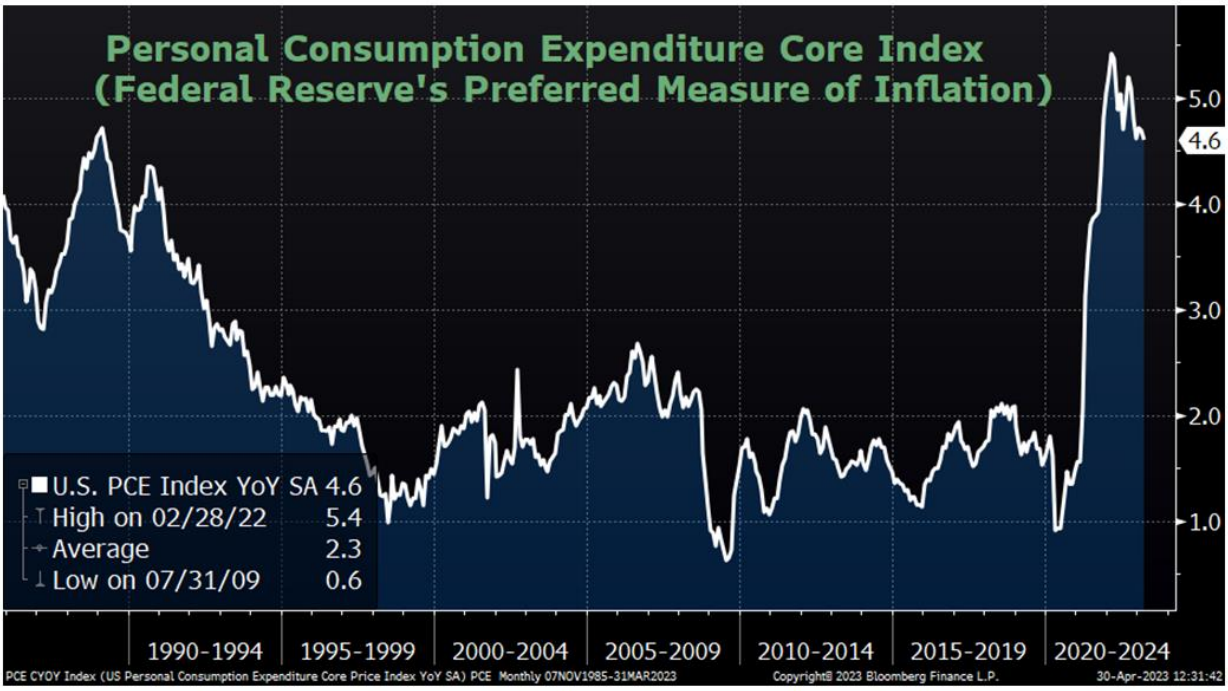
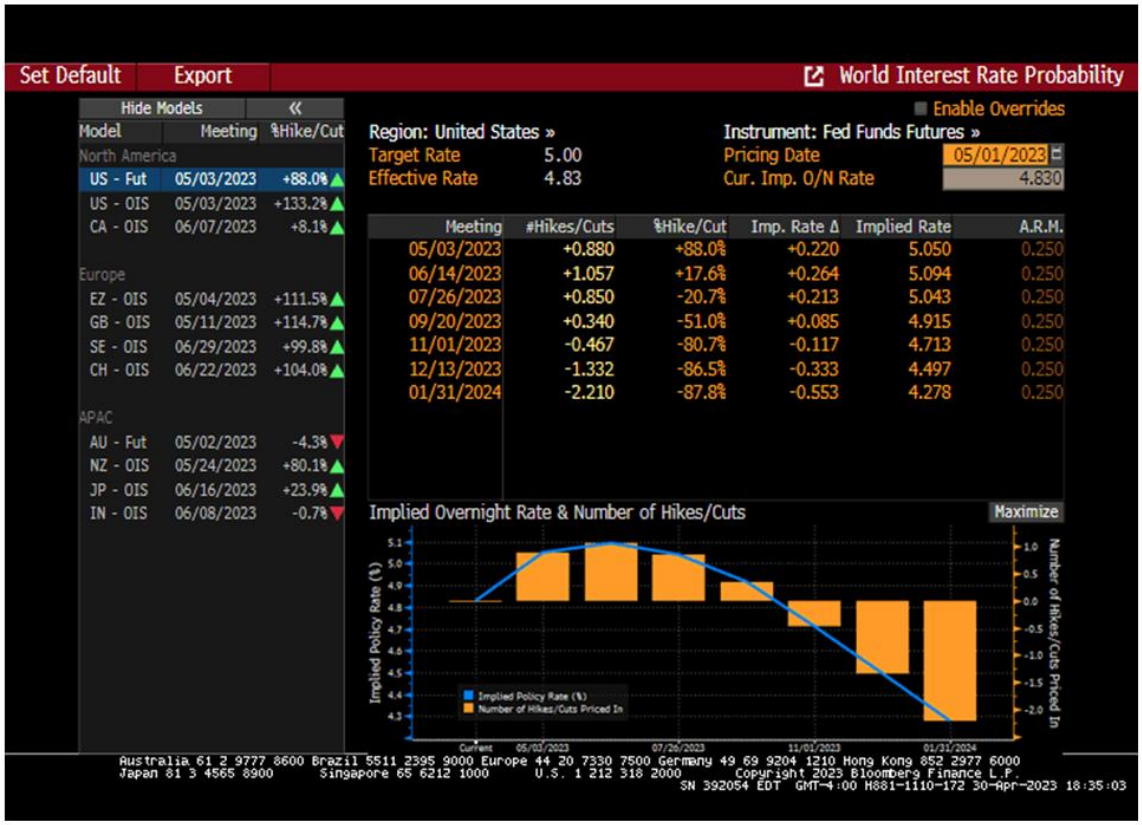
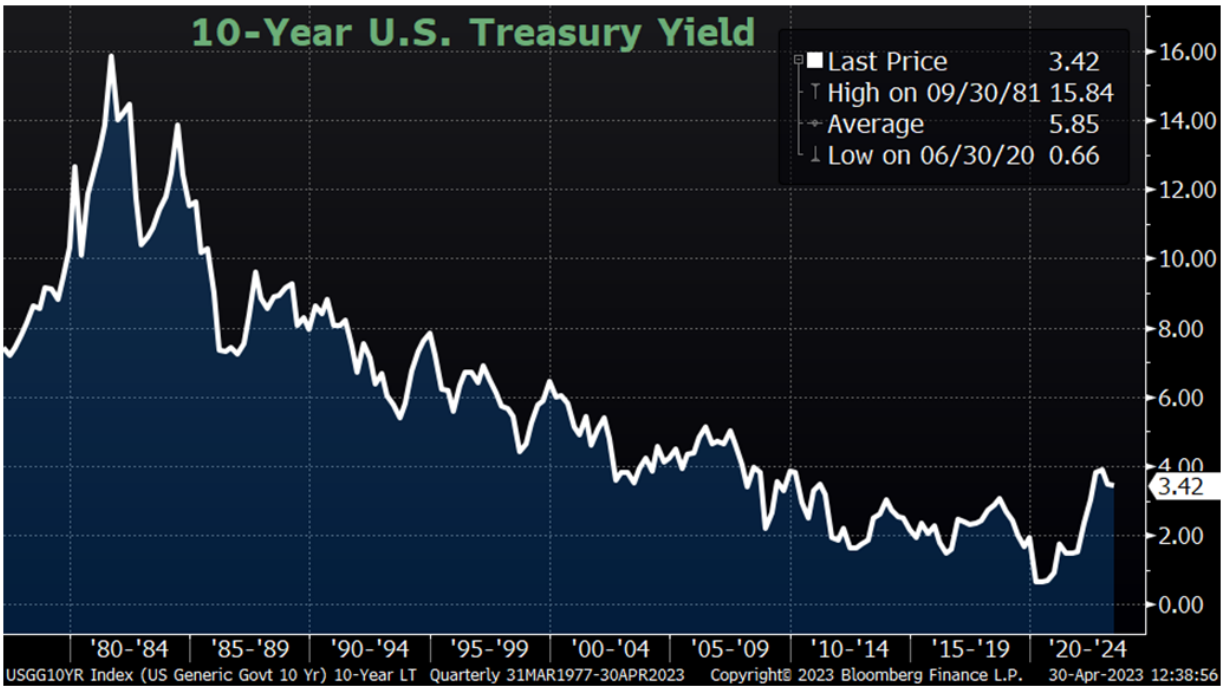
No doubt, there is plenty about which to be concerned, including the drama around the future of First Republic Bank and a Federal Open Market Committee Meeting this week. Jerome H. Powell & Co. are expected to again hike their target for the Fed Funds rate, given that inflation remains elevated, with the core personal consumption expenditures (PCE) index rising 4.6% in March.



A 25-basis-point increase is generally the market view, as evidenced by the Fed Funds Futures, but that gauge is looking for a peak in the Fed Funds rate at 5.09%, with cuts beginning in the not-too-distant future that will take the important lending rate down to 4.50% by the end of 2023.



Certainly, interest rates are a critical input into the equity market equation, but the current 3.42% yield on the benchmark 10-Year U.S. Treasury remains well below the 5.85% average since *The Prudent Speculator* was launched in 1977,…



…while stocks in general continue to be attractively valued, in our view, given that the earnings yield (the inverse of the P/E ratio) on the S&P 500 still compares favorably.

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 (5.01% vs. 3.42% 10-Year), despite last year's jump in interest rates.

More importantly, we like the inexpensive valuation metrics associated with 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	12.2	0.8	2.2	3.0
ValuePlus	12.5	12.5	1.1	2.2	2.6
Dividend Income	11.9	12.4	0.7	2.1	3.4
Focused Dividend Income	12.8	12.8	1.0	2.3	3.1
Focused ValuePlus	13.4	13.2	1.2	2.5	2.7
Small-Mid Dividend Value	8.1	8.2	0.4	1.2	4.0
Russell 3000	20.7	19.4	2.1	3.8	1.6
Russell 3000 Growth	29.2	25.3	3.3	9.2	1.0
Russell 3000 Value	15.9	15.6	1.5	2.3	2.3
Russell 1000	20.3	19.2	2.3	4.0	1.6
Russell 1000 Growth	28.6	25.0	3.6	10.1	1.0
Russell 1000 Value	15.6	15.4	1.6	2.4	2.3
S&P 500 Index	19.9	19.0	2.4	4.1	1.7
S&P 500 Growth Index	20.5	20.8	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	9.7	9.7	0.6	1.4	2.9

As of 04.30.23. 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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As always. we are braced for downside volatility, but we like that folks on Main Street are unusually pessimistic today, with the latest weekly AAII Bull-Bear Sentiment gauge (a strong contrarian measure) showing 24.1% Bulls and 38.5% Bears,…

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	934	0.24%	0.20%	1.15%	1.01%	3.30%	2.91%	6.44%	5.68%
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 1863 Data Points											
1	-54.0	-17.0	188	0.41%	0.34%	2.16%	1.93%	4.61%	4.09%	8.48%	7.30%
2	-17.0	-9.0	185	0.23%	0.19%	0.89%	0.76%	3.44%	3.06%	5.98%	5.19%
3	-8.9	-2.7	186	0.32%	0.29%	1.02%	0.90%	3.44%	3.04%	7.56%	6.85%
4	-2.7	2.5	187	0.16%	0.12%	0.96%	0.86%	2.29%	1.91%	5.30%	4.74%
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 04.27.23. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

…and we note that stocks have long climbed a Wall of Worry.

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%	47935%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	27697%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	24882%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	9685%
Suez Canal Crisis	10/30/1956	10/31/1956	46.37	45.58	-2%	-10%	26%	51%	9048%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	10596%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	7695%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	5890%
MLK Assassination	4/3/1968	4/5/1968	93.47	93.29	0%	8%	8%	16%	4369%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	5427%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	4424%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	5857%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	3863%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	4145%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	3390%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	2475%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	1604%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	1754%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	1219%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	1008%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	913%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	840%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	812%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	725%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	375%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	335%
Clinton Impeachment	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	239%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	211%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	332%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	355%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	282%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	248%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	516%
Price Changes Only - Does Not Include Dividends				**Averages:**	**-7%**	**18%**	**39%**	**66%**	**5732%**

As of 4.28.23. Source: Kovitz using Bloomberg and Ned Davis Research Events & Reaction Dates

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.

Koninklijke Philips (PHG – $21.12) earned $0.24 per share in Q1, when adjusted for a $627 million litigation provision due to progress on resolving its Respironics sleep therapy and ventilator device woes. Sales grew 6% in euro terms, boosted by a strong performance in the Diagnosis & Treatment Segment. The battered stock rebounded 11% last week on the news.

CEO Roy Jakobs said, "I am encouraged that we delivered a solid start to the year, with sales, profitability and operating cash flow improvements in the quarter, a first step to drive progressive value creation. We are executing on our three priorities to enhance patient safety and quality, strengthen our supply chain reliability, and establish a simplified, more agile operating

model. Resolving the Philips Respironics recall for patients remains our highest priority. In the first quarter, we have recorded a provision in anticipation of a resolution of the economic loss class action in the U.S. This is an important step in addressing the litigation related to the recall."

He added, "Our supply chain improvements enabled good growth across the Diagnosis & Treatment businesses and in Hospital Patient Monitoring. Supported by significant change management efforts, we have reduced the workforce by approximately 5,400 roles out of the planned reduction of 10,000 roles globally. I realize that we are asking a lot from our employees to work through the necessary changes and deeply appreciate their tremendous efforts and ongoing commitment to deliver on our company purpose. I would also like to thank our customers and partners for their continued trust and support. I have met many of them in the last few months, and it is clear that Philips remains a preferred innovation partner. Looking ahead, based on our solid performance in the quarter, our order book, and the ongoing actions to further improve execution, we are confident in our plan for the year 2023, acknowledging that uncertainties remain."

Our thesis for the stock from the outset was that the eventual loosening of global supply chains would lead to a recovery in revenue and earnings. Indeed, Philips' gross margin improved 3.5% since bottoming out in Q1 a year ago. Shares have recovered tremendously since November, even as the Respironics issues are still outstanding.

It is possible PHG could be heading down a much better path though it is still early days, particularly given multiple legal cases pending. Even as meaningful progress has been made to account for costs in replacing defective products as well as certain legal obligations, personal injury claims remain a wild card, with some observers expecting it to cost Philips as much as $4 billion to settle. And that also assumes replacement products are devoid of their own issues. So, we remain comfortable with our lighter than usual weighting for the time being, while still thinking brighter times are ahead. Our Target Price is $29.

Shares of **Whirlpool** (WHR – $139.59) fell 1% last week, pushing the stock back into negative territory this year after the appliance maker announced quarterly results. For Q1, WHR delivered $4.65 billion of revenue, with adjusted EPS of $2.66. The results were ahead of consensus estimates of $4.5 billion and $2.19 per share, respectively, so the selling pressure for the stock was puzzling.

Whirlpool CEO Marc Blitzer commented, "Across the globe, we're still seeing lower demand due to softer consumer sentiment impacting discretionary appliance purchases, which resulted in a revenue decline of 5.5%. Our Q1 operating margin of 5.4% is 200 basis-points ahead of Q4. And our North America margin improved by 420 basis points to a 10% EBIT margin… On a sequential basis, our price mix is slightly improved versus Q4, but frankly, this is simply a reflection of normal seasonal promotional activities, which tend to be higher during the fourth quarter… As the year progresses, we do expect net cost takeout and raw materials to be the key driver of margin improvement. Our cost actions are on track and we would see more seasonal volume leverage and raw materials will continue to improve, even though at the low end of our raw material expectations."

Mr. Blitzer continued, “We aim for flawless supply chain execution. And while our historical supply-chain model has served us very well over many decades, what the last few years have shown us is that in order to succeed moving forward, we need a more responsive and adaptive supply chain. We have significantly expanded our dual-sourcing of critical components and prioritized high-value strategic parts and components to de-risk this part of our supply chain. Additionally, over the past two years, we have also made significant progress in reducing our parts complexity. In the first quarter, we further reduced our active parts by approximately 5%. This is a key driver in increasing our supply chain resiliency. As a result, our overall product availability has significantly improved versus 2022, even though not yet fully to pre-pandemic levels.”

Mr. Blitzer closed, “We continue to reduce supply chain inefficiency and premium costs. Our proactive headcount management delivered an additional 1 point reduction in our global salaried workforce in the quarter, bringing our aggregate reduction to approximately 5%. Additionally, we’re seeing benefits from reduced discretionary spending and other indirect costs. To summarize, our net cost actions are on track and commodity prices have eased, but at a slower pace than initially expected. As a result, we’re trending towards the lower end of our $800 million to $900 million total cost takeout range.”

CFO Jim Peters added, “[In America], housing demographics such as a moderating interest rate environment, the oldest housing stock in US history, the need for household formations to catch-up with population growth rates and the 2-million-to-3-million-unit under-supply of US houses, supports mid-to-long-term discretionary and new construction demand, which is 45% of the total industry. We feel extremely confident in our ability to capitalize on these significant tailwinds, despite the near-term pressures of housing affordability and softening consumer sentiment impacting discretionary spending and have reflected all of these drivers in our mid-to-long-term industry growth outlook of 3% to 4%.”

WHR expects 2023 revenue around $19.4 billion with EPS between $16.00 and $18.00. Free cash flow is expected to come in around $800 million, while cash flow from operations is expected to total $1.4 billion. At last count, analysts expect WHR to earn $16.02 in 2023 (down from $26.59 in 2021), although that figure is expected to be a trough and the recovery in 2024 is expected to see the figure grow to nearly $18.00. The average estimate on the very low range of management’s guidance, paired with a forward P/E below 8, leaves us thinking WHR has an opportunity to surprise on the upside.

Our overall thesis is little changed from the last update, where we noted that Whirlpool has had to contend with near-term supply constraints and raw material cost inflation in recent quarters. WHR has also been hit by the steep and rapid rate hikes the Fed has doled out in attempts to slow inflation, which has rapidly slowed home sales. But these headwinds are nothing new for Whirlpool as the company has navigated similar bumps in the road before, while consistently generating solid free cash flow. We also see non-North American markets driving long-term growth as the rest of the world progresses technologically and emerging markets incorporate modern conveniences into daily living.

WHR sports a dividend yield exceeding 5% and our Target Price is $235.

Shares of **Alexandria Real Estate** (ARE – $124.18) sank Tuesday morning even as the medical REIT reported a resilient quarter that included adjusted funds from operations (FFO) of $2.19 per share ($2.16 est.). Cash basis rents increased 24% year-over-year in the quarter on strong leasing activity of over 1.2 million rentable square feet. The stock price recovered some as the week went on and ended the five days off just a smidge.

CEO Peter Moglia said, "Alexandria has played a critical role in the evolution of the life science industry over the last three decades by creating and growing the ecosystems and clusters that ignite and accelerate the world's leading innovators in their pursuit to advance human health, which is our solemn mission. In addition, we've built on an irreplicable world-class asset base of robust and highly differentiated properties and campuses that attract a diversified best-in-class tenant base, who values our expertise and operational excellence by providing 75% to 85% of our leasing quarter-to-quarter."

He added that Alexandria had "made a strategic decision to reduce 2023 construction spend by $250 million by pausing or delaying projects that had been classified as under construction so we can focus our capital on the most strategic projects that have the most attractive terms, enabling our highly vetted and vast tenant base."

The CEO also lamented that construction costs "remain volatile, but are on their way to stabilizing…Cost of materials and supply chain volatility were the initial drivers of construction inflation, but now, the primary driver is labor, with a triple whammy of wage increases, a shortage of workers, and the inefficiency of the remaining labor force due to the retirement of older, more skilled labor. There are 330,000 open construction jobs today, and the time it takes to train the new entrants to be highly skilled is measured in years. So, these inefficiencies will be with us for a while."

We continue to believe that global demographic and health trends will support solid growth rates in the life sciences space, and we still view Alexandria as a premier player. Of course, concerns about higher interest rates, a softer economy and slower industry leasing activity have left shares off more than a third from last year's highs. Management continues to expect occupancy levels to stay in the 95% range in the near term and full-year FFO of $8.96 per share at the midpoint. Analyst FFO estimates for 2024, 2025 and 2026 are a respective $9.65, $10.19 and $10.96 per share, so there is handsome growth projected, and we like that 95% of leases contain contractual annual rent escalations approximating 3%. Our Target Price is now $211 as ARE yields 3.9%.

Archer-Daniels Midland (ADM – $78.08) continued to show stellar profit growth, posting record Q1 2023 EPS of $2.09, compared to $1.93 in the December quarter and $1.90 in the year-ago period. The bottom line came in 18% above the consensus analyst forecast of $1.77 per share, yet the stock price dipped 3% last week on the news due to worries that the company won't be able to keep turning in terrific numbers.

ADM's largest Ag Services & Oilseeds segment grew operating profit 20% despite lower processing volumes, while its two small segments Carbohydrate Solutions and Nutrition saw an earnings contraction.

CEO Juan Luciano said, “Our continued strong performance in the first quarter demonstrates ADM’s unique ability to deliver results through a rapidly evolving external environment and showcases our team’s agility in responding to opportunities that leverage our company’s unparalleled global footprint and capabilities. Our broad portfolio continues to serve diverse global food, feed and industrial markets and creates compelling value for our customers and our shareholders.”

He added, “ADM’s integrated value chain has helped each of our business segments to deliver strong earnings in the quarter. Our foundational businesses in Ag Services & Oilseeds and Carbohydrate Solutions both continue to manage market volatility and deliver strong margins across the value chain. We continue to see healthy pipeline growth and win rates in Human Nutrition that support our confidence in the earnings growth in the Nutrition segment, even as we navigate temporary challenges, particularly in parts of Animal Nutrition. With a strong balance sheet and healthy cash flows, ADM is poised to continue investing in profitable growth, and we are excited about our strategic plan for 2023 and beyond.”

Archer-Daniels is one of the largest global agricultural processors and food ingredient providers. As a refiner of various agricultural commodities like soybeans and corn, we acknowledge the cyclical and often volatile nature that characterizes ADM’s businesses. Nevertheless, Archer remains a solid play on the real economy should inflation stay elevated for longer than many expect, while we think trends supporting long-term demand growth in agriculture remain intact. Shares trade for 12 times flat EPS projections for the next few years and yield 2.3%. Our Target Price is now $105.

Midwest regional bank **Old National Bancorp** (ONB – $13.41) turned in another solid quarter earning $0.54 per share (vs. $0.53 est.) amidst chaos for the industry. Loans grew 2.2% in the period, although net interest income declined modestly on lower margin of 3.69% vs. 3.85% (year-over-year) due to higher deposit costs.

CEO Jim Ryan expressed his condolences for those impacted by the Louisville shooting at an Old National branch, “On the morning of April 10, our Old National family was blindsided by unthinkable tragedy. In the span of minutes, five of our team members were lost forever. While other team members and two Louisville Metro Police officers suffered injuries. All Old National team members are out of the hospital and on the road to recovery. One Louisville Officer remains in the hospital. In the aftermath of this tragedy, many heroes emerged, including members of law enforcement, city and state officials, the amazing Louisville medical community and some of our own team members who are there on the scene. To all of you, thank you from the bottom of our hearts.”

On the quarterly results, he added, “We reported strong first quarter earnings despite a rapid shift in the operating environment for all banks. Old National, it was business as usual even throughout March and the strength of our franchise remains evident in the results…Our adjusted efficiency ratio remained under 50%. Obviously, deposits, liquidity and credit are in focus today. As you can see, deposit balances were stable during the quarter, despite the normal first quarter seasonal patterns and public fund balances.”

With deposits in focus, CFO Brendon Falconer offered, "Interest-bearing deposit costs increased 57 basis points to 1.09%, resulting in an interest-bearing deposit beta of 23%. Although the terminal beta is difficult to estimate, we have a strong track record of managing deposit costs and are confident we can maintain our funding advantage throughout the remainder of the rate cycle…Our average core deposit account balances are meaningfully lower than peers. We have deep and longstanding relationships with our deposit customers. 75% of which have been with the bank for more than five years and nearly a third have been with us for more than 25 years. The concentration of our largest customers is also exceptionally low. Our top 20 deposit clients represent less than 5% of our total deposits. If you exclude collateralized deposits, our top 20 represents only 2% of our total deposits."

Analysts expect that earnings have peaked in the near-term, but the stock trades for just 7 times the NTM EPS estimate and we appreciate that ONB has kept its nose clean as the bank's traditionally low-cost and granular deposit franchise has proved beneficial over the past month or so. Of course, the jury is out on how beneficial the recently closed merger with First Midwest will prove to be. Shares have followed the KBW Regional Bank index south in 2023, but an above average dividend payout puts the yield at 4.2%. Our Target Price now resides at $20.

Shares of **Alphabet** (GOOG – $108.22) rallied just 2% last week, even as the internet media and services giant turned in Q1 results that beat analyst estimates. Alphabet earned $1.17 per share (vs. $1.09 est.) and had revenue including TAC (traffic acquisition cost) near $69.8 billion, a figure $0.8 billion better than analysts were expecting. Google advertising revenue was $54.55 billion (vs. $53.8 billion est.), YouTube advertising revenue was $6.69 billion (vs. $6.65 billion est.) and Google Cloud revenue was $7.45 billion (in line with the consensus).

CEO Sundar Pichai commented, "I'm pleased with our business performance in the first quarter with Search performing well and momentum in Cloud. We introduced important product updates anchored in deep computer science and AI. Our North Star is providing the most helpful answers for our users, and we see huge opportunities ahead, continuing our long track record of innovation. On Cloud, we continue to be on a long and exciting journey to build that business. Cloud delivered profitability this quarter, and we remain focused on long-term value creation here."

Mr. Pichai continued, "To close, across the company, we are excited about helping people, businesses and society, reach their full potential with AI. We'll share updates at Google I.O. about how we are using AI across our products, including our Pixel devices, and share some exciting new developments for Android. Thanks to our employees around the world who continue to work hard to advance our mission. After nearly 25 years, the work to organize the world's information and make it accessible and useful is as urgent as ever, and I look forward to the work ahead."

CFO Ruth Porat offered some insight profitability, "First, the $2.6 billion in charges we took in the first quarter related to workforce and office space reductions. We provided a table in our earnings release that shows the impact of those charges on cost of revenues and operating expenses. Second, the adjustment we made to the estimated useful lives of servers and certain network equipment at the beginning of 2023. The effect for the first quarter was a reduction in

depreciation expense of $988 million. Third, the shift in timing of our annual employee stock-based compensation awards from January to March delays the step up in SBC from Q1 to Q2. This shift in timing does not affect the total amount of SBC over the full year 2023."

While Alphabet shares have gained more than 20% this year, they remain well below the $150 high set in November 2021 and our $158 long-term Target Price. Plenty of folks remain worried about the recession that was supposed to start any day now (eventually, they may be right), even as revenue and advertising trends remain robust. Marketing dollars continue to be spent in large quantities and we continue to think GOOG is a terrific company trading at a very reasonable valuation. Alphabet sits on a mountain of cash ($115 billion of cash versus $14 billion of long-term debt), and the company has been retiring shares. The stock split last year gives investors with smaller portfolios the chance to be more precise with portfolio weights and analysts are projecting earnings growth in the 15% to 20% range for each of the next three years.

Even as regulators in the United Kingdom refused to bless the acquisition of Activision by **Microsoft** (MSFT – $307.26), shares of the software giant soared 7.5% last week on the back of terrific fiscal Q3 results. Microsoft reported Q3 EPS of $2.45 per share (vs. $2.24 est.) and revenue nearing $53 billion (vs. $51 billion est.).

CEO Satya Nadella said, "The Microsoft Cloud delivered over $28 billion in quarterly revenue, up 22% and 25% in constant currency, demonstrating our continued leadership across the tech stack. We continue to focus on three priorities. First, helping customers use the breadth and depth of the Microsoft Cloud to get the most value out of their digital spend. Second, investing to lead in the new AI wave across our solution areas, and expanding our TAM. And third, driving operating leverage, aligning our cost structure with our revenue growth."

CFO Amy Hood added, "Overall, our outlook has many of the trends we saw in Q3 continue through Q4. In our largest quarter of the year, we expect customer demand for our differentiated solutions including our AI platform and consistent execution across the Microsoft Cloud to drive another quarter of healthy revenue growth. Last year, we had our largest commercial bookings quarter ever with a material volume of large, multi-year commitments. On that comparable, we expect growth to be relatively flat. We expect consistent execution across our core annuity sales motions with strong renewals and continued commitments to our platform as we focus on meeting customers' changing contract needs, which include shorter-term, quick time-to-value contracts in this dynamic environment. Our key focus remains on delivering customer value."

Ms. Hood continued, "As always, we remain committed to aligning costs and revenue growth to deliver disciplined profitability. Therefore, while the scaled CapEx investments will impact COGS growth, we expect FY '24 operating expense growth to remain low. As a team, we have continually focused on pivoting our resources aggressively to the future as we execute at a high-level in the moment to deliver value to our customers. That balance has enabled the company to successfully lead across a number of platform shifts over a number of decades. Therefore, we are committed to leading the AI platform wave and making the investments to support it."

MSFT investors did not seem concerned about (some might argue that they were pleased) the likely demise of the Activision deal, even as Activision CEO Bobby Kotick took to the airwaves

to blast the regulators from across the Pond and said the fight is not over. If the deal falls through, MSFT would need to reach into its $104 billion cash pile and fork over a $3 billion breakup fee. Reading through the full decision, our interpretation is that Microsoft didn't persuade regulators the deal was good for consumers. Primary concerns of the U.K. government related to Windows-centric gaming, revenue models, a short guarantee period and broadly weak justification that the deal is good (that it's not bad isn't an argument that it's positive). Plus, the space is highly consolidated as it is, meaning it was not worth the risk of further consolidation in case MSFT wiggled out of some promises.

Microsoft expects revenue between $52.0 billion and $52.7 billion in Q4, with adjusted EPS between $2.24 and $2.32. Needless to say, we thought the Q3 results were very good, and despite a 28% rally in the share price this year, we still think there is room on the upside. Yes, the valuation is once again on the expensive end (including a 29-times forward P/E ratio), but the balance sheet is robust, the management team is capable, Cloud growth continues, and earnings projections are again in double-digit territory after fiscal 2023. Our Target Price for MSFT has been hiked to $355.

Network hardware provider **Juniper Networks** (JNPR – $30.15) earned $0.48 per share in fiscal Q1 2023 (vs. $0.43 est.). JNPR's revenue grew 17% year-over-year to $1.37 billion (vs. $1.34 billion est.). The numbers were very good, but the stock shed 3.7% for the week on weaker-than-expected orders.

CEO Rami Rahim said, "Our teams continue to execute extremely well, and we remain confident in our positioning from a technology, go-to-market, and supply chain perspective to capitalize on our customers' digital transformation and cloudification initiatives that are likely to further increase network requirements over the next several years. As expected, total orders softened during the March quarter, declining more than 30% year-over-year. I do not believe this reflects true underlying demand due to our customers' consumption of previously placed early orders, and the reduced need for new early orders as lead times have improved."

Mr. Rahim continued, "We believe customer ordering patterns are normalizing and we would expect to see a return to more traditional seasonal patterns on a sequential basis starting this quarter. This would imply that our year-over-year order declines should improve on a go-forward basis and return to year-over-year growth potentially as soon as Q4 of this year."

Mr. Rahim closed, "I remain confident in our strategy and optimistic regarding our ability to navigate market uncertainties. My enthusiasm is fueled by our continued enterprise momentum, the success we're seeing around service provider 400-gig deployments, the ongoing strength of our backlog, which remains well above historical levels, and the improvements we're seeing in supply. Longer term I continue to see attractive growth opportunities in the cloud, where we've already maintained meaningful footprint and remain closely engaged with many of these customers on potential new opportunities, both in the wide area and the data center that could present additional growth drivers."

CFO Ken Miller added, "From a customer solution perspective, we saw year-over-year revenue growth in all areas. AI-driven enterprise led the way with revenue growth of 48%, automated

WAN solutions revenue grew 21%, and cloud-ready data center revenue increased 3%… While supply has improved for the majority of our products, we continue to experience supply constraints for certain components and supply chain costs remain elevated. If not for those elevated supply chain costs, we estimate that we would have posted a non-GAAP gross margin of approximately 59%. Non-GAAP operating expenses increased 10% year-over-year and 3% sequentially, primarily due to headcount-related costs. Non-GAAP operating margin was 14.8% for the quarter, which was above our expectations, driven by higher revenue and better than expected gross margin."

Mr. Miller continued, "Bookings were down more than 30% year-over-year in the first quarter. As a reminder, in Q1 2022, we were still getting a lot of early orders as customers were dealing with supply constraints and extended lead times. In Q1 2022, our product orders were over $1.1 billion. Now, customers are consuming those early orders and are no longer placing early orders as supply constraints have improved and lead times are shortening. This combination is resulting in a year-over-year decline in bookings, which we expect to moderate going forward. Our backlog remains elevated but declined by more than $350 million due to improvements in supply and order patterns normalizing. Due to the continuation of these factors, we expect backlog to further decline in 2023, but remain elevated relative to historical levels exiting the year."

JNPR paid $71 million of dividends to shareholders in Q1 and repurchased $140 million of shares, while the balance sheet remains cash rich. The outlook includes a revenue expectation between $1.36 billion and $1.46 billion, with the midpoint near the $1.4 billion consensus estimate. EPS is expected to come in between $0.49 and $0.59, versus a consensus estimate of $0.52.

The decline in orders caused worry among analysts, who suspected in research notes that there might be underlying demand challenges. Surprisingly, many of the research notes suggested there was a more important long-term story that included new product momentum, growth in market share and a sudden lack of interest in using a single quarter to derive long-term projections. Analysts at JPMorgan wrote "Investors should view the set up for multi-year revenue growth to drive significant multi-year earnings growth." Yes, supply chain issues have dogged JNPR longer than some of its peers and the order book remains a data point upon which to keep a watchful eye, but the long-term dynamics should be robust and the valuation remains very reasonable. JNPR trades with a forward P/E ratio of less than 13 and yields a solid 2.9%. Our Target Price for JNPR is now $40.

Railroad operator **Norfolk Southern** (NSC – $203.03) earned $3.32 per share in Q1 (vs. $3.15 est.), adjusted for a $387 million negative impact from cleanup costs, restoration & community support payments, and initial claims associated with the February derailment in East Palestine, Ohio. It does not include potential legal costs from a suit filed by the Ohio Attorney General or possible payouts from future insurance claims.

Railway operating revenue grew 6.9% year-over-year to $3.1 billion on solid growth in NSC's main segment (Merchandise), which generated $1.9 billion in sales. The operating ratio came in at 64.9%, above the consensus estimate of 64.2%.

CEO Alan Shaw discussed steps NSC had taken following the derailment, “First, we’re pulling up the tracks at the derailment site in East Palestine and removing the impacted soil in response to feedback from the community and the EPA. Since March 3, we have had only one track at a time in service, with trains running at restricted speed through this section of our busiest corridor. This mainline segment links Chicago to Eastern Pennsylvania, New Jersey, and New York and is a strength of our franchise. We anticipate completing the remediation and having both tracks in service by early June. Second, out of an abundance of caution, in early March, we accelerated the analysis of train makeup rules as part of our broader efforts to improve safety, service, and productivity, which we began implementing soon thereafter. As a result of these purposeful actions on our part, train capacity was limited initially.”

He added, “We do not anticipate any meaningful long-term impacts on service, capacity, or cost structure. These were the right things to do. They were also the best decisions to enhance our ability to deliver on our long-term strategy of delivering resilient service. It will take some time to build resiliency, and we are making progress. We continue to invest to ensure we have the right team and resources where they are needed to provide our customers with safe, best-in-class service. As we’ve shared when we announced our new strategy last December, we aren’t focused on managing short-term OR with actions that will undermine our longer-term goals. We strive for more. Our longer-term commitment to competitive margins will be balanced with other important financial measures such as growth in revenue, EPS, and ROIC.”

We had anticipated a sizable charge against financial results in the quarter, even as Norfolk maintains insurance coverage for third-party liability and first-party property damage, which provides coverage above $75 million and below $800 million per occurrence and/or policy year. Norfolk will likely have to stomach higher wages as it inked a new union agreement in December along with the financial burden of meeting additional regulatory standards. Nevertheless, share price consolidation over the last couple of years puts the forward P/E ratio a few turns less than the market (at 15 times estimates). We expect rail to retain its advantage in hauling certain freight over other methods of transport that are inherently dangerous in their own ways. The dividend yield is 2.7% and our Target Price is currently $288.

Shares of **Meta Platforms** (META – $240.32), formerly known as Facebook, soared 13% last week thanks to strong Q1 results. The social media giant reported Q1 EPS of $2.20 and revenue of $28.6 billion, both figures exceeding analyst projections by a healthy margin. The company’s previously announced cost reductions and a rebound in digital ad spending spurred enthusiasm among investors, as the first quarter results were scrutinized with great interest given management’s broad promises in Q4 (which sent shares up 23% the day after that report).

CEO Mark Zuckerberg stated, “This is a good quarter, and we’re seeing growing momentum in our products and business. Our community reached the milestone that now more than 3 billion people use at least one of our apps each day. Facebook also reached the milestone of 200 million daily actives in the U.S. and Canada after last quarter reaching 2 billion daily actives worldwide.”

On the topic of last year’s stated improvements, Mr. Zuckerberg said, “The goals of our efficiency work are to make us a stronger technology company that builds better products faster

and to improve our financial performance to give us the space in a difficult environment to execute our ambitious long-term vision. When we started this work last year, our business wasn't performing as well as I wanted. But now we're increasingly doing this work from a position of strength. Even as our financial position improves, I continue to believe that slowing hiring, flattening our management structure, increasing the percent of our company that is technical, and more rigorously prioritizing projects will improve the speed and quality of our work. I also believe that a stronger financial position will enable us to weather a volatile environment while remaining focused on our longer-term priorities."

Mr. Zuckerberg also offered a product and business update, "We're seeing strong engagement growth across our apps and good progress on monetization efficiency which combine to drive good business results. Reels continues to grow quickly on both Facebook and Instagram. Reels also continue to become more social, with people resharing Reels more than 2 billion times every day, doubling over the last six months. Reels are also increasing overall app engagement, and we believe that we're gaining share in short-form video too."

In Q1, META bought back $9.2 billion worth of its common stock and ended the quarter with $37.4 billion of cash and marketable securities. The company's metaverse emphasis caused a significant amount of debate within the investment team, and last quarter's comments about pulling back on some of those efforts were validated in this report. Of course, we don't want META to stop evolving and appreciate the effort to create the next great thing, but the company's social networks are the financial bread and butter, and we aren't ready to see the focus shift from efforts to grow there. It was, therefore, a relief to see ad spending pick up again and the restructuring efforts yielding fruit. The streamlined business and other improvements, we believe, will continue to help the company have a better balance between current profitability and the future portfolio. Shares of META have doubled in value this year (after a horrible 2022) and the valuation is not as inexpensive as it once was. Still, META is reasonably priced at 17 times forward earnings and our Target Price has been hiked to $278.

Media and television giant **Comcast** (CMCSA – $41.37) announced that it earned $0.92 per share (vs. $0.83 est.) in fiscal Q1 2023. Revenue came in at $29.7 billion (vs. $29.4 billion est.). The net year-over-year change in domestic wireless subscribers was 318,000, while domestic video subscribers dropped by more than 500,000. Average rates for broadband subscribers increased 4.5%, driving 4.8% year-over-year revenue growth for the segment. Peacock subscribers grew 22%, resulting in a 45% increase in the segment's revenue. Shares rose nearly 10% last week on the positive report.

CEO Brian Roberts explained, "This really was a strong quarter and start to the year, especially within the context of what continues to be a choppy macro environment. We grew adjusted EBITDA by 3% and adjusted EPS by 7%. In addition, we generated $3.8 billion of free cash flow and returned $3.2 billion of capital to shareholders, all while continuing to invest importantly in a number of major initiatives, which is a real testament to our very healthy balance sheet."

Mr. Roberts noted, "Two things among many highlights in particular that stand out for me. And I'm really proud of. One is the animation business. By strengthening and combining our

capabilities across DreamWorks and Illumination, we've had tremendous success creating franchises that people know and love all over the world. Despicable Me, Shrake, Pets, Minions, and more recently Puss in Boots. And now Super Mario Brothers, which just broke a number of records, including the biggest worldwide opening of any animated film all time. These are the results of the strategic decision we made years ago to become a leader in animation and the conviction we've had to continue to invest in the business even during the depths of the pandemic which are now clearly paying off."

He continued, "The second is connectivity and platforms. The significant margin expansion that we achieved this quarter coupled with the 4.5% ARPU growth in domestic residential broadband, demonstrates successful discipline, an excellent management in a challenging competitive environment. We're focused on delivering a superior experience and profitably serving our customers, and it shows."

CFO Jason Armstrong added, "Let me reiterate our capital allocation framework. First is to invest for growth in our businesses. Epic, our broadband network, streaming and aggregation to name a few. Second is to protect our balance sheet position with targeted leverage of around 2.4 times. This is an optimal level we believe to maintain broad and deep capital markets access through a cycle, balanced prudently with the opportunity for enhanced levered equity returns. Third is to return cash to shareholders."

CMCSA has repurchased $12 billion of stock over the past 12 months, which reduced the share count by 7%. In addition, the company hiked its quarterly dividend from $0.27 to $0.29 per share. Of course, the balance sheet has $107 billion of debt and just $4.7 billion of cash, which is similar in position to its communications peers. Happily, when rates were low, management did some refinancing and pushed the average maturity of its debt to about 14 years with a coupon of 3.6%.

It should be unsurprising at this point to see the precipitous drop in paid cable subscriptions, and equally unsurprising to see the growth in the streaming Peacock platform. Of course, the growth is expensive, and Comcast's competitors have had trouble turning a profit in the streaming space, but it does seem that CMCSA is heading in the right direction. CMCSA trades for just 11 times forward EPS estimates, well below the historical average, and with a 2.8% dividend yield. Our Target Price has been bumped up to $61.

Paper and packaging concern **International Paper** (IP – $33.11) earned an adjusted EPS $0.53 in Q1 (vs. $0.45), well below the $0.76 from a year ago, on $5.0 billion of sales that fell by 4% on a year-over-year basis. Management pointed to consumer's preference to spend on non-discretionary goods to explain lower demand for packaging weakness and soft pricing through March across most channels and segments.

CEO Mark Sutton suggested that this phenomenon "has been influenced by inflationary pressures, rising interest rates, and the pull forward of goods during the pandemic. Margins were also under pressure from lower prices across our portfolio, partially offset by additional benefits from lower input costs."

He also said that "lower prices across our portfolio today have put additional pressure on margins relative to what we expected in our full year outlook. Although we believe most of the destocking through the retail channel has been resolved, destocking continues throughout the rest of the supply chain, especially with manufacturers and many of our customers. We believe this will run its course through the second quarter, resulting in an improved demand environment in the second half of the year."

We don't know how long current conditions will persist but think they will eventually correct. Consolidation in the space in recent years leaves International Paper well-positioned when the tide does turn, as one of the largest packaging companies in the world with about a third of the market. For the time being, shares are inexpensive, trading for less than 13 times NTM EPS estimates and for a free-cash-flow yield approaching 10%. Also, debt maturities aren't a near-term threat with a weighted-average maturity out to 2039. IP says it will soon close on the sale its 50% stake in Ilim SA (a Russian business). The dividend yield is now 5.6%, while opportunistic share repurchases should add incremental value. Our Target Price has been trimmed to $54.

For just the second time since Q2 2020, chipmaker **Intel** (INTC – $31.06) reported quarterly results that pushed shares into positive territory the next day. INTC lost $0.04 per share in Q1, which was $0.12 better than the analyst consensus, and revenue was $11.7 billion. Analysts were hopeful that the Q1 results marked a bottom for the beleaguered company, as sightings of 'green shoots' were common observation in their notes.

CEO Pat Gelsinger explained, "We delivered solid first quarter results of both the top and bottom line. Upside was driven by better-than-expected revenue and very disciplined expense management across our organization. The latter is not easy and I want to thank the entire Intel team as we thoughtfully execute on cost reductions and efficiency improvements that support the investments critical to drive our strategy. Q1 results demonstrate the progress we are making to advance our transformation and the IDM 2.0 strategy. We still We still have more work to do as we re-establish process, product, and cost leadership, but we continue to provide proof-points each quarter, and we remain committed to delivering long-term value for all our shareholders."

He continued, "As the industry continues to navigate through multiple global challenges and headwinds, we remain cautious on the macro outlook, even as we expect some modest recovery in the second half. We are seeing increasing stability in the PC market with inventory corrections, largely proceeding as we had expected. However, the server and networking markets have yet to reach their bottoms as cloud and enterprise remain weak. As a result, our Q2 revenue guide embeds continued inventory corrections in our core markets and a range of normal seasonal to better-than-seasonal growth off depressed Q1 revenue levels… Combined with the need for globally balanced and resilient supply chains and a foundry market expected to be roughly $200 billion by 2030, we are well positioned to capitalize on multiple vectors of growth."

Mr. Gelsinger closed, "Gordon famously said, what can be done can be outdone. This is our guiding principle as stewards of Moore's Law, which we intend to enable and drive until the periodic table is exhausted as we use the power of technology to improve the lives of every

person on earth. Intel will hold a memorial service to honor the life and accomplishments of Gordon, and we will share more details on this shortly."

The financial results and management commentary were fairly positive, after a string of awful updates. Intel has a long way to go as a business (and its shares have even further to climb if they are to near previous highs), but management is taking the task seriously and the company is pivoting about as fast as we've seen such a large, capital-intensive corporation turn. As was the case in our last update, we are content with our other IT exposure, so we are OK sitting on our hands as of this writing, although we note that Intel generally is a small holding in our portfolios. While it might feel like a lot of the Intel news is bad, shares actually have gained 19% this year. Our Target Price for INTC remains $39.

Shares of **Gilead Sciences** (GILD – $82.21) slid 5% last week as the biopharma company turned in adjusted profits 10% below the consensus analyst estimate. GILD posted adjusted EPS of $1.37 per share on $6.35 billion of revenue in Q1, versus the average forecasts of $1.53 and $6.33 billion, respectively. Sales of Veklury, which remains the only antiviral approved for hospitalized COVID-19 patients in the U.S., fell 63% (to $573 million) versus the year-ago period and was the major reason for the bottom-line shortfall. Despite the big drop, growth from cancer drugs Yescarta (70%) and Trodelvy (40%) and strength in HIV product sales (+13%), alleviated some of the sting of the weakness in Veklury revenue.

"Gilead's track record of strong commercial and clinical execution continued through the first quarter of 2023. A 15% year-over-year revenue increase reflects growth in each of our core areas," said CEO Daniel O'Day. "Biktarvy outperformed once again, and Oncology revenue increased 59% year-over-year, driven by Trodelvy and Cell Therapy. We look forward to helping even more people with Trodelvy following the approval for pre-treated HR+/HER2-metastatic breast cancer, making this the third U.S. approval for Trodelvy in three years."

Management also updated it full-year 2023 guidance. GILD now sees revenue of $26.0 billion to $26.5 billion, which includes an unchanged outlook for Veklury sales of $2 billion. Adjusted EPS for 2023 continuous to be estimated to be in a range of $6.60 to $7.00.

We continue to be pleased with the strides Gilead is making in its oncology portfolio, with strong performers in Yescarta and Trodelvy (from the acquisitions of Kite Pharma in 2017 and Immunomedics in 2020, respectively). We are also encouraged to see GILD's strength in its $17 billion HIV franchise with new treatments seeing rapid uptake as they have shown to have reduced bone and kidney safety issues. Robust cash-flow generation provides additional spending for R&D and/or additional bolt-on acquisitions. While shares performed well in 2022, last week's pullback leaves GILD down more than 4% thus far in 2023. We continue to appreciate the stock for its dividend yield that is still over 3.5%, while the valuation is not expensive at 11.6 times NTM EPS. Our Target Price for GILD continues to be $97.

Data infrastructure REIT **Digital Realty** (DLR – $99.15) generated $1.69 of per share of funds from operations (FFO) versus vs. $1.60 a year ago and the $1.65 Street target. DLR continues to benefit from its 2015 acquisition of Telx, which was its first step to broaden its global footprint, and now counts more than 5,000 customers. Interxion, the Westin Building, Altus IT, Lamda

Hellix, Medallion and Teraco have been acquired since. In Q1, re-leasing spreads were positive and price escalations resulted in year-over-year growth. New leasing was popular in the zero-to-one megawatt segment and churn was a paltry 1.1%.

CEO Andy Power commented, "Data centers support the growth and evolution of technology that is improving our standard of living, productivity and the overall quality of our lives. We have not witnessed a meaningful and sustained pullback in demand in the nearly 20 years that we've been in business, and we are not seeing a pullback today. While an economic recession could slow capital spending, third-party data centers also benefit from the trend toward outsourcing."

He added, "Customers often make the decision to lease rather than build when the availability of capital tightens. We saw this same thing during the great financial crisis. For many of our customers, data centers can also help drive revenue growth or facilitate lower costs or even enhance overall productivity. We are optimistic that our business will remain resilient in 2023 and for years to come."

CFO Matt Mercier added, "Importantly, our demand funnel remains quite strong, as a number of our highly strategic customers remain actively engaged and are seeking to add capacity across our global portfolio… We are maintaining our core FFO and constant-currency core FFO per share guidance ranges for the full year 2023 of $6.65 to $6.75. And our first quarter results were consistent with this range. We are also affirming our full-year adjusted EBITDA guidance of $2.7 billion at the midpoint, as the downward adjustment in our overall revenue guidance is purely due to lower utility expenses, driven by lower spot electricity rates that are passed on directly to our customers. We are also modestly tweaking our euro-to-US dollar exchange rate expectations for the year to reflect the relative appreciation of the euro year-to-date."

Power costs have declined the last two quarters, but the benefit did little to help DLR's results because the costs are borne by the customer base. DLR's debt maturity averages 5 years at a 2.8% coupon, and we think the long-term dynamics of the industry remain highly favorable. Of course, we aren't fond of the amount of share issuance over the past few years, but we acknowledge that this often comes with the REIT territory, and we continue to believe DLR's valuation is reasonable, with shares trading around 15 times FFO expected in 2023 and funds from operations projected to grow handsomely over the next three-to-five years. The dividend yield is 4.9% and our Target Price is now $147.

Shares of **Capital One Financial** (COF – $97.30) were up slightly last week (unlike many financial stocks, they are up more than 4% on the year), despite an initial negative reaction to the credit card issuer's Q1 financial release, which fell well short of expectations on the bottom line. COF turned in adjusted EPS of $2.31 (vs. $3.90 consensus estimate and $5.62 in Q1 2022). Despite slowing marketing spend, a slight increase in operating expenses and higher-than-expected provisions for future loan losses negatively impacted the bottom-line. The lender further built provisions for loan loss reserves by $1.1 billion. Net revenue increased 8.9% year over year, but was down 1.5% sequentially, to $8.9 billion.

Capital One's net interest income increased 12% year over year but was effectively flat sequentially at $7.2 billion, with the annual increase primarily due to loan growth. Loan growth was driven by the credit card business, as the company has become more conservative with underwriting in its auto loan and commercial lending segments. Average credit card receivables increased 21% from last year, compared with the bank's commercial loans, which grew 12% year over year, and its auto loans, which were flat year over year.

CEO Richard D. Fairbank commented, "In the first quarter, we built additional balance sheet strength as we grew retail deposits, and maintained or increased strong levels of capital and liquidity. At the same time, we continue to see attractive growth opportunities in our domestic card business and our "digital first" national retail bank, and our investments to transform our technology and to drive resilient growth put us in a strong position to capture opportunities and deliver compelling long-term shareholder value."

We continue to think the nearly 4.6% of loans set aside as reserves for future loan losses should be more than enough to handle all but the worst-case scenarios (think Great Financial Crisis) and a Tier 1 Common Equity ratio of 12.5% offers additional cushion. We continue to be constructive on COF keeping its foot on the gas, spending big on tech and advertising to drive growth, which is obviously slowing given the current environment, but is still above long-term industry trends. We like that the lender has pulled back on auto-lending for now given that the company overall is weighted toward potential higher-risk lending. COF's current dividend yield is now 2.5%, and our Target Price has edged down to $157.

Aviation and marine fuel services provider **World Fuel** (INT – $23.64) earned $0.36 in Q1, down from the $0.42 a year ago as interest expense from higher rates ate into profits. The $34 million of interest expense was in line with management's guidance last quarter, but up $20 million from a year ago when interest rates were still materially lower. Management expects no additional impact to modest improvement next quarter. Gross profit grew 14% as a 57% bump in Aviation gross profit more than made up for an 8% decline in the Land segment, while Marine continues to benefit from energy spot price volatility.

CEO Michael Kasbar stated, "Despite it being a seasonally weak quarter for us in the first quarter, we delivered solid overall results, aviation delivered very strong performance and what is traditionally the weakest quarter for air travel. While our land liquid fuels activity in North America was impacted by extreme weather, our natural gas and power businesses continued to perform well. Marine continued to outperform historical averages with very strong operating margins…We are now entering our seasonally strongest second and third quarters and remain optimistic about our opportunities to deliver strong results for the full year."

CFO Ira M. Birns added, "Our balance sheet remains strong, providing significant liquidity to drive growth and continued investment in products and services that will further support our strategic priorities. We also remain committed to further leveraging digital technology and producing greater operational efficiencies throughout our business to ensure that we are maximizing the value we provide to our customers, shareholders and other stakeholders."

Mr. Kasbar went on, "On the corporate development side of the house, we have expanded our team, who are busy analyzing a growing pipeline of synergistic conventional fuel opportunities, as well as a growing number of opportunities to complement our existing suite of sustainability solutions in World Connect and our focus on operating margin improvement continues. I frequently remind our team how many gallons of fuel we need to sell to cover each and every expense we incur, so that every member of our organization thinks critically about how each activity and cost contributes to our overall financial performance. We are scrutinizing every aspect of our business to identify areas to eliminate waste and drive greater process efficiencies, and we therefore remain confident in our ability to achieve or even surpass our longer-term articulated goals articulated goals for operating margin improvement."

Admittedly, World Fuel is not the most exciting business in our portfolio, but we like the exposure to a unique segment of the energy value chain. As a sort of grocery store for major users of energy (airlines, cruise operators, etc.), margins tend to be thin, but we think INT blocks and tackles extraordinarily well in an important role providing service to a segment of the economy that continues to chug along. Shares still look inexpensive at just 10.4 times the forward EPS estimate that is projected to breach $3.00 in a couple of years. Our Target Price is $37.

Shares of **New York Community Bank** (NYCB – $10.69) caught a bid Friday, surging over 16% after releasing Q1 financial results. The bank earned $0.23 per share (vs. $0.25 in Q4) as net interest income grew 46% vs. Q4 to $555 million as margin expanded. The improvement offset an increase in operating expenses "driven by a full quarter of Flagstar and 12 days of Signature expenses." Commercial loans grew 44%, including $12 billion of loans acquired from the Signature deal, but also 6% organically despite fewer originations in the period.

CEO Tom Cangemi said, "As you all know, the first quarter was a volatile quarter for the banking industry. And unfortunately, several good financial institutions became victims of this volatility. While no financial institution is 100% immune from the damage that the crisis in confidence causes, New York Community fared very well during this period of turmoil due to our diversified business model focusing on several core businesses, retail banking, commercial lending, multifamily and commercial real estate lending, and the residential mortgage origination and servicing business. We do not have any exposure to cryptocurrency or stablecoin-related industries, nor do we have significant relationships with financial technology companies. Moreover, during this time, our percentage of uninsured deposits was amongst the lowest in the industry. Not only do we successfully navigate the market turmoil, but we emerged from this in a stronger position when on March 20th, we announced that our bank subsidiary, Factor Bank NA, purchased certain assets and assumed certain liabilities of Signature Bridge Bank."

Regarding the Signature purchase, he added, "This transaction is a game changer for us. Strategically, it builds upon the momentum created by our recent merger with Flagstar and accelerates our transformation to a high-performing commercial bank, it improves our deposit base and our overall funding profile while providing further loan diversification. In addition, it jump-starts our commercial middle market lending business in our relationship banking strategy. The transaction included several other businesses that were part of our longer-term build-out strategy, including the broker-dealer and wealth management business and several new attractive

lending verticals such as health care and SBA lending. Importantly, we also returned — retained virtually all of Signature's highly productive private client banking teams, predominantly based in the New York region, along with those teams related to Signature's recent West Coast expansion, primarily based in California. Everyone here at New Community is extremely pleased to have them and the other talented employees from Signature Bank join our team, and we look forward to us doing great things together."

It's always nice to get a sweetheart deal, so we expect the purchase of Signature assets to be quite accretive going forward and appreciate NYCB's efforts to further diversify beyond commercial lending surrounding the Big Apple. Following the latest rally, shares still aren't expensive trading for 8.8 times forward EPS that are expected to grow from here. The dividend yield is 6.4% and our Target Price is $15.