Market Commentary Monday, May 22, 2023

May 22, 2023

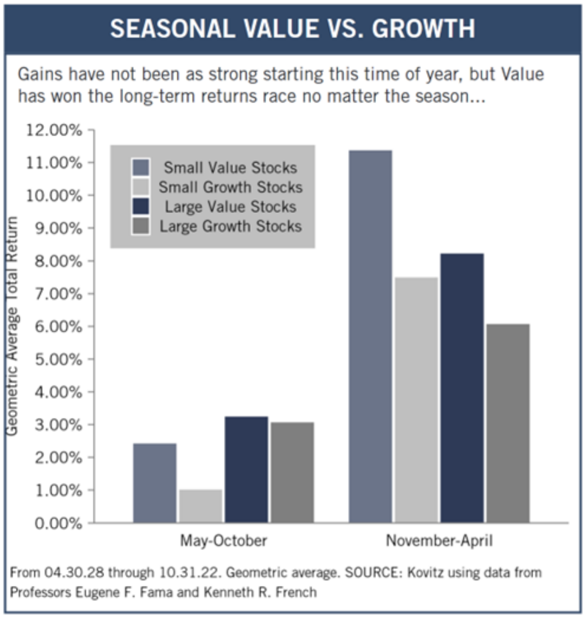
EXECUTIVE SUMMARY

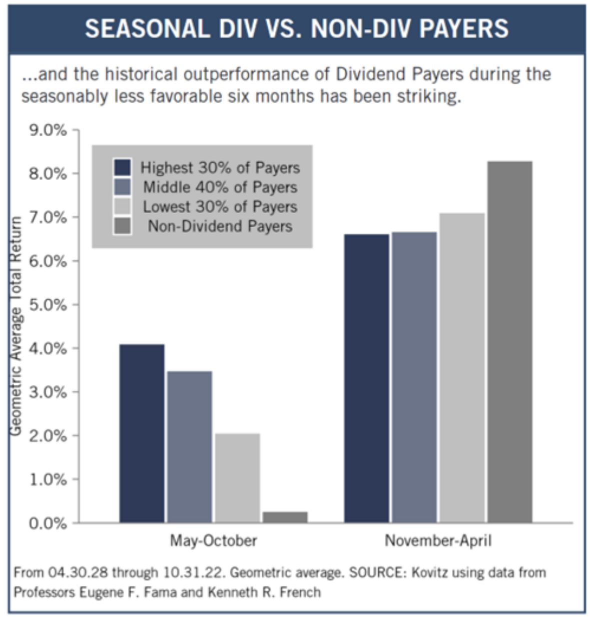
Five Days in Review – First Up Week of May
Debt Ceiling – Historical Perspective
Contrarian Sentiment – Wall & Main Street Both Pessimistic
Econ News – Mixed Data, But Q2 GDP Outlook Improves
Fed Speak – Interest Rates May Not Need to Be Raised Much Higher
Valuations – Stocks Reasonably Priced; Liking the Metrics for our Portfolios
Corporate Profits – EPS Growth Still the Forecast
Keeping the Faith – Don't Interrupt Compounding Unnecessarily
Stock News – Updates on NEM, NYCB, GEN, TGT, SIEGY, CSCO, WMT, DE & FL

Market Review

The equity market roller-coaster ride seemingly gyrated more wildly than usual over the last five days, though the Dow Jones Industrial Average ended with a modest gain for the period,…

…completing the first positive week in the seasonally less favorable (though still positive) time of the year.





The primary catalyst for the move higher in the middle of the week was optimism about that the country would not default on its obligations via the raising of the debt ceiling. As the Treasury's website states, "Since 1960, Congress has acted 78 separate times to permanently raise, temporarily extend, or revise the definition of the debt limit – 49 times under Republican presidents and 29 times under Democratic presidents. Congressional leaders in both parties have recognized that this is necessary."

Of course, stocks proceeded to tumble on Friday when House Speaker Kevin McCarthy said it was time to "press pause" on the talks until President Biden returned from the G-7 Summit in Japan. The rhetoric over the weekend was not exactly encouraging as Mr. Biden said, "Republicans need to move from their extreme position," while Mr. McCarthy claimed, "The White House has moved backwards."

However, on Sunday afternoon, the duo spoke telephonically on the President's flight back from Japan, with the House leader suggesting the phone calls were "productive" and that there would be an in-person meeting on Monday.

Sounds like typical posturing and we do expect some sort of compromise to be reached, especially with Treasury Secretary Janet Yellen continuing to warn of catastrophe were Uncle

Sam to not make good on its obligations. Certainly, we must be braced for downside volatility and we realize that the debt ceiling crisis in 2011 led to a Bear Market for the average stock and many indexes.

THE PRUDENT SPECULATOR

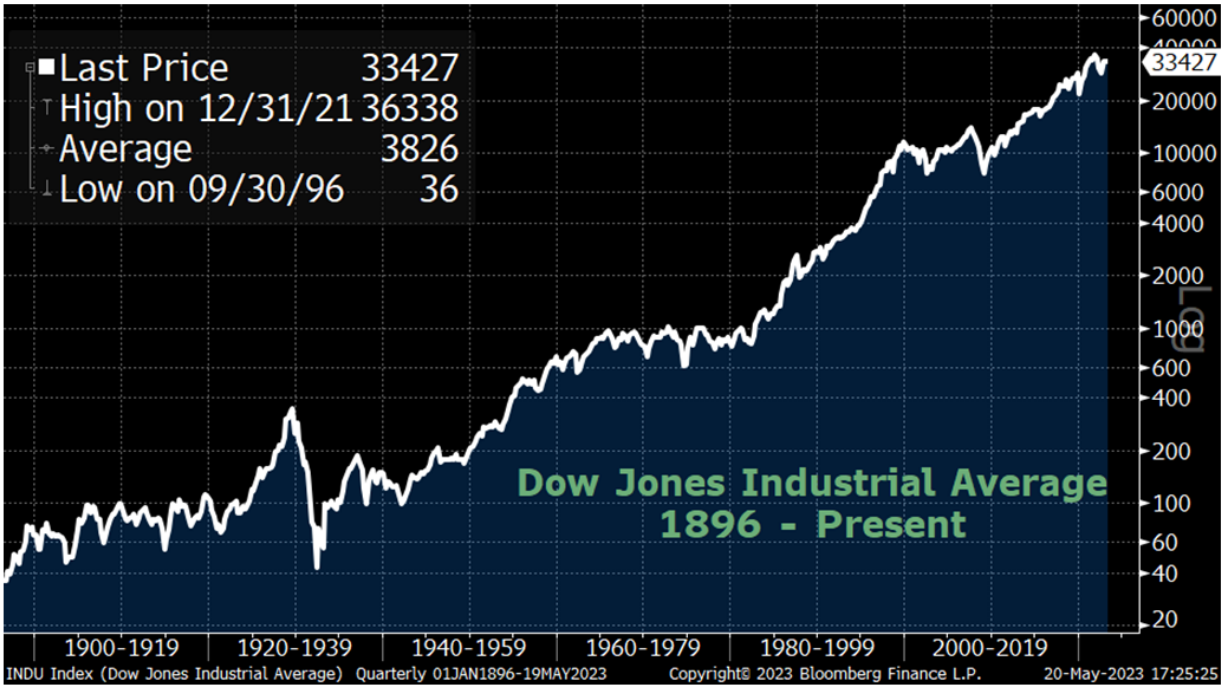
2011 Bear Market

Start	End	Perf	Instrument	Start	End	Perf	Instrument
4/29/2011	10/3/2011	-26.6%	Russell 3000 Average Stock	4/29/2011	10/3/2011	-28.8%	NASDAQ Composite Average Stock
2/28/2011	9/22/2011	-23.8%	Berkshire Hathaway	7/7/2011	10/3/2011	-18.6%	S&P 500 Consumer Discretionary
4/29/2011	10/3/2011	-16.8%	Dow Jones Industrial Average	4/29/2011	10/3/2011	-28.4%	S&P 500 Energy
7/7/2011	10/3/2011	-19.5%	iShares Core US Growth ETF	2/18/2011	10/3/2011	-34.3%	S&P 500 Financials
4/29/2011	10/3/2011	-22.9%	iShares Core US Value ETF	7/7/2011	10/3/2011	-16.8%	S&P 500 Growth Index
5/2/2011	10/4/2011	-28.5%	MSCI ACWI Excluding U.S.	5/18/2011	8/10/2011	-17.6%	S&P 500 Health Care
4/29/2011	10/3/2011	-18.7%	NASDAQ Composite Index	4/29/2011	10/3/2011	-19.4%	S&P 500 Index
7/7/2011	10/3/2011	-18.5%	Russell 1000 Growth Index	4/29/2011	10/3/2011	-26.8%	S&P 500 Industrials
4/29/2011	10/3/2011	-20.3%	Russell 1000 Index	2/17/2011	8/19/2011	-18.5%	S&P 500 Information Technology
4/29/2011	10/3/2011	-22.3%	Russell 1000 Value Index	4/5/2011	10/3/2011	-29.4%	S&P 500 Materials
4/29/2011	10/3/2011	-29.7%	Russell 2000 Growth Index	7/7/2011	10/3/2011	-22.4%	S&P 500 Pure Growth Index
4/29/2011	10/3/2011	-29.6%	Russell 2000 Index	4/29/2011	10/3/2011	-25.2%	S&P 500 Pure Value Index
4/29/2011	10/3/2011	-29.5%	Russell 2000 Value Index	5/31/2011	8/8/2011	-15.5%	S&P 500 Telecommunication
7/7/2011	10/3/2011	-19.4%	Russell 3000 Growth Index	5/17/2011	8/8/2011	-11.5%	S&P 500 Utilities
4/29/2011	10/3/2011	-21.1%	Russell 3000 Index	4/29/2011	10/3/2011	-22.9%	S&P 500 Value Index
4/29/2011	10/3/2011	-22.9%	Russell 3000 Value Index	4/29/2011	10/3/2011	-20.9%	Wilshire 5000

Price Returns for Indexes and Total Returns for Average Stock. Source Kovitz using data from Bloomberg

However, while we know there will be plenty of drama in the days and weeks to come, we note the Winston Churchill quip, "You can always count on the Americans to do the right thing after they have tried everything else." We can debate what the "right thing" is regarding the country getting its financial house in order, but we find it fascinating that from April 2011 to October 2011, government bond prices soared, and yields plunged, precisely the opposite of what would happen if a corporation was facing a default on its debt.

We also cannot forget that the Dow Jones Industrial Average was in the 11000 range at the height of the 2011 crisis, which shows as a minor downward blip on the logarithmic price chart of the popular benchmark dating back to its inception in 1896.



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We might argue that the rebound last week was due in part to negative investor sentiment (a contrarian positive) as *The Wall Street Journal* wrote,…

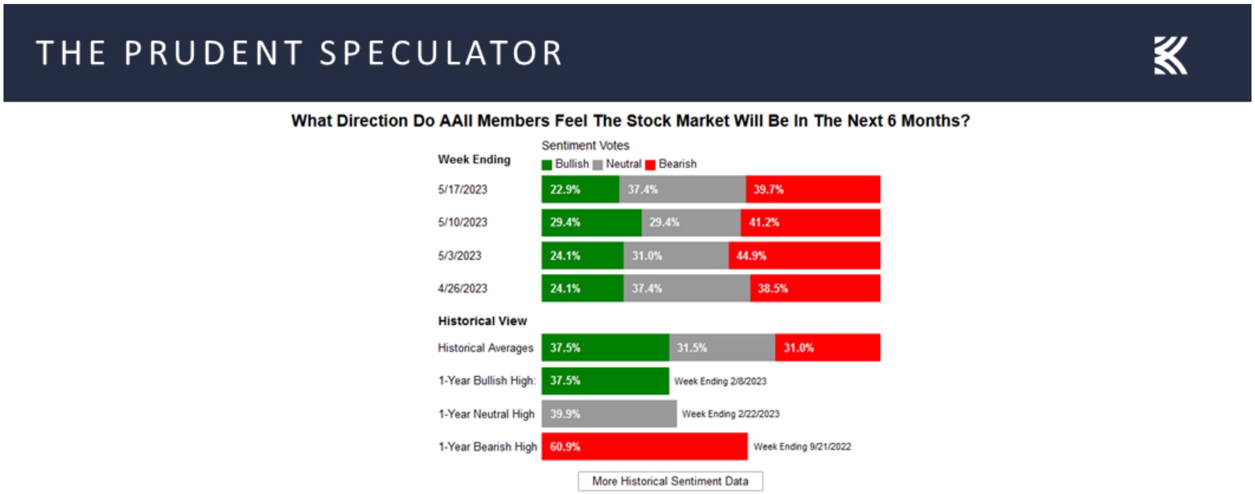
Investors have a sour outlook on U.S. stocks. Contrarians say that is good news for the market.

Turmoil in the banking sector has dragged fund managers' enthusiasm for stocks to a 2023 ebb, according to Bank of America's most recent monthly survey. The stress adds to worries including lingering inflation, higher interest rates and a slowing economy that have driven them to cut their stockholdings to their lowest levels relative to bonds since 2009.

Institutions have pulled a net $333.9 billion from stocks over the past 12 months, according to S&P Global Market Intelligence data, while individual investors have yanked another $28 billion. Billions have flowed into cash equivalents, driving total assets in money markets to a record $5.3 trillion as of May 10, according to the Investment Company Institute.

To some, all that doom and gloom looks like a sign of hope. Many on Wall Street view extremes in sentiment one way or the other as the time to do the opposite. Warren Buffett famously advised investors to "be greedy when others are fearful."

…with the pessimism on Wall Street in line with the prevailing mood of folks on Main Street…and the historical subsequent return figures for the American Association of Individual Investor's Bull-Bear Spread gauge providing plenty of support for the Oracle of Omaha's admonition in the previous paragraph.



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	937	0.24%	0.20%	1.15%	1.01%	3.28%	2.89%	6.43%	5.67%
ABOVE	7.0	62.9	929	0.17%	0.16%	0.53%	0.44%	2.00%	1.75%	4.64%	4.15%
	Ten Groupings of 1866 Data Points										
1	-54.0	-17.0	189	0.42%	0.35%	2.17%	1.93%	4.58%	4.07%	8.46%	7.28%
2	-17.0	-9.0	187	0.22%	0.19%	0.89%	0.75%	3.40%	3.02%	5.92%	5.13%
3	-8.9	-2.7	184	0.32%	0.28%	1.04%	0.93%	3.50%	3.10%	7.74%	7.04%
4	-2.7	2.1	186	0.17%	0.14%	0.93%	0.83%	2.20%	1.81%	5.13%	4.55%
5	2.3	7.0	191	0.06%	0.04%	0.74%	0.64%	2.73%	2.47%	4.94%	4.41%
6	7.0	11.3	182	0.22%	0.20%	0.70%	0.61%	2.21%	1.99%	5.03%	4.57%
7	11.4	16.0	190	0.17%	0.15%	0.41%	0.28%	2.21%	1.94%	4.97%	4.46%
8	16.0	21.7	183	0.12%	0.10%	0.88%	0.81%	2.22%	1.97%	5.76%	5.34%
9	21.7	29.0	189	0.13%	0.12%	0.38%	0.30%	1.85%	1.56%	4.85%	4.29%
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 05.18.23. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

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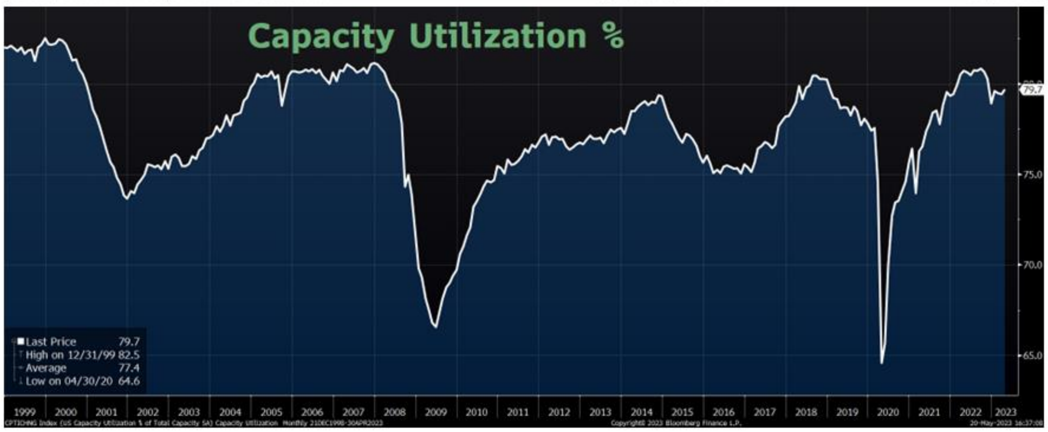
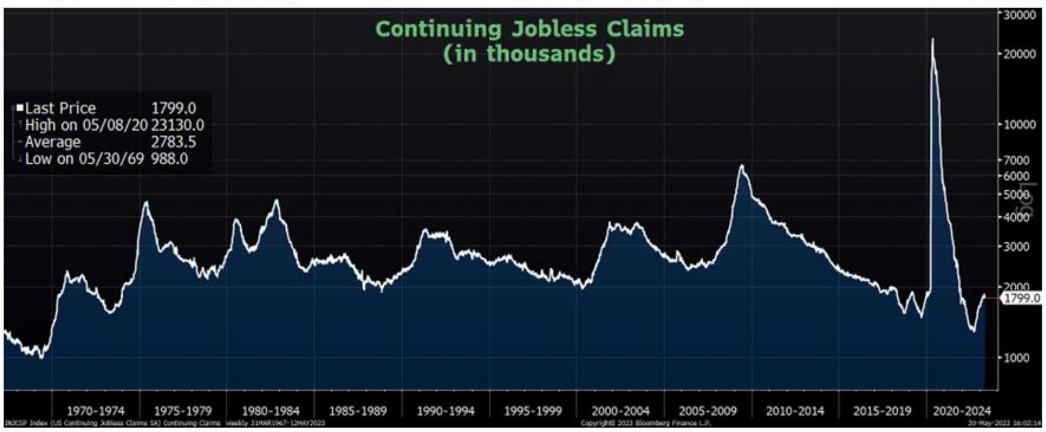
We might also attribute the bounce last week to decent news on the health of the economy, as the latest projection from the Atlanta Fed for Q2 real (inflation-adjusted) GDP growth (yes growth!) rose to 2.9%,…

…with manufacturing output rising by 0.5% in April, after two months of zero growth,…

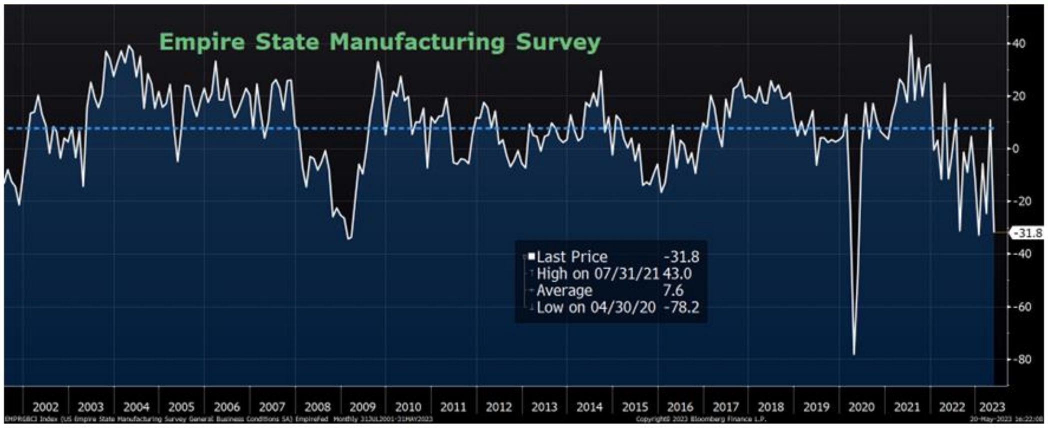


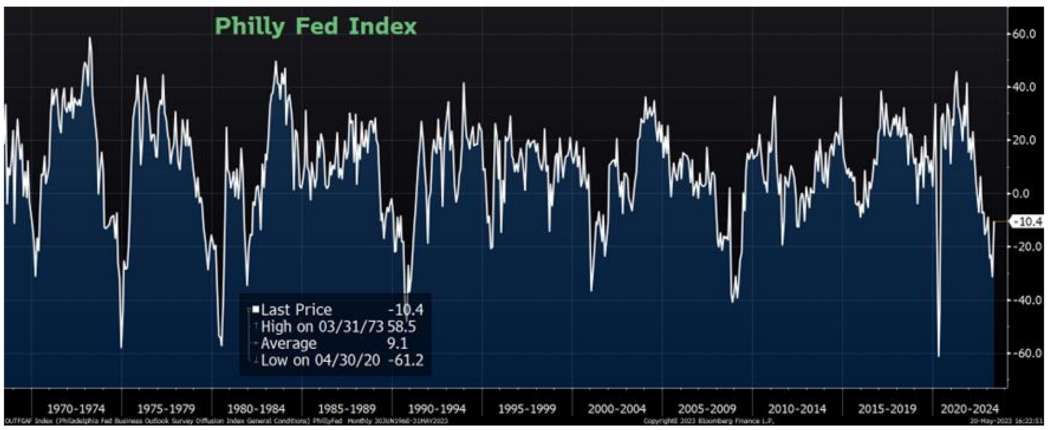
…housing data (existing home sales and homebuilder confidence) coming in above pessimistic projections,…

…and the number of first-time filings for unemployment benefits dropping to 242,000 in the latest week, continuing to confirm the resiliency of the labor market.

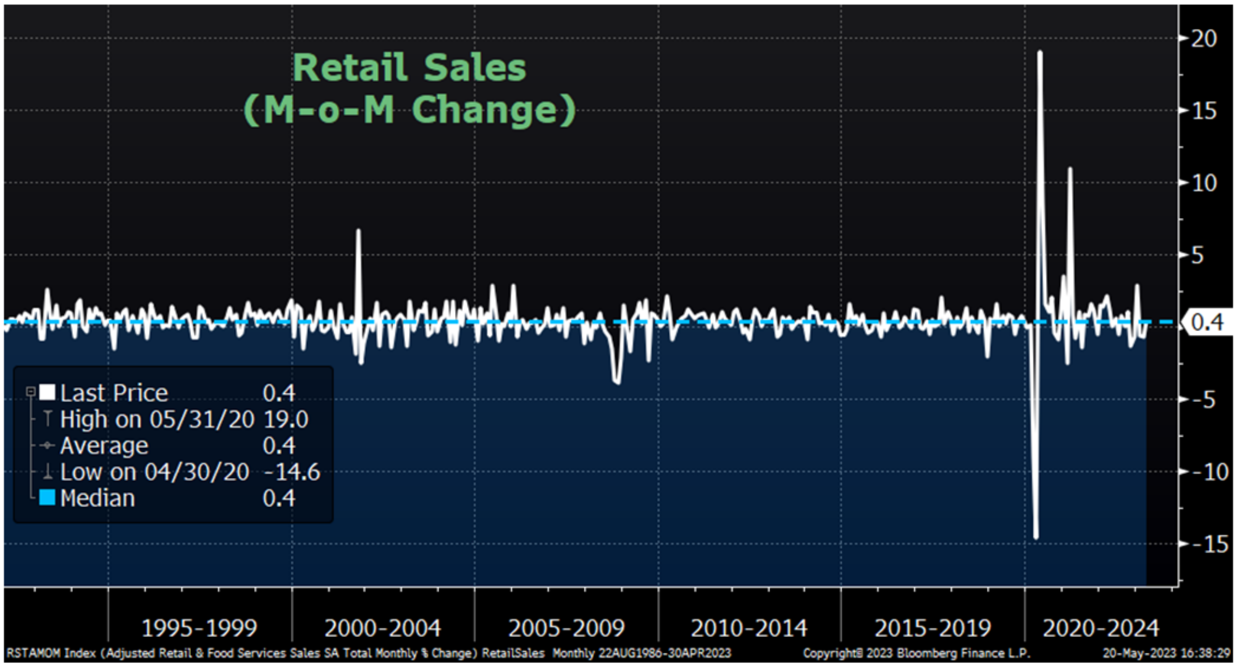


On the other hand, forward-looking figures (Empire & Philly Fed PMIs) on the state of the factory sector were still showing a likely contraction in manufacturing,…



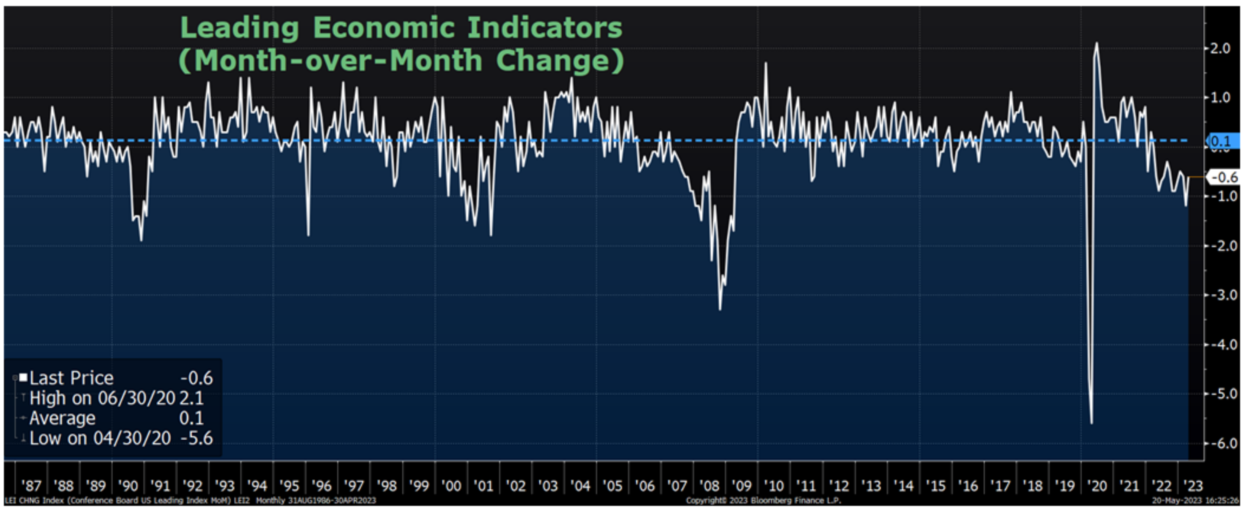


…the important retail sales tally for April came in weaker than expected, though it did show an increase of 0.4%, reversing two months of declines,…



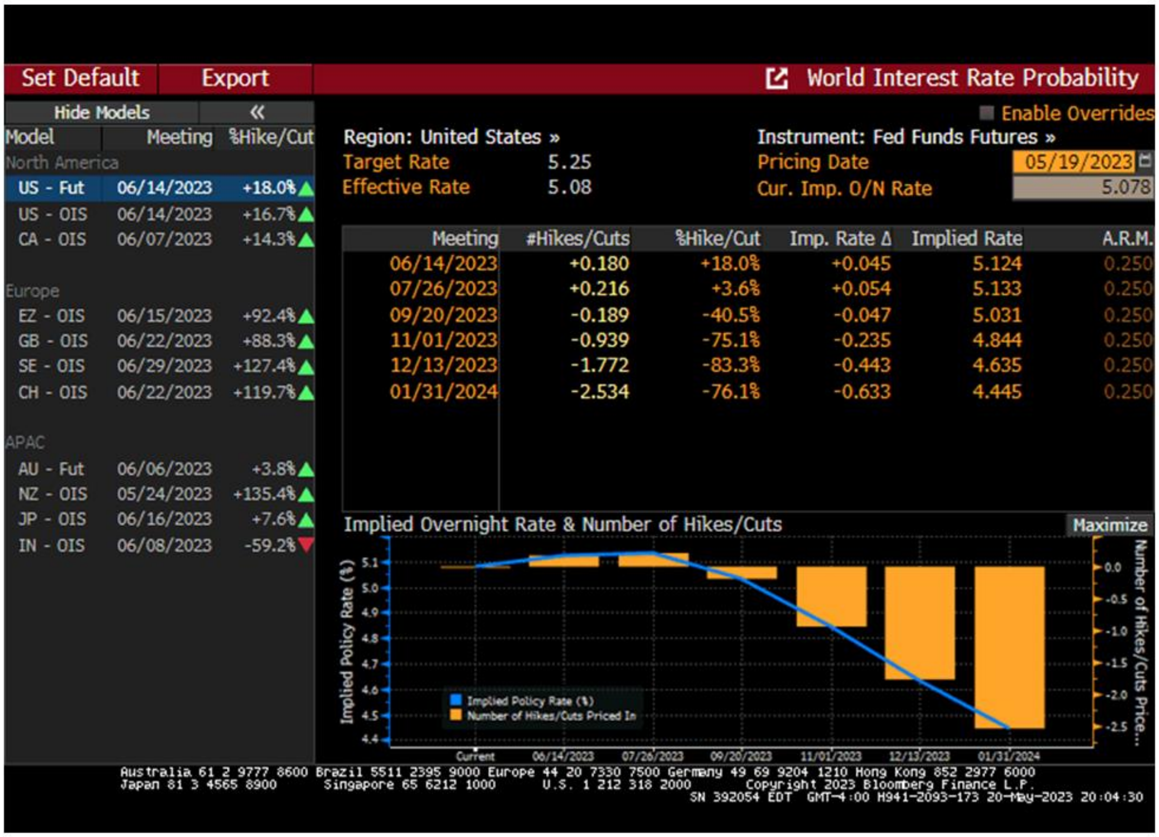
…and the widely watched Leading Economic Index from the Conference Board for April retreated by 0.6%, which was an improvement from the 1.2% decline in March.

"The LEI for the U.S. declined for the thirteenth consecutive month in April, signaling a worsening economic outlook," said Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators, at The Conference Board. "Weaknesses among underlying components were widespread—but less so than in March's reading, which resulted in a smaller decline. Only stock prices and manufacturers' new orders for both capital and consumer goods improved in April. Importantly, the LEI continues to warn of an economic downturn this year. The Conference Board forecasts a contraction of economic activity starting in Q2 leading to a mild recession by mid-2023."



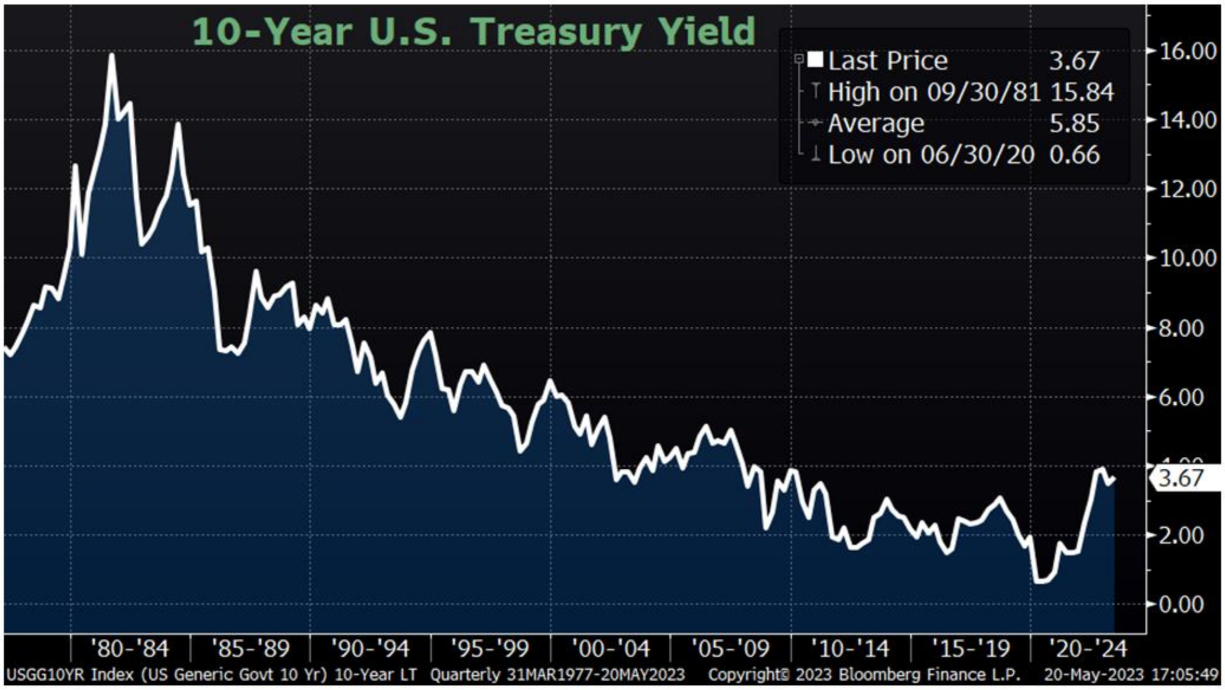
The week's data did little to change the 65% chance of recession in the next 12 months as tabulated by *Bloomberg*,…

…but they did reduce the likelihood that the Federal Reserve will move quickly to reduce interest rates as the Fed Funds futures are now suggesting a year-end target for that benchmark of 4.63%, up 25 basis points from the 4.38% rate projected a week ago.



On the third hand, Federal Reserve Chair Jerome H. Powell said on Friday that the level of interest rates is now high enough to be restrictive, stating, “Tighter credit conditions are likely to slow economic growth, hiring and inflation” He concluded, “So, as a result, our policy rate may not need to rise as much as it would have otherwise to achieve our goals.”

With New York Federal Reserve President John Williams also commenting on Friday, “There is no evidence that the era of very low natural rates of interest has ended,” we might conclude that interest rates are not far from their near- and intermediate-term peak levels. Of course, it should be noted that long-term Treasury yields, despite the run up the last couple of years, remain well below the historical norm,…

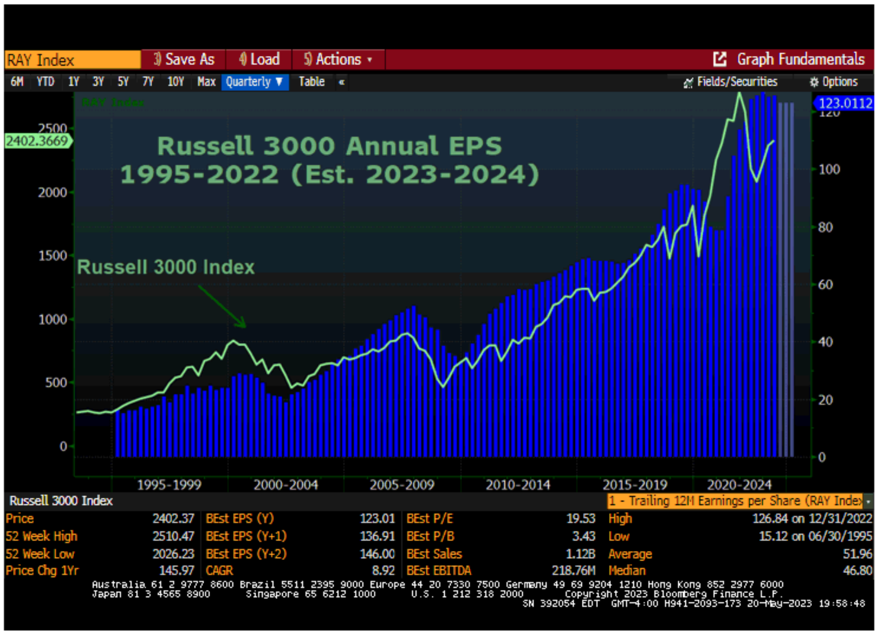


…which we believe supports the case for equities on a relative-valuation earnings-yield basis,…

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 (5.00% vs. 3.67% 10-Year), despite last year's jump in interest rates.

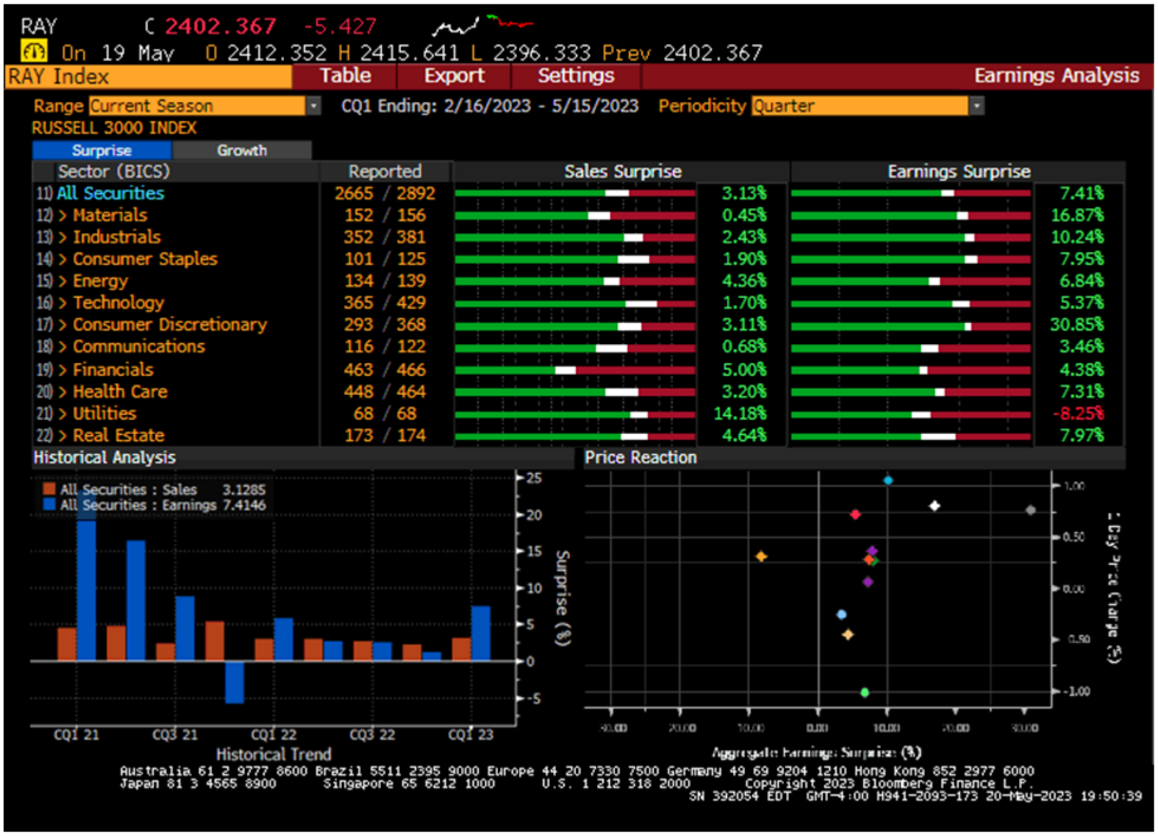
…especially as corporate profits are still expected to show solid growth this year and in 2024,…



S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2024	$64.72	$243.77
9/30/2024	$62.34	$236.24
6/30/2024	$59.48	$229.26
3/31/2024	$57.23	$222.35
12/31/2023	$57.19	$218.38
9/30/2023	$55.36	$211.56
6/30/2023	$52.57	$206.55
3/31/2023	$53.26	$200.85
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 5.17.23

…and first quarter report cards for Corporate America generally were favorable, with 63.0% of companies in the Russell 3000 index beating bottom-line expectations and 62.5% exceeding top-line forecasts, both better rates than in the quarter prior.



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As has been the case during prior disconcerting periods (there really is always something to worry about), we simply remain focused on the inexpensive valuation metrics associated with the companies we own,…

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	11.8	12.1	0.7	2.0	3.1
ValuePlus	12.7	12.4	1.0	2.1	2.6
Dividend Income	11.9	12.3	0.7	1.9	3.5
Focused Dividend Income	12.7	12.5	1.0	2.1	3.1
Focused ValuePlus	13.8	13.1	1.1	2.3	2.8
Small-Mid Dividend Value	9.9	9.9	0.4	1.4	3.3
Russell 3000	20.8	19.5	2.1	3.7	1.6
Russell 3000 Growth	29.8	26.2	3.4	9.1	1.0
Russell 3000 Value	15.6	15.2	1.5	2.2	2.4
Russell 1000	20.5	19.3	2.2	3.9	1.6
Russell 1000 Growth	29.4	25.9	3.6	10.0	1.0
Russell 1000 Value	15.3	15.0	1.5	2.3	2.4
S&P 500 Index	20.0	19.2	2.3	4.0	1.6
S&P 500 Growth Index	21.3	21.4	3.3	7.0	1.3
S&P 500 Value Index	18.8	17.2	1.7	2.7	2.0
S&P 500 Pure Value Index	9.2	10.1	0.5	1.1	3.0

As of 05.20.23. 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.

…as we understand that market timing generally has proven hazardous to one's wealth. Indeed, data over the last three decades from DALBAR show the massive returns gap between what investors in stock and bond funds have received and how the funds themselves have performed, illustrating that the only problem with market timing is getting the timing right.

SUMMARY RETURNS: DALBAR'S 2022 QAIB STUDY

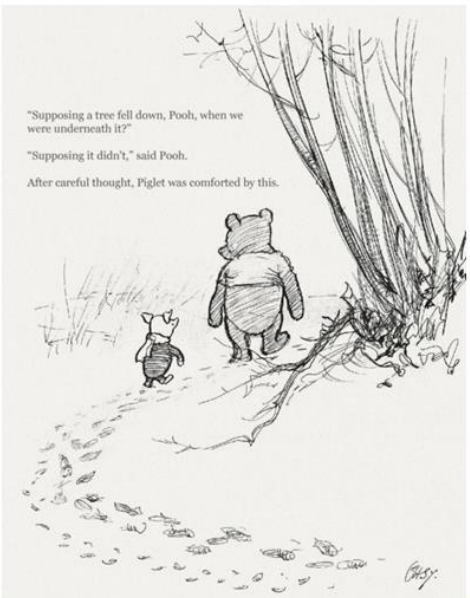
Period	Average Equity Fund Investor	S&P 500 Index Return	Difference	Average Fixed Income Fund Investor	Bloomberg U.S. Aggregate Bond Index Return	Difference	Inflation (U.S. Consumer Price Index)
1 Year	-21.2%	-18.1%	-3.1%	-13.8%	-13.0%	-0.8%	6.5%
3 Years	4.0%	7.7%	-3.6%	-5.2%	-2.7%	-2.4%	4.9%
5 Years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

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

Recent history is filled with scary events, but stocks have persevered through thick and thin,…

THE PRUDENT SPECULATOR

There is usually something about which to worry, yet equities have proved very rewarding through the years for those who remember that the secret to success in stocks is not to get scared out of them.



Event	Date	S&P End Value	3 Months Later	6 Months Later	12 Months Later	36 Months Later	60 Months Later	Event to Present
Flash Crash	5/6/2010	1,128.15	-1%	9%	19%	43%	84%	272%
Japan Tsunami	3/11/2011	1,304.28	-3%	-12%	5%	43%	55%	221%
S&P Downgrade	8/6/2011	1,199.38	4%	12%	16%	60%	82%	250%
Hurricane Sandy	10/22/2012	1,433.82	4%	9%	22%	43%	80%	192%
Fiscal Cliff	1/1/2013	1,426.19	10%	13%	30%	43%	87%	194%
Taper Tantrum	5/22/2013	1,655.35	0%	9%	14%	24%	65%	153%
Russia and Ukraine	2/20/2014	1,839.78	2%	8%	15%	28%	51%	128%
Ebola Scare	9/4/2014	1,997.65	4%	5%	-4%	24%	47%	110%
Charlie Hebdo	1/7/2015	2,025.90	2%	3%	-4%	35%	60%	107%
Greek Default	6/30/2015	2,063.11	-7%	0%	2%	32%	50%	103%
China Devalues Yuan	8/10/2015	2,104.18	-1%	-12%	3%	35%	60%	99%
Paris Bataclan	12/13/2015	2,012.37	0%	3%	13%	32%	82%	108%
U.S. Interest Rate Hike	12/16/2015	2,073.07	-2%	0%	9%	25%	79%	102%
China GDP Slowing	1/19/2016	1,881.33	12%	15%	20%	42%	102%	123%
Brexit Vote	6/23/2016	2,113.32	2%	7%	15%	40%	101%	98%
Trump Victory	11/8/2016	2,139.56	7%	12%	21%	45%	120%	96%
Trump Trade War	3/2/2018	2,691.25	2%	8%	4%	44%	48%	56%
COVID-19 Pandemic	3/11/2020	2,741.38	10%	22%	44%	41%		53%
Biden Victory	11/3/2020	3,369.16	14%	24%	38%			24%
Georgia Runoff	1/5/2021	3,726.86	9%	17%	26%			12%
Price Changes Only								
Does Not Include Dividends		**Averages:**	**3%**	**8%**	**15%**	**38%**	**74%**	**125%**

Source: Kovitz using data from Bloomberg. As of 5.19.23

…while even recessions over the long term (if somehow their beginnings and ends were known in advance) would not be cause, on average, for investors with multi-year time horizons to abandon equities.

THE PRUDENT SPECULATOR

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

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

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

Obviously, anything can happen as we move forward, but as Warren Buffett's sidekick Charlie Munger states, "The first rule of compounding: Never interrupt it unnecessarily."

Sotheby's on May 17, 2023, sold a roughly 1,100-year-old Hebrew manuscript for $38.1 million, making it the second-most expensive historical document ever auctioned. The seller, Jacqui Safra, purportedly bought the Codex Sassoon in 1989 for $3.1 million, with the more-than-12-fold increase on investment in 34 years working out to...a relatively modest 7.7% annualized return!

LONG-TERM RETURNS

	Annualized Return	Standard Deviation
Value Stocks	13.0%	25.9%
Growth Stocks	9.5%	21.4%
Dividend Paying Stocks	10.6%	18.1%
Non-Dividend Paying Stocks	8.9%	29.3%
Large-Company Stocks	10.1%	18.7%
Small-Company Stocks	11.7%	28.2%
Long-Term Gov't Bonds	5.1%	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 03.31.23. 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 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

Oldest most complete Hebrew Bible sells for $38m at auction

1 day ago

It is the oldest single manuscript containing all books of the Hebrew Bible with their punctuation, vowels, and accents

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.

A week ago, gold-mining giant **Newmont Corporation** (NEM – $43.66) announced that following completion of due diligence it has entered into a binding Scheme Implementation Deed under which it will acquire all the issued share capital in Australian gold and copper miner Newcrest for $17.5 billion. After a long courtship, Newcrest shareholders will receive 0.4 Newmont shares for each Newcrest share they hold, while the Deed also permits Newcrest to declare and pay its shareholders a special dividend of up to $1.10 per share. Management forecasts $500 million worth of synergies from the transaction, which is expected to close in the fourth quarter of 2023.

Newmont CEO Tom Palmer commented, "[The deal] creates an industry-leading portfolio with a multi-decade gold and copper profile in the world's most favorable mining jurisdictions…This transaction also increases Newmont's annual copper production, a metal vital for the new energy economy and adds nearly 50 billion pounds of copper reserves and resources from Newmont to our robust and balanced portfolio."

Should certain conditions not be met, such as an adverse change in recommendation by a member of Newcrest's board of directors, a competing transaction for Newcrest is announced, or breach of additional terms, Newcrest will be required to make a payment of $178,515,206. On the other hand, Newmont would pay $374,766,240 to Newcrest if it fails to uphold its end of the arrangement.

Friday, Newmont announced the appointment of Karyn Ovelman as Executive Vice President and Chief Financial Officer. Ms. Ovelman will take the spot from Brian Tabolt who had operated as the firm's CFO on an interim basis since November.

We agree that diversification into copper would be a positive (given the need globally for the metal) but the merger comes with a significant cost to the NEM share base. Indeed, NEM shares have been cut in half since peaking 13 months ago, as gold spot prices have been roughly flat. Our position in the shares, which we have generally viewed as a pseudo inflation hedge, is relatively modest and we have so far been unwilling to average down. The dividend yield is an attractive 3.7%, while we think the miners are a much better vehicle than the metal should one desire gold exposure. Our Target Price for NEM is now $59.

Shares of **New York Community Bank** (NYCB – $10.92) whipsawed in after-hours trading on Tuesday on news that the FDIC, as receiver for Signature Bridge Bank, would sell shares it had acquired via Equity Appreciation Rights from the blockbuster NYCB/Signature Bank deal in March. Uncle Sam earned a pretty penny for its troubles, selling those NYCB shares for slightly north of $10.00 each, with the $390 million windfall representing the appreciation in the stock from the $6.54 price at which NYCB was trading prior to the Signature announcement.

Considering that the Regional Bank ETF (KRE) is down 9% and NYCB is up 70% since the Signature transaction, it is tough to complain about the FDIC's big payday, especially if the bank's bottom line benefits as much as CEO Tom Cangemi expects. Following the purchase, Mr. Cangemi said he expected earnings per share to improve by 20%!

We remind that NYCB agreed to assume about $36 billion of liabilities (including $34 of deposits) to acquire $38 billion of assets (including $25 billion of cash) from failed Signature Bank. The arrangement was accomplished under NYCB's newly acquired subsidiary Flagstar, a wholesale mortgage lender, which will also gain all of Signature's branches predominately located in the metropolitan New York area, but also in Connecticut, California, Nevada and North Carolina. Each of these will now operate under the Flagstar Bank brand. The deal also pushes NYCB into middle market specialty finance, healthcare lending and SBA lending, while adding to its existing verticals in mortgage warehouse lending and traditional commercial & industrial lending.

We think the market agrees that the deal is a home run, as it not only enabled NYCB to snag assets at a discount with meaningful backstops against future credit losses, but it also diversifies the business and deposit base. Mindful of risks with rent-controlled property in the Big Apple, we appreciate that management opted for adding lending segments outside of its core.

Obviously, there was a major catalyst that sent NYCB's shares higher, but we think similar appreciation potential exists for many of our regional banks. Happy that the FDIC share-sale overhang is now removed and still liking the NYCB dividend yield of more than 6%, we are so far resisting the temptation to swap our shares for other far-more-battered regional banks. Our Target Price for NYCB is now $14.

Gen Digital (GEN – $16.20) earned an adjusted $0.46 per share (vs. $0.44 est.) in fiscal Q4, little changed sequentially or versus the prior year, on $948 million of revenue. Fiscal '24 Q1 revenue is expected to be in the range of $940 million to $950 million and EPS between $0.45 and $0.47.

CEO Vincent Pilette said, "For fiscal year '23, we delivered another year of organic growth, our fourth consecutive year of growth in consumer cyber safety. We delivered mid-single-digit growth in cyber safety bookings and revenue and exited the year on the $3.7 billion revenue run rate, up from $2.4 billion three years ago. During that period, we considerably expanded our scope across our cyber safety pillars, security, identity, and privacy, and became truly global with 60% of our customers now from outside the US. We also expanded our reach with Avast capabilities in freemium and free user base in the hundreds of millions. Gen with its trusted brands, omnichannel expertise, and rigorous execution, is well-positioned to expand the adoption of cyber safety across the globe."

Mr. Pilette continued, "The move towards protection of identity, privacy, and protection of your digital footprint will continue. We have increased monthly ARPU $0.26 or 4% in the last six months, and our long-term objective is to move above $8, where we were with Norton LifeLock adjusted for our new geographical mix. We know that customer conversion is a critical metric for our long-term success. In addition to continued growth in indirect customers where a portion of the market is moving to, we know that in the long-term we will grow our customers materially and we believe that our initiatives in mobile, emerging markets and optimizing marketing spend amongst a few, will help us stabilize the trend indirect customer count and ultimately return to growth.

CFO Natalie Derse added, "For the full-fiscal year 2024, we expect bookings growth in low-to-mid single-digits scaling through the year as we make progress on our key metrics. We remain focused on driving our long-term objectives and are still targeting to exit fiscal year '25 on a $3 annualized EPS with the following underlying key assumptions. Cyber safety business to grow mid-single-digits, post-synergy structure of 60% plus operating margin, free cash flow deployed towards debt paydown and share buyback, SOFR curve trends indicate rates below 3% exiting fiscal year 2025, diluted share count expected to be around pre-Avast merger levels. In summary, we are closing out this fiscal year with a strong sense of accomplishment. We have successfully introduced Gen to the world and are excited to scale as the leader in global cyber safety protection. Our financial model remains resilient powered by our best-in-class products and technologies and a loyal customer base. As we look forward to fiscal year 2024, and in evolving macroeconomic environment, we will remain very disciplined in how we operate, focusing on executing our plan, and will be strategic and intentional in where we invest to maximize long-term shareholder value."

While Mr. Pilette and his team remain optimistic about future growth prospects, the market was not nearly as enthused, with the shares continuing their recent journey south in response to the results. GEN took on a lot of debt at variable rates to make acquisitions, it sold off the enterprise security business to **Broadcom** (AVGO -$682.25) and distributed $12.00 per share to shareholders, and management continues to argue that cross-selling is one of the leading revenue improvement ideas.

Our position size generally is small and the Investment Team has been debating our continued ownership versus boosting the holding to a normal level. The company no longer breaks out revenue by segment (which was falling prior to the corporate actions) and we are becoming less confident in GEN's ability to improve earnings with its debt-service costs rising. We would argue the challenge is less on the subscriber growth end and more related to balance sheet and business management. In general, we view digital/cybersecurity as a secular growth market, but growing competition remains a threat. However, shares trade for a P/E of 8 with a 3.1% dividend yield, while the handful of analysts who follow the stock are still looking for earnings growth in fiscal '24, '25 and '26. Lots for us to think about, but for the time being, we are simply maintaining our existing holding and our Target Price has been pared to $30.

Target (TGT – $152.28) shares rallied 3% on Wednesday, before giving up those gains and then some over the balance of the week, after the company reported fiscal Q1 2024 results. The retailer earned $2.05 per share (vs. $1.77 est.) and had $24.95 billion of adjusted revenue (vs. $25.01 billion est.).

CEO Brian Cornell commented, "Q1 total sales increased 0.5%, reflecting flat comparable sales at the midpoint of our guidance range, combined with the benefit of sales in new locations. Profitability for the quarter was ahead of expectations. We came into the year clear-eyed about what consumers are facing with persistent inflation and rising interest rates, and we were determined to build on the trust our guests have had in Target by unifying as a team to deliver affordable joy each and every day as consumers and businesses navigate a third straight year of dynamic challenges. We knew this year would demand agility and teamwork and the ability to flex across our multi-category portfolio as we emphasize the categories our guests need most now."

He continued, "The mix of in-store shopping has been growing for well over a year now as consumers have become increasingly comfortable in public places. This has led them to choose more in-store visits, causing in-store sales growth to outpace digital in the first quarter, both this year and a year ago. Notably, even within the digital channel, our same-day services, which rely entirely on our stores, expanded more than 5% during the quarter. As usual, this increase was led by our drive-up service. We saw growth in the high single digits, as more and more of our guests embraced the speed, convenience, and reliability it provides. In total for the quarter, more than 97% of our sales were fulfilled by our stores. As it did throughout last year, pressure from inflation and rising interest rates affected the mix of retail spending in Q1 with a further softening in discretionary categories in the March and April timeframe."

CFO Michael Fiddelke said, "We experienced notably softer comp trends as we exited the first quarter and moved into May. As a result, we're anticipating second quarter sales in a wide range centered around a low single-digit decline, consistent with those recent trends. In terms of profitability, we're expecting a range of possibilities as well. On the gross margin line, we believe that many of the same trends that emerged in Q1 will continue in the second quarter, including a meaningful tailwind from freight and transportation costs and a significant headwind resulting from inventory shrink. Our expectations translate to a second quarter GAAP in adjusted EPS range of $1.30 to $1.70. As we look beyond Q2, we continue to believe that we entered this year with the appropriate level of caution, planning conservatively in light of a tough macro environment and rapidly changing consumer trends. While we're facing some clear headwinds in the short term, we also have multiple actions underway to mitigate them, including ongoing efficiency work and cost-saving efforts that we expect to flow into the P&L in the second half of the year."

Target maintained its full-year outlook and expects earnings per share between $7.75 and $8.75, which was encouraging given management's warnings about softening sales trends and theft (shrink). Shares have rebounded a couple percent this year, but TGT has yet to make up ground lost in 2022. As a result, valuation multiples for the retailer are reasonable, with the forward P/E ratio now at 17. The company's board paused the share repurchase program given the prevailing retail headwinds but expects to resume after the company's long-term credit ratings improve. The dividend yield is 2.8%. Our Target Price for TGT has been fine-tuned to $204.

German industrial conglomerate **Siemens AG** (SIEGY – $86.21) reported fiscal Q2 earnings of €2.29 per share, compared to an expected profit of €2.04. Revenue totaled €19.4 billion, which was 4% ahead of the analyst consensus estimate. The share price tacked on an additional 6% last week, bringing the 2023 advance to more than 25%.

CEO Dr. Roland Busch commented, "Supply chain constraints eased further, and we made best use of improved component availability to optimize capacity utilization and customer deliveries. Excellent execution led to a strong revenue growth of 15% to more than €19 billion overall. Growth was broad based with Digital Industries, Smart Infrastructure and Mobility contributing north of 20% each… Our strong order backlog stands at a record level of €105 billion, further fueled by strong demand for our system solutions and service businesses."

Dr. Busch continued, "All businesses operate in attractive growth markets with secular drivers, such as shrinking skilled labor forces, increasing demand for resources and energy efficiency, localization or the rapid expansion of the Internet of Things. On top, regional stimulus programs will add growth opportunities. All in, we expect an average annual market growth of around 7% until 2027 from today's base of close to €500 billion. Therein, our software and digital service businesses offer a double-digit market growth opportunity. Initial growth rates are higher due to the current inflationary environment, which we do expect to ease. We will further strengthen and optimize our portfolio through organic investments, targeted both on acquisitions and selected divestments."

On the topic of the outlook, CFO Dr. Ralf Thomas said, “We anticipate the normalization of order patterns to continue in the second half of fiscal ’23 with emphasis on the third quarter. This will lead, as indicated before, to book-to-bill rates below 1, resulting in a gradual reduction of order backlog in automation. The anticipated high level of order backlog at the end of fiscal ’23, however, will support visibility and our growth trajectory into fiscal ’24…On Siemens Group level, we now anticipate 9% to 11% comparable revenue growth, up by 200 basis points at the lower end and a book-to-bill ratio above 1. We expect profitable growth of our industrial businesses to drive basic EPS from net income before PPA accounting to a range of €9.60 to €9.90 in fiscal ’23, up from a previous range of €8.90 to €9.40.”

Global macroeconomic headwinds receding and a strong push in favor of renewable and (relatively) clean technologies have been a tremendous benefit to Siemens recently. Margins are expected to grow and the company’s backlog is deep, two factors we think stabilize SIEGY’s earnings estimates. The balance sheet has $21 billion of cash and $56 billion of debt. Even though the borrowing is significant, the financing is a steal in this environment with a weighted average coupon just below 2.2% and an average maturity of 7.2 years. Given the potential ahead, we think that SIEGY remains attractively priced (especially compared with competitors like General Electric or Honeywell). With a net dividend yield of 2.0%, our Target Price has been lifted to $95

Cisco Systems (CSCO – $49.13) reported Q3 financial results last week that lifted shares, with the stock price rallying about 5% over the five days, despite headlines to the contrary that suggested a temporary after-hours plunge was due to an “elongated sales cycle” and “plunging orders.” The networking giant earned $1.00 per share, a touch above the $0.97 Street estimate and higher than the $0.87 posted a year ago. Product revenue grew 17% year-over-year to $11.1 billion, and Services revenue grew a more modest 2.7% to $3.5 billion.

CEO Chuck Robbins said, “We are pleased with continued success in our movement towards more subscriptions and recurring revenue. In Q3, we delivered 18% growth in software revenues. We also have $32 billion in remaining performance obligations, and we expect to see this momentum accelerate… security continues to be an enormous opportunity for us… Over the coming quarters, you will see new innovations in this space building on our strong Cisco Security Cloud strategy, including at Cisco Live next month… And generative AI and cloud. At Cisco, we already use predictive AI extensively across our portfolio. In addition, our core networking technology is already powering some of the leading AI models run by hyperscalers around the world. We have also moved rapidly to leverage generative AI capabilities in our own products.”

On supply constraints, he added, “The actions we took to mitigate supply constraints have continued to pay off. Price realization as a result of the actions we put in place last year helped offset inflationary pressures. Our disciplined cost management enabled us to continue to expand gross margins as well as prioritize our strategic investments to drive long-term growth.”

Management raised its full year outlook explaining that it reflects “significant visibility driven by healthy backlog, annual recurring revenu, recovery point objective, and improving availability of supply.” Revenue is expected to rise between 10.0% and 10.5%, an improvement on the bottom end from the previous estimate, with adjusted EPS in the range of $3.80 to $3.82, up from the previous guidance of $3.73 to $3.78 (vs. $3.75 est.). For Q4, adjusted EPS is now projected to come in between $1.05 and $1.07 per share (vs. $1.03 est.) on 14% to 16% revenue growth.

CSCO has exceeded analyst EPS projections for 12 straight quarters, and we remain enthusiastic about its competitive position in the commodity switching space along with the progress being made in converting more revenue toward a recurring model. While shares have gained this year, the rise hasn't been as strong as we would have expected given the company's recent results and terrific balance sheet.

When asked about the enterprise business, Mr. Robbins explained that companies are slowing down their orders with the understanding that lead times have shortened and there's a need to "digest" recent shipments. The result is a reduced ability for investors to see ahead, driving some concern the 2024 order book could shrink. Still, shares trade for a very reasonable 12 times NTM EPS and yield 3.2%. Our Target Price has been nudged higher to $73.

Walmart (WMT – $149.91) earned $1.47 per share (vs. 1.31 est.) in Q1 of fiscal 2024, a 13% improvement from the rough quarter a year ago that led to significant inventory bloat. Inventory appears to have normalized since peaking two quarters ago, although the retail and grocery giant isn't immune to inflation pressures.

CEO Doug McMillon said, "In Walmart US, general merchandise costs are now lower than a year ago, which is great, but they're still higher than two years ago on like items. In the dry grocery and consumables categories like paper goods, we continue to see high single-digit to low double-digit cost inflation. We all need those prices to come down."

He added, "The persistently high rates of inflation in these categories, lasting for such a long period of time are weighing on some of the families we serve. This stubborn inflation in dry grocery and consumables is one of the key factors creating uncertainty for us in the back half of the year because of the cumulative impact on discretionary spending and other categories, specifically general merchandise."

That didn't stop Walmart from boosting its sales and adjusted earnings per share forecast for the full year on the back of double-digit same-store growth for eCommerce globally. The company now expects sales growth of 3.5% to push EPS to between $6.10 and $6.20, up from prior guidance of $5.90 to $6.05, as management projects growth of operating profit to outpace sales growth over time.

The company repurchased 4.8 million shares, with $18.6 billion remaining of the $20 billion authorization approved in November 2022. Despite a laundry list of economic obstacles, we'll be looking for operational momentum to continue as ever-persistent inflation continues to elevate consumer's thirst for a bargain. We like high-quality WMT's expanding omnichannel presence, value proposition and defensive characteristics. Our Target Price has been boosted to $172.

Shares of **Deere** (DE – $363.55) rallied to start trading on Friday, as the firm trounced the consensus EPS estimate in fiscal Q2, earning $10.11 (vs. $8.56 est.), before giving it all back and then some by the close. It is remarkable that the ag titan just earned more in a quarter than it did in the entire years leading up to the pandemic, but the trading community decided to focus on management comments about normalization of pricing as inflation subsides, with some evidently fearing that profits may be nearing a peak.

Such is the short-term thinking, even as the outlook remains very bright, as Investor Relations head Rachel Bach said, “Across our businesses, outperformance was driven by strong demand, favorable pricing, and operational execution enabled by supply-chain improvements. Ag fundamentals remain healthy, providing a strong second half of fiscal year 2023 and support and order backlog that extends throughout the fiscal year.”

Ms. Bach also cited “healthy demand” within construction and forestry, along with “a historically high fleet age and low field inventory [in agriculture] from prior year’s supply constraints” as reasons to expect elevated demand to continue for the back half of the year.

Looking beyond the near-term price action, our thesis remains that Deere is the key enabler of low-cost agriculture, particular in the U.S. and Canada, which account for over half of the company’s revenue. Deere’s substantial dealer network places customer service closer to farms than competitors. And a massive installed base of machines offers a continual source of data with which to improve its products as farming becomes increasingly automated.

Although the landscape could shift, favorable pricing for agricultural markets is primed to support a strong 2023, and we appreciate the diversification afforded by the company’s construction products. The 18% decline for shares since November places the forward earnings multiple at less than 12, a very reasonable level even if growth moderates in the coming years. Not surprisingly, our Target Price has plowed ahead to $547.

Shares of **Foot Locker** (FL – $30.21) sank a whopping 27% on Friday as management said that “sales have softened meaningfully given the tough macroeconomic backdrop” and the footwear and athletic apparel retailer reduced its guidance for the year as it implements aggressive markdowns “to both drive demand and manage inventory.” Foot Locker posted adjusted EPS of $0.70 in the first quarter, compared to estimates of $1.60, on an 11% reduction in sales ($1.93 billion vs. $2.18 billion a year ago).

CEO Mary Dillon said, “Coming off the recent launch of our Lace Up Strategy at our Investor Day in March, we are making early progress in building a strong foundation to return to sustainable growth beyond this year.”

She continued, “Despite the challenging near-term trends, we remain committed to our long-term strategy, including making the necessary investments to drive our Lace Up plan, and maintain conviction in our ability to execute against our new strategic imperatives.”

Management adjusted its financial forecast lower for the second time since November. It now expects fiscal 2023 sales to decline between 6.5% and 8.0% relative to a year ago, down from the earlier range of a 3.5% to 5.5% drop. The EPS tally is now likely to be $2.00 to $2.25, down from the $3.35 to $3.65 range previously offered.

Despite the, we think temporary, share-price setback, we remain enthusiastic about Ms. Dillon joining the firm, given her track record at Ulta Beauty. Nevertheless, we have warned in recent quarters that the roller-coaster ride would likely continue in the short term given the macro-related uncertainties and a tightening Federal Reserve. We think strategic plans to further diversify away from Nike toward other brands like On, Adidas and Puma, while pursuing a more robust digital channel and rationalizing its real estate footprint are reasonable.

While share repurchases have stopped, the dividend appears covered despite the drastically reduced earnings figure and the yield is now 5.3%. No doubt, the plunge in the stock on Friday was tough to stomach, but we think it was overdone. We are willing to remain patient with the Lace Up plan, even as we have cut our Target Price to $49.