Market Commentary Monday, March 18, 2024

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EXECUTIVE SUMMARY

Newsletter Trades – One Transaction for 1 Portfolio

Week in Review – Dow Unchanged; Average Stock Sinks

Interest Rates – Yields Jump on Renewed Inflation Worries; Higher Rates Haven't Injured Stocks Historically

Econ News – Mixed Numbers but Solid EPS Growth in '24 and '25 Still the Forecast

Valuations – Value Stocks Attractively Priced

Sentiment – Lots of Optimism

Volatility – The Longer the Hold the Lower the Risk of Loss

Stock News – Updates on KSS, ADM, ORCL, VWAPY, JBL & ABT

Market Review

As discussed on our *Sell Alert*, we made the following trade last week in our real-money Buckingham Portfolio.

03.11.24: Sold 24 **Acuity Brands** (AYI – $258.54) at $253.37

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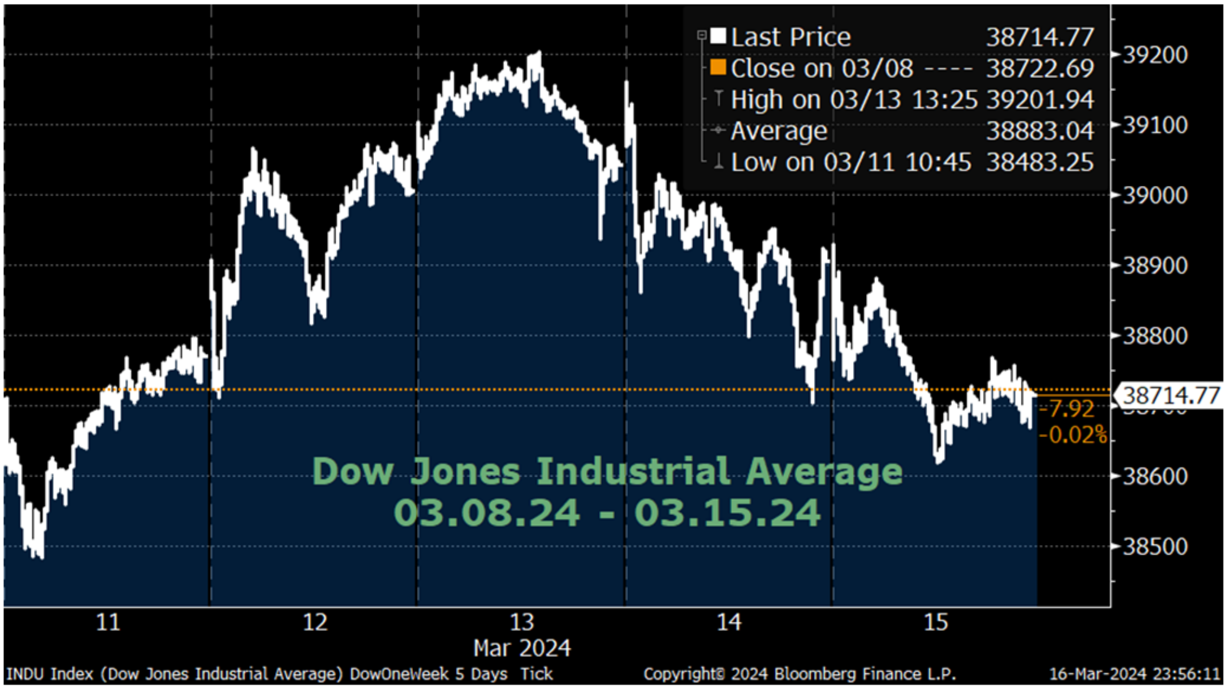
While the 30-stock, price-weighted Dow Jones Industrial Average ended the trading week essentially unchanged,...



…it was a dismal five days for the average stock in the Russell 3000 index, pushing the median return for constituents of all three Russell indexes into negative territory 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, the Russell 3000 Value index and the Russell 3000 Growth 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

	% 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 2949	100.0	**-1.8**	18.8	16.2	1.9	2.2	1.60	2949
Largest 10	28.0	**13.5**	27.5	24.1	6.4	8.5	0.46	10
Top 11-20	8.5	**9.5**	28.9	24.1	4.6	8.2	1.63	10
Top 21-30	5.5	**12.1**	28.9	23.2	5.4	7.0	1.95	10
Top 31-40	4.3	**7.8**	32.3	22.2	5.1	5.2	1.66	10
Top 41-50	3.5	**12.0**	23.6	20.7	3.1	7.2	1.97	10
Largest 50	49.8	**10.8**	27.7	23.4	5.1	8.0	1.53	50
Next 950	46.1	**4.5**	22.1	18.5	2.6	3.4	1.65	950
Bottom 1949	4.1	**-6.1**	15.8	14.0	1.6	1.7	1.58	1949
Market of Stocks - Russell 3000 Value								
All Value	100.0	**-1.7**	16.8	14.4	1.9	1.7	1.92	2259
Largest 10 Value	16.4	**12.2**	15.9	13.0	1.7	2.0	2.42	10
Market of Stocks - Russell 3000 Growth								
All Growth	100.0	**-0.6**	23.9	20.4	2.5	4.0	0.84	1504
Largest 10 Growth	50.1	**10.8**	35.1	26.0	11.4	11.0	0.48	10

From 12.31.23 - 3.15.24. Source: Kovitz using data from Bloomberg.

Though history shows that rising interest rates have not led to negative returns for equities, on average,...

Concurrent Stock Performance & Change in 10-Year Treasury Rate

	Count	Value	Growth	Payers	Non-Payers
1-Month Drop	635	14.7%	11.4%	14.3%	9.9%
1-Month Rise	516	11.1%	7.4%	6.3%	7.8%
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

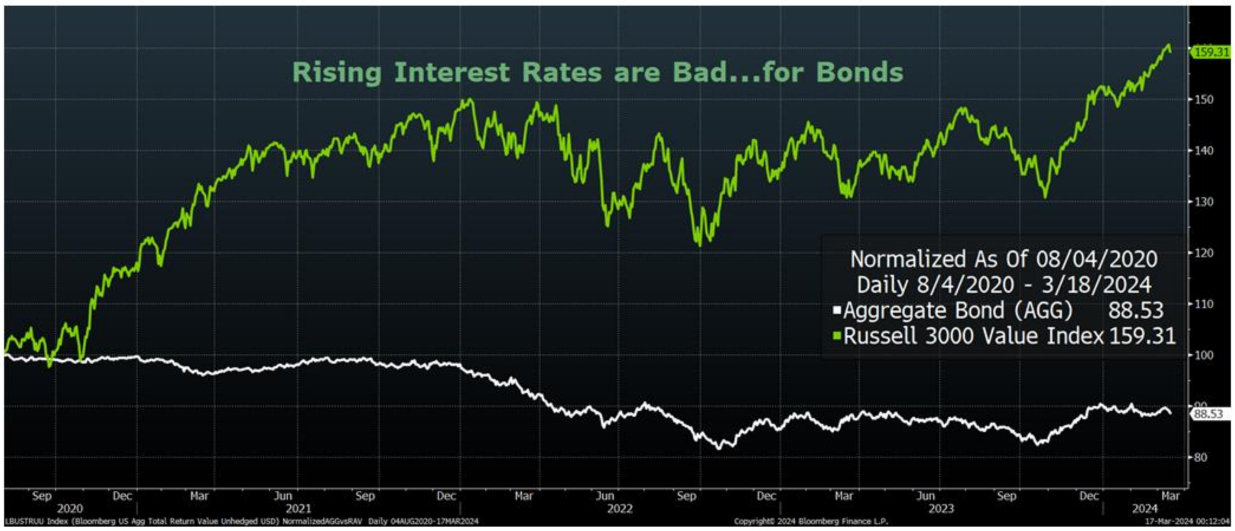
	Count	Value	Growth	Payers	Non-Payers
1-Month Drop	628	14.7%	11.3%	12.0%	10.6%
1-Month Rise	512	11.0%	6.9%	8.5%	6.4%
3-Month Drop	569	16.8%	13.6%	13.7%	13.4%
3-Month Rise	569	9.4%	5.1%	7.3%	4.1%
6-Month Drop	559	15.1%	12.5%	12.5%	11.4%
6-Month Rise	576	11.0%	6.1%	8.3%	5.9%
12-Month Drop	561	12.8%	10.9%	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.

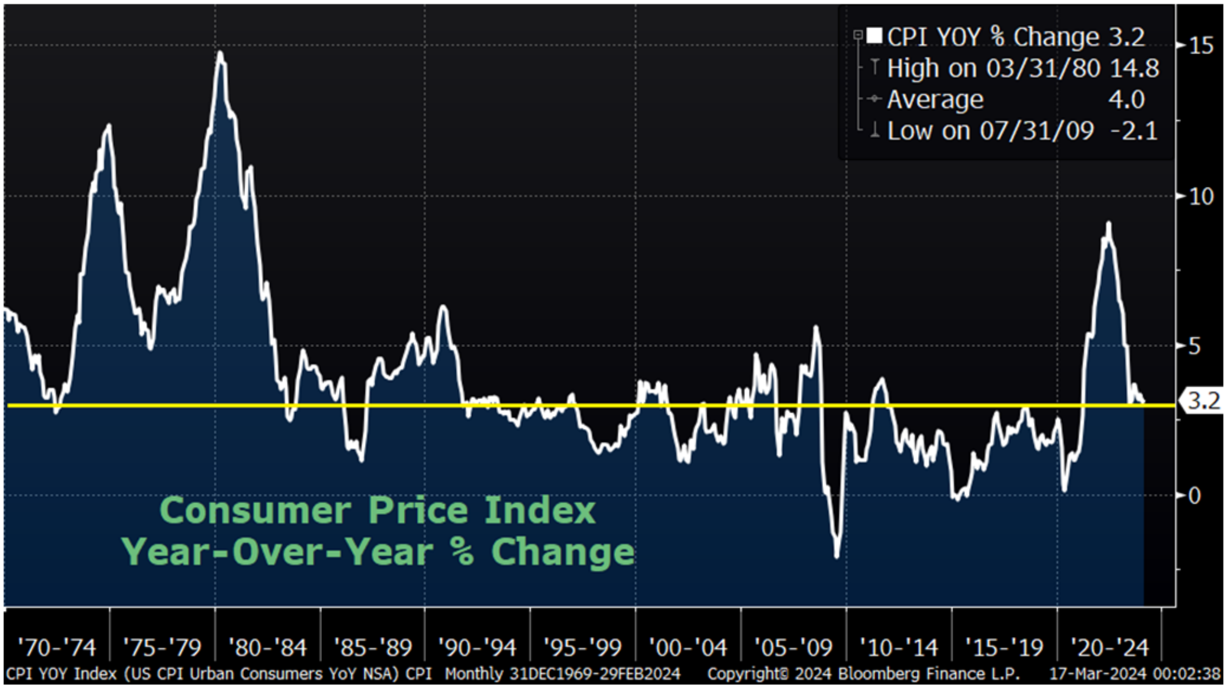
...and the big rise in the yield of the benchmark government bond over the last 3.5 years has been bad only for bonds,...

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 4.31%, yet the Russell 3000 Value index has enjoyed a 59.31% 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 11.47% during the same time span, which makes sense as bond prices fall when yields rise.

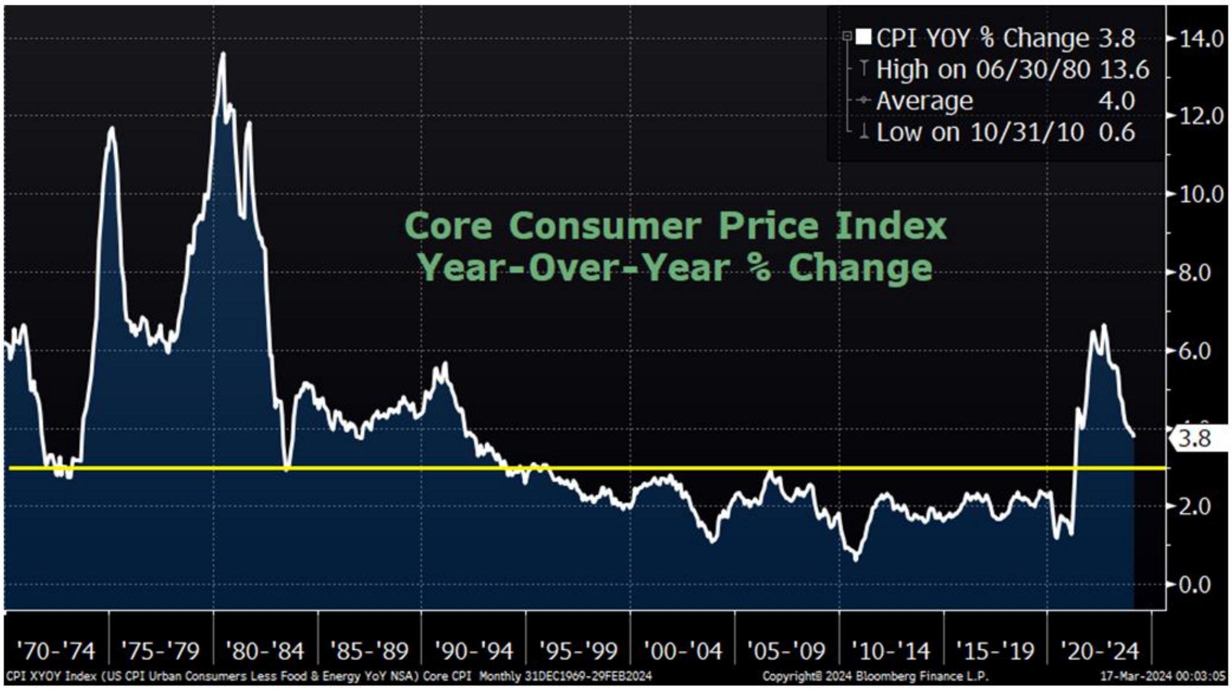


...we realize that the 10-Year U.S. Treasury skidded in price last week, sending the yield sharply higher.

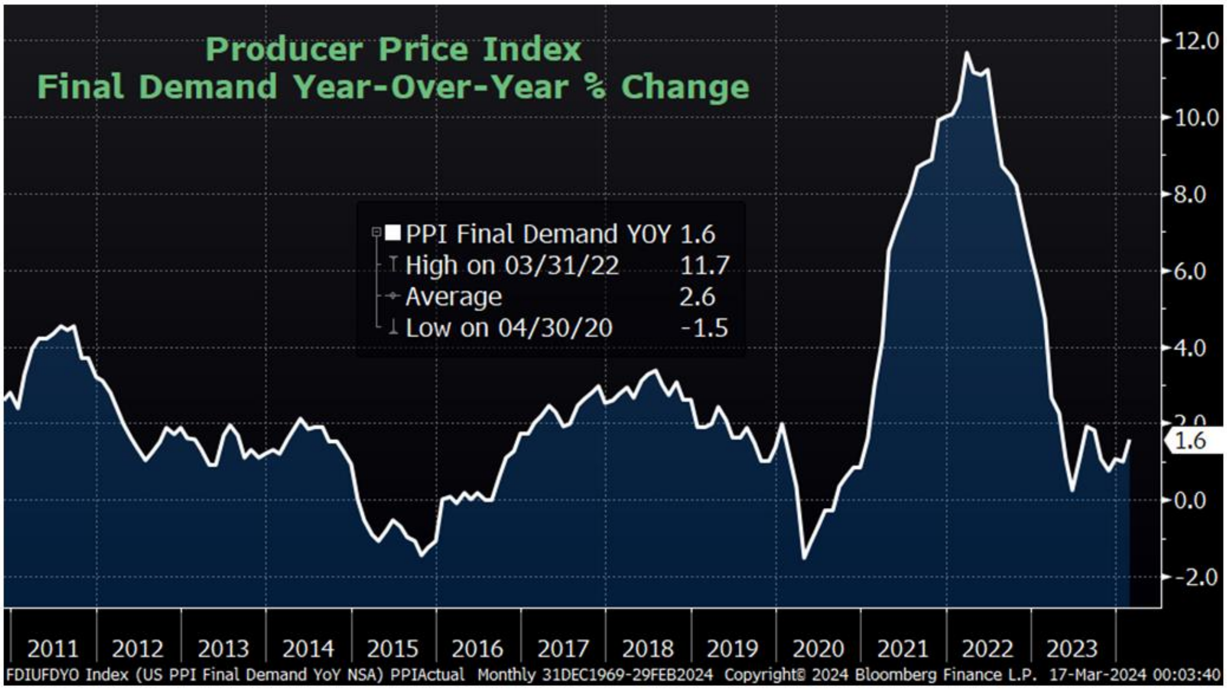
The catalyst for the rise in bond yields was hotter-than-expected inflation numbers as the Consumer Price Index (CPI) rose 3.2% in February (est. 3.1%), up from 3.1% in January,...



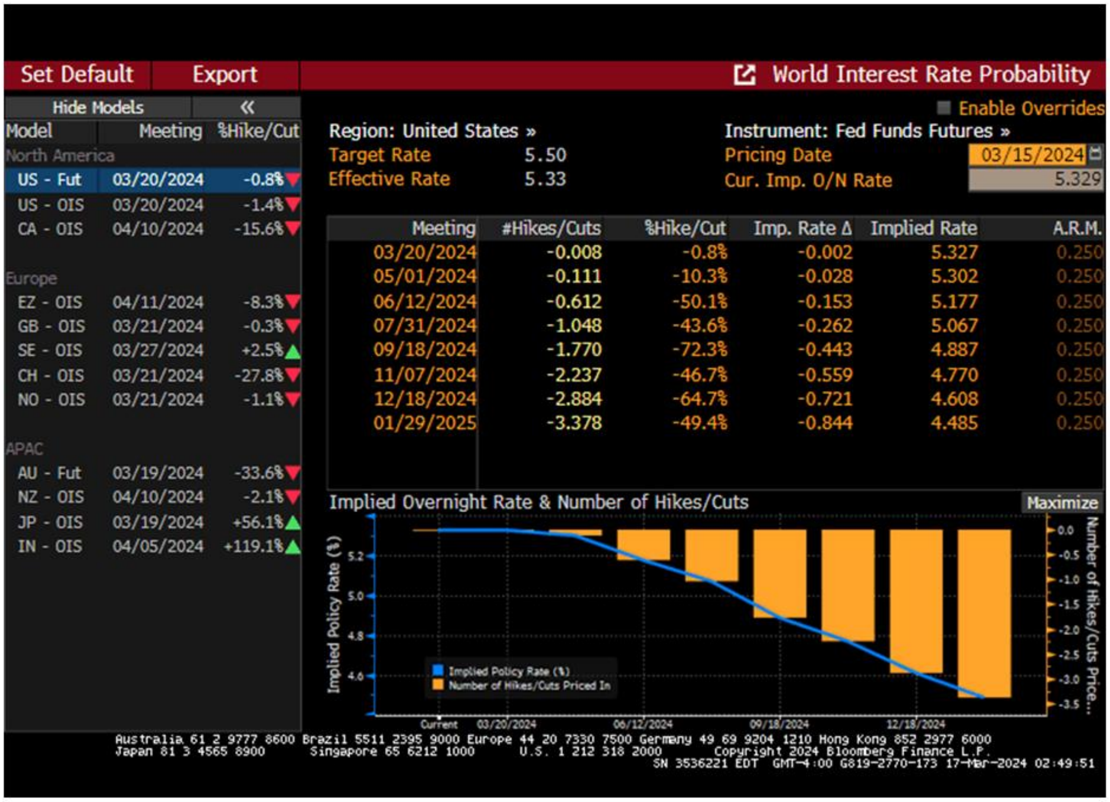
...with the core CPI (excludes food and energy) climbing 3.8% (est. 3.7%), down from 3.9% the month prior.



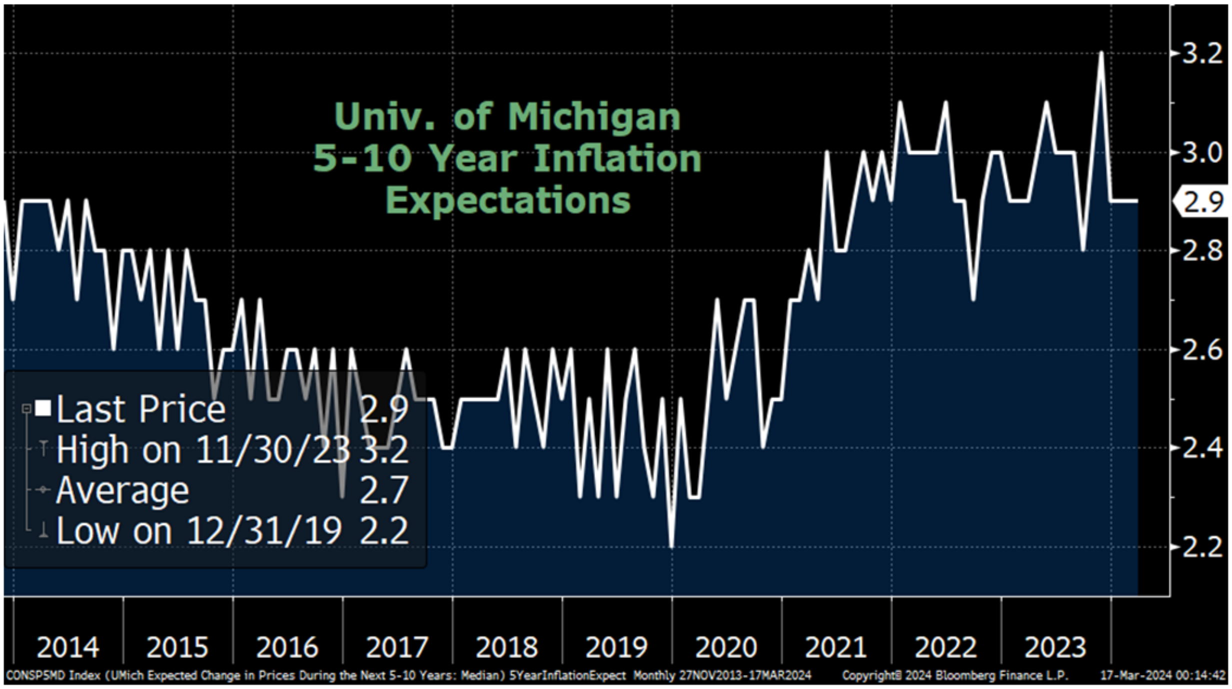
The Producer Price Index also came in well above expectations, with inflation at the wholesale level rising to 1.6% in February (est. 1.2%), significantly above January's unusually low level of 0.9%.



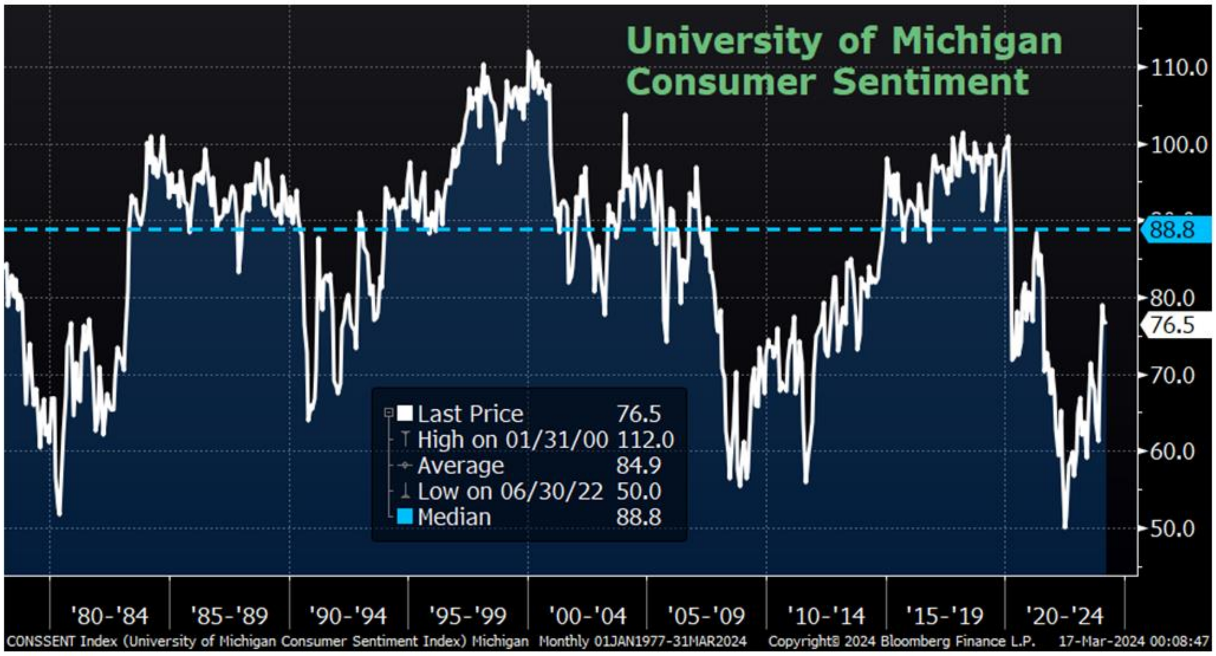
The inflation news led to a sizable shift in the odds for the timing and pace of expected cuts in the Fed Funds rate, with the futures market now projecting a 4.61% year-end rate, a sizable increase from the 4.38% betting one week ago.



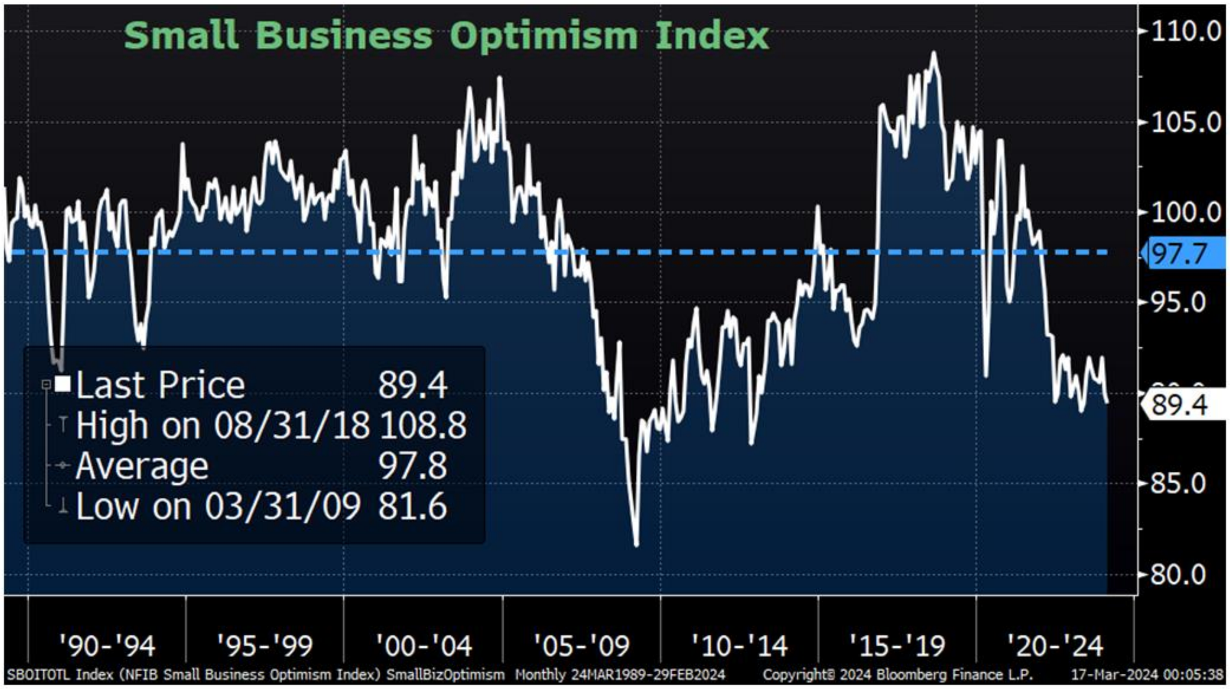
Of course, longer-term inflation expectations remained unchanged this month at a 2.9% rate in the latest Univ. of Michigan survey,...



...while other economic data out last week was relatively subdued, whether it was the preliminary Univ. of Michigan Sentiment gauge for March dipping to 76.5 (est. 77.1) from 76.9 in February,...

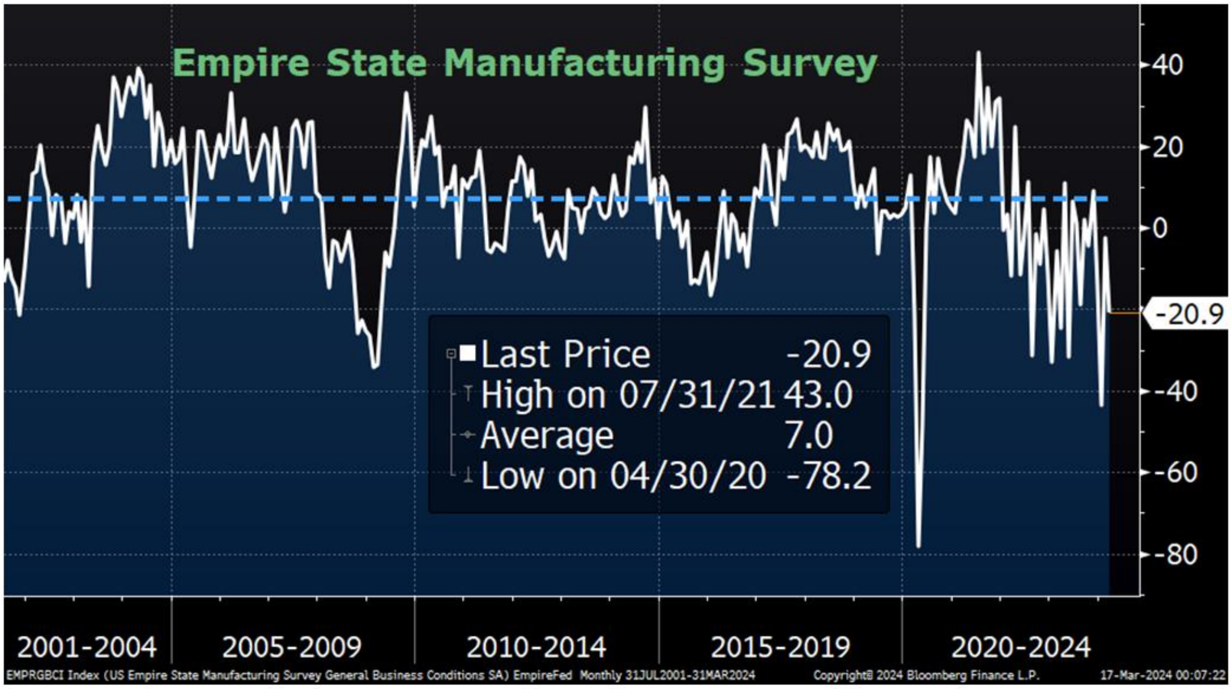


...the NFIB Small Business Optimism measure for February dropping to 89.4 (est. 90.5) from 89.9 the month prior,...

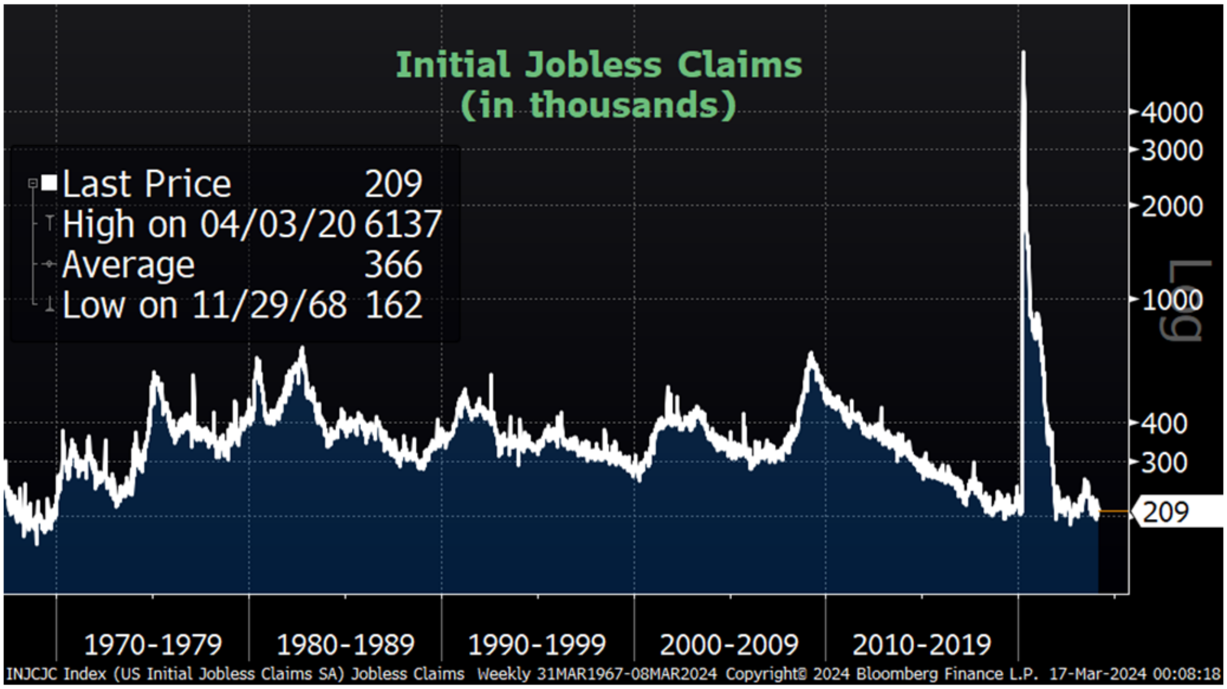


...retail sales rising 0.6% last month, up from a drop of 0.8% in January, but below projections of a 0.8% advance,...

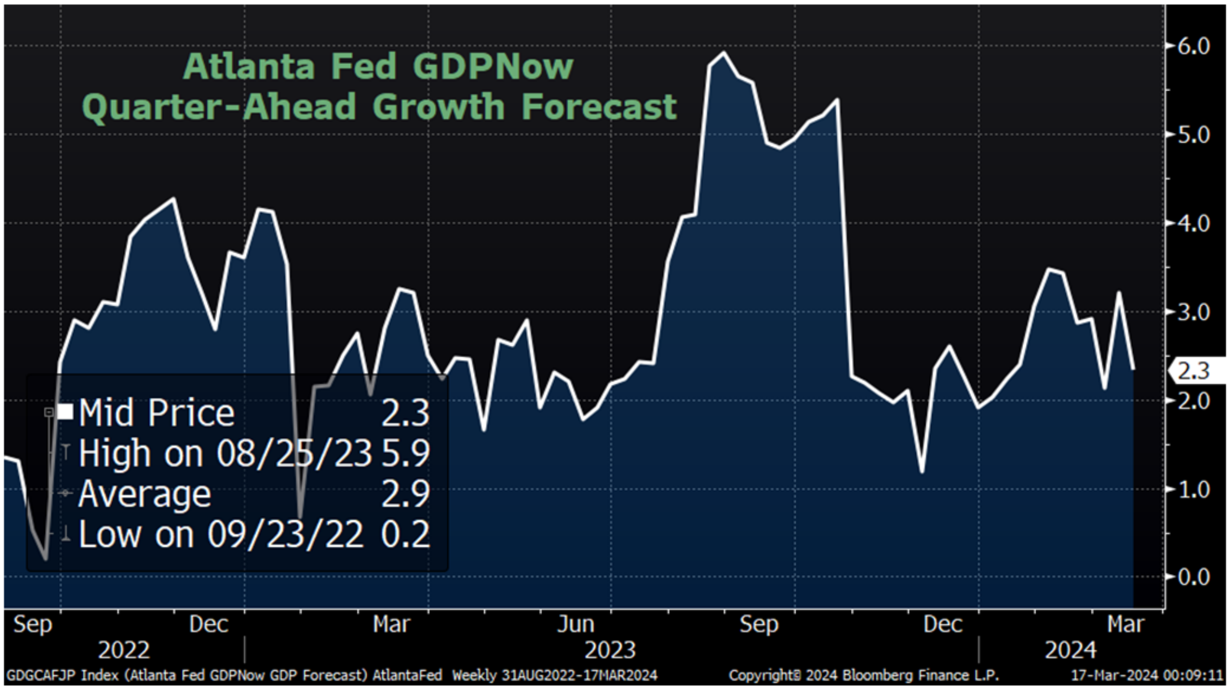
...or the Empire State Manufacturing Survey tumbling to a reading of minus 20.9, down from minus 2.4 in January and below forecasts of minus 7.0.



On the other hand, first-time filings for unemployment benefits in the latest week fell to a lower-than-expected and near-multi-generational-low level of 209,000,...

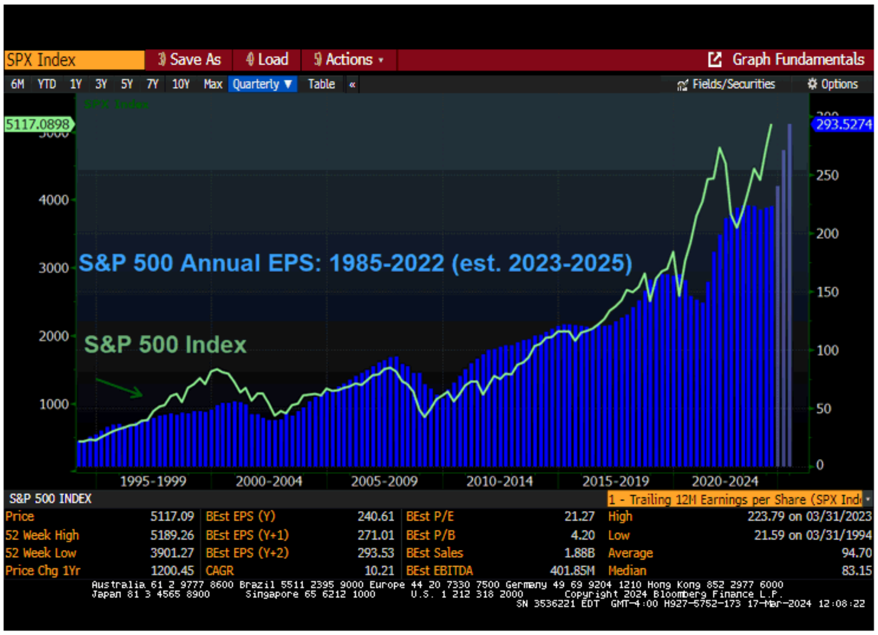


…the Atlanta Fed's estimate of Q1 U.S. real (inflation-adjusted) GDP growth stood at 2.3%,…



...the chance of recession in the next 12 months, per tabulations from *Bloomberg*, held steady at 40%,...

...and earnings estimates continuing to call for solid growth this year and in 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	$72.78	$274.73
9/30/2025	$71.21	$266.54
6/30/2025	$67.34	$258.27
3/31/2025	$63.40	$249.67
12/31/2024	$64.59	$240.77
9/30/2024	$62.94	$230.07
6/30/2024	$58.74	$219.38
3/31/2024	$54.50	$215.48
12/31/2023	$53.89	$213.52
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 3.14.24

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Not surprisingly, nothing we saw last week alters our favorable view for the long-term prospects of our broadly diversified portfolios of what we believe are undervalued stocks, especially as our valuation metrics, on average, are even more attractive than those of the Value indexes,...

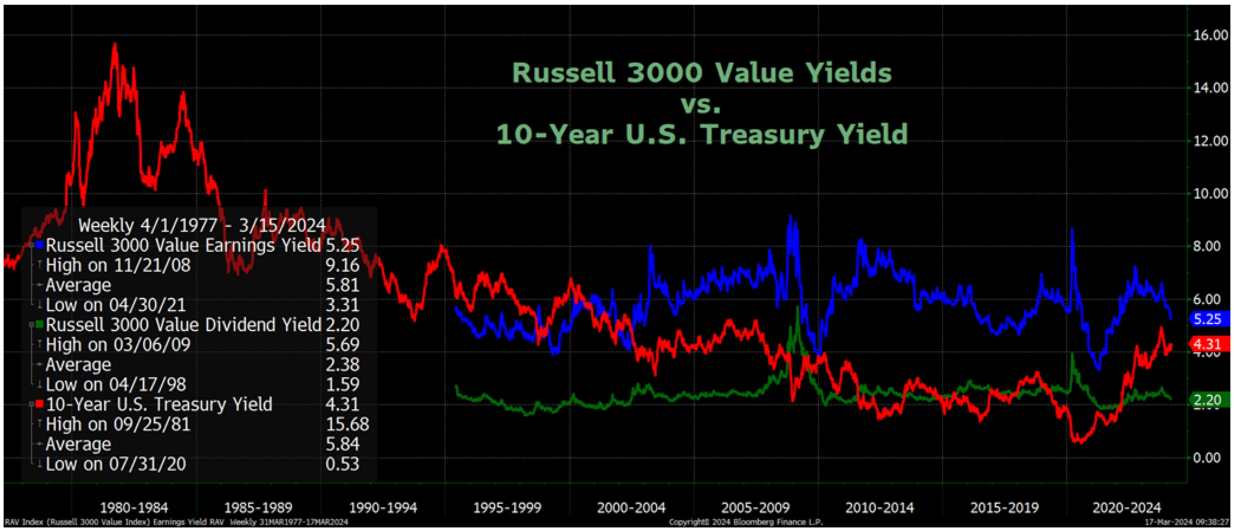
CURRENT PORTFOLIO AND INDEX VALUATIONS

Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	17.1	14.6	0.9	2.4	2.6
ValuePlus	16.4	14.5	1.2	2.3	2.3
Dividend Income	16.6	14.2	0.8	2.1	3.0
Focused Dividend Income	17.1	13.8	1.1	2.3	3.0
Focused ValuePlus	17.7	14.7	1.3	2.7	2.5
Small-Mid Dividend Value	12.5	11.4	0.5	1.5	3.0
Russell 3000	25.3	21.5	2.5	4.2	1.4
Russell 3000 Growth	34.9	28.4	4.4	11.3	0.7
Russell 3000 Value	19.0	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	28.0	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	33.5	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	11.1	10.4	0.5	1.2	2.8

As of 03.16.24. 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.

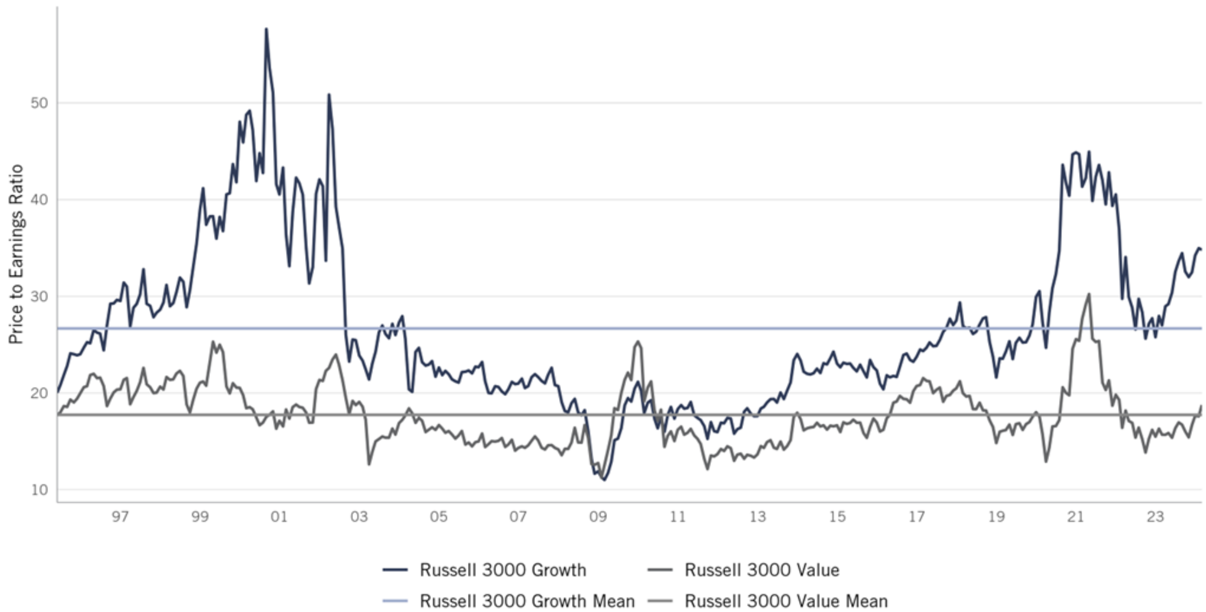
...with a benchmark like the Russell 3000 Value still very much reasonably priced on an earnings-yield basis,...

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) 4.31% 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 (5.25%) AND dividend yield (2.20%) near the historical norms for those measures dating back to 1995.



...as are Value stocks in general on a Price-to-Earnings basis.

Valuation Comparison: Price to Earnings



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

We realize that there remains a lot of enthusiasm for the near-term prospects for equities (arguably a contrarian negative), given the high level of Bullishness in the latest weekly AAII Investor Sentiment Survey,...

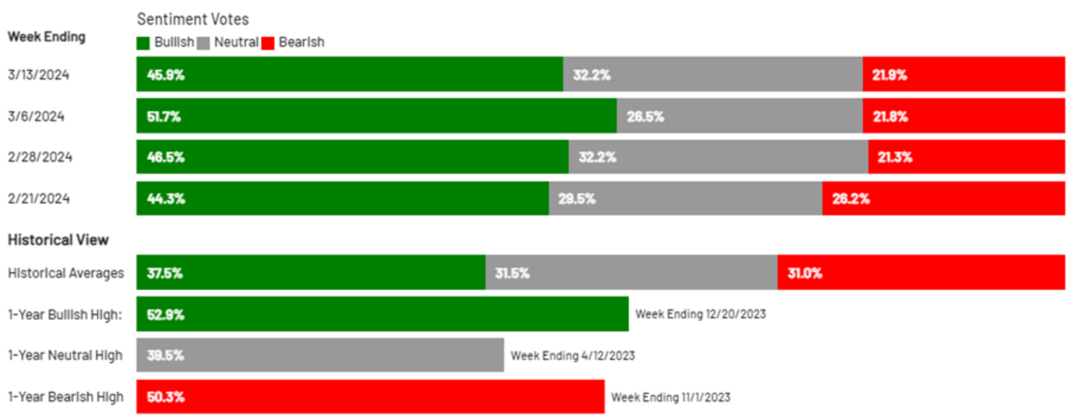
The AAII Investor Sentiment Survey

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.

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?



...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 = 7.20										
BELOW	-54.0	7.2	955	0.24%	0.20%	1.17%	1.03%	3.47%	3.08%	6.65%	5.89%
ABOVE	7.2	62.9	954	0.19%	0.17%	0.58%	0.50%	1.97%	1.72%	4.62%	4.15%
	Ten Groupings of 1909 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	2.7	191	0.17%	0.13%	1.06%	0.96%	2.57%	2.19%	5.43%	4.89%
5	2.7	7.2	190	0.03%	0.00%	0.66%	0.57%	2.76%	2.49%	5.17%	4.64%
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	191	0.27%	0.26%	0.78%	0.68%	2.50%	2.26%	5.28%	4.79%
8	16.1	21.9	191	0.16%	0.14%	0.88%	0.81%	2.22%	1.98%	5.77%	5.36%
9	22.0	29.0	192	0.17%	0.15%	0.47%	0.39%	1.75%	1.46%	4.67%	4.12%
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 3.14.24. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

...as time in the market trumps market timing,...

Equities constantly gyrate in price, but lengthening the lens through which returns are measured dramatically reduces the chance of loss. Indeed, Value Stocks and Dividend Payers have been in the green *only* 63% of the time on a one-month basis, but the odds of positive returns rise above 70% for six-month holds, above 85% for three-year holds, in the 90% range for five-year holds, and 100% for 15-year holds.

PATIENCE IS VIRTUOUS

VALUE STOCKS

	Count >0%	Count <=0%	Percent >0%
1 Month	729	430	62.9%
3 Months	782	375	67.6%
6 Months	814	340	70.5%
1 Year	837	311	72.9%
2 Year	949	187	83.5%
3 Year	985	139	87.6%
5 Year	987	113	89.7%
7 Year	1040	36	96.7%
10 Year	1006	34	96.7%
15 Year	980	0	100.0%
20 Year	920	0	100.0%

DIVIDEND PAYERS

	Count >0%	Count <=0%	Percent >0%
1 Month	732	427	63.2%
3 Months	805	352	69.6%
6 Months	834	320	72.3%
1 Year	870	278	75.8%
2 Year	973	163	85.7%
3 Year	966	158	85.9%
5 Year	1014	86	92.2%
7 Year	1036	40	96.3%
10 Year	1006	34	96.7%
15 Year	980	0	100.0%
20 Year	920	0	100.0%

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

…and short-term setbacks always have been overcome in the fullness of time, so much so that long-term returns for Value and Dividend Payers have been terrific.

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%	73.9%	824	8	2.9	9/30/2022	3/13/2024
17.5%	53.5%	533	13	2.0	9/30/2022	3/13/2024
15.0%	48.2%	453	15	1.7	9/30/2022	3/13/2024
12.5%	46.0%	428	16	1.6	9/30/2022	3/13/2024
10.0%	29.4%	233	30	0.9	10/27/2023	3/13/2024
7.5%	21.3%	145	51	0.5	10/27/2023	3/13/2024
5.0%	13.5%	71	104	0.3	10/27/2023	3/13/2024

Declining Markets

Minimum Decline %	Average Loss	Average # Days	Count	Frequency (in Years)	Last Start	Last End
-20.0%	-30.6%	218	8	2.9	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 03.13.24. 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	13.6%	18.0%
Growth Stocks	10.8%	18.9%
Dividend Paying Stocks	12.2%	14.7%
Non-Dividend Paying Stocks	11.8%	22.4%
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

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.

Shares of **Kohl's** (KSS – $24.81) slid 9% last week after the department-store retailer posted a sales decline (sequentially as well as year-over-year) for Q4 that came in a touch lighter than the consensus target, even as EPS was much higher than expected ($1.67 vs. $1.30 est.). Digital sales declined by 10%

in the latest quarter, while Sephora was a bright spot as comparable sales grew 25% and the brand now has a presence in 910 Kohl's stores.

CEO Tom Kingsbury said, "Our first priority is enhancing the customer experience. This priority encompasses all the work we've done to enhance our store experience, including expanding the number of locations with Sephora. It also includes our work to drive growth in underpenetrated and new categories and our efforts to become more relevant in our apparel and footwear offerings...We recognize that for us to grow sustainably over the long-term, we need to increase our store sales productivity. In 2023, we re-established stores as a key focal point of our strategy, which consisted of leadership's time and attention, meaningful investments, and new operational processes. We expanded and repositioned our gifting assortment to the front of the store, simplified our in-store signage and graphics, consolidated the customer checkout area, enhanced our overall merchandising offering, and empowered our stores to capitalize on opportunities to drive sales in their local markets. These actions are beginning to resonate with our customers. Store comparable sales were flat in 2023, our best performance since 2010."

Looking forward, he added, "In 2024, we will build on our momentum with a variety of store focus initiatives. These will include new merchandising strategies and the rollout of queuing lines to more than one-third of our stores. We also remain focused on returning our digital business to growth. Our focus this year is on reinforcing value simplification in all communication and scaling new targeting initiatives, as well as improving the search and product recommendation capabilities of our site to drive increased traffic and higher conversion."

In the current calendar year, management forecasts net sales will be in a range from a 1% decrease to a 1% increase compared to 2023, with comparable sales ranging from flat to a 2% increase. Operating margins are expected to range from 3.6% to 4.1%, and earnings per diluted share are projected to be between $2.10 and $2.70.

It's been a rocky road for Kohl's, but we continue to see rays of light under Mr. Kingsbury's leadership, the retailer rationalizing its inventory into year-end. We continue to like the growing partnership with makeup brand Sephora and management is looking to drive more partnerships with the latest being

Babies “R” Us. With management seemingly committed to the massive 8.1% dividend yield, our Target Price now stands at $33.

Investors breathed a sigh of relief last week as **Archer Daniels Midland** (ADM – $59.31) disclosed that its rightings of the accounting wrongs related to its Nutrition Segment that prompted a federal investigation and internal review were small and not significant enough to trigger an executive compensation clawback. CEO Juan Luciano said, “The adjustments are not material to our consolidated financial statements, taken as a whole for any period,” and the stock rebounded more than 8% over the five-day trading period.

The board had staked management comp on the segment given its aspirations for growth. So, it was quite the alarm when the company put its CFO on administrative leave while it began its own internal accounting probe, and other current and former employees have received subpoenas from the U.S. Department of Justice. ADM received a voluntary document request from the SEC relating to intersegment sales between the company’s Nutrition reporting segment and the company’s Ag Services and Oilseeds and Carbohydrate Solutions reporting segments. In connection with its own internal investigation, Archer said it had identified certain of those sales that were not recorded at amounts approximating market prices.

ADM also announced that it earned an adjusted $1.36 per share in Q4, contributing to the second highest EPS in in the company’s history at $6.98. Contributing factors included improved pricing in Carbohydrate Solutions and Nutrition, profitability improvement for Refined Products, and favorable mark-to-market timing in Ag Services and Oilseeds. However, these were offset by lower crush margins, despite an increase in global origination volumes, and higher manufacturing costs in the Carbohydrate Solutions and Nutrition segment. Earnings attributed to equity interests were also lower in the period.

The company returned $3.7 billion to shareholders via both dividends and repurchases in 2023. In January, the board approved an 11% increase in the quarterly dividend to $0.50 per quarter, marking 92 years of uninterrupted payments and 51 consecutive years of annual increases. The board also authorized a $2 billion bump to the company’s existing share repurchase authorization for 2024. The increase includes $1 billion to be executed through an accelerated share repurchase program, bringing the total amount available under the authorization to $2.2 billion.

While federal investigations continue, and even expand – as of Wednesday, the U.S. Justice Department said it was investigating ADM's ethanol trading operation to discover whether it improperly accounted for hedges – we are heartened that the company felt the latest adjustments were seemingly minor while any missteps will be highly scrutinized.

As demonstrated by our purchase at the end of January, we continue to think the punishment for the stock year-to-date did not fit the crime, even as ADM's business outside of Nutrition can be highly volatile. And while moderating inflation could negatively affect profits in the near term, we think trends supporting long-term demand growth in agriculture will support higher profits over the long haul. ADM trades for a modest 10 times EPS projections for the next few years and boasts a 3.4% dividend yield. Our Target Price is now $85.

Oracle (ORCL – $125.54) shares jumped nearly 12% in price last week after the company reported third fiscal quarter results. The software giant posted Q3-2024 EPS of $1.41 (vs. $1.38 est.) and saw its revenue climb 7% year-over-year to $13.280 billion (vs. $13.277 billion est.). Cloud Services revenue was $9.96 billion, which is broken up into Applications, Cloud Services and License Support ($4.58 billion vs. $4.45 billion est.) and Infrastructure Cloud Services and License Support ($5.38 billion vs. $5.30 billion). Cloud License and On-Premise License revenue was $1.26 billion, beating the $1.20 billion estimate.

CEO Safra Catz stated, "We are working as quickly as we can to get the cloud capacity build out given the enormity of our backlog and pipeline. I expect the CapEx will be somewhere around $7 billion to $7.5 billion this fiscal year, meaning our Q4 CapEx should be considerably higher. To that point, we now have 68 customer-facing cloud regions live with 47 public cloud regions around the world and another eight being built. Twelve of these public-cloud regions interconnect with Azure and more locations with Microsoft are coming online soon. We also have 11 dedicated region slots and 13 more planned. Several national security regions in EU sovereign regions live with increasing demand for more of each. And finally, we already have two Alloy cloud regions live with five more planned where Oracle Partners become cloud providers offering customized cloud services alongside Oracle Cloud. And of course, we have also many, many, many clouded customer installations. As I mentioned earlier the sizing, flexibility, and deployment optionality of our cloud regions continues to be incredible advantage for us in the marketplace."

Ms. Catz continued, "In Q4, total revenue including Cerner are expected to grow from 4% to 6%. Total revenue excluding Cerner are expected to grow 6% to 8%. Total revenue — the total cloud revenue excluding Cerner is expected to grow from 22% to 24% as more capacity comes online in Q4. The EPS growth rate will be affected by the compare as our Q4 tax rate last year was 9.2%, which I believe most of you have already accounted for in your models. And my EPS guidance for Q4 assumes a base tax rate of 19%. As always, one-time tax events could cause actual tax rates to vary from my guidance as stated last year. So with that, non-GAAP EPS is expected to be down 2% or to flat and be between $1.62 and $1.66."

On the topic of industry dynamics, founder Larry Ellison said, "I think [Oracle Database running on top of Azure] is the key to unlocking a stronger adoption cycle for moving Oracle in general to the cloud and specifically the migration to Autonomous Database. Oracle, we expect the multi-cloud initiatives to continue to expand...We think the era of walled gardens is coming to an end, where it used to be, okay, I'm going to move all my stuff to AWS, trying to move all my stuff to Azure. What customers really want is the ability to use multiple clouds and for those multiple clouds to talk to one another. And I think in the era of the Internet and now cloud computing, it's really called Cloud Computing. It's not hold a bunch of separate clouds. So we expect that multi-cloud to become the norm and Oracle to be available everywhere...We think that's going to preserve that franchise and expand it because the Autonomous Database is a unique piece of technology and there is nothing like it in the world, and maybe the most interesting thing, no one else is working on anything like that. No one else even trying to duplicate the Autonomous Database. So, we think it will become a very successful product in every cloud."

ORCL shares have gained 19% this year, adding to the 31% gain in 2023. The valuation remains reasonable compared to much of the Tech sector, and analysts expect between 11% and 16% earnings growth over each of the next three fiscal years. Of course, we'd like to see some multiple expansion in addition to earnings growth. ORCL continues to generate tremendous cash flow with healthy margins and provides a 1.3% dividend yield. Our Target Price has been boosted to $144.

We wanted to follow up on our commentary two weeks ago on **Volkswagen AG's** (VWAPY – $12.39) preliminary annual results. VWAPY earned $3.45 per share (vs. $3.29 est.) and had $348 billion of revenue (vs. $344 billion est.) in fiscal 2023.

On the webcast, CFO Arno Antlitz said, "We expect global vehicle sales to slightly increase in 2024. We aim to gain share in the North American region, whereas it is our target to sustain our position in Europe. In China, we expect to consciously give share in a highly competitive BEV environment, in line with our value-over-volume strategy. Our price mix should benefit from numbers of new model launches, lower material prices and product costs should favor us in 2024, as well as first positive effects from the execution of our performance programs, not to forget our continuous fixed cost work."

Mr. Antlitz added, "Looking further out, our primary focus is on realizing group synergies and the gradual phasing out of upfront investments in our ICE business. This is enabling us to target a lower cumulative spend for R&D and CapEx over the 2025 to 2029 planning round at the level of EUR170 billion. We are continuing to invest in the electrification and digitalization of our company. At the same time, we are doing our homework on the cost side. An improved element of our Group strategy is to enhance resilience by reducing Group overhead costs. By 2023, compared to 2019, we were able to reduce the ratio of automotive revenues by in total 3 percentage points. In an industry that generates a margin of 8% to 10%, this is a significant contribution to the robustness and success of our company. And this is for sure not the end of the journey. We believe there's virtual room for improvement, in particular from the consistent execution of our performance program across all brands."

Volkswagen said it expects up to 5% revenue growth in 2024 with an operating margin that should come in slightly ahead of the 7.0% margin in 2023. The company touted its ability to share architecture, software, battery technology and mobility across its four business lines: Core, Progressive, Sport Luxury and Trucks. The investments are significant, but we think they'll work out in the favor of shareholders as technology rapidly evolves to meet the needs of consumers. Our Target Price for VWAPY is $22.

Formerly high-flying shares of **Jabil** (JBL – $123.15) plunged more than 16% after the contract manufacturer reported fiscal Q2 results. In the quarter, Jabil earned an adjusted $1.68 per share versus $1.85 in the year-ago period and the $1.66 consensus analysts estimate. Electronic Manufacturing generated $3.3 billion of revenue, down 18% year-over-year due to a shift to a consignment model in the cloud business and lower demand from a variety of customer types. Management said revenue for the Diversified Manufacturing segment came in at $3.4 billion, down 16% compared to the same time frame a year ago due to divestitures. Corporate-action-adjusted, the DM segment performed “very well,” and the 5.6% operating margin was a 100-basis-point increase over last year.

CEO Kenny Wilson commented, “Fiscal ’24 was always going to be a transitional year for Jabil, one in which we’ve successfully completed the largest transaction in the company’s history with the Mobility sale and the subsequent efforts by our teams to optimize our footprint and cost structure for the go-forward company. While this transaction and the optimization of our footprint were anticipated, the end markets slowdown was not. As I have stated previously, the key attribute of our model is agility and our ability to quickly react and effectively absorb changes in revenue. At Jabil, we obsess about operations, working tirelessly to ensure that what is within our control, we control well.”

Mr. Wilson concluded, “As I think about exiting this year as a more optimized company, coupled with the numerous opportunities across our commercial portfolio, I’m confident in our ability to expand margins year-on-year, while also delivering core EPS of $10.65 and free cash flow in excess of $1 billion. Note that in modeling fiscal year ’25, we anticipate total revenues similar to fiscal year ’23 levels, excluding the Mobility divestiture. Importantly, we expect mix to be much improved as our business continues to trend toward markets benefiting from long-term secular trends.”

Jabil’s mobility segment was sold off in August to BYD Electronics for $2.2 billion. Jabil pays a measly $0.08 per share quarterly dividend, amounting to a 0.26% yield, but remains active in its efforts to repurchase shares, having spent $825 million in Q2 for 6.5 million shares. $1.2 billion remained on the current share repurchase program at the end of February, while $2.6 billion of cash is available for management to use strategically. Shares are down a few percentage points this year, on the heels of an 87% gain in 2023. The valuation, including a forward P/E near 13, remains inexpensive, while the free cash flow yield is 5.4%. Our Target Price is now $161.

Shares of **Abbott Labs** (ABT – $115.49) sank more than 5% last week in sympathy with peer baby formula maker Reckitt Benckiser—owner of Mead Johnson. A jury awarded $60 million to the mother of a premature baby that died from an intestinal disease called necrotizing enterocolitis (NEC) after being fed Mead Johnson's Enfamil brand of baby formula.

As the maker of Similac baby formula, Abbott is also a target of many similar lawsuits in various courts in different states. And these NEC lawsuits are separate from ongoing litigation against Abbott over the shutdown of its Sturgis, Michigan, plant and subsequent recall of batches of baby formula for possible contamination, which contributed to a nationwide formula shortage in 2022.

ABT shares had been on a nice run, climbing over 35% since mid-October before the latest round of headlines hit the press, along with additional news that the company would recall its HeartMate product. The recall had been deemed a correction by the FDA versus a product removal. Abbott is the lone supplier of left ventricular assist devices to the U.S. market, after **Medtronic** (MDT – $83.57) pulled a competing pump in June 2021 following its own series of recalls.

We are hard pressed to think that every jury to hear the pending infant formula cases would be as generous as the one in Illinois that awarded the $60 million. Of course, the company could choose to pursue a settlement, but the potential liabilities would represent a fraction of nutrition segment revenue in a given year given that half is from products intended for adults. Moreover, we do not think reliance on infant formula will change dramatically despite any requirements to include additional warnings on product labels.

We continue to like the diversity of Abbott's revenue base, particularly when it comes to its medical device portfolio, and we remain comfortable with its spot in our broadly diversified portfolios. Still, our Target Price has been fine-tuned to $139.