Market Commentary Monday, November 6, 2023

November 6, 2023

EXECUTIVE SUMMARY

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

Contraindicator – AAII Sentiment Becomes Super Bearish

Econ Update – Weaker-than-Expected Numbers; Bond Yields Plunge

FOMC Meeting – Fed Leaves Interest Rates Unchanged; Market Betting on No More Hikes

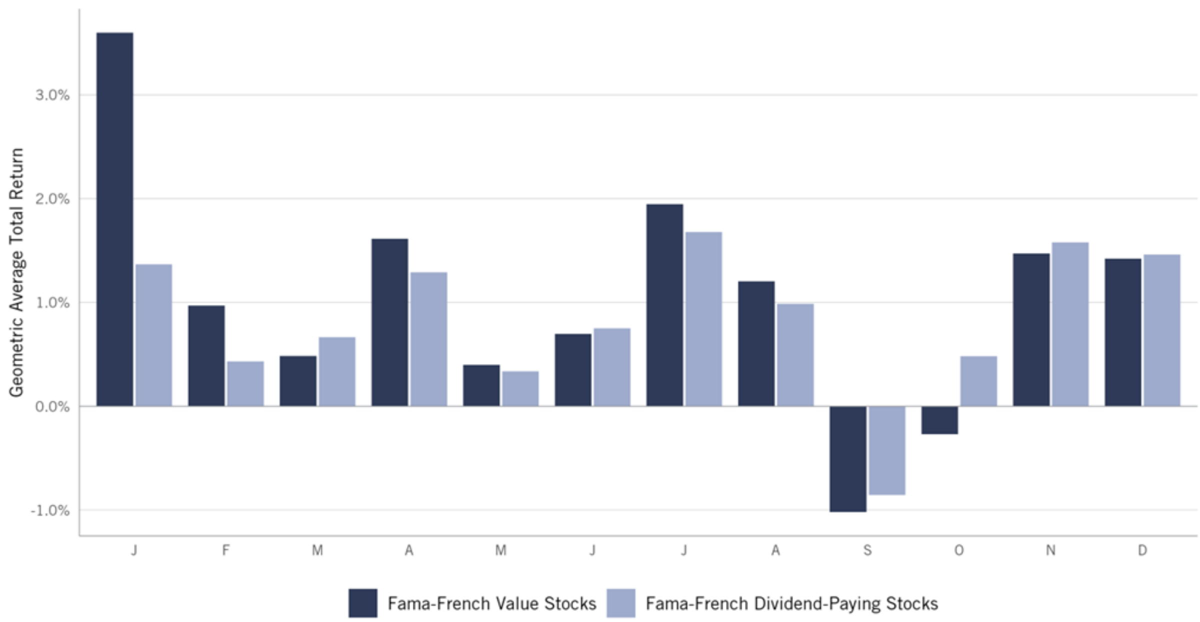
Valuations – Stocks, Especially Value, Reasonably Priced

Stock News – Updates on DOC, ETN, CAT, AMGN, QCOM, ALB, PYPL, PRU, MRNA, CMI, EOG, AAPL & CAH

Market Review

Mamma always told us there would be weeks like one just ended as the seasonally favorable Halloween-to-May-Day period,...

AVERAGE MONTH-BY-MONTH TOTAL RETURNS
VALUE AND DIVIDEND PAYERS
1926 - PRESENT



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

...got underway with a tremendous rebound, with the 5.82% total return for the five trading days representing the 37th best weekly advance in the 43-year-history of the index.

Less than once a year, on average, do we see weeks like the one ended 11.03.23, in which the Russell 3000 Value index enjoyed a 5.82% total return, but they cannot be missed on the road to long-term success in stocks.

	1980's	1990's	2000's	2010's	2020's	Totals
Years Ending in 0	2	2	2	0	4	10
Years Ending in 1	0	1	1	1	0	3
Years Ending in 2	2	1	0	0	1	4
Years Ending in 3	1	0	1	0	1	3
Years Ending in 4	1	0	0	0		1
Years Ending in 5	1	0	0	0		1
Years Ending in 6	2	0	0	0		2
Years Ending in 7	1	0	0	0		1
Years Ending in 8	1	1	3	0		5
Years Ending in 9	2	0	5	0		7
Totals	13	5	12	1	6	37

From 1.1.80 through 11.03.23. Weeks of Russell 3000 Value index total return gains of greater than 5.82%. SOURCE: Kovitz using data from Bloomberg

	1980's	1990's	2000's	2010's	2020's	Totals
Years Ending in 0	1	2	0	1	4	8
Years Ending in 1	0	0	2	2	0	4
Years Ending in 2	0	0	2	0	1	3
Years Ending in 3	0	0	0	0	0	0
Years Ending in 4	0	0	0	0		0
Years Ending in 5	0	0	0	0		0
Years Ending in 6	1	0	0	1		2
Years Ending in 7	2	0	0	0		2
Years Ending in 8	0	0	6	1		7
Years Ending in 9	0	0	3	0		3
Totals	4	2	13	5	5	29

From 1.1.80 through 11.03.23. Weeks of Russell 3000 Value index total return declines of greater than 5.82%. 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

Volatility, both of the positive and negative variety, is a normal part of the long-term-investment equation, as it was just a week ago that the major market averages were mired in a 10% correction. Happily, the trend over time has been markedly higher, with Value Stocks and Dividend Payers leading the returns race over the preceding 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	317	0.3	10/27/2023	11/3/2023

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 11.3.23. 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

	Annualized Return	Standard Deviation
Value Stocks	13.0%	25.9%
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

The challenge, of course, is to keep the faith through thick and thin, something the headlines of late out of the Middle East have made difficult.

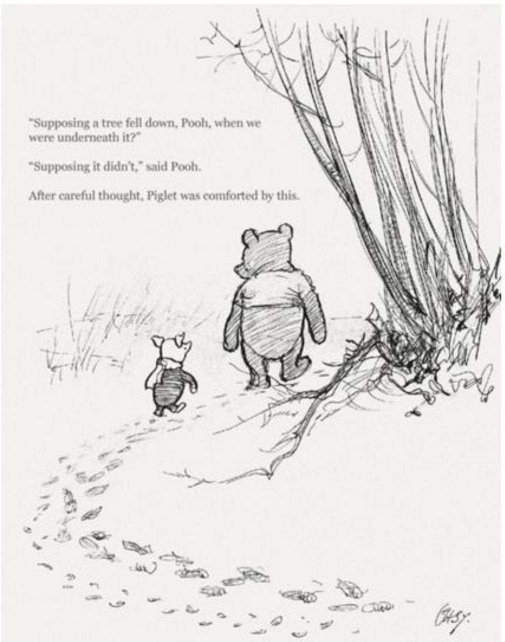
Certainly, it is tough to watch the news these days, given the bloodshed on both sides of the Gaza/Israel border. Unfortunately, war in this part of the world has occurred before and will likely happen again. That is not meant to diminish the current or past humanitarian crises, but we continue to think 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%	28994%
Suez Crisis	10/29/1956	46.40	-1%	-12%	24%	47%	9293%
Six-Day War	6/5/1967	88.43	8%	13%	-14%	23%	4829%
Yom Kippur War	10/6/1973	109.85	-15%	-43%	-6%	-6%	3868%
Lebanon War	6/5/1982	110.09	26%	49%	73%	167%	3859%
First Intifada	12/8/1997	982.37	14%	20%	39%	-7%	344%
Second Intifada	9/28/2000	1,458.29	-21%	-29%	-32%	-17%	199%
Second Lebanon War	7/12/2006	1,258.60	14%	23%	-30%	4%	246%
2008 Gaza War	12/27/2008	872.80	5%	29%	45%	111%	399%
Israel Gaza Strip Operation	11/14/2012	1,355.49	22%	32%	49%	90%	222%
2014 Gaza War	7/8/2014	1,963.71	5%	4%	23%	52%	122%
11-Day War	5/6/2021	4,201.62	12%	-2%			4%
Price Changes Only - Does Not Include Dividends		**Averages:**	**7%**	**7%**	**18%**	**49%**	**4365%**

As of 11.3.23. Source: Kovitz using Bloomberg, New York Times, Wikipedia and https://www.britannica.com/event/Arab-Israeli-wars

Of course, and this is not meant to minimize the human suffering in Gaza, Israel, Ukraine and elsewhere, history is full of disconcerting events through which stocks have managed to persevere,...

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%	50111%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	28956%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	26013%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	10128%
Suez Canal Crisis	10/30/1956	10/31/1956	46.37	45.58	-2%	-10%	26%	51%	9462%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	11081%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	8048%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	6161%
MLK Assassination	4/3/1968	4/5/1968	93.47	93.29	0%	8%	8%	16%	4572%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	5677%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	4629%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	6127%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	4042%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	4337%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	3548%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	2592%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	1681%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	1838%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	1278%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	1058%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	959%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	883%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	853%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	763%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	397%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	354%
Clinton Impeachment	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	254%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	225%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	351%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	376%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	299%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	264%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	544%
Price Changes Only - Does Not Include Dividends				**Averages:**	**-7%**	**18%**	**39%**	**66%**	**5996%**

As of 11.3.23. Source: Kovitz using Bloomberg and Ned Davis Research Events & Reaction Dates

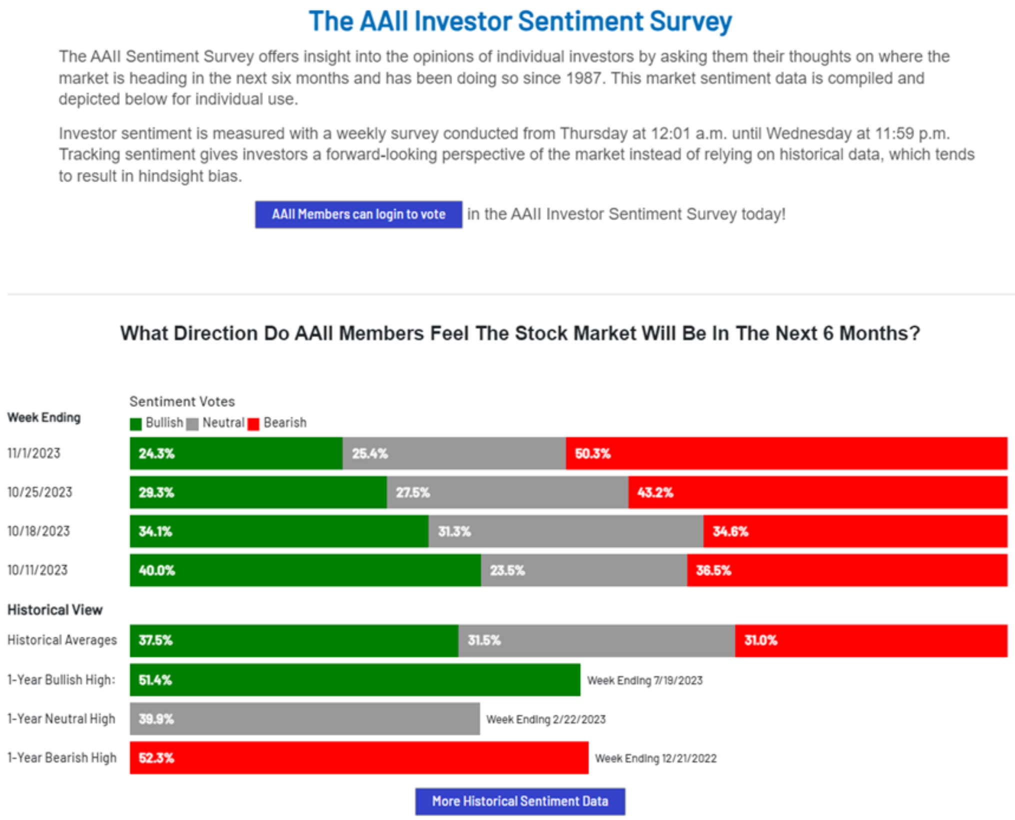
…yet the vast majority of investors fail to enjoy the riches that the financial markets have to offer, as evidenced by the big returns gap calculated by data provider DALBAR between stock (and bond) mutual fund investors and the indexes over the last three decades.

SUMMARY RETURNS: DALBAR'S 2022 QAIB STUDY

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

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

Needless to say, the conclusion one can draw from the DALBAR data is that the only problem with market timing is getting the timing right, but the problem for most who try to move into and out of equities is that the big up moves often take place when they are least likely to be comfortable with equities. Such was the case last week when the folks on Main Street, as tabulated by the American Association of Individual Investors (AAII), saw a sizable drop in Bullishness and a big jump in Bearishness, with the Bull-Bear Spread of -26.0,...



…one of the most negative in history, illustrating once again why this sentiment gauge has long been viewed as a contraindicator.

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	950	0.24%	0.20%	1.15%	1.01%	3.37%	2.98%	6.56%	5.81%
ABOVE	7.0	62.9	940	0.17%	0.16%	0.53%	0.44%	1.95%	1.70%	4.59%	4.11%
	Ten Groupings of 1890 Data Points										
1	-54.0	-17.0	190	0.41%	0.35%	2.19%	1.95%	4.83%	4.32%	9.04%	7.88%
2	-17.0	-9.0	191	0.25%	0.21%	0.93%	0.79%	3.53%	3.16%	5.99%	5.22%
3	-8.9	-2.8	186	0.34%	0.31%	1.02%	0.90%	3.55%	3.15%	7.73%	7.03%
4	-2.7	2.1	189	0.15%	0.11%	0.92%	0.82%	2.26%	1.88%	5.21%	4.64%
5	2.3	7.0	194	0.03%	0.01%	0.71%	0.62%	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%	2.14%	1.89%	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 11.02.23. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

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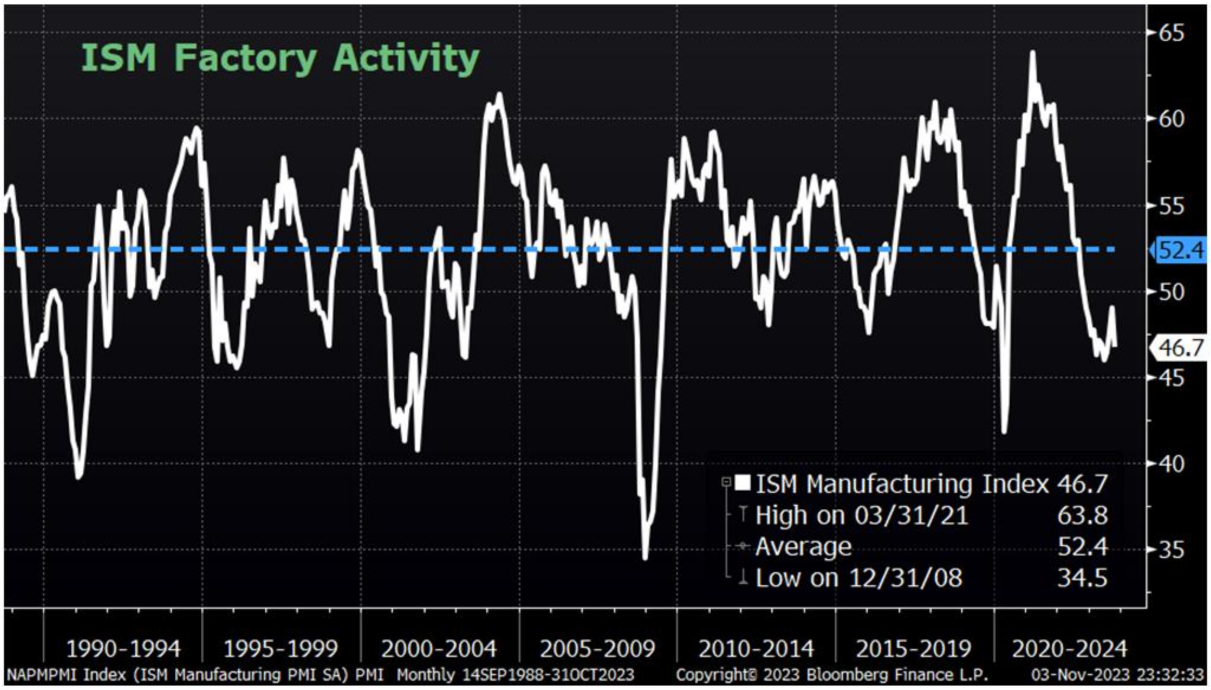
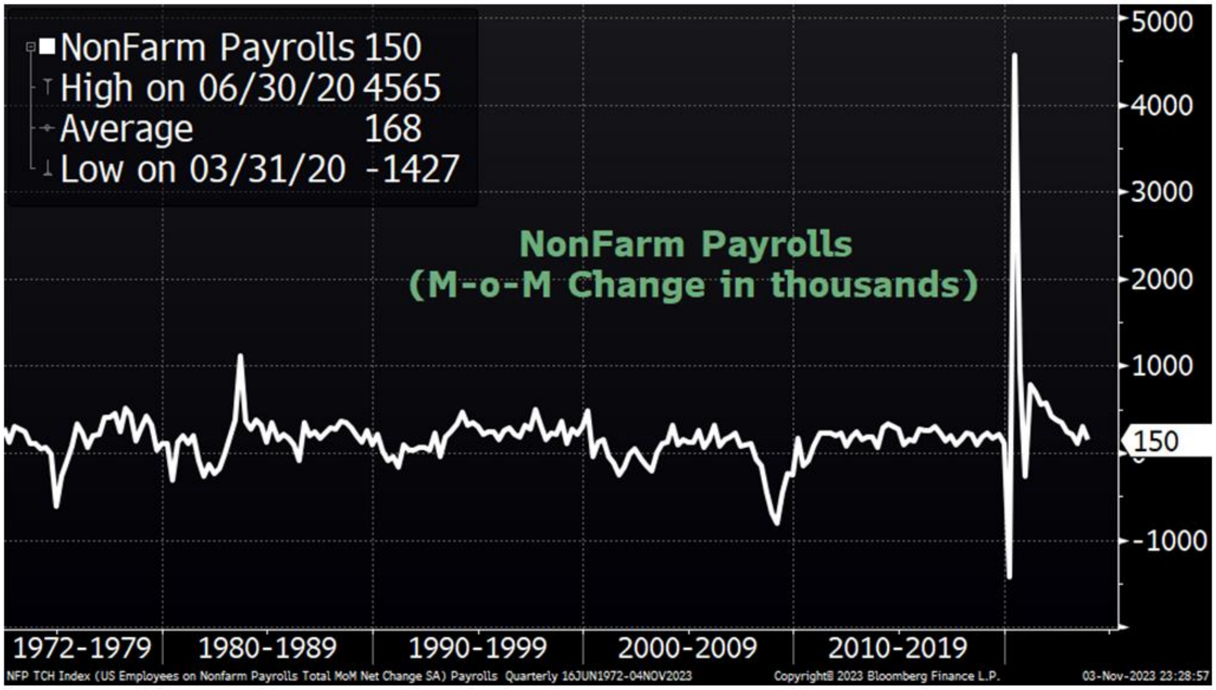
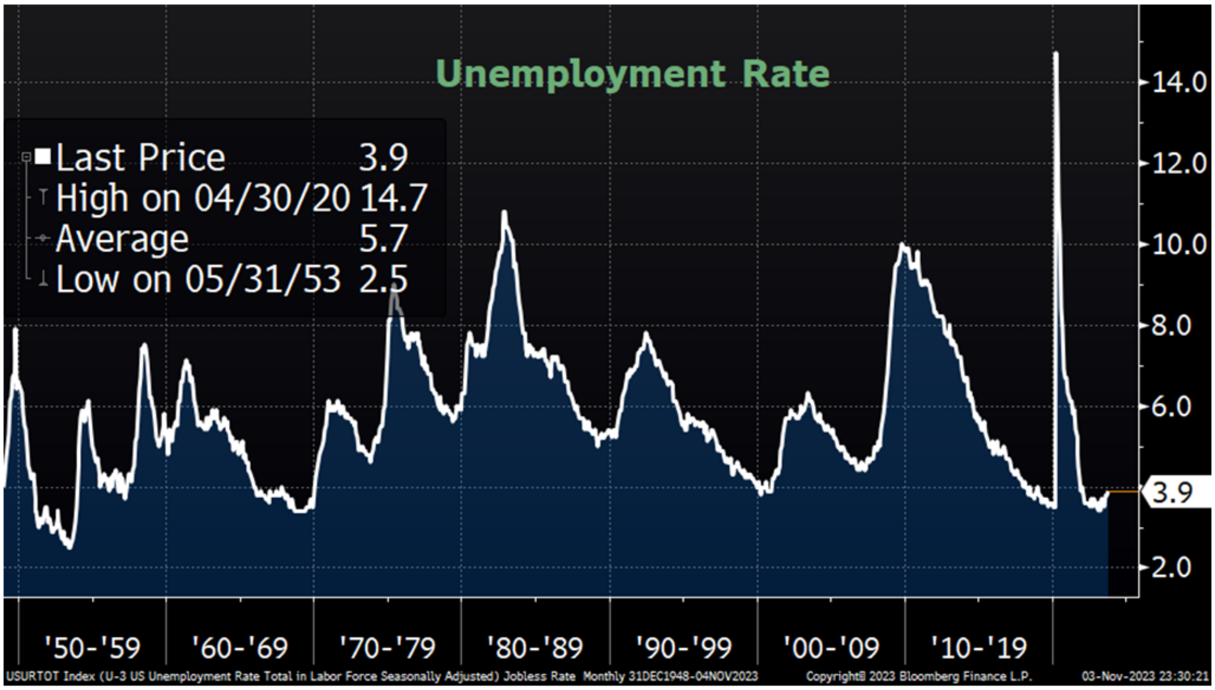
To be sure, one week does not a trend make and there is as yet hardly reason to be of great cheer, given that the average stock in the Russell 3000 index has a minus 0.7% year-to-date total return. Still, we found it interesting that equities managed to catch a bid last week on reports that the October reading on the health of the factory sector from the Institute for Supply Management (ISM) came in much weaker than estimated,...



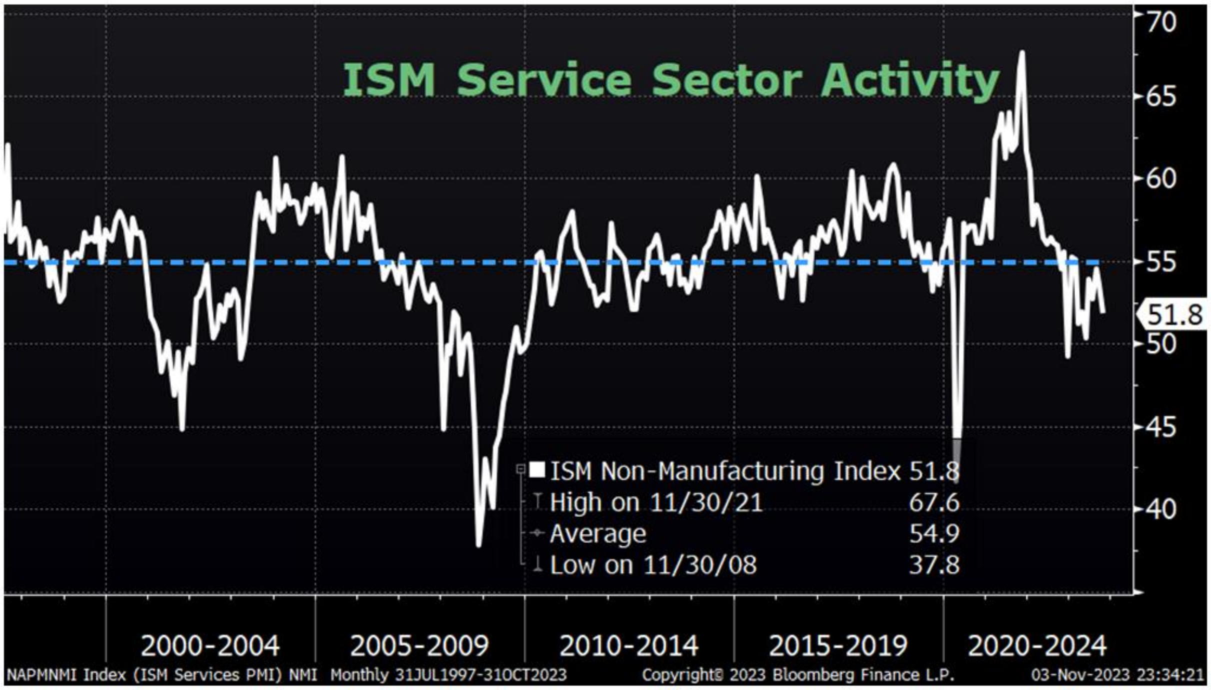
…and that fewer jobs than expected were created in the private sector last month, a "disappointing" figure that was confirmed by Friday's full October employment report in which 150,000 new payrolls were created, below forecasts calling for 180,000.



With the unemployment rate also ticking up to 3.9%,...

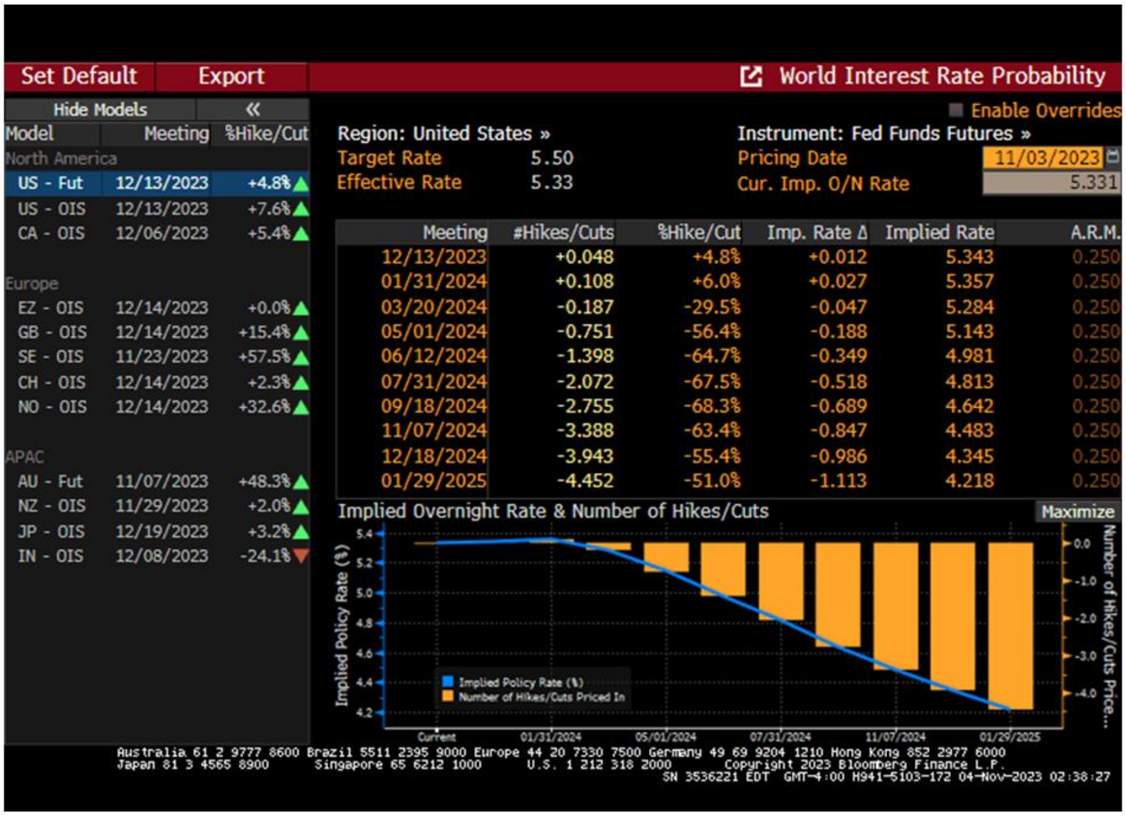


...and the important ISM Service Sector PMI trailing projections,...



...interest rates plummeted, with the yield on the benchmark 10-Year U.S. Treasury retreating to 4.57% from the prior week's closing level of 4.83%,...

...as market participants decided that the likelihood of additional Federal Reserve rate hikes was reduced as expectations increased that the Fed Funds rate will be cut several times in 2024.



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And speaking of the Fed, Jerome H. Powell & Co. decided to leave the target for the Fed Funds rate alone at a range of 5.25% to 5.50% at the November FOMC Meeting, with little change in the accompanying statement,...

FOMC Statement – November 1, 2023

Recent indicators suggest that economic activity expanded at a strong pace in the third quarter. Job gains have moderated since earlier in the year but remain strong, and the unemployment rate has remained low. Inflation remains elevated.

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

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

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

…and Chair Powell continuing to talk tough on inflation in his Wednesday Press Conference,…

Inflation remains well above our longer-run goal of 2 percent. Total PCE prices rose 3.4 percent over the 12 months ending in September. Excluding the volatile food and energy categories, core PCE prices rose 3.7 percent. Inflation has moderated since the middle of last year, and readings over the summer were quite favorable. But a few months of good data are only the beginning of what it will take to build confidence that inflation is moving down sustainably toward our goal. The process of getting inflation sustainably down to 2 percent has a long way to go. Despite elevated inflation, longer-term inflation expectations appear to remain well anchored, as reflected in a broad range of surveys of households, businesses, and forecasters, as well as measures from financial markets.

…but also reminding that future tightening (or loosening down the road) in monetary policy will remain data dependent.

In light of the uncertainties and risks, and how far we have come, the Committee is proceeding carefully. We will continue to make our decisions meeting by meeting, based on the totality of the incoming data and their implications for the outlook for economic activity and inflation as well as the balance of risks. In determining the extent of additional policy firming that may be appropriate to return inflation to 2 percent over time, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments.

Traders seemed to like the "proceeding carefully" language, with many concluding that the Fed is done with rate hikes for this tightening cycle. We are not so sure, but we note that stocks have performed well, on average, over the years whether the Fed Funds rate is moving up or down,...

THE PRUDENT SPECULATOR

Concurrent Stock Performance & Change in Federal Funds Eff. Rate

	Count	Value	Growth	Payers	Non-Payers
Less than 4.13%	412	12.9%	10.0%	10.4%	10.0%
More than 4.13%	411	15.2%	9.9%	12.4%	9.3%
3-Month Drop	383	17.5%	12.0%	14.0%	10.5%
3-Month Rise	436	11.4%	8.3%	9.3%	8.9%
6-Month Drop	366	16.2%	12.5%	14.0%	10.7%
6-Month Rise	447	12.4%	7.8%	9.3%	8.6%
12-Month Drop	371	14.4%	11.7%	12.8%	9.6%
12-Month Rise	430	13.6%	8.3%	10.0%	9.1%

From 07.31.54 through 03.31.23. Concurrent annualized 12-month returns. SOURCE: Kovitz using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French

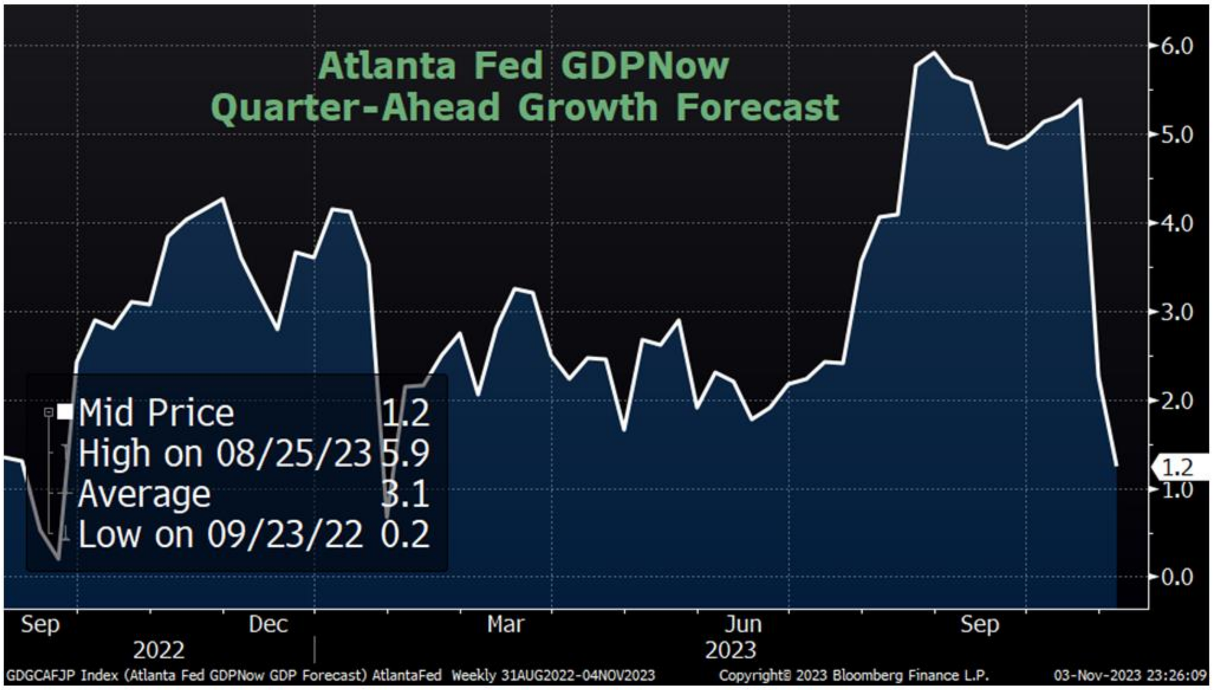
Subsequent Stock Performance & Change in Federal Funds Eff. Rate

	Count	Value	Growth	Payers	Non-Payers
Less than 4.13%	413	12.7%	10.5%	10.8%	10.4%
More than 4.13%	412	15.2%	9.2%	11.8%	8.4%
3-Month Drop	383	13.8%	10.3%	11.1%	10.2%
3-Month Rise	427	13.9%	9.2%	11.2%	8.4%
6-Month Drop	366	15.4%	11.8%	12.2%	12.0%
6-Month Rise	441	12.4%	8.0%	10.2%	6.9%
12-Month Drop	371	16.9%	11.8%	12.3%	11.9%
12-Month Rise	430	11.0%	7.8%	9.9%	6.8%

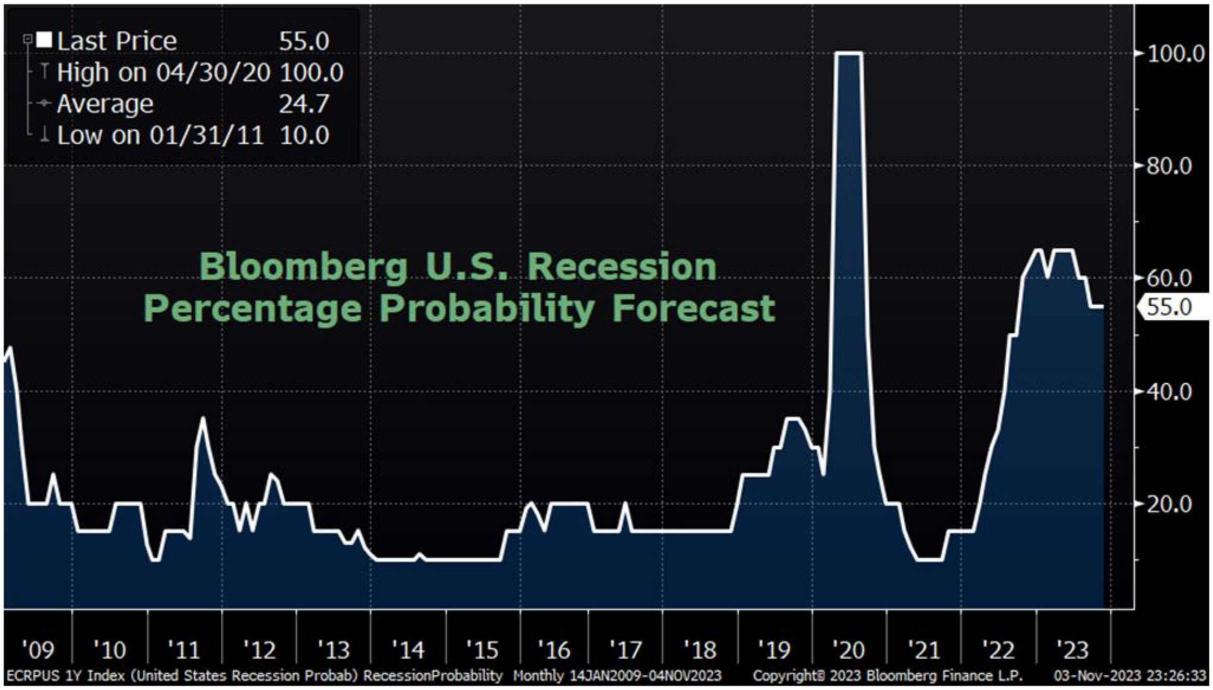
From 07.31.54 through 03.31.23. Subsequent 12-month return. SOURCE: Kovitz using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French

Many think the Federal Reserve hiking the Fed Funds is a big headwind for equities. Anything can happen, of course, and stocks prefer falling rates over rising, but seven decades of annualized data show that equities have performed admirably, ON AVERAGE, both concurrent with and subsequent to increases (as well as decreases) in the Fed Funds rate over 3-, 6-, and 12-month time spans, with Value Stocks leading the charge no matter the direction.

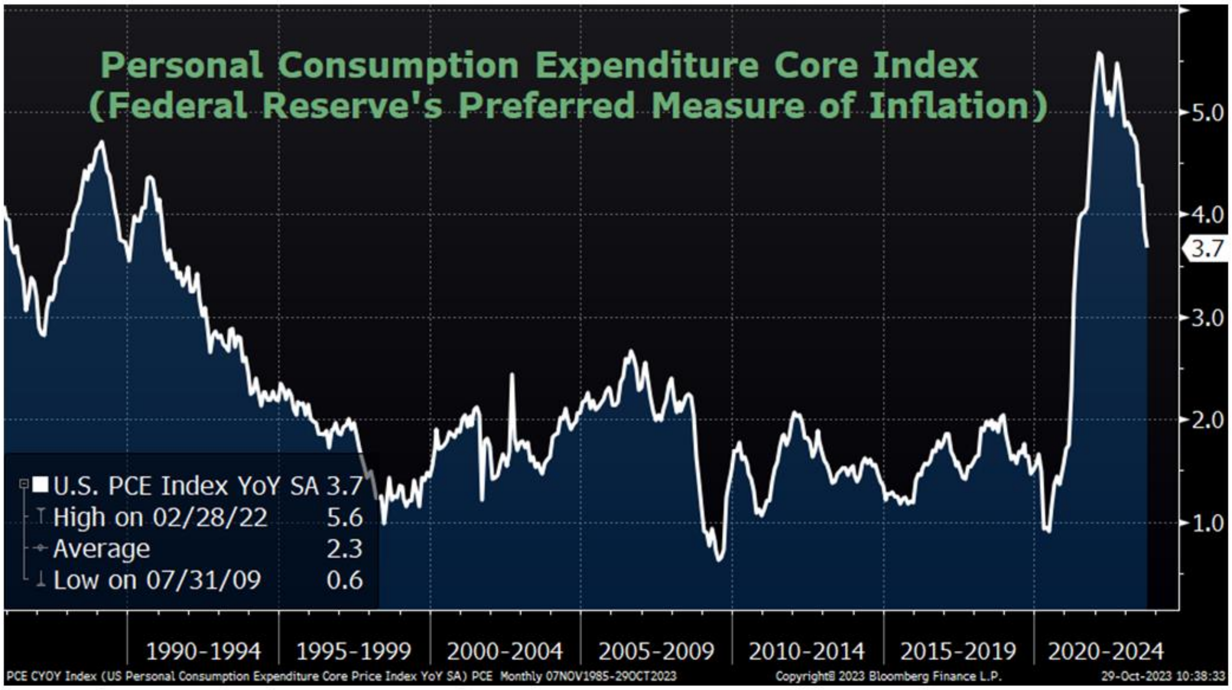
...while the current real GDP growth outlook for Q4, as projected by the Atlanta Fed, came in at 1.2% last week,...



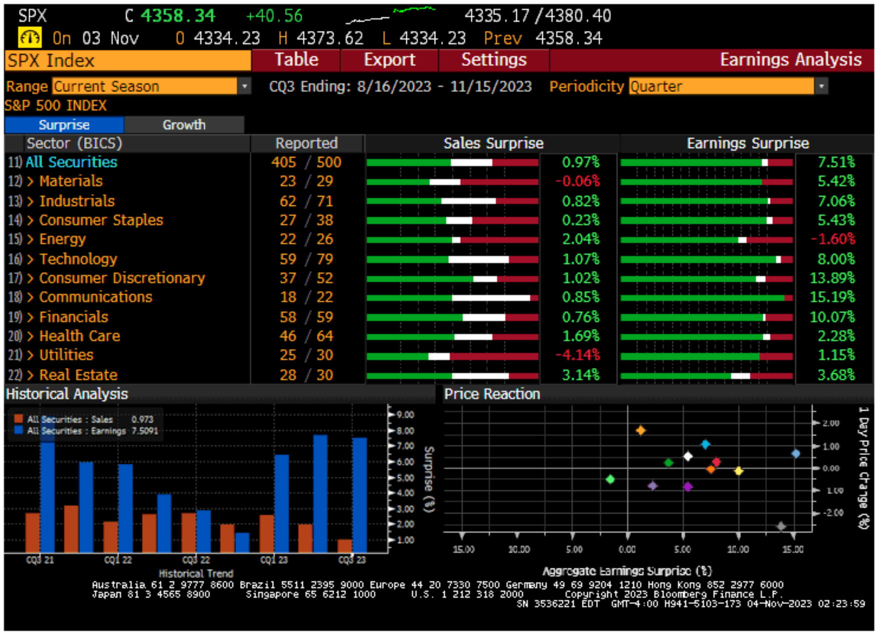
...and the odds of a recession in the next 12 months, per calculations from *Bloomberg*, held steady at a very elevated 55%,...



...so one could argue that the Fed thus far has done a good job of bringing inflation down,...



...without causing too much economic hardship, given that corporate profits have remained very healthy, with the likelihood of continued EPS growth this quarter and 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	$64.76	$244.24
9/30/2024	$63.08	$235.00
6/30/2024	$59.88	$227.36
3/31/2024	$56.52	$222.32
12/31/2023	$55.52	$218.34
9/30/2023	$55.44	$213.19
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 10.31.23

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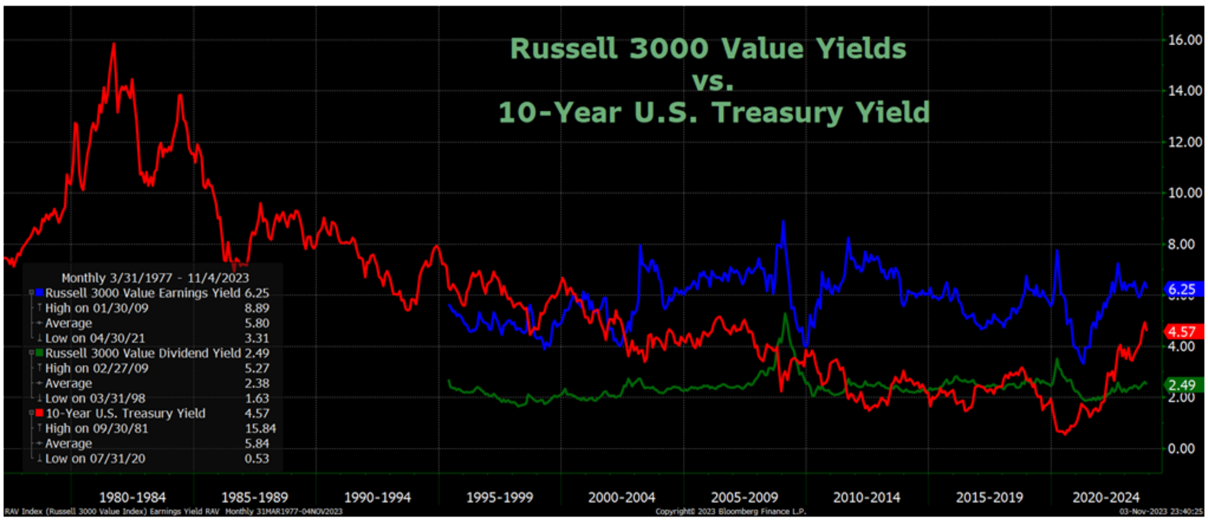
No doubt, all else equal, lower interest rates should be a tailwind for stocks, but as we constantly state, we are braced for additional equity market downside. Still, we see no reason to alter our long-term enthusiasm for equities, especially given the reasonable valuations for Value stocks in general,...

While the Earnings Yield, which is the inverse of the P/E ratio, on the S&P 500 (4.78%) is still reasonable relative to the current 4.57% 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 (6.25%) AND a higher dividend yield (2.49%) 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	13.4	12.1	0.8	2.3	3.0
ValuePlus	13.6	12.4	1.0	2.4	2.6
Dividend Income	13.0	12.2	0.7	2.3	3.4
Focused Dividend Income	14.6	13.0	1.0	2.3	3.2
Focused ValuePlus	15.3	13.4	1.1	2.7	2.7
Small-Mid Dividend Value	11.0	10.3	0.5	1.5	3.2
Russell 3000	21.9	20.1	2.1	3.7	1.6
Russell 3000 Growth	33.1	27.9	3.7	10.4	0.8
Russell 3000 Value	15.8	15.3	1.4	2.1	2.5
Russell 1000	21.7	19.9	2.3	3.9	1.6
Russell 1000 Growth	32.2	27.5	4.0	11.4	0.8
Russell 1000 Value	15.8	15.1	1.5	2.3	2.5
S&P 500 Index	20.7	19.9	2.3	3.9	1.6
S&P 500 Growth Index	23.6	22.6	3.5	6.7	1.3
S&P 500 Value Index	19.0	17.4	1.7	2.7	2.0
S&P 500 Pure Value Index	10.0	10.1	0.5	1.1	3.0

As of 11.03.23. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Kovitz using data from Bloomberg Finance L.P.

Stock Updates

Keeping in mind that all stocks are rated as a "Buy" until such time as they are a "Sell," a listing of all current recommendations is available for download via the following link: https://theprudentspeculator.com/dashboard/. We also offer the reminder that any sales we make for our newsletter strategies are announced via our *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.

Physician's Realty (DOC – $11.81) said that it generated $0.25 of funds from operations per share in Q3, in-line with the Street estimate, but it was the announcement that it had entered into an agreement to merge with fellow healthcare REIT Healthpeak Properties (PEAK – $17.21) that stole the show. The combination would result in a company with a 52 million-square-foot real estate portfolio, with about 40 million square feet (3.7 million square meters) of outpatient medical properties concentrated in such high-growth markets as Dallas, Houston, Nashville, Phoenix and Denver.

Healthpeak Properties has agreed to make the purchase using its own shares, with the deal currently valued at about $2.7 billion (based on the latest closing price of DOC shares). Each DOC share will be converted into 0.674 of a newly issued PEAK share. Completion is currently targeted by the end of Q2 2024.

PEAK CEO Scott Brinker, who would lead the combined company, commented, “With a broader footprint in strategically important markets and a high-quality Pandemic Levels portfolio, we will be able to better serve the real estate needs of leading health system, physician and biopharma tenants, which we believe is a competitive advantage.”

On the surface, the fact that PEAK trades for a slight discount to DOC on an FFO basis appears a plus for DOC shareholders, even as we will receive a dividend cut in the process. Shares of the former are down by roughly a third year-to-date compared to the ~20% decline for DOC. However, we note that PEAK offers significant exposure to the Life Sciences industry. So, even as we continue to view this area as a favorable pond in which to fish, as is always the case, we will evaluate this situation compared to other opportunities available to us amidst the REIT turmoil. Our Target Price for DOC is now $15.

Like the general market, shares of **Eaton Corp PLC** (ETN – $214.79) had been pulled down during September and October. Last week, following the announcement of yet another solid quarter, shares of the electrical power equipment maker rose almost 10%. Management said the company enjoyed record quarterly sales with 9% organic sales growth and record quarterly segment margins of 23.6%. Revenue of $5.88 billion for Q3 was generally in line with estimates and adjusted EPS of $2.47 outpaced the consensus analyst estimate of $2.34. Backlog jumped 18% over the same quarter last year and 4% over Q2.

CEO Craig Arnold explained, “We’re proud to deliver another quarter of record results with continued growth in our backlog. To meet that demand, we are investing more than $1 billion of capital in manufacturing to support the growth driven by electrification, energy transition and digitalization. Given our strong performance and these capacity additions, we continue to look ahead with confidence in our ability to deliver on our growth and margin expansion outlook into 2024 and beyond."

For the full year 2023, ETN raised its adjusted EPS guidance to a range of between $8.95 and $9.05, versus last quarter's forecast of $8.65 and $8.85, up $0.25 at the midpoint. Management now anticipates Q4 organic growth of 8% to 10% and adjusted earnings per share between $2.39 and $2.49.

While shares are not as cheap as when we originally bought them, trading at 22 times NTM average adjusted EPS expectations, we can't ignore the continued execution and organic growth this long-time holding has been delivering. We did take some money off the table a couple of months back, happily at higher prices than the current quotation, so we are willing to hold our remaining shares for the time being for an upwardly revised Target Price of $247 as we continue to appreciate the company's shift in recent years away from legacy segments and toward highly differentiated end markets exposed to tailwinds like the acceleration in data consumption and the production of electric vehicles. Additionally, ETN should benefit from the federal government's continued focus on potential green initiatives and reshoring. ETN also should be helped by a multi-year commercial aviation recovery.

Construction equipment titan **Caterpillar** (CAT – $240.75) earned $5.52 per share in Q3, up 40% year-over-year and 16% above analyst estimates as revenue increased by 12% to $16.8 billion, primarily driven by price realization and higher sales volume. Favorable price realization contributed to strong Construction and Resource Industries sales, while Energy & Transportation and Financial Products segments grew sales by double-digit rates, even as the latter saw a decrease in profit due to higher provisions for credit losses.

Management expects slightly higher sales in Q4 compared to the previous year, with a full year adjusted operating profit margin slightly above target. Machinery, Energy & Transportation free cash flow is expected to exceed the target range of $4 billion to $8 billion for the full year.

CEO Jim Umpleby said, "Due to improving supply chain conditions, product availability and lead times have improved for many products. Dealers and customers can wait longer to place orders, which has led to a moderation in order rates, as expected. In addition, we have seen a reduction in dealer orders for building construction products, which we anticipated, due to the changeover to Cat engines that we previously discussed, and for excavation, in anticipation of dealers reducing their inventories in the fourth quarter. Although, our backlog declined as expected, it still remains elevated as a percentage of revenues compared to historic levels."

Earnings growth over the past three years has been tremendous, bringing anticipated profit for 2023 to nearly double the prepandemic figure. So, while we continue to expect to see Caterpillar equipment littered about highways, farms and mines for the foreseeable future, it is only natural for growth to slow at some point. Trader concern about the go-forward growth rate kept a lid on the stock last week, even as we think CAT's dominance in the U.S. continues, and runways for growth remain in emerging economies.

Caterpillar has maintained its edge through the incorporation of technology and software into its products to improve both performance and total cost of customer ownership. A shift toward leaner operations and digital solutions continues to be evident in operational results. Shares are barely in the black for the year and are down 17% from the 52-week high. As such, the P/E ratio remains attractive at 12, while our Target Price now stands at $319.

Shares of biotech giant **Amgen** (AMGN – $269.86) rose 3% last week helped by Q3 financial results that were better than investors were expecting. The company reported revenue of $6.9 billion, in line with the consensus analyst estimate. Adjusted EPS came in at $4.96, versus the average Wall Street forecast of $4.68.

Sales growth was noteworthy in certain general medicine drugs, Evenity (up 53% year-over-year) and Repatha (up 31%), but also in oncology/hematology medicines Blincyto (up 55%) and Vectibix (up 2%). These offset weaker sales for blockbuster drugs Enbrel (down 6%) and Otezla (down 10%). Amgen also announced that it generated $2.5 billion of free cash flow in the quarter versus $2.8 billion in the year-ago period. The company expects Q4 cash flow to be lower than historical patterns due to tax payments and transaction-related expenses.

"It's an exciting time here at Amgen. And we're continuing to execute well this year, serving many more patients around the world with medicines such as Repatha, EVENITY and Tezspire, advancing a number of promising first-in-class medicines rapidly through our pipeline and preparing for our next wave of biosimilar launches. This is our first earnings call following the close of our acquisition of Horizon Therapeutics," said CEO Robert A. Bradway. "Looking at our business, we feel we have good momentum across the board. We have everything we need with the portfolio, the pipeline and the people to deliver attractive sales and earnings growth through the end of the decade and beyond. As always, I want to thank Amgen employees around the world, including some 2,000 new colleagues focused on rare diseases for their commitment to strong execution on behalf of the patients we serve."

Amgen closed on its acquisition of Horizon Therapeutics on October 6. The Q4 results will exclude one week of Horizon contributions. For the full year, the company now expects total revenue in the range of $28.0 billion to $28.4 billion. AMGN also sees adjusted EPS for the full year of $18.20 to $18.80, with capital expenditures of approximately $950 million.

We continue to think there is more upside available for AMGN in this unremarkable year (as far as performance goes). Even though it was a bit of a mixed bag in Q3 when it came to individual therapy performance, we continue to be constructive on the company's broad pipeline of therapeutics. Shares trade at 14 times NTM adjusted EPS projections and offer a dividend yield of 3.2%. Our Target Price is $322.

In addition to reporting fiscal Q4 bottom-line results that beat expectations, semiconductor designer **Qualcomm** (QCOM – $119.52) saw its shares gain more than 12% last week after the company's Q1-2024 forecast signaled easing headwinds. For Q4, QCOM posted adjusted EPS of $2.02 on adjusted revenue of $8.67 billion, versus the respective consensus estimates of $1.92 and $8.51 billion.

CEO Cristiano Amon commented, "During the quarter, we also made significant progress on our leading technology and product roadmaps while improving operational efficiency. We remain fully focused on our future growth and diversification opportunities. Let me now discuss key highlights from the business. As we enter the age of generative AI, we're seeing an unprecedented pace of innovation. On-device GenAI is evolving in parallel with GenAI in the cloud, enabling entirely new use cases. It has the potential to change how we interact with our devices, making the user experience more natural, intuitive, relevant, and personal, with increased immediacy, privacy, and security. We have quickly established Qualcomm as a leader in on-device GenAI for smartphones, next-generation laptops, XR, and automotive, and we are well-positioned to benefit from this opportunity. We expect high-performance on-device AI to become a requirement over the next few years, driving content, units, or both."

He continued, "As we look forward, our technology roadmap has never been stronger, and the fundamentals of Qualcomm's growth drivers remain unchanged, with significant opportunities in the coming years. We continue to focus on stockholder returns and executing on our ongoing diversification opportunities while maintaining operating discipline."

CFO Akash Palkhiwala said, "We are seeing early signs of stabilization in demand for global 3G, 4G, 5G handsets. We now estimate that calendar '23 handsets will be down mid to high single-digit percentage relative to calendar '22, an improvement from our prior expectations... On a sequential basis, we estimate double-digit percentage growth for QCT handset revenues and anticipate both IoT and automotive revenues to decline consistent with last year. QCT handset revenue forecast includes the benefit of normalization of Android channel inventory and higher demand due to the acceleration of flagship launches with our newly announced Snapdragon 8 Gen 3 mobile platform."

For fiscal Q1, Qualcomm expects revenue between $9.1 billion and $9.9 billion (est. $9.3 billion) and EPS between $2.25 and $2.45 (est. $2.25). The QCT segment is expected to see revenue between $7.7 billion and $8.3 billion (vs. $7.8 billion est.) and the QTL segment's revenue is expected to come in between $1.3 billion and $1.5 billion (vs. $1.4 billion est.).

After several soft-guidance quarters, QCOM finally offered an outlook that was reflective of improving demand dynamics. Of course, the company may still encounter some headwinds and some questions remain in the Automotive business about the strength of underlying demand for EVs (in particular), but overall the guidance was seen as a step in the right direction. QCOM's price action this year has been a rollercoaster, even as shares have gained nearly 9%. It might continue to be a rocky ride, requiring a pinch of extra patience, but the long-term trend has consistently been positive, and prospects really improved when QCOM slowed down its litigation machine. Shares trade for 13 times forward earnings with a well-funded 2.7% yield. The balance sheet sports $11.3 billion of cash (though there is $16.0 billion of total debt), giving QCOM plenty of room to make it through any headwinds that linger. Our Target Price for QCOM has been raised to $185.

Shares of **Albemarle** (ALB – $127.98) continued their slide in 2023, after the lithium miner posted Q3 financial results that meaningfully trailed forecasts. Revenue for the period of $2.31 billion came in almost 9% below the consensus analyst estimate, while adjusted EPS of $2.74 was well short of the average estimate of $3.77.

CEO Kent Masters explained, “Albemarle grew net sales by 10%, driven by higher volumes in our Energy Storage business. In the third quarter, we formed new strategic partnerships and streamlined our existing MARBL joint venture to better position Albemarle for long-term growth. Our investments across the globe continue to progress, with the Meishan project ahead of schedule for completion in early 2024. Through our operating model, Albemarle Way of Excellence, we are on track to achieve more than $170 million in productivity benefits in 2023 and expect to achieve additional benefits in 2024 as we continue to operate with a disciplined approach.”

To be sure, the electric vehicle industry isn’t growing as fast as it was and benchmark lithium prices have fallen from about $81,000 per metric ton a year ago, to about $23,000 now. However, with all the longer-term mandates around non-internal-combustion engines around the globe, we believe better days are ahead for lithium and ALB.

Given the current weakness in lithium prices, concerns about the pace of the global electric vehicle build out, and many traders not looking at the possibilities of Albemarle through our long-term lens, many might find it hard to believe that ALB still expects 2023 sales to come in 30% to 34% ahead of the 2022 tally, while adjusted EPS should be in the $21.50 to $23.50 range.

Incredibly, shares remain highly discounted and trade for just 8.4 times forward earnings. For those looking for EV exposure, we think ALB is a very attractive long-term name, especially as we have seen interest from the major auto makers in entering into longer-term supply contracts and even taking ownership stakes in lithium producers.

We will also continue to monitor the situation in Chile, where the government is looking for new deals with lithium miners, though has maintained that it will honor current contracts (with ALB’s not expiring until 2043). Our Target Price has been reduced to $311, but we cannot help but note that if ALB traded for just half the forward P/E ratio of EV king Tesla, the stock would be priced above $400!

PayPal (PYPL – $56.10) reported a solid third quarter, sending shares rebounding by more than 11% last week. The digital payments specialist had total payment volume of $387.7 billion (vs. $384.2 billion est.) with total revenue of $7.4 billion, which matched the analyst consensus. Earnings per share came in at $1.30, compared with the $1.23 Wall Street estimate.

PayPal CEO Alex Chriss said, "I've dedicated the last 19 years of my career to fighting for the underdog, helping consumers and small businesses around the world achieve their dreams, interact with each other and build a better life. PayPal takes that mission to a whole new level. The assets, the data, the scale and the brand, the full foundation of what PayPal sits on today is unrivaled. And for me, that is the opportunity of a lifetime. I am also walking in eyes wide open. There are clearly challenges to tackle. I am someone who speaks plainly and transparently. If we are doing things well, I will highlight them. If there are things we can do better and need to fix, then I will have no hesitation in calling those out too."

Mr. Chriss continued, "Our innovation activity has accelerated. But we still have work to do on maximizing our impact for our customers' end results. Competition and complexity had increased and the company's focus has not been clear. We are doing a lot of things, but are we focused enough with our resource allocation? Are we executing with excellence behind the most important work to provide customers with a compelling and differentiated value proposition? Are we partnering with customers in a way that brings them deep value, but also rewards the PayPal shareholder? These are questions I'm maniacally focused on answering with the team and doing a better job of executing across the board. But let me be clear, notwithstanding those realities, this is a growth company with great prospects. Even within the first month on the job, I am more energized and have more conviction and clarity than I expected over how we win. We have significant opportunities for growth and impact, the foundation is strong, and the value pools and growth vectors are there. We must simply execute better and with higher velocity, and we will."

Mr. Chriss said of the future, "I can tell you that we are already hard at work, determining a comprehensive plan for 2024 and ensuring we are prepared to deliver it. There are teams stacked against our focus areas, and they are deep in execution mode. Our core execution and fast twitch operating muscles are building by the day. In parallel, the leadership team and I are refreshing our strategic priorities and focus areas for 2024 and we'll be sharing them with you in our next earnings call in February. I will unpack for you then the clarity of our strategic focus, our focused growth priorities and how we will achieve durable profitable growth, adjustments we will make to drive efficiencies across the organization, and guide what you can expect us to deliver in 2024."

A strong quarterly check-in for PayPal, we think. Mr. Chriss, new in his position, seemed to get a warm reception from analysts, who cheered his focus on investable growth (quoted above) and there was enthusiasm around the idea that the revamp of the global payment giant is still in the early innings. We think Mr. Chriss offers PYPL a clear path forward and we, too, are looking forward to seeing progress on the revenue and earnings fronts. Our Target Price is $112.

Insurance giant **Prudential Financial** (PRU – $94.15) earned $3.44 in Q3, a 45% increase compared to the same period a year ago, supported by underlying business expansion, the benefits of a higher interest rate environment, improved variable investment income and positive underwriting experience, partially offset by lower fee income. U.S. businesses saw higher spread income, lower expenses and more favorable variable investment income, though fee income declined. International businesses reported a 19% increase in sales, driven by record sales in Brazil and growth in the bank channel.

CEO Chuck Lowry commented, "We continue to execute on our strategy to become a higher growth, less market-sensitive, and more nimble company. This quarter, we increased our capital efficiency and enhanced our capabilities in mutually reinforcing business system. We are also optimizing our operating model to drive both efficiency and growth. Our strategic progress and financial strength position us well to navigate the current macroeconomic environment and maintain a disciplined approach to capital deployment...We're also working to create a leaner, faster, and more agile company so that we can better meet the changing needs and expectations of our customers around the world, while driving growth and efficiency to further strengthen our competitive position. We're taking new steps to simplify our organizational structure by reducing management layers, complexity, and costs, while making investments in technology and data platforms. Our goal is to empower faster decision-making and bring our integrated business teams closer to our customers and clients.

CFO Kenneth Tanji added, “Our capital position continues to support our AA financial strength rating. Our cash and liquid assets were $4.3 billion within our liquidity target range of $3 billion to $5 billion. Regulatory capital ratios are above our targets, and we have substantial off-balance sheet resources, including approximately $9 billion of contingent capital and liquidity facilities. We remain thoughtful in our capital deployment, balancing the preservation of financial strength and flexibility, investment in our businesses for long-term growth and shareholder distributions.”

We continue like that Prudential is working to reduce the market sensitivity of its products, while returning capital to shareholders: In Q3, $250 million was spent on share repurchases with $461 million returned in the form of dividends. Prudential is also finding new avenues for growth like its partnership with Mercado Libre, the largest e-commerce platform in Latin America with approximately 200 million users, offering a pipeline to deliver life insurance and accident and health products. PRU trades for 7.3 times the NTM EPS estimate with a 5.3% dividend yield. Our Target Price remains $122.

Moderna (MRNA – $77.53) said that $3.6 billion of mostly non-cash restructuring charges from inventory-related write-downs and an adjustment to valuation allowance for deferred tax assets were behind the $9.53 loss in Q3 (vs. the $1.90 loss est.). As management aims to better position the vaccine maker, given much lower volumes associated with endemic COVID-19, CFO Jamey Mack said, “At a $4 billion sales level, we expect cost of sales of approximately 35%, reducing to approximately 30% at $6 billion of sales, and 20% to 25% at even higher sales levels,” enabling the company to reach breakeven by 2026.

Still a one trick pony in terms of sales, the biotech concern has updated its 2023 sales outlook to include at least $6 billion of sales. CEO Stephane Bancel explained, “Last year, only about 55% of COVID vaccinations were given by the end of October, with an additional 23 million vaccinations given in November and December…[the latest sales guidance] assumes approximately 50 million doses administered in the U.S., which would be similar to the fall season of 2022. With the $3.9 billion in sales recorded as of the end of the third quarter, expected fourth quarter sales are $1.1 billion internationally and at least $1 billion in the U.S.”

Turning to Moderna’s upcoming RSV launch in 2024, Chief Commercial Officer Arpa Garay said, “We have not seen any cases of GBS in our Phase 3 trials…We continue to expect a 2024 launch of our RSV vaccine in the U.S. and are also preparing for launches in several international markets. We're encouraged by the recent RSV launches in the market this year, beating expectations due to robust consumer awareness and demand. And we believe that we are well-positioned for our launch in 2024. Our strong clinical profile and ready to use pre-filled syringes are key competitive differentiators."

Approaching the two-year mark since our initial MRNA purchase, the slide year-to-date has been painful. Of course, we entered the holding knowing that the distribution of future outcomes was much wider than we might normally entertain. Nevertheless, since the beginning, the biotech's balance sheet has offered a margin for error in our view ($12.8 billion of cash and investments as of the latest quarter), while the high potential for future success remains, despite taking longer than we might have hoped.

Indeed, currently approved RSV vaccines from competitors are projected to generate north of $1 billion of sales next year. So, we think a more convenient pre-loaded jab from Moderna could be a compelling enough alternative to win major share in that area while oncological breakthroughs also appear on the horizon.

Not for the faint of heart and without a dividend, we remain comfortable with our current relatively small position in MRNA. Our Target Price has been revised down to $150.

Engine maker **Cummins** (CMI – $225.88) earned $4.59 per diluted share, including $26 million in costs associated with the separation of Atmus. Revenue reached $8.4 billion, marking a 15% increase compared to the previous year, driven by a 16% rise in North American sales and a 13% rise in international, attributed to improved pricing and strong demand for on-highway and power generation products, while the Meritor acquisition contributed 5% to the growth. EBITDA margin improved to 14.9% of sales excluding separation costs and acquisition adjustments (vs. 13.3% a year ago), driven by favorable pricing, efficient logistics and operational enhancements.

Cummins has been busy with inorganic growth as evidence by the latest partnership with Daimler Trucks & Buses, PACCAR and EVE Energy to localize battery cell production in the United States. CEO Jennifer Rumsey elaborated, "The planned joint venture will manufacture battery cells for electric commercial vehicles and industrial applications, creating highly desirable manufacturing jobs in the United States in the growing clean technology sector. Total investment by the partners is expected to be in the range of $2 billion to $3 billion for the 21 gigawatt hour factory with production expected to begin in 2027. We see this partnership as an opportunity to share investment with two longstanding partners, while advancing a key technology solution for our customers and industry and collectively to accelerate the energy transition in the United States. In October, Cummins completed its acquisition of two Faurecia commercial vehicle manufacturing plants and their related activities. One in Columbus, Indiana and one in Roermond, Netherlands. This acquisition is a natural addition to the Cummins Emission Solutions business and will help ensure we meet current and future demand for low-emission products."

She concluded, "This is a period of change for our company and it's also an exciting one. I want to end by thanking our Cummins employees who continue to work tirelessly to meet our customer needs and respond to the strong demand levels, by ensuring quality products, strengthening our customer relationships and navigating continued supply chain challenges."

Management boosted its 2023 revenue growth guidance to 18% to 21%, up slightly from prior guidance of 15% to 20%, driven by strong demand in North America. EBITDA is now expected to be 15.2% to 15.4% of sales compared to a previous range of 15% to 15.7%.

We continue to like Cummins' position as a leading, profitable maker of critical components in the industrial supply chain, while it invests in new (and renewable) technologies. We also appreciate that management promotes returning 50% of operating cash flow to shareholders. Shares trade below the long-run average P/E multiple and for just 11.7 times NTM estimates, while the dividend yield is 3.0%. Our Target Price has inched up to $321.

Thanks to another expectation-beating quarter, shares of **EOG Resources** (EOG – $128.16) rose 2% or so last week, even as the price of oil fell over 5%, as traders try to weigh the impact of tensions in the Middle East on the supply/demand equation for the liquid black commodity. For the quarter, the oil & gas concern reported revenue of $6.21 billion, versus the average forecast of $5.53 billion, while adjusted EPS came in at $3.44, compared to the $2.99 consensus estimate. Additionally, EOG generated $1.5 billion of free cash flow and continued to sport a strong balance sheet with net cash.

Oil & gas production of 998 kboed (thousand barrels of oil equivalent per day) topped the high-end of guidance (954-991 kboepd) with the beat split between oil production at 483 kbpd (vs 467-479 kbpd) and NGL production of 231 kbpd (vs 218-228 kbpd). Full-year guidance moved up to 972-992 kboepd, largely on efficiency gains in the Eagle Ford shale region.

CEO Ezra Yacob commented, "EOG delivered strong third quarter results due to our employees' outstanding execution in our foundational Delaware Basin and Eagle Ford assets as well as continued progress across our emerging plays. Production volumes, capital expenditures, and per-unit operating costs were each better than expected. As a result, we have updated our full-year guidance to reflect higher volumes and lower per-unit operating costs."

He continued, "Substantial cash flow generation this year supported both our industry-leading regular dividend of $1.9 billion and an additional cash return of more than $2.1 billion through special dividends and share repurchases. EOG's total cash return to shareholders of $4.1 billion represents approximately 75% of our estimated full-year 2023 free cash flow."

Looking ahead, Mr. Yacob added, "Going forward we are committing more cash to our shareholders. The increase in EOG's cash return commitment to a minimum 70% of annual free cash flow reflects EOG's financial strength and is consistent with our free cash flow priorities, which remain focused on creating long-term shareholder value…The 10% increase in our regular dividend demonstrates our confidence in EOG's future and our ability to support the higher dividend throughout commodity price cycles. Strong results quarter after quarter reflect continued improvement across EOG's low-cost, multi-basin portfolio, and our commitment to a sustainable, growing dividend is further supported by an industry-leading balance sheet. EOG is in a better position than ever to deliver value for our shareholders and play a significant role in the long-term future of energy."

We continue to like that EOG boasts low cost of production with total capex and dividend breakeven below $40 per barrel of WTI crude as well as a strong balance sheet with net cash. These attractive attributes should enable management to act countercyclically despite the latest dip for energy prices (though prices are still above $80 per barrel of WTI), whether through bolt-on acquisitions, land investment or repurchase of undervalued shares. The company historically has been exceptionally shareholder-friendly, with a focus on capital returns and prudent production targets. The new dividend increase from $0.825 per quarter to $0.91 per quarter has the fixed dividend yield at 2.8%. Throw in average special dividends of $1.38 per quarter over the last four quarters, and the overall yield is more like 7%. EOG shares trade below 10 times NTM consensus adjusted EPS estimates and our Target Price has been hiked to $159.

Shares of investor-favorite **Apple** (AAPL – $176.65) fell on Friday, despite the company posting a solid fiscal Q4. The iPhone-maker earned $1.46 per share (vs. $1.39 est.) and had revenue of $89.50 billion (vs. $89.35 billion est.). iPhone segment revenue was $43.8 billion (vs. $43.7 billion est.; +2.8% y/y). Overall Products segment revenue was $67.2 billion (vs $67.8 billion est.; -5.3% y/y), and Service revenue was $22.3 billion (vs. $23.4 billion est.; +16% y/y). China revenue fell 2.5% year-over-year to $15.1 billion. The company now has $167 billion of cash, cash equivalents and marketable securities on its balance sheet.

CEO Tim Cook said, “We achieved an all-time revenue record in India, as well as September quarter records in several countries, including Brazil, Canada, France, Indonesia, Mexico, the Philippines, Saudi Arabia, Turkey, the UAE, Vietnam and more. iPhone revenue came in ahead of our expectations, setting a September quarter record, as well as quarterly records in many markets, including China mainland, Latin America, the Middle East, South Asia and an all-time record in India.”

“Despite having one less week this year, we expect our December quarter, total company revenue to be similar to last year. We expect iPhone revenue to grow year-over-year on an absolute basis. We also expect to grow after normalizing for both last year’s supply disruptions and the one extra week. We expect Mac year-over-year performance to significantly accelerate from the September quarter. We expect the year-over-year revenue performance for both iPad and Wearables, Home and Accessories to decelerate significantly from the September quarter due to a different timing of product launches. On iPad, we launched a new iPad Pro and iPad 10th Generation during the December quarter a year ago,” added CFO Luca Maestri, “For the Wearable category, last year we had the full December quarter benefit from the launches of the AirPods Pro 2nd Generation [ph], the Watch SE, and the first Watch Ultra. For our Services business, we expect the average revenue per week to grow at a similar strong double-digit rate as it did during the September quarter. We expect gross margin to be between 45% and 46%.

We expect OpEx to be between $14.4 billion and $14.6 billion. We expect OI&E to be around negative $200 million, excluding any potential impact from the mark-to-market of minority investments and our tax-rate to be around 16%."

Apple's quarterly dividend remains at $0.24 per share and the company used $15.5 billion in Q4 to repurchase shares in addition to initiating an accelerated buyback of another $5 billion of stock.

While the retreat in Friday's trading session was initially steep, Apple shares clawed back most of the losses and have gained nearly 40% this year. The potential for slowing sales in the China market worried investors given Apple's quarterly outlook. While flat year-over-year sales is far from bad news in this uncertain economic environment, traders seemed to be expecting some amount of growth. All things considered, the quarter was decent, and we aren't planning to make any changes to our present positioning. The stock changes hands at 27 times forward earnings (not cheap for a tech company, but not too expensive either), and it seems the company's mountain of cash is going to be used for share buybacks instead of large acquisitions. Our Target Price for AAPL is now $204.

Shares of **Cardinal Health** (CAH – $100.21) gained more than 7% after reporting fiscal Q1 2024 results. The pharmaceutical distributor, global manufacturer and distributor of medical and laboratory products, and provider of performance and data solutions for health care facilities announced EPS of $1.73 in Q1, which came in well ahead of the $1.38 Wall Street consensus estimate. The revenue figure of $54.8 billion matched the consensus estimate.

CEO Jason Hollar explained, "Overall, it was a great start to our fiscal year. With strong first quarter results, and an improved outlook for the year, we are continuing our operating momentum into fiscal '24. In the first quarter, we delivered significant profit growth in both segments. In Pharma, the results were driven by the strength across our business, including continued positive performance from our generics program. We also benefited from our role distributing the recently commercialized COVID-19 vaccines which I'll elaborate on later in my remarks. Macro trends in the core distribution business remained stable, and we continue to see strong pharmaceutical demand including the GLP-1 medications. And, both our higher growth Specialty and Nuclear businesses tracked ahead of plan in the quarter. In Medical, the first quarter was another proof point of the inflection we began to see last Q2 in this business. Recall, the segment was unprofitable only a year ago. Overall, results track slightly ahead of our expectations, and we continue to execute our Medical Improvement Plan initiatives to drive better and more predictable financial performance. In particular, we made notable progress on inflation mitigation in the quarter."

CFO Aaron Alt added, "Today, we are raising our fiscal '24 EPS guidance to a range of $6.75 to $7.00, the midpoint of which is 19% above our fiscal '23 EPS results. This $0.25 increase to our EPS range primarily reflects an improvement to our Pharma outlook as well as some improvement below the line. We are raising our Pharma segment profit guide to 7% to 9% growth for the year and are pleased with the momentum in the business. Our updated guidance reflects the strong first quarter performance, higher than originally assumed contributions from COVID-19 vaccine distribution, which continued into October, the ongoing strength of our business, consistent with a 4% to 6% growth trajectory for the segment on a normalized basis."

Mr. Alt continued, "I want to reiterate that as we shared at our Investor Day, neither our fiscal '24 guidance, nor our long-term targets reflect M&A which is difficult to predict in timing or magnitude or additional opportunistic deployment of capital to share repurchases beyond our baseline repurchase. We will continue to evaluate both opportunistically to drive long-term value."

Management says its Red Oak subsidiary, which Cardinal co-owns with **CVS Health** (CVS – $70.25), is doing well to balance cost management and supply needs. Overall, CAH says costs remain elevated, but relief is trickling through the supply chain and there are reasons to be optimistic. We are pleased to see CAH executing and think additional upside exists for the name. Even though shares have gained more than 30% this year, we find them to remain reasonably priced, trading at less the 15 times NTM EPS estimates, with future cash flow supported by what we believe to be favorable demographic trends in the U.S. The dividend yield is 2.0% and our Target Price has been boosted to $109.