

Market Commentary Monday, July 24, 2023

July 24, 2023

EXECUTIVE SUMMARY

Week in Review – Lousy Last Two, but Nice Five Days

Patience – The Longer the Hold, The Lower the Chance of Loss

Time in the Market – Best to Ignore Those Who Think Market Timing Works

Prediction is Difficult – Economists Lower Recession Forecasts

Econ News – Mixed Numbers

Earnings – Strong Q2 Results; Growth Still the Forecast This Year and in 2024

Sentiment – AAI Bullishness is Very Elevated

Valuations – Inexpensive Multiples for our Stocks

Cues from Value, Not From Price – Interesting Moves for VZ & PNC

Stock News – Updates on MSFT, BK, BAC, MS, LMT, OMC, ELV, CFG, GS, IBM, TFC, JNJ, SNA, NEM, MAN, ABT, OZK & CMA

Market Review

Although the Dow Jones Industrial Average gained ground every day, pushing the daily winning streak for the price-weighted index to 10, the trading week again ended on a sour note, given that the average stock in the broad-based Russell 3000 index declined 1.0% over the Thursday-Friday period.

Happily, as was the case last week, performance looked a whole lot different with a bit longer measuring stick as the average stock, led by those of the Value persuasion, advanced more than 1% for the full five days. Indeed, lengthening the holding period can do wonders as history shows that the longer stocks are held, the greater the chance that they will appreciate in value.

As the table below illustrates, if one held Value Stocks for one month, the chance of a positive total return was 63.0%. Hold for 6 months and the odds improved to 70.8% but go out three years and the green ink percentage rose to 87.5%. Even better for those of us with a true long-term time horizon, the change of losing money in Value has been just 3.3% for all 10-year holding periods and 0% for all 15-year periods!



PATIENCE IS VIRTUOUS

VALUE STOCKS

	Count >0%	Count <=0%	Percent >0%
1 Month	725	426	63.0%
3 Months	776	373	67.5%
6 Months	811	335	70.8%
1 Year	831	309	72.9%
2 Year	943	185	83.6%
3 Year	977	139	87.5%
5 Year	979	113	89.7%
7 Year	1032	36	96.6%
10 Year	998	34	96.7%
15 Year	972	0	100.0%
20 Year	912	0	100.0%

DIVIDEND PAYERS

	Count >0%	Count <=0%	Percent >0%
1 Month	727	424	63.2%
3 Months	799	350	69.5%
6 Months	827	319	72.2%
1 Year	862	278	75.6%
2 Year	965	163	85.5%
3 Year	958	158	85.8%
5 Year	1006	86	92.1%
7 Year	1028	40	96.3%
10 Year	998	34	96.7%
15 Year	972	0	100.0%
20 Year	912	0	100.0%

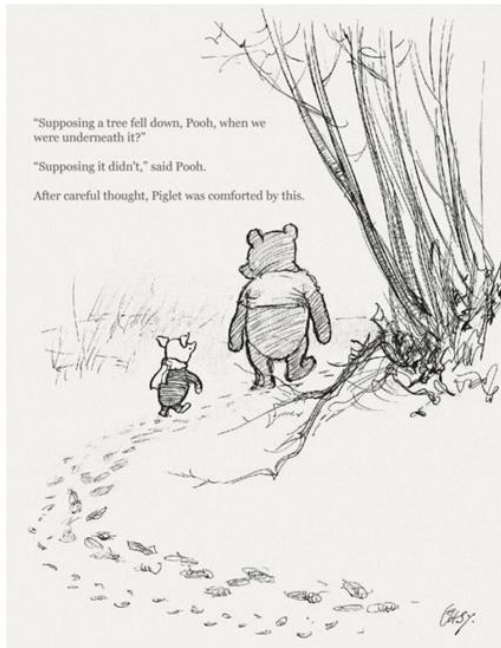
From 07.31.27 through 05.31.23. Value stocks represented by 50% small value and 50% large value returns rebalanced monthly. Dividend payers represented by 30% top of dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

Of course, we realize that it is not always easy to keep the faith, so we constantly publish empirical evidence to illustrate that the secret to success in stocks is not to get scared out of them,...

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	Reaction Dates		S&P		Event Gain/Loss	12 Months Later	36 Months Later	60 Months Later	Event End thru Present	
	Start	End	Start Value	End Value						
Pearl Harbor	12/6/1941	12/10/1941	9.32	8.68	-7%	8%	51%	76%	52162%	
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	30142%	
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	27080%	
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	10546%	
Suez Canal Crisis	10/30/1956	10/31/1956	46.37	45.58	-2%	-10%	26%	51%	9852%	
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	11538%	
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	8381%	
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	6417%	
MLK Assassination	4/3/1968	4/5/1968	93.47	93.29	0%	8%	8%	16%	4763%	
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	5913%	
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	4822%	
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	6381%	
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	4211%	
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	4519%	
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	3697%	
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	2702%	
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	1754%	
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	1918%	
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	1335%	
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	1105%	
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	1002%	
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	923%	
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	892%	
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	798%	
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	417%	
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	373%	
Clinton Impeachment	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	269%	
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	238%	
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	370%	
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	395%	
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	316%	
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	279%	
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	571%	
Price Changes Only - Does Not Include Dividends					Averages:	-7%	18%	39%	66%	6245%

...while we do our best to remind investors that just because a prominent investment professional is provided plenty of airtime in the financial press does not mean that his or her prognostications will come true, as we saw last fall,...



The Fall of 2022 again saw the airwaves filled with purveyors of doom-and-gloom, which is par for the course whenever stocks have headed south. Of course, about all the supposed experts have proved over the years is to remind that time in the market trumps market timing.

PRO: FOLLOW THE PROS

Ray Dalio says higher interest rates to squash inflation could tank stock prices by 20%

Billionaire investor Ray Dalio issued a dismal outlook for the markets and the economy, predicting a 20% plunge in stock prices, as the Federal Reserve ...

Yun Li 9/15/2022 6:42:14 AM PST



PRO: FOLLOW THE PROS

Hedge fund Elliott Management sees world on path to hyperinflation and worst crisis since WWII

Elliott Management, one of the world's biggest hedge funds, issued a dire warning on the markets and the economy, saying the world could be headed ...

Yun Li 11/3/2022 2:53:40 PM PST



MARKETS

Carl Icahn says he still thinks we are in a bear market despite Thursday's rally

Famed investor Carl Icahn said Thursday's relief rally didn't change his negative view on the market, and he believes a recession is still on the ...

Yun Li 11/10/2022 1:03:56 PM PST



PRO: FOLLOW THE PROS

Jeffrey Gundlach says yield curve inversions are 'reliable signals of economic trouble'

DoubleLine Capital CEO Jeffrey Gundlach urged investors to pay attention to the worsening recession signals from the bond market. In a tweet Tuesday evening, Gundlach pointed ...

Yun Li 8/31/2022 6:02:36 AM PST



DELIVERING ALPHA

Stanley Druckenmiller sees 'hard landing' in 2023 with a possible deeper recession than many expect

Billionaire investor Stanley Druckenmiller believes the Federal Reserve's attempt to quickly unwind the excesses it helped build up for a decade with easy monetary policy ...

Yun Li 9/28/2022 6:00:01 AM PST



PRO: FOLLOW THE PROS

Leon Cooperman still sees a recession coming, but he is finding stocks to buy

Billionaire investor Leon Cooperman cautioned that the final bottom of the stock market is yet to come as the economy is poised to hit a ...

Yun Li 11/1/2022 5:49:42 AM PST



...and seemingly again a couple of months ago.



Beware of a Billionaire Bond Fund Manager Warning on Equities

Key Words

'Deposits are going to keep drifting out,' says DoubleLine's Gundlach, warning of echoes of S&L crisis at banks

Published: May 3, 2023 at 5:23 p.m. ET

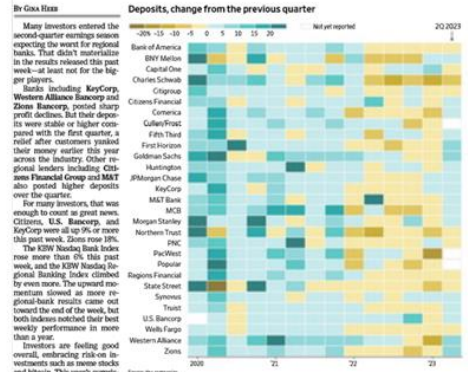
By Jay Wiltermuth [Follow](#)

Famed bond-trader Jeffrey Gundlach thinks the banking stress won't be over until the Fed starts cutting interest rates



Jeffrey Gundlach, CEO of DoubleLine, doesn't think stress at banks will be over until the Fed starts cutting interest rates. GETTY IMAGES

Deposits Steady at Big Regional Banks



Many investors entered the second-quarter earnings season expecting the worst for regional banks. That didn't materialize in the results released this past week—at least not for the biggest players.

Banks including KeyCorp, Western Alliance Bancorp and Zions Bancorp, posted sharp profit declines. But their deposits were stable or higher compared with the first quarter, a relief after customers yanked their money earlier this year across the industry. Other regional lenders including Citizens Financial Group and M&T also posted higher deposits over the quarter.

For many investors, that was enough to coast as great news. Citicorp, U.S. Bancorp, and KeyCorp were all up 9% or more this past week. Zions rose 18%.

The KBW Nasdaq Bank Index rose more than 6% this past week, and the KBW Nasdaq Regional Banking Index climbed by even more. The upward momentum slowed as more regional-bank results came out toward the end of the week, but both indexes notched their best weekly performance in more than a year.

Investors are feeling good overall, embracing risk-on investments such as meme stocks and libras. This year's surprising stock market rally gives market leaders more caution to ride out the year's ups and downs. And quick action from regulators and lenders in March has, so far, helped prevent the failure of several mid-size banks from morphing into the full-blown systemic crisis some initially feared.

But the results also pointed to a rough road ahead.

"I think confidence in the system has been restored somewhat," said Bruce Van Saun, chief executive of Rhode Island-based Citizens. "I still think we're in a challenging environment."

Banks had to shell out more interest to keep depositors around in the second quarter, after another rate increase made investments such as money-market funds more lucrative than bank accounts. The rapid rise in interest expenses has eaten into profits, especially at Main Street banks, which typically don't have the big fee-based businesses, like wealth management, of their larger counterparts.

Profit fell short of Wall Street estimates at many regional banks in the second quarter—even powerhouses like Truist Financial, Fifth Third Bancorp and U.S. Bank. Citicorp's profit fell 17% at Western Alliance and 1% at Zions.

Compared with a year earlier, deposits were down at banks of all sizes. But many midsize and small banks had to rely more heavily on costly sources to fill the holes, such as loans from the Federal Home Loan Bank system or deposits that are brokered through a third party.

A key profitability metric known as net interest margin fell broadly at regional banks in the second quarter. NIM measures the difference between what banks charge on loans and what they pay on deposits.

That's been a big question overhauling the banks, the region in particular. When does the bleeding in net interest margin stop? Van Saun said.

A number of regional banks dimmed their profit forecasts for the year. Many have started to hoard more cash rather than using it to make new loans, as they brace for potential new regulations. The economy is also expected to slow, which could cause more Americans to fall behind on loans. Loan demand has already started to slow as household budgets are pinched by higher interest rates and inflation.

Some regional banks are closely tied to a commercial real-estate market that has started to splutter. Banks have already started to take hits on these loans, especially office properties that have lost value since the pandemic, or they have stabilized away money for future losses they expect. Even Goldman Sachs took a big second-quarter writedown on its real estate holdings, much of it tied to office properties.

M&T said net charge-offs more than doubled from a year earlier to \$127 million, driven by several office buildings in New York City and Washington, D.C., as well as a large health-care company in New York state. At PNC Financial Services, net charge-offs for commercial real-estate loans jumped to \$67 million, from \$50 million in the previous quarter and \$4 million a year earlier.

PNC Chief Executive Bill Demchak said he thinks commercial real estate, especially office spaces, will have trouble even in the case of a soft landing for the economy.

"I think we're reserved for whatever happens in that book," Demchak said on a call with analysts. "But we'll need those reserves because we do think there's going to be problems in the office space."

We might be accused of cherry-picking, but the doom-and-gloom chorus often sings loudest and garners the most attention from the media at precisely the wrong time. Obviously, there is plenty of ball to be played in this year's banking drama, but as yet there has been no systemic flight of deposits, despite arguments from the fellow above (who might have a bias or two against stocks) to the contrary.

Unfortunately, many succumb to the siren song of market timing, even as plenty of data supports the argument that the only problem with market timing is getting the timing right. Interestingly, fixed income traders have worse luck than those who try to time their moves into and out of stocks, at least according to analytics compiled by DALBAR Inc. on mutual fund flows over the last three decades.



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

While the noted economist Paul Samuelson said, “The stock market has predicted nine of the last five recessions,” it would seem that economists themselves also aren’t very good at forecasting!



U.S. NEWS

THE OUTLOOK | By Harriet Torry and Anthony DeBarros

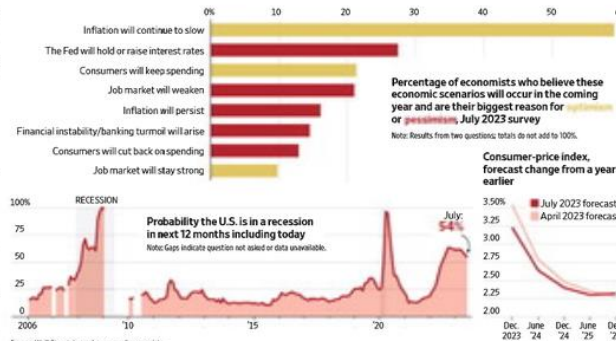
Economists Dial Back Recession Predictions

Economists are dialing back recession risks. Easing inflation, a still-strong labor market and economic resilience led business and academic economists polled by The Wall Street Journal to lower the probability of a recession in the next 12 months to 54% from 65% in the prior two surveys.

While that probability is still high by historical comparison, it represents the largest month-over-month percentage-point drop since August 2020, as the economy was recovering from a short but sharp recession induced by the Covid-19 pandemic. It reflects the fact that the economy has kept growing even as the Federal Reserve has raised interest rates and inflation declined.

In the latest WSJ survey, economists expected gross domestic product to have grown at a 1.5% annual rate in the second quarter, a sharp uptick from 0.2% in the previous survey. They still expect GDP to eventually contract, but later, and by less, than previously. They expect the economy to grow 0.6% in the third quarter, in contrast to the 0.3% contraction expected in the prior survey, followed by a 0.1% contraction in the fourth. Forecasters said GDP would increase 1% in 2023, measured from the fourth quarter of a year earlier, double a previous forecast of 0.5%.

Nearly 60% of economists said their main reason for optimism is their expectation that inflation will continue to slow. The Labor Department's consumer-price index climbed 3% in June from a year earlier,



Source: Wall Street Journal surveys of economists

sharply lower than the peak of 9.1% in June 2022 and the slowest in more than two years. The Fed's preferred inflation measure—the annual change in the personal-consumption expenditures price index excluding food and energy—has fallen from 5.4% in March 2022 to 4.6% in May. Economists expect it to reach 3.7% by the fourth quarter of this year, still well above the Fed's 2% target.

Many economists first began in the middle of last year to project a recession when persistent inflation prompted the Fed to raise rates at the most aggressive pace in nearly three decades. Historically, lowering the inflation rate materially has always involved

higher unemployment and a downturn, and few economists thought this time would be different.

Now, a pathway to achieve a "soft landing," or getting inflation down without a recession, is "back on the table," said Sean Snaitch, director of the University of Central Florida's Institute for Economic Forecasting. "At the beginning of this year it seemed more of a pipe dream," said Snaitch. Now, "it seems a recession keeps slipping, slipping, slipping into the future." Snaitch has lowered the probability of recession to 45% from 50% in April.

On average, economists still expect the labor market to

lose 10,551 jobs a month in the first quarter of 2024. But unlike in the April survey, economists no longer expect job cuts in the third and fourth quarters of this year. They expect employers to add jobs in the second and third quarters of next year, suggesting any downturn will be mild.

"Inflation has slowed remarkably already, and we believe will continue to do so because spending growth is slowing substantially and the growth in labor force is helping service providers," said Luke Tilley, chief economist at Wilmington Trust.

Still, stronger-than-expected economic growth this year will also likely result in the Fed keeping interest rates

higher for longer, according to the Journal survey.

Economists expected the midpoint of the range for the federal-funds rate to peak at 5.4% in December, up sharply from a 5% forecast in the last survey. The latest prediction implies at least one more quarter-point increase by the Fed.

The Fed last month held its benchmark federal-funds rate steady between 5% and 5.25%. Market participants overwhelmingly expect officials to raise rates by a quarter point at their July 25-26 meeting, according to the federal-funds futures market.

Economists are also pushing back estimates for when the Fed will eventually start

cutting rates. In the latest survey, 10.6% of economists expect a rate cut in the second half of 2023, down from 36.8% in the last survey. The majority of economists, nearly 79%, expected the Fed to cut rates in the first half of 2024 as unemployment rises. Some 42.4% expected that first cut will come in the second quarter.

Economists are relatively sanguine about the impact of the end of the government's pandemic-era pause on student-debt payments, which allowed millions of Americans to avoid a big monthly bill for more than three years.

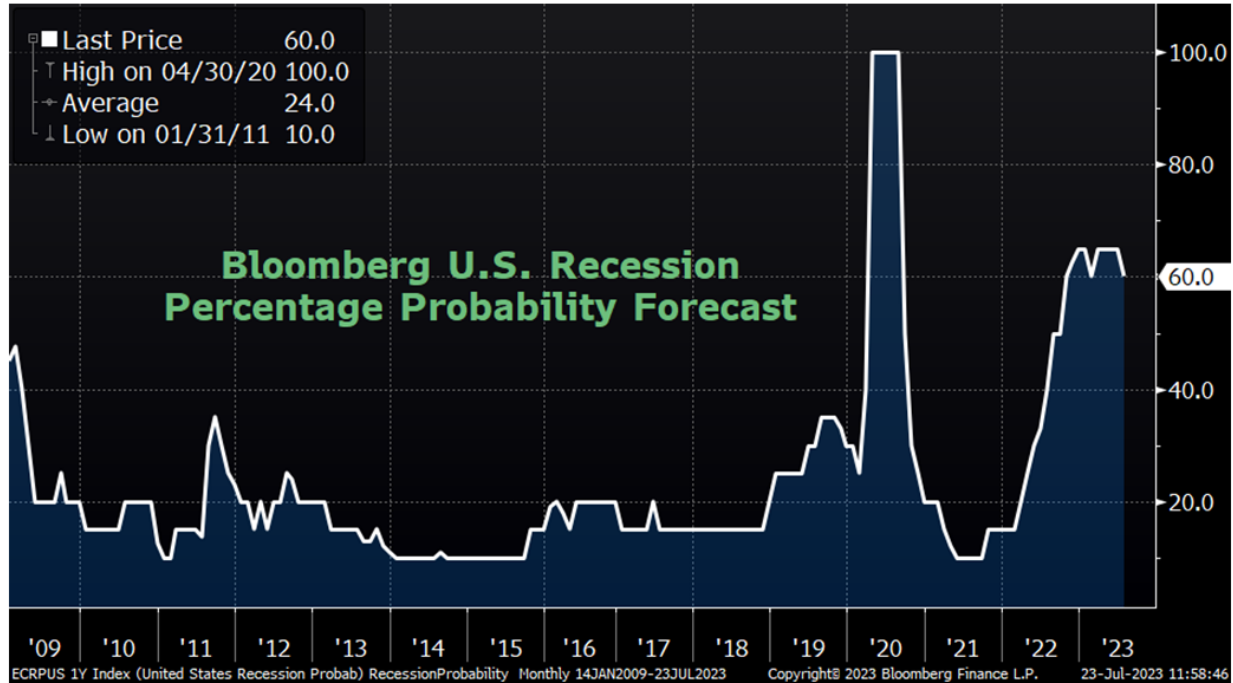
The resumption of student-loan payments is expected to have a relatively minor impact this fall, shaving 0.2 percentage points, annualized, from consumer spending growth, measured from the third quarter to the fourth quarter of this year.

"We will likely see some slowing in spending growth toward the end of this year as a result of the resumed payments denting certain households' ability to consume, but we do not think the end to the payment pause will be widespread enough to have a significant effect on overall U.S. household spending," said Wells Fargo chief economist Jay Bryson.

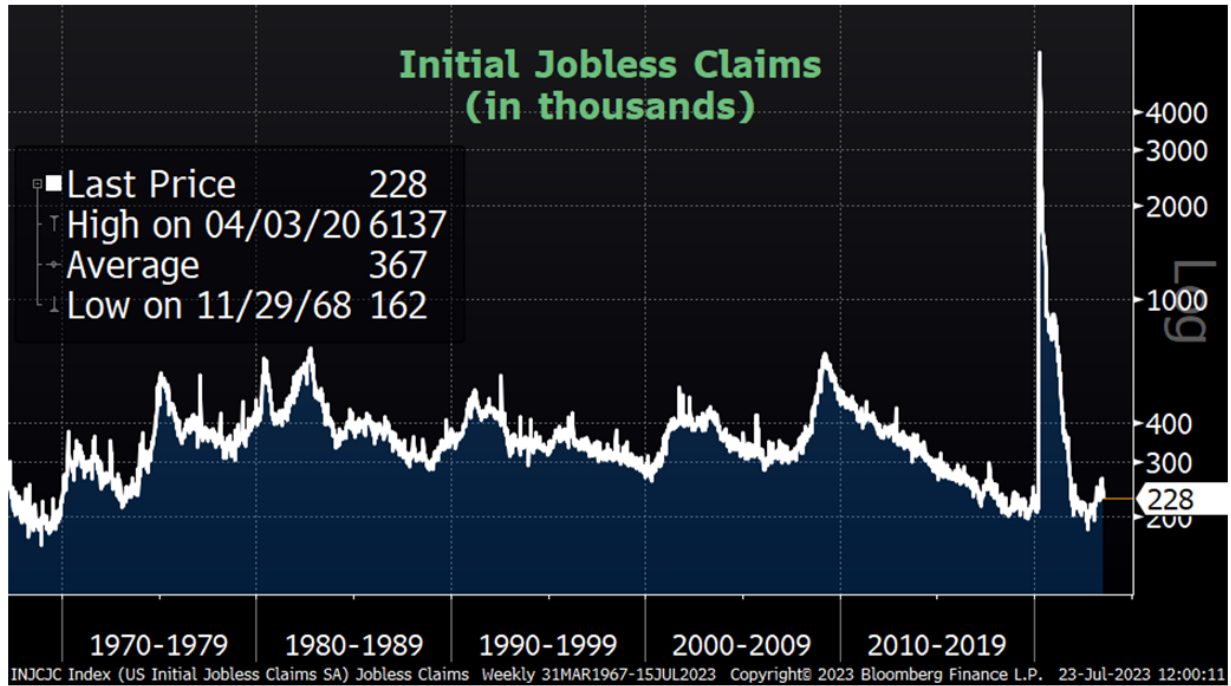
The survey of 69 economists was conducted July 7-12. Not every economist answered every question.

◆ Global migration keeps housing costs higher... A18
◆ Market gauges register some economic hope... B1

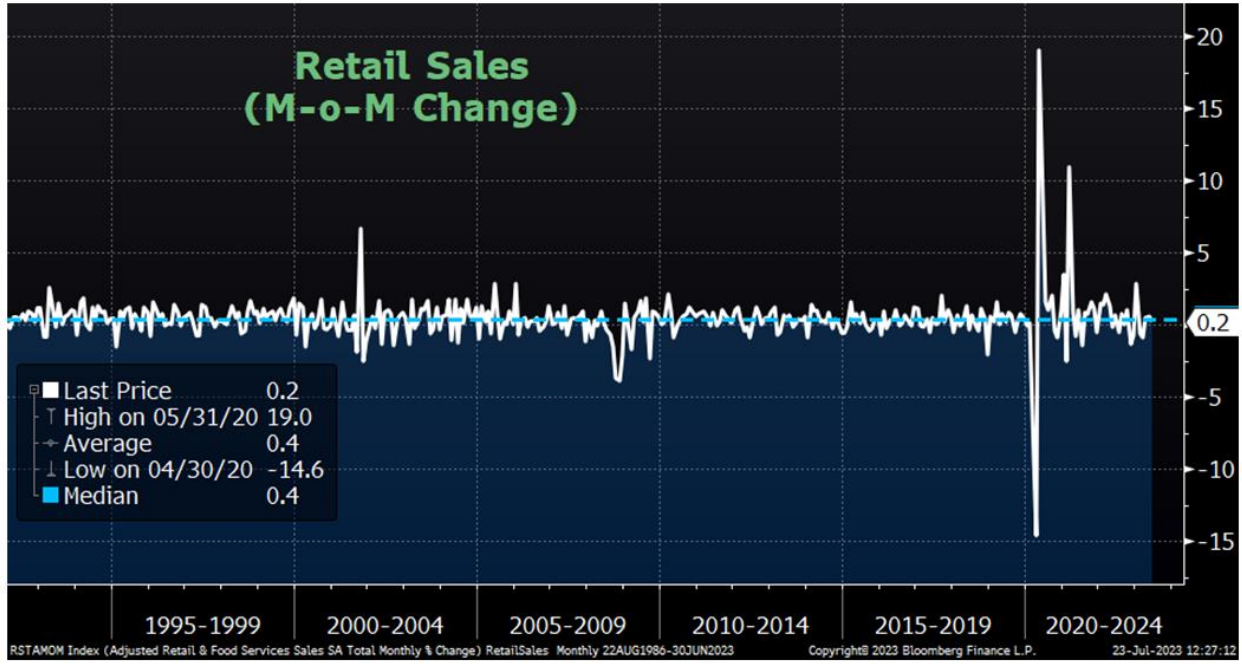
After all, the supposed experts have been calling for a U.S. recession for nearly a year now, but last week they hedged their bets a bit, with *Bloomberg* calculations today suggesting "only" a 60% chance of an economic contraction, down from 65% for much of 2023.



That lower probability is in keeping with comments from **Bank of America** (BAC – \$31.98) CEO Brian Moynihan who said last week, “We continue to see a healthy U.S. economy that is growing at a slower pace, with a resilient job market.” Illustrating the labor point, first-time filings for unemployment benefits in the latest week fell to a historically very low 228,000, fewer than expected and down from 237,000 in the week prior.



Bank of America CFO Alastair Borthwick added, “The overall health of the U.S. consumer remained strong,” which was supported by the report last week of a solid 0.2% increase in overall retail sales in June.



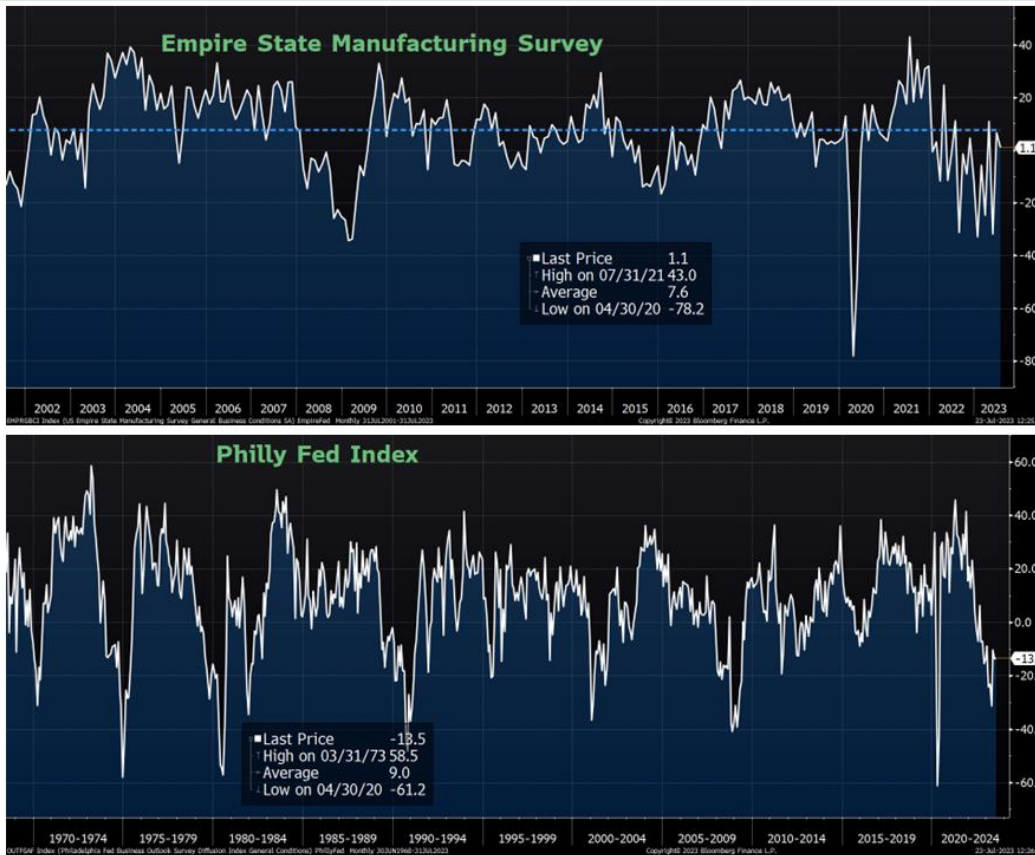
To be sure, the latest data from June on roofs over heads, ranging from existing home sales to homebuilder confidence,...



...to housing starts and building permits,...



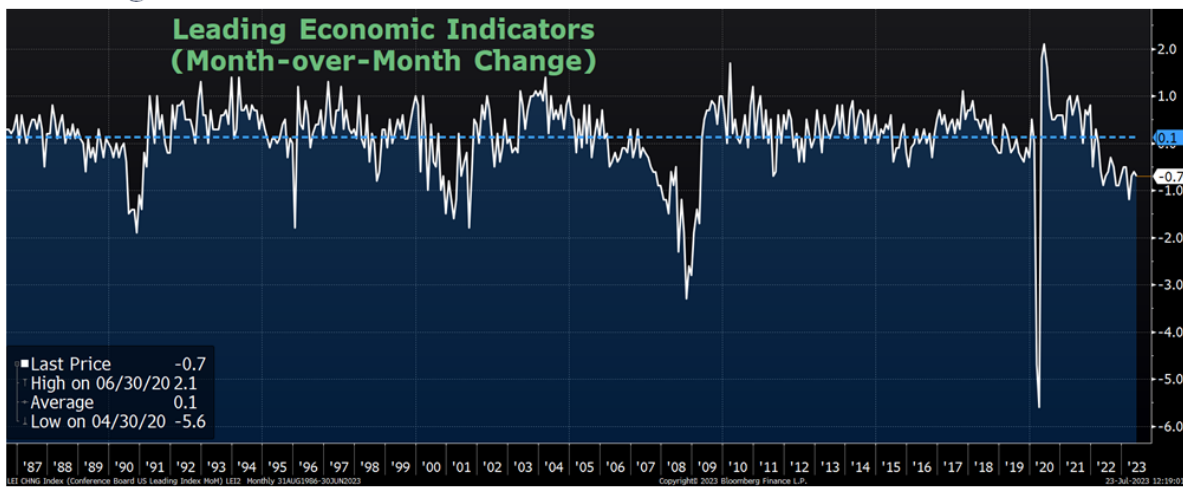
... came in below expectations, while the outlook for factory activity on the East Coast was uninspiring, with both the Empire and Philadelphia Fed Manufacturing Survey's continuing to reside well below their long-term averages.



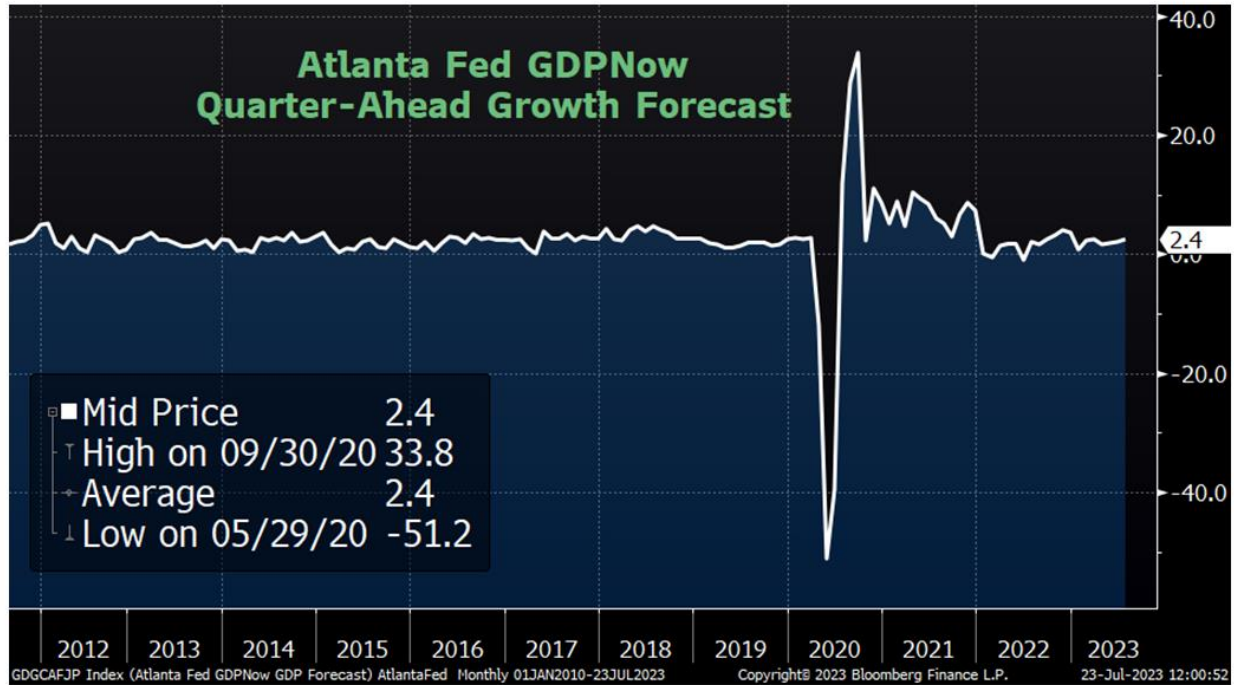
More importantly, perhaps, the widely anticipated monthly Leading Economic Index from the Conference Board remained very weak in July at a minus 0.7% reading, coming in below forecasts of minus 0.6% and arguing that a recession remains on the horizon.



“The U.S. LEI fell again in June, fueled by gloomier consumer expectations, weaker new orders, an increased number of initial claims for unemployment, and a reduction in housing construction,” said Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators, at The Conference Board. “The Leading Index has been in decline for fifteen months—the longest streak of consecutive decreases since 2007-08, during the runup to the Great Recession. Taken together, June’s data suggests economic activity will continue to decelerate in the months ahead. We forecast that the US economy is likely to be in recession from Q3 2023 to Q1 2024. Elevated prices, tighter monetary policy, harder-to-get credit, and reduced government spending are poised to dampen economic growth further.”



Needless to say, we do not know if two quarters of negative real GDP growth (asserted to be the definition of a recession) will occur, but we note that the current economic prediction from the Atlanta Fed for Q2 growth is 2.4%,...



...and we continue to assert that there is no historical evidence to suggest that a recession would be reason for those with a multi-year investment time horizon to sell their stocks.

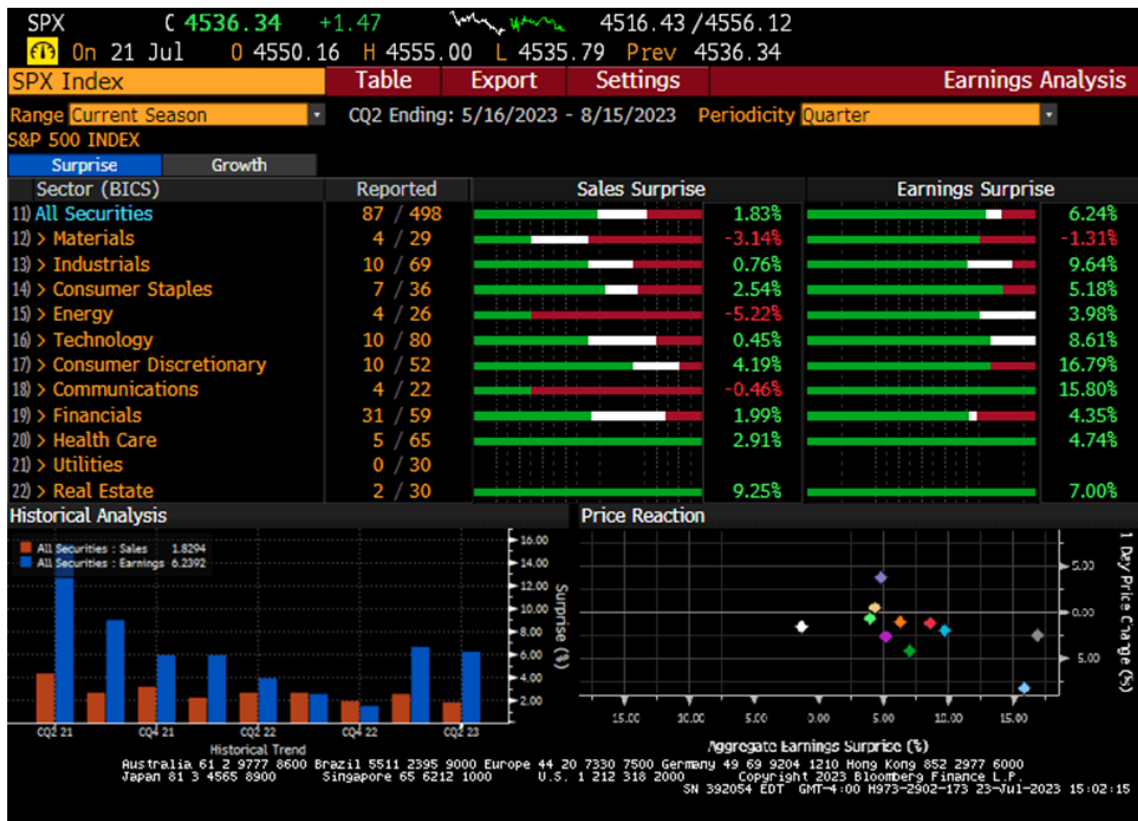


Modest equity losses could be avoided if one knew in advance when a recession officially began and when it ended, but unless one's timing was perfect, it is likely that a trader would be sitting on the sidelines before and after an economic contraction, missing out on sizable rewards.

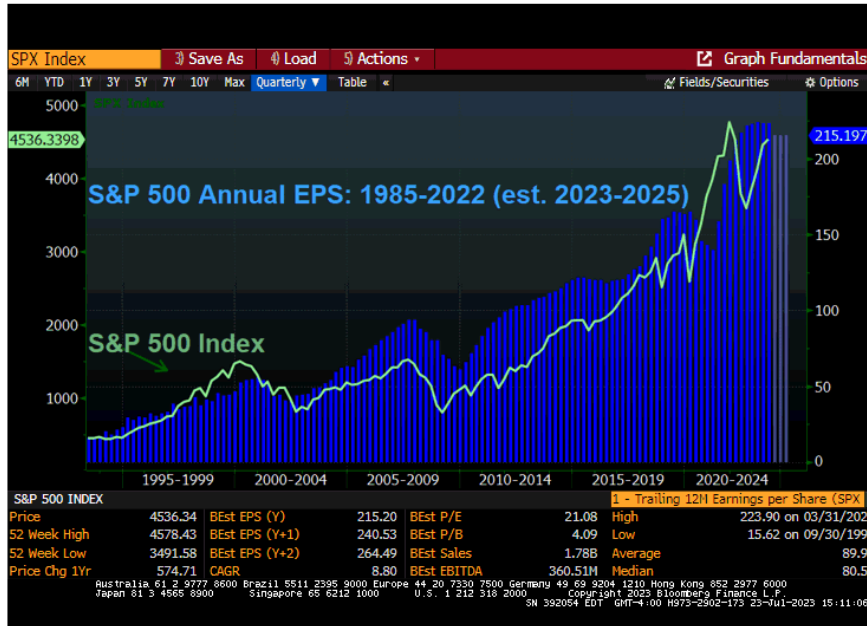
Recession Start Date	Recession End Date	One Year Prior Value	One year Prior Div Payers	Return During Value	Return During Div Payers	One Year Post Value	One Year Post Div Payers	Five Years Post Value	Five Years Post Div Payers
08.31.1929	03.31.1933	30.9%	44.4%	-81.0%	-77.8%	205.5%	101.9%	123.3%	99.3%
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

This is especially true as, despite all the economic uncertainty, second quarter corporate profit reports have thus far been very good with 78.2% of the S&P 500 beating bottom-line estimates and 54.0% topping revenue projections.



Further, the outlook for handsome earnings growth this year and in 2024 from both *Bloomberg* and *Standard & Poor's* remains intact, even as we understand that analysts are often rosy in their outlooks.



S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2024	\$64.39	\$242.17
9/30/2024	\$62.00	\$234.49
6/30/2024	\$59.16	\$227.60
3/31/2024	\$56.62	\$220.24
12/31/2023	\$56.71	\$216.16
9/30/2023	\$55.11	\$209.82
6/30/2023	\$51.80	\$205.06
ACTUAL		
3/31/2023	\$52.54	\$200.13
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 7.20.23

While we concede that enthusiasm for stocks on Main Street is running hot, with the latest Sentiment Survey from the American Association of Individual Investors (AAII) showing a 29.9-percentage-point gap in favor of the Bulls,...



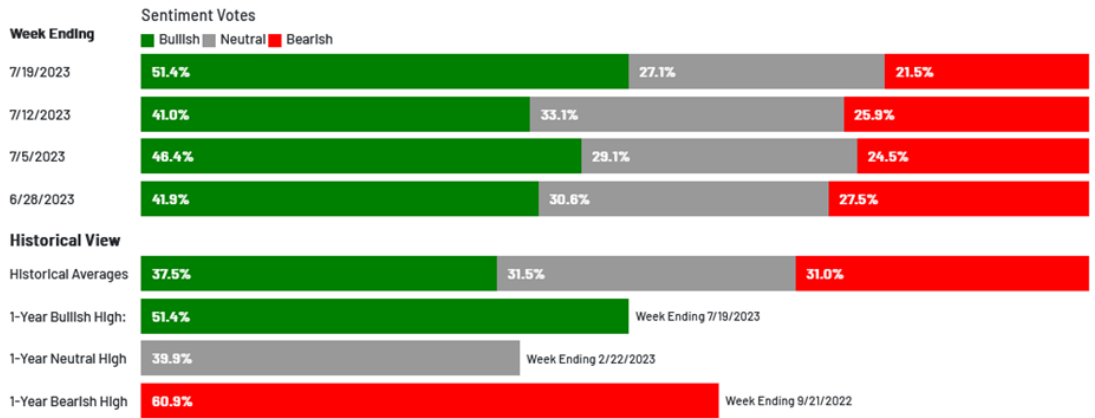
The AAll Investor Sentiment Survey

The AAll Sentiment Survey offers insight into the opinions of individual investors by asking them their thoughts on where the market is heading in the next six months and has been doing so since 1987. This market sentiment data is compiled and depicted below for individual use.

Investor sentiment is measured with a weekly survey conducted from Thursday at 12:01 a.m. until Wednesday at 11:59 p.m. Tracking sentiment gives investors a forward-looking perspective of the market instead of relying on historical data, which tends to result in hindsight bias.

[AAll Members can login to vote](#) in the AAll Investor Sentiment Survey today!

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



...but the contrarian nature of this indicator merely suggests that equity market gains (yes, gains) going forward might be lower on average than usual.



AII Bull-Bear Spread Deciles & Subsequent Equity Returns

AII Bull-Bear Spread											
Decile	Low	High	Count	R3K	R3K	R3K	R3K	R3K	R3K	R3K	R3K
	Reading of the Range	Reading of the Range		Next 1-Week Arithmetic Average TR	Next 1-Week Geometric Average TR	Next 1-Month Arithmetic Average TR	Next 1-Month Geometric Average TR	Next 3-Month Arithmetic Average TR	Next 3-Month Geometric Average TR	Next 6-Month Arithmetic Average TR	Next 6-Month Geometric Average TR
Below & Above Median Bull Bear Spread = 7.00											
BELOW	-54.0	7.0	939	0.24%	0.20%	1.18%	1.04%	3.36%	2.97%	6.53%	5.77%
ABOVE	7.0	62.9	936	0.18%	0.16%	0.53%	0.44%	1.98%	1.73%	4.60%	4.12%
Ten Groupings of 1875 Data Points											
1	-54.0	-17.0	189	0.42%	0.35%	2.20%	1.96%	4.80%	4.28%	8.82%	7.65%
2	-17.0	-9.0	188	0.23%	0.19%	0.97%	0.83%	3.43%	3.06%	6.01%	5.22%
3	-8.9	-2.7	186	0.34%	0.30%	1.04%	0.92%	3.57%	3.17%	7.68%	6.99%
4	-2.7	2.5	188	0.16%	0.12%	0.98%	0.88%	2.28%	1.90%	5.25%	4.68%
5	2.6	7.0	188	0.07%	0.04%	0.72%	0.62%	2.71%	2.44%	4.88%	4.35%
6	7.0	11.5	186	0.21%	0.20%	0.70%	0.61%	2.16%	1.94%	4.94%	4.49%
7	11.6	16.0	189	0.17%	0.15%	0.40%	0.27%	2.22%	1.95%	4.98%	4.46%
8	16.0	21.7	186	0.12%	0.10%	0.87%	0.80%	2.20%	1.96%	5.76%	5.35%
9	21.7	29.0	189	0.15%	0.14%	0.40%	0.32%	1.83%	1.54%	4.75%	4.20%
10	29.0	62.9	186	0.23%	0.21%	0.30%	0.22%	1.50%	1.28%	2.58%	2.14%

From 07.31.87 through 07.20.23. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

Indeed, we see no reason to alter our long-term enthusiasm for 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	13.1	13.2	0.8	2.2	2.9
ValuePlus	14.0	13.8	1.1	2.4	2.4
Dividend Income	13.2	13.4	0.8	2.2	3.1
Focused Dividend Income	14.6	14.3	1.0	2.4	2.8
Focused ValuePlus	15.1	14.3	1.2	2.5	2.6
Small-Mid Dividend Value	11.5	11.5	0.5	1.6	2.9
Russell 3000	22.8	21.4	2.3	4.0	1.5
Russell 3000 Growth	33.1	29.9	3.7	10.1	0.7
Russell 3000 Value	16.8	16.3	1.6	2.4	2.4
Russell 1000	22.4	21.1	2.4	4.2	1.5
Russell 1000 Growth	32.6	29.3	4.0	11.0	0.7
Russell 1000 Value	16.5	16.1	1.7	2.5	2.4
S&P 500 Index	21.8	21.0	2.5	4.4	1.5
S&P 500 Growth Index	23.1	23.4	3.6	7.6	1.2
S&P 500 Value Index	20.4	18.7	1.9	2.9	1.9
S&P 500 Pure Value Index	10.2	11.1	0.5	1.2	2.7

As of 07.21.23. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Kovitz using data from Bloomberg Finance L.P.

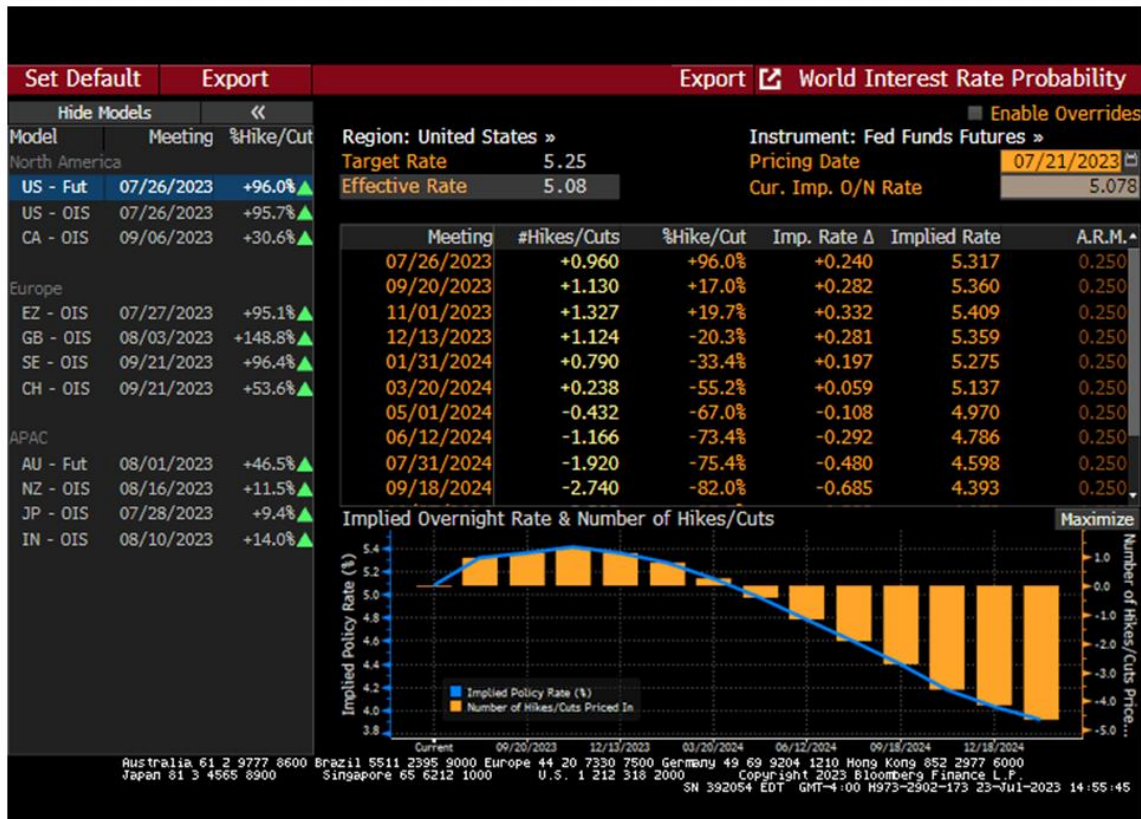
...especially as the equity market overall is still not richly valued, despite the jump in interest rates since the end of 2021,...



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 (4.59% vs. 3.83% 10-Year), despite last year's jump in interest rates.



...while the Federal Reserve is arguably nearing the end of its rate-hiking cycle.



Warren Buffett states, “For some reason people take their cues from price action rather than from values. Price is what you pay. Value is what you get.” Looking at trading last week in telecommunications giant **Verizon Communications** (VZ – \$33.88), we again see that Wall Street analysts often care little about Value and mostly about Price in their upgrade and downgrade decisions.

Even after damage had been inflicted the week prior on already battered shares of VZ and fellow telecom titan AT&T after an extensive investigative report (<https://www.wsj.com/articles/lead-cables-telecoms-att-toxic-5b34408b>) was published in *The Wall Street Journal* on July 9, the analyst community waited until Monday, July 17, to decide that the stocks were no longer worthy of their love. The downgrades of ratings and target prices in response to the then-8-day-old lead-sheathing revelation sent the price of Verizon down another 7.5% to lows not seen in nearly 13 years, with one *Bloomberg News* story warning the following:

Analysts at Oppenheimer estimate that the fallout for the telecommunications sector stemming from the WSJ’s investigation into toxic lead cables won’t be less than \$5B and not more than \$50B. The analysts say they have a 90% confidence level about that range, adding that it will likely take the form of a class-action settlement. “Much of this is likely already reflected in the

stocks, but we think the stocks will continue to suffer in an information vacuum,” they say. They add that the process of litigation and appeals will likely be a decade-plus process.

No doubt, the concerns raised in the *Journal* piece are not something easily dismissed as no level of lead exposure deemed safe was identified, while the investigation reportedly found elevated levels of lead at “roughly 80% of sediment samples taken next to underwater cables.”

However, none of this had been cause for much alarm prior to the report, with Verizon’s 2022 10-K filing offering no mention in its five pages of Risk Factors. And neither Verizon nor AT&T was compelled to address the report in the days that followed its release. Further, multiple major environmental groups have been aware of these cables for decades with no major wholesale remediation plan enforced or recommended. Moreover, there appears to be no evidence that suggests the telecommunications providers have failed to follow proper procedures in leaving the cables in place.

Of course, given the accelerated plunge in the stock prices, the companies became vocal later Monday and on Tuesday. A Verizon spokesperson said the company’s copper network is composed of less than 540,000 miles of cable and that lead-sheathed cable makes up a “small percentage” of that, while AT&T in an impromptu investor call said less than 10% of its nationwide copper-wire telecom network has lead-clad cables. AT&T laid out its “Framework” for how it is evaluating its lead-sheathing risk and the company released a spirited rebuttal to the *Journal* story:

https://about.att.com/ecms/dam/pages/legacy-cable/2023-07-18_Calif_Sportfishing_v_Pac_Bell-Defendants_Supplemental_Status_Report.pdf.

The info from AT&T evidently caused a major rethink as stocks of both companies rebounded strongly over the balance of the week, with one Wall Street shop stating, “The [AT&T] framework suggests minimal health risk, minimal cable exposure, minimal financial risk (we estimate \$246 million/year), and remedied over many years, if any risk at all.”



Obviously, “minimal” risk is a far cry from the \$5 billion to \$50 billion Oppenheimer estimate mentioned. While there are differing opinions about the consequences of disturbing equipment (that is no longer in use) versus leaving it in place, we understand that the matter will not be resolved any time soon. Still, we think the punishment meted out to VZ shares of late has been excessive, especially as we do not see any danger at this stage to the robust dividend payout, where the yield now stands at 7.7%.

Certainly, analysts and traders who chose to shoot first and ask questions later in their decision to bail on Verizon will argue that, despite the bounce back, the stock is still off 14% on the year and down significantly from its late-2019 high above \$60. Further, the balance sheet has substantial debt, while earnings this year and next are likely to be stagnant.

However, we think substantial value exists, as a forward P/E ratio of 7.3 keeps us very enthused about the long-term total return potential for the stock. This is especially true, given that the S&P 500 Utilities Index, arguably a competing area of investment for income-focused folks, trades for roughly 18 times forward earnings and yields a bit more than 3%. Our Target Price for VZ is now \$56, so we will continue to take our cues from the value and not from the price.

After all, short-term price movements often tell us little about where a stock is headed in the long-term...and we sometimes see how wrong they might be even about the short-term. Case in point, despite the best efforts of the financial news headline writers,...

THE PRUDENT SPECULATOR



BLOOMBERG NEWS PNC FINANCIAL HEADLINES: PRE-MARKET 07.18.23

PNC Kicks Off Regional Bank Earnings by Slashing Guidance
PNC Financial 2Q Earnings Hold Roughly Flat as Deposits Fall
PNC FY23 GUIDE: NET INTEREST INCOME UP 5% - 6% PREV. UP 6% - 8%
PNC FY23 GUIDE: REV UP 2% - 2.5% PREV. UP 4% - 5%
PNC Financial lowers guidance for 2023 after Q3 revenue falls short
PNC Stock Falls. The Regional Bank's Revenue Was a Miss. -- Barrons.com
PNC FINANCIAL EXTENDS PREMARKET DECLINE TO 3.5% AFTER RESULTS



...shares of **PNC Financial** (PNC – \$134.26) rose nearly 7% last week after the super-regional bank reported Q2 financial results that were generally in line with expectations and lacked negative surprises that investors arguably hadn't already discounted in their punishment of the entire regional banking sector this year.

For Q2, PNC said its adjusted EPS came in at \$3.36, versus the consensus analyst estimate of \$3.27. The quarter benefited from lower credit costs and expenses. Despite fears over banking credit quality, PNC is executing with strength and both delinquencies and nonperforming loans actually are improving. Net interest income fell 2% quarter over quarter, given rising funding costs and modest loan contraction. The bank's net interest margin endured slight contraction and came in at 2.79%. Despite unavoidable rising funding costs, PNC is still projecting net interest income growth of 5% to 6% for the year.

CEO Bill Demchak said, "For the second quarter, PNC delivered solid financial results and maintained strong credit quality metrics, reflecting the power of our national franchise and the

competitive positioning of our balance sheet in the current environment. The Federal Reserve's annual stress test recently demonstrated PNC's through-the cycle financial strength and stability, and starting in the fourth quarter, our stress capital buffer requirement will improve to the regulatory minimum of 2.5%. In consideration of our strong capital levels and the board's confidence in our strategy and outlook, in July the board approved a 5-cent increase to our quarterly stock dividend."

Looking forward, we expect PNC to benefit from its leading technology, its robust deposit franchise, healthy capital levels and prudent expense management. We also remain constructive on its acquisition of BBVA's U.S. retail operation in 2021. Yes, we understand that financial results this year may not live up to some optimistic forecasts, but a 15% drop in the share price year-to-date, not to mention last week's trading action, argues to us that plenty of bad news is "in" the stock price. Those willing to take their cues from Value will like that PNC trades for 11.4 times the current potentially trough NTM EPS estimate and that the yield is a very generous 4.6%. Our Target Price for high-quality PNC is now \$191.

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.

Shares of **Microsoft** (MSFT – \$343.77) rose after the company announced at its partner conference, *Inspire 2023*, that it will charge \$30 per month for generative A.I. features through its Office 365 suite. The fee, which is in addition to the fee already paid by Office 365 users, is one of the earliest attempts to monetize A.I. as a feature. For users that opt to add A.I., the monthly license expense could double.

The software king explained:

Today, we're also pleased to announce pricing for Microsoft 365 Copilot. It will be available for \$30 per user per month for Microsoft 365 E3, E5, Business Standard and Business Premium customers when generally available.

While some generative AI apps focus on a single capability, like real-time transcription or copywriting, Microsoft 365 Copilot puts thousands of skills at your command. By grounding answers in business data like your documents, emails, calendar, chats, meetings and contacts, and combining them with your working context – the meeting you're in now, the emails you've exchanged on a topic, the chats you had last week – Copilot delivers richer, more relevant and more actionable responses to your questions.

And, Microsoft 365 Copilot is integrated into the apps millions of people use every day. Copilot jump-starts your creativity in Word, analyzes data in Excel, designs presentations in PowerPoint, triages your Outlook inbox, summarizes meetings in Teams – whether you attended or not – and so much more.

On the acquisition front, MSFT continues to battle to conclude its deal with video-game maker Activision, which has seen its closing target date slip to October 18. In case the transaction is shot down, Microsoft will owe \$3.5 billion if the deal is terminated after August 29 and \$4.5 billion after September 15.

While the share price gave back all its Copilot gains as the week went on and the Microsoft valuation is approaching the high end of our comfort zone (we have taken money off the table previously), we think the company's prospects are bright and we are content to hold our still-sizable position a while longer. Our Target Price for MSFT has been boosted to \$377.

Earnings for global custodian and asset servicer **Bank of New York** (BK – \$45.00) grew 20% year-over-year in Q3 to \$1.38 per share, a company record. Net interest revenue totaled \$1.10 billion, slightly ahead of the consensus estimate, while assets under management declined 1.5% to \$1.91 trillion. Thanks to rising rates, the net interest margin rose to 1.2%, up from 0.89% a year ago, and a 12.0% return on equity figure came in handsomely ahead of the 10.9% estimate.

CEO Robin Vince commented on the macro environment, “We acknowledge that the path of interest rates, continued QT and elevated U.S. Treasury issuance activity carry meaningful uncertainties for the environment in the months ahead. From our vantage point as the primary clearer of U.S. Treasuries and through touching roughly 20% of the world's investable assets, our data tells us that more than half of recent T-bill issuance has been absorbed by funds flowing out of the Fed's RRP, but a good chunk of the balance has come from the banking system. Most of the money market fund demand for T-bills has been concentrated at the very front end, as funds have been less comfortable extending duration past the end of July, ahead of an expected rate hike later this month, and continued uncertainty on the path of rates thereafter.”

“We're also not seeing much foreign demand, as cross-border flows into U.S. treasuries of all maturities are negative and have been for some time. Together, this is likely going to put some incremental pressure on domestic funding sources, funds, banks, and corporates, as well as state and local governments, to absorb upcoming supply and less T-bill prices cheapened materially from current levels. For this reason, we do expect some further pressure on deposit balances across the industry in the months ahead. As you would expect, we are positioning ourselves prudently given these uncertainties, but see these flows as benefiting our broader cash ecosystem. We manage over \$1.3 trillion worth of cash on behalf of clients across deposits, money market funds, repos, and securities lending.” he added.

“Over the past couple of years, we've been able to attract high caliber talents to upgrade multiple important roles across the company. Our existing team, together with these new leaders, are rising to the challenge of unlocking our potential. And it's clear to me that we have a tremendous opportunity in front of us by leveraging our unique combination of businesses, our preeminent

client franchise, and the power of our culture and people. I'm encouraged by the initial progress over the past couple of quarters and excited about what lies ahead." Mr. Vince concluded.

Bank of New York performs an essential service critical to the function of financial market participants across the globe but is subject to multiple macroeconomic factors and the whims of markets often beyond its control. This role somewhat necessitates that the bank maintain a conservative posture relative to other of our financial holdings, although we do appreciate efforts to move into new product areas and enhance its technological offering. BK trades for 9 times forward EPS estimates and pays a quarterly dividend of \$0.42 (which was just hiked by \$0.05), resulting in a 3.7% dividend yield. Our Target Price is now \$65.

Shares of diversified financial giant **Bank of America** (BAC – \$31.98) rose almost 10% last week as Q2 financial results included both a top- and bottom-line beat. Adjusted EPS came in at \$0.88, versus the consensus analyst estimate of \$0.84. Net income was up 19% year-over-year, while revenue increased 11%.

Average loan and lease balances were up \$32 billion, or 3%, to \$1.0 trillion, led by solid commercial loan growth as well as higher credit-card balances. The bank's average deposit balances dipped \$18 billion, or 1%, from last quarter and now stand at \$1.9 trillion. The provision for credit losses was increased by \$602 million to \$1.1 billion, while net-charge offs of \$869 million remain below pre-pandemic levels. BAC reported a Common Equity Tier 1 (CET1) ratio of 11.6%, returned \$2.3 billion to shareholders during the quarter via buybacks and dividends, and turned in a return on average tangible common shareholders equity ratio of 15.5%.

CEO Brian Moynihan commented, "We delivered one of the strongest quarters and first half net income periods in the company's history. Continued organic client growth and client activity across our businesses complemented beneficial impacts of higher interest rates and produced an 11% increase in revenue. We continue to see a healthy U.S. economy that is growing at a slower pace, with a resilient job market. All businesses performed well, and we saw improved market shares, particularly in our Sales and Trading and Investment Banking businesses. A strong balance sheet and ample liquidity allowed us to continue investments in our franchise to drive long-term value for stakeholders."

BAC continues to be a core financial holding for us as we see it as one of the best positioned large banks given its consumer deposits, cost management, credit quality and reputation for returning capital to shareholders. We also continue to like the multiple levers available to generate fee revenue that complement Bank of America's prominent consumer franchise, including its Thundering Herd of Merrill Lynch financial advisors. BAC shares also look inexpensive to us as they trade for 10 times forward EPS estimates with a dividend yield of 3.0%. Our Target Price has been bumped up to \$45.

Shares of **Morgan Stanley** (MS – \$94.01) rose more than 9% last week after the diversified financial services behemoth reported Q2 financial results that outpaced consensus analyst estimates. MS said overall revenue came in at \$13.46 billion, 2.6% better than expected, while

adjusted EPS of \$1.24 eclipsed the average forecast of \$1.20. The company said its CET1 ratio came in at 15.5%.

Wealth Management performed solidly during the quarter and saw favorable inflows, while Fixed Income, Commodity and Currency trading was a lead detractor, suffering a big drop year-over-year and coming in much weaker than its competitors. Additionally, we were pleasantly surprised to see underwriting revenue in the company's institutional segment rise to \$620 million, compared to \$474 million in Q2 2022 and \$609 million in Q1 2023. The recovery in investment markets seems to have continued to thaw some of the company's underwriting pipeline.

CEO James Gorman commented, "The Firm delivered solid results in a challenging market environment. The quarter started with macroeconomic uncertainties and subdued client activity, but ended with a more constructive tone. Consistent with our strategy, we continued to attract client assets – Wealth and Investment Management added \$100 billion in net new assets, bringing in over \$200 billion year-to-date. Our Institutional businesses navigated the markets well through macro uncertainties. We finished the quarter in a strong capital position and raised our quarterly common dividend by \$0.075 for the second year in a row. We remain confident in our ability to grow in various market environments while maintaining a strong capital position."

We continue to like the long-term diversifying acquisitions of Eaton Vance and E*Trade, which we believe give MS greater scale in tech, a deeper product and service base, and self-directed investors to complement advisor-assisted Wealth-Management clients. MS repurchased \$1 billion of its shares during the quarter, part of its outstanding \$20 billion buyback plan. The stock now trades for a still-reasonable 14 times NTM EPS estimates and offer a dividend yield of 3.6%. Our Target Price for MS is \$116.

Defense contractor **Lockheed Martin** (LMT – \$454.76) earned an adjusted \$6.73 per share in Q2, 5% ahead of the consensus estimate. The company's \$16.7 billion revenue figure was also 5% better than the consensus forecast. Even though LMT's quarter was excellent and the company's backlog grew 17% year-over-year to \$158 billion, shares slipped 2% last week on analyst concerns that the quarter's outperformance was driven by a large number of deliveries for Lockheed's F-35 fighter jet.

CEO Jim Taiclet commented on the U.S. defense budget, "The outcome of the debt ceiling negotiations preserved topline defense spending at the President's budget request for FY '24. It also stipulated defense budget growth in FY '25, while allowing for additional support through supplemental funding. The embedded 3% growth and the proposed FY '24 defense budget included funding for 83 F-35 aircraft with supplemental funding to support munitions investment that will enable us to ramp up production rates under new multi-year contracting authorities. While there are still numerous steps to reach final approval and funding for the FY 2024 budget, we're encouraged by the strong support for our program so far and we look forward to the completion of committee reviews, and the full appropriations process. On the F-35 program, we continue to see strengthening customer demand both domestically and internationally. The Czech Republic has expressed interest in the aircraft and Israel is formally decided to add 25 more F-35s expanding their fleet by 50%."

Mr. Taiclet added, “Given the strong results in the first half of this year, we are raising and narrowing our full-year 2023 financial outlook. For sales, we are raising the midpoint of our range by \$1 billion, to a revised expectation of between \$66.25 billion to \$66.75 billion. And for EPS, we are raising the midpoint of our range by \$0.35 to a revised expectation of between \$27 to \$27.20 per share. We are confident in our ability to achieve these higher expectations and returned to growth sooner than previously anticipated.”

While the negative reaction to (what we think was) a good quarter was disappointing, the prospects for LMT are positive, especially as governments around the world adjust their defense plans based on lessons from the battlefield in Ukraine. We expect Lockheed to benefit from restoring U.S. arms stockpiles and deepening of ally weapons systems, in addition to valuable assets the company produces in its space, helicopter and fixed-wing projects. Shares trade for a reasonable forward earnings multiple of 17 and offer a 2.6% dividend yield, while analysts expect LMT to return to revenue growth in the low single-digit range for 2024 and 2025. Our Target Price has inched up to \$550.

Advertising, marketing and corporate communications services firm **Omnicom** (OMC – \$83.81) earned \$1.81 per share in Q2 (vs. \$1.79 est.) and had revenue of \$3.61 billion (vs. \$3.66 billion est.). Shares skidded nearly 13% on the slight revenue miss and concerns about future advertising spending, which we feel is a punishment that doesn’t fit the crime. Shares are still modestly higher in price on the year, however.

CEO John Wren commented, “Organic growth was a solid 3.4% for the quarter, which was in line with our expectations. Adjusted operating income margin was also in line with our expectations at 15.1%...Our cash flow continues to support our primary uses of cash dividends, acquisitions and share repurchases. And our liquidity and balance sheet remain very strong. We are pleased with our financial results for the quarter and first half and are increasing our full year organic growth target to 3.5% to 5%, and maintaining our 15% to 15.4% operating margin target... While we remain optimistic for the second half of the year, we continue to plan cautiously given the number of uncertainties in the macroeconomic environment.”

CFO Phil Angelastro said, “As a reminder, our historical development of Omni, our current investments in technology and services that prepare our business for the future, are largely reflected in our operating income. We expect to continue to grow our revenues, improve our operations, return cash to shareholders through dividends and share repurchases, while we manage with the current economic environment, and as John discussed, continue to prepare for a dynamic future.”

Mr. Wren shared his thoughts on generative A.I., “While we have engaged in AI for over decades, generative AI will have a profound effect on our industry and Omnicom. We are quickly embracing the technology as we see massive opportunities to boost the productivity of our people and deliver better work to our clients. As with any new technology, we’re working closely with our clients to take advantage of the benefits while being mindful of its limitations, risks and privacy concerns...I don’t think that [A.I.] technology is simply there to make it simpler and faster to gain insights from which creative ideas will be generated. So will it have an

impact? Yes, of course, over a period of time. But it won't — we won't reduce the importance of creativity to the IP of Omnicom.”

Concerns that A.I. might take business away from OMC seem to be driving the share price down, despite little evidence that the blossoming technology is having that sort of impact at this point or in the near future. We suspect A.I. technology will offer meaningful improvements to people in a variety of ways, but it'll take much longer for the technology to replace creativity in the way that advertisers require. Lost in the downbeat analyst notes was the increase in the organic growth target, to 3.5% to 5%, while near-term headwinds are to be expected, especially for a company like OMC that earns nearly 40% of its revenue abroad. The company's debt has an average maturity in late 2028 and carries a meager 2.8% coupon, which is especially low given the current Federal Funds rate. Analysts expect earnings per share in excess of \$8.00 in 2025, compared with adjusted EPS of \$6.93 in 2022, while they expect revenue to grow in the low-single-digit range (slightly below management expectations).

Omnicom has relationships with big clients, including Philips, Mercedes, Nike and Diageo, and we think that there will be growing opportunities for the company to offer its expertise in a world dominated by a handful of large advertising platforms and their algorithms. OMC continues to score well against its peer group in our proprietary valuation framework. The stock, which now trades for 11 times forward EPS expectations, sports a 3.3% dividend yield. Our Target Price is unchanged at \$110.

Shares of **Elevance Health** (ELV – \$475.93) gained 8.5% last week after the managed care provider turned in Q2 EPS ahead of the Street consensus estimate (\$9.04 vs. \$8.78 est.). Medical membership was 48.0 million, 0.1 million behind the consensus estimate, and the benefit expense ratio of 86.4% came in 0.5% ahead of the consensus.

CEO Gail Boudreaux said, “As a result of the strong performance in the first half of the year and momentum across Elevance Health, we are increasing our adjusted earnings per share outlook for the year to be greater than \$32.85. The balance and resilience of our diverse businesses provides confidence in our near-term outlook, while the earnings power of our Health Benefits and Carelton businesses position us to deliver on our long-term growth commitments.”

Management explained that some of the member enrollments were administrative in nature, and the insurer expects a portion of those members to return in the future. Elevance continues to balance targeted improvements in the expense ratio with growth projects, while maintaining an overall goal to expand the margin. The company's balance sheet sports \$38 billion of cash and \$25 billion of debt (14 years average maturity at 4.0%), offering some wiggle room when it comes to M&A or growth opportunities.

We think ELV's competitive position remains intact, particularly within the 14 states in which it is the exclusive licensee of the Blue Cross Blue Shield brand where it holds significant market share. We also believe the firm's scale enables it to adapt to inevitable future shifts in regulation. Longer term, demographic trends remain in its favor as a major player in the Medicare Advantage market. Shares have fallen 7% this year, though they have rebounded 15% off the medical-cost-ratio-fear-induced closing low of 12 days ago. We think there is plenty more

recovery to go, as we find the less-than-14 times forward P/E multiple very attractive as management strives to grow adjusted earnings by 12% to 15% for at least the next several years. Our Target Price for ELV is now \$626.

Badly-bruised shares of Rhode Island-based regional bank **Citizens Financial** (CFG – \$31.05) rebounded nearly 12% last week following the release of Q2 financial results that showed deposit base growth and an improving capital and liquidity structure. Adjusted EPS came in at \$1.04, versus the consensus analyst estimate of \$1.01. Lower-than-expected credit costs and inline net interest income paced the quarter, alleviating some concerns about the pace of deposit repricing at regional banks, although on the earnings call management raised its expectations for a terminal deposit beta to 49% to 50%, up from the mid-40% levels previously projected.

CEO Bruce Van Saun stated, “We were pleased to navigate well through a dynamic and challenging environment in the second quarter. We were very focused on further strengthening our capital, liquidity and funding position and delivered impressive results. Our CET1 ratio improved to 10.3% while also buying back over \$250 million in stock, we grew deposits by \$5.5 billion, and we reduced our FHLB borrowings by almost \$7 billion to \$5 billion. In addition, we made solid progress on our strategic initiatives, in particular the ramp up of the Citizens Private Bank and continued strong results from our NYC Metro region. As a strong bank we will continue to be well-positioned to benefit from opportunities in the current environment.”

Following the purchase of HSBC branches within its market and the acquisition of Investors Bancorp in 2021, Citizens has grown its deposit franchise by more than 15% year-over-year. We think the moves complement and round out its existing territory, while adding JMP Group (securities) into the fold (also in 2021) brings diversification through additional fee generation. True, fee-generating activity has slowed, although not as much as for some of the company’s peers, while a focus on maximizing operating leverage for an expanded operation prime the bank for higher returns in the quarters ahead. Shares trade for 8.2 times estimated earnings and now offer a 5.4% dividend yield. Our Target Price for CFG is \$47.

The slew of bank earnings last week included diversified financial titan **Goldman Sachs** (GS – \$351.96). The company’s adjusted EPS came in at \$3.08, 22% below the analyst consensus estimate and largely due to slow deal flow in its Investment Banking business and real estate markdowns. Persistent inflation, geopolitical tensions and slower growth were cited as reasons for the lack of deal-making. Happily, and perhaps not surprisingly, given the inexpensive valuation of the stock, GS ended the trading week nearly 8% higher.

CEO David Solomon commented, “We know the corporate activity in the capital formation is core to our financial system, and there are a number of structural catalysts that should lead to increased levels of activity and we’re seeing it begin to pick up in a few spots already, particularly equity capital markets and M&A dialog. There’s no question, recent economic data in the U.S. indicates the Fed’s efforts to fight inflation are showing progress, and we are starting to see more optimism about the forward trajectory. However, the year unfolds, we stand ready to help our clients navigate the evolving backdrop while maintaining a prudent risk posture and operating the firm more efficiently.”

Mr. Solomon continued, “Given our ongoing strategic efforts to lower the firm’s capital density and reduce earnings volatility, we are well-positioned to grow it further. We are laser-focused on executing on our strategy. This moment in the economic cycle creates meaningful headwinds for Goldman Sachs and our business mix. At the same time, we are making tough decisions that are driving the strategic evolution of the firm. Given both these factors, it should come as no surprise that we’re going through a period of lower results. I remain fully confident that we will deliver on our through-the-cycle targets of mid-teens returns a significant value for shareholders.”

Goldman returned \$1.6 billion to shareholders, comprised of \$750 million worth of share repurchases and \$864 million of dividend payments. The quarterly dividend payout was raised 10% to \$2.75 per share, bringing the yield to 3.2%. The company’s existing \$30 billion share buyback program remains top of mind for the management team and CFO Denis Coleman promised to “step up the level of buybacks” in the near future. We continue to believe that Goldman is one of the best financial franchises in the world, and amongst the strongest risk managers. The company remains tremendously profitable, while shares trade for less than 11 times NTM EPS estimates, with the P/E projected to fall to less than 9 times by 2025. Our Target Price for GS now stands at \$415.

Shares of **International Business Machines** (IBM – \$138.94) rallied 4% last week as the IT services concern turned in adjusted Q2 EPS of \$2.18, ahead of the \$2.00 analyst consensus estimate. Sales dropped slightly year-over-year to \$15.48 billion, but IBM remains on track to exceed 2022’s \$60.5 billion of revenue by \$1.5 billion or so. IBM’s Software segment grew 7.2% year-over-year and accounted for just over one third of the company’s overall revenue. The Consulting segment grew at 4.2%, while Infrastructure revenue fell 15%. IBM expects revenue growth between 3% and 5% for the full year, above the analyst consensus of 2.9%.

CEO Arvind Krishna commented, “Our second-quarter results reflect continued solid execution of our hybrid cloud and AI strategy. We again had strength in our growth vectors, of software and consulting and solid cash generation, consistent with our financial model. Clients and partners continue to view technology as a source of competitive advantage. Clients turn to us to speed-up their transformation journeys modernize applications and optimize their business workflows. At the same time, they continue to prioritize projects that focus on productivity and deliver quick time to value. To seize this opportunity, we are bringing new innovations to-market expanding strategic partnerships and making investments in targeted growth markets while unlocking value through our productivity initiatives. All of this gives us confidence in our ability to achieve our full-year expectations for revenue and free-cash flow, which remain our two primary areas of focus.”

On the topic of A.I., Mr. Krishna said, “AI is a transformative technology that has the potential to unlock tremendous business value. According to a recent McKinsey study, AI could add-up to \$4.4 trillion annually to the global economy. Our focus as an enterprise AI designed to address these opportunities and solve business problems... AI is being infused into our software products we are already building products that address specific enterprise use cases such as digital labor with Watson Orchestrate customer service with Watson Assistant and co-generation with Watson Code Assistant.”

IBM expects free cash flow around \$10.5 billion, which is the same as last quarter's guidance. Steady IT spending and IBM's focus have helped the company beat analyst EPS estimates in six of the last seven quarters. After turning in a better 2022 than its peers, the company's shares have pulled back a tad this year, though the total return including dividends is positive.

We suspect IBM's lack of execution over the past few decades hasn't instilled much confidence in investors related to prospects for A.I., news of which sent most Tech stocks soaring earlier in the year. Analysts expect the company to grow its net income from \$8.3 billion in 2022 to nearly \$10 billion by 2025, which is a good indication that IBM's turnaround under Mr. Krishna's leadership is working, though we think demonstration of success on the A.I. front might add to that target. Our Target Price for IBM, which yields 4.8%, has edged up to \$168.

Shares of **Truist Financial** (TFC – \$33.05) ended the week more or less flat in price, rising for the first half of the week in line with gains for the regional bank industry and falling 7% on Thursday after the super-regional bank reported adjusted Q2 EPS that fell 8% short of the consensus analyst estimate (\$0.92 vs. \$1.00). The negative stock action was seemingly driven by management's near-term shift in its revenue growth expectations, from the prior +5% to +7% to the current +1% to +2%.

Within the internal downgrade, it seems net interest income is set to barely grow for the rest of 2023 compared with 2022. Expense expectations also moved in the wrong direction, inching higher, as the bank now expects to come in on the high end of its previous range of up 5% to 7%. Management spent a meaningful amount of time on its earnings call talking about strategic expense initiatives as it attempts to improve the current expense dynamics.

CEO Bill Rogers commented, "During the second quarter, we made significant progress adapting to the new operating environment by strengthening our balance sheet, sharpening our strategic focus on our core businesses, and intensifying our focus on disciplined expense management. Second quarter financial results were mixed as revenue headwinds from higher funding costs and lower-than-anticipated capital markets activity were partially offset by record insurance income. We prudently increased our provision and allowance amid the uncertain economic backdrop. Adjusted expenses were within our guidance range, though we are accelerating our plans to adjust our cost base to reflect efficiency opportunities and changing conditions."

He continued, "Our CET1 capital ratio increased 50 basis points driven by the investment in Truist Insurance Holdings and organic capital generation. The most recent Federal Reserve stress test highlighted our capacity to respond to all scenarios and we announced plans to maintain our strong quarterly common stock dividend at \$0.52 per share, subject to board approval. We are executing swiftly on our strategy to optimize our core businesses exemplified by the sale of our non-core student loan portfolio at net carrying value with no P&L impact. We also made solid progress towards shifting our loan mix towards higher-return assets."

Despite the near-term headwinds, we continue to find the marriage of Southeastern banking leaders BB&T and SunTrust that created Truist to be favorable, given the conservative lending culture and competitive brands that both had independently, and the potential for further cost savings. We like that TFC trades at 9 times estimated earnings and think the company isn't

getting the credit it deserves given its size and geographic reach. The dividend yield is 6.3% and our Target Price continues to reside at \$48.

Though still in the red for 2023, shares of **Johnson & Johnson** (JNJ – \$170.19) rose more than 6% after the health care titan posted solid Q2 results. Adjusted EPS of \$2.80 was almost 7% ahead of the consensus analyst estimate. Sales rose 6.3% year-over-year to \$25.5 billion (vs. \$24.6 billion est.). The Medtech segment continued to realize robust sales growth (up 12.9% year-over-year to now account for 31% of total sales), driven by solid contributions to worldwide operational sales from the Abiomed acquisition but also continued recovery in elective procedures. The strong Medtech results boosted the modest, yet positive, growth in core Pharma and Consumer Health (3% and 5%, respectively).

“Our robust performance in the second quarter and first half of 2023 is a testament to the hard work and commitment of our colleagues around the world,” explained CEO Joaquin Duato. “We are entering the back half of the year from a position of strength with numerous catalysts, including becoming a two-sector company focused on Pharmaceutical and MedTech innovation.”

Management says it now expects to earn an adjusted \$10.70 to \$10.80 per share, up from \$10.60 to \$10.70 previously, on between \$98.8 billion to \$99.3 billion of sales, up from the prior range of \$97.9 billion to \$98.4 billion.

Despite facing plenty of litigation, JNJ has continued to produce plenty of operational momentum. While its Talc litigation will continue to be front and center and likely a near-term heavy influencer of share price direction, management announced that it plans to “split off” Kenvue shares (it’s Consumer Health business) for shareholders that are interested through an exchange offer fairly soon. We have long liked our exposure to JNJ and note that the earnings multiple is still below that of the overall market, so we are unlikely to take part in a Kenvue exchange. With a dividend yield of 2.8%, our Target Price for JNJ has been bumped up to \$212.

Shares of **Snap-on Inc.** (SNA – \$275.55) fell almost 6% last week (they have still returned 22% year to date) even as the automotive service industry leader reported top- and bottom-line results that were better than the consensus analyst estimates. Revenue of \$1.19 billion came in slightly above the average forecast and up almost 5% over Q2 2022. Adjusted EPS of \$4.89 was more than 7% greater than the consensus forecast of \$4.56. Reduced cost pressures, higher volumes and pricing helped drive a Q2 operating margin expansion of 160 basis points. The Repair Systems segment (30% of total sales) drove top-line expansion during the quarter, with revenue climbing by about 8% on contributions from increased undercar and diagnostic equipment sales to independent shops, as well as higher activity with OEM dealerships.

CEO Nick Pinchuk commented, “Our performance was again encouraging, demonstrating the broad and substantial strength of our enterprise, driving ongoing overall momentum in sales, in profitability, and in earnings, all achieved quarter by quarter in a range of environments. Today’s results confirm the wide opportunities along our runways for both growth and improvement. While activity may vary from period to period, we believe we are well positioned in our automotive repair operations, by enhancing the van channel and expanding with repair shop

owners and managers, and in our activities outside the garage, by consistently extending our businesses serving critical industries. At the same time, we also have extraordinary confidence in our Snap-on Value Creation Processes that have authored continuing improvement and have emphatically reaffirmed that power this quarter, delivering earnings advancements of considerable proportion in each of our operating segments. And, we believe that with this proven and effective approach we will maintain that positive trajectory as we proceed on through the days to come.”

We continue to think Snap-on will benefit from an aging North American vehicle fleet which is estimated to be approximately 12 years old, on average, with an ever-growing need to improve technician productivity given specialized labor constraints. And as new car purchases have been increasing (up a double-digit percentage in H1 2023 versus 2022), we expect service departments at dealerships across the country to increasingly rely on SNA’s specialty tools and sophisticated diagnostic solutions.

The company is conservatively financed with little debt on the balance sheet and the franchise remains competitively positioned within its market. The stock offers a dividend yield of 2.4% and shares trade at less than 15 times NTM projected adjusted EPS. Given the outperformance of SNA, we will continue to evaluate the go-forward risk/reward profile against potential new opportunities as they arise, but we think the recent pullback was simply profit-taking versus the start of a sustained downtrend. Our Target Price for SNA has been boosted to \$317.

Shares of **Newmont Corp** (NEM – \$43.21) fell almost 4% last week after the gold-mining giant reported Q2 financial results meaningfully below consensus analyst estimates. For the three-month period, NEM said revenue came in at \$2.68 billion, versus an expected \$2.93 billion, while adjusted EPS equaled \$0.33, trailing the average forecast by more than 22%.

Newmont said it produced 1.24 million attributable gold ounces and 256 thousand co-product gold equivalent ounces for the quarter and states that is it well positioned for stronger production in the second half of the year. The miner reported gold Costs Applicable to Sales (CAS) of \$1,054 per ounce and gold All-In Sustaining Costs (AISC) of \$1,472 per ounce, which was impacted by lower production volumes, although management believes costs will decrease in the second half of the year. Newmont says it is still on track to achieve full-year guidance of between 5.7 million and 6.3 million ounces of attributable gold production with Gold AISC between \$1,150 and \$1,250 per ounce; primarily driven by increased production at Ahafo, Tanami, Cerro Negro, Akyem and the two non-managed joint ventures at Nevada Gold Mines and Pueblo Viejo.

CEO Tom Palmer commented, “In the second quarter, Newmont delivered \$910 million in adjusted EBITDA with a disciplined approach to running a safe and sustainable mining business to generate long-term value. Our business is underpinned by the industry’s strongest balance sheet and a global portfolio with the size and scale to make decisions that deliver on our strategy. We remain on track to achieve our full-year guidance, and I am proud of the prudent decisions made during the second quarter to safeguard our workforce, protect long-term value and position Newmont to deliver a strong performance in the second half of the year.”

NEM continues to operate with a strong balance sheet, ending the quarter with \$2.8 billion of consolidated cash, \$374 million of short-term time deposits and \$6.2 billion of liquidity. Of course, the company has entered into a definitive agreement to acquire Newcrest Mining Limited, with the transaction expected to close in the fourth quarter, subject to customary conditions, including shareholder approval.

While all our holdings are always fighting for their position in our portfolios, our stake in NEM has generally been viewed as a pseudo inflation hedge, and it is relatively modest, while thus far we have been unwilling to average down (though at the right price, that could transpire). The dividend yield is an attractive 3.7%, while we think the miners are a much better vehicle to utilize than the actual metal should one desire gold exposure. Our Target Price for NEM remains \$59.

After a nice runup starting in late May, shares of global staffing firm **ManpowerGroup** (MAN – \$77.89) fell more than 7% last week following a weaker than expected Q2 earnings release and a Q3 forecast that was below forecasts. The three-month period saw MAN deliver adjusted EPS of \$1.29 on revenue of \$4.85 billion (versus the respective consensus analyst estimates of \$1.61 and \$4.85 billion). The company's forecast for Q3 adjusted EPS of \$1.32 to \$1.42 fell short of the prior estimate of \$1.53.

While we attribute another weakish quarter to temporarily softening market demand, Q2 saw Enterprise clients, which contribute over 60% of revenue, continue to pull back on hiring. As a result, Talent Solutions, an enterprise-focused brand, suffered a 9% revenue reduction. Its flagship offering, Recruitment Process Outsourcing, saw a significant decline as large corporations converted to in-house models to cut costs. The decrease in order volume was particularly pronounced in the U.S., which accounts for nearly a fifth of the firm's total revenue.

Management said that Q2 included restructuring costs and Argentina-related non-cash currency translation losses which reduced earnings per share by \$0.29. Excluding these costs, EPS was \$1.58 per diluted share. Argentina is required to be treated as a hyperinflationary economy and the currency translation losses reflect the devaluation of the Argentine peso during the quarter. Financial results in the quarter were also impacted by the stronger U.S. dollar relative to foreign currencies compared to the prior-year period, resulting in a 4 cent negative impact to EPS.

CEO Jonas Prising explained, “Our second quarter results reflect a challenging operating environment for recruitment and resourcing in the U.S. and Europe. However, we continued to see demand in certain segments within these markets and ongoing strength in Latin America and Asia Pacific Middle East. We are prioritizing improved productivity and the advancement of our strategic initiatives to position us well for strong performance when market conditions improve. As we start the third quarter, we have made the decision to wind down our Proservia managed services business in Germany. Although a difficult decision, this outsourcing business is not part of our go-forward strategy and will improve the profitability of our Northern Europe business going forward. We anticipate diluted earnings per share in the third quarter will be between \$1.32 and \$1.42, which includes an estimated favorable currency impact of 8 cents. Our guidance excludes expected restructuring costs and the aforementioned Argentina related impact of non-cash currency translation losses.”

There is no doubt that MAN will continue to face headwinds around the globe, but we still like that the company is shifting toward higher-value solutions and services. Additionally, we see the company maintaining its focus on higher-margin human resource solutions as multinationals increasingly look to outsource large-scale recruiting activities. We think growth in these areas will provide increased profitability on the go forward, while potentially reducing overall cyclicity.

We still believe the company's services will prove valuable whichever course the global economy takes. A persistently tight labor market requires flexible staffing solutions. On the other hand, companies may also rely on MAN should they need to downsize or rehire. And, despite the weaker-than-expected numbers of late, the company remains highly profitable. MAN has weathered many crises over its 70-plus-year history, while its solid financial footing has allowed it to continue to make acquisitions, pay dividends and buy back stock along the way (repurchasing \$50 million in Q2). The stock trades at an attractive forward P/E ratio of less than 13, and an investment offers strong free cash flow generation and a dividend yield of 3.8%. Our Target Price for MAN has been pared to \$132.

Shares of **Abbott Labs** (ABT – \$114.29) jumped almost 6% last week thanks to solid Q2 financial results, pushing the stock price back into the green for 2023. The healthcare products and services concern said it had adjusted EPS of \$1.08, versus the consensus analyst estimate of \$1.04. Revenue of \$9.98 billion was 2.6% better than the average analyst expectation.

ABT's organic sales growth for its underlying base business hit 11.5%, led by Medical Devices, Established Pharma and Nutrition. Diabetes Care continued its strong growth (up 19.4% year-over-year), with the quarter seeing the Freestyle Libre becoming the only continuous glucose monitoring system to be nationally reimbursed in France for all people with diabetes using insulin. The Neuromodulation business grew 15.1%, driven by the launch of Eterna, ABT's first rechargeable neurostimulation device for pain management, which targets a large segment of the market where ABT previously did not compete.

CEO Robert Ford explained, "We're achieving strong growth in our underlying base business. We expect our highly productive pipeline to sustain the momentum we're building this year and position us well for growth in the future."

Management announced that its projected full-year adjusted EPS from continuing operations of \$4.30 to \$4.50 remains unchanged and now reflects an increased outlook for the underlying base business offset by a lower predicted earnings contribution from COVID-19 testing-related sales. Abbott now looks for full-year 2023 organic sales growth, excluding COVID-19 testing-related sales, to be in the low double digits, and COVID-19 testing-related sales of approximately \$1.3 billion.

We continue to think very highly of Abbott and believe its diversified revenue stream offers resiliency to our portfolios. We see an attractive setup for medical devices in the years ahead and remain constructive on its growing Diabetes Care business. Additionally, we have optimism on ABT's R&D pipeline and believe it continues to be highly productive with several recent and

upcoming new product launches that position the company well going forward. Our Target Price has been adjusted upward to \$138.

Despite falling more than 6% on Friday following its Q2 financial release and earnings call, shares of **Bank OZK** (OZK – \$41.71) ended the week up 2.6% and have now rallied more than 33% since the mid-May lows. The downward pressure on Friday seemed to be driven not by financial results, but instead from an earnings estimate cut from research shop Piper Sandler, that also said it was concerned that the bank continues to be a target of short sellers due to its real-estate-heavy loan book. That said, investors and trading algorithms seemed to ignore that Piper still rates OZK as an overweight and increased its price target to \$59.

For Q2, OZK announced that diluted EPS was a record \$1.47, up 34% from the \$1.10 posted in the year-ago period. The bank's annualized returns on average assets, average common stockholders' equity and average tangible common stockholders' equity were 2.27%, 15.14% and 17.8%, respectively, compared to 2.02%, 12.4% and 14.69% for the year-ago period. Total loans were \$23.61 billion at the end of Q2, a 26% year-over-year increase. Deposits were \$23.98 billion at the end of the period, up from \$22.28 billion at the end of Q1 and a 20% increase from Q2 2022.

The quarterly provision for credit losses was \$41.8 million and \$77.6 million for the first six months of 2023 compared to \$7.0 million for the second quarter of 2022 and \$11.2 million for the first six months of 2022. The total allowance for credit losses was \$426.8 million, compared to \$299.9 million at June 2022. OZK's ratio of nonperforming non-purchased loans to total loans (excluding purchased loans) was 0.15%, versus 0.16% a year ago. The ratio of nonperforming assets to total assets (excluding purchased loans, except for their inclusion in total assets) was 0.32%, compared to 0.12% as of June 30, 2022. The annualized ratio of net charge-offs of total loans to average total loans was 0.15% for the second quarter and six months, compared to 0.01% for the second quarter and 0.00% for the six months ended June 30, 2022.

In short, credit quality has held up very well and CEO George Gleason commented, "We are pleased to report our record results for the quarter just ended, which continued our long tradition of industry-leading performance. Our strong earnings and capital have us well-positioned to grow and capitalize on opportunities resulting from the current macroeconomic and industry environment."

We continue to favor Bank OZK's strategy of growth through the slow building and acquisition of individual branches rather than the consolidation of entire banks. Mr. Gleason has stated this strategy makes culture assimilation easier, likely contributing to the impressive efficiency ratio that OZK consistently sports. We also like the unique exposure OZK offers to commercial and industrial lending, a typically more volatile segment of banking, as it has been able to produce above average net interest margin while experiencing mild loan losses (relative to peers) throughout its history. With a dividend yield of 3.5%, a NTM P/E below 8 and the fact that management continues to buy back stock, our Target Price for OZK shares has been fine-tuned to \$55.

Shares of **Comerica** (CMA – \$50.75) continued to grind higher last week, rising more than 7% and pushing the stock up 60% from its early-May lows. Of course, the price is still off 24% year to date, so there is not a whole lot to cheer about, even as our decision to average down in TPS Portfolio in April looks pretty good at present.

Adjusted EPS for the Dallas-based bank in Q2 came in at \$2.01, versus the average analyst forecast of \$1.88. Despite a projected slowing in net interest income growth, it was a strong quarter overall for CMA as deposits at quarter-end climbed 2% sequentially after having fallen 9% in the previous quarter. Loans increased by \$1.9 billion during Q2 and are now valued at \$55.4 billion.

CEO Curt Farmer stated, “Our second quarter results were strong with earnings per share of \$2.01, record average loans and our second highest quarter of noninterest income in history. The allowance for credit losses increased \$35 million to \$728 million at June 30, 2023, reflecting loan growth, the continuation of an uncertain economic outlook and credit migration. As a percentage of total loans, the allowance for credit losses was 1.31%, an increase of 5 basis points.”

He continued, “Customer deposits continued to normalize following the March banking industry disruption and stabilized in the second half of the quarter. Credit quality was excellent with another quarter of net recoveries, and noninterest expenses declined \$16 million from the first quarter as we remained committed to running an efficient organization. Our capital position continued to be a source of strength as profitability outpaced loan growth, and our CET1 ratio increased to 10.31% (we note that this is their highest level in the past few years).”

Mr. Farmer concluded, “With a third consecutive quarter of net recoveries, credit results remained excellent. Elevated interest rates continued to drive credit migration as we saw manageable increases in criticized loans (including nonperforming loans) to 4% of total loans, still below historical levels. This migration, along with loan growth and an uncertain economic outlook, drove a \$33 million provision expense for the quarter, and allowance for credit losses increased moderately to 1.31% of total loans. Customers remain focused on conservatively managing their businesses and liquidity as they prepare for potential economic volatility. With our proven credit discipline and relationship approach, we feel well positioned to support our customers.”

Whether due to a high exposure to variable-rate loans or its large percentage of uninsured deposits, we have long viewed Comerica as a stock with above-average risk and potential reward. Historically, CMA has had a meaningful portion of deposits earning little to no interest, and we can understand why some would be fearful about a flight of deposits or deposit costs jumping, even as management argues that it boasts advisor-style relationships with its small and midsize business clients. On the plus side, “hidden” losses from held-to-maturity investments are not an issue as Comerica has classified all its investment securities as available-for-sale. We believe CMA has the capital and experience to navigate the continued near-term regional-bank uncertainty and that investors will be well rewarded in the fullness of time for accepting greater risk today. The dividend yield is now 5.6% and our Target Price is \$73.

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