Market Commentary Monday, February 19, 2024

February 18, 2024

EXECUTIVE SUMMARY

Newsletter Trades – Partial Sale of CAT

Volatility – The Longer the Hold, the Less the Chance of Loss

Inflation – CPI & PPI Rise; Stocks Haven't Minded Historically

Interest Rates – Target Rate for Fed Funds & 10-Year Treasury Yield Rise; Stocks are OK

Economy – Mixed Numbers; GDP & Corporate Profits Still Likely to Show Solid Growth

Valuations – Value Stocks Attractively Priced

Sentiment – AAII Still Optimistic

Stock News – Updates on GT, WM, HAS, CSCO, ALB, DE, COHU & DLR

Market Review

As discussed on our recent *Sell Alert*, we made the following trades in our two real-money newsletter portfolios last week.

TPS Portfolio
02.12.24 – Sell 64 **Caterpillar** (CAT – $321.91) at $320.3301

Buckingham Portfolio
02.12.24 – Sell 12 **Caterpillar** (CAT – $321.91) at $320.3301

We will use that sale price for the trades in our two hypothetical portfolios:

Millennium Portfolio
02.12.24 – Sell 25 **Caterpillar** (CAT – $321.91) at $320.3301

PruFolio
02.12.24 – Sell 62 **Caterpillar** (CAT – $321.91) at $320.3301

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Nearly a century of market history illustrates that simply lengthening the measuring stick reduces the odds of loss,...

THE PRUDENT SPECULATOR

PATIENCE IS VIRTUOUS

VALUE STOCKS

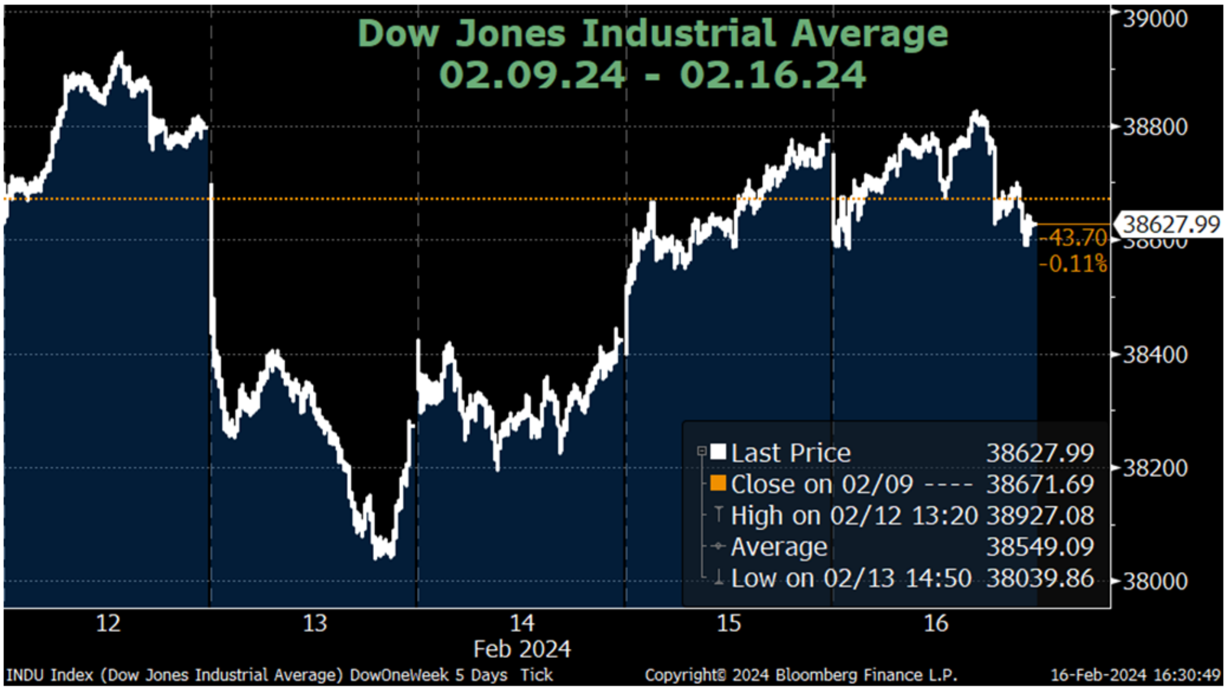
	Count >0%	Count <=0%	Percent >0%
1 Month	729	429	63.0%
3 Months	781	375	67.6%
6 Months	813	340	70.5%
1 Year	836	311	72.9%
2 Year	948	187	83.5%
3 Year	984	139	87.6%
5 Year	986	113	89.7%
7 Year	1039	36	96.7%
10 Year	1005	34	96.7%
15 Year	979	0	100.0%
20 Year	919	0	100.0%

DIVIDEND PAYERS

	Count >0%	Count <=0%	Percent >0%
1 Month	731	427	63.1%
3 Months	804	352	69.6%
6 Months	833	320	72.2%
1 Year	869	278	75.8%
2 Year	972	163	85.6%
3 Year	965	158	85.9%
5 Year	1013	86	92.2%
7 Year	1035	40	96.3%
10 Year	1005	34	96.7%
15 Year	979	0	100.0%
20 Year	919	0	100.0%

From 07.31.27 through 12.31.23. Value stocks represented by 50% small value and 50% large value returns rebalanced monthly. Dividend payers represented by 30% top of dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

...and last week demonstrated that markets can be placid with little in the way of volatility when evaluated on a one-week basis. Indeed, the Dow Jones Industrial Average closed the 5 trading days near where it began,...



...although there was a nasty one-day plunge on Tuesday that was one of the 400 or so worst since the launch of the Russell 3000 Value index in 1995.

Volatility in stocks is hardly unusual, with Tuesday's 1.67% skid in the Russell 3000 Value index the 405th worst day since 1995. Happily, there have also been a sizable number of days in the green and the overall return on Value has been terrific.

	1990's	2000's	2010's	2020's	Totals
Years Ending in 0	0	19	19	38	76
Years Ending in 1	0	14	24	7	45
Years Ending in 2	0	26	9	24	59
Years Ending in 3	0	16	4	7	27
Years Ending in 4	0	2	3	0	5
Years Ending in 5	1	3	7		11
Years Ending in 6	1	6	10		17
Years Ending in 7	10	12	0		22
Years Ending in 8	12	42	3		57
Years Ending in 9	12	42	2		56
Totals	36	182	81	76	375

From 6.9.95 through 2.16.24. Days of Russell 3000 Value index price increases of greater than 1.67%. SOURCE: Kovitz using data from Bloomberg

	1990's	2000's	2010's	2020's	Totals
Years Ending in 0	0	14	20	38	72
Years Ending in 1	0	15	28	8	51
Years Ending in 2	0	36	5	22	63
Years Ending in 3	0	8	3	6	17
Years Ending in 4	0	1	7	1	9
Years Ending in 5	0	3	11		14
Years Ending in 6	5	2	9		16
Years Ending in 7	10	15	1		26
Years Ending in 8	14	56	15		85
Years Ending in 9	8	37	7		52
Totals	37	187	106	75	405

From 6.9.95 through 2.16.24. Days of Russell 3000 Value index price declines of greater than 1.67%. SOURCE: Kovitz using data from Bloomberg

LONG-TERM RETURNS

	Annualized Return	Standard Deviation
Value Stocks	13.6%	18.0%
Growth Stocks	10.8%	18.9%
Dividend Paying Stocks	12.2%	14.7%
Non-Dividend Paying Stocks	11.8%	22.4%
Low 30% Dividend Payers	11.7%	17.8%
Middle 40% Dividend Payers	12.2%	14.9%
High 30% Dividend Payers	12.3%	13.9%
Long-Term Corporate Bonds	7.5%	10.2%
Long-Term Gov't Bonds	7.0%	11.3%
Intermediate Gov't Bonds	6.2%	5.3%
Treasury Bills	4.2%	1.0%
Inflation	3.6%	1.3%

From 03.31.77 through 11.30.23. 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

Interestingly, despite plenty of evidence that that suggests stocks do not mind a Federal Reserve fight against inflation,...

With the Consumer Price Index (CPI) hitting 9.1% in June 2022, the Federal Reserve has had to fight inflation levels not seen in more than forty years ago. Back then, under Chair Paul Volcker, the Fed markedly boosted interest rates, which contributed to two economic recessions in 1980 and 1982, yet equities, particularly Value Stocks and Dividend Payers, enjoyed sensational returns.

Volcker Vanquishes The Great Inflation
Equity Returns

Year	FF Value	FF Growth	FF Div Payers	FF Non Div	Inflation	Fed Funds Rate
1979	30.5%	32.3%	22.5%	60.5%	13.3%	14.0%
1980	19.5%	44.2%	30.8%	63.3%	12.4%	18.0%
1981	16.0%	-9.0%	-1.1%	-16.1%	8.9%	12.0%
1982	34.1%	20.8%	21.7%	13.6%	3.9%	8.5%
1983	37.5%	17.5%	22.8%	20.7%	3.8%	9.5%
1984	11.9%	-7.3%	5.1%	-18.3%	4.0%	8.3%
1985	32.5%	31.2%	33.7%	24.0%	3.8%	7.8%
1986	18.1%	8.6%	18.2%	2.2%	1.1%	6.0%
Annualized	**24.7%**	**15.9%**	**18.7%**	**15.3%**	**6.3%**	

Total Return. Value Weighted Equity Portfolios. Year-End Federal Funds Rate. Source: Kovitz Investment Group using data from Bloomberg and Professors Eugene F. Fama & Kenneth R. French

…with Value performing fine, on average, whether the Consumer Price Index (CPI) is rising or falling,…

Concurrent Stock Performance & Change in Inflation Rate

	Count	Value	Growth	Payers	Non-Payers
Less than 2.7%	586	14.7%	13.9%	12.2%	14.2%
More than 2.7%	559	11.2%	4.9%	8.6%	3.5%
3-Month Drop	619	14.1%	12.3%	12.9%	11.4%
3-Month Rise	522	11.6%	5.9%	7.6%	5.7%
6-Month Drop	589	14.6%	12.2%	12.6%	11.7%
6-Month Rise	546	11.2%	6.1%	8.1%	5.4%
12-Month Drop	573	13.1%	10.3%	11.5%	9.1%
12-Month Rise	550	12.8%	8.1%	9.2%	8.1%

From 12.31.27 through 06.30.23. Concurrent annualized 12-month returns. SOURCE: Kovitz using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French

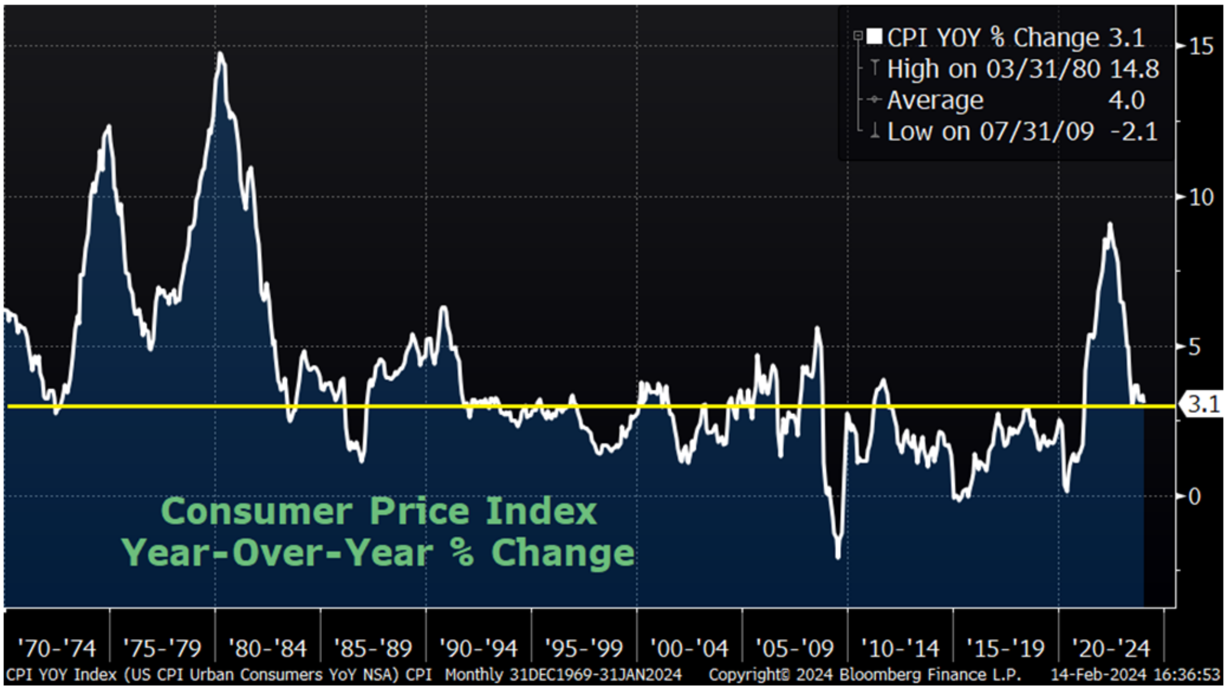
Subsequent Stock Performance & Change in Inflation Rate

	Count	Value	Growth	Payers	Non-Payers
Less than 2.7%	587	11.7%	10.6%	10.1%	10.4%
More than 2.7%	560	14.4%	7.7%	10.6%	6.7%
3-Month Drop	611	14.3%	10.1%	11.2%	10.1%
3-Month Rise	521	11.4%	8.0%	9.3%	6.6%
6-Month Drop	585	14.7%	10.2%	11.3%	9.8%
6-Month Rise	544	11.0%	7.9%	9.1%	6.9%
12-Month Drop	573	15.2%	10.7%	11.8%	10.9%
12-Month Rise	550	10.6%	7.4%	8.5%	5.8%

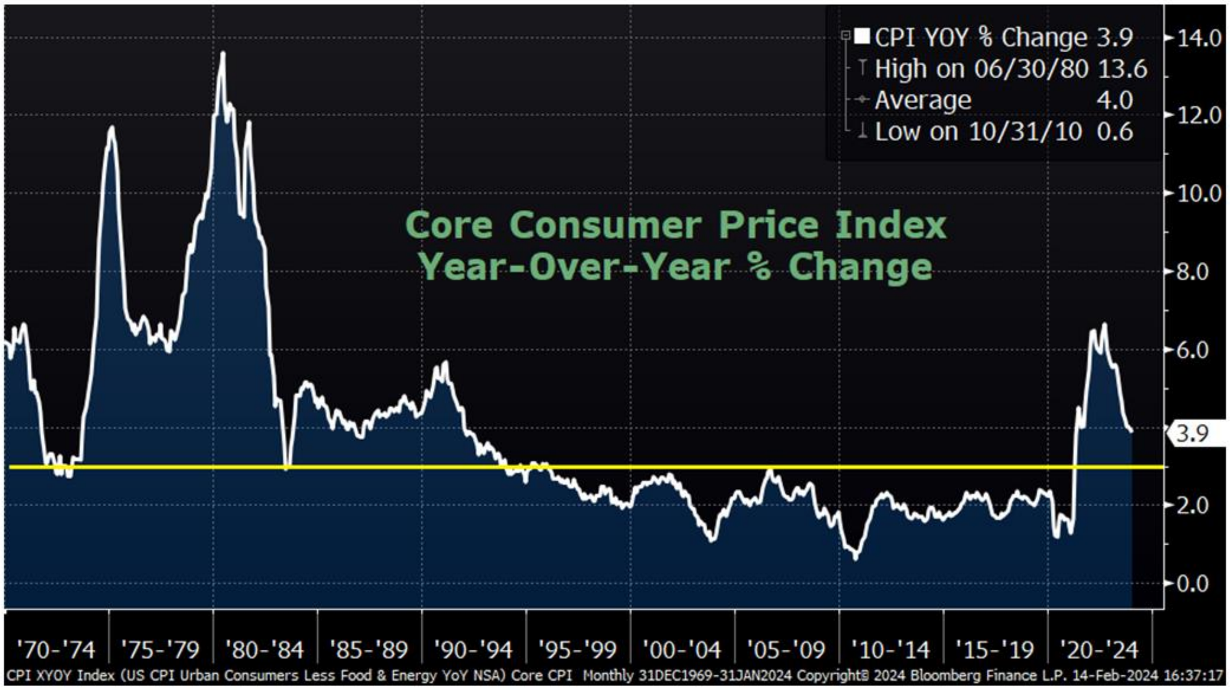
From 12.31.27 through 06.30.23. Subsequent 12-month return. SOURCE: Kovitz using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French

Believe it or not, equities, ON AVERAGE, have been a strong hedge against inflation through the years, yet many supposed experts are using an elevated Consumer Price Index (CPI) as a warning against stock market investments. As our tables illustrate, we like how Value stocks have performed both as the CPI is rising and after it has risen, with it very intriguing that they have done better subsequent to a CPI reading above 2.7% than below!

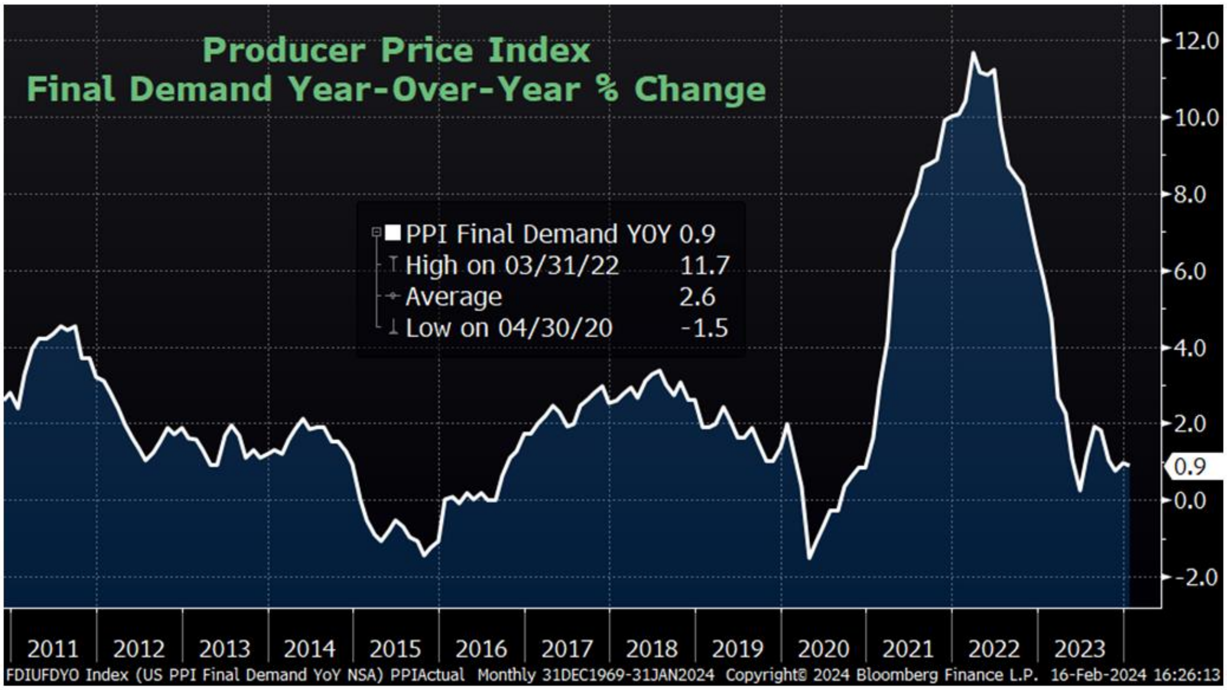
…traders suffered temporary indigestion when both the full CPI,…



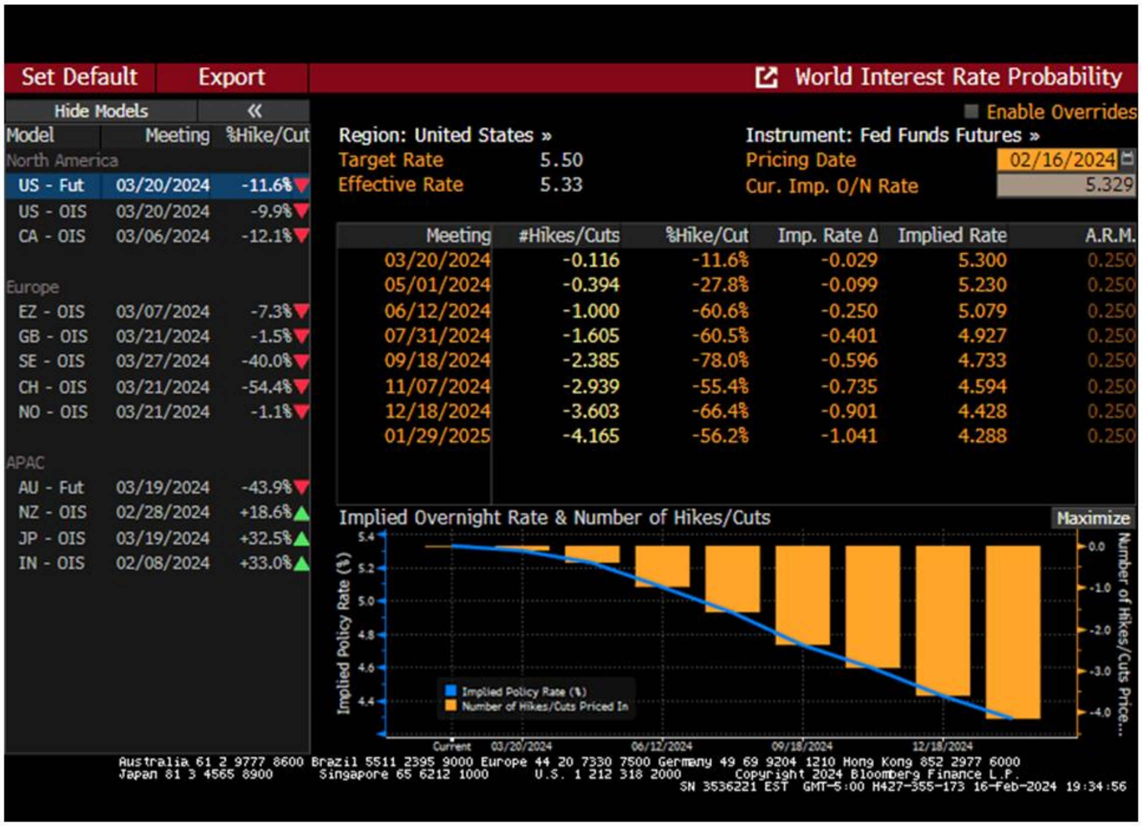
…and the core rate (excludes volatile food and energy prices) came in above expectations in January.



It was a similar story for inflation at the wholesale level as the Producer Price Index for January released on Friday also was hotter than estimated, even as the 0.9% year-over-year advance was well below the long-term average.



Still, bettors in the Fed Funds futures market decided that Jerome H. Powell & Co. would not likely begin to reduce the benchmark lending rate until the June FOMC Meeting versus May the week prior. Further, the odds now suggest that there is likely to be no more than 4 quarter-point rate cuts this year,...



Model	Meeting	%Hike/Cut
North America		
US - Fut	03/20/2024	-11.6%
US - OIS	03/20/2024	-9.9%
CA - OIS	03/06/2024	-12.1%
Europe		
EZ - OIS	03/07/2024	-7.3%
GB - OIS	03/21/2024	-1.5%
SE - OIS	03/27/2024	-40.0%
CH - OIS	03/21/2024	-54.4%
NO - OIS	03/21/2024	-1.1%
APAC		
AU - Fut	03/19/2024	-43.9%
NZ - OIS	02/28/2024	+18.6%
JP - OIS	03/19/2024	+32.5%
IN - OIS	02/08/2024	+33.0%

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
03/20/2024	-0.116	-11.6%	-0.029	5.300	0.250
05/01/2024	-0.394	-27.8%	-0.099	5.230	0.250
06/12/2024	-1.000	-60.6%	-0.250	5.079	0.250
07/31/2024	-1.605	-60.5%	-0.401	4.927	0.250
09/18/2024	-2.385	-78.0%	-0.596	4.733	0.250
11/07/2024	-2.939	-55.4%	-0.735	4.594	0.250
12/18/2024	-3.603	-66.4%	-0.901	4.428	0.250
01/29/2025	-4.165	-56.2%	-1.041	4.288	0.250

...with the current guess of a 4.43% year-end Fed Funds rate now closer to the 4.6% projection the Federal Reserve Board members and Federal Reserve Bank Presidents offered back in December.

Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, December 2023

Percent

Variable	Median[1]					Central Tendency[2]					Range[3]				
	2023	2024	2025	2026	Longer run	2023	2024	2025	2026	Longer run	2023	2024	2025	2026	Longer run
Change in real GDP	2.6	1.4	1.8	1.9	1.8	2.5–2.7	1.2–1.7	1.5–2.0	1.8–2.0	1.7–2.0	2.5–2.7	0.8–2.5	1.4–2.5	1.6–2.5	1.6–2.5
September projection	2.1	1.5	1.8	1.8	1.8	1.9–2.2	1.2–1.8	1.6–2.0	1.7–2.0	1.7–2.0	1.8–2.6	0.4–2.5	1.4–2.5	1.6–2.5	1.6–2.5
Unemployment rate	3.8	4.1	4.1	4.1	4.1	3.8	4.0–4.2	4.0–4.2	3.9–4.3	3.8–4.3	3.7–4.0	3.9–4.5	3.8–4.7	3.8–4.7	3.5–4.3
September projection	3.8	4.1	4.1	4.0	4.0	3.7–3.9	3.9–4.4	3.9–4.3	3.8–4.3	3.8–4.3	3.7–4.0	3.7–4.5	3.7–4.7	3.7–4.5	3.5–4.3
PCE inflation	2.8	2.4	2.1	2.0	2.0	2.7–2.9	2.2–2.5	2.0–2.2	2.0	2.0	2.7–3.2	2.1–2.7	2.0–2.5	2.0–2.3	2.0
September projection	3.3	2.5	2.2	2.0	2.0	3.2–3.4	2.3–2.7	2.0–2.3	2.0–2.2	2.0	3.1–3.8	2.1–3.5	2.0–2.9	2.0–2.7	2.0
Core PCE inflation[4]	3.2	2.4	2.2	2.0		3.2–3.3	2.4–2.7	2.0–2.2	2.0–2.1		3.2–3.7	2.3–3.0	2.0–2.6	2.0–2.3	
September projection	3.7	2.6	2.3	2.0		3.6–3.9	2.5–2.8	2.0–2.4	2.0–2.3		3.5–4.2	2.3–3.6	2.0–3.0	2.0–2.9	
Memo: Projected appropriate policy path															
Federal funds rate	5.4	4.6	3.6	2.9	2.5	5.4	4.4–4.9	3.1–3.9	2.5–3.1	2.5–3.0	5.4	3.9–5.4	2.4–5.4	2.4–4.9	2.4–3.8
September projection	5.6	5.1	3.9	2.9	2.5	5.4–5.6	4.6–5.4	3.4–4.9	2.5–4.1	2.5–3.3	5.4–5.6	4.4–6.1	2.6–5.6	2.4–4.9	2.4–3.8

NOTE: Projections of change in real gross domestic product (GDP) and projections for both measures of inflation are percent changes from the fourth quarter of the previous year to the fourth quarter of the year indicated. PCE inflation and core PCE inflation are the percentage rates of change in, respectively, the price index for personal consumption expenditures (PCE) and the price index for PCE excluding food and energy. Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of the year indicated. Each participant's projections are based on his or her assessment of appropriate monetary policy. Longer-run projections represent each participant's assessment of the rate to which each variable would be expected to converge under appropriate monetary policy and in the absence of further shocks to the economy. The projections for the federal funds rate are the value of the midpoint of the projected appropriate target range for the federal funds rate or the projected appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run. The September projections were made in conjunction with the meeting of the Federal Open Market Committee on September 19–20, 2023. One participant did not submit longer-run projections for the change in real GDP, the unemployment rate, or the federal funds rate in conjunction with the September 19–20, 2023, meeting, and one participant did not submit such projections in conjunction with the December 12–13, 2023, meeting.

1. For each period, the median is the middle projection when the projections are arranged from lowest to highest. When the number of projections is even, the median is the average of the two middle projections.
2. The central tendency excludes the three highest and three lowest projections for each variable in each year.
3. The range for a variable in a given year includes all participants' projections, from lowest to highest, for that variable in that year.
4. Longer-run projections for core PCE inflation are not collected.

Of course, despite what supposed market gurus and talking heads on financial television might argue, history shows that stocks have performed fine, on average, whether the Fed Funds rate is moving higher or lower,...

Concurrent Stock Performance & Change in Federal Funds Eff. Rate

	Count	Value	Growth	Payers	Non-Payers
Less than 4.14%	414	13.4%	10.6%	10.8%	10.7%
More than 4.14%	412	14.6%	9.6%	12.1%	8.9%
3-Month Drop	383	17.5%	12.0%	14.0%	10.5%
3-Month Rise	439	11.1%	8.3%	9.2%	9.0%
6-Month Drop	366	16.2%	12.5%	14.0%	10.7%
6-Month Rise	450	12.3%	7.9%	9.3%	8.7%
12-Month Drop	371	14.4%	11.7%	12.8%	9.6%
12-Month Rise	433	13.5%	8.3%	10.0%	9.1%

From 07.31.54 through 06.30.23. 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 4.14%	415	12.6%	10.5%	10.8%	10.3%
More than 4.14%	413	15.2%	9.1%	11.8%	8.4%
3-Month Drop	383	13.8%	10.3%	11.1%	10.2%
3-Month Rise	430	13.7%	9.2%	11.2%	8.4%
6-Month Drop	366	15.4%	11.8%	12.2%	12.0%
6-Month Rise	444	12.3%	8.0%	10.2%	6.9%
12-Month Drop	371	16.9%	11.8%	12.3%	11.9%
12-Month Rise	433	10.9%	7.8%	9.9%	6.8%

From 07.31.54 through 06.30.23. 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.

…with the long-term evidence similar, on average, whether the benchmark government bond yield is rising or falling.

Concurrent Stock Performance & Change in 10-Year Treasury Rate

	Count	Value	Growth	Payers	Non-Payers
Less than 3.89%	575	10.9%	10.2%	9.9%	9.5%
More than 3.89%	576	15.2%	9.0%	11.4%	8.4%
3-Month Drop	572	13.6%	11.8%	13.7%	11.2%
3-Month Rise	575	12.4%	7.3%	7.5%	6.6%
6-Month Drop	559	13.5%	10.9%	12.8%	10.7%
6-Month Rise	582	12.6%	8.0%	8.4%	7.0%
12-Month Drop	561	11.5%	9.8%	11.2%	7.7%
12-Month Rise	568	14.6%	8.9%	9.8%	9.7%

From 06.30.27 through 06.30.23. 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

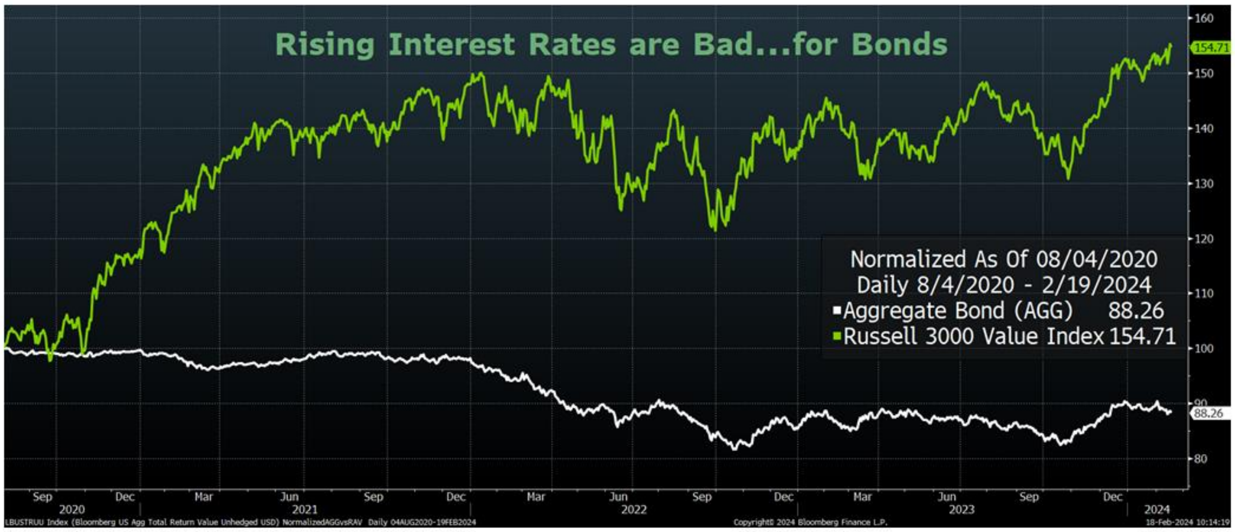
	Count	Value	Growth	Payers	Non-Payers
Less than 3.89%	577	11.6%	10.3%	10.3%	9.4%
More than 3.89%	576	14.5%	8.4%	10.6%	8.0%
3-Month Drop	569	16.8%	13.6%	13.7%	13.4%
3-Month Rise	569	9.4%	5.1%	7.3%	4.1%
6-Month Drop	559	15.1%	12.5%	12.5%	11.4%
6-Month Rise	576	11.0%	6.1%	8.3%	5.9%
12-Month Drop	561	12.8%	10.9%	10.8%	9.9%
12-Month Rise	568	13.0%	7.3%	9.7%	7.0%

From 06.30.27 through 06.30.23. Subsequent 12-month return. SOURCE: Kovitz using data from Professor Robert J. Shiller and Professors Eugene F. Fama and Kenneth R. French

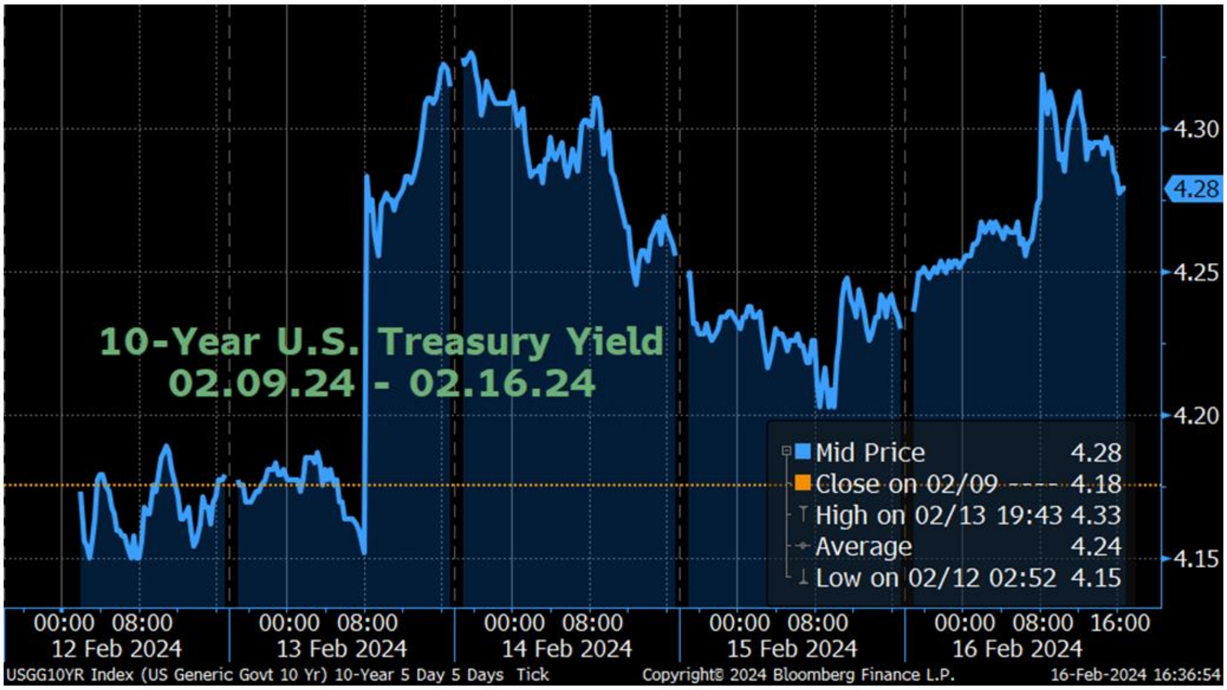
It is logical to think that higher yields on "safe" investments like the 10-Year U.S. Treasury make equities less appealing, but more than nine decades of returns figures show that stocks in general have performed admirably, ON AVERAGE, both concurrent with and subsequent to increases (as well as decreases)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

And for those who might question the 10-Year chart above, we submit additional overwhelming supporting evidence over the last three-and-a-half years,...

The yield on the 10-Year U.S. Treasury bottomed at 0.51% on 08.04.20. Today, the benchmark government bond yield stands at 4.28%, yet the Russell 3000 Value index has enjoyed a 54.71% total return in the 3.5 years since. Contrary to popular belief, higher bond yields, on average, have not been a headwind for stocks. On the other hand, the Aggregate Bond Index lost 11.74% during the same time span, which makes sense as bond prices fall when yields rise.



...though we realize that last week's thinking that the Fed will be less accommodative prompted a jump in the yield on the 10-Year U.S. Treasury to 4.28%, up some 40 basis points from the 3.88% level at which the yield began 2024.



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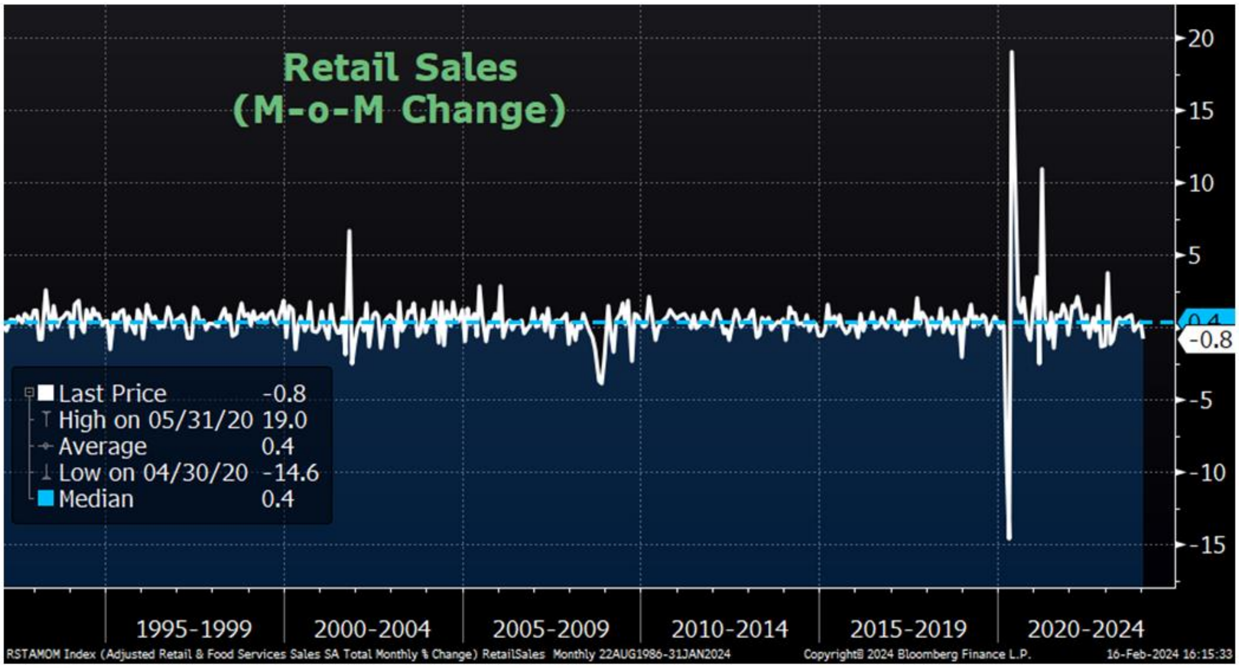
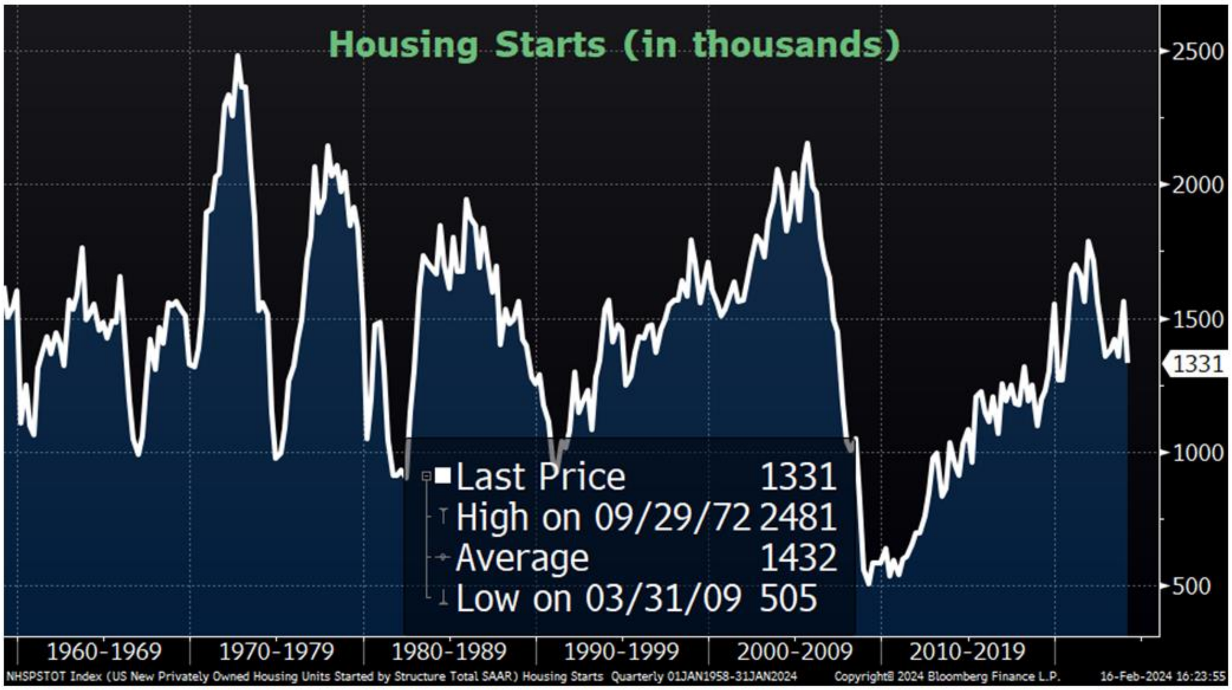
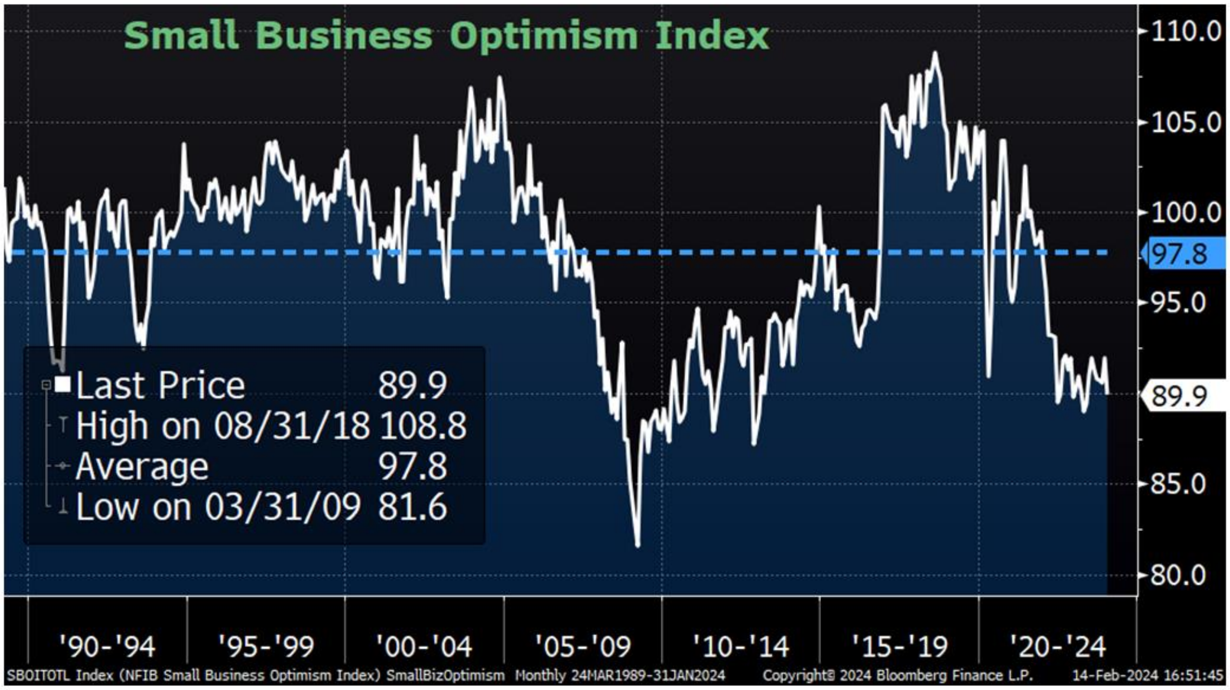
Obviously, interest rates are just one factor influencing stock price gyrations. More important is the health of the U.S. economy, with data mixed last week. While weather deserved some of the blame, retail sales retreated a worse-than-expected 0.8% last month,...



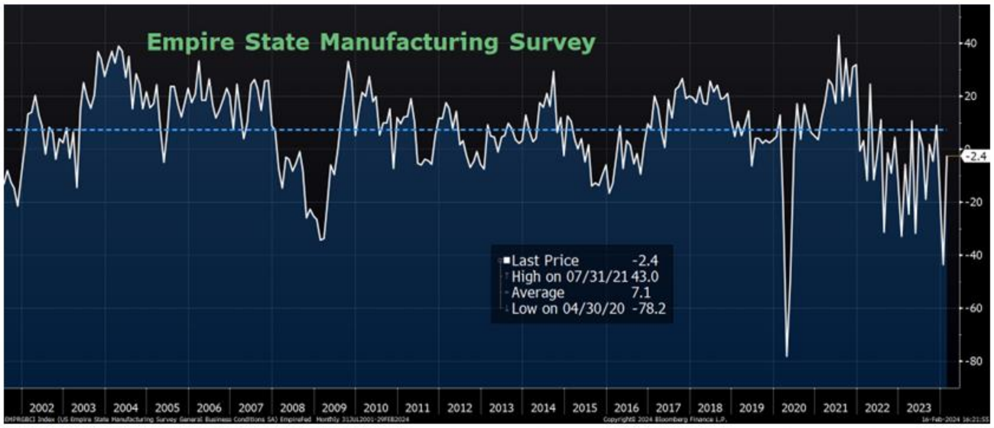
...housing starts for January came in below estimates,...



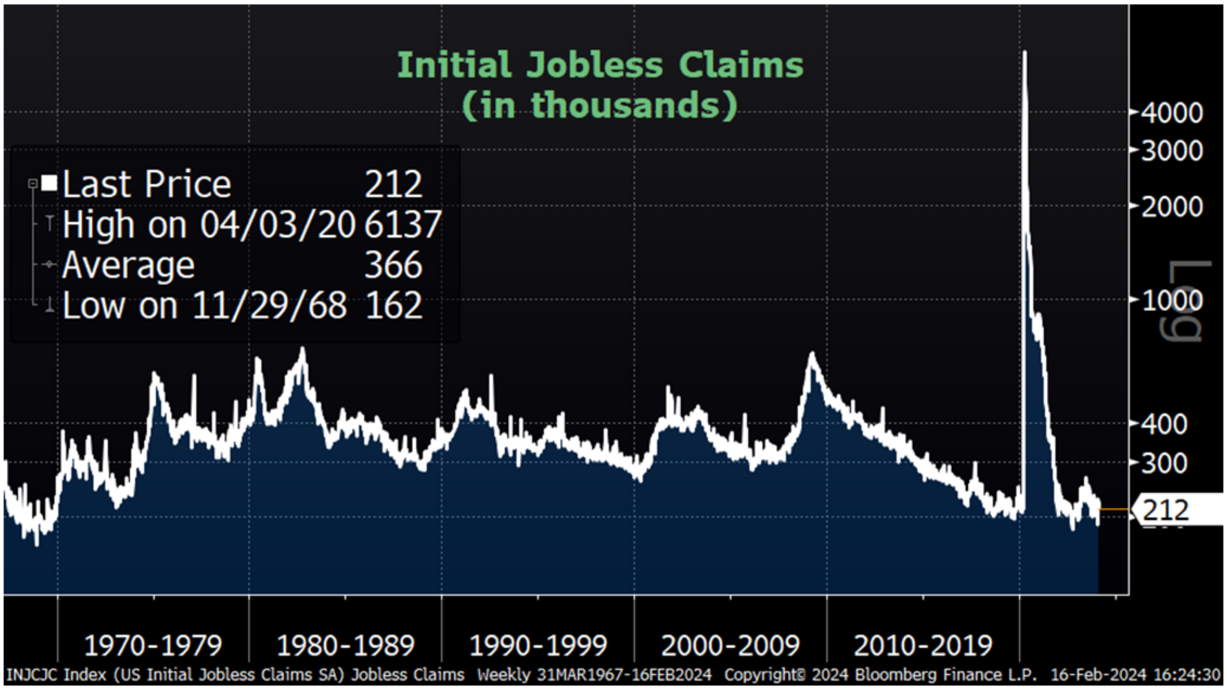
...and Small Business Optimism pulled back.



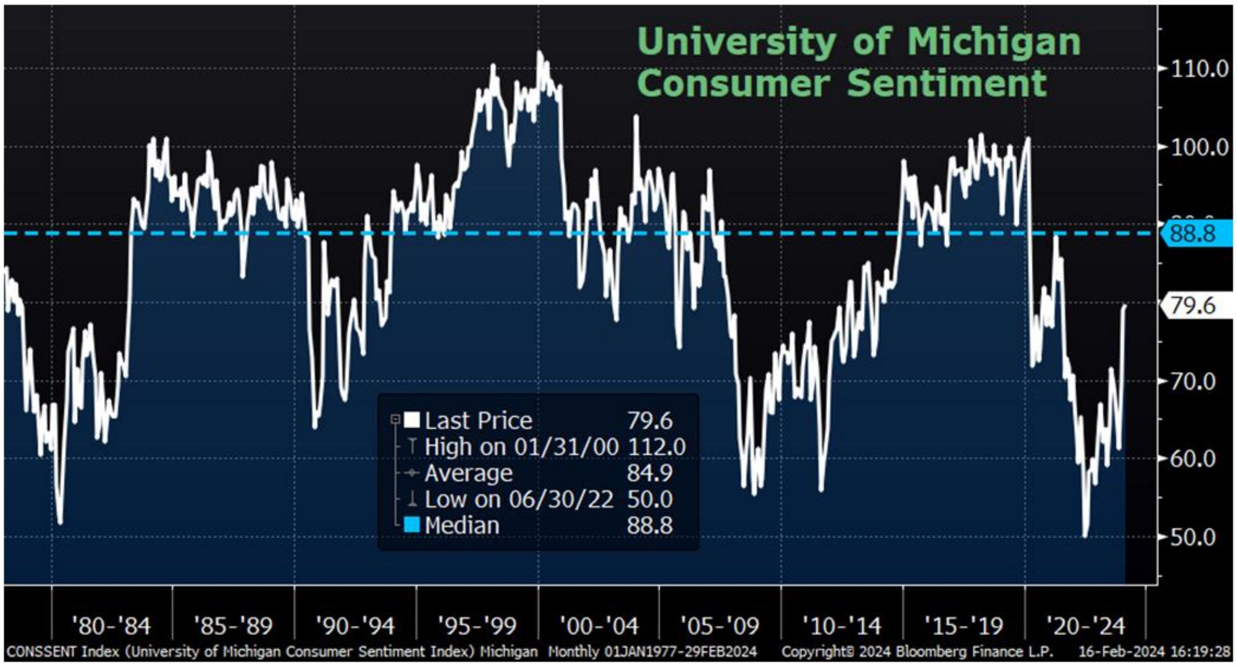
On the other hand, readings on the outlook for East Coast factory activity improved to better-than-estimated tallies for February,...



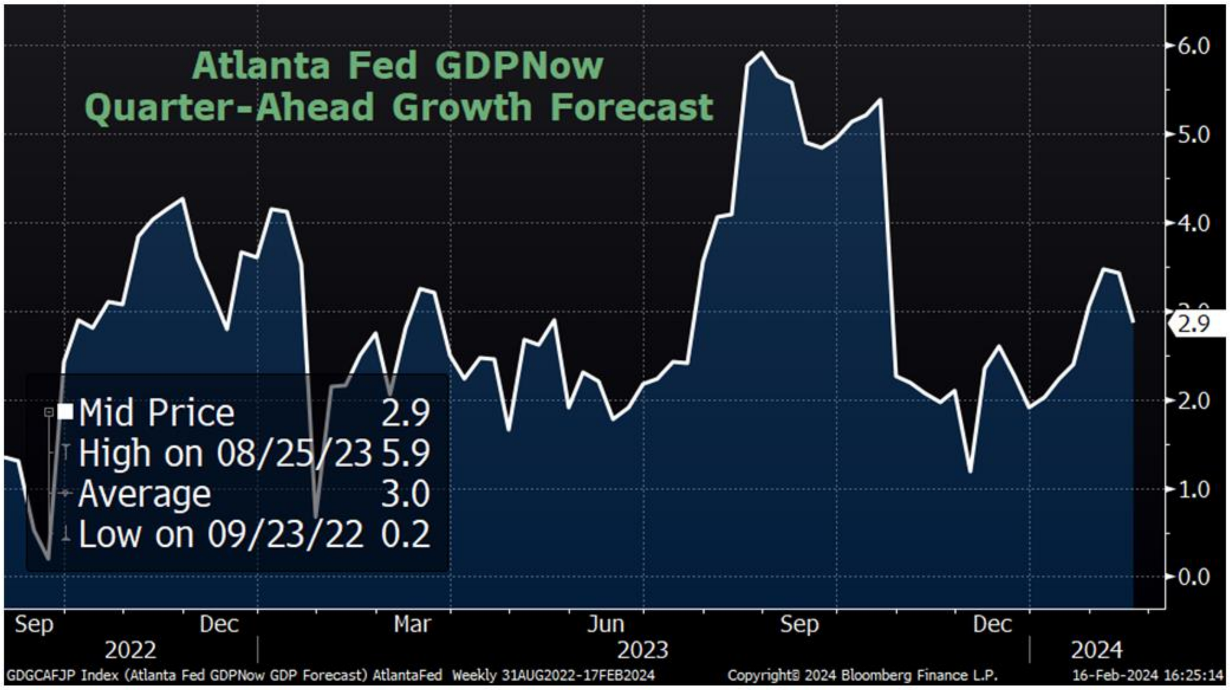
…initial filings for unemployment benefits declined in the latest week,…



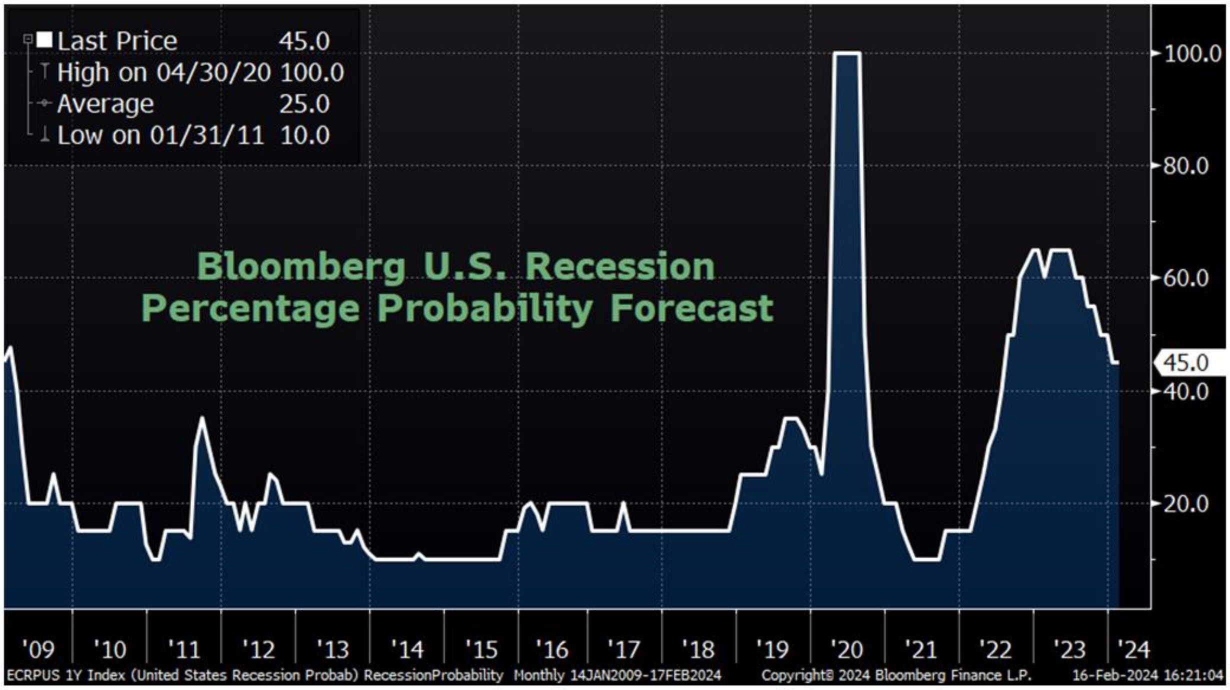
...and optimism on Main Street increased this month.



Roll up all the data and the latest forecast from the Atlanta Fed for real (inflation-adjusted) Q1 GDP growth stood at a solid 2.9%,...



...even as the tabulation by *Bloomberg* of the chance of recession in the next 12 months remained at 45%.



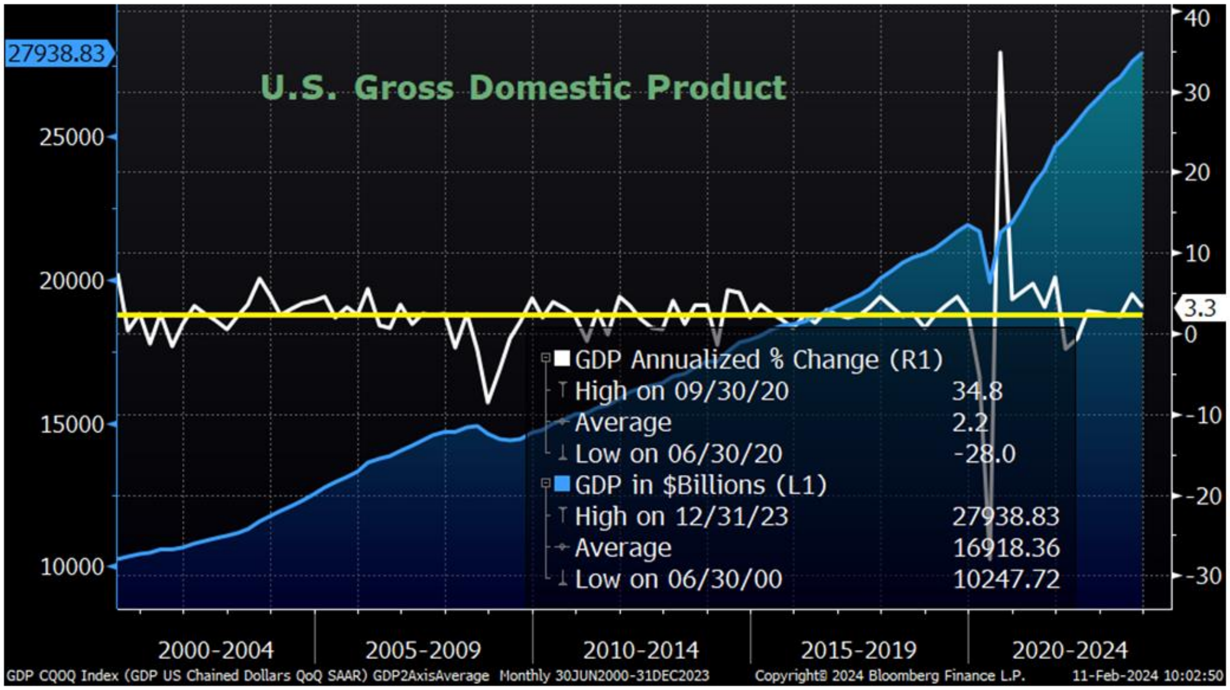
We do not lose sleep fretting about recession as their beginnings and endings are impossible to predict AND the gains on Value stocks coming out of them have been sensational, on average,...

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

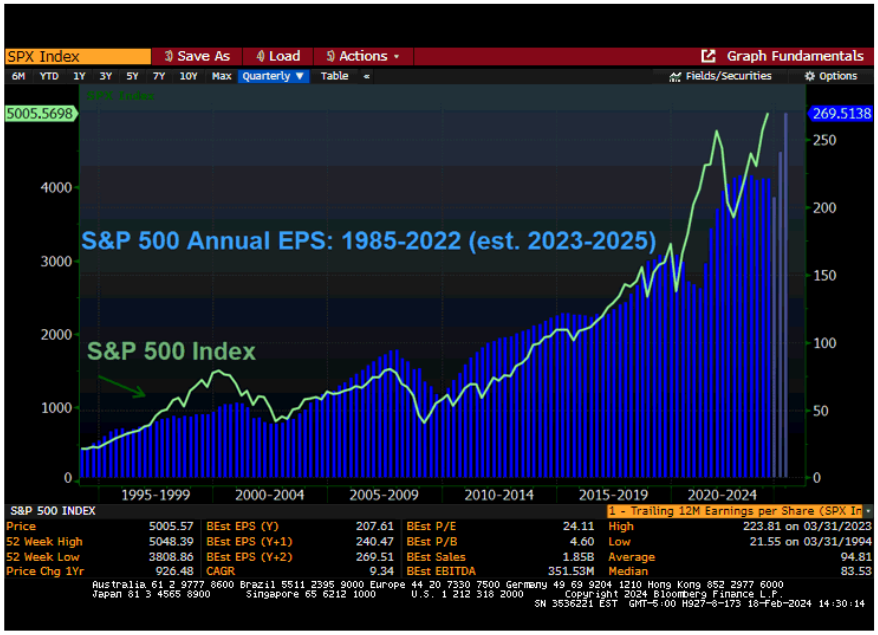
Recession Start Date	Recession End Date	One Year Prior Value	One year Prior Div Payers	Return During Value	Return During Div Payers	One Year Post Value	One Year Post Div Payers	Five Years Post Value	FIve Years Post Div Payers
08.31.1929	03.31.1933	30.9%	44.4%	-81.0%	-77.8%	205.5%	101.9%	123.3%	99.3%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

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

…while the long-term trend is higher in terms of GDP,…



...as has been the case for corporate profits, which were solid in Q4 and which are likely to continue to grow this year, just as they have throughout history.



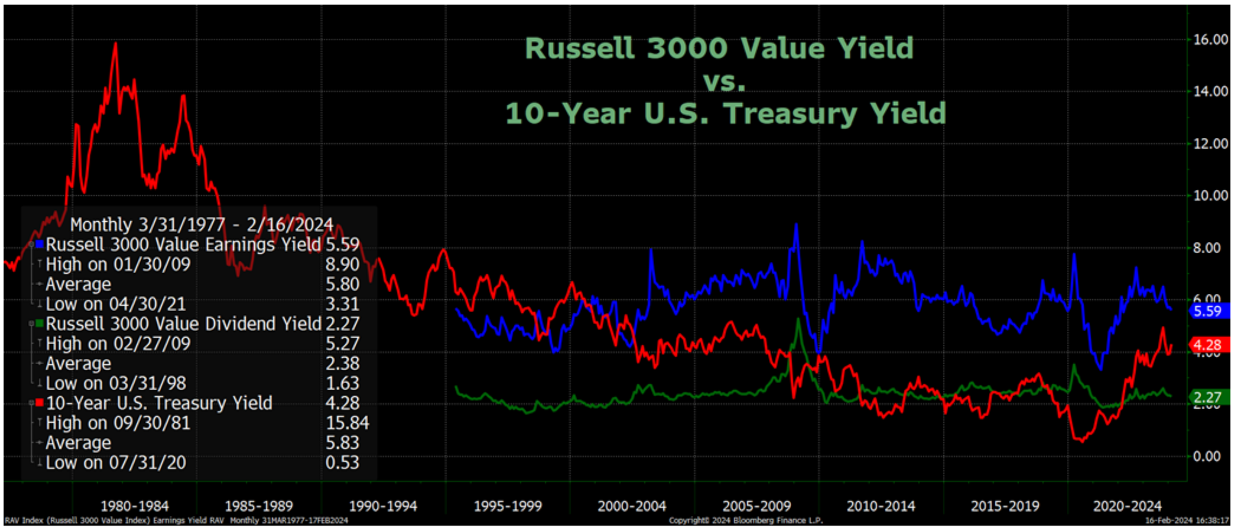
S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2024	$64.15	$240.40
9/30/2024	$62.76	$227.72
6/30/2024	$58.76	$217.21
3/31/2024	$54.73	$213.29
12/31/2023	$51.47	$211.10
ACTUAL		
9/30/2023	$52.25	$210.00
6/30/2023	$54.84	$208.10
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 2.14.24

*****

So, with valuations remaining reasonable for Value stocks in general,...

While the Earnings Yield, which is the inverse of the P/E ratio, on the S&P 500 (4.15%) is still reasonable relative to the current (and well below average) 4.28% yield on the 10-Year U.S. Treasury, we like that Value stocks, as measured by the Russell 3000 Value index, boast an Earnings Yield (5.59%) AND dividend yield (2.27%) near the historical norms for those measures dating back to 1995.



...and our broadly diversified portfolios of 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	16.5	14.3	0.9	2.4	2.6
ValuePlus	16.0	14.1	1.1	2.4	2.4
Dividend Income	14.8	13.9	0.8	2.2	3.1
Focused Dividend Income	16.8	13.7	1.1	2.4	3.0
Focused ValuePlus	17.2	14.1	1.2	2.6	2.6
Small-Mid Dividend Value	11.6	11.3	0.5	1.5	3.0
Russell 3000	25.0	30.6	2.5	4.3	1.4
Russell 3000 Growth	36.8	35.1	4.4	12.1	0.7
Russell 3000 Value	17.9	26.4	1.6	2.4	2.3
Russell 1000	24.7	24.6	2.6	4.6	1.4
Russell 1000 Growth	35.9	33.5	4.7	13.1	0.7
Russell 1000 Value	17.8	18.5	1.7	2.5	2.3
S&P 500 Index	24.2	24.2	2.7	4.7	1.4
S&P 500 Growth Index	27.9	32.7	4.1	8.3	0.7
S&P 500 Value Index	18.2	16.1	1.6	2.7	2.3
S&P 500 Pure Value Index	11.8	10.9	0.5	1.3	2.9

As of 02.16.24. 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 see no reason to alter our long-term enthusiasm, even as we realize that optimism on Main Street is running high,...

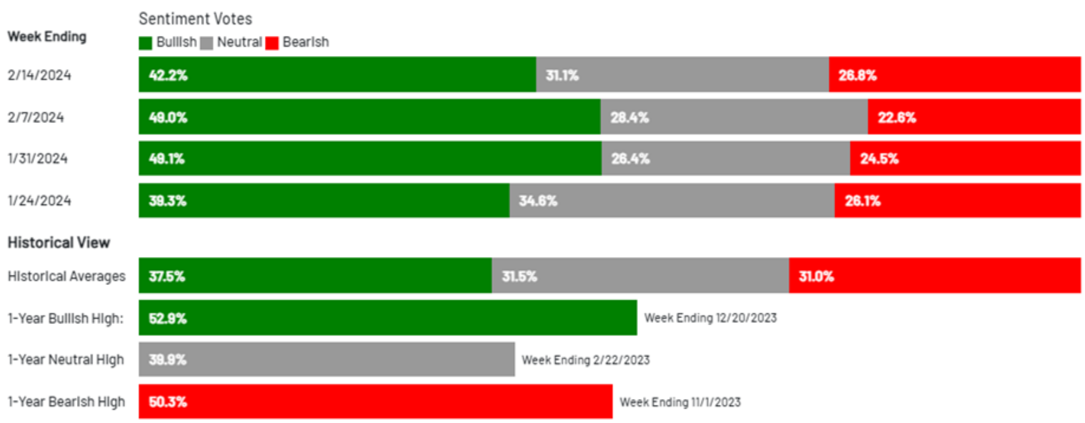
The AAII Investor Sentiment Survey

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

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

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

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



…which might suggest that near-term returns for the mega-cap-dominated Russell 3000 index could be modestly lower than normal.

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 = 7.14										
BELOW	-54.0	7.1	953	0.24%	0.20%	1.18%	1.04%	3.48%	3.09%	6.60%	5.85%
ABOVE	7.2	62.9	952	0.19%	0.17%	0.56%	0.48%	1.93%	1.69%	4.61%	4.13%
	Ten Groupings of 1905 Data Points										
1	-54.0	-17.0	191	0.41%	0.35%	2.19%	1.95%	4.82%	4.30%	8.99%	7.83%
2	-16.9	-9.0	190	0.25%	0.22%	1.03%	0.89%	3.80%	3.43%	6.18%	5.41%
3	-8.9	-2.6	191	0.34%	0.31%	1.01%	0.90%	3.54%	3.15%	7.65%	6.96%
4	-2.6	2.6	190	0.16%	0.12%	0.99%	0.89%	2.48%	2.09%	5.26%	4.71%
5	2.6	7.1	190	0.03%	0.00%	0.66%	0.57%	2.74%	2.48%	4.89%	4.37%
6	7.1	11.9	191	0.16%	0.15%	0.65%	0.57%	1.95%	1.72%	4.77%	4.31%
7	11.9	16.0	190	0.21%	0.19%	0.50%	0.37%	2.39%	2.14%	5.18%	4.69%
8	16.1	21.8	191	0.15%	0.14%	0.93%	0.86%	2.15%	1.91%	5.79%	5.38%
9	21.9	29.0	192	0.17%	0.15%	0.43%	0.35%	1.73%	1.44%	4.73%	4.18%
10	29.0	62.9	189	0.24%	0.22%	0.31%	0.24%	1.44%	1.22%	2.58%	2.15%

From 07.31.87 through 2.15.24. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

Stock Updates

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

Jason Clark, Chris Quigley and Zack Tart take a look at earnings reports and other market-moving news of note out last week for more than a few of our recommendations.

Goodyear Tire (GT – $12.31) reported that it earned $0.47 per share in Q4 when adjusted for rationalization costs and a non-cash goodwill impairment taken in the period as improved gross margin offset a replacement tire volume decline to push segment operating income to $383 million from $236 million in the same quarter a year ago.

The rationalizations include closure of two Goodyear facilities in Germany (Fulda and Fürstenwalde) that will cut approximately 1,750 job reductions across both plants. Management says it expects to substantially complete the closure of Fulda by 2025 and the closure of Fürstenwalde by the end of 2027, with cash costs between $425 million and $450 million. The company has accrued $250 million related to this plan and expects cash outflows of approximately $25 million and $300 million in 2024 and 2025, respectively. The remaining pre-tax charges and cash outflows should occur by the end of 2027.

The moves also come after the involvement of activist Elliott Investment Management that was disclosed last May. Elliott's agitation has resulted in a change at the CEO slot along with the addition of three board members as it has pushed the company to improve its cost profile and profitability.

Goodyear has titled its overhaul strategy "GT Forward," which the company hopes will achieve $1.0 billion of annualized cost savings by Q4 2025. New CEO Mark Stewart promoted his abilities and his strategy for the company, "I'm engaged in deep dives on each element of the program, the associated work stream, our amazing teams, and committed to delivering the outcomes of the Forward plan. I've been a part of leading transformational efforts and driving results in my past roles and bringing them to the bottom line through clear KPIs, the definition, the tracking and speed of execution. For Goodyear, for us, it's about maximizing our strength and our market position in North America is improving our cost structure as well as de-risking our balance sheet. Ultimately, I'm confident Goodyear Forward will drive our company's next stage of profitable growth and success. It's clear and I fully support the plan."

We have written of our frustration with GT, with the stock a contentious holding for our portfolios within the Investment Team. We tend to hold similar grievances as Elliott and think the company could be worth far more than the market gives its credit, while the Street projects a return to historical profitability over the next few years. Still, our bruised experience in the name has kept us from adding to our weightings, and we remind that every stock continues to fight for a spot in our broadly diversified portfolios. Our current Target Price for GT is $16.

Environmental and waste services firm **Waste Management** (WM – $201.54) reported Q4 EPS of $1.74, versus the $1.53 consensus analyst estimate. WM generated $5.22 billion of revenue, beating forecasts of $5.19 billion. Revenue from the Landfill and Transfer segments grew in the low-single-digit range, while Recycling revenue dropped 3% sequentially.

WM CEO Jim Fish commented, "Our strong financial results for both the quarter and the year were powered by our collection and disposal business. This performance starts with disciplined organic revenue growth that exceeded our expectations. And once again, our success in managing the middle of the P&L really stands out in our results as our teams continue to make progress on optimizing our cost structure with the help of technology and automation. When you combine our revenue performance with the improvement in operating costs, we saw a widening of our price-to-cost spread and increased profitability…Our execution is tracking well and we expect to commission five new renewable natural gas facilities by the end of the year, reaching 30% of our run rate renewable natural gas volume growth. We're also on track to complete automation upgrades at 10 recycling facilities and add three recycling facilities in new markets in 2024."

Mr. Fish concluded, "I want to stress our confidence in our ability to continue to allocate capital to all of our priorities. This includes investing in our high-return sustainability growth projects, acquiring accretive businesses, and returning cash to shareholders through dividends and share repurchases. Our tuck-in acquisition pipeline is robust and there are some indications that 2024 could have heightened activity in this regard. We're committed to a disciplined approach to acquiring companies, ensuring that any deals we pursue, yield appropriate returns, particularly given the higher returns in our sustainability opportunities."

WM shares have gained 12.5% this year and have rallied by more than a third since October. Management expects core price hikes between 6.0% and 6.5% in 2024 with about $2.25 billion of capital spending and $875 million of spending on high-return sustainability growth projects. Free cash flow is expected to grow 7% to a midpoint of $2.85 billion and the quarterly dividend rate remains $0.70 (it has historically been hiked in Q1). The EPS figure has grown substantially from $4.03 in 2020 to $6.19 in 2024, while analysts project nearly $9 of earnings in 2026. The forward twelve-month P/E is 29x but if WM is able to hit the 2026 target, it would pencil out to 23x at the current price. Historically, the stock has garnered a rich multiple, so even if the current P/E is simply maintained, the price would rise as EPS rises, which would be a nice shareholder return in addition to the company's 1.4% dividend yield. We still like our exposure to the garbage hauling business for the long run and our Target Price has been boosted to $214.

Shares of **Hasbro** (HAS – $50.78) dipped as much as 7% on Tuesday, following the release of Q4 financial results, but fought back to close the week roughly unchanged. The report card revealed a 71% year-over-year decline for adjusted EPS to $0.38. The century-old toymaker's top and bottom lines were impacted by a shuffling to the consumer products portfolio as it exited certain businesses and from writers' and actors' strikes earlier in the year. Despite the drop in revenue, full-year operating cash flow doubled as CEO Chris Cocks said it would this time a year ago to $726 million, substantially all of which went toward dividends and the paydown of long-term debt.

CFO Gina Goetter commented, "2023 was a productive year for Hasbro, although not without some challenges. As we navigated the current environment, we took aggressive steps to optimize our inventory, reset the cost structure, and sharpen our portfolio focus on play with the eOne film and TV divestiture. Taken together, the actions throughout the full year have positioned the company for improved financial performance in 2024 and beyond. We are encouraged by our recent progress and remain laser focused on execution to deliver on our transformation objectives."

Mr. Cocks added, "Guided by our strategy of 'Fewer, Bigger, Better,' we had important wins across both toys and games while making progress in our transformation during a challenging 2023. Despite the macroeconomic backdrop, we are entering 2024 with a healthier balance sheet, a leaner cost structure, and a diverse portfolio of industry-leading toy and game brands that support our capacity to invest in the business and maintain our commitment to returning cash to shareholders via our category-leading dividend. Our refreshed leadership team is bringing innovative new products to our fans. At the same time, we are taking the necessary actions to transform Hasbro and deliver long-term profitable growth starting with driving significant profit growth across our segments in 2024 and building momentum in our innovation pipeline between now and 2025."

Using the mid-point range of their guidance, management has provided the following operating profit forecast for 2024: $130 million from the Consumer Products segment, $545 million from the Wizards of the Coast segment and $386 million from Entertainment. Contributing to the improvement over 2023 is a $750 million bump to management's mid-term gross savings target by year end 2025 vs. its previous target of $350 million to $400 million.

It appears the company should be able to meet its $500 million debt maturity and continue to pay the dividend should it come close to meeting its operating profit target. The next maturity isn't until 2026 and management says there is more than $1 billion of liquidity in the hopper should times get worse. The ride south since 2021 puts shares within a stone's throw of the COVID-19 bottom from 2020. Shares trade for 16 times NTM EPS with the profit figure projected to expand over 50% in the next two years. For the time being, investors are being paid for their patience, given the 5.5% dividend yield. Our Target Price for HAS now resides at $75.

Shares of **Cisco Systems** (CSCO – $48.44) slipped 3.4% last week after the networking equipment maker posted respective fiscal Q2 sales and earnings that fell 6% and 1% year-over-year. The $0.87 of EPS came in above both management's guidance ($0.82 to $0.84) and the analyst consensus ($0.84 est.). CSCO said "strong operating leverage" resulted in the earnings beat and the company's shift to subscription software continues to add value for shareholders.

CEO Chuck Robbins explained, "I'd like to start by commenting on the demand environment. First, in terms of the macro environment, we are seeing a greater degree of caution and scrutiny of deals given the high level of uncertainty. As we're hearing this from our customers, it's leading us to be more cautious with our forecast and expectations. Second, as we discussed last quarter and subsequently saw in other technology provider results, customers have been taking time since the start of our fiscal 2024 to deploy the elevated levels of products shipped to them in recent quarters, and this is taking longer than our initial expectations. Third, we also continue to see weak demand with our telco and cable service provider customers. This industry has seen significant pressure and they are adjusting deployment phasing, which is weighing on our business outlook. Given these factors, we are adjusting our expenses and investments to reflect the current environment."

He closed, "Let me summarize three key takeaways. First, we have reset our expectations for the second half of the year given the cautious macro environment, our customers absorbing high levels of inventory and ongoing weakness in service provider. Second, you can count on us to take a disciplined approach regardless of the environment, we remain committed to operating leverage, capital allocation and expense management. Lastly, our portfolio continues to get stronger and stronger every day while we have work in front of us and despite the current environment, we remain confident in our long-term strategy. We are relentlessly focused on our commitment to driving long-term value for our shareholders and industry leading innovation for our customers."

Management lowered revenue and EPS expectations for fiscal 2024. The projected revenue range is $51.5 billion to $52.5 billion and adjusted earnings per share range is $3.68 and $3.74, both falling shy of the Street's estimate at the midpoint.

Cisco's acquisition of Splunk is expected to close in late Q1 or early Q2 of calendar 2024. The deal is expected to fuel growth, expand CSCO's software options and add about $4 billion of annual recurring revenue upon closing. Splunk's impact will not be included in guidance until the deal closes. We appreciate Cisco's efforts to evolve and note the tremendous amount of net cash on the balance sheet that equates to roughly a year of the firm's net income. We find the 13 times forward earnings multiple ascribed to shares to be inexpensive with more potential upside for the bottom line should the integration of Splunk remain on schedule. The quarterly dividend was hiked from $0.39 to $0.40, resulting in a yield of 3.3% and our Target Price is $70.

Specialty chemical producer **Albemarle** (ALB – $122.59) reported EPS of $1.85 in the fourth quarter, adjusted for charges related to an inventory valuation adjustment and write-downs on its China business. The profit figure was well below that of a year ago despite major volume growth as much-lower lithium prices pushed net sales down 10% to $2.4 billion. The company said the charges were linked to the rapid decline in lithium market prices during the second half of 2023, leading to inventory write-downs and losses in China. Excluding the charges, full-year net sales grew 31% to $9.6 billion, bringing full-year EPS $22.25.

CEO Kent Masters said, "Our full year results show continued strong volumetric growth with 2023 marking the highest net sales and second highest EPS in Albemarle's history. This highlights the focus and ability of our global team to succeed in a macro environment that remains challenging...In January, we announced a series of proactive measures to re-phase our organic growth investments and optimize our cost structure. These disciplined actions should allow us to unlock more than $750 million of incremental cash advance near-term growth and preserve future opportunities."

He added, "We remain as confident as ever in the future of Albemarle and ongoing demand for the essential elements we provide to support modern infrastructure, including mobility, energy, connectivity, and health. The secular trends of clean energy, electrification and digitalization continue to drive growth. We are uniquely positioned to capitalize on the opportunities in our end markets, in particular, lithium demand. Over the past year, we have further strengthened Albemarle's position and are committed to navigating the near-term dynamics in a disciplined manner to both support and capitalize on these global trends."

Lithium prices have dropped precipitously since 2022 as the mad dash to secure materials for EVs and other energy storage applications has slowed to more reasonable levels. So, we aren't surprised that the bottom line has retreated markedly over that period. Still, shares appear heavily discounted at less than 10x expected long-term profit per share even if the near term continues to be lumpy. Accordingly, we believe ALB is a very attractive long-term name as a picks-and-shovels play on the EV gold rush, 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. Our Target Price for ALB is now $261.

Deere & Co. (DE – $360.68) earned $6.23 per share in fiscal Q1 ended January as revenue was down 4% to $12.185 billion. The legendary farm supplier produced an 18.5% margin on its equipment operations even as Agricultural fundamentals have waned from the record highs of recent years to near midcycle levels. In Construction and Forestry, Deere has observed stabilizing fundamentals supportive of demand across most markets, which are reflected in its order books. The first-quarter results show structural business improvements, allowing the company to deliver higher levels of profitability throughout the business cycle.

Management expects a decline of 10% to 15% for Large Ag equipment industry sales in the U.S. and Canada, a 5% to 10% decline for Small Ag and Turf, and a 5% to 10% decline in industry sales of tractors and combines in South America. Segment forecasts for the full year reflect expectations of lower net sales in the Production and Precision Ag and the Construction and

Forestry segments, with operating margins between 21.5% to 22.5% and 17% to 18%, respectively. Net income for the fiscal year is projected to be between $7.5 billion and $7.75 billion, with operating cash flow from Equipment Operations in the range of $7 billion to $7.5 billion.

CEO John May offered color on Deere's outlook, "As I think about 2024, it's helpful to consider the Smart Industrial journey that we've been on, which is grounded in unlocking incremental value for our customers through technology and enabling Deere to deliver structurally higher financial performance. I'm extremely pleased with how we've executed our production systems approach, centralized and advanced our tech stack, and focused on delivering value across the entire lifecycle of our solutions, all while allocating capital in a more efficient and strategic manner. Deere's last few years of financial performance are evidence of the structural improvement that comes with executing our strategy, all while delivering better outcomes for our customers."

He added, "To put 2024 financials in context, let's look at how we've performed since introducing Smart Industrial. In 2022, our Equipment Operations net sales were just under $48 billion, and we delivered net income of over $7.1 billion, equating to just over $23 of EPS. In 2023, net sales increased 16% to over $55 billion and we delivered record net income of over $10 billion or $34.63 per share. Our 2024 guide implies a roughly 15% reduction in net sales, putting us at very similar sales levels to 2022. However, continuing that comparison, our net income forecast of $7.5 billion to $7.75 billion contemplates at least a $400 million improvement over 2022. On an EPS basis, that's growth of over $4 per share, demonstrating the structural improvement enabled by our Smart Industrial strategy."

Our thesis remains that Deere is the key enabler of low-cost agriculture, particularly in the U.S. and Canada, which account for over half of the company's revenue. Deere's substantial dealer network places customer service closer to farms than competitors. And a massive installed base of machines offers a continual source of data with which to improve its products as farming becomes increasingly automated. The business environment for DE continues to be solid, aided by farmers seeking improvements in margins, government-sponsored mega-projects (IIJA, CHIPS Act) and construction growth. Street forecasts for 2024 continued to moderate following the latest report, but the stock's NTM P/E sits at a very reasonable 13.5. We have adjusted our DE Target Price lower to $519.

Semiconductor equipment maker **Cohu** (COHU – $32.47) earned $0.23 per share in Q4 on $137.2 million of revenue, the former well above the $0.22 consensus estimate and the latter a touch above the $136.7 million Street forecast. Gross margin came in at 48.5%, compared to the 48.8% estimate. COHU's recurring revenue business now represents 54% of overall sales and sports a 55% gross margin. Approximately 390,000 shares were repurchased in the quarter for $12.8 million, while the dividend has remained suspended since the early days of the pandemic.

CEO Luis Muller commented, "On October 2, we announced the acquisition of Equiptest Engineering, which we refer to as EQT, with the goal to expand our test interface products and recurring revenue that continues to deliver resilient profitability through industry cycles. Late last quarter, we completed construction and transferred all contact through manufacturing to a new 92,000 square foot facility in the Philippines. We held an opening event with customers on January 17, and the facility is already ramping manufacturing of test contactors to make Q1 deliveries. The goal is to improve efficiency and quality, lower cost and lead time of interface products, positioning the company to quickly respond to demand and to capitalize on the next wave of growth."

Mr. Muller continued, "Although near-term demand is likely to remain subdued, our major customers have been forecasting a semiconductor recovery for the second half of 2024. With lead times now back to normal, Cohu is well-positioned to quickly respond to customers' needs as test cell utilization improves through the second half of this year and into 2025. We will continue executing our strategy to grow recurring business, broaden the use of Diamondx into automotive and industrial and data center customers, and to our inspection and metrology portfolio and increase subscriptions to our emerging software business."

COHU paid off $1 million of debt in Q4 and had more than $6 per share of net cash on its balance sheet at the end of Q4. Cohu is in a slump and analysts expect to see just $514 million of revenue in 2024, which is down from $636 million in 2023 and $813 million in 2022. The outlook improves for 2025 with its $650 million estimate, but the road to that point could be bumpy.

COHU has steadily converted more of its business to a subscription model, but results can still be cyclical and lumpy. Still, given the company's areas of expertise and a limited set of alternatives for customers, we can't help but think the long term is bright, and management has positioned the firm to benefit from the proliferation of chips in nearly everything with some 280 customers in 31 countries and over 1 million parts shipments per year. Our Target Price for COHU is now $44.

Formerly high-flying shares of **Digital Realty** (DLR – $136.22) dove 8% on Friday after the data infrastructure REIT said that it generated $1.63 per share of funds from operations (FFO) in Q4, versus $1.65 a year ago and the $1.649 Street target. Management said leasing in the quarter was healthy and the DLR portfolio has received upgrades to support next-generation chips, including the Nvidia H100, in many of its data centers.

CEO Andy Power commented, "I'm pleased with our results for 2023, which helped to lay the foundation for an acceleration in long-term sustainable growth in earnings and free cash flow, that should take shape as we head into 2025. Our fourth quarter results were broadly consistent with the first three quarters of 2023 with continued strength in our operating performance KPIs and incremental improvement in our financial position as we continue to execute on our value proposition with a goal to support the increased demand for data center capacity. We also remain healthy, especially in our targeted 0-1 plus interconnection segment with 134 new logos, bringing our total new logos for 2023 to a new annual record of more than 500 logos. Renewal spreads were strong for the fifth consecutive quarter, remaining positive across product types and regions. Same capital cash NOI growth continues to demonstrate the underlying strength of our business with 9.9% year-over-year growth in the quarter."

CFO Matt Mercier added, "Total portfolio occupancy is expected to improve by 100 basis points to 200 basis points by the end of 2024 while total occupancy slipped to 81.7% in the fourth quarter of 2023, this was predominantly driven by the delivery of substantial vacant development capacity that is slated to be occupied as same capital occupancy was stable quarter-over-quarter. We also expect to continue to recycle capital in 2024 with non-core asset sales and stabilized joint ventures raising $1.25 billion at the midpoint of our guidance range. Nearly a third of this activity was completed in early January, while the balance should close throughout this year. Along with cash on hand and retained cash flow from operations, this capital is expected to be the primary funding source of our $2 billion to $2.5 billion net development CapEx program for 2024. To be clear, this approximately 25% reduction in development spend year-over-year represents Digital Realty's share of CapEx spend. The total development spend on these projects will be higher when including our partners pro rata share."

For 2024, DLR expects revenue between $5.55 billion and $5.65 billion with FFO per share between $6.60 and $6.75. Analysts, on average, are optimistic, and expect FFO to come in at $6.75 for the year before growing close to $8 by 2026. DLR's debt maturity averages 3.8 years at a 2.6% coupon, and we think the long-term dynamics of the industry remain highly favorable. Even though shares stumbled after the quarterly report, they remain in positive territory by 1% this year after putting together a handsome 40% total return last year. Energy prices and customer dynamics require DLR to be agile, but we think there is plenty of upside left for the specialty REIT. The dividend yield is 3.6% and our Target Price is $159.