Market Commentary Monday, October 30, 2023

October 29, 2023

EXECUTIVE SUMMARY

Volatility – Ups & Downs are Normal; Stocks Have Persevered Through Plenty of Disconcerting Events

Econ Update – Better-than-Expected Numbers

Inflation – PCE In Line with Forecasts; Fed Likely on Hold

Valuations – Stocks, Especially Value, Reasonably Priced

Sentiment – AAII Becomes Much More Bearish

Stock News – Updates on GOOG, MSFT, META, VZ, WM, GD, ADM, MMM, BHE, ONB, WHR, GBX, KIM, AMT, COF, INTC, WKC, JNPR & SNY

Market Review

With a mass murderer on the loose in Maine and an escalation of Israel's operations in Gaza, it was difficult for traders last week to focus on anything but those disconcerting headlines. Alas, equities suffered another sizable decline, with the Russell 3000 Value index losing nearly 2.54% on a price basis, the 143rd worst week over the last 28 years.

Obviously, given that Value stocks have enjoyed terrific returns of 13.7% per annum since the launch of *The Prudent Speculator* in 1977, with Dividend Payers seeing an average annualized return of 12.3%, there have been plenty of positive weeks as well,...

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

	1990's	2000's	2010's	2020's	Totals
Years Ending in 0	0	7	8	9	24
Years Ending in 1	0	7	7	2	16
Years Ending in 2	0	6	3	10	19
Years Ending in 3	0	4	0	3	7
Years Ending in 4	0	3	5		8
Years Ending in 5	0	3	5		8
Years Ending in 6	1	2	1		4
Years Ending in 7	2	6	0		8
Years Ending in 8	6	16	8		30
Years Ending in 9	4	13	2		19
Totals	13	67	39	24	143

From 6.2.95 through 10.27.23. Weeks of Russell 3000 Value index price declines of greater than 2.53%. SOURCE: Kovitz using data from Bloomberg

	1990's	2000's	2010's	2020's	Totals
Years Ending in 0	0	10	11	13	34
Years Ending in 1	0	4	7	7	18
Years Ending in 2	0	7	4	9	20
Years Ending in 3	0	7	2	2	11
Years Ending in 4	0	5	4		9
Years Ending in 5	1	2	4		7
Years Ending in 6	4	3	6		13
Years Ending in 7	8	3	1		12
Years Ending in 8	8	8	4		20
Years Ending in 9	8	14	5		27
Totals	29	63	48	31	171

From 6.9.95 through 10.27.23. Weeks of Russell 3000 Value index price increases of greater than 2.53%. SOURCE: Kovitz using data from Bloomberg

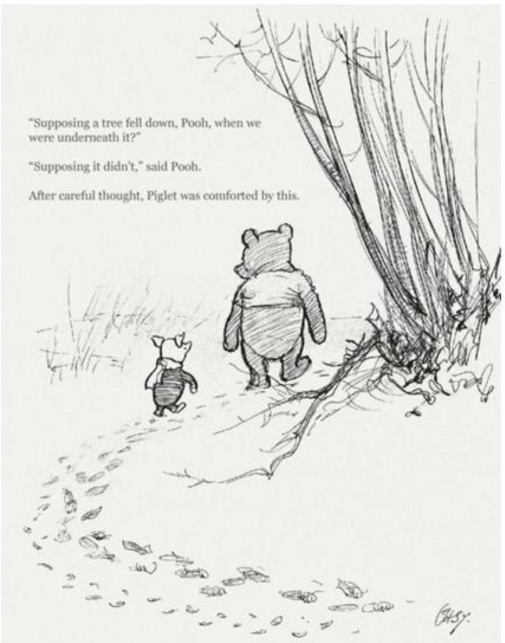
LONG-TERM RETURNS

	Annualized Return	Standard Deviation
Value Stocks	13.7%	17.9%
Growth Stocks	11.0%	18.9%
Dividend Paying Stocks	12.3%	14.7%
Non-Dividend Paying Stocks	11.9%	22.4%
Low 30% Dividend Payers	11.7%	17.8%
Middle 40% Dividend Payers	12.3%	14.9%
High 30% Dividend Payers	12.3%	13.9%
Long-Term Corporate Bonds	7.6%	10.1%
Long-Term Gov't Bonds	7.3%	11.2%
Intermediate Gov't Bonds	6.2%	5.3%
Treasury Bills	4.2%	1.0%
Inflation	3.6%	1.3%

From 03.31.77 through 06.30.23. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Dividend payers = 30% top of Fama-French dividend payers, 40% of middle Fama-French dividend payers, and 30% bottom of Fama-French dividend payers rebalanced monthly. Non-dividend payers = Fama-French stocks that do not pay a dividend. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

...with uncertainty seemingly always something with which investors must contend.

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 Start Value	S&P End Value	Event Gain/Loss	12 Months Later	36 Months Later	60 Months Later	Event End thru Present
Pearl Harbor	12/6/1941	12/10/1941	9.32	8.68	-7%	8%	51%	76%	47335%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	27349%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	24570%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	9563%
Suez Canal Crisis	10/30/1956	10/31/1956	46.37	45.58	-2%	-10%	26%	51%	8933%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	10463%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	7597%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	5815%
MLK Assassination	4/3/1968	4/5/1968	93.47	93.29	0%	8%	8%	16%	4314%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	5358%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	4368%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	5783%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	3813%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	4092%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	3346%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	2443%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	1582%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	1731%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	1202%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	994%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	900%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	829%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	801%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	715%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	369%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	329%
Clinton Impeachment	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	235%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	207%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	326%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	349%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	277%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	244%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	509%
Price Changes Only - Does Not Include Dividends				**Averages:**	**-7%**	**18%**	**39%**	**66%**	**5659%**

As of 10.27.23. Source: Kovitz using Bloomberg and Ned Davis Research Events & Reaction Dates

To be sure, volatility will always be part of the investment equation, and the tech-centric S&P 500 index is now suffered a 10% decline from the summer highs, something that has happened 101 times going back to 1926. So-called corrections have taken place every 11 months or so, on average, despite the stellar long-term returns on average for stocks over those nine-plus decades,...

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

Advancing Markets

Minimum Rise %	Average Gain	Average # Days	Count	Frequency (in Years)	Last Start	Last End
20.0%	110.3%	970	28	3.3	10/12/2022	7/31/2023
17.5%	67.2%	575	40	2.3	10/12/2022	7/31/2023
15.0%	64.9%	549	47	2.0	10/12/2022	7/31/2023
12.5%	44.4%	336	74	1.3	10/12/2022	7/31/2023
10.0%	35.0%	245	101	0.9	10/12/2022	7/31/2023
7.5%	23.6%	148	161	0.6	3/13/2023	7/31/2023
5.0%	14.7%	72	316	0.3	3/13/2023	7/31/2023

Declining Markets

Minimum Decline %	Average Loss	Average # Days	Count	Frequency (in Years)	Last Start	Last End
-20.0%	-35.1%	286	27	3.4	1/3/2022	10/12/2022
-17.5%	-30.3%	219	39	2.4	1/3/2022	10/12/2022
-15.0%	-28.0%	185	46	2.0	8/16/2022	10/12/2022
-12.5%	-22.7%	137	73	1.3	8/16/2022	10/12/2022
-10.0%	-19.5%	101	101	0.9	7/31/2023	10/27/2023
-7.5%	-15.4%	65	161	0.6	7/31/2023	10/27/2023
-5.0%	-10.9%	36	316	0.3	7/31/2023	10/27/2023

From 02.20.28 through 10.27.23. S&P 500 Price return series. We defined a Declining Market as an instance when stocks dropped the specified percentage or more without a recovery of equal magnitude, and an Advancing Market as in instance when stocks appreciated the specified percentage or more without a decline of equal magnitude. SOURCE: Kovitz using data from Bloomberg, Morningstar and Ibbotson Associates

LONG-TERM RETURNS

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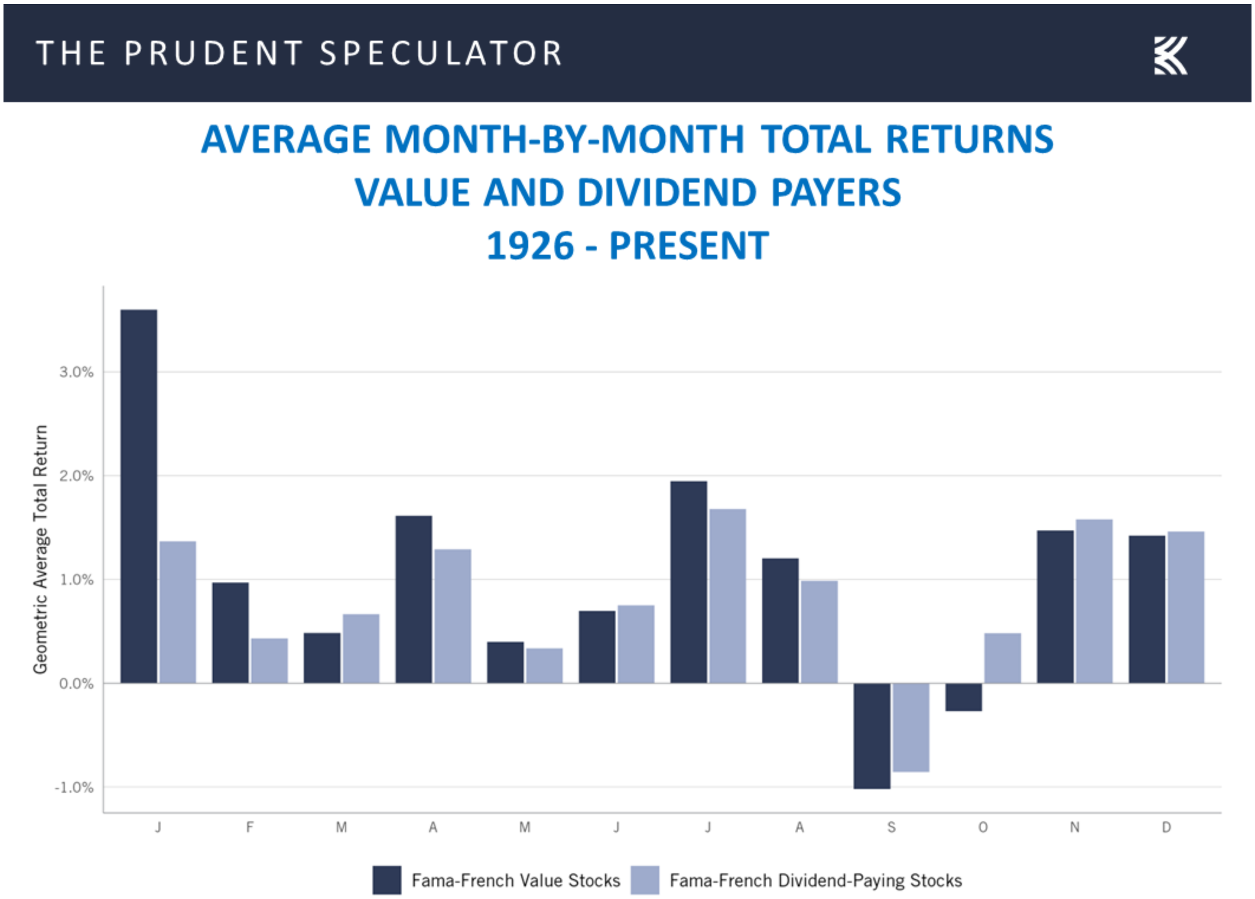
Growth Stocks	9.6%	21.4%
Dividend Paying Stocks	10.6%	18.0%
Non-Dividend Paying Stocks	9.0%	29.3%
Long-Term Gov't Bonds	5.1%	8.7%
Intermediate Gov't Bonds	4.9%	4.4%
Treasury Bills	3.2%	0.9%
Inflation	3.0%	1.8%

From 06.30.27 through 06.30.23. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Dividend payers = 30% top of Fama-French dividend payers, 40% of middle Fama-French dividend payers, and 30% bottom of Fama-French dividend payers rebalanced monthly. Non-dividend payers = Fama-French stocks that do not pay a dividend. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

...while history shows that September and October are the only two months of the year where Value stocks have suffered losses, on average.



From 05.30.26 through 06.30.23. Geometric average. 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. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

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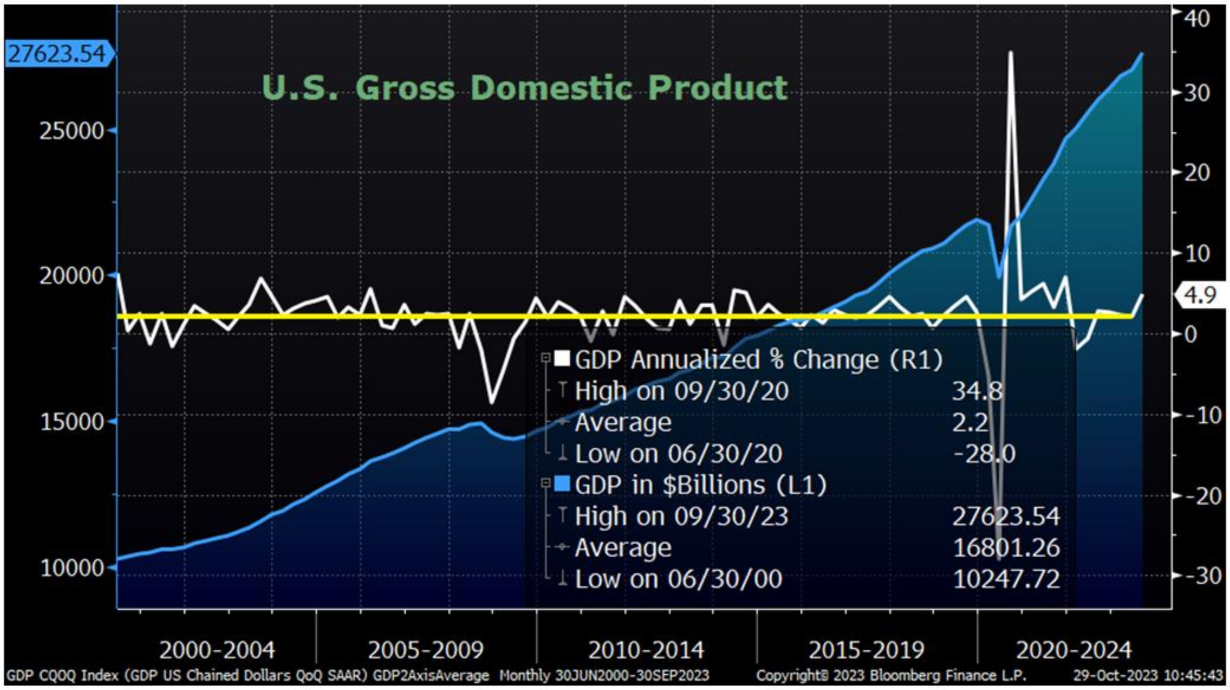
Of course, anything can happen as we go forward, and we suspect developments in the Middle East will have a sizable impact on the near-term direction stocks traverse,...

Certainly, it is tough to watch the news these days, given the bloodshed on both sides of the Gaza/Israel border. Unfortunately, war in this part of the world has occurred before and will likely happen again. That is not meant to diminish the current or past humanitarian crises, but we continue to think that long-term-oriented investors should stick with stocks even with turmoil in the Middle East.

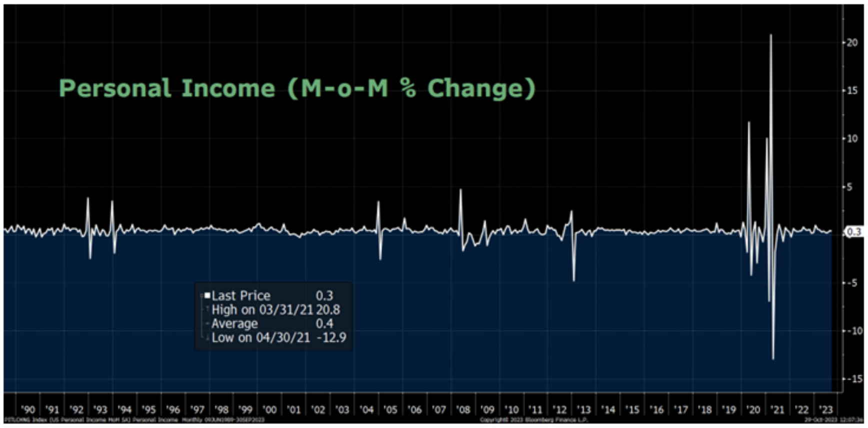
Arab-Israeli Conflicts	Date	S&P 500 Value	6 Months Later	12 Months Later	36 Months Later	60 Months Later	Event thru Present
War of Independence	11/29/1947	14.98	11%	-1%	29%	71%	27386%
Suez Crisis	10/29/1956	46.40	-1%	-12%	24%	47%	8774%
Six-Day War	6/5/1967	88.43	8%	13%	-14%	23%	4556%
Yom Kippur War	10/6/1973	109.85	-15%	-43%	-6%	-6%	3648%
Lebanon War	6/5/1982	110.09	26%	49%	73%	167%	3640%
First Intifada	12/8/1997	982.37	14%	20%	39%	-7%	319%
Second Intifada	9/28/2000	1,458.29	-21%	-29%	-32%	-17%	182%
Second Lebanon War	7/12/2006	1,258.60	14%	23%	-30%	4%	227%
2008 Gaza War	12/27/2008	872.80	5%	29%	45%	111%	372%
Israel Gaza Strip Operation	11/14/2012	1,355.49	22%	32%	49%	90%	204%
2014 Gaza War	7/8/2014	1,963.71	5%	4%	23%	52%	110%
11-Day War	5/6/2021	4,201.62	12%	-2%			-2%
Price Changes Only - Does Not Include Dividends		**Averages:**	**7%**	**7%**	**18%**	**49%**	**4118%**

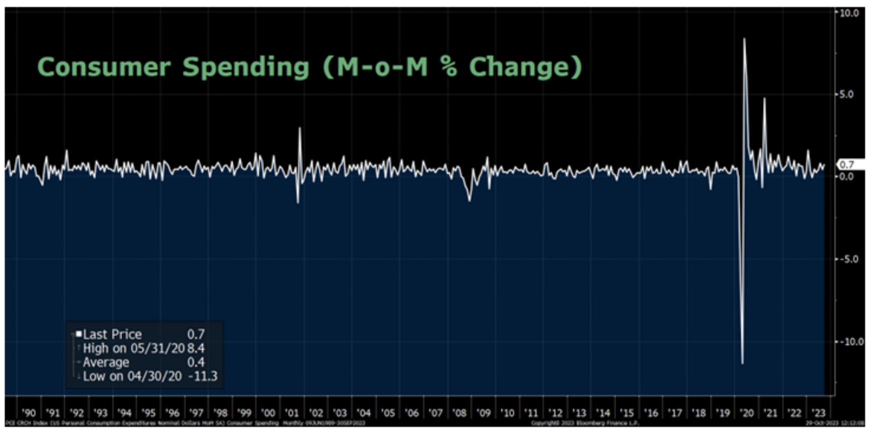
As of 10.27.23. Source: Kovitz using Bloomberg, New York Times, Wikipedia and https://www.britannica.com/event/Arab-Israeli-wars

...but we are now only two trading days from the start of the seasonally favorable six month of the year, while the economic news out last week might have led to a sizable equity rally under more normal geopolitical conditions. After all, Q3 U.S. GDP growth came in better than expected at a 4.9% real (inflation-adjusted) rate,...

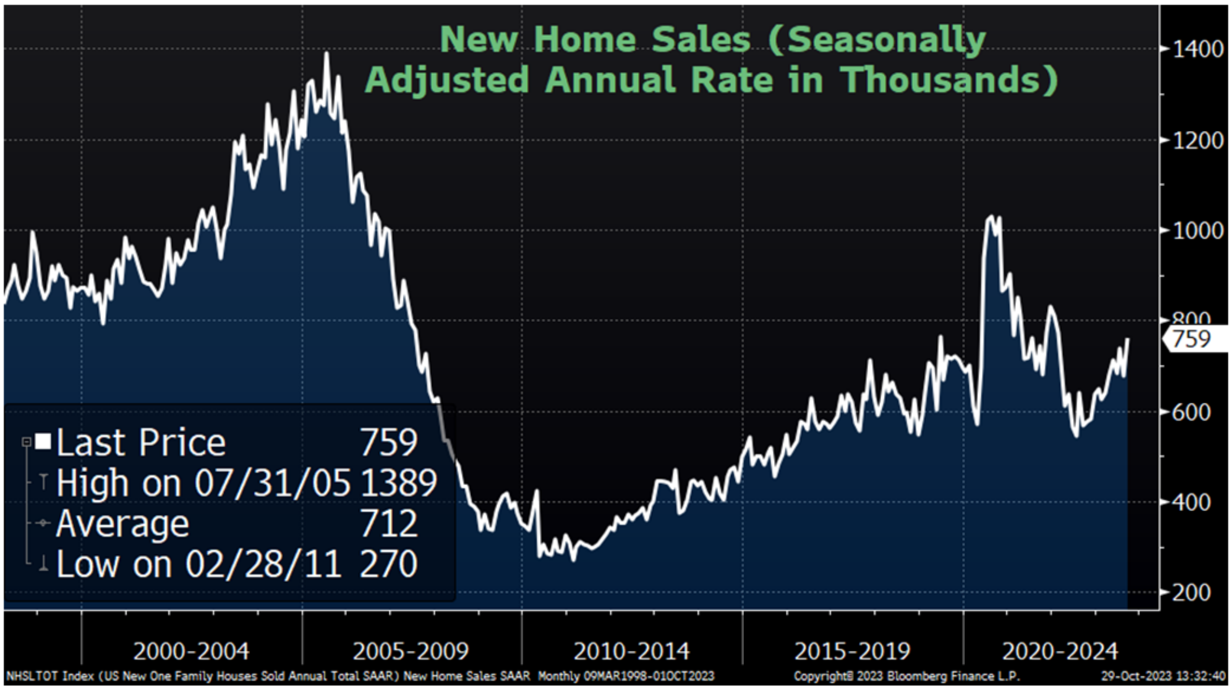


...as consumer spending remained robust, while personal incomes grew modestly.

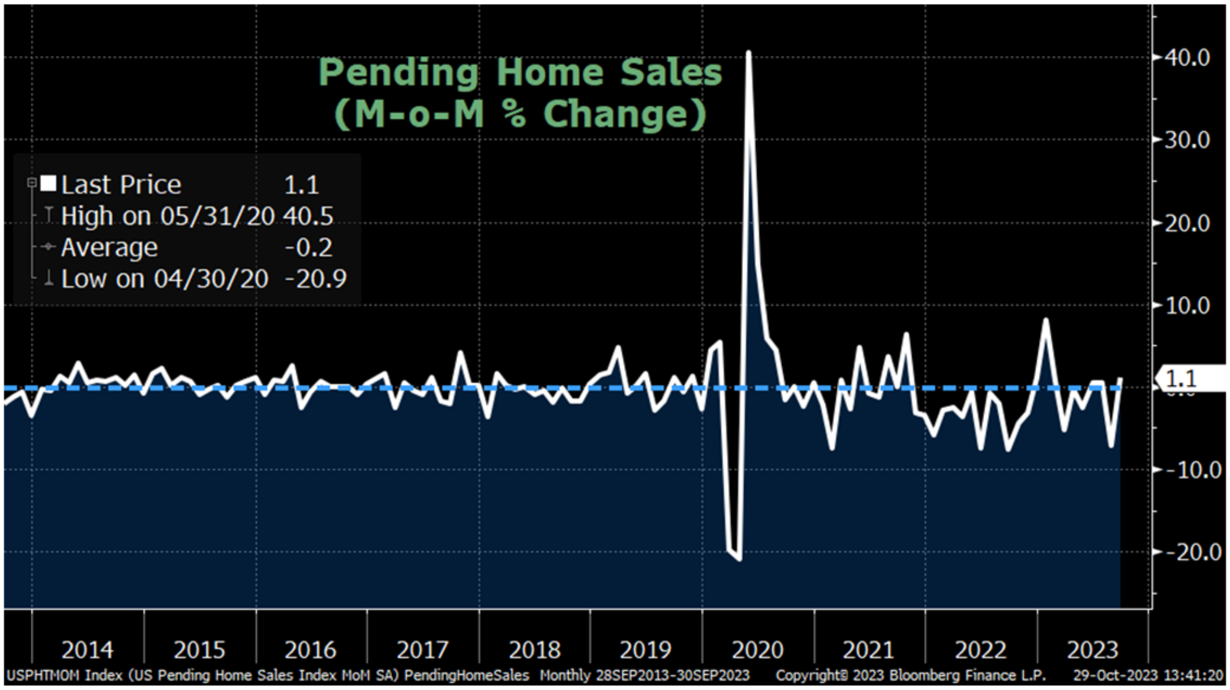




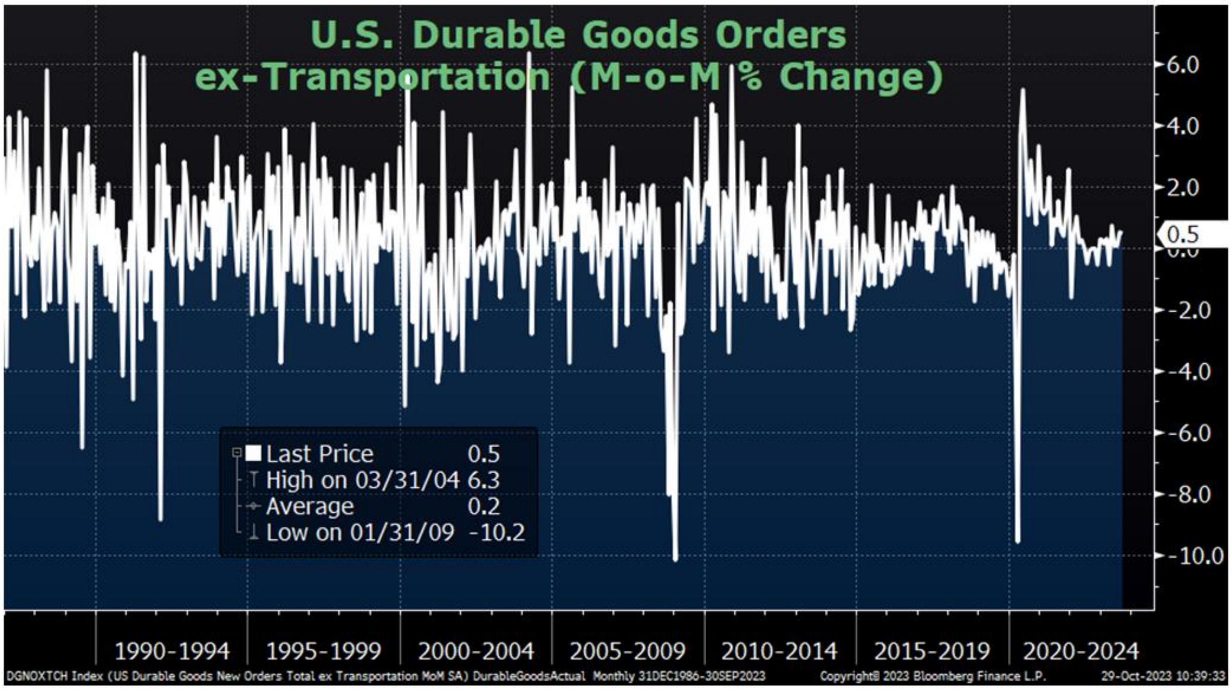
The housing market also held up better than most might have thought in September, with both new home sales,...



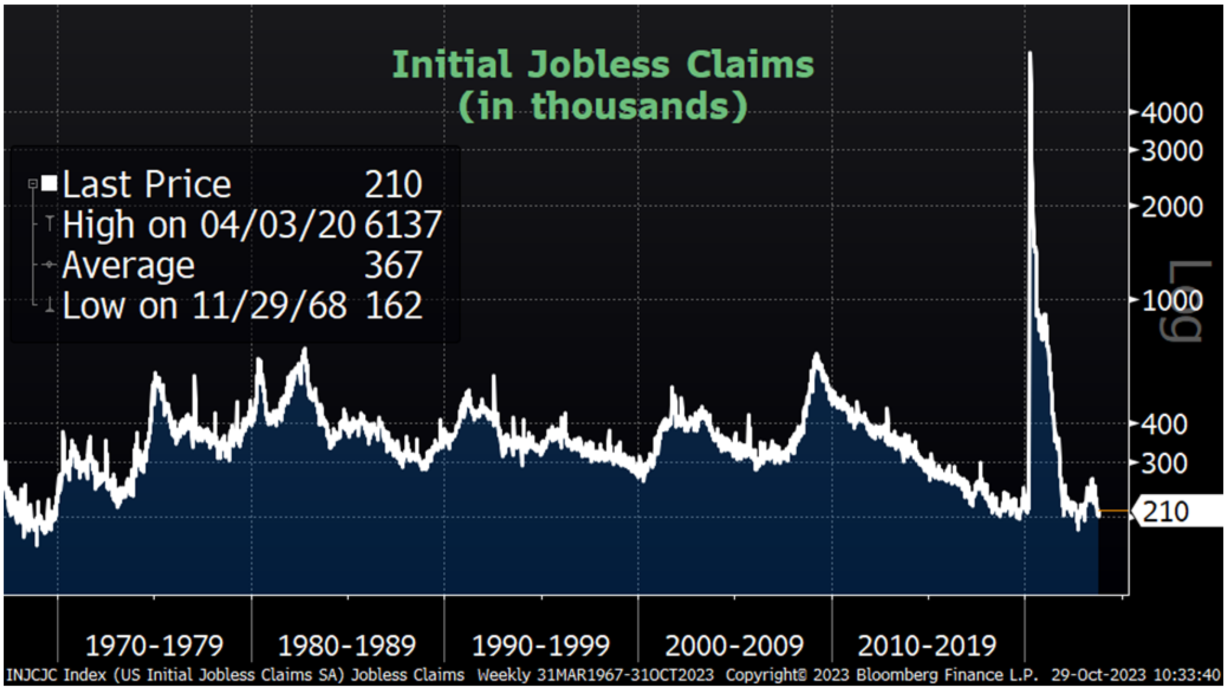
...and pending sales of existing homes topping much-more-pessimistic estimates.



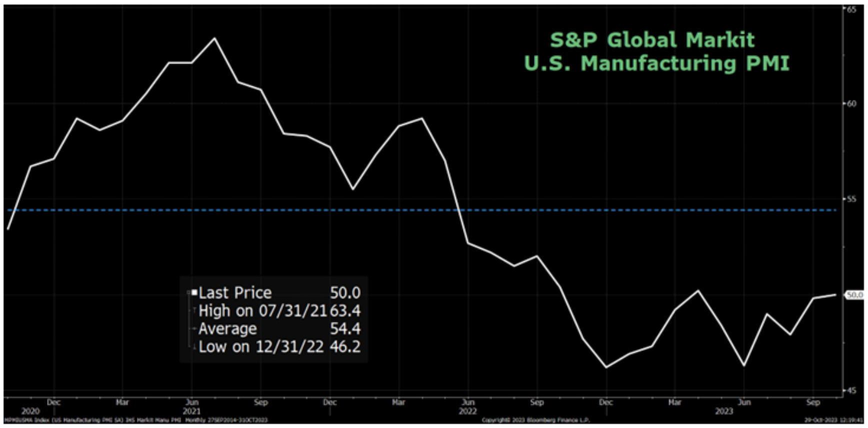
Looking ahead, orders for durable goods exceeded expectations in September, with a 0.5% advance excluding the volatile transportation sector,...

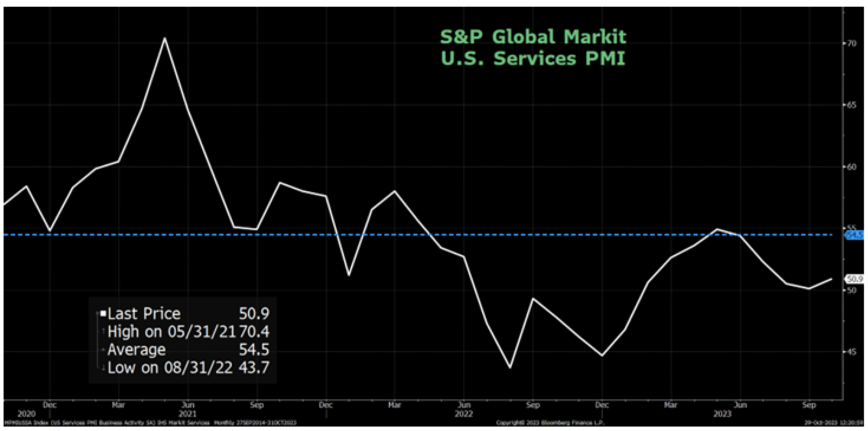


…first-time filings for unemployment benefits continued to rest near multi-generational lows,…

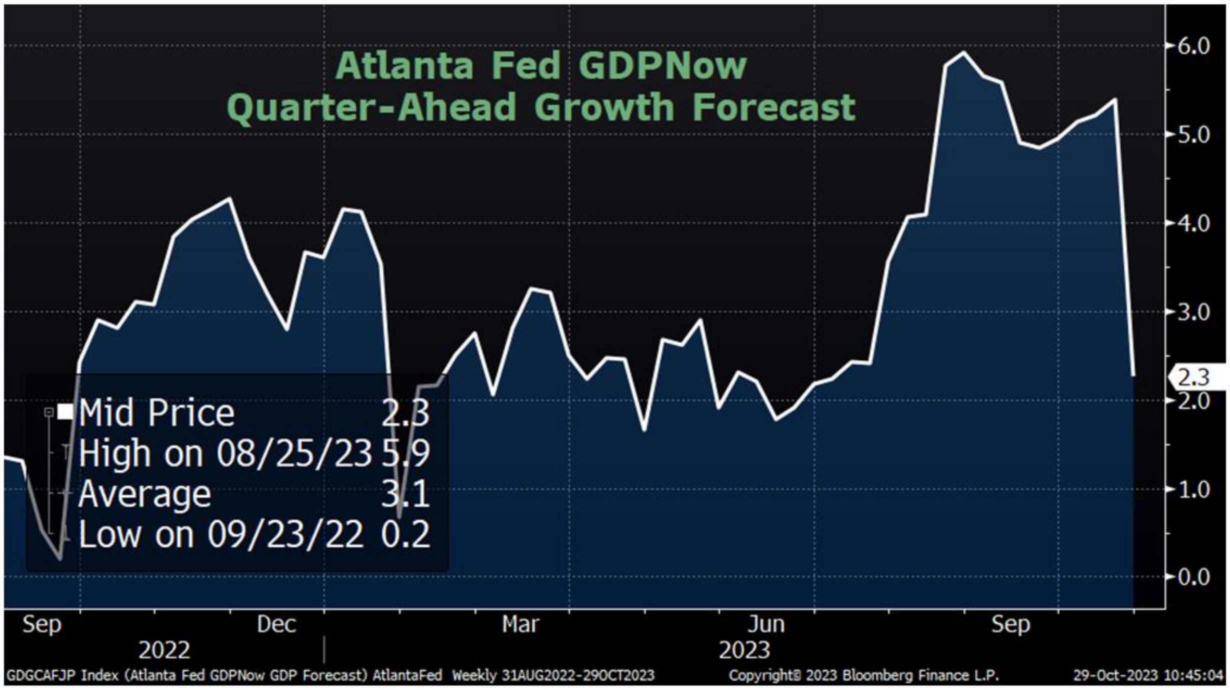


…and the October factory and service sector PMI's as calculated by *Standard & Poor's* beat forecasts, with Chris Williamson, chief business economist at *S&P Global Market Intelligence*, stating, "Hopes of a soft landing for the U.S. economy will be encouraged by the improved situation seen in October."

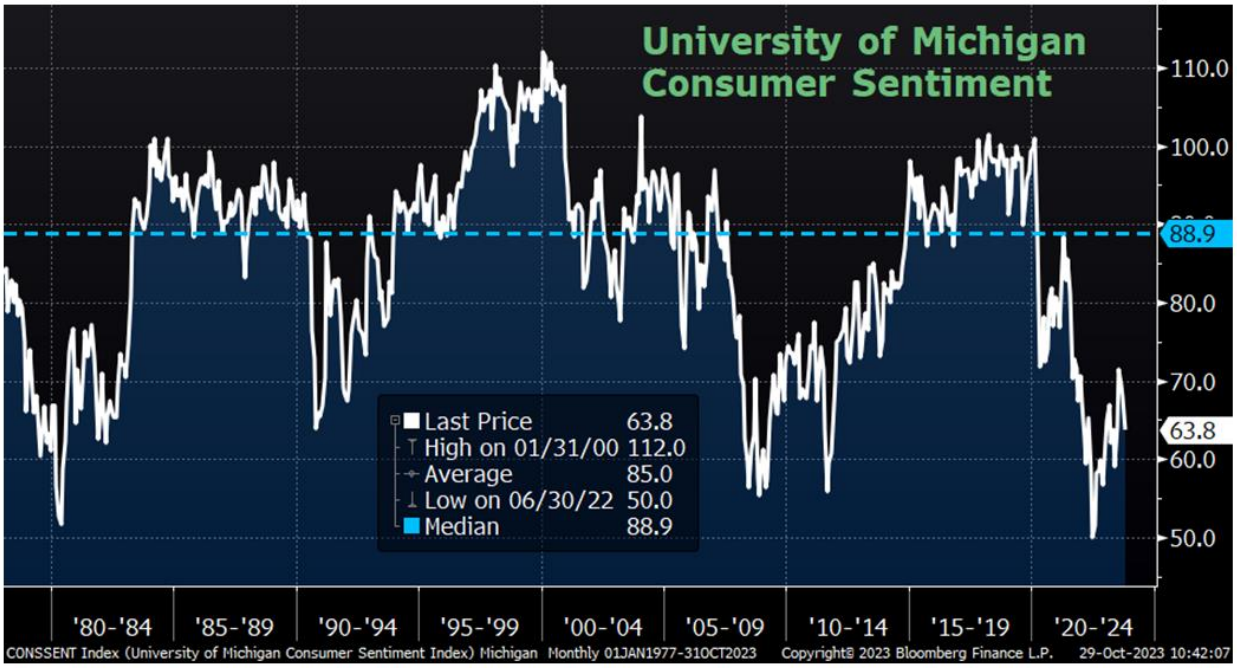




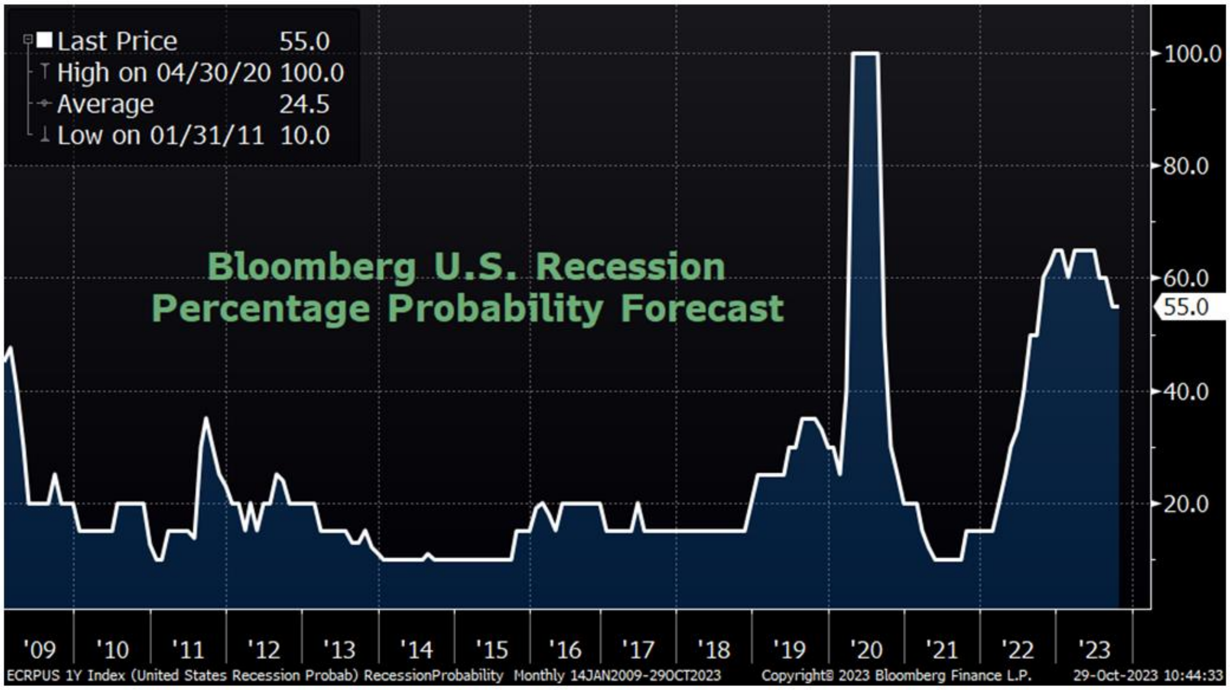
The initial estimate for Q4 real GDP growth from the Atlanta Fed came in at a solid 2.3%,...



…even as the latest tally on consumer sentiment from the Univ. of Michigan didn't provide much to cheer about,…



...and the probability calculation for a recession in the next 12 months as tabulated by *Bloomberg* continued to reside at an elevated 55%.



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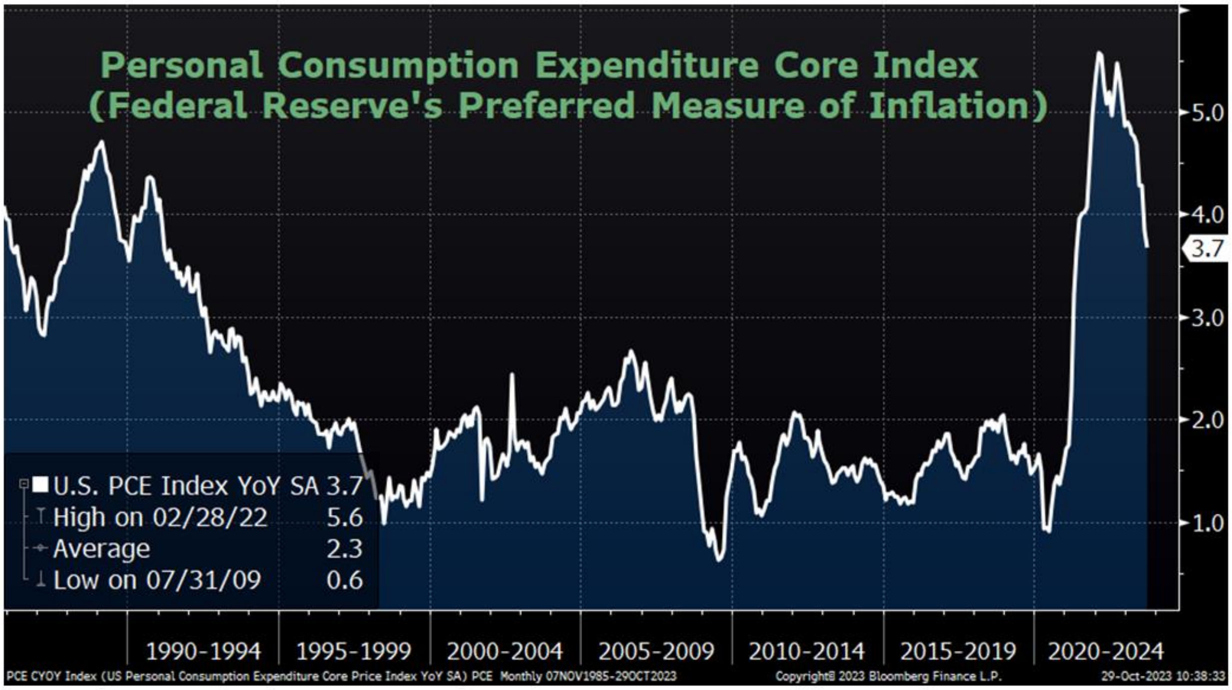
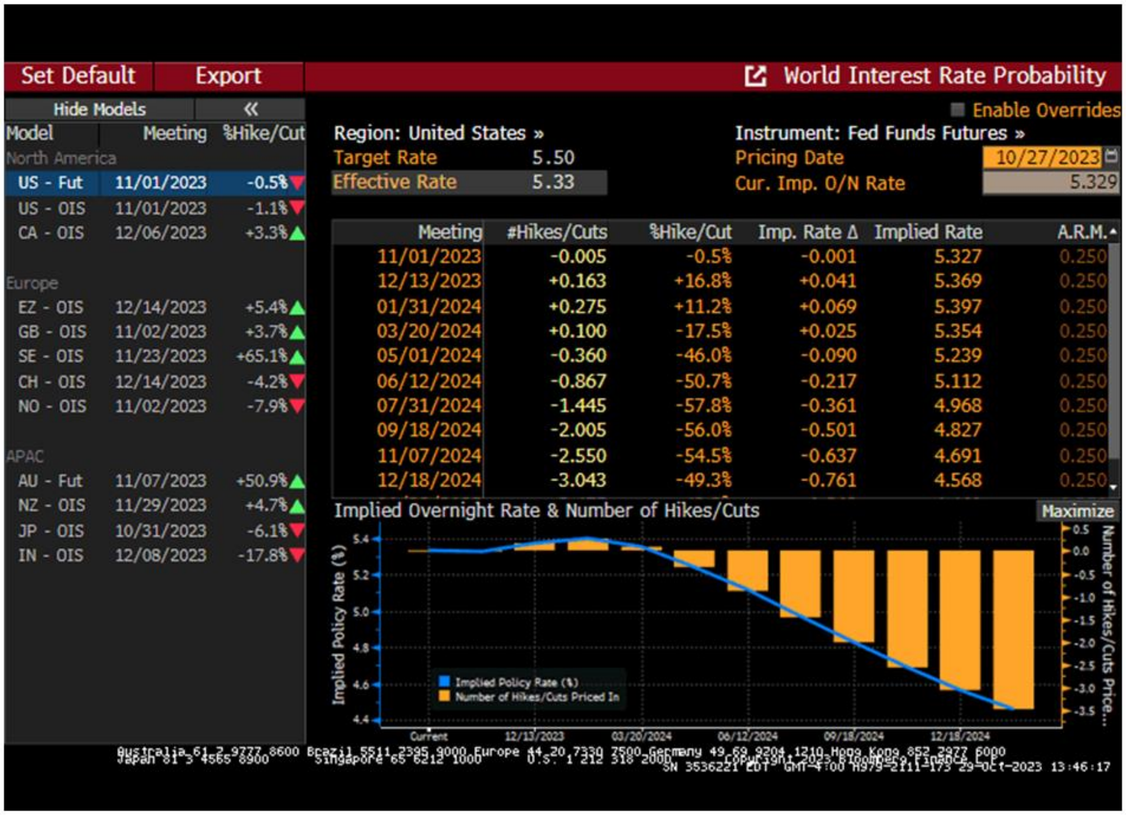
Turing to the inflation outlook, the Federal Reserve's preferred price measure, the core personal consumption expenditure index rose 3.7% in September, in line with expectations.

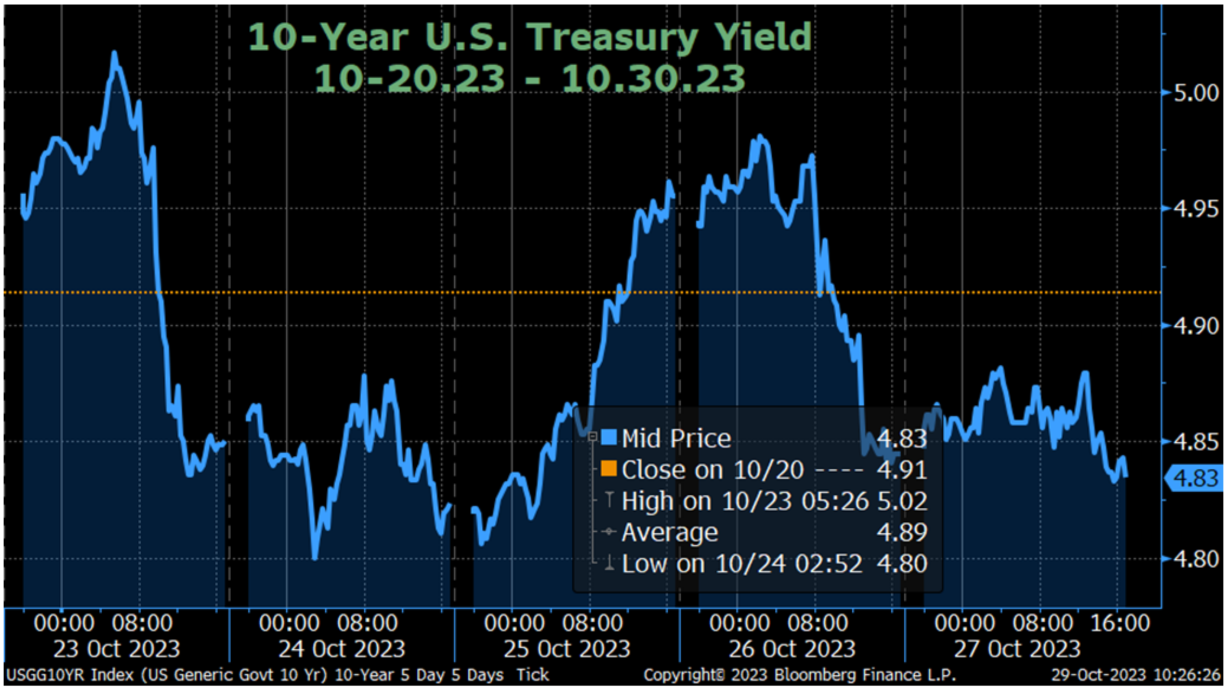


True, there was some concern that near-term consumer inflation expectations have moved higher this month, but longer-term estimates remained reasonably well-anchored,...

...and there was less likelihood last week than the week prior for additional rate hikes from Jerome H. Powell & Co., per the Fed Funds futures market,...



...while the benchmark 10-Year U.S. Treasury yield fell from 4.91% to 4.83%.



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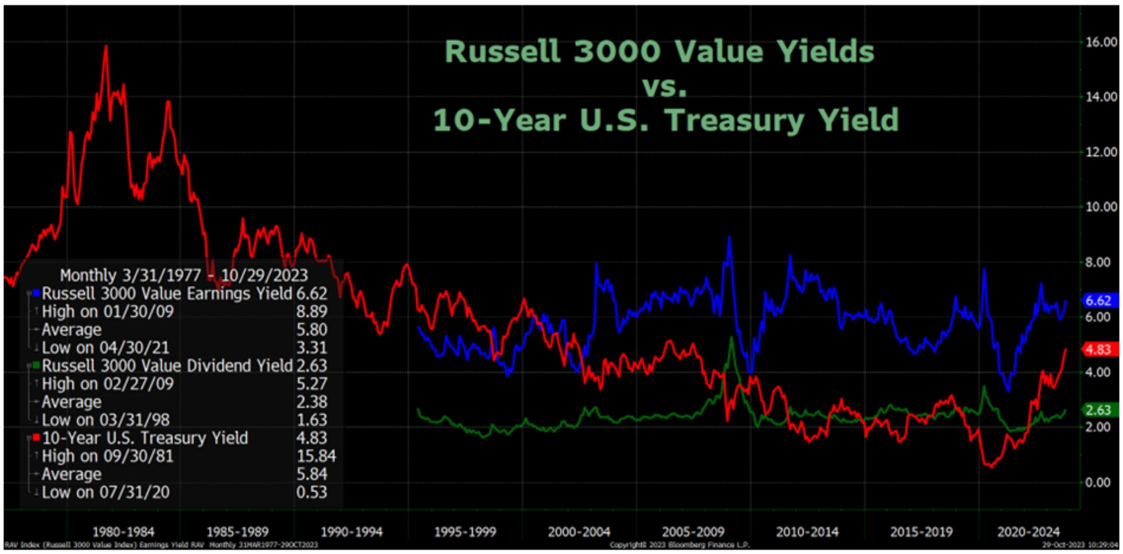
As we constantly state, we are braced for additional equity market downside, but we see no reason to alter our long-term enthusiasm for equities, especially given the reasonable valuations for Value stocks in general,...

While the Earnings Yield, which is the inverse of the P/E ratio, on the S&P 500 (4.95%) is still reasonable relative to the current 4.83% yield on the 10-Year U.S. Treasury, we like that Value stocks, as measured by the Russell 3000 Value index, boast a higher Earnings Yield (6.62%) AND a higher dividend yield (2.63%) than the historical norms for those measures dating back to 1995.



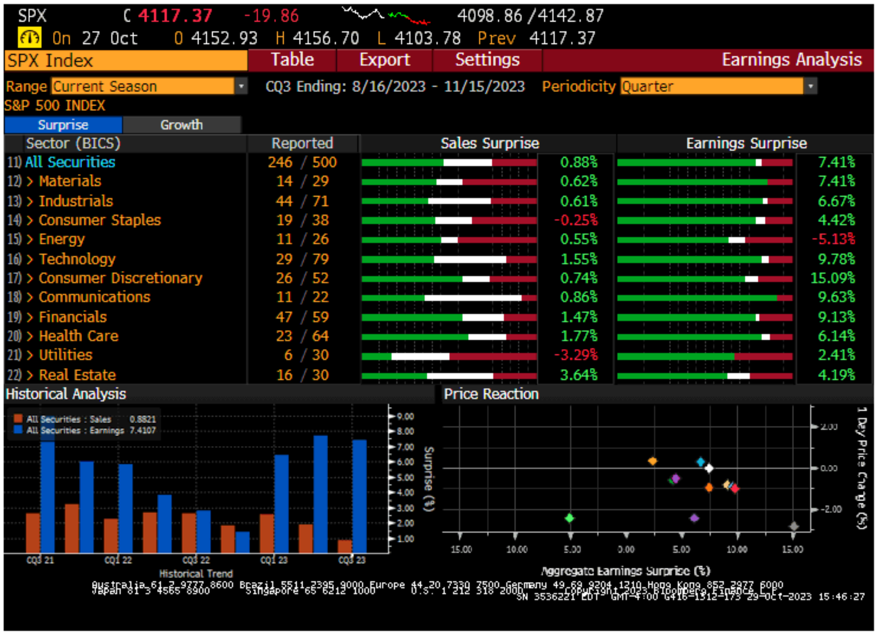
...and our broadly diversified portfolios of what we believe to be undervalued stocks in particular.

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	12.5	11.5	0.7	2.0	3.1
ValuePlus	13.0	11.8	1.0	2.0	2.7
Dividend Income	12.2	11.7	0.7	2.0	3.5
Focused Dividend Income	14.4	12.5	0.9	2.1	3.4
Focused ValuePlus	14.7	12.9	1.1	2.3	2.8
Small-Mid Dividend Value	10.5	9.8	0.4	1.4	3.3
Russell 3000	20.9	19.2	2.0	3.5	1.7
Russell 3000 Growth	31.5	26.7	3.5	9.9	0.8
Russell 3000 Value	15.1	14.6	1.4	2.1	2.6
Russell 1000	20.7	19.0	2.2	3.8	1.6
Russell 1000 Growth	30.6	26.3	3.8	10.8	0.8
Russell 1000 Value	15.1	14.4	1.4	2.2	2.6
S&P 500 Index	20.2	19.0	2.3	3.9	1.7
S&P 500 Growth Index	22.4	21.8	3.4	6.9	1.3
S&P 500 Value Index	18.2	16.6	1.6	2.6	2.1
S&P 500 Pure Value Index	9.9	9.9	0.4	1.1	3.1

As of 10.28.23. 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.

There have been negative reactions to more than few quarterly reports from Corporate America of late, but we think the Earnings component of the P/E equation is poised for continued growth,...



S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2024	$64.96	$244.59
9/30/2024	$62.74	$235.71
6/30/2024	$60.12	$228.09
3/31/2024	$56.77	$222.81
12/31/2023	$56.08	$218.58
9/30/2023	$55.12	$212.87
ACTUAL		
6/30/2023	$54.84	$208.10
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 10.25.23

…while we are not unhappy, given our contrarian nature, that folks on Main Street have again become pessimistic, with the latest Sentiment Survey from the American Association of Individual Investors (AAII) seeing a 4.8-point drop in the Bulls and an 8.6-point rise in the Bears.

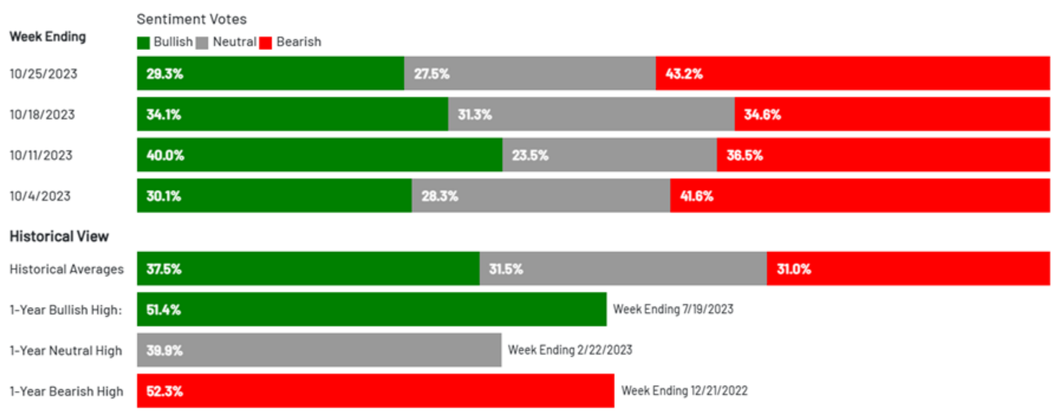
The AAII Investor Sentiment Survey

The AAII 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.

AAII Members can login to vote in the AAII Investor Sentiment Survey today!

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



There are never any assurances that past performance is indicative of future performance, but there is a historical reason that AAII is widely viewed as a contra-indicator. We aren't quite to the most-Bearish-Sentiment-best-forward-returns decile, but the second decile in which we now reside has been a place we have liked to dwell in years gone by, on average!

AAII Bull-Bear Spread Deciles & Subsequent Equity Returns

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	949	0.23%	0.19%	1.16%	1.02%	3.37%	2.98%	6.57%	5.82%
ABOVE	7.0	62.9	940	0.17%	0.16%	0.53%	0.44%	1.96%	1.71%	4.59%	4.11%
	Ten Groupings of 1889 Data Points										
1	-54.0	-17.0	189	0.42%	0.35%	2.20%	1.96%	4.86%	4.34%	9.09%	7.92%
2	-17.0	-9.0	191	0.23%	0.19%	0.95%	0.82%	3.53%	3.16%	5.98%	5.21%
3	-8.9	-2.7	187	0.34%	0.31%	1.04%	0.93%	3.58%	3.19%	7.76%	7.07%
4	-2.7	2.3	189	0.14%	0.11%	0.88%	0.78%	2.22%	1.84%	5.16%	4.59%
5	2.5	7.0	193	0.04%	0.01%	0.72%	0.63%	2.69%	2.43%	4.91%	4.39%
6	7.0	11.4	184	0.20%	0.19%	0.71%	0.63%	2.24%	2.02%	4.98%	4.52%
7	11.4	16.0	192	0.19%	0.17%	0.41%	0.28%	2.08%	1.82%	4.96%	4.45%
8	16.0	21.7	186	0.12%	0.10%	0.86%	0.79%	2.19%	1.95%	5.67%	5.25%
9	21.7	29.0	192	0.14%	0.12%	0.40%	0.32%	1.81%	1.52%	4.77%	4.22%
10	29.0	62.9	186	0.23%	0.21%	0.28%	0.20%	1.47%	1.24%	2.58%	2.14%

From 07.31.87 through 10.26.23. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

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 *Sell 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 **Alphabet** (GOOG – $123.40) dropped nearly 10% last week after the internet media and services giant turned in Q3 results that included disappointing Cloud revenue. Alphabet earned $1.55 per share (vs. $1.45 est.) and had revenue excluding TAC (traffic acquisition cost) of $64.1 billion, a figure $1.0 billion better than analysts were expecting. Google advertising revenue was $59.7 billion (vs. $58.9 billion est.) and YouTube advertising was $150 million better than projected. The problem for traders was that Google Cloud revenue was $8.4 billion, a figure which trailed the $8.6 billion consensus estimate and has been considered one of Google's best segments for growth.

CFO Ruth Porat offered the outlook, "With respect to Google Services, first within advertising. After a period of historic volatility, we were pleased with the year-on-year revenue growth of Search and YouTube advertising in the third quarter. Second, within Other revenues, in our YouTube subscription products, the substantial growth in revenues primarily reflects subscriber growth. Looking ahead, a full quarter of NFL Sunday Ticket revenues as well as associated content acquisition costs, will be reflected in Q4 results, compared to only a few weeks in the third quarter. Play had solid growth in the third quarter, driven primarily by an increase in the number of buyers. With respect to hardware, there is a headwind to revenues in the fourth quarter, reflecting efforts to optimize the portfolio with tighter targeting of our go-to-market investments as well as the ongoing impact from the difference in launch timing for the Pixel 6a and 7a that we mentioned last quarter."

Ms. Porat continued, "Our reported CapEx in Q3 was $8 billion, driven overwhelmingly by investment in our technical infrastructure, with the largest component for servers, followed by data centers, reflecting a meaningful increase in our investments in AI compute. The growth in reported cash CapEx in Q3 is somewhat muted due to the timing of supplier payments, which can cause variability from quarter-to-quarter. We continue to invest meaningfully in the technical infrastructure needed to support the opportunities we see in AI across Alphabet and expect elevated levels of investment, increasing in the fourth quarter of 2023 and continuing to grow in 2024. In closing, we remain very excited about the opportunities ahead and committed to deliver sustainable financial value."

Alphabet shares retreated following the Q3 results but have still managed a 39% gain this year. While the quarter was a bit of a setback for Cloud growth hopes, we think the Advertising and Search businesses have not run out of demand and can continue to offer sizable growth opportunities, even if analysts and investors are looking to the Cloud for the next phase of Alphabet's corporate life. Of course, the prospects for generative A.I. continue to fuel excitement among Tech investors, even if there isn't the hoopla that propelled stocks earlier this year, and we like that Alphabet's management team has been thoughtful about its implementation. Marketing dollars continue to be spent in large quantities and we continue to think GOOG is a terrific company trading at a reasonable valuation. We also like the EPS growth prospects, which analysts project to be in the 14% to 25% range annually through 2026. Alphabet sits on a mountain of cash ($120 billion of cash versus $13 billion of long-term debt) and the company has been retiring shares. Not seeing much wrong with the quarter or outlook, our Target Price for GOOG is now $169.

Microsoft (MSFT – $329.81) managed a $3+ gain during an otherwise brutal market week as the software giant offered fiscal Q1 2024 results that beat analyst expectations. MSFT earned $2.99 per share (vs. $2.66 est.) and had revenue of $56.5 billion (vs. $54.5 billion est.). Productivity and Business Processes segment revenue was $18.6 billion (vs. $18.3 billion est.), Intelligent Cloud segment revenue was $24.3 billion (vs. $23.6 billion est.) and More Personal Computing segment revenue was $13.7 billion (vs. $12.9 billion est.). Overall Cloud segment revenue was $31.8 billion (vs. $32.2 billion est.).

CEO Satya Nadella said, "We are off to a strong start to the fiscal year, driven by the continued strength in Microsoft Cloud, which surpassed $31.8 billion in quarterly revenue, up 24%. With Copilots, we are making the age of AI real for people and businesses everywhere. We are rapidly infusing AI across every layer of the tech stack, and for every role and business process to drive productivity gains for our customers."

Mr. Nadella offered brief comments on the Activision merger (which closed on October 13), "We were delighted to close our acquisition of Activision Blizzard King earlier this month. Together, we will advance our goal of bringing great games to players everywhere on any endpoint. Already with Game Pass, we're redefining how games are distributed, played, and discovered. We set a record for hours play per subscriber this quarter. We released Starfield this quarter to broad acclaim. More than 11 million people have played the game to date. Nearly, half of the hours played have been on PC and on launch day, we set a record for the most Game Pass subscriptions added on a single day ever. Minecraft has now surpassed 300 million copies sold, and with Activision Blizzard King, we now adds significant depth to our content portfolio. We will have $13 billion-plus franchises from Candy Crush, Diablo, and Halo to Warcraft, Elder Scrolls and Gears of War. And we're looking forward to one of our strongest first-party holiday lineups ever, including new titles like Call of Duty: Modern Warfare 3 and Forza Motorsport."

CFO Amy Hood added, "Consistent execution by our sales teams and partners drove a strong start to the fiscal year. Results exceeded expectations and we saw share gains again this quarter across many businesses, as customers adopt our innovative solutions to transform their businesses. In our commercial business, the trends from the prior quarter continued. We saw healthy renewals, particularly in Microsoft 365 E5 and growth of new business continued to be moderated for standalone products sold outside the Microsoft 365 suite. In Azure, as expected the optimization trends were similar to Q4. Higher-than-expected AI consumption contributed to revenue growth in Azure. And our consumer business, PC market unit volumes are returning to pre-pandemic levels. Advertising spend, landed roughly in line with our expectations and in gaming strong engagement helped by the Starfield launch benefited Xbox content and services. Commercial bookings increased 14% and 17% in constant currency, in line with expectations, primarily driven by strong execution across our core annuity sales motions, with continued growth in the number of $10 million plus contracts for both Azure and Microsoft 365."

Ms. Hood offered the company's outlook, "We expect COGS between $19.4 billion to $19.6 billion, including approximately $500 million of amortization of acquired intangible assets from the Activision acquisition… Now, some additional thoughts on H2 as well as the full fiscal year. First, FX, assuming current rates remain stable, we expect FX to have no meaningful impact to full-year revenue COGS or operating expense growth. Therefore, in H2, we expect FX to decrease revenue COGS and operating expense growth by 1 point. Second, Activision, we expect approximately $900 million for purchase accounting adjustments as well as integration and transaction-related costs in each quarter in H2. For a full FY '24, we remain committed to investing for the cloud and AI opportunity, while also maintaining our disciplined focus on operating leverage. Therefore, as we add the net impact of Activision, inclusive of purchase accounting adjustments as well as integration and transaction-related expenses, we continue to expect full-year operating margins to remain flat year-over-year."

It's interesting that two Tech sector giants (MSFT and Alphabet) turned in quarters that were dramatically different for the "same" Cloud segment. We put same in quotes because Cloud is the same at face value, but that's about it. The word is now a catch-all for distributed resources and clearly company earnings can vary substantially depending on which area of Cloud computing is served. Therefore, we are cautious when comparing one company's segment results to another and have been selective in our years-long theme of owning companies with Cloud-oriented businesses such that there is sufficient diversification within our portfolios.

Microsoft shares have gained 38% this year and analysts project EPS growth between 15% and 19% in each of the next three years, though the valuation is far from cheap. The forward EPS hovers just below 30, while it'll drop to 'just' 22x by 2026 if Microsoft manages to grow earnings from $9.68 in fiscal 2023 to $15 in 2026. Overall, we think the balance sheet is robust, the management team is capable, Cloud growth is sustainable, and earnings projections might be on the conservative end. We are relieved to see the Activision deal close and appreciate the upside it's expected to bring to MSFT. Our Target Price for MSFT has been hiked to $398.

Shares of **Meta Platforms** (META – $296.73) dropped about 4% last week despite the social media titan reporting that it earned $4.39 per share in Q3, well ahead of the $3.70 expected by the Street. Total revenue came in at $34.1 billion, a 23% increase year-over-year, while expenses decreased by 7% compared to the previous year, driven by lower marketing spend and headcount-related costs.

The Family of Apps segment demonstrated continued growth, with approximately 3.96 billion people using at least one of Meta's apps on a monthly basis, while Facebook daily active users (DAUs) reached 2.09 billion and monthly active users (MAUs) grew by 91 million to reach 3.05 billion. The Family of Apps generated $33.6 billion in ad revenue, with online commerce the largest contributor to growth. Revenue in the highly scrutinized Reality Labs segment declined by 26% primarily due to lower Quest 2 sales, generating a $3.7 billion operating loss even as expenses remained flat. Meta plans to continue hiring in key areas such as AI, infrastructure and Reality Labs in 2024, likely contributing to higher expenses and an increase in payroll costs.

CEO Mark Zuckerberg commented on Meta's Reels product, which he said "continues to do very well." He added, "We estimate that with all the ranking and product improvements that we've made, Reels has now driven more than 40% increase in time spent on Instagram since launch. We also reached a monetization milestone earlier-than-expected, and we estimate that Reels is now net neutral to overall company ad revenue…In many ways, Reels has now graduated from being an early initiative to now being a core part of our apps. So going forward, we're going to continue focusing on Reels, but we'll also look at growing it as part of our overall portfolio of video services, which make up more than half of the time that is spent on Facebook and Instagram. And there's a lot more to do across all of these."

He further explained, "AI advances are driving a lot of our product and business performance. Generative AI will increasingly be important going forward…There is also a different set of sophisticated recommendation AI systems that powers our feeds, Reels, ads, and integrity systems. And this technology has less hype right now than generative AI, but it is also very important and improving very quickly…AI-driven feed recommendations continue to grow their impact on incremental engagement. This year alone, we've seen a 7% increase in time spent on Facebook and a 6% increase on Instagram as a result of recommendation improvements."

Mr. Zuckerberg concluded, "This was a good quarter. I'm pleased with our progress on efficiency this year. We're a leaner organization, shipping faster and advancing the state-of-the-art in all of our long-term initiatives. And while investing heavily for the future, we also just recorded our highest operating margin in two years. So, I'm looking forward to carrying this product momentum and operating discipline forward."

Despite the modest drop last week, shares are up nearly 150% year-to-date, no doubt a response by investors to the company's about-face on its Metaverse buildout, but also to the success of Reels. We think the latter proves how nimble META can be despite its size, given a willingness of management to make tough decisions toward both growth and knowing when it's time to step back. Despite the gains year-to-date, we think shares are not expensive with EPS projected to climb near $20 by 2025 and we like the terrific cash-rich balance sheet. Still, we acknowledge that META is somewhat of a lightning rod holding so we are mindful of its weight in our portfolios. For now, our Target Price is $377.

Telecommunications and wireless phone service provider **Verizon Communications** (VZ – $33.44) earned an adjusted $1.22 per share in Q3 2023 (vs. $1.18 est.). Management maintained its full-year EPS outlook range between $4.55 and $4.85. Wireless segment revenue growth is expected in the 2.5% to 4.5% range. Verizon benefitted from a "disciplined promotional strategy," as well as cost efficiency gains and reductions in capital outlays. Cash flow was used to pay down debt, pay the dividend and improve the balance sheet.

CEO Hans Vestberg said, "I'm pleased to share our strong third quarter results, making another quarter with solid growth and improving profitability. It is clear that our strategy is working. In both the consumer and the business groups, we're executing a segmented, agile strategy, that provides value to our customers and our bottom line. We have delivered growth in each of the areas we asked you to grade us on, wireless service revenue, EBITDA and free cash flow. This is evidence that we have the right strategy and are achieving our results in a financially disciplined way… We're optimizing our network while returning to business-as-usual levels of CapEx. We're finding cost efficiencies across our business, both as a result of our new structure, and by emphasizing profitability when evaluating new opportunities like within business wireline. Our cost efficiency program remains on-track to meet our savings goal of $2 billion to $3 billion annually by 2025."

CFO Tony Skiadas added, "We are raising [free cash flow] guidance even with CapEx at the upper-end of our range and absorbing the headwinds from interest expense. Strong free cash flow provides flexibility and enables us to deliver on our capital allocation priorities. As Hans said, within the third quarter, we executed a successful $2.6 billion debt tender of which a majority was floating rate, while also increasing our dividend once again. Additionally, given our cash position and the performance of the business, this month we paid approximately $3.7 billion of spectrum clearing costs, primarily using operating cash flow. The remaining spectrum payments are minimal and will be made in 2024. Net unsecured debt at the end of the quarter was $122.2 billion, an improvement of $4.3 billion from the end of second quarter, and $7.1 billion lower year-over-year. We ended the quarter with $4.2 billion of cash-on-hand."

After struggling this year amid a high-rate environment (relative to the recent past) and then taking a drubbing after the lead-based sheathing reports last quarter, VZ shares rose nearly 6% for the week on the Q3 news. Shares have pared YTD total-return losses to the single digits, while we think plenty of upside remains. It's hard not to like VZ's massive 8.0% yield in addition to capital appreciation potential, even if it's not the highest flier. Analysts project little earnings growth to a modest contraction, so the dividend is a useful 'reward' that makes it a lot easier to be patient while management repositions the company. Our Target Price for VZ now resides at $55.

Environmental and waste services firm **Waste Management** (WM – $161.38) reported Q3 EPS of $1.63, versus the $1.56 consensus analyst estimate. During the three-month period, WM generated $5.20 billion of revenue, trailing investor forecasts of $5.27 billion. Revenue from the Collection, Landfill and Transfer segments grew in the low-single-digit range, while Recycling revenue dropped 13% year-over-year.

WM CEO Jim Fish commented, "Our third quarter results are a testament to our team's ability to deliver on the priorities we set for 2023. Including increasing profitability through disciplined pricing and optimal — and optimizing our cost structure. Against the challenging backdrop, we've remained focused on the things we can control, and this diligent focus is evident in our third quarter results. Adjusted operating EBITDA grew by more than 6% and margin expanded 100 basis points to 29.6%, when compared to Q3 of 2022. Our strong results in the quarter were powered by our solid waste business. Organic revenue growth in the collection and disposal business remains solid and is tracking well against our expectations. Third quarter core price of 6.6% reflects robust price performance across all lines of business. We're also pleased with the resilience of our solid waste volumes as commercial volumes turn to mostly positive and special waste growth improved from the second quarter."

Mr. Fish concluded, "Our investments in developing the blueprint for a modern recycling facility sets us apart within the communities we serve and are unlocking further growth opportunities. With one quarter remaining in the year, we're well-positioned to deliver on the 2023 financial outlook we provided last quarter, including adjusted operating EBITDA growth of 6% at the midpoint. We continue to expect a margin run rate exiting the year of about 29%, underpinned by 62% operating expenses as a percent of revenue and 9% SG&A as a percent of revenue. We're pleased with our results through the first nine months of the year. Our team is very focused on price discipline and cost optimization, deliver a strong finish to the year, and lay the groundwork for further growth in 2024. I want to thank each of our team members for their commitment to our customers and their many contributions to our success."

After doing well (for a low-beta stock) following our purchase in the early innings of the pandemic, WM shares have ho-hummed along since the end of 2021. The company is hardly stuck in neutral. The EPS figure has grown substantially over that time, from $4.03 in 2020 to $5.59 in 2022, while analysts project more than $7.50 of earnings in 2026. Near-term P/E multiples are not horribly expensive. The forward twelve-month P/E is 25x and if WM is able to hit the 2026 target, it'd pencil out to 21x at the current price. If multiples expand—and we think they should—WM shares would rise as EPS rises, which would be a nice shareholder return in addition to the company's 1.7% dividend yield. We like our exposure to the garbage hauling business for the long run and our Target Price has been boosted to $190.

Giant defense contractor **General Dynamics** (GD – $238.25) reported EPS of $3.04 in Q2 (vs. $2.91 est.), a 7% decrease year-over year. Revenue grew by 6% year-over-year to $10.57 billion (vs. $10.06 billion est.) bolstered by strong results from three of the company's four segments. Aerospace contracted 13% year-on-year to $2.03 billion, while Technologies grew 8% to $3.31 billion, Marine Systems grew 8% to $3.00 billion and Combat Systems grew 24% to $2.22 billion.

CFO Jason Aiken stated, "Order performance was good in the quarter in all segments, and particularly strong at Gulfstream and the Marine segment… We enjoyed a strong quarter, particularly so in light of the supply chain and program mix headwinds that time will cure."

Controller Bill Moss added, "We had another very good quarter from an orders perspective, with an overall book-to-bill ratio of 1.4 to 1 for the company. This was particularly impressive with the strong revenue growth in the quarter. Marine Systems and Aerospace led the way with book-to-bill ratios of 2.3 and 1.4, respectively. For the second quarter in a row, this led to record level backlog of $95.6 billion at the end of the quarter, up 4.6% from last quarter, and up 7.6% from a year ago. Our total estimated contract value, which includes options and IDIQ contracts, ended the quarter just shy of $133 billion. Moving to our cash performance, this was another strong story in the quarter, with over $1.3 billion of operating cash flow. This brings us to $3.5 billion of operating cash flow through the first nine months of the year."

GD spent $363 million on dividends and repurchased 250,000 shares in Q3, bringing the total capital returned to shareholders in the first three quarters of the year nearly $1.5 billion. General Dynamics also repaid $500 million of August-maturity debt and ended the quarter with $1.3 billion in cash on the balance sheet.

Shares had a decent gain last week and are roughly flat this year, having bounced from the low in June. Gulfstream continues to perform well, as evidenced by the 1.3-to-1 book-to-bill ratio, along with the $20.1 billion backlog (which was $11.6 billion at the end of 2020). GD continues to deliver business jets at a healthy clip and the G700 business jet flight test and certification program is expected to conclude in Q4. Shares trade at 16 times forward EPS estimates with a dividend yield of 2.2%. Our Target Price for GD is now $291.

Agricultural giant **Archer-Daniels-Midland** (ADM – $70.04) earned $1.63 (vs. $1.52 est.) in Q3 as strong export demand boosted volumes and margins in South America, while North American results were lower due to shifts in export demand to Brazil and challenges related to low water levels in the U.S. river system. Carbohydrate Solutions was the lone segment to grow operating margin, given strong demand and better margins for starches, sweeteners, wheat flour and ethanol. In the Nutrition segment, the base animal business showed signs of recovery with pockets of strength in flavors, health and wellness. However, lower demand for plant-based proteins and fulfillment challenges in pet solutions weighed on results.

CEO Juan Luciano explained, "ADM again delivered a strong quarter in increasingly dynamic market conditions as we continued to adjust our business model to meet the evolving needs of our customers. Through targeted investments in innovation and a focus on efficiencies that align to our customers' goals, we are strengthening critical partnerships and expanding our new profit opportunities to deliver additional shareholder value."

He added, "Ag Services & Oilseeds delivered another solid quarter, leveraging the strength of our Brazilian export capabilities, extending regenerative agriculture partnerships, and commissioning our Spiritwood production facility to serve growing demand for renewable green diesel. Carbohydrate

Solutions drove strong results through excellent execution in favorable ethanol, starches and sweeteners margin environments, while extending customer wins in BioSolutions and formally advancing the Broadwing Energy project for lower carbon intensity power generation in Decatur. Within Nutrition, the outstanding growth of Flavors continues to outpace the market, and Health & Wellness is developing the next generation of evidence-based solutions, while we address pockets of softness in other areas of the portfolio. With strong performance to date in 2023 and a constructive expectation for the remainder of the year, we are again raising our full-year earnings outlook."

Management raised the 2023 earnings outlook and now anticipate full-year EPS in excess of $7.00 per share.

Archer-Daniels is one of the largest global agricultural processors and food ingredient providers. As a refiner of various agricultural commodities like soybeans and corn, we acknowledge the cyclical and often volatile nature that characterizes ADM's businesses. Nevertheless, Archer remains a solid play on the real economy should inflation stay elevated for longer than many expect, while we think trends supporting long-term demand growth in agriculture remain intact. Shares trade for less than 11 times flat EPS projections for the next few years and yield 2.6%. Our Target Price is now $104.

3M (MMM – $87.52) earned $2.68 in Q3 as a focus on customer needs, efficient production, cost-saving initiatives, inventory management, spending control and restructuring actions contributed to a 160-basis-point increase to operating margin (23.2%). Sales came in on the higher end of management's guidance range at $8 billion, while pre-tax restructuring benefits of $400 million to $450 million are expected to be realized for the full year. Free cash flow also improved 39% year-on-year to $1.9 billion. Softness in consumer electronics contributed to mid-single-digit declines in the electronics business, while the conglomerate experienced high-single-digit declines in the consumer sector.

3M returned $828 million to shareholders through dividends and reduced net debt by 11% year-on-year, while the company anticipates additional financial flexibility from the spin-off of its Health Care business. Management bumped its full-year adjusted EPS guidance to $8.95 to $9.15, up from a previous range of $8.60 to $9.10. Adjusted free cash flow conversion is expected to reach between 100% to 110%, up from 90% to 100% previously.

CEO Mike Roman said, "We continue to deliver against our priorities. We are driving performance throughout 3M with strong operational execution, restructuring actions, and spending discipline.... We are progressing with our restructuring actions to streamline our organization, reduce structural costs, and get us closer to customers. We have leaned out the center of our Company, simplified our global supply chain organization, and optimized our global go-to-market models. At the same time, we are advancing supply chain performance to improve service, drive productivity and yield, expand gross margins, and increase cash conversion. These results are being supported by initiatives that use our continuous improvement toolkit and leverage data and data analytics."

On the litigation front, Mr. Roman added, "We announced the Combat Arms settlement and we are working with all parties and the courts to implement it. The settlement administration process has been established and funded. The bellwether trial verdicts have been settled and the process for notifying and settling with claimants has begun. With respect to PFAS, the public water supplier settlement we announced last quarter has received preliminary court approval. We successfully resolved objections from state attorneys general and are working toward approval with the final hearing set for early February next year."

We think 3M is slowly moving in a positive direction to refine its edge in the industrial space, which includes spinning off its health care division to be merged with Neogen. We expect 3M will exit its remaining stake over time, and we think the focus on the performing businesses will prove helpful to long-term shareholder returns. There are many obstacles that may still impact the bottom line, but we think shareholders lured by an inexpensive valuation and hefty yield will find an eventual shift in headwinds more than favorable for a stock that had long enjoyed a premium...or at least market...price-to-earnings multiple. Shares have fallen to the lowest level in a decade, while EPS have improved by more than one third over that time frame. The battered Blue Chip boasts a dividend yield approaching 7%, while our Target Price is now $150.

Shares of **Benchmark Electronics** (BHE – $24.05) gained more than 4% after the electronics designer and manufacturer delivered a Q3 report that included a Q4 outlook that missed estimates. For the three-month period, BHE said its revenue reached $720 million, versus expectations of $702 million. Adjusted EPS in Q4 was $0.57, compared to the forecast of $0.52.

“Excluding SCP, we grew revenue by high single digits or more in four of our six sectors, the exceptions being Semi-Cap and advanced computing, which were down as expected. Whether including or excluding SCP, we expanded gross margin both sequentially and year-over-year, primarily through operational improvements we’ve put in place over the last few quarters. This enabled us to grow non-GAAP operating income an impressive 22% year-over-year,” said CEO Jeff Benck. “Over the last few quarters, we’ve highlighted steps we’ve taken to return to positive free cash flow. I’m pleased to report that we delivered this for the second quarter in a row, aided largely by reductions in inventory. We have generated over $34 million in free cash flow over the last two quarters. Considering that, and our continuing focus, we feel confident we’re on a trajectory to achieve greater than $70 million in annualized free cash flow, which is in line with the targets we provided.”

CFO Roop Lakkaraju added, “Our cash balance on September 30 was $261 million, a sequential increase of $16 million. As of September 30, we had $129 million outstanding in our term loan, $305 million outstanding borrowings against our revolver and $241 million available to borrow under our revolver. In Q3, we paid our recurring quarterly cash dividend of $5.9 million.”

Mr. Lakkaraju continued, “For Q4, we expect revenue, excluding SCP, to range from $675 million to $725 million. SG&A expense will range between $35 million and $38 million. Excluding SCP, our non-GAAP operating margin range is forecasted to be 4.8% to 5%. Our non-GAAP diluted earnings per share is expected to be in the range of $0.54 to $0.60. Other expenses net are expected to be approximately $9 million due to primarily interest expense. We expect that for Q4 our non-GAAP effective tax rate will be between 19% and 21% with the weighted average share count of 35.99 million.”

The earnings per share figure for BHE was flat year-over-year, while revenue dipped 7%, indicating that the company is facing some headwinds, even as cost controls and expense management have propped up earnings. BHE is far from a high-drama name and has been quietly growing revenue over the past few years, although the company has not been able to avoid every supply-and-demand-related challenge. Benchmark continues to invest in growth projects, while paying out a 2.7% yield to shareholders and maintaining a solid balance sheet. Our Target Price for BHE now stands at $38.

Old National Bancorp (ONB – $13.61) said Tuesday that it earned $0.49 per share in Q3, missing the $0.50 projected by analysts, although it wasn't far from the $0.51 earned in the same quarter a year ago. Deposits grew by 3%, or by $1 billion, driven by growth in money market and time deposit categories, while non-interest-bearing deposits continued to experience migration to higher-yielding products. This had a modest effect on net interest income as margin compressed by 22 basis points.

Total loans grew 1.7%, even as Old National sold some non-relationship C&I loans during the quarter to manage liquidity. Tangible book value per share increased by 3% (not including the impact from bond repricing from higher interest rates) with a 20.9% adjusted return on average tangible common equity, and an adjusted return on average assets of 1.26%. Management anticipates modest declines (3% to 4%) in net interest income and net interest margin due to deposit pricing but looks to offset this over time via repricing of new fixed-rate loans. Credit trends remained stable, reflecting the quality of both commercial and consumer portfolios.

CEO Jim Ryan said, "With a nearly 3% quarterly increase in total deposits, Old National once again demonstrated the strength and stability of our deposit franchise. Additionally, our strong capital and liquidity position, disciplined expense management, and excellent credit metrics continue to position Old National to pursue our growth strategy while focusing intently on serving our clients and strengthening the communities we serve."

Later in the week, Old National announced that it would buy Nashville-based CapStar Financial Holdings, paying $344 million in return for $2.3 billion of loans and $2.8 billion of deposits. We agree with management that the arrangement makes strategic sense given the proximity of CapStar's footprint and headquarters to ONB's existing, not to mention it provides another gateway to growth in the Southeast. However, the company will make the purchase using ONB shares, diluting the existing share base by 2%. Management expects "the partnership to be accretive by 5% to our 2025 earnings," but much of this would be in the way of scale synergies, while a lot can happen in two years.

Shares have been majorly punished since the end of July, so we can't help but view the forward earnings multiple of 7 to be inexpensive, especially as the ONB historically has traded for a P/E in the 10 to 11 range. But the bank has grown tangible book value per share only by an absolute 7% since Mr. Ryan took the CEO slot, so we have to be skeptical of management efforts to grow inorganically. With every stock fighting for its place in our portfolios, ONB has been a perpetually debated name within our team. Still, we continue to find the stock to be undervalued, while we note the dividend yield of 4.1%. Our Target Price is now $19.

Despite top- and bottom-line beats for Q3, shares of **Whirlpool** (WHR – $102.10) fell more than 20% last week as the major appliance manufacturer received multiple analyst downgrades. The catalyst was management's concession that full-year adjusted EPS likely would come in at the low end of its previous forecast and that free cash flow generation would most likely fall short of prior guidance as the company will need to increase promotional activity sooner than expected.

Looking at the Q3 numbers, Latin America was a bright spot, realizing 9.8% organic growth, while Asia and the EMEA businesses remained under pressure. Whirlpool reported revenue of $4.93 billion, versus the consensus estimate of $4.81 billion, while adjusted EPS of $5.45 was more than 28% ahead of the average forecast.

CEO Marc Bitzer commented, "We are pleased with our operational progress and our top line growth and what is still a very challenging environment. The bottom line showed solid progress over last year, but is essentially flat from prior quarters. Our operational progress during the entire year has been sustained and even accelerated during Q3. We improved our supply chain execution, we accelerated our cost take out actions and are fully on track towards our full year cost targets, and we launched several innovative products across multiple categories. As a result, we were able to gain market share in almost all of our major businesses."

So far, so good, but then Mr. Bitzer went on to say, "The market environment is still challenging. Market demand in the Americas has been solid, but this is entirely driven by a very strong replacement demand related to increased appliance usage at home, a trend which we expected to continue. The other side of demand, discretionary purchases, have been even softer than anticipated as a result of increased mortgage rates and low consumer confidence. The low discretionary demand sparked a more intensive promotional environment in particular North America. Essentially, we're back to a pre-COVID promotional environment."

Mr. Bitzer concluded, "Looking into a fourth quarter, we do not anticipate this environment to fundamentally change, and we do expect our business to perform on a similar level as Q3. As a result, we're updating our full year guidance. We now expect full year EBIT margins of 6.25% to 6.5%. At the same time, we're able to achieve additional tax benefits. Putting both together allows us to remain at the lower end of our original guidance of approximately $16, but with a lower free cash flow of $500 million."

While a more "normal" promotional environment may have arrived a few quarters sooners than some were expecting, we think the 20% whack to Whirlpool's already inexpensive share price was very much overdone, especially as it leaves the stock trading at less than 7 times NTM adjusted EPS projections and with a dividend yield of 6.9%. Obviously, stress on certain segments and promotional activity could dampen WHR's ability to generate outsized free cash flow for a time (which could impact the potential for increased dividends or share buybacks). Nevertheless, while the company did divest some of its European and African businesses, we think Whirlpool will benefit from non-North American markets as the rest of the world progresses technologically and emerging markets incorporate modern conveniences into daily living. Our Target Price for WHR has been trimmed to $216, but we think there is significant total-return potential from today's unusually depressed trading price.

The Greenbrier Cos. (GBX – $33.03) earned $0.92 in Q4 of its fiscal 2023 (ending Aug. 31) on $1 billion of revenue, representing 73% and 7% respective year-over-year gains. Rail-car orders were 15,300 units in the quarter valued at $1.9 billion with deliveries of 7,000 units, bringing the rail-car backlog to 30,900 units valued at $3.8 billion as of Aug. 31. Utilization was a solid 98% on the company's 13,400-unit lease fleet.

CEO Lorie L. Tekorius said, "During the fiscal year, Greenbrier met the evolving needs of our customers to maintain our market-leading position. At the same time, we advanced our strategy to drive operational improvements and realize margin enhancement. Importantly, we delivered an outstanding commercial performance against a dynamic economic backdrop throughout the year. Greenbrier enters fiscal 2024 with our largest backlog value in almost 8 years. This provides excellent near-term revenue visibility and further confidence in our strategy. As we continue to execute the strategic plan we shared at our Investor Day in April, we expect to improve performance in fiscal 2024. Deployed capital will enhance operational efficiencies and grow our lease fleet as we ambitiously pursue our goal to increase recurring revenue."

Management repurchased 200,000 shares for nearly $8 million ($40 per share in the quarter), bringing the full-year tally to 1.9 million shares for $57 million (an average price of $29 per share). There remains $46 million under the current share repurchase program.

The railcar maker managed to beat its full-year revenue guidance range of $3.8 billion to $3.9 billion, but investors were very displeased with the $3.4 billion to $3.7 billion of sales projected for next year. Years of following this industry have led us to expect some cyclicality, and while the top-line may ebb and flow, GBX management appears intent on reducing cyclicality through its leasing operation, improving margins through the cycle. EPS estimates may continue to come down following the latest guidance update but shares trade for less than 10 times the current NTM projection. With an 11% boost to the dividend earlier this year, the yield is 3.6%, while our Target Price has been fine-tuned to $57.

Kimco Realty (KIM – $16.87) said that it generated $0.40 of FFO per share in Q3, a touch above the Street target, but slightly below the figure from a year ago. The REIT managed to regain a bit of ground ceded in recent months.

CEO Connor Flynn offered color on the latest leasing dynamics, "In an environment marked by virtually no new supply, strong demand from new, recurring, traditional, and non-traditional anchor and small shop tenants, along with the resilient consumer, we continue to produce strong operating results. Indeed, our third quarter results were stronger than anticipated, enabling us to raise our outlook for same-site NOI while raising the bottom end of our FFO guidance for the remainder of the year. A few more third quarter highlights. We signed 457 leases, totaling 2.1 million square feet during the third quarter. Our small shop occupancy reached an all-time high of 91.1% as demand for our portfolio continues. Our strong positive leasing spread, 34.9% for new leases and 8.8% for renewal and options, reflects the pricing power of our high-quality portfolio. Of note, our combined spread of 13.4% is the highest in six years. As anticipated, our anchor occupancy dipped

50 basis points quarter-over-quarter to 97.2% due to the recapture of the remaining Bed Bath & Beyond boxes."

He added, "We released seven Bed Bath boxes this quarter at a positive spread of 54%. Our remaining 12 Bed Bath boxes are all in negotiation and continue to benefit from the favorable supply and demand dynamic for well-located retail. Our overall occupancy is off only 30 basis points to 95.5%, notwithstanding the headwinds described. We are encouraged by the continued push by tenants to secure the right real estate with the right landlord. This continued strong demand is perhaps best evidenced by our signed but not open spread, which actually widened out this quarter to 320 basis points, representing about $52.2 million of rent that is not yet cash flowing. It is these operating dynamics in our own portfolio that continue to build our team's enthusiasm for the pending RPT transaction."

Despite challenges from high interest rates, certain tenant bankruptcies and economic uncertainty, we think tenants will continue to seek well-located retail spaces like those owned by Kimco. Management has been working to mitigate the effects from higher-for-longer interest rates through proactively addressing near-term debt maturities, aiming to maintain flexibility and optionality. The company says it continues to prioritize free cash flow, with a focus on accelerating store openings, rent commencement,[and reducing non-income-producing expenses to support organic and internal NOI growth.

Higher interest rates have pressured nearly the entire sector of publicly traded real estate, and KIM has not gone unscathed, dropping 20% over the past year. Still, we continue to think that KIM's core portfolio remains well positioned for the long term. KIM has reduced its leverage levels through the disposition of non-retail assets (like some of the Albertsons stock) and refinancing. Shares trade for 10.8 times NTM FFO per share estimates with a sizable dividend yielding 5.7%. Our Target Price remains $27.

Telecommunications REIT **American Tower** (AMT – $171.99) generated $3.29 of FFO per share in Q3, 32% above analyst consensus, but a 5% dip vs. the year-ago period. Property revenue increased by 7%, with growth across segments, including a 9% in the data center business. Organic tenant billings grew by 6.3% across segments, while adjusted EBITDA margin expanded by 290 basis points year-over-year. Strong performance led to an increase in guidance for property revenue, adjusted EBITDA, AFFO, and AFFO per share by $60 million, $60 million, $40 million and $0.09, respectively.

CEO Tom Bartlett stated, “We had a strong quarter, as our global portfolio of communications assets continued to demonstrate resiliency in an increasingly challenging macroeconomic environment. Our consolidated tower business again drove Organic Tenant Billings Growth of over 6%, while revenue growth in our U.S. data center business, where we’re positioned to deliver a second consecutive year of record new leasing, was over 9%. This performance, coupled with an on-going focus towards cost management, drove Attributable AFFO per Share growth of over 9%. As a result of our strong results, and a high degree of visibility through the balance of the year, we are pleased to again raise our full year outlook for property revenue, Adjusted EBITDA and Attributable AFFO, and remain encouraged by our positioning as we look forward to 2024.”

He added, “As the 5G investment cycle continues and data consumption growth persists, we remain focused on driving attractive organic growth rates across our existing portfolio, leveraging our global capabilities and operational efficiency to manage costs and support an expanding margin profile, as well as strengthening our balance sheet and capital resources to provide financial flexibility. Taken altogether, we believe we are well positioned to deliver strong, sustained growth and compelling returns for our shareholders over the long-term.”

We find that AMT is well-positioned to benefit from the continued buildout of communication technology as carriers upgrade or install rural networks, and urban networks need higher tower density and upgraded equipment. More than 40% of revenue is from international markets which tend to be less consolidated and roughly a decade behind the U.S technologically. Management continues to expect 6.5% organic billings growth for 2023, owing to strong contributions in Europe and Africa. We understand that emerging market development is not without risk, while REIT prices will whipsaw depending on the direction of interest rates and macroeconomic forecasts. Still, we like the Price to Funds from Operations multiple of 17 and 3.8% dividend yield. Our Target Price is $255.

After falling almost 20% since mid-July, shares of **Capital One Financial** (COF – $97.74) bounced back more than 9% on Friday, following Q3 financial results that were more upbeat than expected. The credit card issuer and lender earned $1.8 billion during the three-month period, equating to adjusted EPS of $4.45. Pre-provision earnings were up 7% compared to the second quarter of 2023 and 17% versus the year-ago quarter.

Both period-end and average loans held for investment increased 1% relative to the prior quarter, driven by loan growth which was carried by the domestic credit card business. The firm's credit card receivables increased 16% from last year to $146.8 billion, while both auto loans and commercial loans shrank approximately 5% from last year. COF is de-emphasizing these two segments due to current and near-term expected market conditions.

Seemingly we should expect its credit card portfolio to provide the bulk of loan growth for the foreseeable future, which should provide a tailwind to the bank's net interest margin as its loan mix shifts toward its higher-yielding credit card business (noting it doesn't come without some increased risk). Firmwide net charge-offs were 2.56% of total loans, up from 1.24% last year but down from 2.82% in Q2 of 2023. Higher credit losses were most prominent in the bank's credit cards, where net charge-offs rose from 2.17% last year to 4.42% but were effectively flat from last quarter.

CEO Richard D. Fairbank commented, "In the third quarter we continued to deliver solid results fueled by strong top-line growth in our domestic card business. Our modern technology capabilities are generating opportunities and driving performance improvements across our businesses."

We continue to think the nearly 4.8% of loans set aside as reserves for future loan losses should be adequate to handle all but the worst-case scenarios (think Great Financial Crisis) and a Tier 1 Common Equity ratio of 13% offers additional cushion. We continue to be constructive on COF keeping its foot on the gas, spending big on tech and advertising to drive growth, which is obviously slowing given the current environment. We like that the lender has pulled back on auto-lending for now given that the company overall is weighted toward potential higher-risk lending. COF's current dividend yield is now 2.5%, and our Target Price has been bumped up to $159.

It's been a whole month since we've written about **Intel** (INTC – $35.54), and this update related to Q3 results is a positive one. In the quarter, Intel had revenue of $14.2 billion, compared with the analyst consensus estimate of $13.5 billion. The $0.41 earnings per share figure crushed the analyst consensus estimate of $0.21. The adjusted gross margin was 46.5%, better than the 44.2% estimate. The market, at least for one day, liked the numbers, sending INTC shares higher by 9% on Friday.

CEO Pat Gelsinger said, “Revenue was above the high end of our guidance, and EPS benefited from both strong operating leverage and expense discipline. More important than our standout financial performance were the key operational milestones we achieved in the quarter across process and products, Intel Foundry Services, and our strategy to bring AI everywhere. Simply put, this quarter demonstrates the meaningful progress we have made towards our IDM 2.0 transformation. The foundation of our strategy is reestablishing transistor power and performance leadership, while many thought our ambitions were a bit audacious when we began our five nodes in four year journey, roughly two and a half years ago, we have increasing line of sight towards achieving our goal. Intel 7 is done with nearly 150 million units in aggregate of Alder Lake, Raptor Lake, and Sapphire Rapids already in the market.”

Mr. Gelsinger continued, “We continue to deliver tangible progress two and a half years into our transformation journey. We are on track with five nodes in four years. We are hitting or beating all our product roadmap milestones. We are establishing ourselves as a global at scale systems foundry for both wafer processing and advanced packaging. We are unlocking new growth opportunities fueled by AI, and we are driving financial discipline and operational efficiencies as we continue to unlock value for our shareholders. While we are encouraged by our progress to date, we know we have much more work in front of us as we continue to relentlessly drive forward with our strategy, maintain our execution momentum, and deliver our commitments to our customers. I’d like to personally thank the Intel family for all their efforts.

On Q4 guidance, Mr. Zinsner said, “We expect fourth quarter revenue of $14.6 billion to $15.6 billion, delivering on our January commitment to grow revenue sequentially throughout 2023. In the client business, we’re encouraged by the return of historical purchasing cycles as our channel checks, partner feedback, and ASPs all point to healthy inventory levels and growing demand. We expect moderate sequential growth from DCAI, with Xeon’s strength more than offsetting a decline in PSG, and continued recovery in edge markets, roughly offsetting persistent network weakness. At the revenue midpoint of $15.1 billion, we expect gross margin to flow through at approximately 60% of revenue growth, resulting in Q4 gross margin of approximately 46.5%, with a tax rate of 13% and EPS of $0.44." Analysts were expecting a Q4 revenue of $14.35 billion and EPS of $0.31.

Overall, we are glad to see INTC gain momentum in Q3 and expect that to continue into Q4. Of course, full-year earnings for INTC are expected around $0.90, which is half of the 2022 figure and more than 80% below the 2021 record. Intel has a long way to go to regain its top-tier status, and we are encouraged by the recent progress. Shares have gained 37% this year and our Target Price is now $46.

World Kinect (WKC – $18.14) earned $0.58 in Q3, in line with the Street estimate but down 13% vs. a year ago. Consolidated gross profit dropped by 13% for the fuel provider compared to the previous year's third quarter, primarily due to a 54% decline (to $35 million) for the marine segment which faced a 16% decrease in volumes, compared to record prices and volatility in the prior year. Aviation saw a 4% increase in volumes to 1.92 billion gallons, but gross profit was slightly down year-over-year due to inventory-related profitability reduction from fuel price volatility during the quarter. In the land segment, gross profit grew approximately 3% year-over-year, particularly from sustainability-related service offerings, driven by natural gas and power volume growth.

CEO Michael Kasbar said, "For nearly 40 years, we have been providing energy solutions creating value for both suppliers and customers, and I don't believe I've ever experienced a more complicated operating environment for our industry than now. Despite this, we continue to execute on our mission to meet our customers' energy need safely, reliably, and in the most efficient manner possible."

Mr. Kasbar added, "Last quarter, I shared with you our three-pillar focus to accelerate growth and diversify earnings by maximizing efficiencies in our conventional businesses, expanding our suite of energy management solutions, and increasing the availability of renewable energy and low-carbon fuels. This strategy is exactly aligned to where our customers' current needs are and where their future needs will be."

Looking ahead Q4, management expects a seasonal decline in aviation gross profit but notes potential mitigation if passenger activity remains strong through the holiday season. While the marine segment is expected to see a modest sequential increase in gross profit, it is projected to be down year-over-year. World Kinect continues to focus on working capital efficiencies to support cash flow and reduce interest expense.

Admittedly, we were left scratching our heads at investor reaction to the report. Following an 8% drop on Friday to close the week, WKC now trades for less than 10 times the Street's full-year EPS projection. World Kinect is not the most exciting (Energy) business in our portfolio and margins tend to be thin, but we think the company blocks and tackles extraordinarily well in an important role providing service to a segment of the economy that continues to chug along. The dividend yield is now over 3% as our Target Price has been shaved to $34.

Network hardware provider **Juniper Networks** (JNPR – $26.61) earned $0.60 per share in fiscal Q3 2023 (vs. $0.55 est.). JNPR's revenue fell 1.2% year-over-year to $1.40 billion (vs. $1.39 billion est.). The profits were excellent, and shares jumped 6% on the news.

CEO Rami Rahim said, "Our teams continue to execute well against the backdrop of a challenging macro environment. We remain confident in our positioning from a technology perspective and our ability to win across industry verticals as customers increasingly look to leverage AIOps and software automation tools to improve network operation and reduce overhead costs, what we call experience-first networking. We believe our attention to providing customers with the best user experience, along with our continued go-to-market focus will position us to deliver healthy, long-term growth and improved profitability. Total product orders came in largely as expected during Q3, and the rate of year-over-year order decline improved as compared to the prior few quarters. Our enterprise business remained healthy as orders experienced high single-digit sequential growth and exceeded our expectations. Enterprise strength helped offset order weakness with our cloud and service provider customers, where we continue to see accounts digesting prior purchases before placing new orders."

Mr. Rahim closed, "While the macro environment remains uncertain and is impacting our near-term outlook, I remain confident with our strategy and optimistic regarding our long-term growth prospects. My enthusiasm is fueled by our continued enterprise momentum and the attractive longer-term opportunities we continue to see in the cloud, as well as service provider metro opportunities. I'd also like to emphasize that we remain committed to delivering improved profitability and still expect to deliver greater than 100 basis points of non-GAAP operating margin improvement in 2023. We also expect further improvement in 2024. While we view revenue growth as the primary lever to achieving improved profitability, and reducing cost is never easy, we recently announced an action to protect profitability while preserving investments in strategic areas of the company."

CFO Ken Miller added, "We paid $70 million in dividends, reflecting a quarterly dividend of $0.22 per share. We also repurchased $125 million worth of shares in the quarter. We exited the third quarter of 2023 with total cash, cash equivalents, and investments increasing to $1.4 billion... The macro-economic environment is expected to remain challenged, which has in fact into outlook. For the fourth quarter of 2023, we expect to see sequential growth in bookings and expect the rate of year-over-year order declines to further moderate. We continue to see healthy enterprise momentum and expect orders to grow, both in the fourth quarter and on a full year basis. However, we expect demand from cloud and service provider customers to remain constrained as they continue to digest previously placed orders."

Q4 revenue is expected to come in between $1.35 billion and $1.45 billion with EPS between $0.58 and $0.68. The strong Q3 result sent shares higher, with analysts peddling "tailwinds" and continued business strength in their notes to clients. Juniper has done well since the pandemic with earnings per share growing at a low double-digit annual clip, a trajectory expected by analysts to continue. JNPR overcame supply chain issues that dogged competitors and the order book is again healthy. We think the long-term dynamics are robust and the valuation remains very inexpensive. JNPR trades with a forward P/E ratio of less than 12 and yields a solid 3.3%. Our Target Price is now $39.

Shares of **Sanofi** (SNY – $42.13) cratered 19% to a 52-week low on Friday as the drugmaker released financial results. The $1.28 per share earned in Q3 came in a touch lighter than expected ($1.31 est.), while sales grew 3% on the back of double-digit growth for Speciality Care, driven by Dupixent and Rare Diseases. But it was lighter than expected guidance for 2024 that took the air out of the balloon.

Management pinned the adjustment on heavier R&D spending, which came somewhat out of left field given that Sanofi is without the pending loss of exclusivity events that many peers are facing, at least through the current decade. To make matters worse, the size of R&D spending was not disclosed, and management pulled the guidance it had previously issued for 2025, choosing instead to reveal more details at an Investor Day event in December.

Sanofi CEO Paul Hudson had the following to say, framing the decision as a position of strength, “We are confident in our improved R&D productivity, driving a pipeline made up of at least 70% biologics and the vast majority of products being best-in-class or first-in-class. This lays a promising foundation to bring three to five products to market, with EUR2 billion to EUR5 billion peak sales potential each in the second half of the decade. We’re in a unique position compared to our competitors, with a portfolio uncompromised by a meaningful loss of exclusivity for the remainder of the decade, we are looking forward to the long-term growth prospects opened by our decision to increase, increase our R&D investments.”

Sanofi also revealed last week that it would spin off its Consumer Health Division. The unit houses brands like Allegra, IcyHot & Goldbond and is expected to separate as soon as Q4 next year, leaving its parent as a pure-play biopharma concern.

The news was a surprise to us, even as we think the wholesale dumping of the stock in reaction to the guidance reduction/spending plan announcement was vastly overdone. But we are quite intrigued to hear what management has to say at the Investor Day. Mr. Hudson seems to have made solid strides in his first four years as CEO to make Sanofi a more-nimble company, while leading drug Dupixent continues to be well positioned to pick up new indications. Even as analysts are likely still sharpening their pencils, the forward multiple of current earnings projections (below 10) appears very attractive, while the dividend yields 3.6%. Our Target Price has been reduced to $64.