

Market Commentary Monday, October 23, 2023

October 22, 2023

EXECUTIVE SUMMARY

Historical Perspective – Stocks Have Persevered Through Plenty of Disconcerting Events

Interest Rates – Treasury Yield Not High by Historical Standards; Rising Rates Historically Not Bad for Equities, On Average

Econ Update – LEI and PMIs Negative; Retails Sales and Employment Positive; Strong Q3 GDP Growth Expected

Reasons for Optimism – Corporate Profits & Calendar

Stock News – Updates on MRNA, ELV, JNJ, ABT, BAC, MS, GS, BK, CFG, FITB, CMA, LMT, HPE, LRCX, MAN & SNA

Market Review

What began as a very promising market week ended with a thud as stocks suffered three miserable days in a row. Value did hold up better than Growth, but the average stock was down well more than 2% for the five days, pushing the majority of stocks into the red on the year. In fact, the average constituent of the Russell 3000 index is now off 5.02% on a total-return basis in 2023.

No doubt, the terrible events in Gaza and Israel are weighing on the equity markets,...



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		6	12	36	60	Event	
	Date	S&P 500 Value	Months Later	Months Later	Months Later	Months Later	thru Present
War of Independence	11/29/1947	14.98	11%	-1%	29%	71%	28099%
Suez Crisis	10/29/1956	46.40	-1%	-12%	24%	47%	9004%
Six-Day War	6/5/1967	88.43	8%	13%	-14%	23%	4677%
Yom Kippur War	10/6/1973	109.85	-15%	-43%	-6%	-6%	3745%
Lebanon War	6/5/1982	110.09	26%	49%	73%	167%	3737%
First Intifada	12/8/1997	982.37	14%	20%	39%	-7%	330%
Second Intifada	9/28/2000	1,458.29	-21%	-29%	-32%	-17%	190%
Second Lebanon War	7/12/2006	1,258.60	14%	23%	-30%	4%	236%
2008 Gaza War	12/27/2008	872.80	5%	29%	45%	111%	384%
Israel Gaza Strip Operation	11/14/2012	1,355.49	22%	32%	49%	90%	212%
2014 Gaza War	7/8/2014	1,963.71	5%	4%	23%	52%	115%
11-Day War	5/6/2021	4,201.62	12%	-2%			1%
Price Changes Only - Does Not Include Dividends		Averages:	7%	7%	18%	49%	4227%

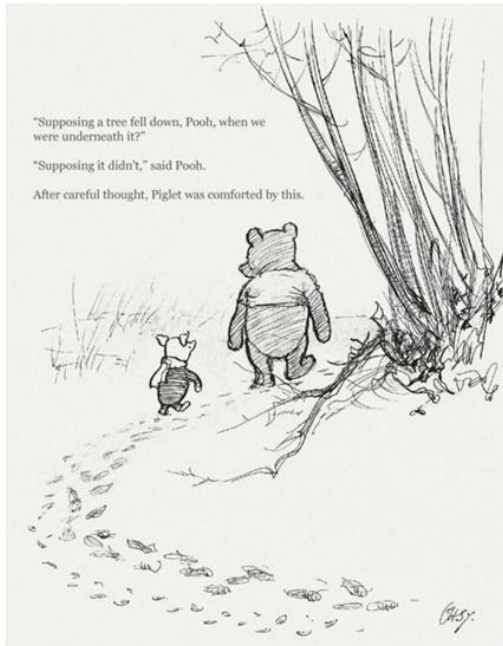
As of 10.20.23. Source: Kovitz using Bloomberg, New York Times, Wikipedia and <https://www.britannica.com/event/Arab-Israeli-wars>

...while we can't forget the ongoing war in Ukraine,...

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.

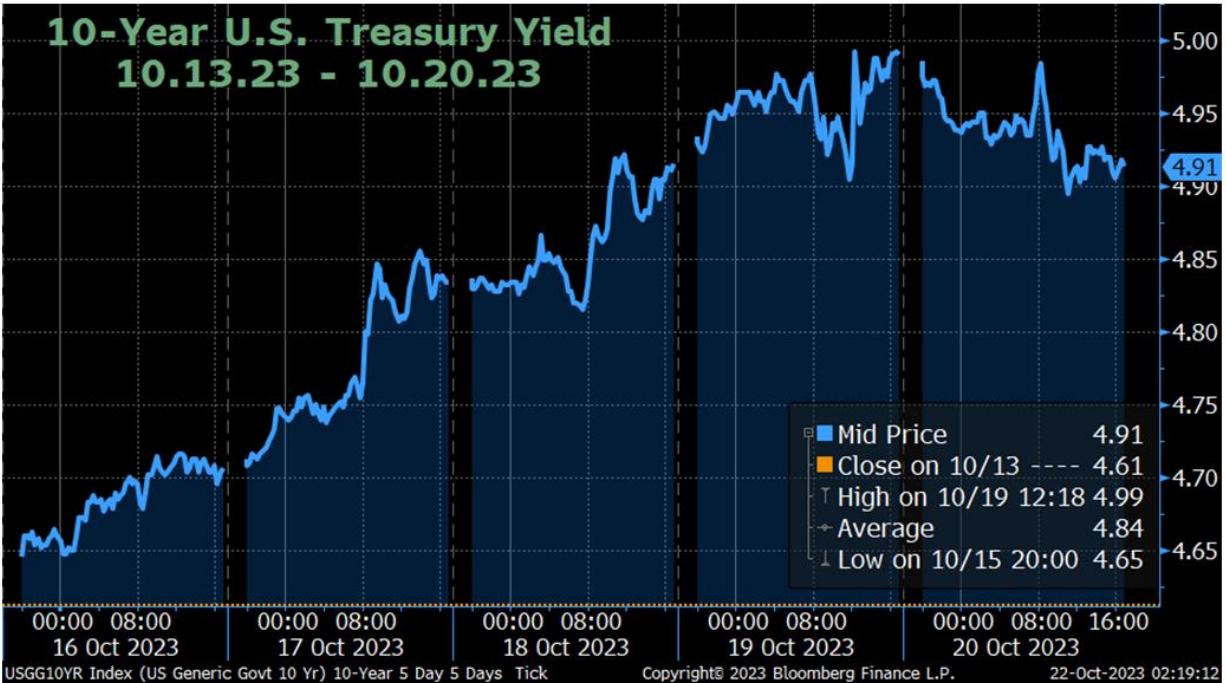


"Supposing a tree fell down, Pooh, when we were underneath it?"
 "Supposing it didn't," said Pooh.
 After careful thought, Piglet was comforted by this.

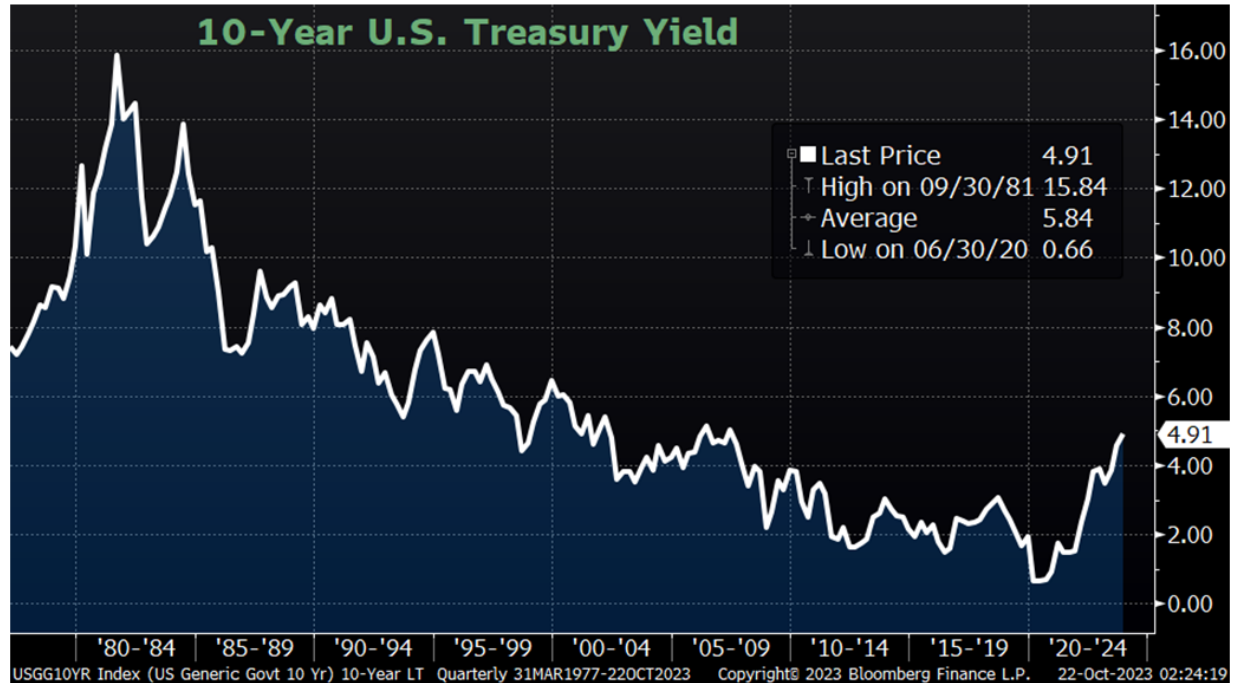
Event	Reaction Dates		S&P		Event Gain/Loss	12 Months Later	36 Months Later	60 Months Later	Event End thru Present	
	Start	End	Start Value	End Value						
Pearl Harbor	12/6/1941	12/10/1941	9.32	8.68	-7%	8%	51%	76%	48565%	
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	28061%	
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	25210%	
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	9814%	
Suez Canal Crisis	10/30/1956	10/31/1956	46.37	45.58	-2%	-10%	26%	51%	9168%	
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	10737%	
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	7797%	
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	5968%	
MLK Assassination	4/3/1968	4/5/1968	93.47	93.29	0%	8%	8%	16%	4428%	
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	5499%	
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	4484%	
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	5935%	
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	3915%	
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	4201%	
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	3436%	
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	2509%	
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	1626%	
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	1779%	
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	1236%	
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	1022%	
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	926%	
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	853%	
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	824%	
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	736%	
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	382%	
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	340%	
Clinton Impeachment	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	243%	
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	215%	
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	337%	
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	361%	
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	287%	
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	253%	
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	524%	
Price Changes Only - Does Not Include Dividends					Averages:	-7%	18%	39%	66%	5808%

As of 10-20-23. Source: Kovitz using Bloomberg and Ned Davis Research Events & Reaction Dates

To be sure, the jump in the yield on the 10-Year U.S. Treasury weighed last week, with the flirtation with the 5% level on Thursday a stiff headwind for traders,...



...even as the current benchmark government bond rate of 4.91% is still well below the historical norm of 5.84% since the launch of *The Prudent Speculator* in 1977.



Further, there are years of evidence that show that stocks have performed fine, on average, whether interest rates are rising or falling. What's more, Value actually prefers higher rates to lower rates, again on average,...



Concurrent Stock Performance & Change in 10-Year Treasury Rate

	Count	Value	Growth	Payers	Non-Payers
Less than 3.90%	574	10.8%	9.9%	9.7%	9.2%
More than 3.90%	574	15.4%	9.2%	11.5%	8.6%
3-Month Drop	570	13.8%	11.8%	13.7%	11.1%
3-Month Rise	574	12.4%	7.2%	7.5%	6.6%
6-Month Drop	559	13.6%	10.9%	12.8%	10.7%
6-Month Rise	579	12.7%	8.0%	8.4%	7.0%
12-Month Drop	561	11.5%	9.8%	11.2%	7.7%
12-Month Rise	565	14.7%	8.9%	9.8%	9.7%

From 06.30.27 through 03.31.23. Concurrent annualized 12-month returns. SOURCE: Kovitz using data from Professor Robert J. Shiller and Professors Eugene F. Fama and Kenneth R. French

Subsequent Stock Performance & Change in 10-Year Treasury Rate

	Count	Value	Growth	Payers	Non-Payers
Less than 3.90%	576	11.8%	10.3%	10.4%	9.5%
More than 3.90%	574	14.4%	8.4%	10.6%	7.9%
3-Month Drop	569	16.8%	13.6%	13.7%	13.4%
3-Month Rise	566	9.5%	5.1%	7.3%	4.1%
6-Month Drop	559	15.1%	12.5%	12.5%	11.4%
6-Month Rise	573	11.1%	6.1%	8.4%	5.9%
12-Month Drop	561	12.8%	10.9%	10.8%	9.9%
12-Month Rise	565	13.1%	7.2%	9.7%	7.0%

From 06.30.27 through 03.31.23. Subsequent 12-month return. SOURCE: Kovitz using data from Professor Robert J. Shiller and Professors Eugene F. Fama and Kenneth R. French

It is logical to think that higher yields on “safe” investments like the 10-Year U.S. Treasury make equities less appealing, but more than nine decades of returns figures show that stocks in general have performed admirably, **ON AVERAGE**, both concurrent with and subsequent to increases (as well as decreases) in the 10-year yield over 3-, 6-, and 12-month time spans, with Value Stocks leading the charge no matter the direction.

...while valuations for the kind of stocks we have long favored remain attractive relative to interest rates and their historical norms,...



While the Earnings Yield, which is the inverse of the P/E ratio, on the S&P 500 (4.83%) is still reasonable relative to the current 4.91% 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 (6.45%) AND a higher dividend yield (2.58%) than the historical norms for those measures dating back to 1995.



...and our broadly diversified portfolios of what we believe to be undervalued stocks are even more appealingly priced.



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	12.7	11.8	0.8	2.0	3.0
ValuePlus	13.3	12.1	1.0	2.1	2.6
Dividend Income	12.3	11.9	0.7	2.0	3.4
Focused Dividend Income	14.2	12.6	0.9	2.1	3.3
Focused ValuePlus	15.1	13.3	1.1	2.3	2.7
Small-Mid Dividend Value	10.6	10.0	0.4	1.4	3.2
Russell 3000	21.4	19.8	2.1	3.6	1.6
Russell 3000 Growth	32.3	27.8	3.6	10.1	0.8
Russell 3000 Value	15.5	14.9	1.4	2.1	2.6
Russell 1000	21.2	19.5	2.2	3.9	1.6
Russell 1000 Growth	31.4	27.3	3.9	11.1	0.8
Russell 1000 Value	15.5	14.7	1.5	2.2	2.6
S&P 500 Index	20.7	19.6	2.3	4.0	1.6
S&P 500 Growth Index	23.4	22.6	3.5	7.2	1.3
S&P 500 Value Index	18.6	17.1	1.7	2.7	2.1
S&P 500 Pure Value Index	10.1	10.3	0.5	1.1	3.0

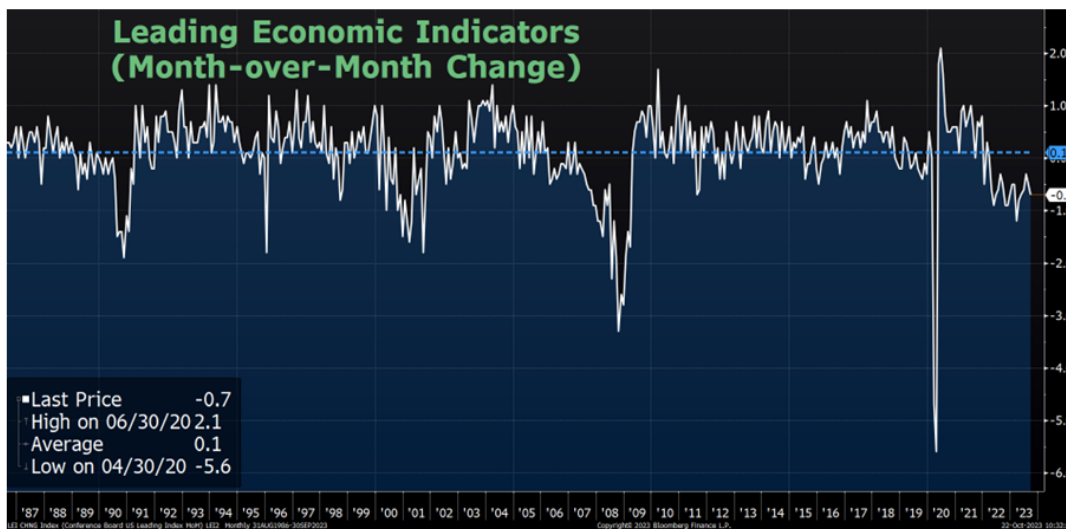
As of 10.21.23. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Kovitz using data from Bloomberg Finance L.P.

We respect that many are worried about the health of the U.S. economy, as the latest forward-looking Leading Economic Index (LEI) reading from the Conference Board came in below expectations,...

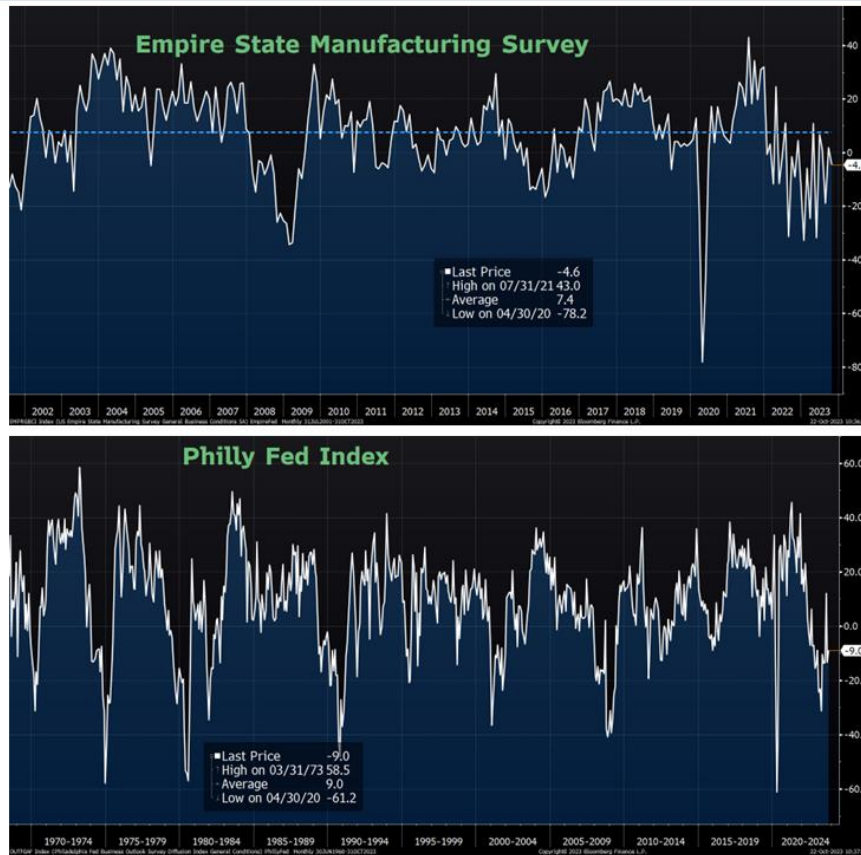
THE PRUDENT SPECULATOR



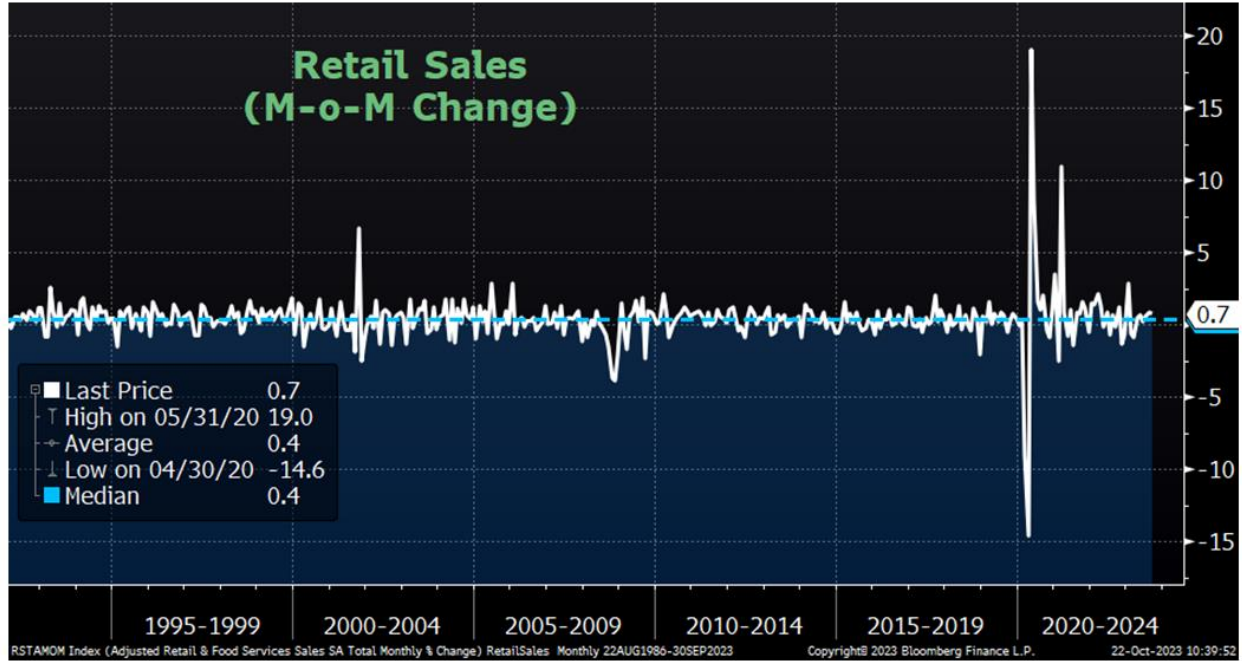
“The LEI for the US fell again in September, marking a year and a half of consecutive monthly declines since April 2022,” said Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators, at The Conference Board. “In September, negative or flat contributions from nine of the index’s ten components more than offset fewer initial claims for unemployment insurance. Although the six-month growth rate in the LEI is somewhat less negative, and the recession signal did not sound, it still signals risk of economic weakness ahead. So far, the US economy has shown considerable resilience despite pressures from rising interest rates and high inflation. Nonetheless, The Conference Board forecasts that this trend will not be sustained for much longer, and a shallow recession is likely in the first half of 2024.”



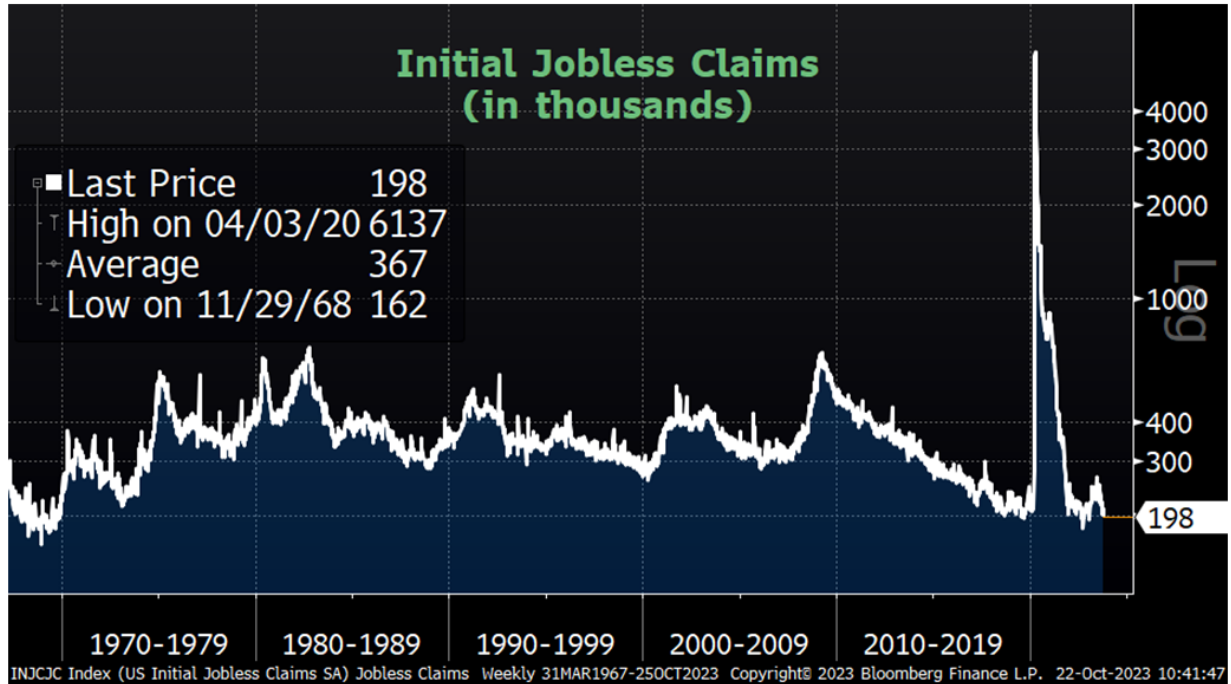
...and October readings on the health of the factory sector on the East Coast were in the red,...



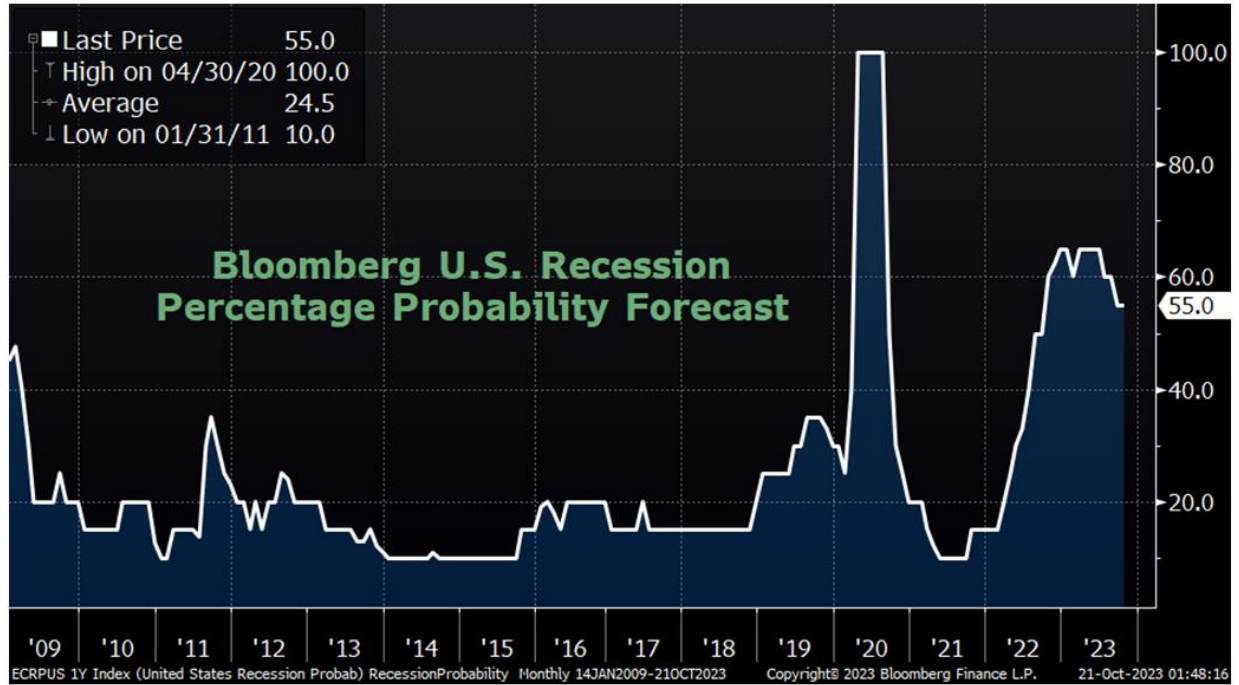
...but retail sales grew a much-better-than-expected 0.7% last month,...



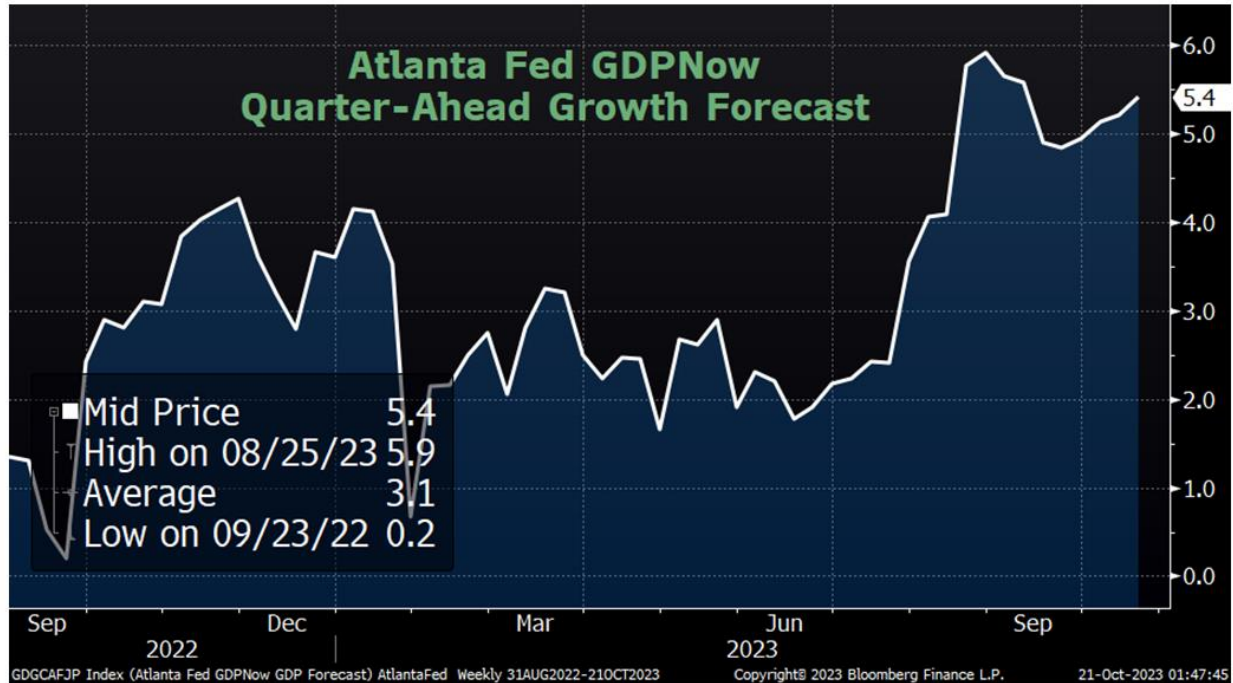
...and the number of first-time filings for unemployment benefits dropped to 198,000 in the latest week, the fewest since January and near multi-generational lows.



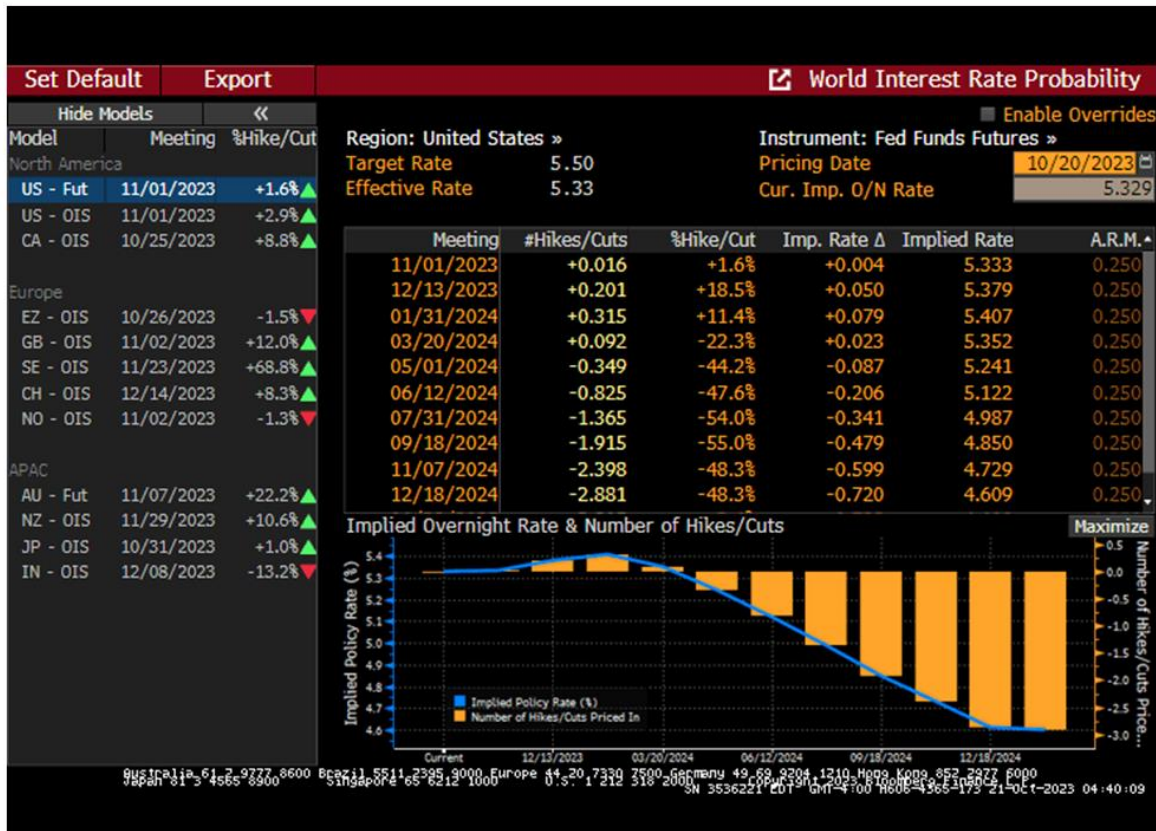
And, though the odds of recession in the next 12 months, as tabulated by *Bloomberg*, continued to reside at a very elevated 55%,...



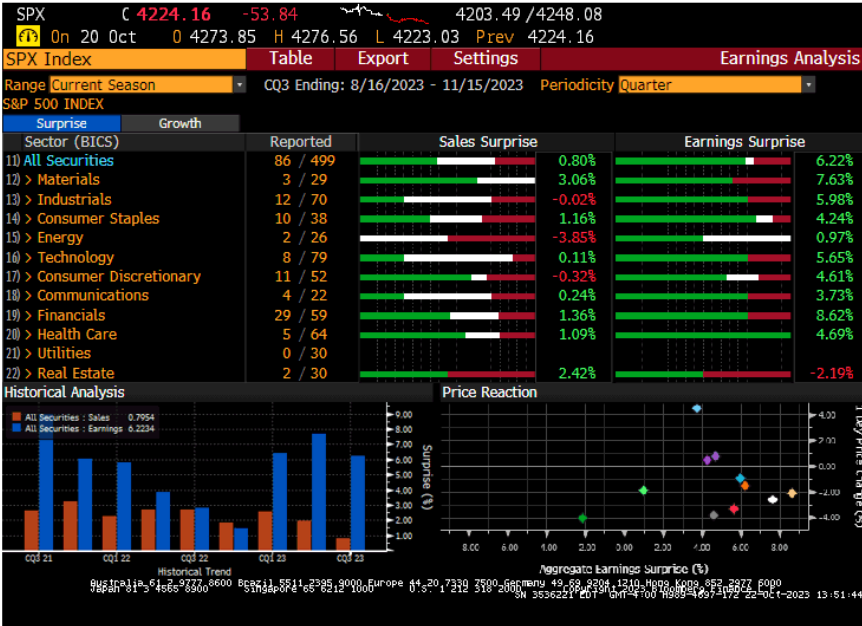
...the latest estimate for Q3 GDP growth from the Atlanta Fed stood at an extremely robust 5.4%.



True, many are worried that the Federal Reserve will hike interest rates further, but the Fed Funds futures market actually saw a slight reduction in the bets last week for the year-end 2023 and 2024 benchmark level versus the week prior.



We might add that Q3 corporate profit reports have been good thus far, with 74.4% of the S&P 500 members to have announced results topping bottom-line expectations, and most thinking EPS will continue to grow handsomely into 2024.



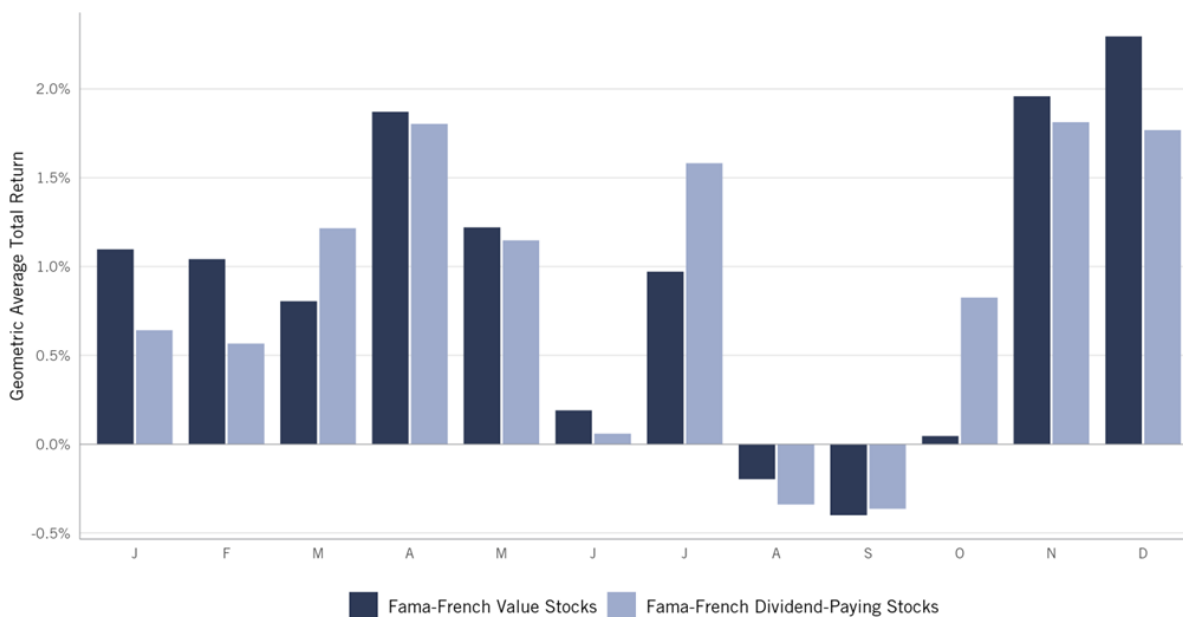
S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2024	\$65.05	\$244.97
9/30/2024	\$62.70	\$236.43
6/30/2024	\$60.29	\$228.55
3/31/2024	\$56.93	\$223.10
12/31/2023	\$56.51	\$218.71
9/30/2023	\$54.82	\$212.57
ACTUAL		
6/30/2023	\$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 10.18.23

As we constantly state, we are braced for additional equity market downside, but we see no reason to alter our long-term enthusiasm for stocks, especially as we are now just one week away from the start of the seasonally favorable six months of the year.



AVERAGE MONTH-BY-MONTH TOTAL RETURNS VALUE AND DIVIDEND PAYERS 1986 - PRESENT



From 12.31.86 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

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.

Trading action for **Moderna** (MRNA – \$80.40) and **Pfizer** (PFE – \$30.65) was higher than normal in the early part of last week after Pfizer whacked its outlook for the COVID vaccine. The pharmaceutical company now expects revenue between \$58.0 billion and \$61.0 billion, with Paxlovid (COVID treatment) revenue lower by \$7.0 billion (including a \$4.2 billion non-cash accounting reversal). The Comirnaty (mRNA COVID vaccine) revenue guidance was lowered by \$2.0 billion. Given Pfizer’s diversified business, its

shares weren't hit as hard as Moderna's, which fell almost 20% over the past week.

If Wall Street doesn't like one thing, it's uncertainty and Moderna shares have been punished for uncertainty related to both demand for its COVID vaccine and for the next big thing to come from the billions the company is spending on mRNA vaccine technologies. In Moderna's last major update, the company was expecting to add \$20 billion to \$30 billion to revenue from new vaccines and treatments, which would be a substantial step up from the \$7 billion of revenue the company is expected to generate in 2023. There is a lot of action, though. Moderna's pipeline includes 43 development programs covering a wide range of illnesses, including respiratory disease, latent/emerging viruses, rare disease, oncology and cardiology. The company's SARS-CoV2 (COVID) vaccine was a blockbuster, and Phase III trials are underway for RSV, seasonal flu and other strains of COVID.

Our ownership of Moderna has been rocky, to say the least. Some initial gains turned into a substantial retreat, even though we bought the stock well off its recent all-time highs. We can understand why near-term traders have lost their patience with Moderna, but we continue to believe that MRNA will end up with one of two outcomes. The company could spend all its massive cash hoard and have no marketable therapies or vaccines. The alternative, which we think involves substantial upside that far outweighs the downside risk, is that MRNA is able to bring one or more of the 40-some development programs to market and shares soar. All things considered, our Target Price has been reduced to \$169.

Johnson & Johnson (JNJ – \$153.00) reported its Q3 results, surprisingly sending shares down by more than 2% last week. The company earned \$2.66 per share, \$0.14 ahead of the analyst consensus, and revenue totaled \$21.35 billion (vs. \$21.05 billion est.). JNJ saw double-digit revenue growth in the U.S., propelled by newly launched products, and growth in DARZALEX, ERLEADA, STELARA and TREMFYA.

CFO Joe Wolk said, "The [Kenvue] transaction was executed within our targeted timeframe and under budget, while generating significant cash and value for our shareholders. Through the separation, we've raised \$13.2 billion in cash proceeds to the Kenvue debt offering an IPO. We've reduced Johnson & Johnson's outstanding share count by 191 million shares or approximately 7% without the use of cash and in a tax-free manner. We maintained our current quarterly dividend per share, and we've retained approximately 180 million shares of Kenvue's stock that provides cash proceeds for future flexibility. We will see the full impact to EPS of the share reduction in 2024."

Mr. Wolk continued, “Based on the strong results delivered in the quarter and the first nine months of this year, balanced with planned investments in the fourth quarter, we are raising the ranges for full-year sales and EPS guidance. We now expect operational sales growth for the full year 2023 to be in the range of 8.5% to 9.0%, or up \$600 million at the midpoint in the range of \$84.4 billion to \$84.8 billion on a constant currency basis and adjusted operational sales growth in the range of 7.2% to 7.7%. Just a reminder, our sales guidance continues to exclude any COVID-19 vaccine revenue. While we do not speculate on future currency movements, utilizing the euro spot rate as of last week at \$1.06, we now anticipate an incremental negative currency impact of \$400 million, resulting in a full-year impact of negative 1% or \$800 million.”

When asked about the company’s talc litigation issues, VP of Litigation Erik Haas said, “We continue to pursue the four-pronged strategy...let me quickly summarize those four-prongs and highlight the selling and development and perhaps anticipate some follow-up questions about talc. The first prong, we are pursuing the appeal through to the Supreme Court to the United States of the July ruling by the New Jersey Bankruptcy Court that dismissed LTL’s bankruptcy case... The second prong of our strategy involves working with the council, representing the vast majority of the talc claimants, more than we had previously, that were along with us, along with and in addition to the future claims’ representatives... Third, while those negotiations are proceeding, we will continue to vigorously defend the meritless talc claims in the tort system... Finally, we will aggressively challenge the abuses of the judicial system by the mass tort claims, Barden and its experts with their own affirmative litigation.”

Despite the litigation overhang, we have long liked our exposure to JNJ and note that the forward earnings multiple of 14 is still below that of the overall market and the high-quality company offers a generous dividend yield of 3.1%. Our Target Price for low-beta JNJ has been fine-tuned to \$206.

Shares of **Elevance Health** (ELV – \$453.78) were flat on the week even as the managed-care provider turned in Q3 EPS ahead of the Street consensus estimate (\$8.99 vs. \$8.48 est.). Medical membership was 47.33 million and the benefit expense ratio of 86.8% came in 0.4% ahead of the consensus estimate. During the quarter, 1.1 million shares were repurchased for \$480 million. Corporate restructuring charges amounted to \$697 million.

CEO Gail Boudreaux said, “Our results demonstrate our ability to execute on our enterprise strategy of delivering whole health solutions that are affordable, personalized and simple. Based on our strong year-to-date results and confidence in our outlook, we are increasing our guidance for adjusted earnings per share to be greater than \$33 for 2023, which includes

incremental investments planned for the fourth quarter that will accelerate our strategy and enhance the performance of our Medicare Advantage business. It is the strength and resilience of our diverse businesses that provides comfort in our outlook while the earnings power of our Health Benefits and Carelon divisions, provides us the confidence to reiterate our commitment to our long-term target compound annual growth rate in adjusted earnings per share of 12% to 15%.”

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. Ms. Boudreaux said she was disappointed with ELV’s stars performance for 2022, “Our declining consumer survey scores and the way in which CMS applied a new statistical methodology that resulted in significant increases to many star measure touchpoints.” Certainly, the issue bears watching as we move forward.

Longer term, demographic trends remain in its favor as a major player in the Medicare Advantage market. Shares have fallen 11% this year, though they have rebounded 10% off the medical-cost-ratio-fear-induced closing low in July. We think there is plenty more recovery to go, as we find the less-than-13-times forward P/E multiple very attractive as management strives to grow adjusted earnings by 12% to 14% for at least the next several years. Our Target Price for ELV is now \$621.

After a few months of steadily moving down on worries about what the extremely popular GLP-1 drugs Ozempic and Mounjaro could potentially do long-term to some of **Abbott Labs** (ABT – \$96.78) top revenue streams, shares enjoyed a little bounce following solid Q3 financial results. The healthcare products and services concern said it had adjusted EPS of \$1.14 in the quarter, versus the consensus analyst estimate of \$1.10. Revenue of \$10.14 billion was 3.5% better than the average analyst expectation. ABT reported organic sales growth for underlying base businesses of 13.8%, reflecting double-digit growth in each of the four major businesses.

The quarter beat was driven by 16% year-over-year (YoY) sales growth from Nutrition due to continued market share recapture in the U.S. infant formula business, where ABT has once again become the leader in the market. ABT showed strong 17% YoY growth in Medical Devices, aided by FreeStyle Libre sales growth of 28%. The company continued to see sizeable revenue drops in its COVID-19 testing business.

Interestingly, on the subject of GLP-1 medications, Abbott management reported a study showing a complementary relationship between the company’s FreeStyle Libre continuous glucose monitoring system and GLP-1

medications. The analysis also showed that a growing number of people are using these tools together to support behavior change to optimize the treatment of diabetes and improve overall health.

“The investments we made during the pandemic continue to drive broad-based growth across our underlying base business,” commented CEO Robert B. Ford. “We’re on track to deliver on the financial commitments we set at the beginning of the year, and the momentum we’re building across the portfolio positions us well as we head into 2024.”

Management announced that its projected full-year adjusted EPS from continuing operations range has been tightened to \$4.42 to \$4.46. Abbott continues to project full-year 2023 organic sales growth, excluding COVID-19 testing-related sales, to be in the low double digits.

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.

Last week brought a flurry of earnings reports from the banks in our portfolios, both large and small in terms of market cap and assets, that were quite resilient especially versus Street expectations. But one would not know it based on the share price reaction, with only one closing in the black over the past five trading days.

Shares of diversified financial giant **Bank of America** (BAC – \$26.31) closed the week down more than 1.5% despite results for only one segment (Wealth Management) coming in shy of the consensus analyst target. The money center bank earned \$0.90 per share (vs. \$0.81 est.) in Q3, an 11% improvement year-over-year, as net interest income grew both sequentially and year-over-year to \$14.5 billion, while noninterest income and expenses held roughly flat on a year-over-year basis.

CEO Brian Moynihan commented, “We grew clients and accounts organically and at a strong pace across all our businesses. Our operating leverage was about flat. We improved our common equity Tier 1 ratio by nearly 30 basis points in the quarter to a level of 11.9% against a current minimum of 9.5%. We saw an increase in our deposits and we maintained our strong pricing discipline. We continue to maintain \$859 billion in global liquidity sources. We also delivered a good return for you, our shareholders, with a return on tangible common equity of over 15% and a 1% return on assets.”

Offering his perspective on the economy, he added, “Our team of economists predicts a soft landing with a trough in the middle of next year. We see that in our customer data, our 37 million checking customers, we see their spending slowing down. You can see that on Slide 34. The third quarter was up about 4% over last year’s third quarter. Earlier this year, that would have been more of a 10% increase year-over-year. And for the entire year of 2022, it increased 10% round numbers over ’21. This 4% level is consistent with the spending we saw in the pre-pandemic period from 2016 to 2019. That is consistent with a low inflation, lower growth economy. As we move into October, the spending is holding at that 4% level.”

The bank has managed to drive headcount lower to the benefit of expenses and expects this to continue in Q4. Net charge-offs ticked higher by 2 bps from Q2 to 35 basis points but represent less than a quarter of the current allowance for loan losses which stands at 1.27% of total loans and leases.

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. A double-digit percentage slide since our last report make shares very inexpensive in our opinion given a forward P/E ratio of 8 and a dividend that yields 3.6%. Our Target Price is \$43.

Shares of advisory-centric **Morgan Stanley** (MS – \$73.13) slipped 6% following the announcement of its Q3 financial results, despite the financial giant reporting solid earnings (\$1.38 per share vs. \$1.30 est.), revenue reaching \$13.3 billion and a return on tangible common equity (ROTCE) of 13.5%. The year-to-date efficiency ratio was 75%, impacted by severance and deferred compensation-related expenses. Integration efforts remained a priority, with integration-related expenses of \$68 million in the third quarter and a similar amount expected in the fourth quarter.

The Institutional Securities division experienced a 3% revenue decline (to \$5.7 billion) from the previous year, particularly within investment banking due to lower volumes. On the other hand, the Wealth Management segment saw strong revenue of \$6.4 billion, driven by asset management growth, offsetting declines in net interest income. Investment Management revenue increased by 14%, supported by higher asset management revenue. The balance sheet remained strong, with a CET1 ratio of 15.5% despite capital returned to shareholders through stock buybacks.

The succession of James Gorman is top of mind given the CEO's expressed intent to step down at the earliest point in time blessed by the Board, but it is speculated that the successor is a toss-up between head of Institutional Securities Ed Pick and Wealth Management head Andy Saperstein. That does not change the fact that 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.

The stock now trades for only 12 times NTM EPS estimates and offers an impressive dividend yield of 4.6%. Nonetheless, our Target Price for MS has retreated to \$112.

Despite reporting top- and bottom-line results that came in a bit better than the consensus analyst estimate, shares of financial titan **Goldman Sachs** (GS – \$300.05) sold off along with most stocks on worries about higher interest rates and Middle East stability. The company's adjusted EPS came in at \$5.47, on total revenue of \$11.82 billion. The better-than-expected results were driven by better capital market results.

CEO David Solomon commented, "We continue to make significant progress executing on our strategic priorities and we're confident that the work we're doing now provides us a much stronger platform for 2024. I also expect a continued recovery in both capital markets and strategic activity if conditions remain conducive. As the leader in M&A advisory and equity underwriting, a resurgence in activity will undoubtedly be a tailwind for Goldman Sachs."

We continue to believe that Goldman is one of the best financial franchises in the world, and one of the strongest risk managers. There is no denying that Mr. Solomon & Co. have made some missteps with acquisitions focused on diversifying the company's business toward consumer finance and mass affluent wealth management. We thought it could work to help smooth out earnings, but over the previous several months, Goldman has announced the sale of GreenSky and Personal Financial Management, taking losses in the process.

Not all endeavors will work or prove as profitable as projected, and the company hasn't given up on all of those branch-out initiatives as it still has credit cards with Apple and General Motors, online deposit gathering and transaction banking. But the refocus on investment banking, trading and investment-management businesses would seem to be the right choice in the current environment, and, like management, we see better days ahead for mighty Goldman.

Despite the failed initiatives, the company remains tremendously profitable and shares are attractively valued, trading for 9.3 times NTM adjusted EPS estimates and near tangible book value. The dividend yield is 3.7% and our Target Price for GS now stands at a slightly reduced \$406.

Global custodian and asset servicer **Bank of New York** (BK – \$41.66) earned an adjusted \$1.27 per share (vs. \$1.15 est.), a 5% improvement year-over-year. Revenue increased by 2% year-over-year to \$4.4 billion, supported by a 10% bump to net interest from higher interest rates. Firm-wide assets under custody/administration reached \$45.7 trillion, reflecting an 8% year-over-year increase, a result of market value growth, client inflows, a weaker dollar and net new business. Assets under management grew by 3% to \$1.8 trillion.

Expenses decreased by 16% year-over-year on a reported basis, driven by a goodwill impairment in the prior year. Excluding the impairment items, expenses increased by 3%, attributed to higher investments, but partially offset by efficiency savings and the Alcentra divestiture.

CEO Robin Vince said, “Our financial results in the quarter tell a tale of two cities. Against the backdrop of seasonally slower summer months, we once again saw outperformance in some of our differentiating businesses. Strength in Clearance and Collateral Management continued, and we saw healthy underlying growth in Pershing, as well as solid momentum in asset servicing. This was offset by continued softness in investment management fees and lower foreign exchange revenue given the subdued market backdrop.”

Mr. Vince added, “Our path to higher underlying growth is clear. In addition to always being on the hunt for new clients, we have to deliver more to our existing clients, develop new products, and do a better job at connecting the adjacent ones. Our new Chief Commercial Officer has hit the ground running as we start operationalizing ONE BNY Mellon across the organization to sharpen our commercial focus and elevate the client experience across the firm. At the same time, we’re pushing forward with innovative new client solutions that leverage the adjacencies among our businesses. While still early days, initial client wins with our recently launched solutions, as well as the quality of our pipelines, are encouraging.

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.

We find BK's multiple of expected earnings below 9 to be inexpensive, particularly as returns on tangible equity are north of 20%. We also appreciate that management continues to return capital to shareholders (giving back 82% of earnings in the latest quarter) and expects net interest income to grow 20% for all of 2023. The dividend yield is 4.0% and our Target Price is now \$66.

Among the weaker performing of our bank holdings last week, **Citizens Financial** (CFG – \$23.76) sank about 8%. The Rhode Island-based regional earned \$0.89 per share in Q3, missing the \$0.92 estimate and a third below the same period a year ago as total net interest income was down 4% and margin contracted 14 basis points to 3.03%. Deposits saw a slight increase in the quarter, while balance sheet optimization efforts increased cash and securities by approximately \$4 billion in response to geopolitical uncertainty and potential regulatory liquidity changes. Credit metrics remained solid, with net charge-offs at 40 basis points and the provision for credit losses of \$172 million bumped allowance for loan losses to 1.55% of total loans and leases.

CEO Bruce Van Saun said, "We continue to post solid results through a dynamic environment. Our spot deposit levels were up slightly relative to Q2 and broadly stable with a year ago, and our NII and NIM were in line with expectations. We increased our CETI ratio to 10.4% while continuing to repurchase a modest amount of stock. The ramp of the Citizens Private Bank is making good progress, with several launch events over the next few weeks, and the Non-Core rundown is on track. Successful execution of these initiatives will meaningfully bolster EPS and returns. We will continue to play strong defense given the external environment, while advancing important strategic initiatives."

Mr. Van Saun added, "This was the weakest capital markets quarter since the third quarter of 2020, three years ago, and prior to several acquisitions like JMP and DH Capital. The good news here is that the pipelines remain strong, and we continue to maintain and grow our market share. NII expenses and credit costs all track to expectations."

Citizens has grown its deposit franchise by more than 15% since the purchase of HSBC branches within its market and the acquisition of Investors Bancorp in 2021. We think M&A activity in recent years complements the bank and rounds 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, but a focus on maximizing operating leverage for an expanded operation prime the bank for higher returns in the quarters ahead. Shares trade for 7.1 times estimated earnings and yield 7.1%. Our Target Price for CFG now resides at \$45.

Shares of **Fifth Third Bancorp** (FITB – \$ 23.29) dipped 4% last week even as the regional bank announced that it earned \$0.91 per share (vs. \$0.83 est.) in Q3, though net interest income decreased by 1% sequentially and the company had a 12-basis point net interest margin decline. Disciplined expense management resulted in an adjusted efficiency ratio below 55%, while credit quality remained resilient, with a net charge-off ratio of 41 basis points. Average deposits increased 3% sequentially, with a shift toward interest-bearing products. The bank ended the quarter with a CET1 ratio of 9.8%, but it anticipates a decline in average loan balances for the fourth quarter.

CEO Timothy Spence offered, “Our third quarter results were once again strong, as we have continued to navigate the challenging environment well. Our key return and profitability metrics remained resilient despite the market-related headwinds that all banks are facing. We generated strong fee growth compared to the year-ago quarter while maintaining expense discipline. Our credit metrics remained strong, with net charge-offs for the quarter in-line with our expectations. Additionally, early-stage delinquencies and nonperforming loans improved sequentially, reflecting our disciplined approach to client selection.”

He added, “We reduced our risk-weighted assets and accreted over 30 basis points of CET1 capital. We generated strong deposit outcomes, growing average deposits 4% compared to the year-ago quarter while the industry continued to shrink. As a result, we achieved our goal of full LCR compliance for the quarter. We continue to prudently invest in this environment, adding net new households in consumer and new quality middle market relationships in commercial. While the economic and regulatory environments remain uncertain, Fifth Third has spent nearly a decade focused on positioning the bank to outperform peers through the cycle. We will continue to follow our guiding principles of stability, profitability, and growth – in that order.”

We continue to like the conservative approach taken by management, which has endeavored to de-risk the loan book over the past decade, with office commercial real estate loans of \$1.6 billion representing just 1.2% of total loans as of the end of Q3. Additionally, FITB’s diverse base of fee-generating businesses (across card/payment, investment banking/management, mortgage, etc.) adds stability even if higher interest rates dent loan demand. Amazingly, shares are lower now than during the deposit chaos in March, despite little distress for the bank and uninterrupted profitability year-to-date. The sub-eight forward P/E ratio presents a terrific bargain along with the dividend yield of 6%. Our Target Price is \$36.

Shares of **Comerica** (CMA – \$37.95) fell nearly 9% on the regional bank's report that it earned \$1.84 per share in Q3 (vs. \$1.68 est.), a 29% reduction year over year. The exit from mortgage banking finance has contributed to a significant reduction in average loan balances and is anticipated to be mostly complete by the end of the year. Equity fund services saw declines, primarily among non-relationship customers, attributed to softer loan demand in the current high-interest rate environment. Average deposit balances increased by 2.4%, while non-interest-bearing deposits trended down at a decreasing rate and interest-bearing deposits grew as expected. The floating nature of the commercial loan portfolio benefited from rising interest rates, with loan yields reaching 6.34% in the third quarter. Comerica continues to fund multifamily and industrial construction projects, driving increased utilization in commercial real estate.

CEO Curt Farmer stated, "We are very proud of the success this quarter in adding new deposits and winning back customer balances. Through strategic balance sheet management, loans moderated and customer deposits grew, allowing us to absorb \$6 billion in wholesale funding maturities. Excess cash and significant liquidity capacity provide flexibility as we position ourselves to further prioritize high-return growth in the future. Credit quality remained very strong, and our increased coverage ratio reflected continued, expected normalization. We remain committed to running an efficient organization as we navigate expense pressures. Capital generation from earnings and loan optimization increased our CET1 ratio to 10.79, above our 10% target."

It has been a chaotic ride for CMA owners this year with shares down by 43% and bouncing all over the place along the way. 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, particularly if interest rates continue to climb or stay high for a significant amount of time, but management argues that it boasts advisor-style relationships with its small and midsize business clients. Like a lot of banks of late, credit costs edged higher in Q3, but CMA built its loan loss reserves balance to 1.38% of total loans, while we continue to believe the company has the capital and experience to navigate the near-term regional-bank uncertainty. Shares trade for just 6.5 times EPS projected four quarters out with the dividend yield now at 7.5%. Our Target Price is now \$68.

Shares of **Lockheed Martin** (LMT – \$444.17) inched higher last week after the company reported Q3 results. The defense contractor earned \$6.77 per share

(vs. \$6.67 est.) and had revenue of \$16.9 billion (vs. \$16.8 billion est.). LMT returned approximately 100% of free cash flow to shareholders via dividends and share repurchases. The company benefitted from robust international F-16 demand, higher sales volumes in the munitions segment and solid growth in the space portfolio.

CFO Jay Malave explained, “For the full year, we’re holding the outlook for sales, segment operating profit, earnings per share, and free cash flow. We’ve successfully driven and delivered more linear results in 2023 than prior years, which enables more efficient use of our capacity but sets up for difficult compares to last year’s fourth quarter. In conjunction with our recent announcement of increased share repurchase authorization, we’re increasing our share repurchase forecast for 2023 to \$6 billion, provided there is not an extended shutdown scenario. These repurchases, along with dividends, are expected to return nearly 150% of our free cash flow to shareholders for the year. And between 2022 and 2023, we are on track to repurchase nearly 13% of our current market cap. We’re also set to deliver mid-single-digit free cash flow per share growth in 2023, and we’re positioning the company to continue that level of growth in the future.”

Mr. Malave concluded, “Results through the first three quarters have been solid, with a long-term demand environment that is favorable to Lockheed Martin’s 21st Century Security capabilities. Our focus on linearity and working capital is helping to drive more consistent sales and improved cash flow. We’re maintaining our full year outlook while increasing our planned share repurchases, further demonstrating our commitment to shareholder returns. And finally, we’re executing our 21st Century Security strategy through improving capacity and resilience in the defense enterprise, accelerating the adoption and insertion of 21st Century digital technologies, and collaborating more closely with international partners and allies to improve security solutions.”

With another regional conflict having erupted in the Middle East, we believe global defense budgets are going to ramp up in short order, especially as the lessons stemming from the war in Ukraine are likely to change doctrine, strategy, deterrents and defense systems. LMT trades for a reasonable forward earnings multiple of 17 and offers a just-hiked 2.8% dividend yield, while analysts expect annualized revenue growth in the low-single-digit range for the next few years. With the world remaining a dangerous place, we continue to like the giant defense contractor. Our Target Price has been bumped up to \$561.

Hewlett Packard Enterprise (HPE – \$15.23) saw its shares tumble 7% after the IT solutions company offered a disappointing update to Q4 guidance. HPE expects FY2023 non-GAAP diluted net EPS to be in the range of \$2.11 and

\$2.15. Fiscal 2024 non-GAAP EPS, which is new guidance, is targeted to come in between \$1.82 and \$2.02.

Via press release, management said, “HPE expects fiscal year 2024 financial results to continue the momentum from fiscal year 2023 and deliver sustainable, profitable growth. The company forecasts its revenue growth to be 2% to 4%, in constant currency, with the effects of foreign exchange expected to be a 50-to-100-basis-point headwind... HPE expects fiscal year 2024 free cash flow to be \$1.9 billion to \$2.1 billion...The company is targeting an 8% increase in its dividend per share for fiscal 2024.”

“With a growing addressable market, a proven strategy, and a differentiated portfolio, HPE is in a strong competitive position,” said CEO Antonio Neri. “HPE’s strategy is aligned to significant market trends around edge, hybrid cloud and AI – all of which create profitable market expansion opportunities that we expect will fuel our growth. As we unlock greater growth from these markets, our investors are poised to share in higher returns.”

The press release also trumpeted HP Enterprise’s competitive position, “HPE is successfully shifting its portfolio to higher-growth, higher-margin businesses, increasing its long-term profitability potential. When combined, HPE’s largest growth businesses – Intelligent Edge, HPC & AI, and the company’s future Hybrid Cloud segment – are expected to exceed 50% of the company’s total segment revenue by fiscal year 2026. The company is continuing to invest in these areas to increase recurring revenue and further expand margins. HPE expects to increase its total addressable market¹ by nearly \$100 billion over a four-year period to more than \$340 billion, led by a larger market in AI.”

Unfortunately, the magic ‘A.I.’ phrase didn’t send the stock into rally mode as happened earlier in the year, but we still think the company is on a solid footing with plenty of opportunity to grow. Currency headwinds and the like will probably persist, but HPE’s still-solid guidance for 2024 has us optimistic about our positioning, even if other investors don’t seem enthused. We think with some sustainable execution, a little bit of relief on the currency front and eventual growth in the underlying figures like earnings and revenue, HPE’s future is bright, while today’s valuation at less than 8 times estimated earnings and dividend yield of 3.2% are very attractive. Our Target Price stands at \$21.

Lam Research (LRCX – \$600.35) reported fiscal Q1 2024 results that exceeded analyst expectations. The semiconductor capital equipment maker earned an adjusted \$6.69 per share (vs. \$6.11 est.) with revenue of \$3.48 billion (vs. \$3.42 billion est.). In the upcoming quarter, LRCX expects adjusted earnings per share between \$6.25 and \$7.75 (vs. \$6.81 est.) with revenue between \$3.4

billion and \$4.0 billion (vs. \$3.65 billion est.). Despite the seemingly terrific numbers and better-than-projected guidance, Lam shares took it on the chin last week, losing more than 7%.

LRCX CEO Tim Archer commented, “NAND weakness continued in the quarter as customers adjusted spending levels down and further lowered utilizations to drive a faster path to supply-demand balance. While NAND WFE is down significantly in 2023, supply actions are starting to have a positive impact. Customers have recently indicated that pricing trends have stabilized and NAND bid demand has increased from high-single-digits percent year-over-year growth to high teens as certain consumer markets are demonstrating greater demand elasticity in per-unit content. DRAM spending is modestly up relative to our prior view, driven by better trends in high bandwidth memory-related demand as well as further upside from domestic China customers. Meanwhile, the foundry logic segment is down slightly versus our prior baseline due to weakness in both leading edge and non-China based mature node investments. Looking forward, it remains hard to call the timing and pace of WFE recovery, but we believe Lam is in a good position to benefit from both cyclical and structural drivers of demand.”

Mr. Archer concluded, “Overall, we see tremendous vectors of growth ahead for the semiconductor industry and for Lam. Scaling and complexity challenges are driving multiple inflections towards 3D architectures, and in turn, greater etch and deposition intensity. Lam has a strong track record of execution and we are committed to making the strategic investments needed to position the company to outperform as the industry and our markets grow. Over the last two years, we’ve been laying the groundwork for greater scale and efficiency with the expansion of our manufacturing, supply chain and warehousing capabilities in Asia in order to better serve our customers in that region. We are also increasing our R&D efforts to extend our technology differentiation and expand our product portfolio to capture new inflection-driven applications. While the current business environment remains challenging, secular industry trends play extremely well to Lam’s strengths and we are excited by the breadth of opportunities we see ahead for the company.”

CFO Doug Bettinger highlighted the guidance for the current quarter, “With our December quarter guidance, we see solid performance in both revenue and profitability. Lam is delivering strong financial results and technology leadership to our customers as we develop solutions for the next industry inflections. I’d also like to mention two things as you think about modeling our business into 2024. The first is that we’re currently experiencing favorable customer mix that may not continue at the same level going into next year. This may create near-term headwinds for gross margin. Second, given all the

opportunities we see in long-term technology inflections like data all around, dry resist, advanced packaging, changing metallization schemes, and continuing devolution of other 3D structures like DRAM, 2024 may be an R&D spending growth year to take advantage of these future opportunities that we see. As a result, it's possible the historic leverage we've delivered takes a temporary pause."

Analysts expect fiscal 2024 EPS to come in below the \$33.21 LRCX earned in 2023, before climbing to \$35 and \$42 for 2025 and 2026, respectively. Lam's business has been lumpy (its share price too), with revenue tending to see big jumps and steep drops, even as the overall trajectory has been in the direction of healthy growth. Management returned 120% of free cash flow to shareholders in Q1 and has \$2.7 billion remaining on the share repurchase program. LRCX just hiked its quarterly dividend from \$1.725 per share to \$2.00, resulting in a 1.3% yield. Our Target Price is now \$771.

Shares of global staffing firm **ManpowerGroup** (MAN – \$70.04) fell more than 2% last week after the company reported Q3 results that trailed analyst expectations. MAN earned \$0.60 per share, compared to the \$1.35 consensus estimate, and had revenue of \$4.68 billion (vs. \$4.75 billion est.). Manpower reported building economic pressure in North America and in Europe, along with slowing global manufacturing and hiring.

CEO Jonas Prising explained, "Although the timing of the recovery is always hard to predict, decades of experience tell us that we must adjust to the existing reality while being ready to pivot quickly when the situation improves. Our industry is at the leading edge. And by this we mean, it is often the first to feel the impact going into an economic downturn and the first to benefit from improving outlooks on the other side. Though today, we are clearly in a slowing environment, labor markets overall are holding steady and transformation agendas continue, though at a more moderate pace. Companies are reluctant to reduce their workforce or pause on initiatives to upskill and develop their people and we see this evidenced in the demand for Experis Academy and Manpower MyPath offerings, which help people learn in-demand skills at scale and speed."

Mr. Prising continued, "In uncertain times, people and companies need trusted partners to show them the path to navigate the uncertainty. Our value proposition to clients and candidates has never been more relevant and our business model helps them absorb some of the pressures they're feeling today and prepare to accelerate out of the downturn once the economic recovery begins again. Employers value the insight and data-led guidance on developing and executing an agile workforce strategy. We remain confident that our clear plan to profitably grow the business by diversifying, digitizing, and innovating is how we help our clients and candidates prepare for the

future and be competitive for the long-term while managing the headwinds today.”

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. Plus, 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 636,000 shares for \$50 million in Q3). This year has been a struggle for MAN, but the stock now trades at an attractive forward P/E ratio of less than 13 and offers strong free cash flow generation in addition to a dividend yield of 4.2%. Our Target Price for MAN has been pared to \$128.

Shares of **Snap-On** (SNA – \$252.90) ended the week roughly flat, despite the tool and equipment services provider reporting that it earned \$4.51 per share in Q3 (vs. \$4.44 est.), a 9% improvement year over year. Sales grew 5.2% vs. the year-ago period to \$1.16 billion, boosted by strong performance for financial services that came in above estimates.

CEO Nick Pinchuk explained, “We’re encouraged by our third quarter as it reflects ongoing advancement in sales, profitability, and earnings in a continually changing environment, and it demonstrates the wide-ranging and considerable strengths that mark each of our operating segments. Achieved in a period of variability, we believe our performance confirms the resilience of our markets and illustrates the diverse opportunities along our runways for growth, in both our activities within automotive repair and with those outside the garage, particularly in our businesses serving critical industries, which continue to display significant progress.”

Mr. Pinchuk added, “At the same time, we are maintaining and fortifying our decisive advantages by leveraging our Snap-on Value Creation Processes. In that regard, we were again honored with product awards from both Motor Magazine and Professional Tool & Equipment News. Period after period, the innovations identified by our sales organizations through customer connection and developed by our engineering teams solve essential tasks, create excitement for our customers, reinforce the strength of the Snap-on brand, and help drive our unrelenting improvement. As always, I want to thank our franchisees and associates worldwide for their notable contributions, their steadfast dedication, and their unwavering confidence in our future.”

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. With one of the best-known brands in the auto-repair space, we appreciate the company's willingness and ability to use its conservative fiscal posture to venture into markets adjacent to auto repair.

Shares are up on the year, but a pullback since July makes them available for just 13 times NTM projected adjusted EPS, while the dividend yield is 2.6%. Our Target Price for SNA has been hiked to \$325.

Kovitz Investment Group Partners, LLC ("Kovitz") is an investment adviser registered with the Securities and Exchange Commission. This report should only be considered as a tool in any investment decision matrix and should not be used by itself to make investment decisions. Opinions expressed are only our current opinions or our opinions on the posting date. Any graphs, data, or information in this publication are considered reliably sourced, but no representation is made that it is accurate or complete and should not be relied upon as such. This information is subject to change without notice at any time, based on market and other conditions. Past performance is not indicative of future results, which may vary.