Market Commentary Monday, March 11, 2024

March 11, 2024

EXECUTIVE SUMMARY

Newsletter Trades – Numerous Transactions Across 4 Portfolios

Interest Rates – Yields Fall; Fed on Track to Cut Rates in the Not-Too Distant Future

Econ News – Mixed Numbers but Modest GDP Growth in '24 Still Likely

Corporate Profits – Solid Growth this Year and Next the Forecast

Valuations – Value Stocks Attractively Priced

Sentiment – Lots of Optimism

Market of Stocks – Median Stock Still Down on the Year

Stock News – Updates on CMI, NYCB, ALB, TGT, JWN, FL, DHLGY, AVGO & KR

Market Review

As discussed in the March edition of *The Prudent Speculator* and on our *Sell Alerts*, we made the following trades last week in our two real-money portfolios.

TPS Portfolio
03.05.24: Bought 213 **Corning** (GLW – $32.71) at $32.7658
03.05.24: Bought 532 **Newmont** (NEM – $33.91) at $33.64
03.05.24: Bought 83 **Air Products** (APD – $241.61) at $239.4043
03.05.24: Sold 121 **NetApp** (NTAP – $103.26) at $102.4205
03.07.24: Sold 96 **Micron Tech** (MU – $97.62) at $98.5535
03.07.24: Sold 12 **Broadcom** (AVGO – $1,308.72) at $1,397.475

Buckingham Portfolio
03.05.24: Bought 245 **Devon Energy** (DVN – $46.16) at $45.165
03.05.24: Bought: 448 **Fresh Del Monte** (FDP – $24.76) at $24.5193
03.05.24: Sold 14 **NetApp** (NTAP – $103.26) at $102.4205
03.07.24: Sold 23 **Micron Tech** (MU – $97.62) at $98.5535

In our hypothetical portfolios, we had the following trades:

Millennium Portfolio
03.05.24: Bought 76 **HP Enterprise** (HPE – $17.99) at $17.0104
03.05.24: Bought 146 **Pinnacle West Capital** (PNW – $71.70) at $69.37
03.07.24: Sold 60 **Micron Tech** (MU – $97.62) at $98.5535
03.07.24: Sold 7 **Broadcom** (AVGO – $1,308.72) at $1,397.475

PruFolio
03.05.24: Bought 150 **American Tower** (AMT – $207.31) at $205.42
03.05.24: Bought 242 **Allianz** (ALIZY – $28.27) at $27.5225
03.07.24: Sold 113 **Micron Tech** (MU – $97.62) at $98.5535
03.07.24: Sold 12 **Broadcom** (AVGO – $1,308.72) at $1,397.475

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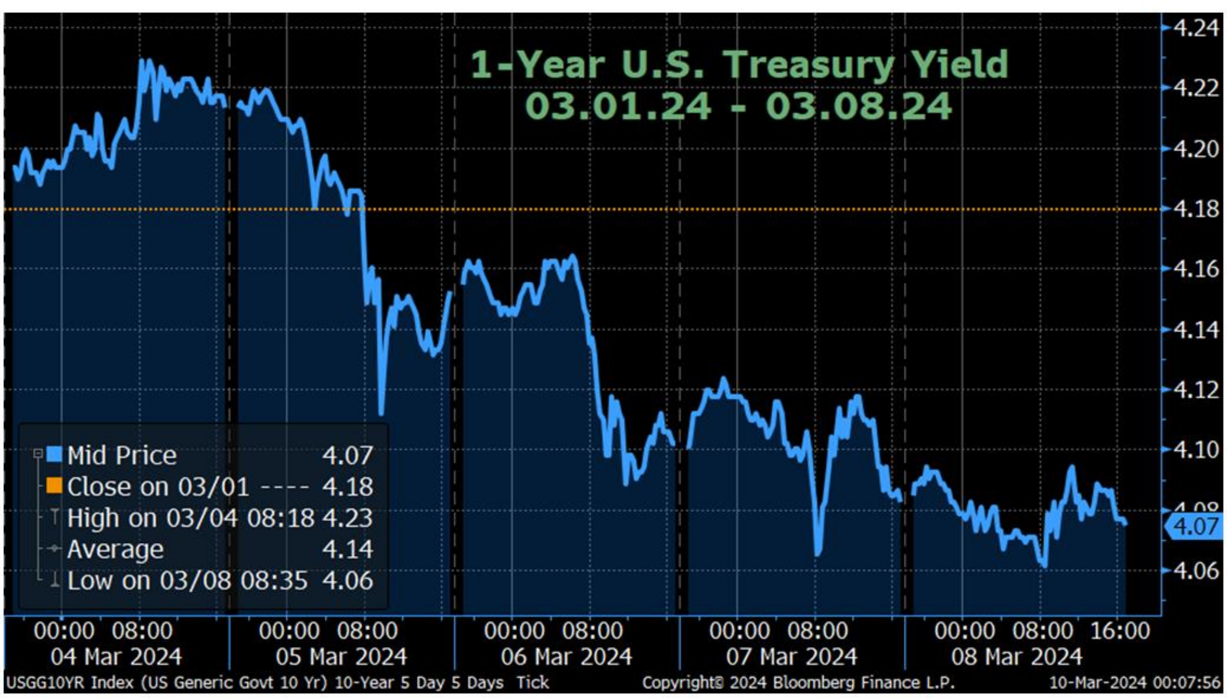
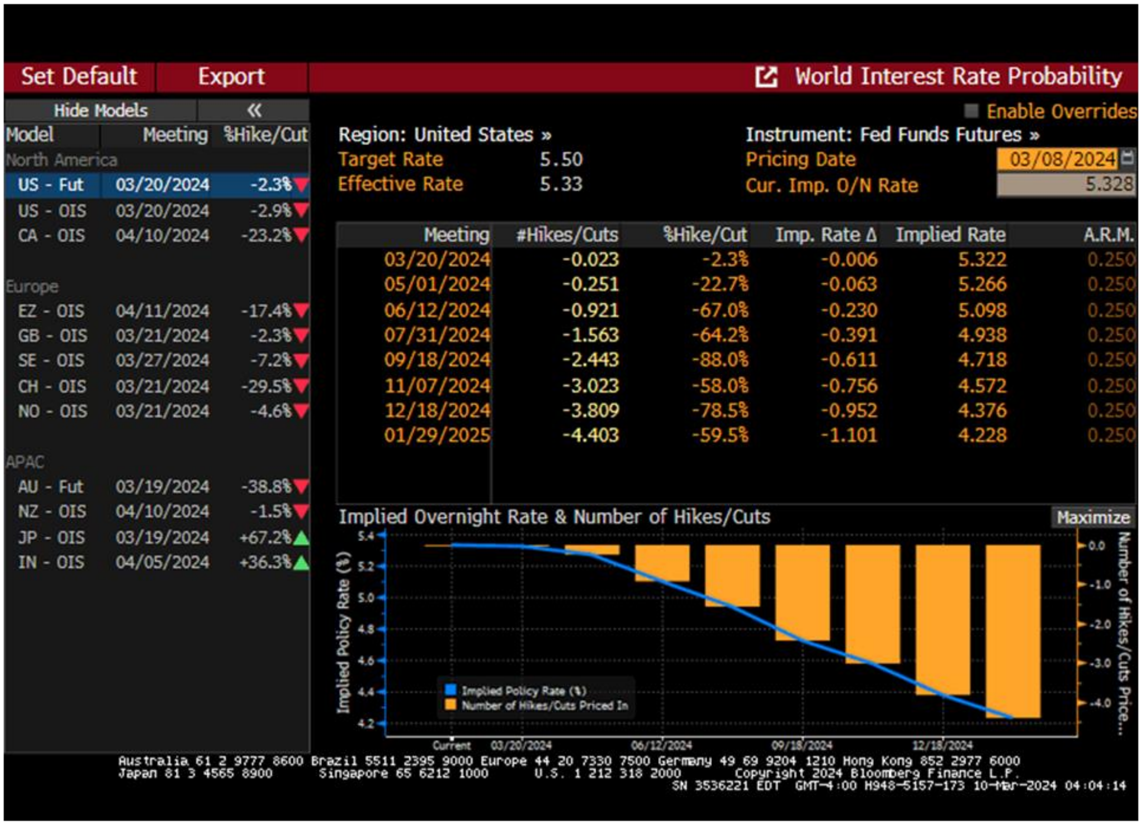
With the yield on the benchmark 10-Year U.S. Treasury dipping to 4.07%, down from 4.18% the week prior,...

THE PRUDENT SPECULATOR



...it would seem that bond traders took a glass-half-full view of Jerome H. Powell's trip to Capitol Hill last week, as the betting on the year-end Fed Funds rate targeted 4.38%, down from 4.42% at the end of the preceding week.

THE PRUDENT SPECULATOR



On the subject of potential interest rate cuts, the Fed Chair told the House Financial Services Committee, "We want to see a little bit more data so that we can become confident. We're not looking for better inflation readings than we've had. We're just looking for more of them." Of course, most are of the mind that rates will be coming down. The question is the timing and frequency of the reductions as the last Fed projections (now nearly three months old) suggested a 4.6% year-end Fed Funds rate.

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

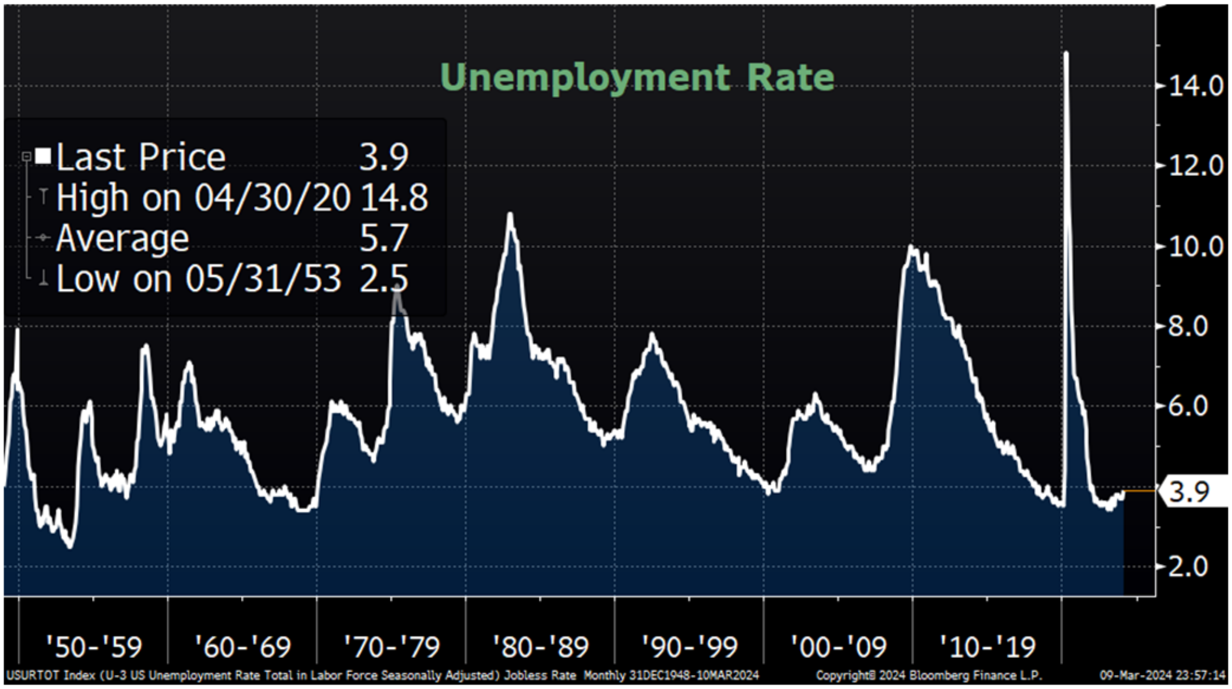
Percent

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

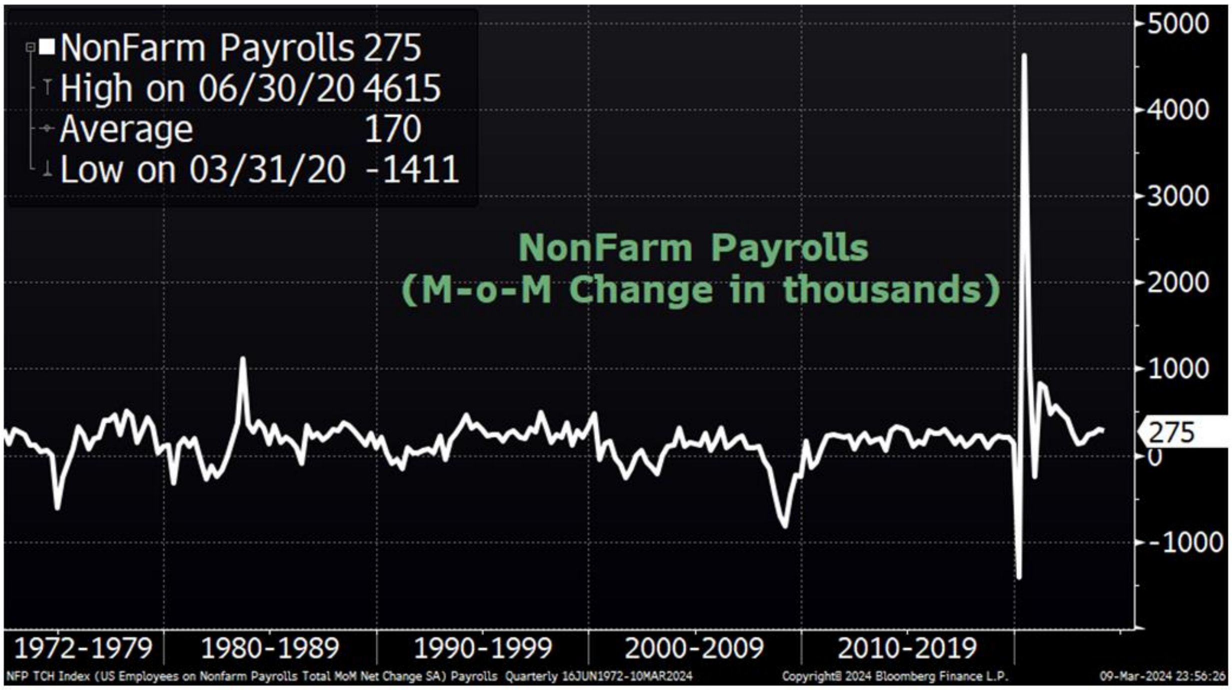
NOTE: Projections of change in real gross domestic product (GDP) and projections for both measures of inflation are percent changes from the fourth quarter of the previous year to the fourth quarter of the year indicated. PCE inflation and core PCE inflation are the percentage rates of change in, respectively, 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.

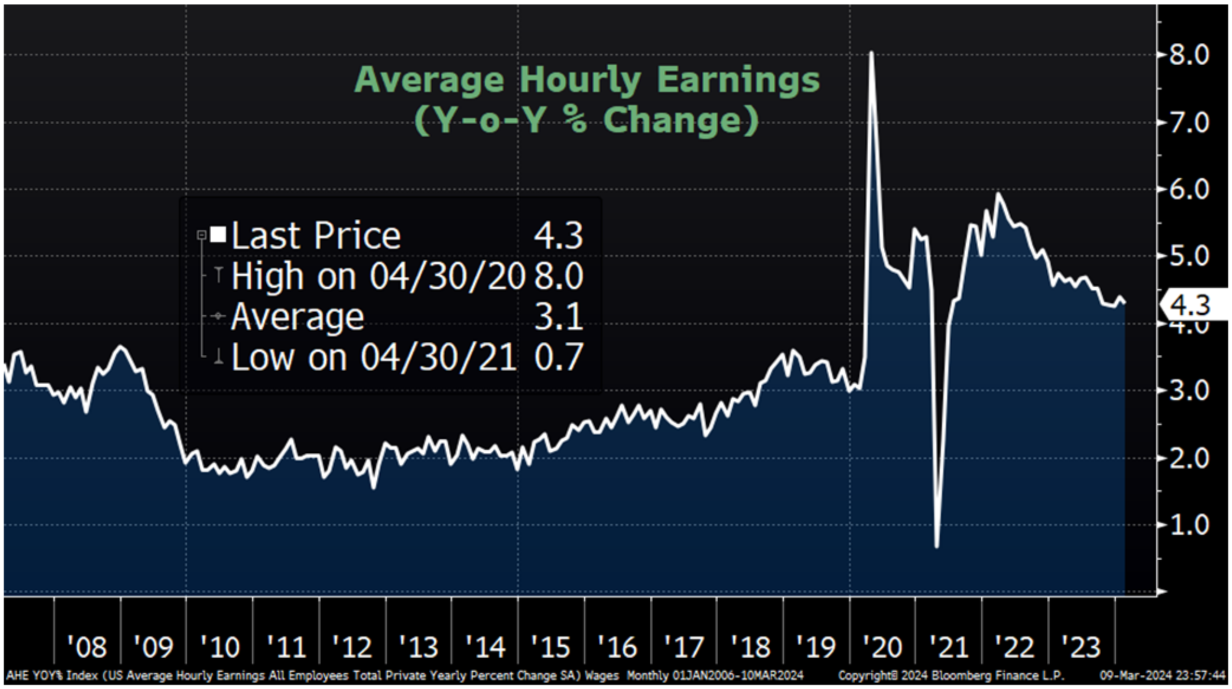
Those Fed forecasts also called for a 4.1% unemployment rate and last week's big labor numbers for February saw a higher-than-expected jobless figure of 3.9%,...



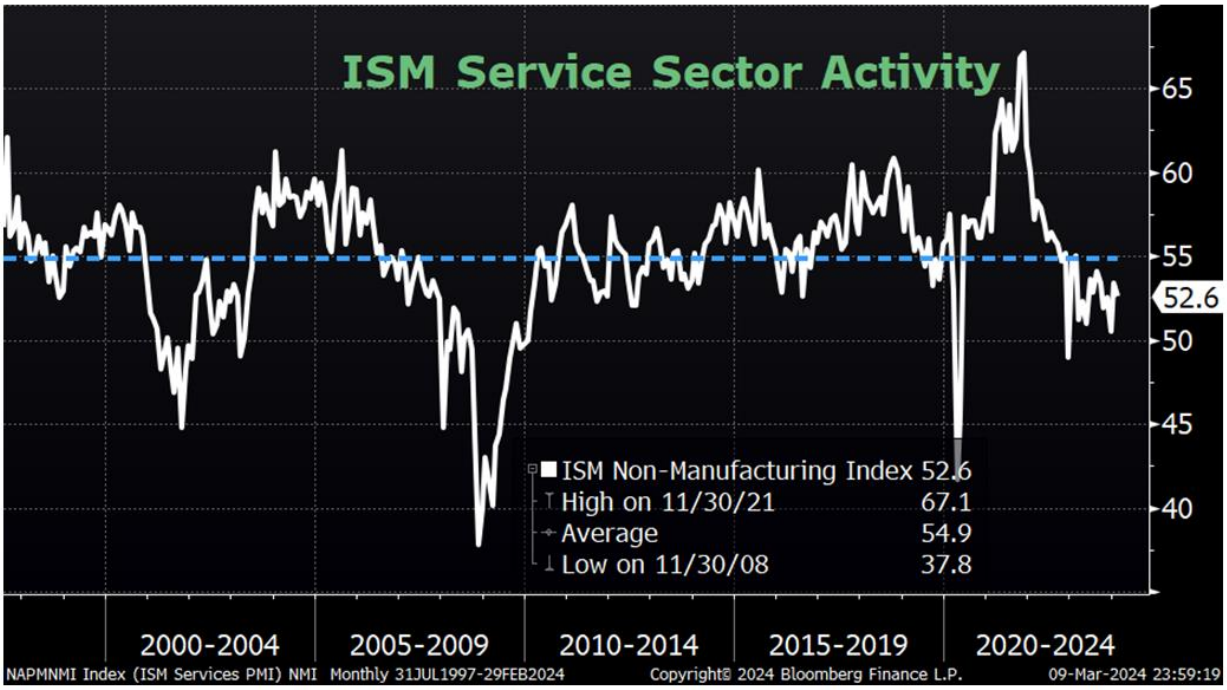
...even as the tally of new payrolls exceeded expectations of 200,000 with an increase of 275,000.



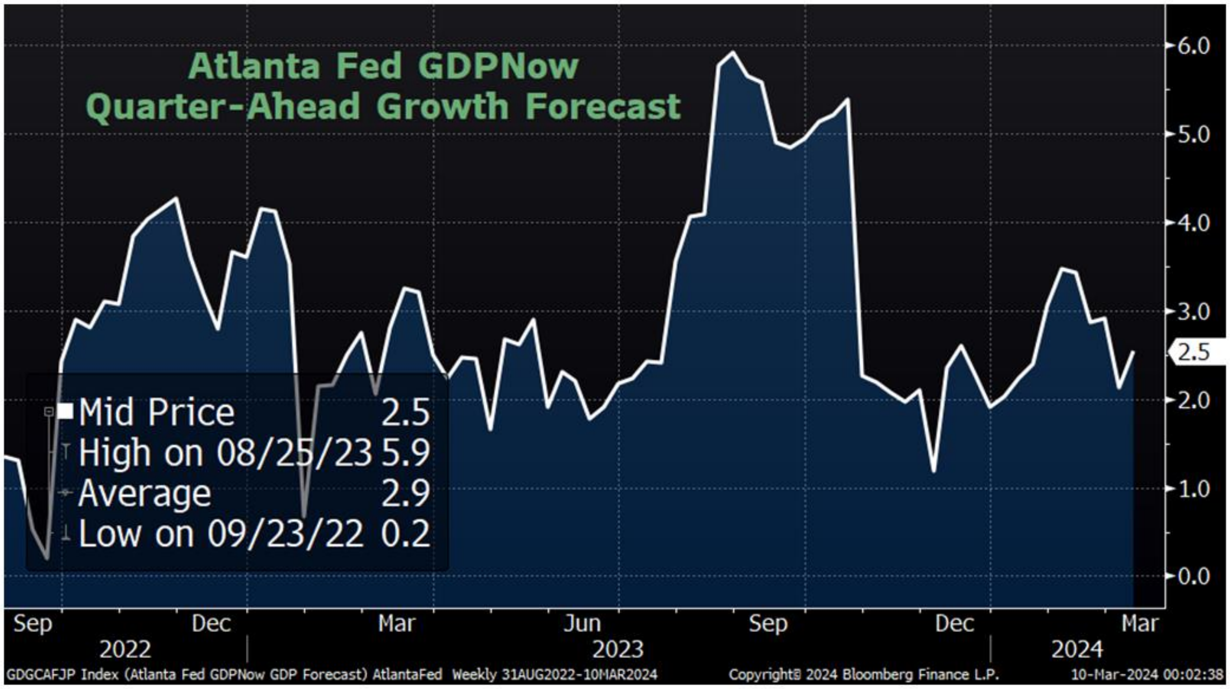
Wage growth on a year-over-year basis of 4.3% was in line with expectations and was down from 4.5% in January, supporting the argument that inflation data continues to head in the right direction.



On the GDP side of the economic equation, the estimates from the Fed for 1.4% real (inflation-adjusted) growth this year remains reasonable. After all, the important Institute for Supply Management reading on the health of the services sector for February came in at 52.6, down from 53.4 in January and below estimates of 53.0. The keeper of the non-manufacturing gauge explained, “A Services PMI® above 49 percent, over time, generally indicates an expansion of the overall economy. Therefore, the February Services PMI® indicates the overall economy is growing for the 14th consecutive month after one month of contraction in December 2022. The past relationship between the Services PMI® and the overall economy indicates that the Services PMI® for February (52.6 percent) corresponds to a 1.2-percent increase in real gross domestic product (GDP) on an annualized basis.”

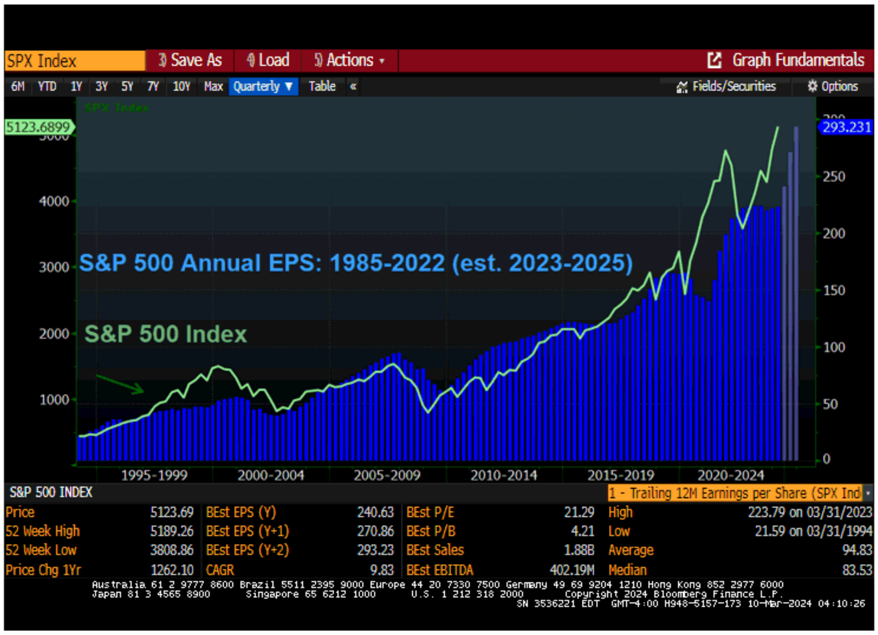


No doubt, given that the latest projection for Q1 real GDP growth from the Atlanta Fed stood at 2.5%,...



…the thinking is that the economy will expand moderately as we move through the year, and the consensus is that a recession will not take place as evidenced by *Bloomberg's* current tabulation of the odds of contraction this year standing at 40%.

Certainly, there is no recession on the horizon on the corporate profit front, at least according to current EPS projections from Standard & Poor's for 2024 and 2025...

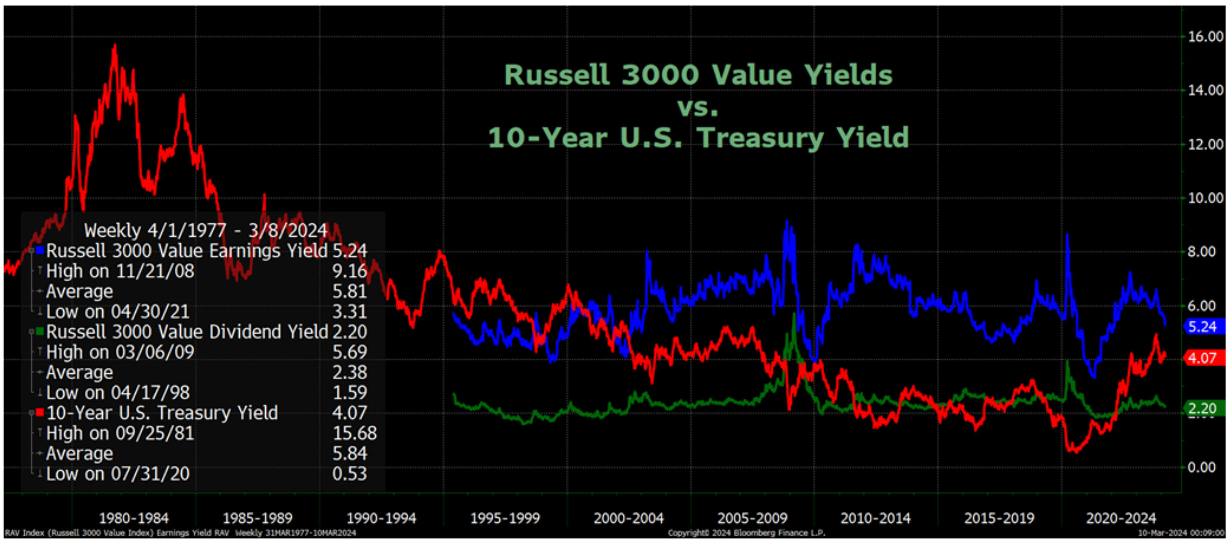


S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2025	$72.56	$274.04
9/30/2025	$70.96	$266.03
6/30/2025	$67.20	$258.01
3/31/2025	$63.32	$249.56
12/31/2024	$64.55	$240.81
9/30/2024	$62.94	$230.46
6/30/2024	$58.75	$219.77
3/31/2024	$54.57	$215.86
12/31/2023	$54.20	$213.83
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

Source: Standard & Poor's. As of 3.6.24

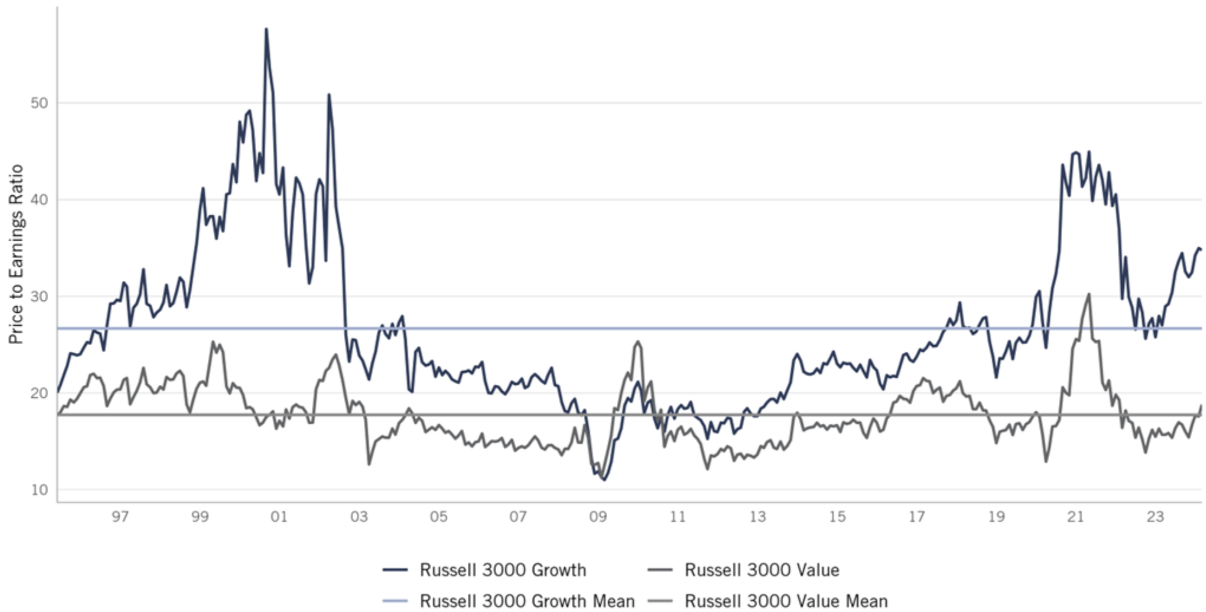
…which we think bolsters the earnings/dividend yields valuation argument for reasonably priced stocks like those that we have long championed,…

While the Earnings Yield, which is the inverse of the P/E ratio, on the S&P 500 (4.08%) is still reasonable relative to the current (and well below average) 4.07% 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 (5.24%) AND dividend yield (2.20%) near the historical norms for those measures dating back to 1995.



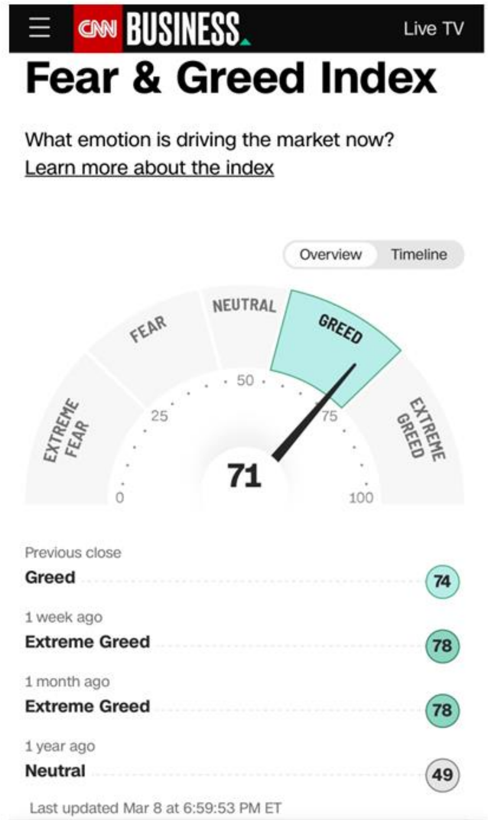
...as well as the relative P/E ratio argument.

Valuation Comparison: Price to Earnings



From 05.31.95 through 02.29.24. SOURCE: Kovitz using data from Bloomberg Finance L.P.

True, some have become concerned that there is too much optimism for stocks, be it this weekend's bullish *Barron's* cover story, the *CNN Fear & Greed* index,...



...or the latest weekly AAII Investor Sentiment survey,...

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.

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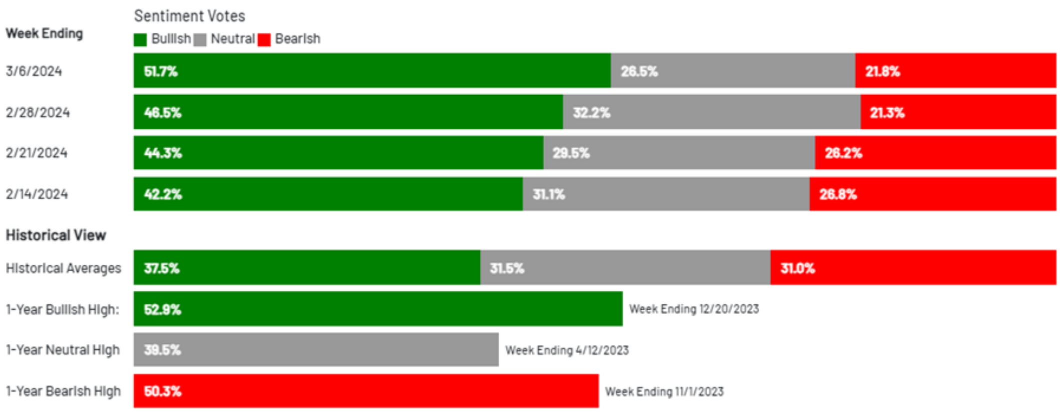
What Direction Do AAII Members Feel The Stock Market Will Be In The Next 6 Months?



…but 37 years of market history supports sticking with stocks no matter the mood of Main Street.

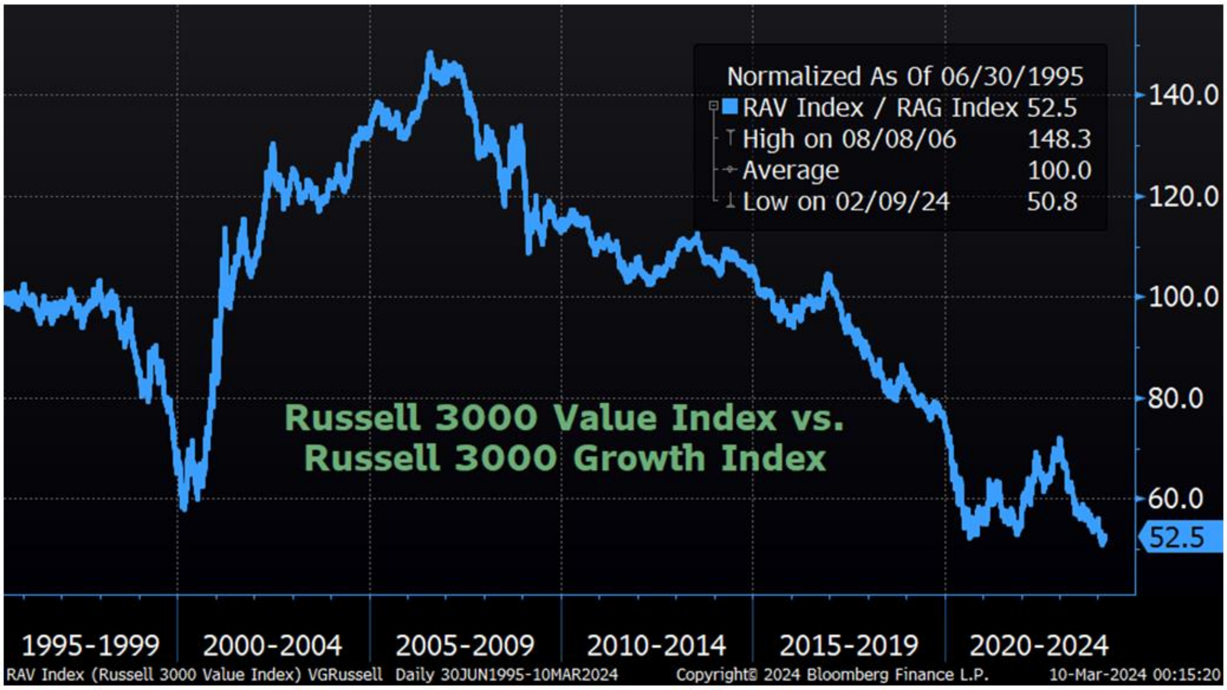
AAII Bull-Bear Spread Deciles & Subsequent Equity Returns

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 = 7.19										
BELOW	-54.0	7.2	954	0.24%	0.20%	1.18%	1.04%	3.48%	3.09%	6.65%	5.90%
ABOVE	7.2	62.9	954	0.19%	0.17%	0.47%	-100.00%	1.96%	1.71%	4.60%	4.13%
	Ten Groupings of 1908 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	191	0.34%	0.30%	0.97%	0.86%	3.44%	3.04%	7.58%	6.87%
4	-2.6	2.6	190	0.17%	0.13%	1.04%	0.94%	2.56%	2.18%	5.43%	4.89%
5	2.7	7.2	191	0.03%	0.00%	0.68%	0.59%	2.76%	2.50%	5.08%	4.55%
6	7.2	11.9	191	0.10%	0.08%	0.43%	0.31%	1.86%	1.62%	4.68%	4.22%
7	11.9	16.1	190	0.27%	0.26%	0.77%	0.67%	2.49%	2.24%	5.31%	4.81%
8	16.1	21.9	191	0.15%	0.13%	0.88%	0.81%	2.23%	1.99%	5.75%	5.34%
9	21.9	29.0	192	0.18%	0.16%	-0.06%	-100.00%	1.72%	1.43%	4.70%	4.14%
10	29.0	62.9	190	0.24%	0.22%	0.31%	0.24%	1.50%	1.28%	2.57%	2.13%

From 07.31.87 through 3.7.24. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

This is especially true today, in our view, as despite a solid five days of outperformance for Value stocks last week, the Russell 3000 Value index remains near its lowest relative value ever versus the Russell 3000 Growth index,...



...while the median stock this year is still in the red.

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 many of the smaller constituents have been big laggards, suggesting to us that these and other companies that have missed the rally 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 2952	100.0	**-0.2**	19.1	16.3	1.9	2.2	1.58	2952
Largest 10	27.7	**14.2**	33.0	25.4	8.3	8.8	0.40	10
Top 11-20	8.5	**8.9**	24.9	23.8	4.6	7.0	1.64	10
Top 21-30	5.5	**11.7**	38.3	27.3	4.5	8.6	1.68	10
Top 31-40	4.3	**11.5**	24.0	21.5	5.2	5.4	2.03	10
Top 41-50	3.5	**8.4**	27.5	21.4	3.1	7.3	1.89	10
Largest 50	49.6	**10.1**	28.2	23.8	5.2	8.0	1.53	50
Next 950	46.2	**4.8**	22.5	18.8	2.6	3.4	1.64	950
Bottom 1952	4.2	**-3.7**	16.0	14.1	1.6	1.7	1.56	1952
Market of Stocks - Russell 3000 Value								
All Value	100.0	**-0.5**	16.9	14.6	1.9	1.7	1.90	2260
Largest 10 Value	16.2	**10.7**	15.7	13.1	1.7	2.0	2.44	10
Market of Stocks - Russell 3000 Growth								
All Growth	100.0	**1.2**	24.3	20.7	2.6	4.1	0.82	1506
Largest 10 Growth	49.7	**11.8**	40.6	28.8	8.3	6.0	0.40	10

From 12.31.23 - 3.8.24. Source: Kovitz using data from Bloomberg.

We always are braced for downside volatility as ups and downs are what investors must accept in order to achieve terrific long-term returns from equities,...

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%	73.8%	823	8	2.8	9/30/2022	3/7/2024
17.5%	53.5%	532	13	2.0	9/30/2022	3/7/2024
15.0%	48.1%	452	15	1.7	9/30/2022	3/7/2024
12.5%	46.0%	428	16	1.6	9/30/2022	3/7/2024
10.0%	29.4%	233	30	0.9	10/27/2023	3/7/2024
7.5%	21.3%	144	51	0.5	10/27/2023	3/7/2024
5.0%	13.5%	71	104	0.3	10/27/2023	3/7/2024

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 03.07.24. 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 in 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

...but we sleep well at night with our risk mitigation efforts that include buying and patiently harvesting inexpensively priced 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	17.3	14.6	0.9	2.4	2.6
ValuePlus	16.6	14.4	1.2	2.3	2.4
Dividend Income	15.3	14.2	0.8	2.1	3.0
Focused Dividend Income	17.2	13.9	1.1	2.4	3.0
Focused ValuePlus	17.4	14.3	1.3	2.6	2.6
Small-Mid Dividend Value	12.0	11.6	0.5	1.5	3.0
Russell 3000	25.4	21.5	2.5	4.2	1.4
Russell 3000 Growth	34.9	28.5	4.4	11.3	0.7
Russell 3000 Value	19.1	16.6	1.6	2.4	2.2
Russell 1000	24.9	21.3	2.6	4.5	1.4
Russell 1000 Growth	34.0	28.1	4.6	12.2	0.7
Russell 1000 Value	18.8	16.5	1.7	2.5	2.2
S&P 500 Index	24.5	21.3	2.7	4.7	1.4
S&P 500 Growth Index	33.6	27.9	5.8	10.7	0.7
S&P 500 Value Index	18.7	16.7	1.7	2.8	2.3
S&P 500 Pure Value Index	11.2	10.5	0.5	1.3	2.8

As of 03.09.24. 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.

...and maintaining a long-term time horizon.

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 4.07% yield on the 10-year U.S. Treasury increase markedly as the level of patience rises.

PATIENCE IS VIRTUOUS

VALUE STOCKS

	Count >4.07%	Count <=4.07%	Percent >4.07%
1 Month	704	455	60.7%
3 Months	735	422	63.5%
6 Months	760	394	65.9%
1 Year	772	376	67.2%
2 Year	862	274	75.9%
3 Year	925	199	82.3%
5 Year	937	163	85.2%
7 Year	969	107	90.1%
10 Year	984	56	94.6%
15 Year	953	27	97.2%
20 Year	920	0	100.0%

DIVIDEND PAYERS

	Count >4.07%	Count <=4.07%	Percent >4.07%
1 Month	697	462	60.1%
3 Months	738	419	63.8%
6 Months	770	384	66.7%
1 Year	795	353	69.3%
2 Year	881	255	77.6%
3 Year	893	231	79.4%
5 Year	913	187	83.0%
7 Year	950	126	88.3%
10 Year	940	100	90.4%
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

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.

Cummins (CMI – $268.60) has offered to exchange shares of its stock with those of its Atmus Filtration (ATMU – $23.86) spin-off, with an incentive to receive approximately $107.53 of the latter for every $100 of the former. The terms are subject to an upper limit of 13.3965 shares of Atmus common stock based on volume-weighted average prices of both CMI and ATMU on March 7, 8 & 11.

As tempting as it may be to trade $100 for $107, there is no assurance that this may work out as hoped given the uncertainty associated with trading over the observed trading window, and the timing of when we might receive shares of ATMU.

Of course, we also considered the prospects of ATMU as a standalone entity. While shares appear inexpensive to us, we find any favorability in that regard over CMI as marginal at best, while we continue to like our exposure to the parent company. All that considered and taking into account the challenging experiences spin-offs of this nature have had in the past, we have elected to stand pat with what we have, meaning we will not participate in the tender.

Cummins' boasts a position as a leading, profitable maker of critical components in the industrial supply chain. With the latest transaction an effort to shed non-core assets in favor of its bread-and-butter operations, we also appreciate that management has historically endeavored to return 50% of operating cash flow to shareholders. Shares trade below the long-run average P/E multiple and yield 2.5%. Our Target Price for CMI is presently $326.

The **New York Community Bank** (NYCB – $3.42) saga took an even more dramatic turn last week with numerous trading halts for the stock on Wednesday culminating in the news that a consortium of boutique investment firms would infuse over $1 billion into the beleaguered bank. The consortium, which was led by former U.S. Treasury Secretary Steven Mnuchin's Liberty Strategic Capital, included Hudson Bay Capital and Reverence Capital Partners, and will buy common shares at $2.00 apiece. It will also receive convertible preferred stock with a conversion price at $2.00 and warrants with an exercise price of $2.50 per share.

Aside from ownership, the group reshuffled the bank's board and installed its own Chief Executive in Joseph Otting, who was the former head of the OCC. Messrs. Mnuchin and Otting had collaborated previously in the takeover and transformation of failed subprime lender IndyMac Bank that resulted in the duo selling it six years later for nearly double their purchase price.

The equity infusion follows the recent installation of experienced industry veterans as Chief Risk Officer and Chief of Audit, the replacement of former CEO Tom Cangemi and the announcement that the bank had identified “material weaknesses” in how it tracks loan risks. The latter move prompted credit-rating agencies to rate the bank’s credit status as junk, and Moody’s Investors Service had predicted the company may set aside more money for souring loans over the next two years. But after Wednesday, Moody’s had once again placed the bank’s debt under review, suggesting a possible upgrade may be on the horizon.

We find the news tremendously positive for the viability of NYCB as it all but rules out failure, even with lots of uncertainty for the future, as the bank’s exposure to rent-controlled apartments and office real estate is still potentially problematic. Of course, the price tag was very steep as the Mnuchin group has made a fortune on paper in a couple of days while existing shareholders saw more red ink last week and the dividend was again slashed, this time to $0.01 per share per quarter. So, while we are intrigued by the long-term prospects of the much-better-capitalized bank, the upside potential for our investment has been greatly diminished given the substantial dilution to our ownership. Our Target Price is now $6 and our grip on our shares remains tenuous, especially in income-focused managed accounts.

Albemarle (ALB – $118.33) announced that it would issue depositary shares representing a fractional (1/20) interest in a Series A convertible preferred stock offering with a 7.25% coupon. The issuance was upsized from the initial amount disclosed on Wednesday based on demand that would raise $1.9 billion of capital (net of bankers’ fees) and add between 15 million and 18 million of common shares to the float depending on where the stock trades on an automatic conversion date in March 2027.

Volatile shares of the lithium producer sank about 20% the day of the initial announcement, wiping out the rally since Halloween, but gained back some of the lost ground in the back half of the week.

Albemarle says it intends to use the net proceeds from the offering for general corporate purposes, which include funding growth capital expenditures, such as the construction and expansion of lithium operations in Australia and China that are significantly progressed or near completion, as well as repayment of outstanding commercial paper.

Last month, we noted that 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, it came to no surprise that ALB's bottom line has retreated markedly over that period. We are disappointed that the company has resorted to dilution of common equity owners to fund its growth. But as is not infrequently the case, we think the reaction last week was overdone while shares already traded for a meaningful discount to our estimation of fair value. ALB is priced at less than 10 times long-term profit projections even as we realize that the near term will continue to be very lumpy. Our Target Price for ALB is now $252.

Target (TGT – 169.72) turned in a Q4 report card last week that revealed 42% and 58% respective EPS growth, sequentially and versus a year ago. The better numbers for the discount retailer came despite a 5.4% decline for comparable sales in the period. For all of 2023, sales came in below management's guidance while the bottom-line performance exceeded its expectations, which it attributed to significant improvement in operating margin and dollar growth of nearly $2 billion from better inventory management, reduced markdown rates and lower freight costs. Inventory shrink remains an issue, which management estimates has detracted from operating margin by 1.2 percentage points over a four-year period.

Reflecting on the last decade, CFO Michael Fiddelke highlighted Target's transformative journey in the rapidly changing retail landscape. Despite facing challenges initially, the business achieved substantial growth, with U.S. sales increasing by about $34.5 billion, representing an average growth rate of 4% per year. Digital sales grew significantly, becoming nearly 13 times larger over the decade, with same-day services contributing $12.5 billion. Bottom-line results also demonstrated strong performance, with adjusted EPS growing by an average of 7.6% per year.

CEO Brian Cornell added, "Our team's efforts changed the momentum of our business, further improving our sales and traffic trends in the fourth quarter while driving profitability well ahead of expectations. Throughout the season, guests responded to newness, value, and the inspiration and ease of our in-store and digital shopping experience. Looking ahead, we'll continue to invest in the strengths and differentiators that have delivered strong financial performance over time. We'll also roll out fresh innovations, including our new Target Circle membership program, as part of our roadmap for growth aimed at meeting consumers where they are, reigniting sales, traffic and market share gains, and positioning Target for profitable growth in 2024 and beyond."

For Q1 2024, Target has projected a comparable sales decline of 3% to 5% and adjusted EPS between $1.70 and $2.10. For the full year, comparable sales are expected to grow between 0% and 2%, with EPS ranging from $8.60 to $9.60.

Target, along with other retailers, will have to continue to operate in a more challenging consumer environment given higher interest rates, the restart of student loan payments, reduced savings and overall pressured discretionary spending. Add to that the inventory management struggles and political drama, but we are glad we held our noses and bought more shares last October when TGT was substantially lower. The NTM P/E multiple is a touch above the long-run average but gets much more reasonable a few years out when EPS are projected to pierce $11. The dividend yield is 2.6% and our Target Price has been boosted to $207.

Recently, **Nordstrom** (JWN – $17.05) has made a practice of rising between earnings reports and plunging immediately afterwards. That's how it went, again, after the department store retailer reported fiscal Q4 results. The upscale fashion outlet posted profit per share of $0.96 (vs. $0.89 est.) and revenue of $4.29 billion (vs. $4.33 billion est.). The decent Q4 report couldn't hold back fickle traders from dumping their shares after the fiscal 2025 outlook disappointed many.

In 2024, JWN expects revenue to come in somewhere between a 2% dip and a 1% gain, while EPS in the $1.65 to $2.05 would be worse than the $2.12 in 2024 in almost every scenario. Digital sales accounted for 38% of the company's total, while the 34.4% margin came up short of the 35.1% consensus estimate.

CEO Erik Nordstrom stated, "Throughout 2023, we remained focused on three priorities intended to drive better financial performance while keeping the customer at the center of everything we do. Our first priority was to improve Nordstrom Rack performance. One way that we did that was by opening 19 new stores in 2023. New Rack stores continue to be an excellent investment as they deliver well in excess of their cost of capital with a relatively short payback period...Our second priority in 2023 was to increase inventory productivity. We continued to focus on managing inventory effectively, as evidenced by the positive sales-to-inventory spread in the fourth quarter, which sets us up well from a merchandise standpoint as we start the new fiscal year…Our third priority of 2023 was to optimize our supply chain capabilities, a continuation of efforts that began in 2022. In Q4, for the sixth consecutive quarter, the team delivered another 50-plus basis points of improvement in variable supply chain expense savings, while at the same time improving our click-to-delivery speed."

CFO Cathy Smith added, "We expect 2024 to be a year of continued momentum toward the long-term strength and durability of our business. We continue to see a cautious consumer that is mindful of discretionary purchases in light of inflation, higher interest rates, and the resumption of student loan payments… We made great progress against our priorities and delivered on our guidance for the year in 2023. I'm looking forward to the progress that we'll make this year and getting after the growth opportunities we have, both at Nordstrom banner and the Rack."

The priorities for 2024 include growing Nordstrom banner store revenue, optimizing operations and gaining traction with Nordstrom Rack. JWN has sufficient balance sheet flexibility and has been slowly paying down the debt it acquired to stay running during the early innings of the pandemic when foot traffic came to a halt. We still think it's a quality business and are surprised that nobody of late has taken a pass at acquiring a great company on the cheap. Of course, given our $23 Target Price, we'd need a really solid offer to willingly exchange our shares. We continue to appreciate the quality-at-a-discount offering afforded by Rack, while management appears resolute to make the enterprise more efficient. Shares trade for less than 10 times the drastically reduced EPS estimates and yield 4.5%, while our Target Price is now $23.

Shares of **Foot Locker** (FL – $24.20) plummeted 30% on Wednesday even as the company turned in Q4 results that showed a top- and bottom-line ahead of consensus estimates. The footwear retailer earned $0.38 per share (vs. $0.30 est.) on $2.4 billion of sales (vs. $2.26 billion est.), though a 210 basis-point impact from repositioning the Champs Sports banner, consumer softness and changing vendor mix combined to reduce comparable sales by 0.7%.

Higher promotional activity in Q4 also took 350 basis points from gross margin, but the plunge in the stock price largely was due to management moving the goal posts on its Lace Up plan to improve profitability. CFO Mike Baughn said, “We maintain conviction in the longer-term earnings potential that our Lace Up plan will generate and reiterate the 8.5%-9% EBIT margin target communicated at our March 2023 Investor Day. Given our lower starting point exiting 2023, we expect a two-year delay in achieving that goal and now see reaching that target by 2028.”

We appreciate that Foot Locker continues to further diversify from its reliance on Nike as sales from other brands increased to 40% in the latest quarter, up from 37% last year, and the company added vendors such as Adidas, New Balance, On Running, HOKA and UGG to more stores. And despite the latest pullback, shares are well off the lows from last August when management announced discontinuation of the dividend.

We have had a lot of internal debate about FL as every stock is fighting for its spot in our broadly diversified portfolios, and the latest numbers and stock-price reaction provided more to think about. For now, we are continuing to hold our existing positions for a revised $35 Target Price, though we reserve the right to swap out of FL should we uncover an opportunity that we find clearly more advantageous.

Shares of **DHL Group** (DHLGY – $42.06), formerly Deutsche Post AG (DPSGY), slid 5% after the German parcel carrier reported Q4 results that included a disappointing 2024 outlook. Management said DHL Group is experiencing a soft macroeconomic environment including a lack of a tailwind in the first half of 2024 and subdued B2B (business to business) volume growth.

CEO Dr. Tobias Meyer explained, “We’ll remain in a cautious mode, also as it relates to cost management. We will invest where it makes sense, where we make our business better. We will, I think, remain very much focused on value creation when it comes to the deployment of capital. And we have good opportunities organically and by doing smaller and mid-sized acquisitions that really create an opportunity for us a unique position to drive value. We see a clear opportunity that the second half of 2024 is going to be better year-over-year because of the easier comparables, but also because we do see that we are progressing in the cyclical development of the economy and that the hike in interest rates, which took a long time to be absorbed by the broader economy that that is coming into the next phase.”

CFO Melanie Kreis added, “We will stay agile as needed in the short term, and we will benefit as soon as volumes pick up again, with CapEx flexing up and down accordingly, this drives a strong cash flow generation through the cycle, as evidenced in ’23, but also visible in our guidance. And with that and our rock-solid balance sheet and attractive shareholder returns, I hope that with the dividend and share buyback decisions, we have also been able to meet your expectations today.”

The dividend mentioned by Ms. Kreis is 1.85 euros per share, which translates to a 4.1% yield after required taxes. DHL Group added €1 billion to the share buyback program, bringing the total value of the plan to €4 billion since inception. Thus far in 2024, €400 million has been spent and €1.6 billion remains outstanding. E-commerce volume has not grown in Europe as rapidly as it has elsewhere, but management is optimistic. Ms. Kreis said, “We believe that there are good growth opportunities for us going forward and that the relevant megatrends are in place. Structural growth from e-commerce, a good opportunity to pass cost inflation on to our customers through disciplined yield management, benefits increasingly from digitalization, and of course, also from our continued investments.”

We think our portfolios benefit from the geographic diversification that’s embedded in our DHLGY stake, while the company’s net dividend yield provides a solid income stream for shareholders and earnings should return to growth after a trough year in 2023. We evaluated a wide range of shippers before adding DHLGY to our income-oriented portfolios in 2017, while we liked U.S.-centric **FedEx** (FDX – $247.68) for our flagship ValuePlus managed account strategy. We also liked that both earned more from higher-margin express services, rather than the ground-heavy business of UPS.

While DHLGY has edged out FDX by a hair over our DHL holding period and has earned a positive total return just north of 40%, it has been far from a stellar performer relative to its peer group and its size in our portfolios has dwindled as other companies have grown faster. Our Target Price is now $67.

High-flying shares of **Broadcom** (AVGO – $1,308.72) fell 7% on Friday, even as the semiconductor concern the afternoon prior reported fiscal Q1 results that came in ahead of analyst estimates. The year-to-date gain now stands at 17%, and we note for the week at least, we are glad we took some of our Broadcom winnings off the table on March 5. In the quarter, Broadcom earned an adjusted $10.99 per share, compared with the Wall Street consensus estimate of $10.42, and had sales of $11.96 billion, versus the $11.83 billion estimate. While the overall results were solid, investors focused on the slowing Semiconductor segment revenue and worried that A.I. may not be able to offset the slowdown. The Semiconductor segment had revenue of $7.39 billion, compared with the $7.70 billion analyst consensus.

CEO Hock Tan discussed Broadcom's Semiconductor business, "In fiscal '24, we reiterate our guidance for Semiconductor Solution revenue to be up mid- to high-single-digit percentage year-on-year. I know we told you in December our revenue from AI would be 25% of our full year semiconductor revenue. We now expect revenue from AI to be much stronger, representing some 35% of semiconductor revenue at over $10 billion, and this more than offsets weaker-than-expected demand in broadband and service storage. For fiscal 2024, in summary, we reiterate our guidance for consolidated revenue to be $50 billion, which represents 40% year-on-year growth, and we reiterate our full year adjusted EBITDA guidance of 60%."

Broadcom shares have more than doubled over the past year as A.I.-oriented enthusiasm has benefitted the company handsomely. Analysts project AVGO will earn nearly $47 per share this year with the figure growing above $65 in fiscal 2026. We think the combo of an overall market upswell and Mr. Tan's relentless pursuit of efficiency will continue to pay off for investors. AVGO continues to pay dividends ($21 per share is expected in fiscal 2024) and we think there's still room to run for the stock, despite us having taken action last week to manage the swelling position size. We continue to be fans of the company and our Target Price for AVGO has been hiked to $1,526.

Kroger (KR – $55.97) posted adjusted EPS of $1.34 in Q4, a 15% increase excluding the 53rd week. Identical sales without fuel declined by 0.8%, but underlying growth would have been positive at 0.1% after adjusting for the impact of Express Scripts. The grocer's first-in-first-out (FIFO) gross margin rate, excluding fuel and the 53rd week, increased by 13 basis points, driven by strong performance in the company's own brands, sourcing benefits and lower supply chain costs, partially offset by increased price investments and higher shrink. Despite planned investments in associate wages and additional contributions to pension plans, adjusted FIFO operating profit exceeded $1.3 billion.

CEO Rodney McMullen commented, "Kroger achieved strong 2023 results, in line with our long-term growth model and built upon three consecutive years of historic growth. As customers manage macroeconomic pressures, we are lowering prices and offering even more ways to save with personalized promotions and rewards. Our unique seamless shopping experience provides customers the products they want, when and how they want them, with zero compromise on quality, convenience and selection."

The CEO added, "We respect and appreciate our associates who are delivering a full, fresh and friendly customer experience. Over the last five years, we've made historic investments in associate wages, benefits and career development opportunities, including significant investments to help stabilize associates' future pension benefits. We are increasing customer visits and growing loyal households through the strength of our retail business, which positions Kroger for more ways to drive sustainable future growth. We expect to continue our momentum in 2024 by delivering value for customers, investing in associates and generating attractive and sustainable shareholder returns."

CFO Todd Foley offered, "Kroger's 2023 results provide another proof point of the strength and resilience of our value creation model, which supported another year of strong free cash flow and net earnings growth. In 2024, we expect to grow revenue by delivering value for customers and enhancing our seamless shopping experience. We plan to balance investments in our business, including lowering prices and increasing associate wages, with productivity and cost savings initiatives, improvement on long-term initiatives in gross margin and growth in our alternative profit businesses. This strength in our model gives us confidence in our ability to deliver on our 2024 guidance and maintain our strong track record of delivering for our customers, investing in our associates and generating attractive and sustainable returns for shareholders."

Kroger presently forecasts earning an adjusted $4.30 – $4.50 per diluted share in 2024.

Presumably because of opposition from the government and various stakeholders over the merger with Albertsons, management was rather tight-lipped about the deal, which we continue to view 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. Deal of no deal, 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 rallied 10% on the Q4 report, but still trade for less than 13 times NTM EPS and boast a 2.1% dividend yield. Our Target Price has been raised to $68.