Market Commentary Monday, May 8, 2023

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EXECUTIVE SUMMARY

Newsletter Trades – 6 Purchases for 4 Portfolios
Week in Review – 242nd Worst Week for the Russell 3000 Value Index
Regional Banks – Buffett Argues Deposits are Safe; Latest TPS Special Report; CRE Worries but Diverse Loan Books, Solid Capital Ratios & Strong Credit Quality
Fed Meeting – 25-Basis-Point Hike; Mixed Messaging
Recession – Not the Current Powell or Atlanta Fed Projection, But No Reason to Panic if a Contraction Eventually Occurs
Econ Data – Strong Employment Situation Report; Better-than-Expected ISM Numbers
Earnings – Solid Results from Corporate America
Dividends – Payouts Grow Over Time
Valuations – Stocks Still Reasonably Priced vs. Long-Term Treasuries
Contrarian Sentiment – AAII Even More Pessimistic
Stock News – Updates on LEG, MDC, ETN, ZBH, CMI, CVS, TKR, QCOM, MOS, CIVI, ALB, MET, DINO, MRNA, RCL & AAPL

Market Review

As discussed in the May edition of *The Prudent Speculator*, we bought the following on Thursday, May 4, for our two real-money newsletter portfolios:

TPS Portfolio: 266 **TotalEnergies** (TTE – $61.92) at $60.0105

Buckingham Portfolio: 13 **Caterpillar** (CAT – $215.09) at $211.9696; 180 **Fifth Third Bancorp** (FITB – $24.92) at $22.9416 and 70 **General Motors** (GM – $33.26) at $31.8625

Also on Thursday, May 4, in our hypothetical accounts, we added 914 **BASF SE** (BASFY – $13.15) at $12.70 to Millennium Portfolio and 158 **Hasbro** (HAS – $60.38) at $59.64 to PruFolio.

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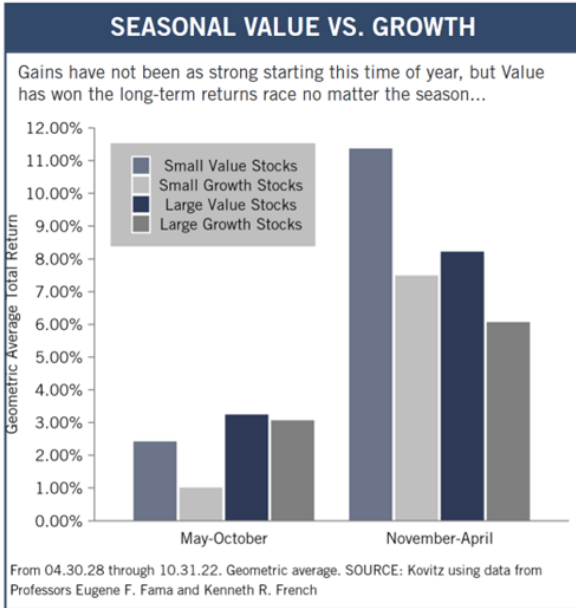
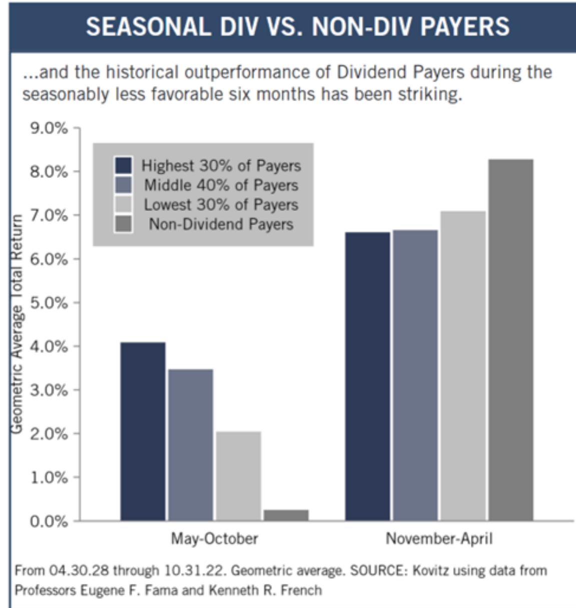
The seasonally less favorable (it is still positive, on average, for Value Stocks and Dividend Payers) May – October period,…





…certainly began on an ugly note last week as it took a big rebound on Friday to pare losses on the Russell 3000 Value index to only 1.7% for the five days. No doubt, volatility is normal as the week just ended was the 242nd worst for that index since its creation in 1995. Happily, there have been 292 weeks over the past 28 years with gains of similar or greater magnitude, while long-term average annualized returns for Value stocks since the inception of *The Prudent Speculator* in 1977 have been terrific.

Plenty of big weekly gyrations along the way but the long-term trend in stocks is up.

	1990's	2000's	2010's	2020's	Totals
Years Ending in 0	0	13	14	17	44
Years Ending in 1	0	11	13	9	33
Years Ending in 2	0	8	9	12	29
Years Ending in 3	0	12	9	4	25
Years Ending in 4	0	7	6		13
Years Ending in 5	3	6	5		14
Years Ending in 6	10	8	10		28
Years Ending in 7	14	10	2		26
Years Ending in 8	15	12	10		37
Years Ending in 9	11	21	11		43
Totals	53	108	89	42	292

From 6.9.95 through 5.5.23. Weeks of Russell 3000 Value index price increases of greater than or equal to 1.70%. SOURCE: Kovitz using data from Bloomberg

	1990's	2000's	2010's	2020's	Totals
Years Ending in 0	0	12	9	11	32
Years Ending in 1	0	11	14	4	29
Years Ending in 2	0	15	8	14	37
Years Ending in 3	0	5	4	4	13
Years Ending in 4	0	3	7		10
Years Ending in 5	1	8	8		17
Years Ending in 6	4	4	4		12
Years Ending in 7	6	10	2		18
Years Ending in 8	12	21	11		44
Years Ending in 9	11	15	4		30
Totals	34	104	71	33	242

From 6.2.95 through 5.5.23. Weeks of Russell 3000 Value index price declines of greater than or equal to 1.70%. SOURCE: Kovitz using data from Bloomberg

LONG-TERM RETURNS

	Annualized Return	Standard Deviation
Value Stocks	14.0%	17.9%
Growth Stocks	10.8%	19.0%
Dividend Paying Stocks	12.2%	14.7%
Non-Dividend Paying Stocks	11.6%	22.4%
Large-Company Stocks	11.4%	15.2%
Small-Company Stocks	13.1%	20.4%
Long-Term Corporate Bonds	7.6%	10.1%
Long-Term Gov't Bonds	7.3%	11.2%
Intermediate Gov't Bonds	6.2%	5.3%
Treasury Bills	4.2%	1.0%
Inflation	3.6%	1.3%

From 03.31.77 through 02.28.23. 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 dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. Non-dividend payers = stocks that do not pay a dividend. Small company stocks, via Ibbotson Associates, are the bottom twenty percent of the New York Stock Exchange. Large company stocks, via Ibbotson Associates, are represented by the S&P 500 index. 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

One of the reasons for the equity market struggles last week was renewed worries about the regional banks. Our latest thoughts on the matter are available here, and we were happy to see the sizable bounce in shares of the regional banks on Friday, even as a one-day respite from the selling hardly a trend makes. Still, it was nice to hear Warren Buffett on Saturday proclaim that deposits are safe, which is in keeping with the facts (as opposed to the fiction put forth by short-sellers as well as several prominent billionaires) thus far that there has not been a systemic run on the bank.

To be sure, the Oracle of Omaha was quick to add that the increase in interest rates we have witnessed over the past year or so is problematic for commercial real estate and we do not deny that non-performing assets on bank balance sheets will rise. However, we are of the mind that the banks we own, like **PNC Financial** (PNC – $116.18), have broadly diversified loan books, solid capital ratios and strong credit quality. Commercial real estate is 11.0% of PNC's total loans, with the more worrisome Office category geographically diverse and accounting for 2.7% of total loans.

CRE Portfolio: **Office Represents 2.7% of Total Loans**

Total Loans
as of 3/31/23

PNC's Commercial Real Estate (CRE) Portfolio

$ billions	3/31/23	% of Total Loans
Multifamily	$14.3	4.4%
Office	**8.9**	**2.7%**
Industrial / Warehouse	3.9	1.2%
Retail	2.8	0.9%
Seniors Housing	2.0	0.6%
Hotel / Motel	1.8	0.6%
Mixed Use	0.6	0.2%
Other	1.7	0.4%
Total	**$36.0**	**11.0%**

17

Office CRE Portfolio: **Diversified Tenants and Markets**

Office Portfolio
Tenant Classification

Market Type

Geographic Diversification
By Metropolitan Statistical Area

$ billions	3/31/23
Washington-Arlington-Alexandria	$1.4
Los Angeles-Long Beach-Anaheim	1.1
Dallas-Fort Worth-Arlington	0.5
San Francisco-Oakland-Berkeley	0.4
Baltimore-Columbia-Towson	0.3
San Diego-Chula Vista-Carlsbad	0.3
Chicago-Naperville-Elgin	0.3
Boston-Cambridge-Newton	0.3
Philadelphia-Camden-Wilmington	0.3
Birmingham-Hoover	0.2
Other	3.8
Total	**$8.9**

Key Office Portfolio Metrics
Conservative Underwriting Methodology

	3/31/23
Avg. Loan Commitment	$35 million
Reserves / Loans	7.1%
NCOs / Average Loans	0.47%
Delinquencies / Loans	0.2%
NPL / Loans	3.5%
Criticized Loans / Loans	20%

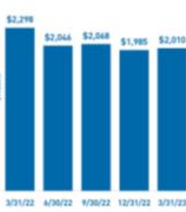
18

Credit: **Strong Credit Quality Performance**

Credit Quality Metrics

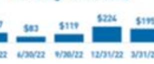
	1Q22	2Q22	3Q22	4Q22	1Q23
NPLs / Total Loans *(Period End)*	0.78%	0.66%	0.66%	0.61%	**0.62%**
Delinquencies / Total Loans *(Period End)*	0.58%	0.49%	0.52%	0.46%	**0.41%**
NCOs / Average Loans	0.19%	0.11%	0.15%	0.28%	**0.24%**
Allowance for Credit Losses to Total Loans	1.76%	1.65%	1.67%	1.67%	**1.66%**

Nonperforming Loans (NPLs)
13% YoY Decline; 1% LQ Increase



Delinquencies
22% YoY Decline; 11% LQ Decline

Net Charge-Offs (NCOs)



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Capital: **Well Capitalized**

Capital Ratios as of 3/31/23

CET 1 Capital Ratio
9.2%
7.4% Required

CET 1 Capital Ratio, Including AOCI
7.5%
(non-GAAP)

Tangible Common Equity Ratio
5.57%
(non-GAAP)

Market Value of Equity

- Market value of equity is not reflected on balance sheet due to U.S. generally accepted accounting principles (GAAP)
- Improvement in the market value of PNC's deposit base significantly outpaced unrealized losses on assets since 12/31/21
- Large deposit inflows during quantitative easing and fiscal stimulus were correctly assumed to be short-lived
  - Cash balances at the Federal Reserve peaked above $85 billion
  - Modeled market value of these deposits at a fraction of core deposit value
- PNC's market value of equity increased substantially since 12/31/21

16

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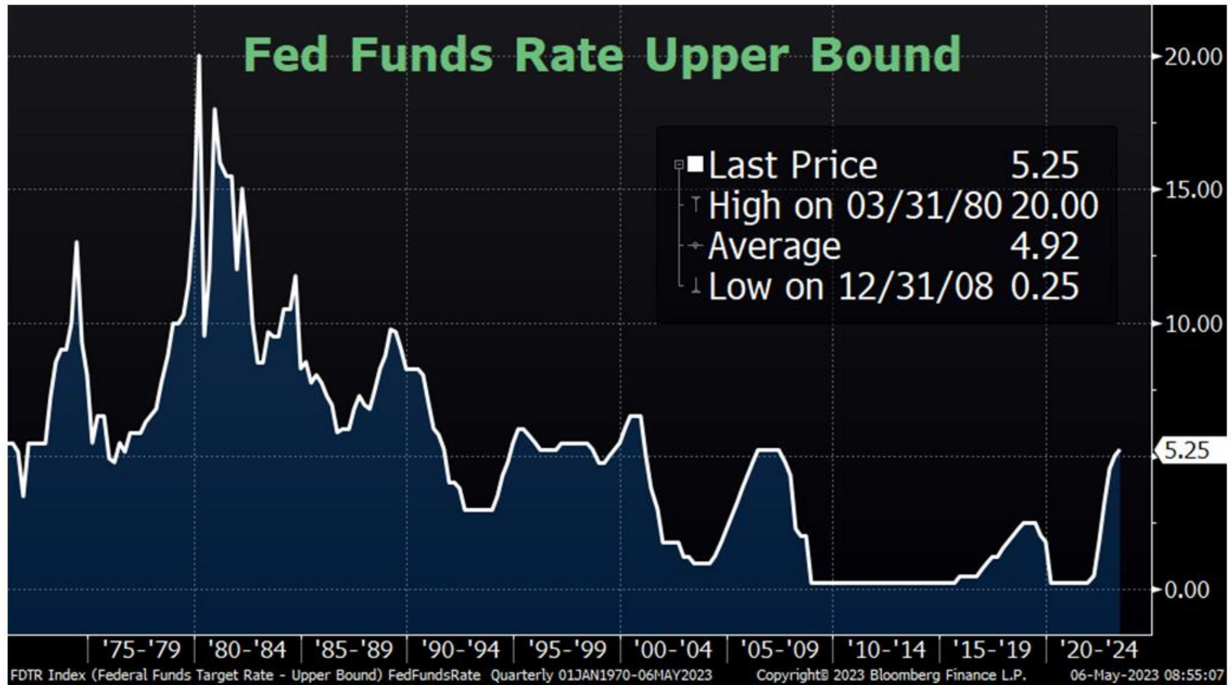
The other market-moving news of the week was the decision on interest rates from the Federal Open Market Committee (FOMC) and Jerome H. Powell's Press Conference that followed. The fact that the Fed Chair and his colleagues chose to hike their target for the Federal Funds rate by another 25 basis points to a range of 5.00% to 5.25% was not a surprise,…



…and the equity markets initially did not seem unhappy with the FOMC statement.

FOMC Statement – May 3, 2023

Economic activity expanded at a modest pace in the first quarter. Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated.

The U.S. banking system is sound and resilient. Tighter credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation. The extent of these effects remains uncertain. The Committee remains highly attentive to inflation risks.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to raise the target range for the federal funds rate to 5 to 5-1/4 percent. The Committee will closely monitor incoming information and assess the implications for monetary policy. In determining the extent to which additional policy firming may be appropriate to return inflation to 2 percent over time, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in its previously announced plans. The Committee is strongly committed to returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

The problem for the stock market, at least for two days, was that Mr. Powell was a bit wishy-washy in his Q&A in regard to future interest rate increases. On the one hand, he said, “People did talk about pausing, but not so much at this meeting. We feel like we’re getting closer or maybe even there.” On the other hand, he asserted, “I think that policy is tight, but we are prepared to do more if greater monetary policy restraint is warranted.”

Further, he reminded, “Looking ahead, we will take a data-dependent approach in determining the extent to which additional policy firming may be appropriate,” but the Fed Funds rate is now at the year-end 2023 projection offered in the quarterly economic projections put forth by the Federal Reserve Board members and Federal Reserve Bank presidents back in March.

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

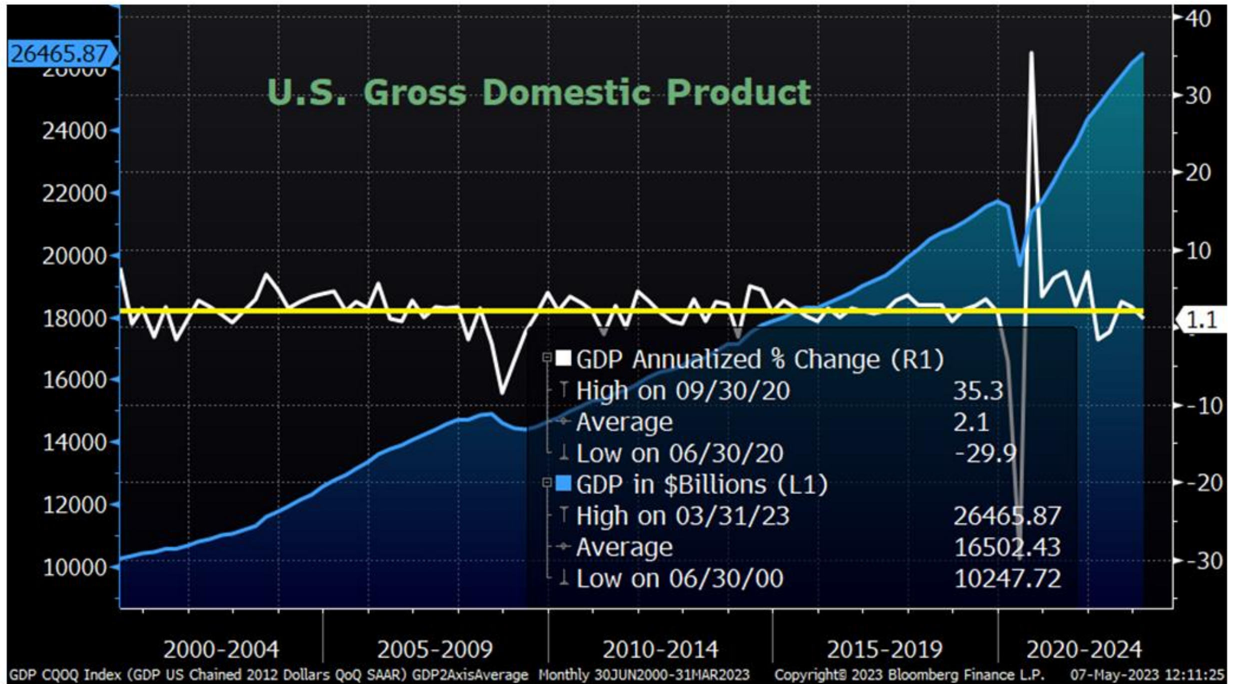
Variable	Median[1]				Central Tendency[2]				Range[3]			
	2023	2024	2025	Longer run	2023	2024	2025	Longer run	2023	2024	2025	Longer run
Change in real GDP	0.4	1.2	1.9	1.8	0.0–0.8	1.0–1.5	1.7–2.1	1.7–2.0	-0.2–1.3	0.3–2.0	1.5–2.2	1.6–2.5
December projection	0.5	1.6	1.8	1.8	0.4–1.0	1.3–2.0	1.6–2.0	1.7–2.0	-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

Those March projections also called for 0.4% real (inflation-adjusted) GDP growth for 2023, but Chair Powell intimated that updated projections were arguably a bit more pessimistic. He said, "So, broadly, the forecast was for a mild recession, and by that I would characterize as one in which the rising unemployment is smaller than is has been typical in modern era recessions. I wouldn't want to characterize the staff's forecast for this meeting. We'll leave that to the minutes but broadly — broadly similar to that."

When asked specifically about his own economic forecast, the Chair responded, "The case of avoiding a recession is, in my view, more likely than that of having a recession. But it's not — it's not that the case of having a recession is — I don't rule that out, either. It's possible that we will have what I hope would be a mild recession."

Is it any surprise that famed American Economist Paul Samuelson said, "Economists have predicted nine of the last five recessions?" After all, the current odds of an economic contraction in the next 12 months, as tabulated by Bloomberg, have been at 60% or higher since October,…

…yet real GDP growth came in at 2.6% in Q4 2022 and 1.1% in Q1 2023,…



…while the current estimate for real Q2 GDP growth from the Atlanta Fed rose last week to 2.7%.

The optimists, including Mr. Powell, could be wrong and a recession may occur, but we do not think that would be reason to abandon Value Stocks and Dividend Payers, or equities in general, even if we could somehow identify the exact beginning and ending of the contraction in advance.

THE PRUDENT SPECULATOR

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

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

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

Further, given that Mr. Powell is the first Fed Chair to face the same kind of inflationary pressures as Paul Volcker some 40 years ago, we take comfort in the fantastic equity returns posted under the Volcker Fed from 1979 – 1986, especially as the vanquishing of the Great Inflation included two recessions, one starting in 1980 and another starting in 1981.

Volcker Vanquishes The Great Inflation Equity Returns

Year	FF Value	FF Growth	FF Div Payers	FF Non Div	Inflation	Fed Funds Rate
1979	30.5%	32.3%	22.5%	60.5%	13.3%	14.0%
1980	19.5%	44.2%	30.8%	63.3%	12.4%	18.0%
1981	16.0%	-9.0%	-1.1%	-16.1%	8.9%	12.0%
1982	34.1%	20.8%	21.7%	13.6%	3.9%	8.5%
1983	37.5%	17.5%	22.8%	20.7%	3.8%	9.5%
1984	11.9%	-7.3%	5.1%	-18.3%	4.0%	8.3%
1985	32.5%	31.2%	33.7%	24.0%	3.8%	7.8%
1986	18.1%	8.6%	18.2%	2.2%	1.1%	6.0%
Annualized	**24.7%**	**15.9%**	**18.7%**	**15.3%**	**6.3%**	

Total Return. Value Weighted Equity Portfolios. Year-End Federal Funds Rate. Source: Kovitz Investment Group using data from Bloomberg and Professors Eugene F. Fama & Kenneth R. French

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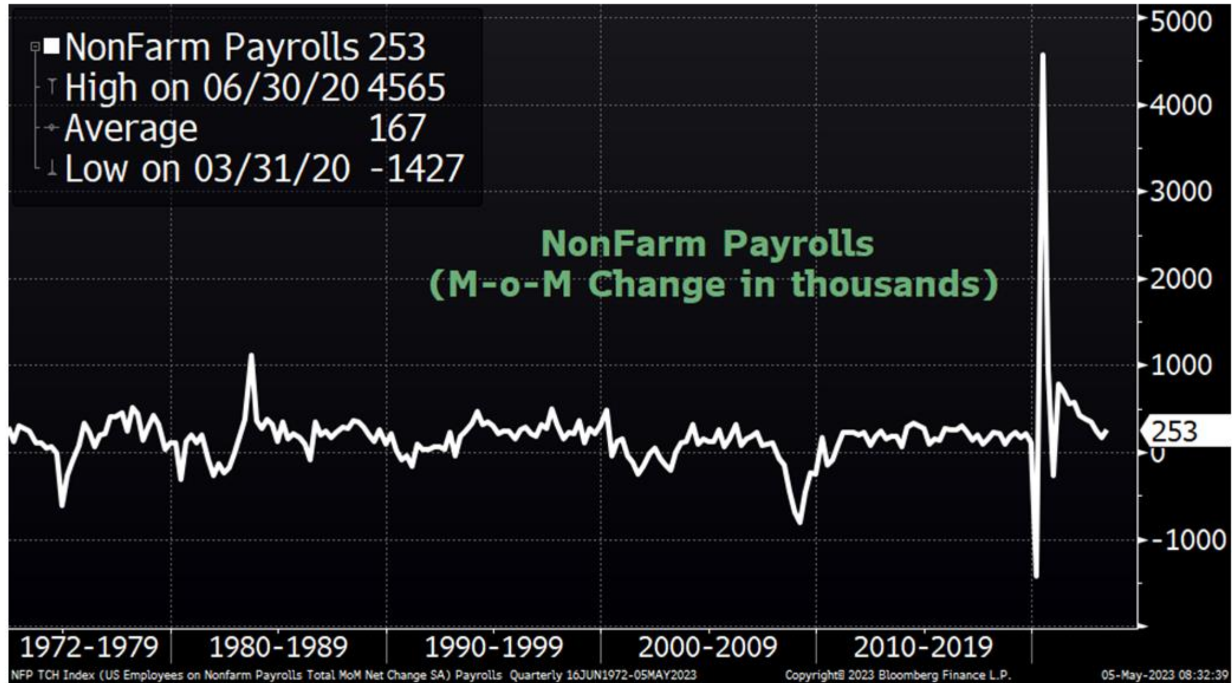
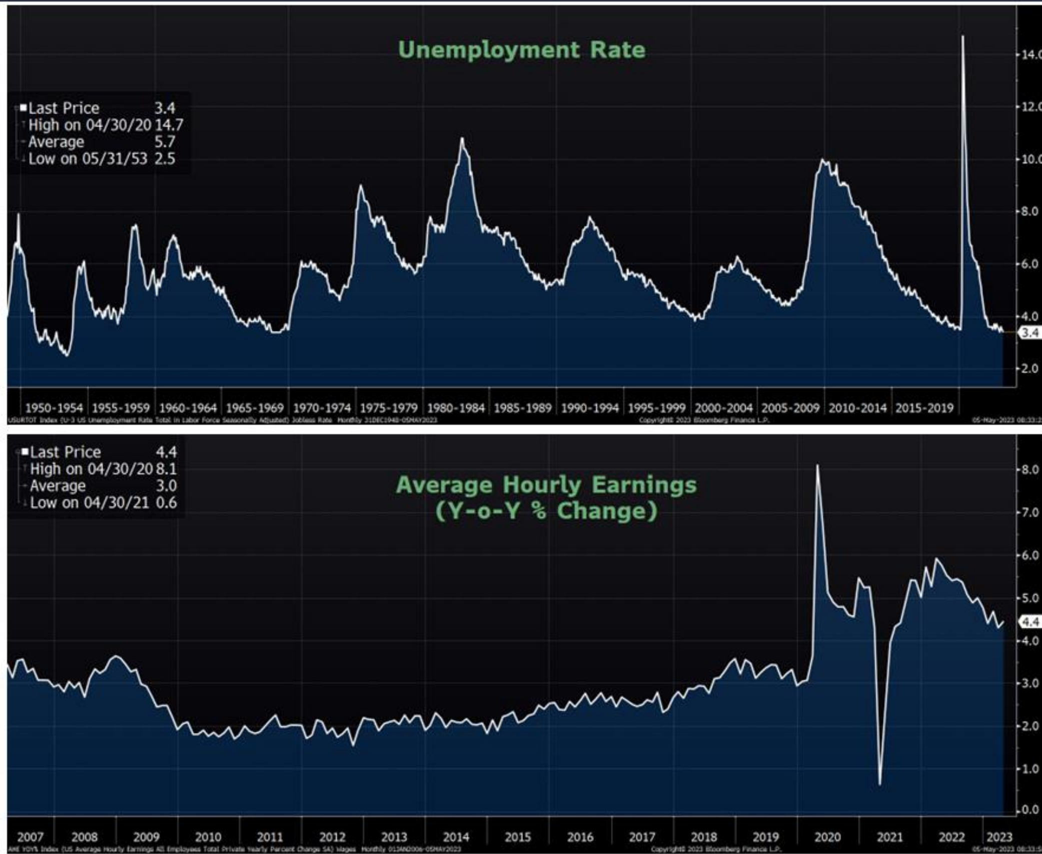
We also can’t ignore the robustness of the labor market as Friday’s impressive monthly employment situation report saw a much better-than-expected 253,000 new jobs created,…

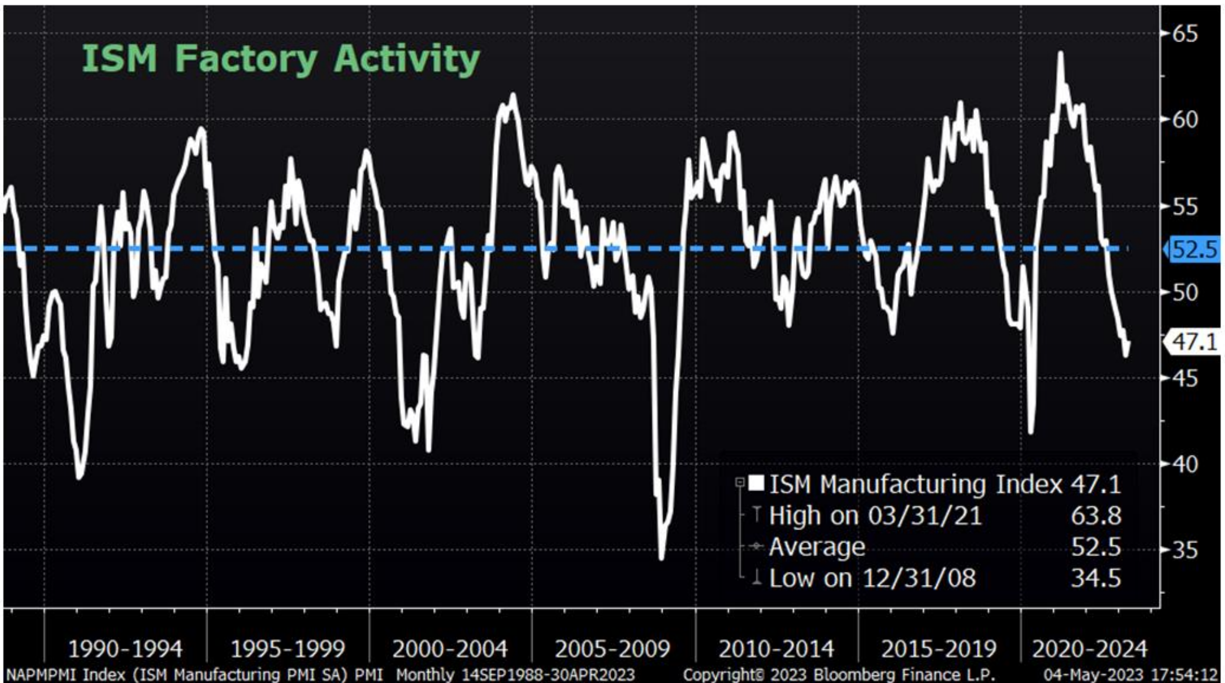


…and the jobless rate edge down to 3.4%, matching the lowest level since 1969!

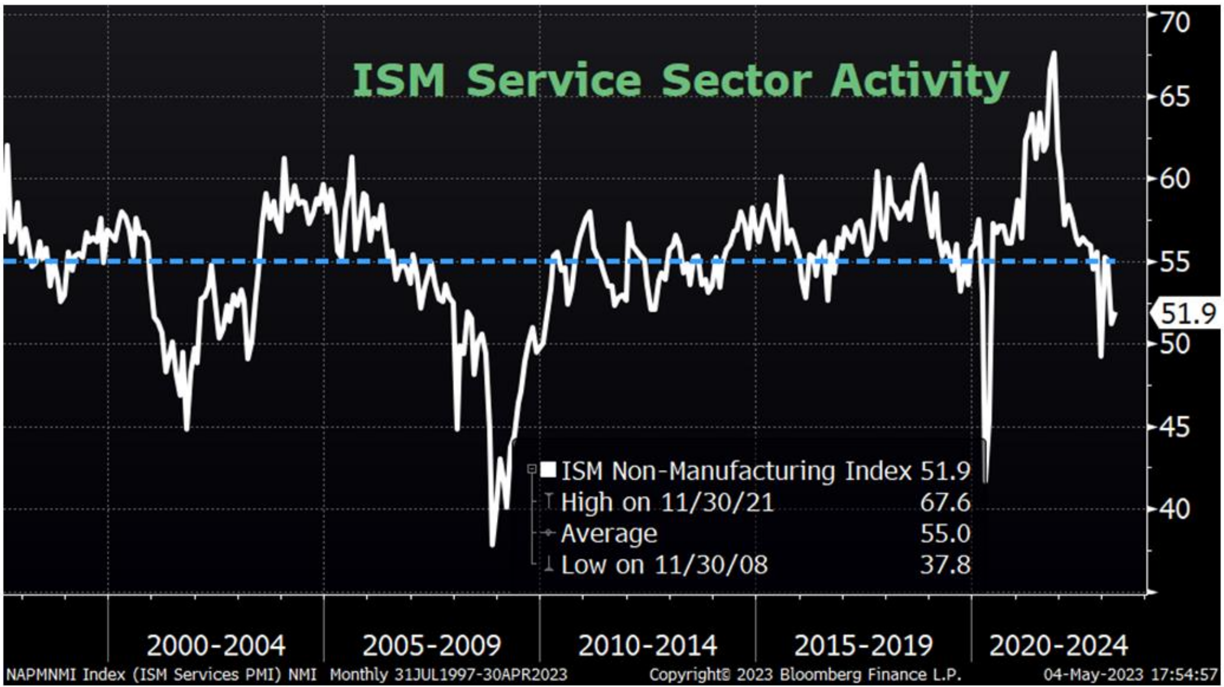


To be sure, the labor picture is weakening somewhat as job openings have been falling and first time filings for unemployment benefits have ticked a bit higher,…

…while the factory sector technically is in contraction, as evidenced by the April Manufacturing PMI reading from the Institute for Supply Management (ISM) coming in at 47.1. The tally was better-than-expected but ISM stated, "The past relationship between the Manufacturing PMI® and the overall economy indicates that the April reading (47.1 percent) corresponds to a change of minus-0.6 percent in real gross domestic product (GDP) on an annualized basis."



Of course, the ISM's PMI index for the more important services sector of the economy showed the fourth straight month of expansion when the measure hit 51.9 in April. ISM commented, "The past relationship between the Services PMI® and the overall economy indicates that the Services PMI® for April (51.9 percent) corresponds to a 0.7-percent increase in real gross domestic product (GDP) on an annualized basis."



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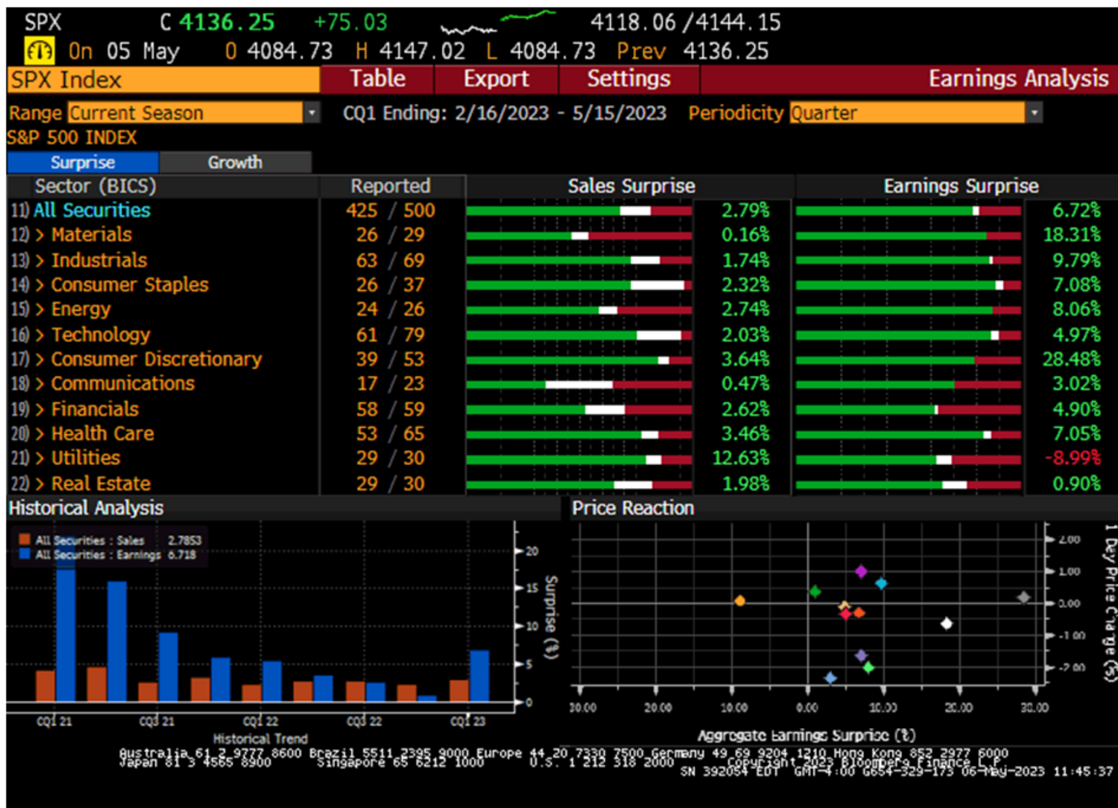
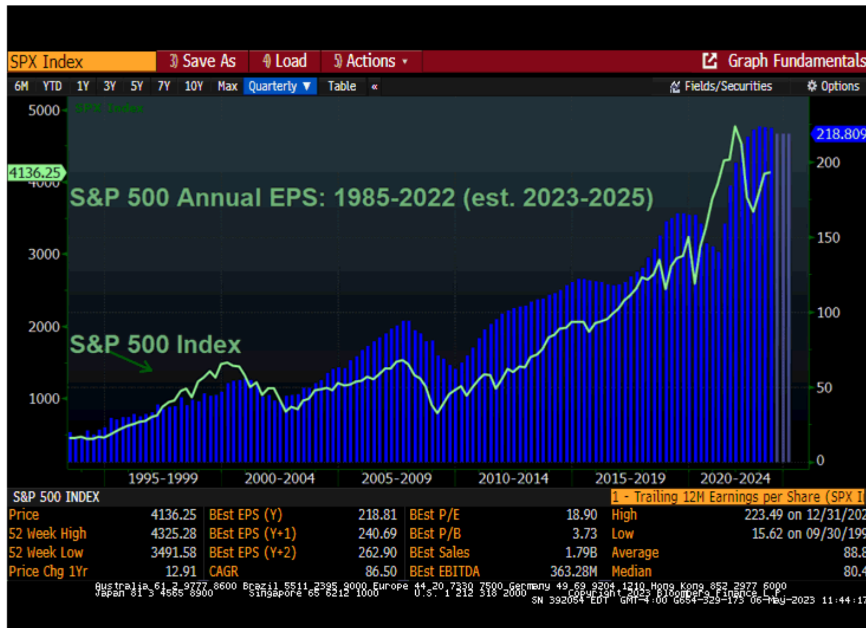
Needless to say, the economic crystal ball is as cloudy as ever, but Q1 corporate profit reports generally have been terrific, even as guidance has been subdued for many companies. Indeed, with 85% of the S&P 500 having announced results, 78.3% of companies have beaten top-line expectations while 68.2% have topped bottom-line estimates.



Sector (BICS)	Reported	Sales Surprise	Earnings Surprise
11) All Securities	425 / 500	2.79%	6.72%
12) > Materials	26 / 29	0.16%	18.31%
13) > Industrials	63 / 69	1.74%	9.79%
14) > Consumer Staples	26 / 37	2.32%	7.08%
15) > Energy	24 / 26	2.74%	8.06%
16) > Technology	61 / 79	2.03%	4.97%
17) > Consumer Discretionary	39 / 53	3.64%	28.48%
18) > Communications	17 / 23	0.47%	3.02%
19) > Financials	58 / 59	2.62%	4.90%
20) > Health Care	53 / 65	3.46%	7.05%
21) > Utilities	29 / 30	12.63%	-8.99%
22) > Real Estate	29 / 30	1.98%	0.90%

Analysts are often overly optimistic in their projections, but the outlook from Standard & Poor's itself for EPS going forward is for handsome growth this year and in 2024,…



S&P 500 Earnings Per Share

Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2024	$64.97	$244.85
9/30/2024	$62.63	$237.31
6/30/2024	$59.95	$230.42
3/31/2024	$57.30	$223.73
12/31/2023	$57.43	$217.71
9/30/2023	$55.74	$210.65
6/30/2023	$53.26	$205.26
3/31/2023	$51.28	$198.87
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 5.4.23

…which would provide plenty of support for further dividend increases, a trend that has been long-playing.

THE PRUDENT SPECULATOR

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. And, dividend payments for TPS Portfolio doubled between 2013 and 2022.

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.)	$74.87
2023 (Est.)	$70.29
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 5.6.23	

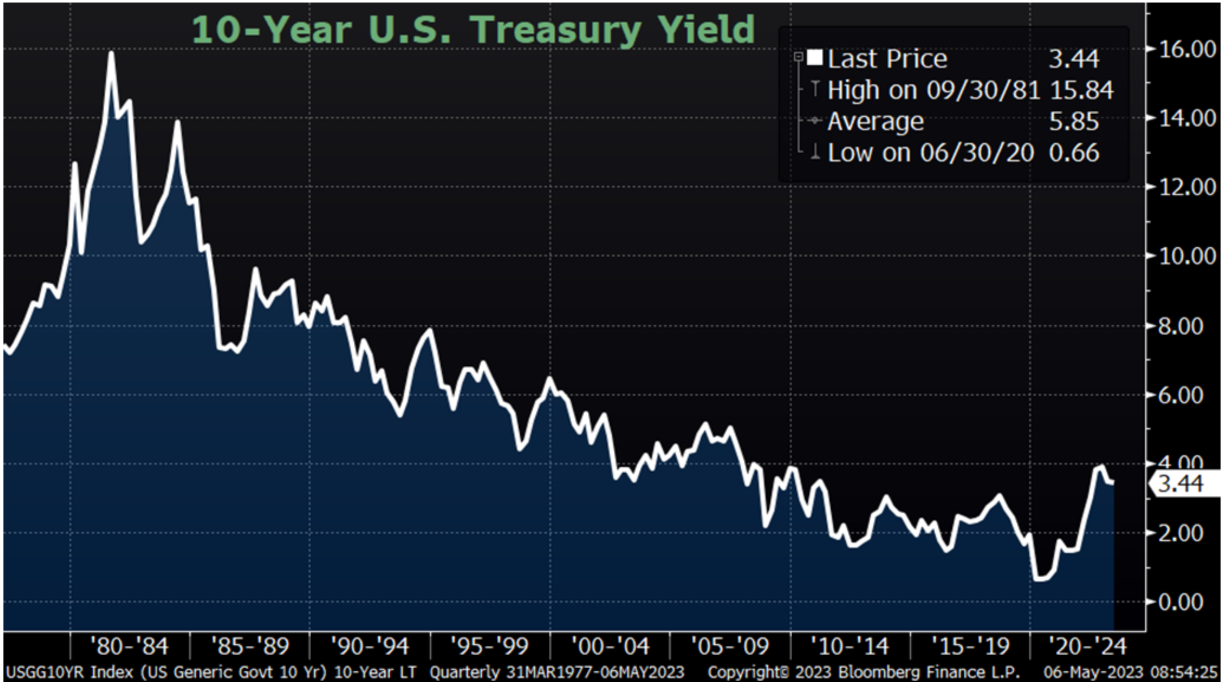
TPS Portfolio Dividends Per Share	
2022	$112,179
2021	$96,562
2020	$95,753
2019	$97,995
2018	$87,802
2017	$89,787
2016	$75,460
2015	$68,785
2014	$65,357
2013	$55,847
Source: Kovitz	

It would also lead to a continuation of the attractive valuation comparison for stocks, with the current S&P 500 earnings yield modestly below the average level since 1977,…

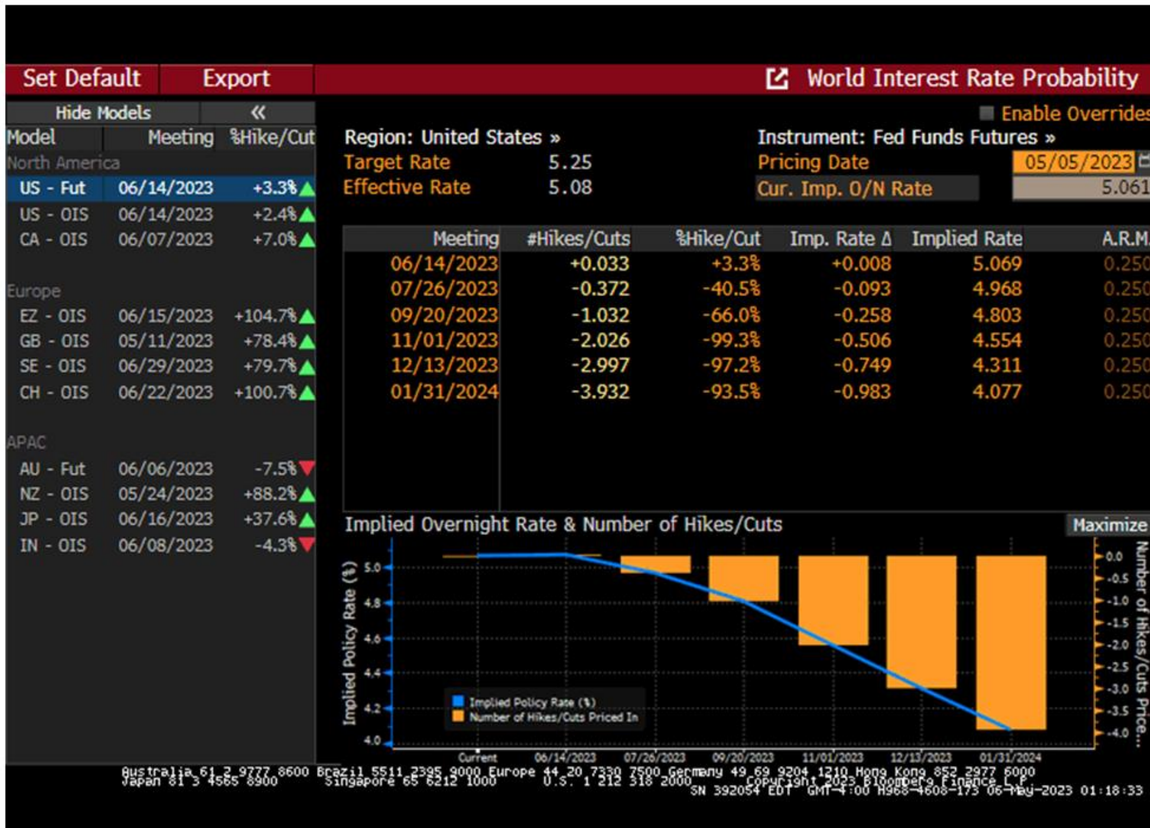
THE PRUDENT SPECULATOR

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 (5.08% vs. 3.44% 10-Year), despite last year's jump in interest rates.

…and longer-term interest rates also well below their historical average,…



…with the Fed Funds futures suggesting that the direction of that benchmark interest rate over the balance of the year will be south.



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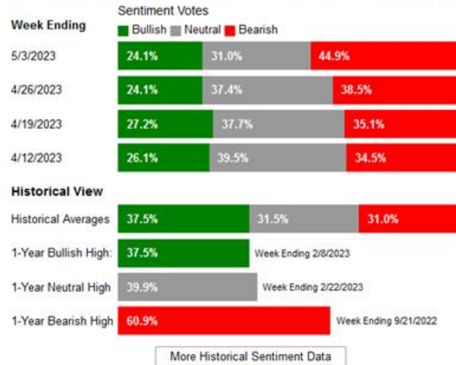
As always we are braced for downside volatility, but we continue to like that folks on Main Street are extremely pessimistic today, with the latest weekly AAII Bull-Bear Sentiment gauge (a strong contrarian measure) showing 24.1% Bulls and 44.9% Bears and the minus 20.8 point Bull-Bear Spread residing in the first decile, the most favorable for future short-term equity returns.

What Direction Do AAII Members Feel The Stock Market Will Be In The Next 6 Months?



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	935	0.24%	0.20%	1.15%	1.02%	3.29%	2.90%	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 1864 Data Points										
1	-54.0	-17.0	189	0.41%	0.34%	2.17%	1.93%	4.58%	4.07%	8.43%	7.26%
2	-17.0	-9.0	185	0.22%	0.18%	0.89%	0.76%	3.44%	3.06%	5.98%	5.19%
3	-8.9	-2.7	185	0.33%	0.29%	1.01%	0.89%	3.48%	3.09%	7.71%	7.01%
4	-2.7	2.5	188	0.16%	0.12%	0.97%	0.87%	2.24%	1.86%	5.19%	4.61%
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	183	0.21%	0.19%	0.71%	0.62%	2.23%	2.01%	5.00%	4.54%
7	11.4	16.0	189	0.17%	0.15%	0.40%	0.27%	2.18%	1.91%	4.99%	4.48%
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 05.04.23. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

More importantly, we remain very comfortable with the reasonable valuations and generous dividend yields of our broadly diversified portfolios of what we believe to be undervalued stocks.

CURRENT PORTFOLIO AND INDEX VALUATIONS

Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	11.6	11.9	0.7	2.1	3.1
ValuePlus	12.8	12.3	1.0	2.3	2.6
Dividend Income	11.8	12.2	0.7	2.1	3.5
Focused Dividend Income	12.5	12.6	1.0	2.2	3.1
Focused ValuePlus	13.9	13.0	1.1	2.4	2.8
Small-Mid Dividend Value	10.0	9.8	0.4	1.5	3.4
Russell 3000	20.4	19.3	2.1	3.6	1.7
Russell 3000 Growth	28.8	25.4	3.3	8.9	1.0
Russell 3000 Value	15.5	15.3	1.5	2.2	2.4
Russell 1000	20.1	19.0	2.2	3.8	1.6
Russell 1000 Growth	28.4	25.2	3.5	9.7	1.0
Russell 1000 Value	15.3	15.1	1.6	2.3	2.4
S&P 500 Index	19.7	18.9	2.3	3.9	1.7
S&P 500 Growth Index	20.4	20.5	3.2	6.7	1.4
S&P 500 Value Index	18.2	16.8	1.7	2.6	2.0
S&P 500 Pure Value Index	9.3	9.5	0.6	1.4	3.0

As of 05.06.23. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Kovitz using data from Bloomberg Finance L.P.

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 out last week for more than a few of our recommendations.

Engineered products maker **Leggett & Platt** (LEG – $32.85) earned $0.39 per share (vs. $0.26 est.) on $1.21 billion of sales (vs. $1.19 billion est.) in Q1. The better-than-expected results came even as volume declines were again driven by demand softness in residential end markets, partially offset by growth in Automotive, Aerospace and Hydraulic Cylinders.

CEO Mitch Dolloff commented, "We are focused on improving the things that we can control and are continuing to mitigate the macroeconomic impacts on our businesses. We are working with our customers on new product opportunities, continuing our focus on improving operating

efficiency and driving strong cash management. Our financial discipline allows us to withstand periods of economic uncertainty and enables us to manage our company for long-term success."

Management said 2023 revenue is expected to be in the $4.8 billion to $5.2 billion range, a sequential decline due to macroeconomic uncertainty, but the mid-point was better than the Street estimate of $4.9 billion. Volume is expected to be down in the mid-single-digits. The company's full-year EPS is expected between $1.50 and $1.90, which compared favorably with the consensus forecast of $1.59.

CFO Jeff Tate said, "While the macroeconomic environment is still challenging, we remain disciplined and agile in our approach. The Leggett team around the world continues to focus on our customers, our operating efficiency as well as our working capital discipline. As we progress, Leggett is well positioned to navigate through market uncertainty with a keen focus on strong cash generation, and our enduring fundamentals give us confidence in our ability to continue creating long-term value for our shareholders."

While some raw materials pricing pressure is receding, volumes have become the primary challenge as the Federal Reserve's steep rate-hike pace has cooled demand (or created volume uncertainty) for many of the firm's products. Nevertheless, we think the dividend, which was just raised for the 52nd straight year, is in good stead as the payout remains covered, with the latest price volatility making the 5.6% yield even more appealing. LEG's balance sheet (over 80% of debt is due in 2027 or later) should support its status as Dividend King (more than 50 consecutive years of hikes in the payout) in the years ahead. Our Target Price is now $46.

Despite a not-so-great market week, **MDC Holdings** (MDC – $41.42) saw its stock tread water as the homebuilder reported Q1 financial results that were materially better than analysts were expecting. MDC said revenue was $1.02 billion, almost 16% above the consensus expectation. Adjusted EPS for the period of $1.08 was almost 75% greater than the average estimate of $0.62. While the units delivered in Q1 2023 (1,851) were well below the same period in 2022 (2,233), average selling price of those deliveries held fairly firm ($551,000 vs. $556,000). Cancellations as a percentage of gross sales jumped in Q1, totaling 29.9%.

"2023 is off to a great start," said Executive Chairman, Larry A. Mizel. "Thanks to a combination of improved market conditions and strategic pricing initiatives, we have seen a rebound in homebuying activity to start the year. Net new orders in the first quarter increased significantly relative to the fourth quarter of 2022, as buyers returned to the market for the start of the spring selling season. Order momentum built as the quarter progressed, and we saw order totals increase on a sequential basis each month."

Mr. Mizel continued, "It was also a successful quarter from a delivery standpoint, as we closed 1,851 homes for the three-month period, well ahead of our stated guidance. Our teams did an excellent job overcoming supply chain obstacles and municipal delays to close homes in backlog in a timely manner. We also benefited from having more specs available for sale during the quarter, which led to an increase in quick move-in closings."

He concluded, "We reported $81 million in net income for the first quarter, or $1.08 per diluted share. We also generated significant cash flow from operations, which boosted our cash and marketable securities balance at the end of the quarter to over $1.6 billion. We believe this puts us in a great position to continue our disciplined approach to growth while simultaneously funding our industry-leading dividend payout of $2.00 per share on an annualized basis."

"We continue to see several favorable fundamental and demographic trends in our markets driving new home demand," said CEO David Mandarich. "Existing home inventory, which serves as competition for the new home market, remains scarce in most of our markets. Employment trends have been resilient, giving potential buyers the stable income and confidence needed to purchase a new home. In addition, many of the markets in which we build are seeing outsized growth, thanks to an influx of jobs and high-wage earners from other parts of the country. These industry positives, coupled with our more affordable product focus and strong balance sheet, give me confidence in the long-term outlook for MDC."

No doubt, buyer psychology continues to be adversely impacted and near-term headwinds will most likely continue to blow, but we believe the outlook for new home construction is positive in the long run. MDC said that it had 236 active subdivisions at the end of the quarter, and while land acquisition activity slowed in late-2022 and into Q1, the company said that new-deal flow has begun to increase. Given that we still think that there is a long-term shortage of housing in the U.S., the MDC stock price still looks attractive, despite the 30% rebound thus far in 2023. The current dividend yield is 4.8% and our Target Price has been raised to $57.

Eaton Corp PLC (ETN – $171.05) turned in another strong quarter that included record Q1 adjusted EPS and management noting that order activity remains positive across the board. Additionally, the engineered products company enjoyed record first quarter segment margins of 19.7% which was 0.9% above Q1 2022. ETN reported revenue of $5.48 billion for the 3-month period, outpacing the consensus analyst estimate of $5.22 billion. Adjusted EPS of $1.88 was 5.6% better than the average forecast. Electrical Americas continued to deliver, as Data centers remained a bright spot, and the company upgraded its expectations for Utility and Residential end markets.

CEO Craig Arnold explained, "We're encouraged by strong operational performance as we start the year, with record earnings per share and segment margins. Strong backlog growth, particularly in Electrical and Aerospace, points to ongoing demand across our markets. We're confident in our ability to capitalize on growth drivers – including the effects of re-industrialization in North America and the megatrends of electrification, energy transition and digitalization – to deliver on our targets."

For the full year 2023, Eaton is increasing its organic growth guidance from a range of 7% to 9% to a range of 9% to 11% and raising its adjusted earnings per share outlook to between $8.30 and $8.50, up $0.16 at the mid-point. For the second quarter of 2023, the company anticipates organic growth of 10% to 12% and adjusted earnings per share of between $2.04 and $2.14.

While shares are not as cheap as they used to be, we do not think the 19.8 times NTM adjusted EPS projections is too rich given the organic growth potential and execution of Eaton. We

continue to appreciate the company's shift in recent years away from legacy segments and toward highly differentiated end markets exposed to tailwinds like the acceleration in data consumption and the production of electric vehicles. Additionally, ETN should benefit from the federal government's current focus on potential green initiatives and reshoring. ETN also should be helped by higher manufacturing industry CapEx and a multi-year commercial aviation recovery. With the newest info in hand, we have bumped up our Target Price to $196.

Zimmer Biomet (ZBH – $137.91) grew Q1 sales after six consecutive corners in the opposite direction. The maker of artificial joints earned $1.89 per share on double-digit top-line growth in the U.S. across both Knee and Hip segments. International markets were strong too were it not for currency movements that detracted by about 7%. Shares popped 8% last Tuesday morning on the announcement but gave it all back throughout the week.

CEO Brian Hanson said, "Our strong performance in Q1 outpaced our internal growth expectations, driven by continued procedure recovery, solid execution and increasing traction around ZB innovation. I'm proud of how our team continues to successfully navigate and manage the broader market challenges posed by inflation and the supply chain and how we are driving positive momentum as we deliver on our mission and bring value to our patients, customers and shareholders."

Management's guidance for 2023 revenue growth and EPS were bumped higher from 5% to 6% and $7.40 to $7.50, respectively. That is up from 1.5% to 3.5% revenue growth and $6.95 to $7.15 of EPS previously projected. CFO Suky Upadhyay added, "Q1 will be the highest revenue growth quarter followed by Q4, which should benefit from improving supply and contribution from new and innovative products, as well as a selling day tailwind of about 100 basis points. Q2 and Q3 are expected to be lighter growth quarters, given tougher comps and a net selling day headwind of about 100 basis points. Again, selling days will have a net neutral impact for the full year. We expect adjusted operating margin to largely follow revenue with second half operating margin being slightly better than the first half."

Mr. Hanson continued, "First and foremost, procedure recovery was much better than we anticipated, you know, really having almost no material or meaningful impact from COVID or staffing challenges in the quarter. And second, we manage the supply-constrained environment better than we originally anticipated. Make no mistake, supply is a real problem and it's putting pressure on the business, but this team has done an excellent job managing that environment, probably leveraging some muscle memory from the past. And then third and I think really importantly, our team's execution and traction with our new product innovation is even stronger than we anticipated. And that's important because it's going to continue to provide benefit to the rest of the year."

We are pleased that the COVID-19 hangover is fading and continue to believe that over the long term, favorable demographics will drive solid demand for large-joint replacement for the Hip and Knee implant leader. We appreciate ZBH's efforts to rework its product lineup with cutting edge technology like its ZBEdge ecosystem, a suite of integrated digital and robotic technologies, and the momentum built for its ROSA Robotics equipment. Shares trade mostly in line with the

market's P/E multiple at 18 times, even as growth potential is well above that of the overall market. Our Target Price for ZBH is now $169.

Engine maker **Cummins** (CMI – $226.38) generated record revenue of $8.5 billion and earnings per share $5.55 in Q1, growing 32% and 90%, respectively, on a year-over-year basis. Sales in the largest Components segment grew 87%, due in large part to the acquisition of Meritor last year. The Distribution segment experienced elevated demand for parts, service and whole goods, while strong demand for aftermarket products and increased demand in oil and gas markets drove growth in Power Systems.

CEO Jennifer Rumsey said, "The company achieved record revenues, EBITDA and EPS in the first quarter of 2023, with demand for our products remaining strong across most of our key markets and regions. We are delivering cycle-over-cycle improvement in financial performance despite persistent supply chain constraints, and we continue to invest in sustainable solutions that will protect our planet for future generations and support the success of our customers."

Cummins raised its full-year 2023 revenue guidance to be up 15% to 20%, an increase from the prior projection of up 12% to 17%, due to stronger demand across most markets. EBITDA is expected to be in the range of 15.0% to 15.7%, an increase from the prior range of 14.5% to 15.2% of sales. The outlook includes the projected results of the Meritor business for 2023, but excludes any costs or benefits associated with the planned separation of the Filtration business.

We continue to like Cummins' position as a leading maker of critical components in the industrial supply chain, while it continues to invest in new (and renewable) technologies. We also appreciate that management promotes returning 50% of operating cash flow to shareholders. Shares trade below the long-run average P/E multiple and for just 11.6 times NTM estimates, while the dividend yield is 2.8%. Our Target Price is now $318.

CVS Health (CVS – $70.68) earned an adjusted $2.20 per share (vs. 2.09 est.) as revenue grew 11% year-over-year to $85.3 billion. However, adjusted operating income decreased modestly year-over-primarily due to continued pharmacy reimbursement pressure, decreased COVID-19 vaccinations and diagnostic testing, and increased investments in the pharmacy segment's operations and capabilities. Not included in the figure was a write-down of the Company's Omnicare® long-term care business. Management revised its adjusted EPS guidance range to between $8.50 and $8.70, down from $8.70 to $8.90.

CEO Karen Lynch said, "We delivered another strong quarter while executing on the strategy we outlined in December 2021, leading to the close of the Signify Health acquisition followed quickly by Oak Street Health. These additions are core to our strategy and will help unlock future growth as we push further into value-based care, which prioritizes keeping people healthy."

She added, "We are also making progress on driving integrated value across our foundational businesses. We serve 2.9 million members who are enrolled in our integrated medical and pharmacy plan. For members that utilize our integrated offerings, we are driving higher rates of medication adherence, up to 15% lower hospital admission and readmission rates, up to 19%

reductions in ER visits, and 25% greater utilization of critical mental health care. Overall, these integrated plans offer members access to quality, better coordinated care and improved health outcomes. As we continue to extend our capabilities, we will develop more powerful connections that drive superior patient experiences, better outcomes, and lower costs. We remain critically focused on digital engagement and achieved a significant milestone this quarter, exceeding 50 million unique digital customers. These customers are driving meaningful results with digital sales in the quarter up more than 30% versus the prior year. Engagement levels are strong as these customers spend 2.4x more than our non-digitally engaged customers and at higher margins. We continue to drive innovation and expand our digital offerings to meet customer's needs."

We appreciate CVS's move towards services, and it'll be interesting to see how the purchase of Oak Street goes. Certainly, success could lead to a slew of additional acquisitions in the effort to expand the company's footprint. While shares had a solid 2021, the last 15 months or so have not been as kind, shedding over a third since the peak in February last year. The slide puts the NTM P/E ratio at 8, a favorable level for the health services behemoth. The dividend yield is 3.4% and our Target Price has been trimmed to $137.

Roller and ball bearings maker **Timken** (TKR – $76.79) turned in a strong, record-setting Q1 and materially lifted full-year profit projections last week. Admittedly, we were surprised that shares didn't rise during the 5-day period. For Q1, TKR said it generated sales of $1.26 billion, versus the consensus forecast of $1.23 billion, resulting in $2.09 of adjusted EPS, versus the $1.87 Street target. The quarter was driven by strong organic growth in both the Engineered Bearings and Industrial Motion segments, and the favorable impact of acquisitions, partially offset by unfavorable foreign currency translation. Organically, Q1 sales were up 10.9% versus the prior year.

CEO Richard G. Kyle commented, "Timken maintained its strong momentum and delivered an excellent start to the year, achieving record revenue and earnings per share in the first quarter while expanding operating margins. Our performance continues to demonstrate the value we can create for our stakeholders through dynamic macro environments."

Timken said it was increasing its 2023 outlook, with full year adjusted earnings per diluted share in the range of $7.00 to $7.50 (up from $6.50 to $7.10). The company is now planning for 2023 revenue to be up approximately 9.5% in total at the mid-point from 2022, an increase from its prior outlook of 6% growth.

"Timken is raising its full-year guidance to reflect the company's strong first-quarter performance, the impact of the Nadella acquisition and an improved outlook for the rest of the year," said Mr. Kyle. "We now expect operating margins to increase in 2023, reflecting favorable price-cost and better operational execution. While uncertainty remains elevated for the second half, our backlog is high and customer demand is strong."

He continued, "We are confident in our ability to achieve higher performance in 2023 and beyond, as we continue to execute our strategy to advance Timken as a diversified industrial leader."

We continue to appreciate that Timken is exposed to several end-market sectors with favorable trends, including renewable energy and transportation. With obstacles in the global supply chain alleviating, shares trade for an attractive forward P/E ratio of 10.6. Our Target Price has been bumped to $104, though we note the almost 9% YTD return and 28%+ total return over the last 12 months.

Despite reporting fiscal Q1 bottom-line results that matched expectations, semiconductor designer **Qualcomm** (QCOM – $108.78) saw its shares skid 5.5% on Thursday as the company's forecast for weak smartphone demand disappointed the analyst community. For the quarter, QCOM posted adjusted EPS of $2.15 on revenue of $9.27 billion, versus the respective consensus estimates of $2.15 and $9.09 billion.

CEO Cristiano Amon commented, "Our licensing business delivered revenues of $1.3 billion at the low end of the guidance range on weaker demand for handsets. The evolving macroeconomic backdrop has resulted in further demand deterioration, particularly in handsets at a magnitude greater than we previously forecasted. As a result, we're operating under the assumption that inventory drawdown dynamics remain a significant factor for at least the next couple quarters."

He continued, "While expectations are for a rebound in China demand in the second half of the calendar year, we have not seen evidence of meaningful recovery and our not incorporating improvements into our planning assumptions. While the challenges, we are facing are impacting the semiconductor industry. We remain focused on managing what is within our control, and will continue to execute on our diversification strategy, and leading technology, and product roadmap."

Mr. Amon concluded, "I would like to reiterate that the secular technology trends driving the long-term growth opportunities for Qualcomm remain unchanged. Despite the disappointing macroeconomic environment, our investments in technology leadership, our best product roadmap in history, and strategic customer relationships across multiple industries position us well to execute on our strategy and expand across new and diverse end markets."

For fiscal Q3, Qualcomm expects revenue between $8.1 billion and $8.9 billion (est. $9.25 billion) and EPS between $1.70 and $1.90 (est. $2.20). The QCT segment is expected to see revenue between $6.9 billion and $7.5 billion (vs. $7.78 billion est.) and the QTL segment's revenue is expected to come in between $1.15 billion and $1.35 billion (vs. $1.35 billion est.). The soft outlook for the QCT segment suggests challenges in the smartphone markets aren't over and demand trends in the market have yet to pick up again. The Q3 report pushed QCOM shares into negative territory for the year, and the valuation has become very inexpensive. Shares trade for 12.5 times forward earnings with a just-increased 2.9% yield. The balance sheet sports $6.7 billion of cash (though there is $16.0 billion of debt), giving QCOM plenty of room to make it through any headwinds that linger. Our Target Price for QCOM has been pared to $185.

Crop nutrient concern **Mosaic** (MOS – $39.11) earned 1.14 per share (vs. $1.24 est.) in the first quarter, more than 50% lower than year-ago period as revenue fell 8% to $3.6 billion, reflecting the impact of lower prices somewhat offset by higher volumes. Lower prices cut the gross margin rate in the first quarter to 18.6% from 36.7% last year.

CEO Joc O'Rourke offered, "Global stock-to-use ratios for grain and oil seeds are at 25-year lows. To put that in context, it would take two to three years of perfect weather and adequate fertilizer applications in every major growing region around the world just to get back to normal levels. With weather patterns shifting to an new environment, the likelihood of that happening is low and would be exacerbated by underfertilization. We are beginning to see the negative impacts on crop production. Yields in the European Union turned lower in 2022 because of poor weather and underfertilization, and will remain under pressure this year if fertilizer applications remain down. We're seeing a similar story in rice. The combination of El Nino and underfertilization could further threaten yields in key growing regions. With reduced supply of sunflower seed oil because of the ongoing war in Ukraine, the global market needs alternative edible oils and is looking to palm oil as an important substitute. Lack of fertilization, particularly potash, will impact Southeast Asian production. All of these factors are expected to support global crop prices for the foreseeable future."

"In North America", Mr. O'Rourke added, "Spring planting season is well underway, and farmers have returned to the market, though retailers have been slow to adjust their prices to global wholesale market prices. Despite that resistance, growers are still committing and taking tons. Retailers are replenishing their inventories. In April, Mosaic's volumes saw a significant rebound in the North American shipments for both potash and phosphate. Combined, Mosaic shipped over 1 million tons of potash and phosphates to North American customers in April alone. This is the highest total we've seen in the last five years."

Shares have retreated meaningfully from the Russia-Ukraine conflict-induced record performance a year ago. Nevertheless, should the CEO find himself remotely correct about the next few years, we anticipate a bountiful harvest. Earnings tend to be volatile for Mosaic, owing to cyclical crop patterns and depending on rational production from peers, but the Street expects the company to earn $6 per share this year and close to $5 in each of the next two. The stock's dividend yield is a modest 2.0%, but such a financial performance would likely further enable a reduction in the share count, which has fallen by about 12% over the past 18 months. Our Target Price is now $80.

Shares of **Civitas Resources** (CIVI – $67.49) closed the week down about 2%, even as the oil & gas concern posted Q1 EPS of $2.46 that beat the $2.14 consensus analyst estimate. Daily production of 159,000 barrels of oil equivalent came in at the high end of management's guidance range of 155,000 to 160,000 barrels, despite enduring record cold temperatures in the field early this year. A 19% drop in revenue versus Q4 to $656 million was a product of 10% and 33% lower respective crude oil and natural gas realized prices. Crude oil accounted for approximately 70% of total revenue for the quarter, while differentials for CIVI's crude production, relative to WTI, averaged approximately negative $4.72 per barrel in the quarter.

CEO Chris Doyle said E&P is on track to produce 160,000 to 170,000 barrels of oil equivalent per day for the full year. Mr. Doyle also commented on CIVI's capital return program and liquidity, "We have the full $1 billion remaining on our buyback authorization and we'll continue to be disciplined and opportunistic in our approach to executing this buyback program. For the second quarter, the Board has approved a variable dividend of $1.62 per share, in addition to our $0.50 fixed dividend. The total dividend of $2.12 per share will be paid on June

29 to shareholders of record on June 15. We're executing this shareholder return program while maintaining one of the strongest balance sheets in the industry. At quarter-end, we had about $560 million in cash against $400 million in total debt and an undrawn credit facility."

CIVI claims to have industry-low lease-operating and per-barrel expenses with balanced production of oil, gas and natural gas liquids. Management has a propensity for deals, which it has mostly financed with equity. We think this has given prospective investors pause, even as global energy supply constraints and favorable commodity prices have enabled massive income payments. A clean balance sheet should support the stock should demand fade and energy prices weaken further. Still, the valuation is very attractive at just 7 times EPS projected for 2023. Our Target Price is now $89.

Shares of **Albemarle** (ALB – $179.70) finished the week down more than 3%, and are now off their early February highs by more than 35%. The miner of lithium and producer of other specialty chemicals reported off-the-charts Q1 profits, but also included a massive whack to full-year revenue and profit guidance, driven by softened lithium prices and China coming back on line at a slower pace than expected. The company said adjusted EPS for Q1 came in at $10.32, more than 40% above the consensus analyst estimate of $7.19, on revenue of $2.58 billion (vs. $2.75 billion est.).

CEO Kent Masters explained, "Compared to last year, first quarter net sales more than doubled, adjusted diluted earnings per share more than quadrupled providing a robust start to the year. We see strong sales volume growth for the rest of the year but have modified our guidance to reflect softening lithium market pricing. We remain confident in the underlying market strength of our world-class asset base and our long-term growth strategy."

For fiscal 2023, ALB now expects revenue between $9.8 billion to $11.3 billion, versus the $11.3 billion to $12.9 billion it had forecast a few months ago. Management chopped expectations for full-year adjusted EPS to between $20.75 and $25.75, versus the $26.00 to $33.00 previously announced. Not exactly the end of the world for a sub-$200 stock, in our view.

Through a long-term lens, we think the recent sell off has been well overdone and note the ALB shares are trading below 9 times the low end of new guidance and less than 8 times the mid-point. Of course, we respect that lithium is a commodity and strong growth in China is a big part of the 2023-and-beyond demand equation, but given the rush around the globe to transition to electric vehicles, we think demand growth is only constrained by adequate supplies of the metal. And buy-in for EVs is starting to come from all levels, even if it is driven in part by government mandates and subsidies around the world.

ALB is less expensive today than it was when we made our initial recommendation four years ago at $81.98 as EPS growth has accelerated rapidly. Incredibly, the company's 2020 earnings were a modest $4.12 per share, a far cry from 2023's forecasted range of outcomes. We realize that commodity prices go through booms and busts, which is why we have previously taken money off the table on our position. However, for those looking for EV exposure, we think ALB is a very attractive name, especially as we have seen interest from the major auto makers in entering into longer-term supply contracts and even taking ownership stakes in lithium

producers. We will also continue to monitor the situation in Chile, where the government is looking for new deals with lithium miners, though has maintained that it will honor current contracts (with ALB's not expiring until 2043). All things considered, but remembering our Target Prices are focused on long-term potential and projections, we now think ALB is worth $352.

MetLife (MET – $54.66) earned $1.52 per share in Q1, when adjusted for realized losses on its fixed income and derivative portfolios (about $1 per share) tied to repositioning along with a few additional adjustments (mostly higher interest credits to policyholder balances). That compares to $2.04 per share a year ago as revenue from premiums and fees fell by 9% as well as lower variable interest income from venture capital and real estate investments. Adjusted return on equity, excluding certain adjustments (primarily unrealized losses on fixed income portfolio), came in at 11%.

MetLife CEO Michel Khalaf commented, "While 2023 is shaping up to be another year of uncertainty, the successful actions we've taken to focus, simplify and differentiate our business are reflected in this quarter's strong underlying business fundamentals. We remain focused on managing risk across economic cycles and controlling what we can to deliver for our shareholders and our stakeholders."

That uncertainty did not keep the board from authorizing another $3 billion share buyback, which if executed today, would add up to about an 11% shareholder yield including the dividend. Of course, it took management about 18 months to work through the previous repurchase authorization from August 2021. MET says the $4.2 billion cash and liquid assets at the holding company as of March 31 is above its target cash buffer of $3.0 – $4.0 billion.

MET had been a decent performer in 2022 but has given it all back year-to-date including an 8% negative reaction to the latest financial results. Should a recession occur, MET's commercial real estate could experience a bit of stress, but the portfolio is high quality with 89% collateralized by Class A properties and a loan-to-value ratio of 57%. Higher yields from reinvestment of the bond portfolio ought to continue to flow through to earnings in the coming quarters. Indeed, EPS are still expected to improve by 17% in 2023 vs last year and another 14% in 2024. Shares trade for just 6.4 times NTM adjusted EPS forecast and offer a handsome 3.8% dividend yield. Our Target Price has been trimmed to $87.

Petroleum refiner and marketer **HF Sinclair** (DINO – $38.38) earned $2.00 per share (vs. $1.52 est.) in Q1, down from 2.92 in Q4, but still more than double the figure a year ago. Maintenance turnarounds in the quarter affected throughput although refining margins were higher in both the West and Mid-Continent regions with steady demand, tight supply and favorable crude spreads. The relatively new renewable segment continued to drag on results with losses (albeit not much worse than in Q4) as the company works through startup kinks related to new facilities and hydrogen supply issues. Management expects to approach renewable profitability in the quarters ahead as it pushes higher volume to cover fixed costs and as increasing reliability allows for the use of lower-cost feedstock.

HF Sinclair's incoming-CEO Tim Go commented, "HF Sinclair delivered strong first quarter results, despite heavy planned turnaround activity in the quarter. We returned over $333 million in cash to shareholders through buybacks and dividends, demonstrating our commitment to our capital return strategy. As we enter summer driving season, we are focused on safe and reliable operations and further integrating the Sinclair assets so that we are well positioned for success in all of our business segments."

DINO also offered to purchase all outstanding common units of Holly Energy Partners (HEP) that it does not already own. Mr. Go said, "We believe the proposed HEP transaction simplifies HF Sinclair's corporate structure, reduces costs and further supports the integration and optimization of our portfolio."

With the purchase of Sinclair closing last year, the firm gained a marketing business with more than 1,300 independent wholesale Sinclair-branded gas-station and convenience-store sites in 30 states and expanded its refining, renewables and lubricants operations. Tight fossil fuel supply conditions in the past year pushed profits to record levels and the stock returned over 60% in 2022. Shares have fallen over 40% since November, however, as concerns of a slowing economy have weighed on energy prices. Profits in the refining space can be volatile from quarter to quarter, but we think margins will gain some support as DINO isn't the only refiner with facility turnarounds scheduled for its operations this year. Longer term, fossil fuels should remain a substantial part of global energy usage. The firm has $420 million remaining on its share repurchase authorization and management says it is committed to returning 50% or more of net income to shareholders. Shares trade for a single-digit multiple of EPS estimates and yield 3.6%. Our Target Price is $73.

Volatile shares of **Moderna** (MRNA – $137.04) gained 5% after the vaccine maker reported Q1 results that handily beat analyst expectations. Moderna earned $0.19 per share, compared with an expected loss of $1.66 and had revenue of $1.86 billion (vs. $1.18 billion est.).

CEO Stephane Bancel offered an update on the company's RSV efforts, "Our medical team is participating in major infectious disease medical congresses and sharing the new data that show the strong profile of RSV vaccine. To prepare for RSV launch, our manufacturing teams has already begun producing drug substance, the mRNA molecule, for RSV vaccine. That vaccine will be supplied as a pre-filled syringe. We believe that we help drive adoption by pharmacists and doctors to assist some of our RSV products."

Mr. Bancel offered a recap of notable items from the company's *Vaccine Day*:

• Shared top-line data on the flu program, announcing the initiation of Phase 303, the Phase 3 study that we intend to use for accelerated approval, as well as strategy for our next-generation flu programs.

• Announced the start of Phase III for our next-gen COVID vaccine, mRNA-1283, which will be refrigerator-stable.

• The EBV Phase 1 trials to prevent mononucleosis with mRNA-1189 are fully enrolled in adults and also in adolescents.

• For HIV, we shared interim analysis from a Phase 1 study at vaccine (which continues to advance through testing).

• Working on vaccines for norovirus and Lyme disease. Lyme is the first bacterial pathogen we are targeting with our RNA platform with a vaccine.

CFO Jamey Mock added, "We continue to expect first-half sales to be approximately $2 billion. Due to the seasonal nature of our respiratory business, we expect sales in Q2 of $0.2 billion to $0.3 billion. We continue to expect fiscal year 2023 reported cost of sales to be 35% to 40% of sales, which includes 5% royalties."

Mr. Mock also commented on the company's longer-term plans, "We believe the market size for COVID, RSV, and flu will be over $30 billion by 2027, and we expect to capture $8 billion to $15 billion of this marketplace. While our cost of goods sold percentage will remain elevated in the short term as we transition from a pandemic to an endemic environment, we believe this should normalize to a 20% to 25% range by 2027. We also laid out a $6 billion to $8 billion cumulative R&D investment required over the next three years, which was then normalized to a routine maintenance amount of 10% respiratory vaccine revenue by 2027. Finally, we liked the characteristics of the respiratory vaccine franchise, given the highly flexible cost base, low capital intensity, durable future revenue, and high potential return, which could lead to $4 billion to $9 billion of free cash flow annually with further room for growth."

We continue to believe our position in MRNA is equal parts Health Care and Technology, with the company able to leverage its mRNA technology and massive cash war chest to tackle other viruses and illnesses. The sales boom from the company's COVID-19 franchise is almost certainly beyond its peak, but the unit's record sales did well to provide cash for other vaccine research, including for RSV (which is the second leading global cause of death for children under 1 year old). The company has earned success in trials for several vaccines in development, and we think the potential for wide adoption could exceed that of the company's COVID vaccine (in part due to less competition). Our Target Price is now $207.

Royal Caribbean (RCL – $75.61) shares jumped more than 15% in price last week following the cruise company's Q1 earnings report and update on forward bookings and full-year expectations. RCL posted Q1 revenue of $2.89 billion, versus the consensus expectation of $2.83 billion. The company did report an adjusted per share loss of $0.23, which was far better than the expected $0.70 loss that analysts were looking for. Royal management said it now sees adjusted EPS for full-year 2023 between $4.40 and $4.80 (it is worth mentioning that covering analysts believe RCL could earn $6.22 in 2024 and $8.14 in 2025).

CEO Jason Liberty explained, "We knew that demand for our business was strong and strengthening, but we have been pleasantly surprised with how swiftly demand further accelerated well above historical trends and at higher rates. Leisure travel continues to strengthen as consumer spend further shifts towards experiences. Demand for our brands is outpacing

broader travel due to a strong rebound and an attractive value proposition. We are increasing full year guidance, given the significant momentum in our business, and we are well on our way to achieve our Trifecta goals."

RCL gave the following update on bookings:

Booking volumes in the first quarter were significantly higher than the corresponding period in 2019 and were considerably better than expected. This year, WAVE started earlier and extended further, generating a record level of bookings. These strong booking trends resulted in an acceleration of booked position in relation to prior years. In addition, the company is generating significantly more bookings at meaningfully higher prices than in prior years, particularly from the North American consumer.

The remarkable booking period resulted in strong close-in demand at higher prices for the first quarter, and enabled a significant improvement in revenue expectations for all three remaining quarters. The increase in yield expectations for the year is predominantly related to higher load factors in the first quarter and higher prices for all four quarters, especially for Caribbean sailings. Consumer spending onboard, as well as pre-cruise purchases, continue to exceed 2019 levels driven by greater participation at higher prices. The company expects load factors to reach historical levels by late spring. As of March 31, 2023, the Group's customer deposit balance was at a record $5.3 billion.

Cruising remains a compelling value for many and the demographic trends are very good. However, we remain mindful of the relatively large debt-service costs for RCL and its impact on EPS, not to mention there could always be a possibility of dilution from potential future equity issuance if capital is needed to invest in the business or to retire some of the higher yielding debt the company was forced to issue during and after the pandemic. We aren't surprised by the positive booking news, but admit there is still plenty to think about in regard to our long-time position in the stock, and we continue to weigh our relatively modest stake in RCL against other opportunities. For the time being, our Target Price has sailed higher to $88.

Shares of investor-favorite **Apple** (AAPL – $173.57) gained $107 billion of market value on Friday, following a solid fiscal Q2 report. The iPhone-maker earned $1.52 per share (vs. $1.43 est.) and had revenue of $94.8 billion (vs. $92.6 billion est.). iPhone segment revenue was $51.3 billion (vs. $49.0 billion est.; +1.5% y/y), which was a surprise given many reports of weakening smartphone demand. Overall Products segment revenue was $73.9 billion (vs $71.9 billion est.; -4.6% y/y), and Service revenue was $20.9 billion (vs. $21.1 billion est.; +5.5% y/y). China revenue fell 1.4% year-over-year to $17.8 billion. The company now has $166 billion of cash, cash equivalents and marketable securities on its balance sheet.

CEO Tim Cook said, "During the March quarter, we continued to face foreign exchange headwinds, which had an impact of more than 500 basis points, as well as ongoing challenges related to the macroeconomic environment. Revenue was down 3% year-over-year as a result, while on a constant-currency basis we grew in total and in the vast majority of the markets we track. Despite these challenges, we continue to manage for the long-term and to push the limits of what's possible, always on behalf of the customers who depend on our products, whether it's

students exploring new frontiers, developers dreaming up their next big idea or artist taking their creativity to a whole new level."

"We expect our June quarter year-over-year revenue performance to be similar to the March quarter, assuming that the macroeconomic outlook does not worsen from what we are projecting today for the current quarter. Foreign exchange will continue to be a headwind and we expect a negative year-over-year impact of nearly 4 percentage points. For Services, we expect our June quarter year-over-year revenue growth to be similar to the March quarter while continuing to face macroeconomic headwinds in areas such as digital advertising and mobile gaming. We expect gross margin to be between 44% and 44.5%. We expect OpEx to be between $13.6 billion and $13.8 billion," added CFO Luca Maestri.

Apple hiked its quarterly dividend by 4% to $0.24 and authorized an additional $90 billion to be used for share repurchases due to "continued confidence we have in our business now and into the future." Apple's positive report helped the broad market recover some of the week's losses during Friday's trading session. Shares have soared more than 30% this year without much fanfare and the valuation is less cheap than it once was. The stock changes hands at 29 times forward earnings (not cheap for a tech company, but not too expensive either), and it seems the company's mountain of cash is going to be used for share buybacks instead of large acquisitions. Our Target Price for AAPL has been hiked to $185.

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