

Market Commentary Monday, March 4, 2024

March 4, 2024

EXECUTIVE SUMMARY

Market of Stocks – Nice Week, But Average Stock Still Down on the Year

Volatility – The Longer the Measuring Stick, the Less Risky Equities Become

Econ Stats – A Slew of Weaker-than-Expected Numbers and a Few Good Ones

Econ Outlook – Real GDP Growth in '24 Still Likely; EPS Estimates on the Rise

Inflation – PCE Arrives as Expected; Rates Fall

Valuations – Value Stocks Attractively Priced

Sentiment – AAI Still Optimistic

Stock News – Updates on NYCB, KR, VWAPY, LOW & CIVI

Market Review

While the median return for stocks in the Russell 3000 is still negative for the year,...

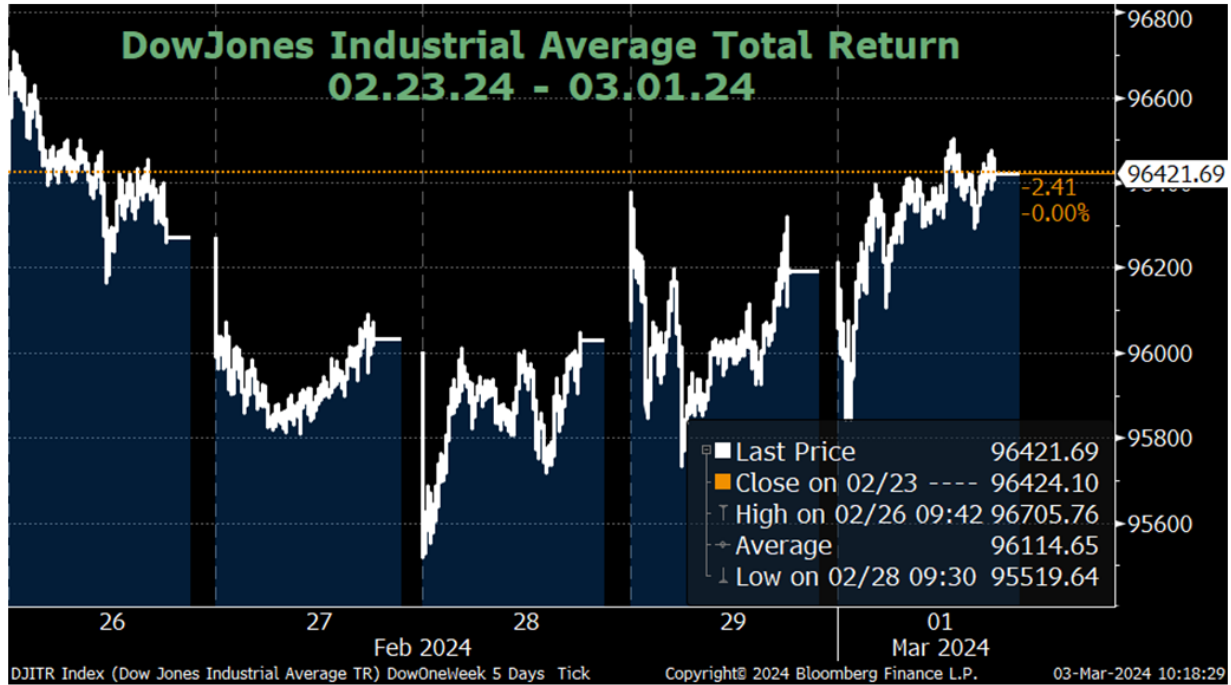


While the large-stock-dominated, capitalization-weighted market averages generally are off to a nice start in 2024, the median returns for members of the Russell 3000 index and the Russell 3000 Value index are in the red year-to-date, as the smaller constituents have been big laggards, suggesting to us that these companies have plenty of upside potential.

Market of Stocks 2024 - Russell 3000								
R3K Members	% of Market Cap	Median YTD Total Return	Median Price to Earnings	Median NTM P/E	Median Price to Sales	Median Price to Book Value	Average Dividend Yield	Number of Holdings
All 2957	100.0	-0.6	18.9	16.1	1.9	2.2	1.59	2957
Largest 10	28.0	15.7	33.4	27.1	8.4	11.1	0.38	10
Top 11-20	8.7	9.0	25.2	24.1	3.5	9.1	1.69	10
Top 21-30	5.6	14.1	39.2	27.2	5.6	7.2	1.62	10
Top 31-40	4.2	4.7	28.0	22.8	4.3	4.8	1.98	10
Top 41-50	3.5	12.0	24.0	18.7	3.9	7.8	1.97	10
Largest 50	50.0	9.5	28.6	24.1	5.2	7.8	1.53	50
Next 950	45.8	4.1	22.2	18.8	2.6	3.4	1.65	950
Bottom 1957	4.2	-3.5	16.2	14.2	1.6	1.7	1.53	1957
Market of Stocks - Russell 3000 Value								
All Value	100.0	-1.2	19.2	14.5	1.7	1.7	2.83	2278
Largest 10 Value	16.1	8.0	21.6	14.8	2.1	2.1	2.42	10
Market of Stocks - Russell 3000 Growth								
All Growth	100.0	1.7	24.4	20.6	2.6	4.1	1.74	1518
Largest 10 Growth	50.0	14.0	39.5	30.2	8.4	11.6	0.39	10

From 12.31.23 - 3.1.24. Source: Kovitz using data from Bloomberg.

...and the Dow Jones Industrial Average on a Total Return basis was essentially flat over the last five days,...



...illustrating why we like to say that volatility can be mitigated by looking through a longer-term lens,...



While fixed income investments generally boast lower volatility than equities, it is nice to see the historical odds of Value Stocks and Dividend Payers outperforming the recent 4.18% yield on the 10-year U.S. Treasury increase markedly as the level of patience rises.

PATIENCE IS VIRTUOUS

VALUE STOCKS

	Count >4.18%	Count <=4.18%	Percent >4.18%
1 Month	702	457	60.6%
3 Months	734	423	63.4%
6 Months	760	394	65.9%
1 Year	772	376	67.2%
2 Year	857	279	75.4%
3 Year	920	204	81.9%
5 Year	936	164	85.1%
7 Year	967	109	89.9%
10 Year	983	57	94.5%
15 Year	952	28	97.1%
20 Year	920	0	100.0%

DIVIDEND PAYERS

	Count >4.18%	Count <=4.18%	Percent >4.18%
1 Month	696	463	60.1%
3 Months	738	419	63.8%
6 Months	769	385	66.6%
1 Year	792	356	69.0%
2 Year	879	257	77.4%
3 Year	892	232	79.4%
5 Year	909	191	82.6%
7 Year	942	134	87.5%
10 Year	938	102	90.2%
15 Year	944	36	96.3%
20 Year	909	11	98.8%

From 07.31.27 through 01.31.24. 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

...it was another favorable market week for equities in general, with even the Russell 3000 Value index hitting an all-time high on Friday, finally eclipsing the prior record set on 1.12.22.



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.

Russell 3000 Value Index						
Advancing Markets						
Minimum Rise %	Average Gain	Average # Days	Count	Frequency (in Years)	Last Start	Last End
20.0%	73.6%	822	8	2.8	9/30/2022	3/1/2024
17.5%	53.4%	532	13	2.0	9/30/2022	3/1/2024
15.0%	48.0%	452	15	1.7	9/30/2022	3/1/2024
12.5%	45.9%	427	16	1.6	9/30/2022	3/1/2024
10.0%	29.4%	233	30	0.9	10/27/2023	3/1/2024
7.5%	21.2%	144	51	0.5	10/27/2023	3/1/2024
5.0%	13.5%	71	104	0.3	10/27/2023	3/1/2024

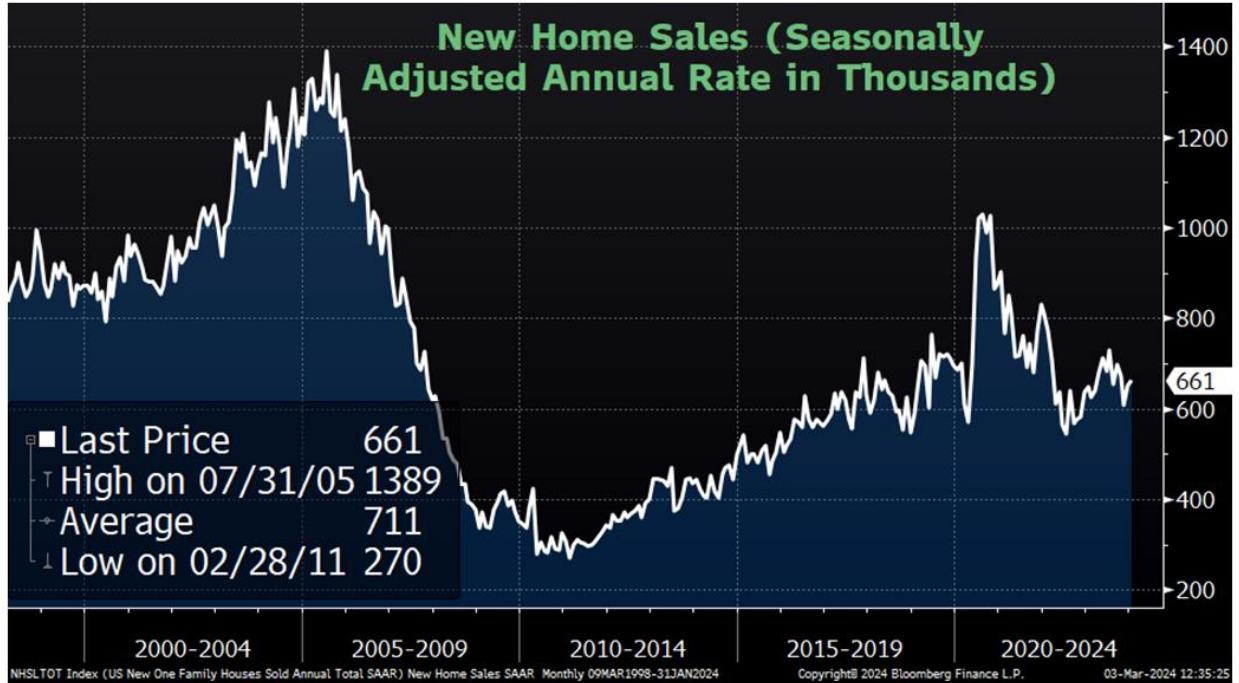
Declining Markets						
Minimum Decline %	Average Loss	Average # Days	Count	Frequency (in Years)	Last Start	Last End
-20.0%	-30.6%	218	8	2.8	1/12/2022	9/30/2022
-17.5%	-26.1%	195	13	2.0	1/12/2022	9/30/2022
-15.0%	-24.8%	178	15	1.7	1/12/2022	9/30/2022
-12.5%	-24.0%	163	16	1.6	8/16/2022	9/30/2022
-10.0%	-18.1%	82	30	0.9	7/26/2023	10/27/2023
-7.5%	-14.2%	55	51	0.5	7/26/2023	10/27/2023
-5.0%	-10.1%	30	103	0.3	7/26/2023	10/27/2023

From 10.19.95 through 03.01.24. 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 an instance when stocks appreciated the specified percentage or more without a decline of equal magnitude. SOURCE: Kovitz using data from Bloomberg.

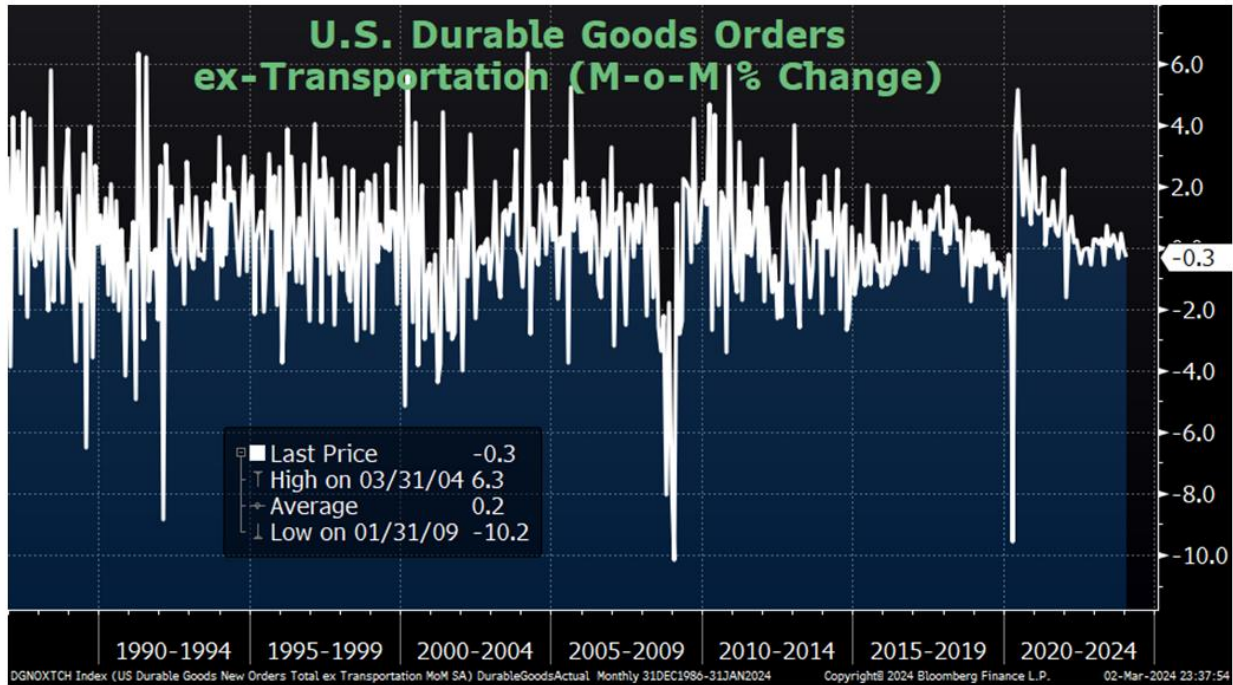
LONG-TERM RETURNS		
	Annualized Return	Standard Deviation
Value Stocks	13.0%	25.9%
Growth Stocks	9.5%	21.4%
Dividend Paying Stocks	10.6%	18.0%
Non-Dividend Paying Stocks	9.0%	29.2%
Long-Term Gov't Bonds	5.0%	8.8%
Intermediate Gov't Bonds	4.9%	4.4%
Treasury Bills	3.3%	0.9%
Inflation	3.0%	1.8%

From 06.30.27 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

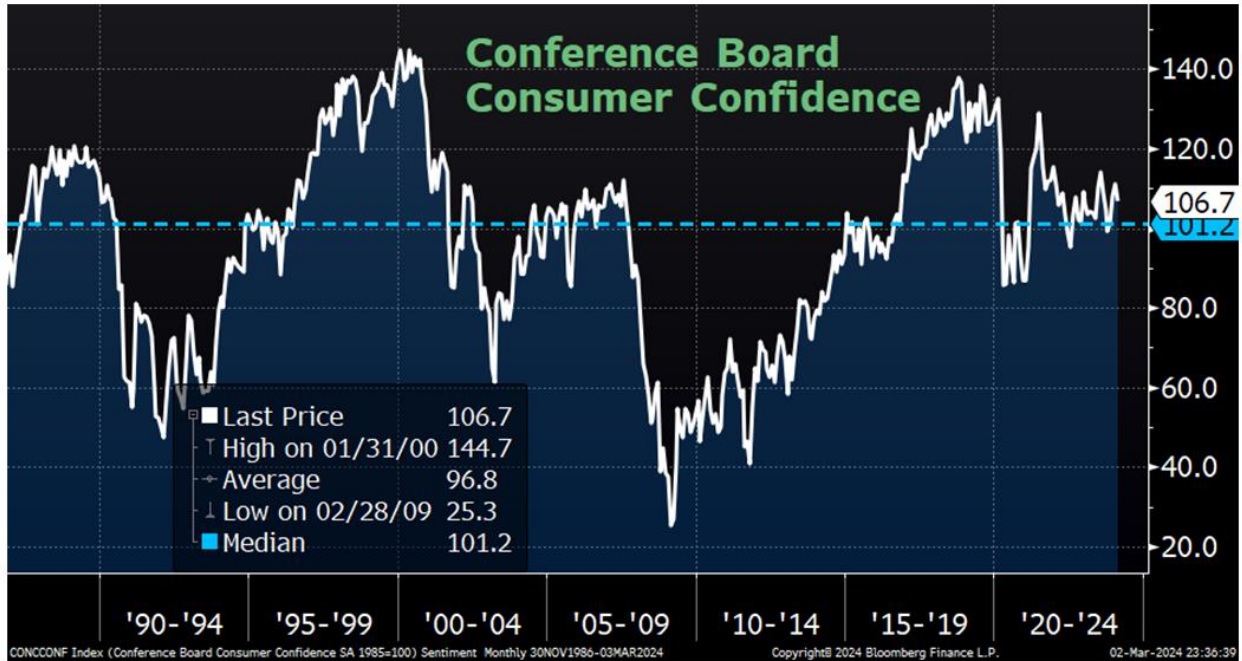
Interestingly, aside from continued excitement for all things A.I., the majority of stocks seemed to catch a bid on weaker-than-expected economic numbers. New home sales for January of 661,000 (est. 684,000) trailed forecasts,...



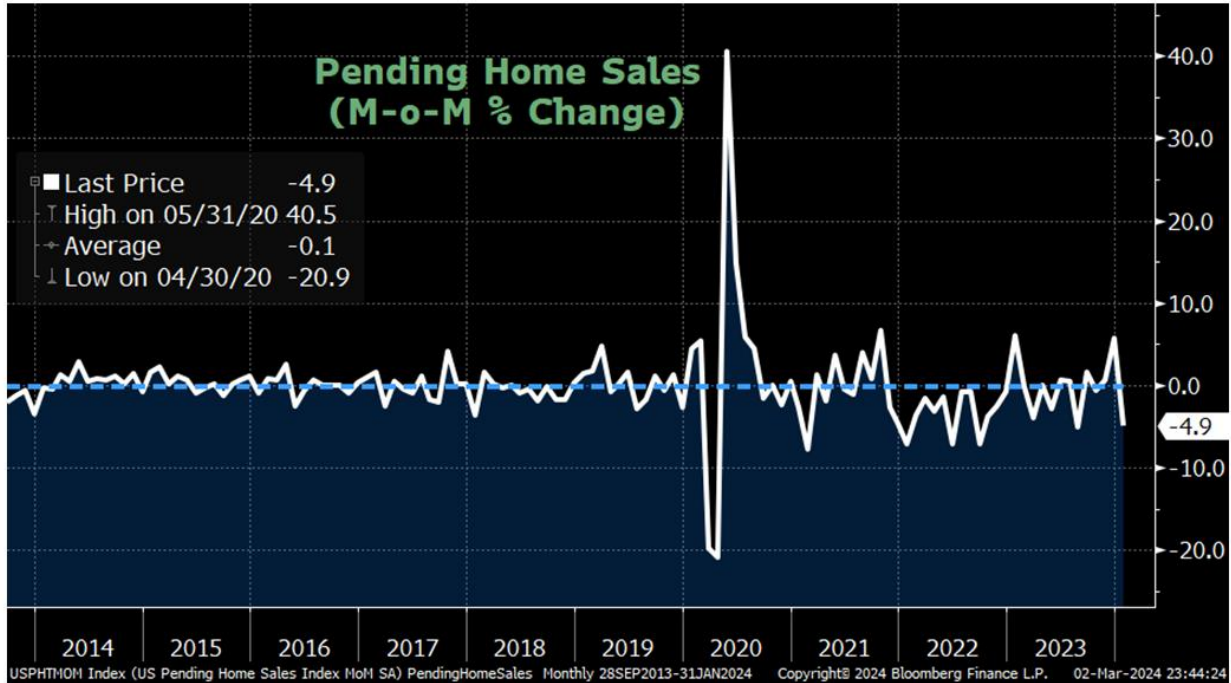
...durable goods orders excluding the volatile transportation sector in January slipped 0.3% (est. 0.2% increase),...



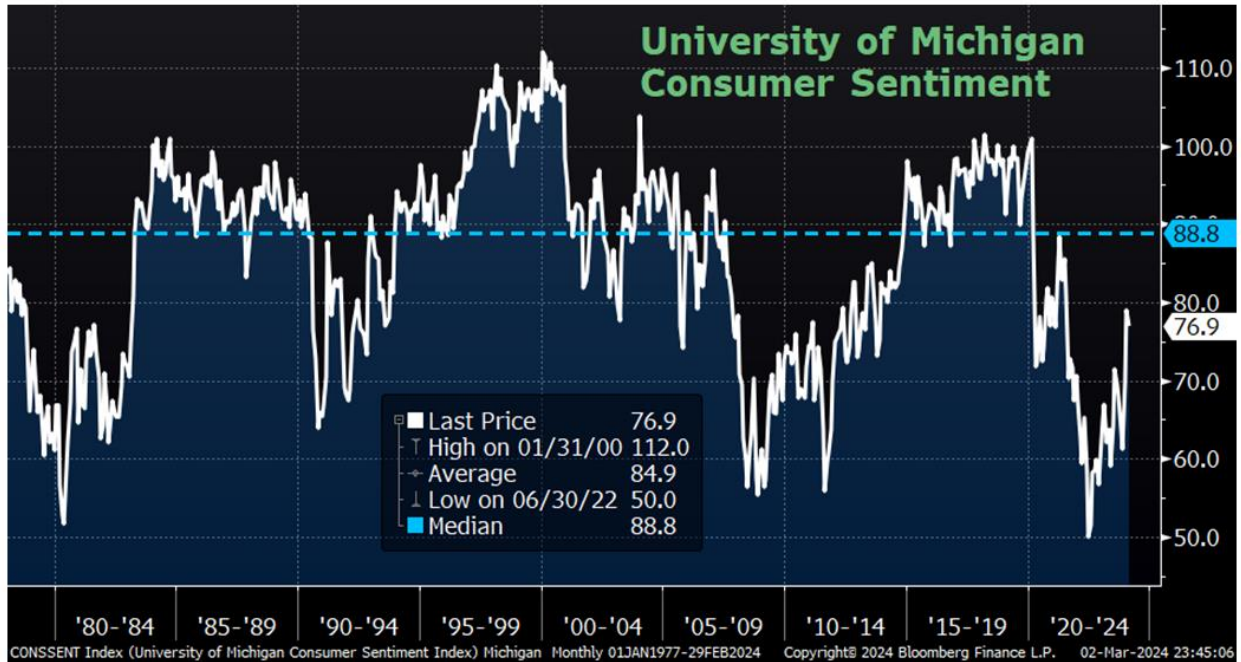
...the Conference Board's Consumer Confidence gauge for February dropped to 106.7 (est. 115.0), down from a revised 110.9 in January,...



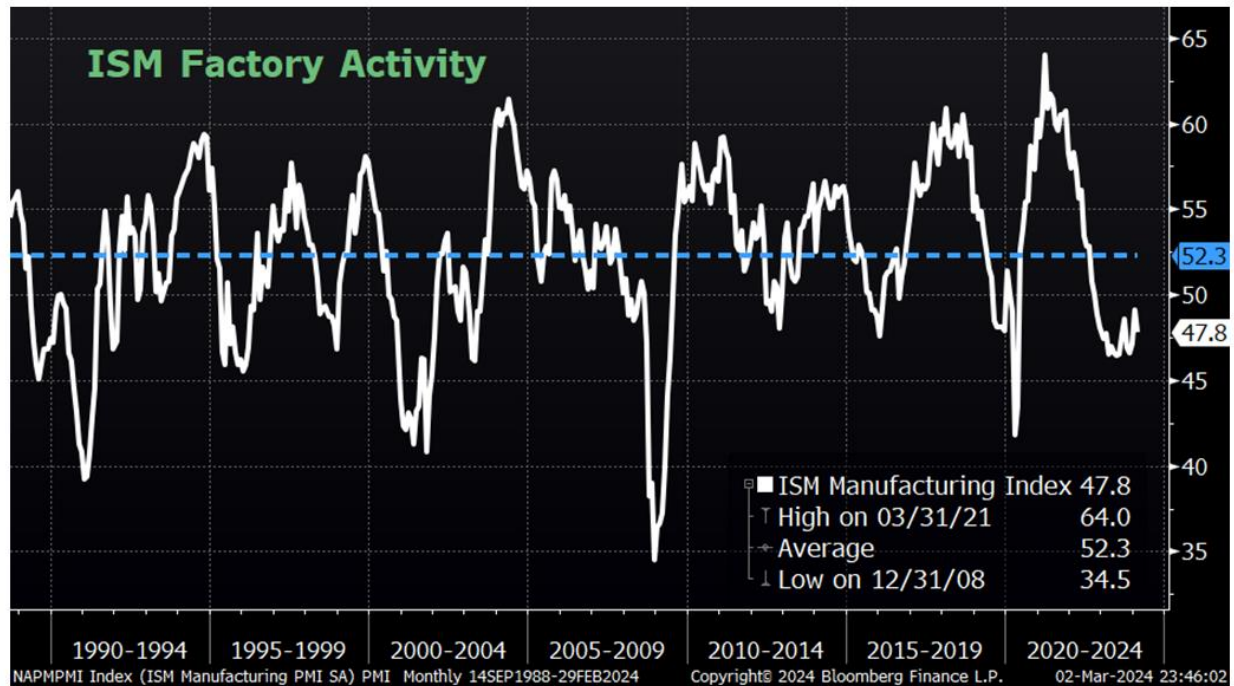
...pending home sales for January dipped 4.9% (est. 1.1% increase),...



...the final University of Michigan Consumer Sentiment measure for February skidded to 76.9 (est. 79.6), down from 79.6 in January,...



...and the Institute for Supply Management's (ISM) Manufacturing PMI declined to 47.8 in February (est. 49.5), compared to 49.1 in January.

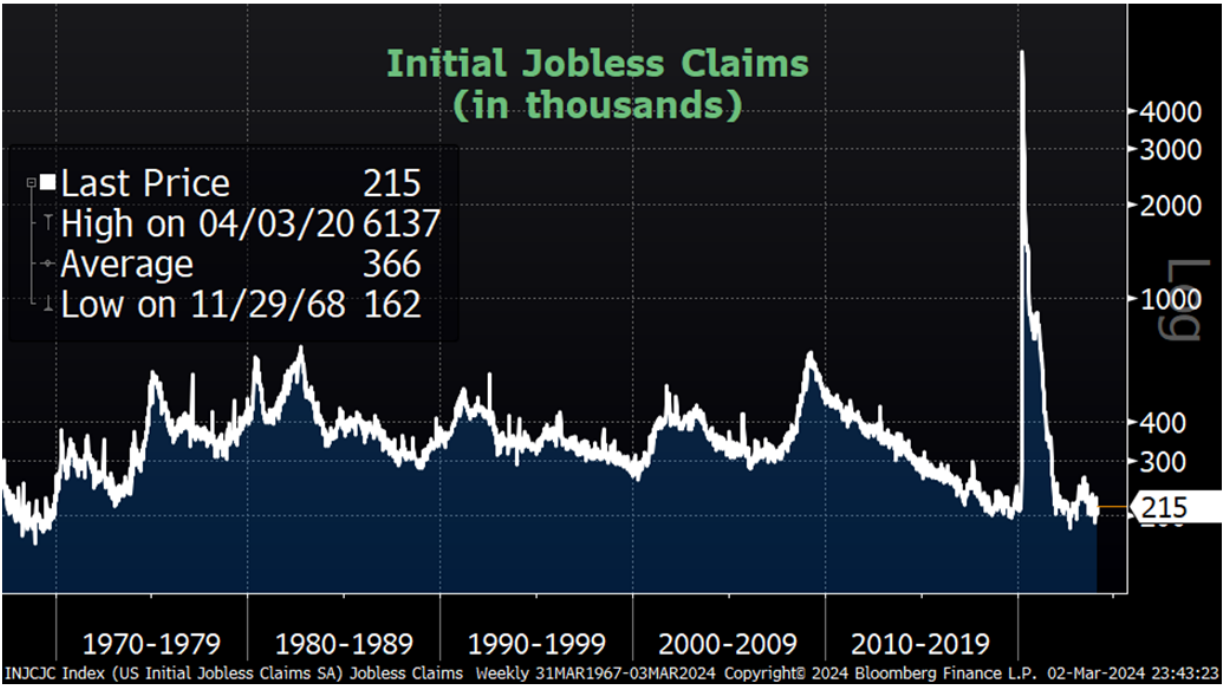


Of course, the economy is hardly falling off a cliff as ISM states, “A Manufacturing PMI® above 42.5 percent, over a period of time, generally indicates an expansion of the overall economy. Therefore, the February Manufacturing PMI® indicates the overall economy grew for the 46th straight month after one month of contraction (April 2020). The past relationship between the Manufacturing PMI® and the overall economy indicates that the February reading (47.8 percent) corresponds to a change of plus-1.5 percent in real gross domestic product (GDP) on an annualized basis.”

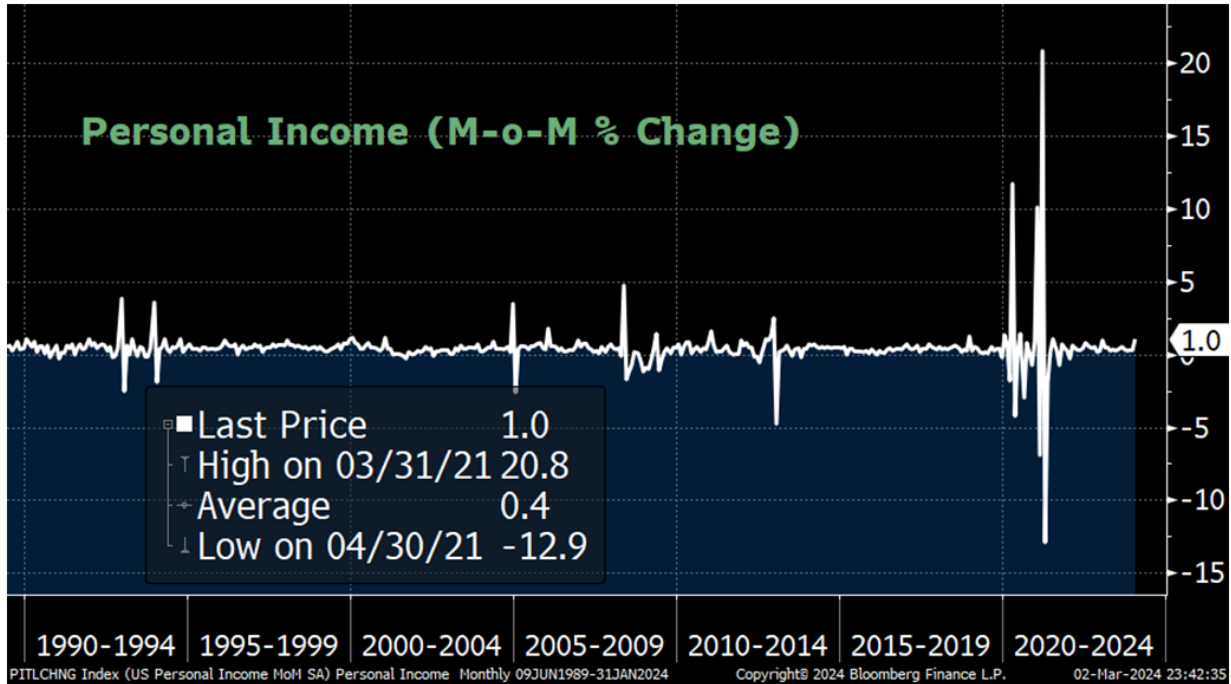
Echoing the ISM projection of growth for U.S. GDP was the latest Q1 estimate of 2.1% from the Atlanta Fed,...



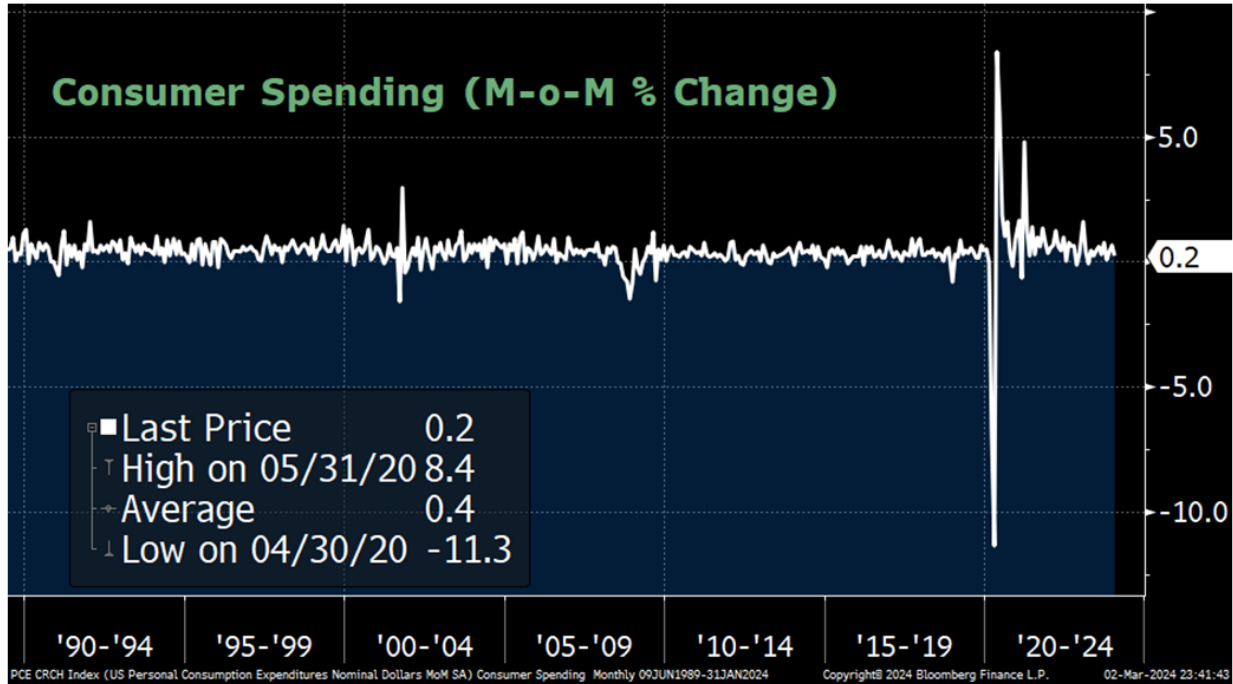
...as the labor market remains healthy, with first-time filings for unemployment benefits in the latest week continuing to reside at multi-generational lows,...



...personal income for January climbing a better-than-expected 1.0%,...



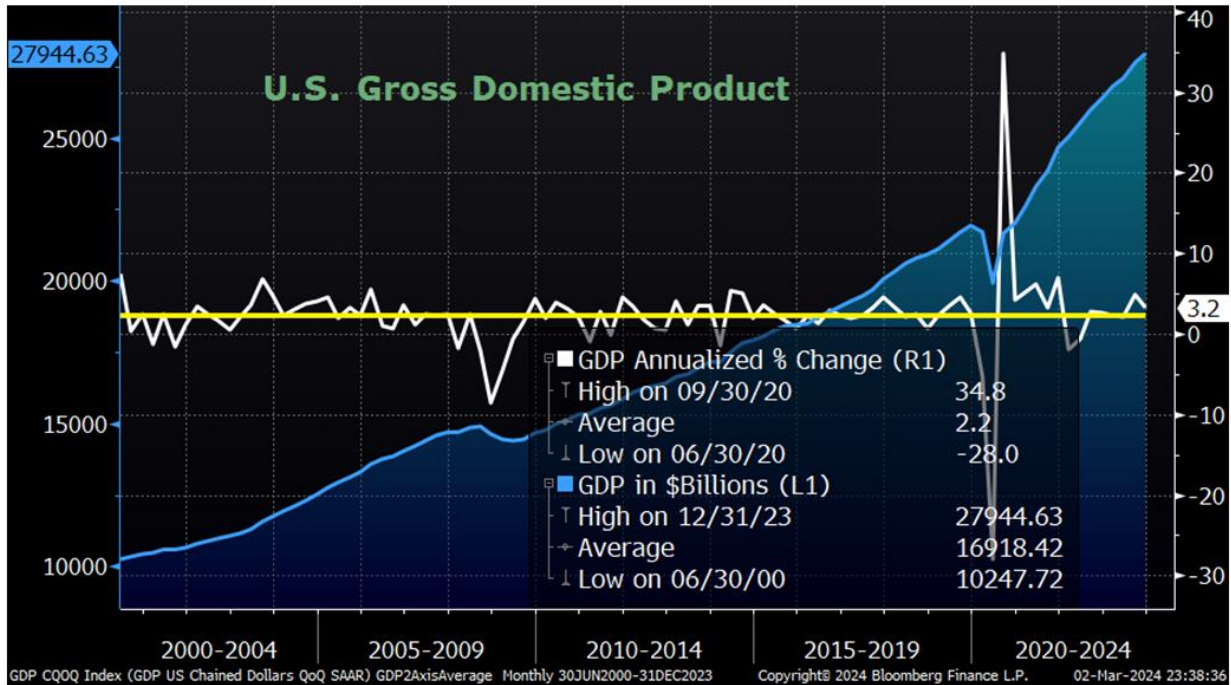
...and consumer spending in January holding up well with a 0.2% rise.



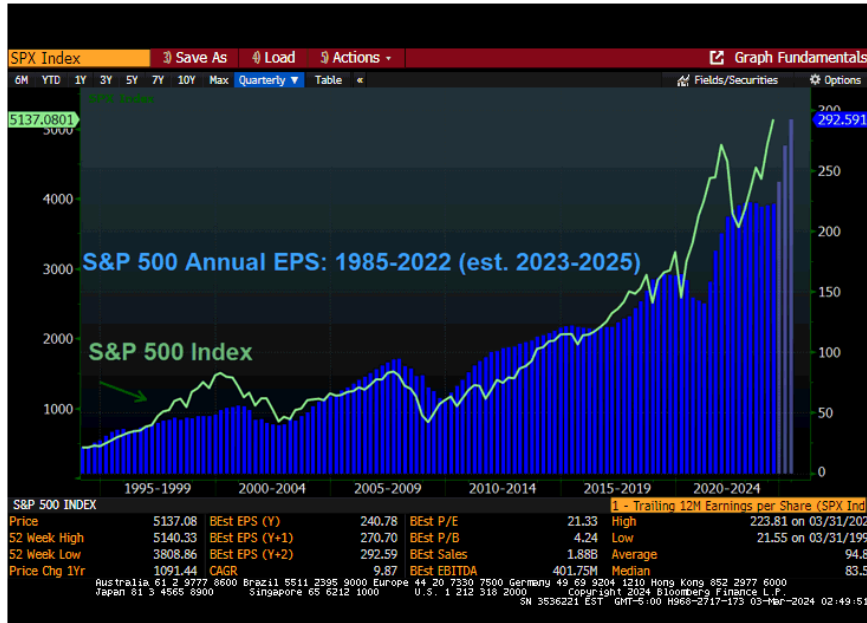
True, *Bloomberg* tabulations still suggest a 40% chance of recession in the next 12 months,...



...but real (inflation-adjusted) Q4 2023 GDP came in at a solid, though revised-lower, figure of 3.2%,...



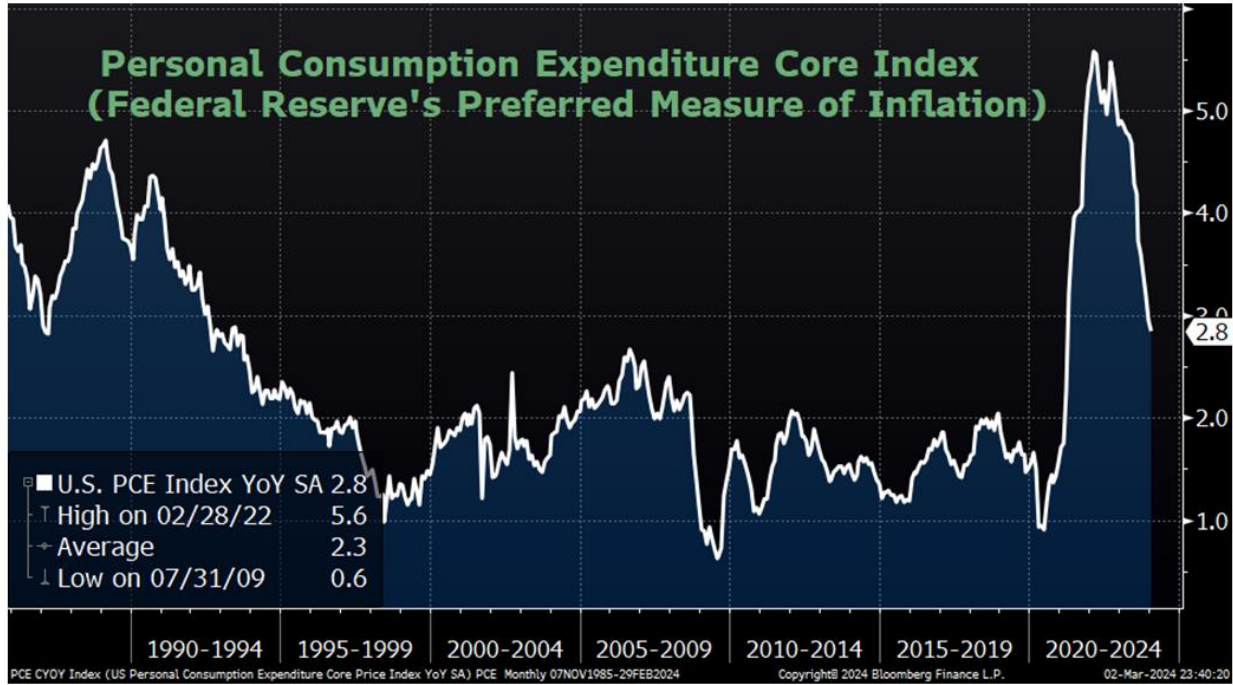
...and corporate earnings projections were lifted upward last week by Standard & Poor's.



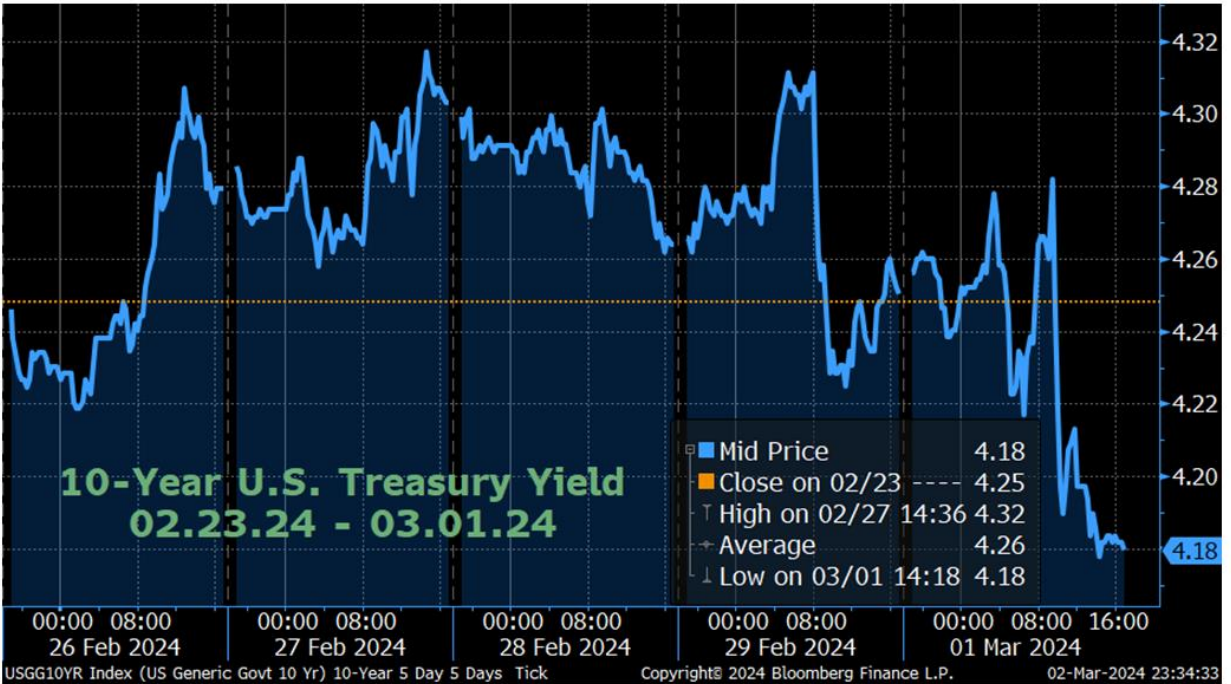
S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2024	\$64.46	\$240.74
9/30/2024	\$62.91	\$230.38
6/30/2024	\$58.73	\$219.72
3/31/2024	\$54.64	\$215.83
12/31/2023	\$54.10	\$213.73
ACTUAL		
9/30/2023	\$52.25	\$210.00
6/30/2023	\$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 2.29.24

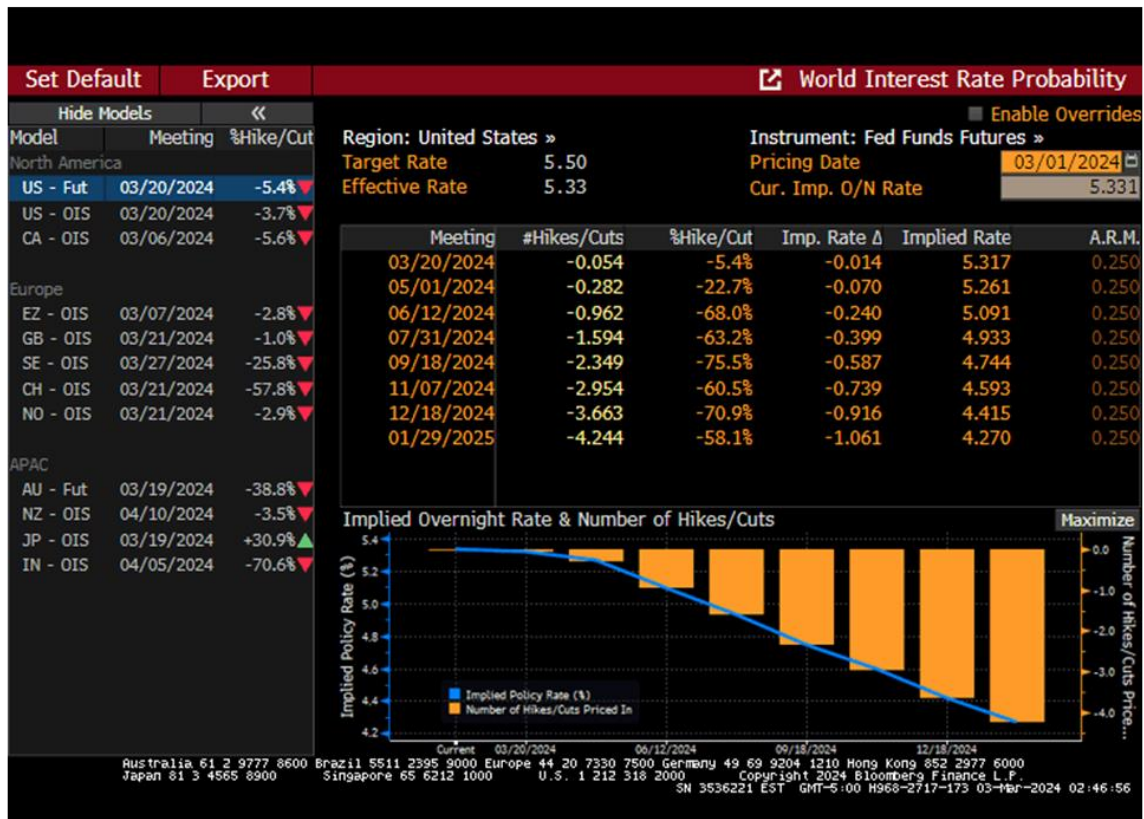
No doubt, markets were cheered when the Federal Reserve's preferred measure of inflation, the core personal consumption expenditure (PCE) index, matched expectations with a 2.8% year-over-year increase in January, down from a 2.9% rise the month prior,...



...as Treasury prices rallied (yields fell),...



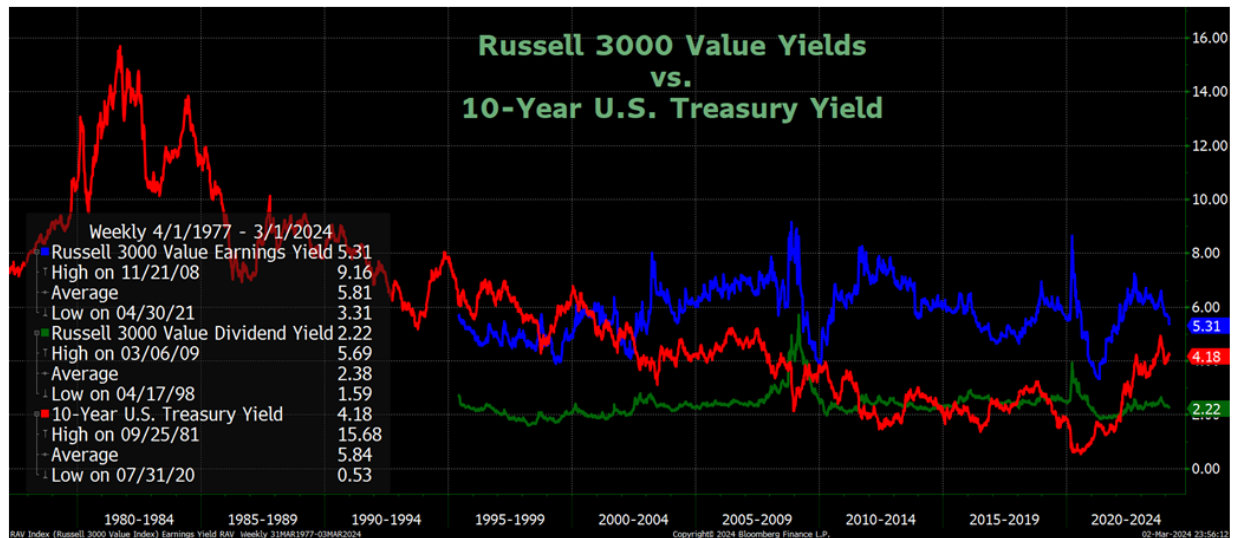
...and the betting on Fed Funds in the futures market targeted a year-end 4.42% rate, versus a 4.51% rate at the end of the preceding week,...



...with the decline in yields adding to the appeal of the Russell 3000 Value index,...



While the Earnings Yield, which is the inverse of the P/E ratio, on the S&P 500 (4.07%) is still reasonable relative to the current (and well below average) 4.18% 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 (5.31%) AND dividend yield (2.22%) near the historical norms for those measures dating back to 1995.



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



CURRENT PORTFOLIO AND INDEX VALUATIONS

Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	17.1	14.7	0.9	2.4	2.6
ValuePlus	16.6	14.4	1.2	2.4	2.4
Dividend Income	15.1	14.0	0.8	2.1	3.0
Focused Dividend Income	17.1	13.9	1.1	2.4	3.0
Focused ValuePlus	17.3	14.3	1.3	2.7	2.6
Small-Mid Dividend Value	11.8	11.4	0.5	1.5	3.0
Russell 3000	25.3	21.6	2.5	4.3	1.4
Russell 3000 Growth	34.8	28.8	4.4	11.7	0.7
Russell 3000 Value	18.8	16.4	1.6	2.4	2.2
Russell 1000	24.9	21.4	2.6	4.5	1.4
Russell 1000 Growth	34.2	28.4	4.7	12.6	0.7
Russell 1000 Value	18.6	16.3	1.7	2.5	2.2
S&P 500 Index	24.6	21.3	2.7	4.7	1.4
S&P 500 Growth Index	33.1	27.6	5.7	10.8	0.6
S&P 500 Value Index	18.5	16.5	1.7	2.8	2.3
S&P 500 Pure Value Index	11.0	10.3	0.5	1.2	2.9

As of 03.02.24. 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.

Certainly, we realize that stocks prices move in both directions, so we always are braced for downside volatility, especially with so many seemingly bullish on equities,...



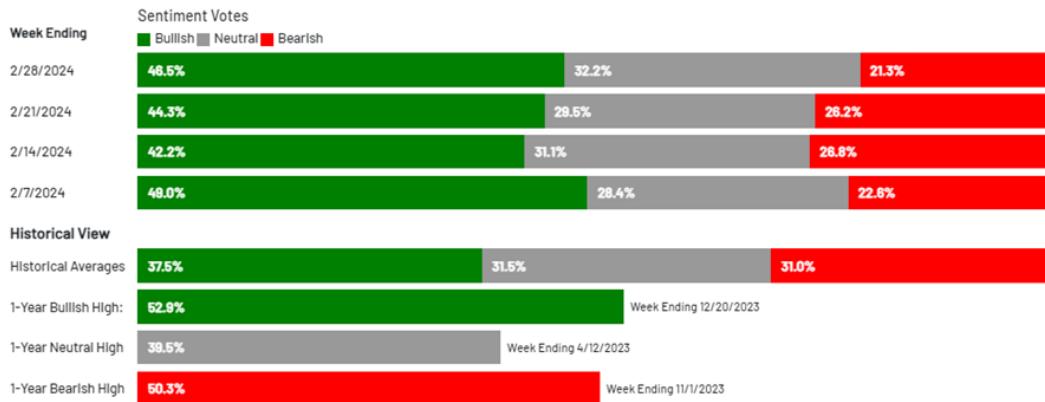
The AAI Investor Sentiment Survey

The AAI 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 AAI Investor Sentiment Survey today!

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



...but just about every way historical precedents may be sliced and diced supports sticking with stocks through thick and thin,...

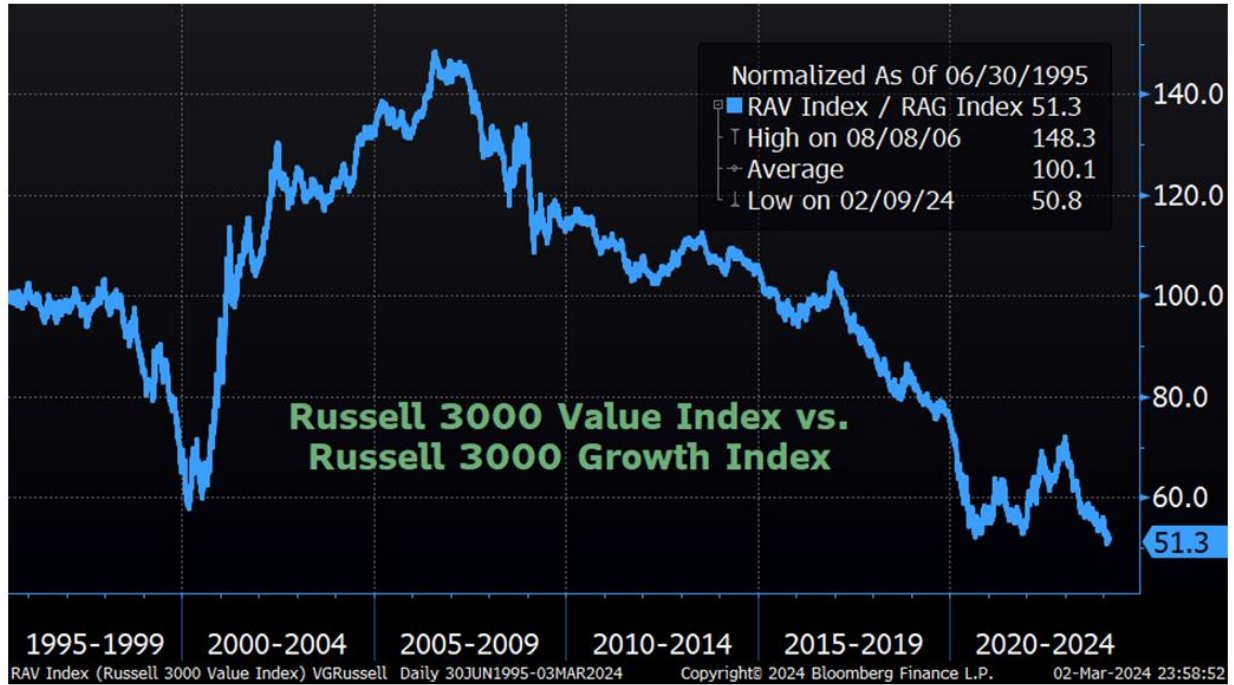


AAll Bull-Bear Spread Deciles & Subsequent Equity Returns

AAll Bull-Bear Spread											
Decile	Low	High	Count	R3K	R3K	R3K	R3K	R3K	R3K	R3K	R3K
	Reading of the Range	Reading of the Range		Next 1-Week Arithmetic Average TR	Next 1-Week Geometric Average TR	Next 1-Month Arithmetic Average TR	Next 1-Month Geometric Average TR	Next 3-Month Arithmetic Average TR	Next 3-Month Geometric Average TR	Next 3-Month Arithmetic Average TR	Next 6-Month Arithmetic Average TR
Below & Above Median Bull Bear Spread = 7.18											
BELOW	-54.0	7.2	954	0.24%	0.20%	1.18%	1.04%	3.48%	3.09%	6.64%	5.89%
ABOVE	7.2	62.9	953	0.19%	0.17%	0.57%	0.48%	1.95%	1.70%	4.59%	4.12%
Ten Groupings of 1907 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	-8.9	191	0.25%	0.22%	1.03%	0.89%	3.81%	3.44%	6.19%	5.42%
3	-8.9	-2.6	190	0.34%	0.30%	1.01%	0.90%	3.53%	3.14%	7.72%	7.02%
4	-2.6	2.6	191	0.17%	0.13%	1.01%	0.91%	2.47%	2.09%	5.22%	4.67%
5	2.7	7.1	190	0.03%	0.00%	0.65%	0.56%	2.73%	2.47%	5.03%	4.50%
6	7.2	11.9	191	0.16%	0.14%	0.63%	0.55%	1.97%	1.73%	4.75%	4.29%
7	11.9	16.1	191	0.21%	0.19%	0.59%	0.46%	2.41%	2.16%	5.21%	4.71%
8	16.1	21.8	190	0.15%	0.14%	0.89%	0.83%	2.23%	1.99%	5.74%	5.33%
9	21.9	29.0	193	0.17%	0.15%	0.43%	0.35%	1.72%	1.44%	4.71%	4.16%
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 2.29.24. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

...while we can't help but like that Value is as attractive today relative to Growth, as it was at the peak of the Tech Bubble in 2000,...



...with those ensuing years turning out very well for reasonably priced companies!



Despite enduring significant volatility along the way, not to mention suffering through a miserable 2002, 2008 and 2011, Value strategies performed admirably, with the S&P 500 Pure Value index the easy winner, following the bursting of the Tech Bubble in March 2000.

Total Returns Matrix Post March 31, 2000

Name	1-Year	3-Year	5-Year	7-Year	10-Year	15-Year	20-Year	Symbol
Dow Jones Industrial Average TR	-8.21	-22.70	6.14	30.81	25.09	132.79	224.39	DJITR Index
Russell 3000 Total Return Growth Index	-42.52	-58.70	-43.96	-31.70	-33.57	37.77	119.25	RU30GRTR Index
Russell 3000 Total Return Value Index	1.48	-17.20	33.14	76.71	41.17	167.78	190.12	RU30VATR Index
Russell 3000 Total Return Index	-22.26	-40.39	-11.79	12.17	-0.73	97.19	161.01	RU30INTR Index
S&P 500 Growth Total Return Index	-38.19	-50.50	-34.68	-23.23	-25.53	54.87	143.54	SPTRSGX Index
S&P 500 Value Total Return Index	-1.07	-30.12	10.04	46.09	15.97	114.98	154.67	SPTRSVX Index
S&P 500 Total Return Index	-21.68	-40.93	-14.84	6.40	-6.35	84.03	154.83	SPXT Index
S&P 500 Pure Growth Total Return Index	-31.60	-54.66	-26.15	-10.93	-8.12	119.03	177.90	SPTRXPG Index
S&P 500 Pure Value Total Return Index	23.92	3.59	103.40	183.68	140.69	438.00	352.33	SPTRXPV Index

Source Kovitz using data from Bloomberg. Forward returns starting 03.31.00

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 several of our recommendations.

New York Community Bancorp (NYCB – \$3.55) dropped another shoe Thursday afternoon when the embattled Northeast lender disclosed that CEO Thomas Cangemi has stepped down AND that the company’s 10-K filing would be delayed. The already battered shares plunged more than 25% on the latest dose of bad news.

We can't say the resignation of Mr. Cangemi is a big surprise (he will remain on the Board of Directors) as newly appointed CEO and former Flagstar leader Alessandro DiNello had been acting as the de-facto chief ever since the bombshell announcement at the end of January that there was a significant jump in charge-offs due to two loans that had gone bad, which led to a big dividend cut to help shore up capital.

However, it was the disclosures in an additional regulatory filing that the company would take a \$2.4 billion impairment to goodwill in Q4 2023 and this little nugget, "Management identified material weaknesses in the Company's internal controls related to internal loan review, resulting from ineffective oversight, risk assessment and monitoring activities," that again spooked investors.

We note that the goodwill charge was due to historical transactions from 2007 and prior, and seemingly was not related to the acquisition of assets from Signature Bank last year. In addition, management states, "The goodwill impairment has no impact on any of the company's regulatory capital ratios and does not have an impact on the company's compliance with covenants under any outstanding credit agreements. The impairment charge did not result in any current cash expenditures."

No additional financial impact is expected beyond the \$2.4 billion goodwill impairment charge that NYCB took for its fourth quarter. It is also worth noting that a disclosure of material weakness doesn't always equate to an impact on financials, while the company indicated that it expects to file its 10-K within the next two weeks.

The latest round of concerns also led to ratings downgrades from Moody's and Fitch, the latter sending NYCB's short and long-term debt from the lowest rung of investment grade (BBB-) to the top rung of high yield, or junk, BB+. Fitch said the recent disclosures and changes in senior and executive management as well as the material weakness led to the downgrade. However, Fitch also disclosed that it saw the appointment of Mr. DiNello as CEO as a positive.

Further, Fitch said it was constructive on NYCB's steps to finally announce a new Chief Risk Officer (George F. Buchanan III) and Chief of Audit (Colleen McCullum), both with decades of experience. These moves add depth of

experience to the executive team which is more in line with the bank's current size and increased complexity.

No doubt, the latest developments are not good news, especially for those of us who put our faith in the accuracy of financial statements filed with the SEC, and we have decided to give our Target Price for NYCB a major whack, dropping it to \$7 from the prior \$10. For the moment, our plan is to hold onto our current position as adjusted book value is more than three times the current market capitalization of the stock, it doesn't appear that the incidence of weakness in controls puts a limit on business/lending activities and there was no mention of the new \$0.05 per share quarterly dividend being in jeopardy.

The company also claims that it will soon have a remediation plan with respect to its material weaknesses issue, which will be described in the 10-K filing. Finally, we can't forget that it was just three weeks ago that Mr. DiNello bought 50,000 NYCB shares at an average price of \$4.19, while several other insiders made smaller purchases.

Nonetheless, our patience has certainly been tested and grown much thinner and our continued ownership of NYCB is tenuous.

The Federal Trade Commission, along with eight states and Washington D.C. joined in a suit to block the merger of **Kroger** (KR – \$49.16) and Albertsons last Monday in a Portland, Oregon Federal Court. The objection is unsurprising given the current administration's repeated opposition to tie-ups and allegations that marriage would negatively impact consumers from lower competition on price and quality.

But it's a view that the merger would affect the leverage each company has over workers' wages and benefits that may have the largest teeth, in our view. Indeed, given that the two grocers' workforces are predominantly unionized, there would be less negotiating power with one employer vs. two. Still, labor unionization is something the largest grocery players (Walmart, Amazon, Costco, etc.) – whose size would continue to dwarf even a KR/Albertsons tie/up – have been able to avoid thus far.

Shares fell initially on the news but rallied to close the week higher by nearly 2%. We view the combination as a positive for shareholders, thinking the larger entity would have deeper pockets to improve upon its logistical

networks and better compete with the largest players. Either way, however, we continue to like Kroger's place in our portfolio given the elevated shopping experience it generally provides to customers along with its competitive portfolio of house brands. Shares trade for about 11 times EPS figures projected for the next few years and boast a 2.4% dividend yield. Our Target Price is \$66.

Volkswagen AG (VWAPY – \$12.94) shares slipped 4.4% after the German carmaker reported preliminary annual results for 2023 and offered weaker-than-expected guidance. Volkswagen saw its sales grow by 15% to EUR 322 billion in 2023, which the company attributed to more deliveries, a better product mix and pricing improvements.

CEO Oliver Blume said, "2023 was an important year for the Volkswagen Group in terms of our realignment. Last year, we continued to implement our 10-point program and the performance programs. The clean-up work has been completed. The main course has been set for the restructuring of the Volkswagen Group. We can build on this in 2024 and have a solid basis for an accelerated ramp-up from 2025."

CFO and COO Arno Antlitz added, "The results for the 2023 financial year show that we have become even more robust. We have excellent products and have launched ambitious Group-wide efficiency programs. Therefore, we are confident about 2024, despite the muted economic outlook and intense competition. On that basis, we will consistently drive the transformation of the Volkswagen Group forward. We expect a tailwind from a large number of new product launches, a positive trend in product costs and continued cost discipline. Our flexibility is our strength: we are continuing to invest in the electrification and digitalization of our product range, while simultaneously keeping our combustion vehicles competitive during the transition phase."

Volkswagen also offered the 2024 outlook, which included 5% revenue growth and an "operating return on sales" range between 7.0% and 7.5%. The Automotive division is expected to have cash flow between EUR 4.5 billion and EUR 6.5 billion with investments and M&A for the battery business. The press release also noted, "Challenges will arise in particular from the economic situation, the increasing intensity of competition, volatile commodity, energy and foreign exchange markets, and more stringent emissions-related requirements."

The update was not well-received by traders and resulted in a slew of analyst notes that were neutral to somewhat negative. Analysts were also disappointed by Volkswagen's missing share buyback announcement and wondered why there was a disconnect between the company's strong cash flow generation and lack of share repurchases like competitors.

Our ownership of Volkswagen has been a series of struggles, despite it being initiated comfortably after the DieselGate scandal and with VW being early to the EV rush. Of course, the latter is a massive change when it comes to technology and infrastructure, so we didn't expect a rapid adoption, but the market seems to have little confidence that the automaker can hit some of its financial targets. For their patience while Volkswagen works to hit its operational and financial stride, shareholders earn a yield in excess of 5%. Our Target Price for VWAPY has been trimmed to \$21, down from \$22.

Shares of **Lowe's** (LOW – \$244.69) gained 5% last week after the home improvement retailer reported fiscal Q4 results that exceeded investor expectations. For the three-month period, adjusted EPS came in at \$2.28 per share, which was far ahead of the \$1.68 analyst consensus estimate. Net sales were \$18.6 billion, which beat the average forecast of \$18.5 billion. U.S. comparable store sales declined 6.2% due to cautious home improvement spending and harsh weather impacting broad swathes of the U.S. Management offered its 2025 financial outlook. Revenue is expected to come in between \$84 billion and \$85 billion. Earnings per share is expected to come in at \$12.15 plus or minus \$0.15.

CEO Marvin Ellison explained, "Microeconomic factors like persistent inflation and a stagnant housing market continue to make DIY customers and consumers hesitant to spend on big-ticket purchases for their homes. And those who did engage in home improvement activities took on smaller non-discretionary projects with a heightened focus on value. This impacted demand for bigger-ticket interior categories like kitchen and bath, flooring and appliances...[on the macro front], the consumer is financially healthy, but in this post-pandemic timeframe, customers are still showing a preference for spending on services with elevated demand for travel, restaurants, and other experiences. And while we anticipate these trends will normalize, the timing is uncertain. Also, existing home sales are at levels we've not seen in almost 30 years. And even as mortgage rates decline, two-thirds of homeowners remain locked in at rates below 4%, which may keep many on

the sidelines. Due to these factors, we expect DIY demand to remain under pressure. However, we're very confident in our strategic plan and in our ability to execute at a high level in a multitude of economic environments...we remain bullish on the medium and long-term outlook for home improvement."

In 2023, the company generated \$6.2 billion in free cash flow and returned \$8.9 billion to shareholders through share repurchases and dividends. In Q4, LOW spent \$404 million on 1.9 million shares and paid \$632 million of dividends at \$1.10 per share.

Lowe's will need to continue to adjust to the potential for higher-for-longer interest rates and management said they are uncertain how customers will react to rate changes. Still, we know that there are still underlying housing fundamentals that support opportunities for growth, though it may not be a straight path to a longer-cycle boom for Lowe's. We continue to like that Lowe's is focused on improving its return on invested capital, streamlining the business, investing in the Pro business and returning capital to shareholders. Shares trade for 20 times the NTM P/E multiple and offer a 1.8% dividend yield. Our Target Price has been lifted to \$265.

Civitas Resources (CIVI – \$70.81) said it earned \$3.20 per share in Q4, well above the consensus forecast of \$2.74. Production reached 279,000 barrels of oil equivalent (BOE) per day in the quarter, with strong performance in the DJ Basin, particularly in the Watkins area. Facility upgrades in the Delaware (a higher oil-cut area of production for Civitas) impacted premium production, but Permian production has averaged 120,000 BOE per day since 2020, with 50% being oil. The company assumed operatorship of Midland Basin assets late in the quarter, showing early positive results with increased efficiencies, and complete control of the Delaware operations was established in February. Year-end 2023 proved reserves rose by 70% to nearly 700 million BOE, driven by acquisitions.

CEO Chris Doyle said, "A year ago, Civitas was a small cap, single basin company focused solely on the DJ. Production was approximately 170,000 barrels of oil equivalent per day. And while our DJ Basin assets were and continue to perform exceptionally well, we have limited flexibility in how we allocate our capital. Using our strategic pillars as our North Star, we've been working to enhance the Civitas investment thesis and portfolio for nearly two years now. Being on the forefront of this consolidation wave, we looked at a

significant number of opportunities to diversify, scale, and strengthen our business.”

He added, “During 2023, our team successfully entered a second world-class basin, the Permian, through three separate large-scale transactions, all at compelling valuations. The transactions added scale and diversified our operations across two of the lowest break-even oil basins in the U.S., as we more than doubled our production, doubled our reserves, and doubled our inventory of high return development wells. We have all of the key ingredients to deliver long-term value for our shareholders. An exceptional team, high-quality assets, inventory depth, a strong balance sheet, significant free cash flow, a track record return of that cash to owners through cycle. We’ve significantly transformed Civitas over the last year, and our future has never been brighter.”

Civitas also said it entered a definitive agreement to repurchase approximately 876,000 shares of its common stock at a price of \$64.54 per share from NGP Tap Rock Holdings, LLC and certain of its affiliates. The transaction is expected to close this month.

Shares rallied nicely on the report but are well off the high from September to trade for a mid-single-digit P/E ratio. We find the multiple remarkably low even as management makes forecasting earnings an even more difficult task by regularly adding to the share count in recent years and leveraging the balance sheet in the latest quarters. Still, CIVI claims to have industry-low lease-operating and per-barrel expenses with balanced production of oil, gas and natural gas liquids, and we can’t help but like the fixed-plus-variable lucrative dividend policy. Annualizing the most recent \$1.45 per share Q1 payout puts the effective yield above 8%. Our Target Price has been raised to \$104.

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