Market Commentary Monday, March 25, 2024

March 25, 2024

EXECUTIVE SUMMARY

Newsletter Trades – One Transaction for 1 Portfolio

Week in Review – Sizable Rally; Average Stock in the Green YTD

Reddit – Lots of Red for Post-IPO Buyers

Valuations – Value Stocks Attractively Priced

FOMC Meeting – Soft Landing & Rate Cuts Expected

Econ News – Better-than-Expected Numbers

EPS – Solid Growth Projected in ’24 and ’25

Sentiment – Optimism Pulls Back a Bit

Stock News – Updates on AAPL, MU, INTC, JWN, SIEGY, IP, BHE & FDX

Market Review

As discussed on our *Sell Alert*, we made the following trade last week in our hypothetical Millennium Portfolio.

03.18.24: Sold 46 **Dick’s Sporting Goods** (DKS – $221.24) at $211.52

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Resisting the temptation to complain about Friday’s modest pullback, it was a terrific five days of equity trading for those of us who are long. Indeed, a handsome advance on the week finally moved the average total return for Russell 3000 constituents into the green on the year as the Russell 2000 index has been a laggard with that capitalization-weighted small-cap stock benchmark up just 2.5% thus far in 2024.

While the large-stock-dominated, capitalization-weighted market averages generally are off to a very nice start in 2024, the average median returns for members of the Russell 3000 index and the Russell 3000 Value index finally made their way into the green year-to-date, as many of the smaller constituents have been big laggards, suggesting to us that these and other companies that have yet to enjoy a big rally have plenty of upside potential.

Market of Stocks 2024 - Russell 3000								
R3K Members	% of Market Cap	Average 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	**1.7**	19.3	16.3	1.9	2.2	1.58	2952
Largest 10	28.4	**24.1**	34.2	25.8	8.4	9.1	0.39	10
Top 11-20	8.5	**5.1**	25.6	24.4	3.6	8.3	1.68	10
Top 21-30	5.4	**13.6**	25.2	20.9	5.5	7.1	2.08	10
Top 31-40	4.2	**6.8**	32.1	23.2	5.0	5.0	1.50	10
Top 41-50	3.5	**13.0**	24.5	21.3	3.1	7.4	1.94	10
Largest 50	49.9	**12.5**	27.4	23.9	5.2	7.8	1.52	50
Next 950	45.9	**7.8**	22.4	18.9	2.6	3.4	1.63	950
Bottom 1952	4.1	**-1.6**	16.1	14.3	1.6	1.7	1.56	1952
Market of Stocks - Russell 3000 Value								
All Value	100.0	**1.5**	17.2	14.8	1.7	1.7	1.89	2264
Largest 10 Value	16.3	**13.3**	21.4	14.2	2.2	2.2	2.25	10
Market of Stocks - Russell 3000 Growth								
All Growth	100.0	**2.8**	24.2	20.9	2.6	4.0	0.82	1507
Largest 10 Growth	60.7	**19.5**	42.3	29.9	8.4	9.1	0.39	10

From 12.31.23 - 3.22.24. Source: Kovitz using data from Bloomberg.

True, one of your Editor’s biggest pet peeves popped up again last week when the financial press trumpeted the successful IPO of social-media-company Reddit, even as nearly everyone who bought post-IPO, where far more shares have changed hands, was underwater at Friday’s close.

No doubt, the stock-market debut of social media concern Reddit (RDDT) beathed new life into the IPO market, but once again the newspaper headlines trumpeted only the gains of insiders and those able to buy at the offering price. Far more shares traded in the open market over the past two days and thus far those who bought are underwater as the value-weighted average price of the stock was $50.45 on Thursday and $48.12 on Friday, versus a closing price below $46.

Reddit Hits $9.5 Billion Value as IPO Jumps 48%

By Corrie Driebusch And Sarah E. Needleman

Reddit shares surged 48% from the offer price in their stock-market debut Thursday, an endorsement for the oftentimes irreverent social-media company and an encouraging sign for other companies that have been waiting to go public.

The company's shares closed at $50.44 a piece on their first day trading on the New York Stock Exchange. That gives the company known for its wide-ranging message boards and "ask me anything" town halls a valuation of around $9.5 billion.

It's the second initial public offering of the week to jump in its first day of trading, a change after two years of choppy reception for new is-

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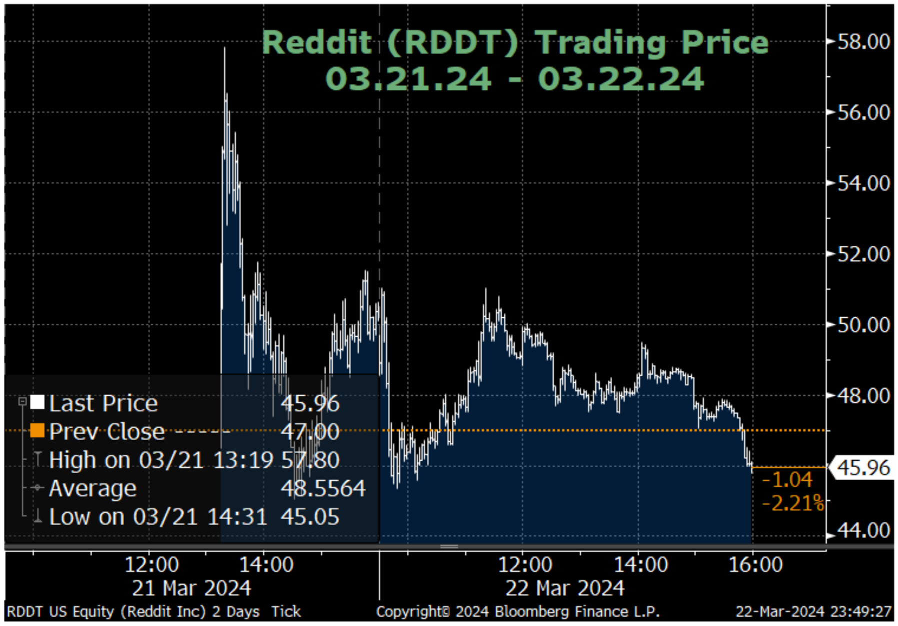
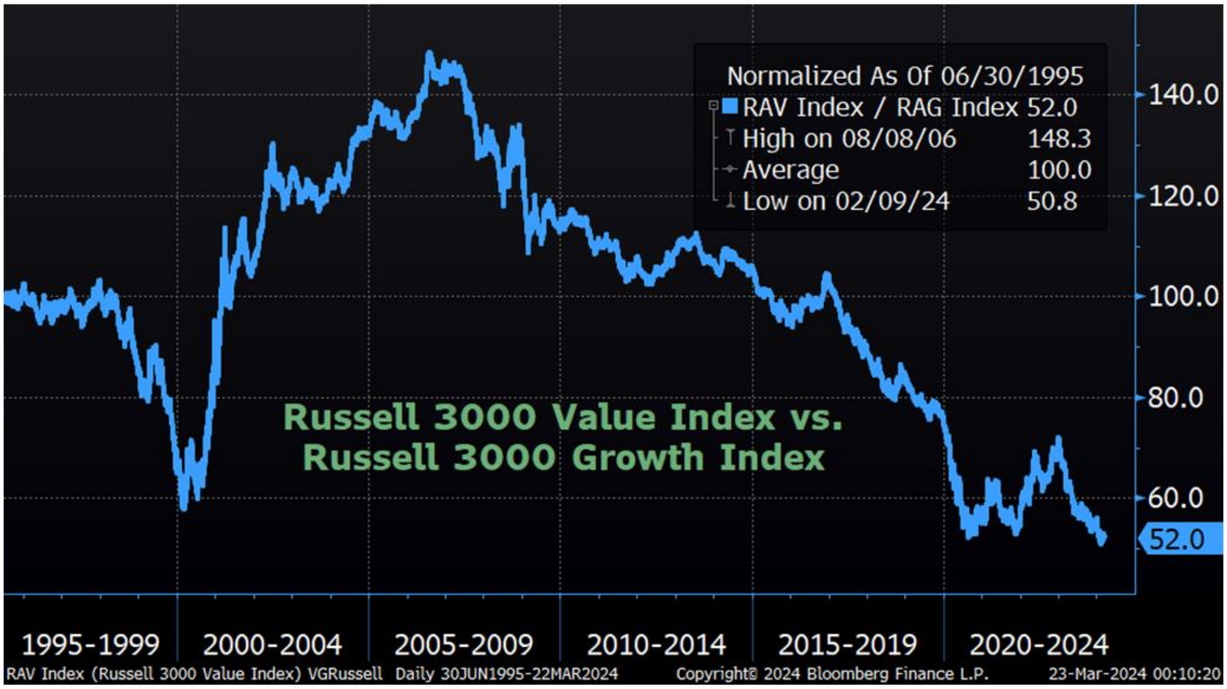
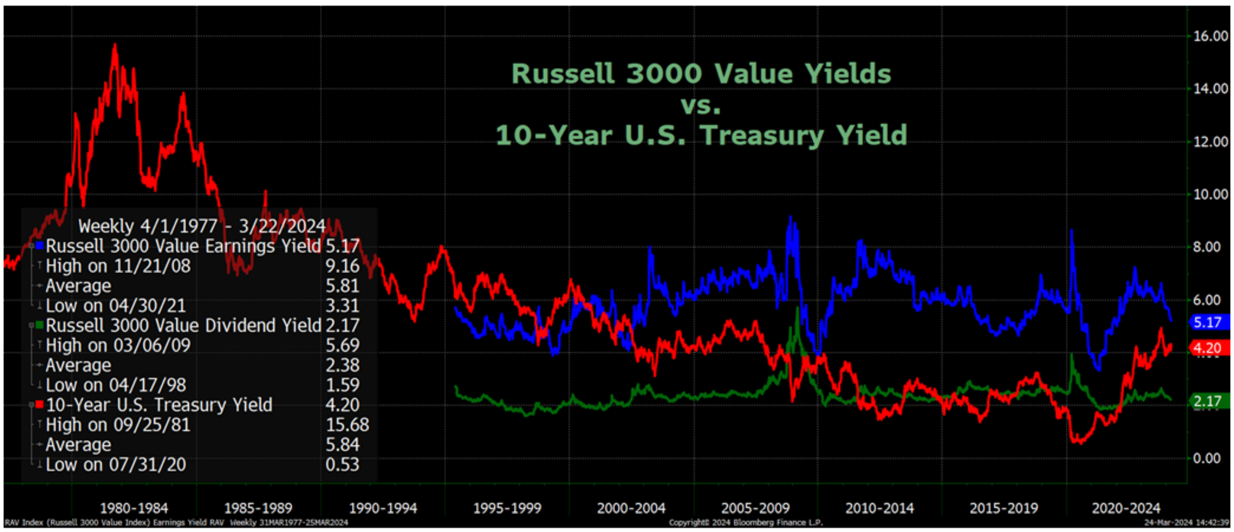


However, we are not unhappy to see market breadth broadening beyond a handful of mega-cap names, especially as we think many Value stocks, like some of those that we have long championed, are attractively priced relative to Growth stocks...



...and the benchmark Value index is still inexpensive when considering the current interest rate environment,...

While the Earnings Yield, which is the inverse of the P/E ratio, on the S&P 500 (3.99%) is still reasonable relative to the current (and well below average) 4.20% 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 (5.17%) AND dividend yield (2.17%) near the historical norms for those measures dating back to 1995.



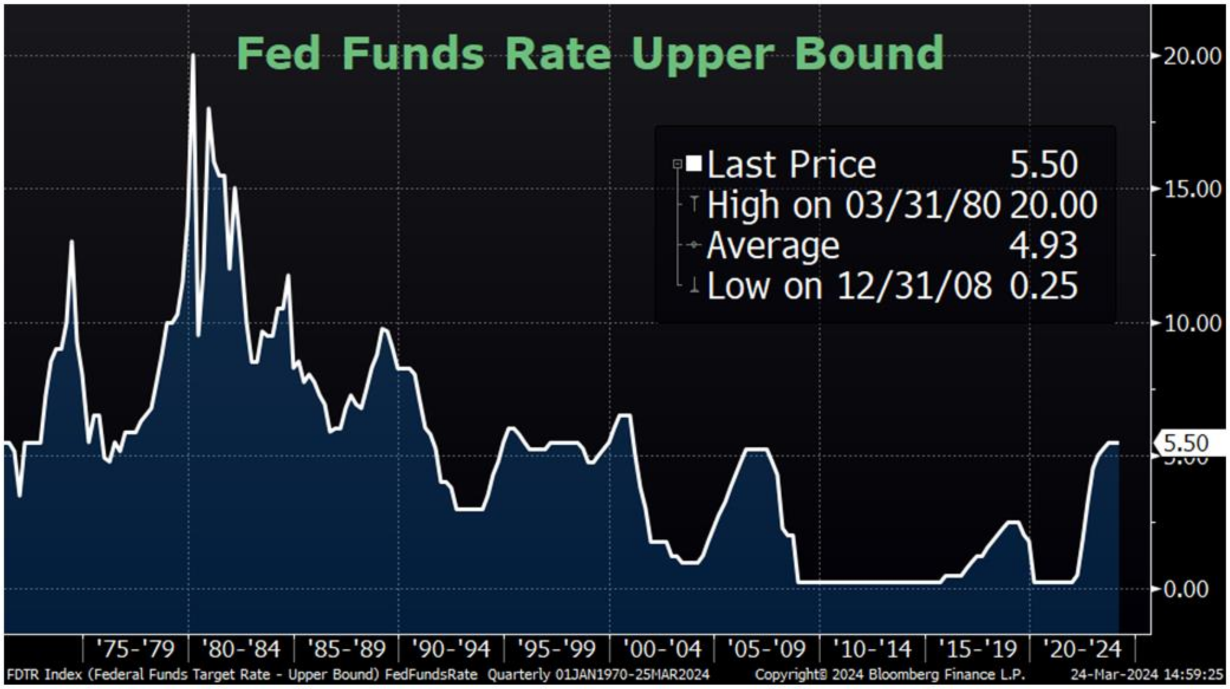
...while we remain enthused about the valuation metrics associated with our broadly diversified portfolios of what we believe are undervalued stocks.

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	14.6	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.

Interestingly, the catalyst for the move higher in stocks last week was the Federal Open Market Committee's decision to leave its target for the Fed Funds rate unchanged at a range of 5.25% to 5.50%,...



...with the FOMC Statement indicating, "Inflation has eased over the past year but remains elevated," and "The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2%."

FOMC Statement – March 20, 2024

Recent indicators suggest that economic activity has been expanding at a solid pace. Job gains have remained strong, and the unemployment rate has remained low. Inflation has eased over the past year but remains elevated.

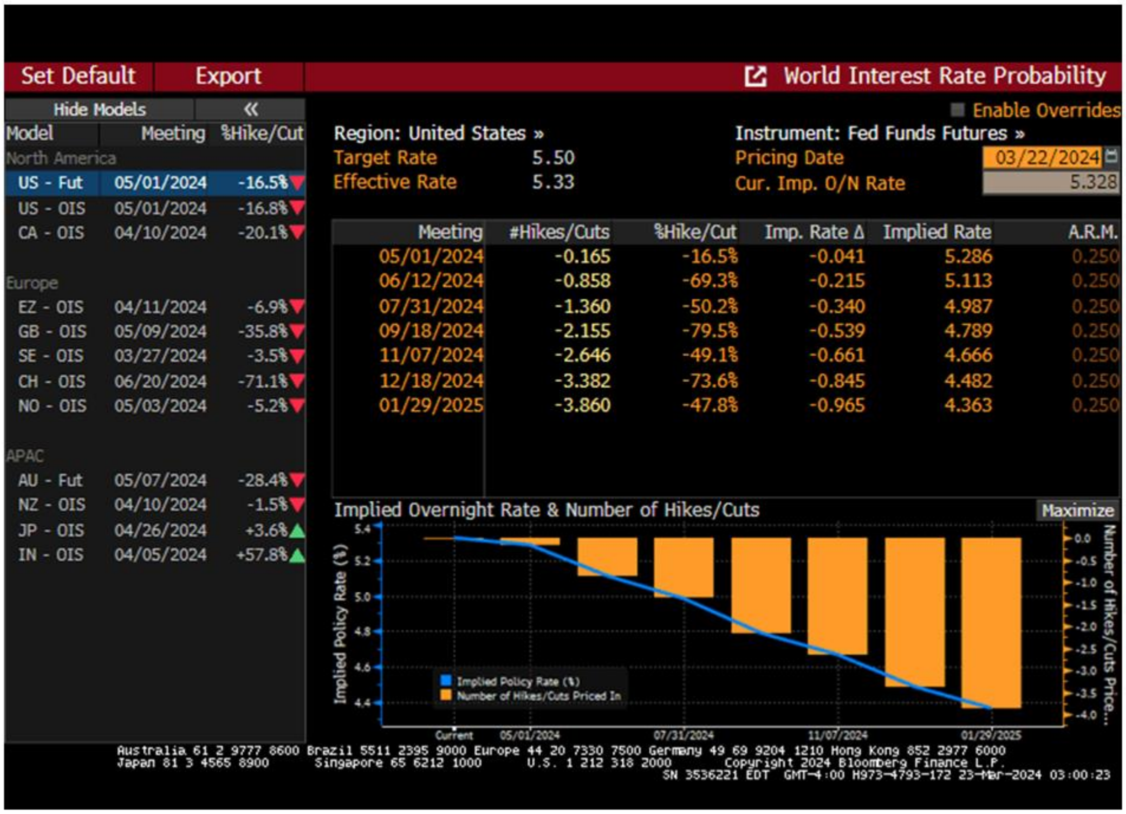
The Committee seeks to achieve maximum employment and inflation at the rate of 2% over the longer run. The Committee judges that the risks to achieving its employment and inflation goals are moving into better balance. The economic outlook is uncertain, and the Committee remains highly attentive to inflation risks.

In support of its goals, the Committee decided to maintain the target range for the federal funds rate at 5-1/4 to 5-1/2%. In considering any adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2%. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in its previously announced plans. The Committee is strongly committed to returning inflation to its 2% objective.

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

Nonetheless, the bond market liked what it heard, with the 10-Year U.S. Treasury jumping in price and dipping in yield,...

...and the betting in the futures market continuing to target a year-end Fed Funds rate (4.48%) well below current levels,...



...and close to the latest consensus projection of 4.6% offered by Federal Reserve Board members and Federal Reserve Bank presidents.

Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, March 2024

Percent

Variable	Median[1]				Central Tendency[2]				Range[3]			
	2024	2025	2026	Longer run	2024	2025	2026	Longer run	2024	2025	2026	Longer run
Change in real GDP	2.1	2.0	2.0	1.8	2.0–2.4	1.9–2.3	1.8–2.1	1.7–2.0	1.3–2.7	1.7–2.5	1.7–2.5	1.6–2.5
December projection	1.4	1.8	1.9	1.8	1.2–1.7	1.5–2.0	1.8–2.0	1.7–2.0	0.8–2.5	1.4–2.5	1.6–2.5	1.6–2.5
Unemployment rate	4.0	4.1	4.0	4.1	3.9–4.1	3.9–4.2	3.9–4.3	3.8–4.3	3.8–4.5	3.7–4.3	3.7–4.3	3.5–4.3
December projection	4.1	4.1	4.1	4.1	4.0–4.2	4.0–4.2	3.9–4.3	3.8–4.3	3.9–4.5	3.8–4.7	3.8–4.7	3.5–4.3
PCE inflation	2.4	2.2	2.0	2.0	2.3–2.7	2.1–2.2	2.0–2.1	2.0	2.2–2.9	2.0–2.5	2.0–2.3	2.0
December projection	2.4	2.1	2.0	2.0	2.2–2.5	2.0–2.2	2.0	2.0	2.1–2.7	2.0–2.5	2.0–2.3	2.0
Core PCE inflation[4]	2.6	2.2	2.0		2.5–2.8	2.1–2.3	2.0–2.1		2.4–3.0	2.0–2.6	2.0–2.3	
December projection	2.4	2.2	2.0		2.4–2.7	2.0–2.2	2.0–2.1		2.3–3.0	2.0–2.6	2.0–2.3	
Memo: Projected appropriate policy path												
Federal funds rate	4.6	3.9	3.1	2.6	4.6–5.1	3.4–4.1	2.6–3.4	2.5–3.1	4.4–5.4	2.6–5.4	2.4–4.9	2.4–3.8
December projection	4.6	3.6	2.9	2.5	4.4–4.9	3.1–3.9	2.5–3.1	2.5–3.0	3.9–5.4	2.4–5.4	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 December projections were made in conjunction with the meeting of the Federal Open Market Committee on December 12–13, 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 December 12–13, 2023, meeting, and one participant did not submit such projections in conjunction with the March 19–20, 2024, 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.

Given that those projections also offered a bump in the 2024 estimate for GDP growth to 2.1%, up from 1.4% three months ago, with modestly higher Core PCE inflation of 2.6%, above the prior forecast 2.4%, traders seemingly remained of the belief that a so-called soft landing is in the cards for the U.S. economy. Fed Chair Jerome H. Powell did nothing to dispel that notion at the Press Conference that followed the decision on interest rates,...

Chair Powell's Press Conference – March 20, 2024

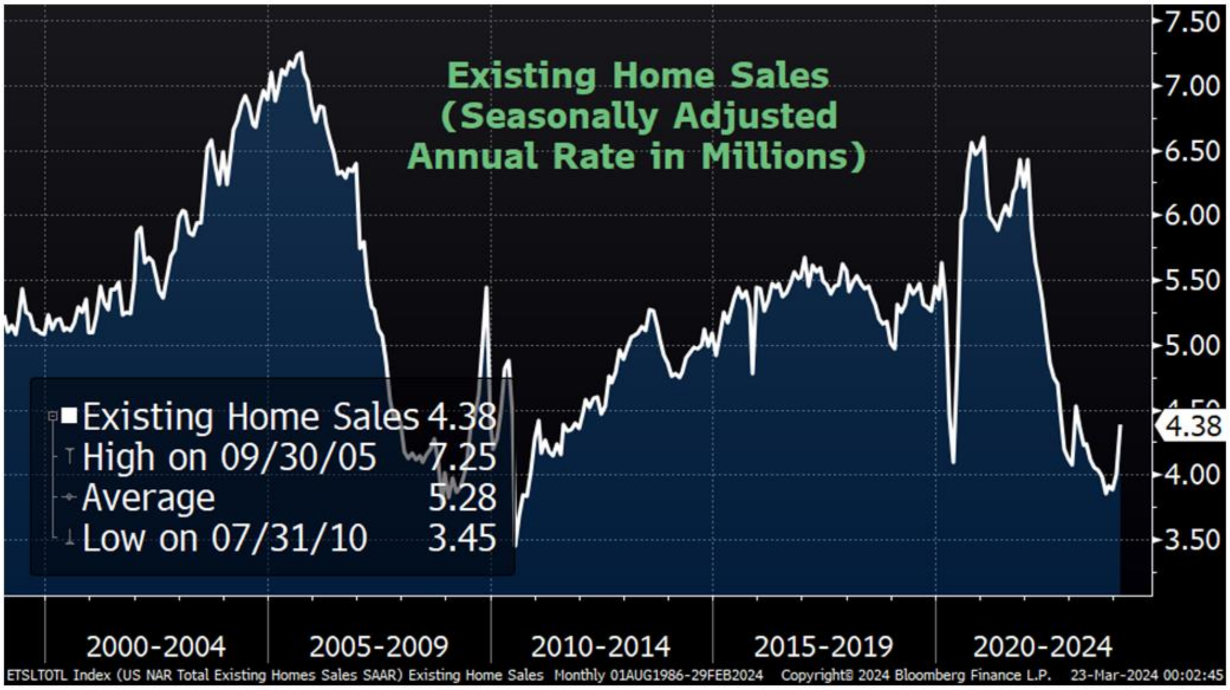
Recent indicators suggest that economic activity has been expanding at a solid pace. GDP growth in the fourth quarter of last year came in at 3.2%. For 2023 as a whole, GDP expanded 3.1%, bolstered by strong consumer demand as well as improving supply conditions. Activity in the housing sector was subdued over the past year, largely reflecting high mortgage rates. High interest rates also appear to have weighed on business fixed investment. In our Summary of Economic Projections, Committee participants generally expect GDP growth to slow from last year's pace, with a median projection of 2.1% this year and 2% over the next two years. Participants generally revised up their growth projections since December, reflecting the strength of incoming data, including data on labor supply.

The labor market remains relatively tight, but supply and demand conditions continue to come into better balance. Over the past three months, payroll job gains averaged 265 thousand jobs per month. The unemployment rate has edged up but remains low, at 3.9%. Strong job creation has been accompanied by an increase in the supply of workers, reflecting increases in participation among individuals aged 25 to 54 years and a continued strong pace of immigration. Nominal wage growth has been easing, and job vacancies have declined. Although the jobs-to-workers gap has narrowed, labor demand still exceeds the supply of available workers. FOMC participants expect the rebalancing in the labor market to continue, easing upward pressure on inflation. The median unemployment rate projection in the SEP is 4.0% at the end of this year and 4.1% at the end of next year.

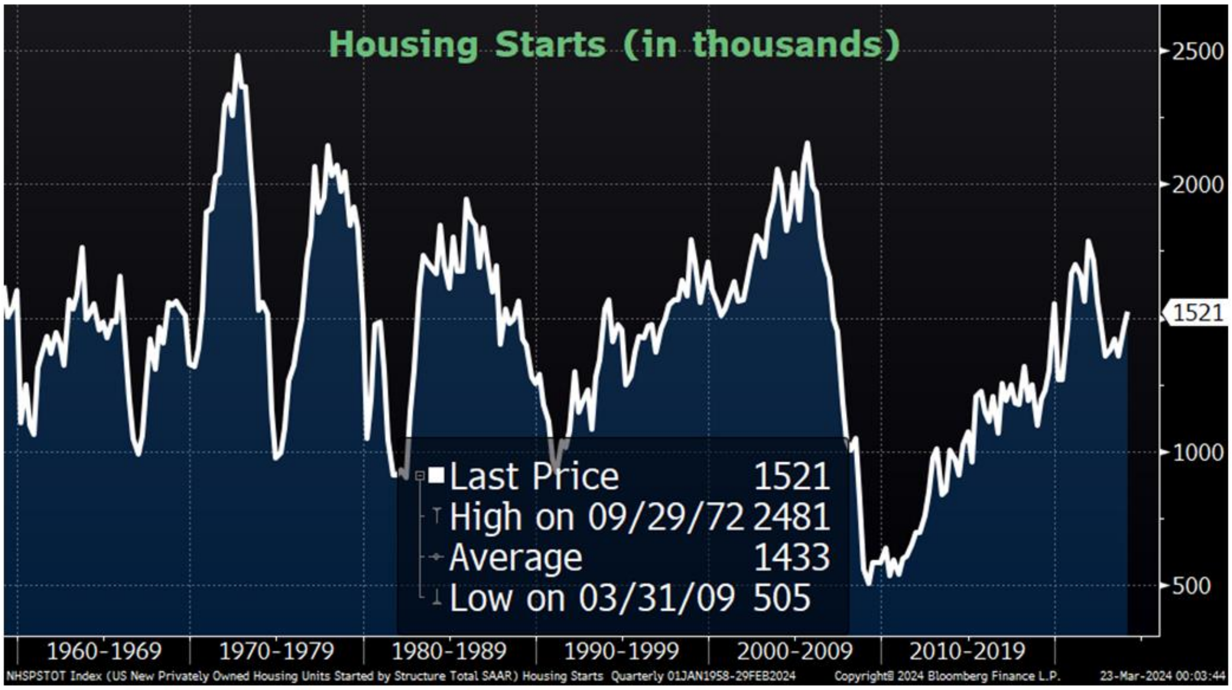
Inflation has eased notably over the past year but remains above our longer-run goal of 2%. Estimates based on the Consumer Price Index and other data indicate that total PCE prices rose 2.5% over the 12 months ending in February; and that, excluding the volatile food and energy categories, core PCE prices rose 2.8%. Longer-term inflation expectations appear to remain well anchored, as reflected in a broad range of surveys of households, businesses, and forecasters, as well as measures from financial markets. The median projection in the SEP for total PCE inflation falls to 2.4% this year, 2.2% next year, and 2% in 2026.

…while the latest batch of economic numbers suggested that the current odds of recession, which stand at 40% per tabulations from *Bloomberg*, might be too high.

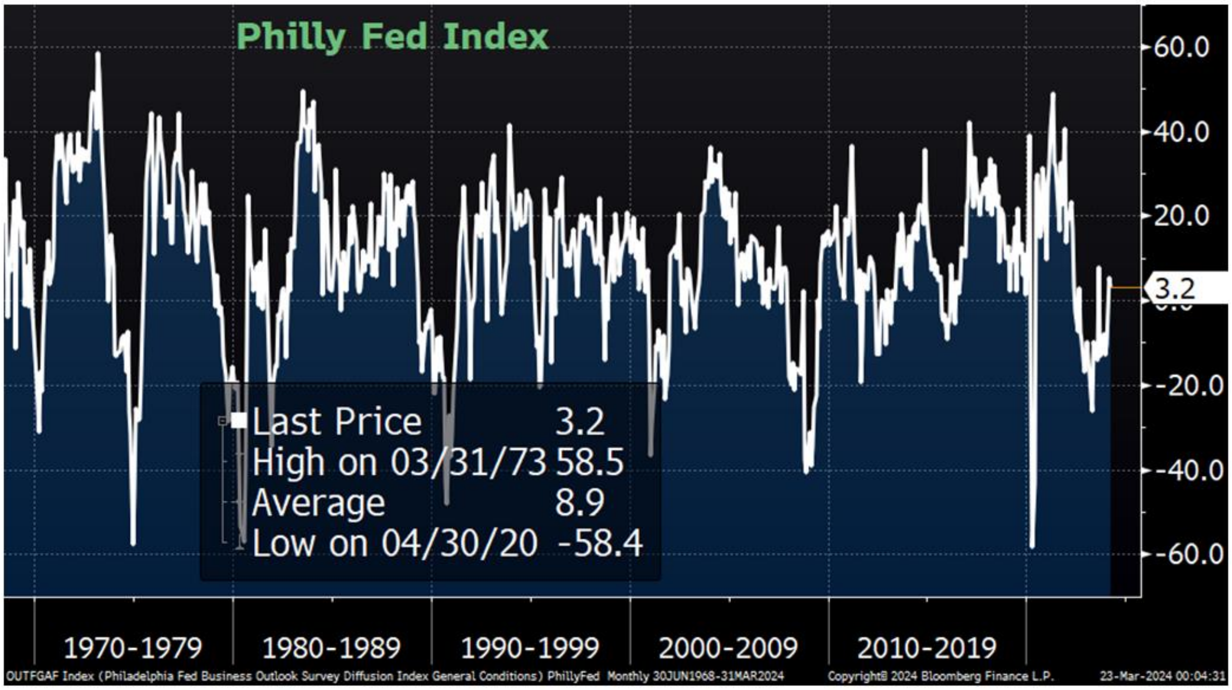
Whether it was existing home sales for February coming in at an annual rate of 1.521 million, vs. 1.374 million the month prior and estimates of 1.440 million,...



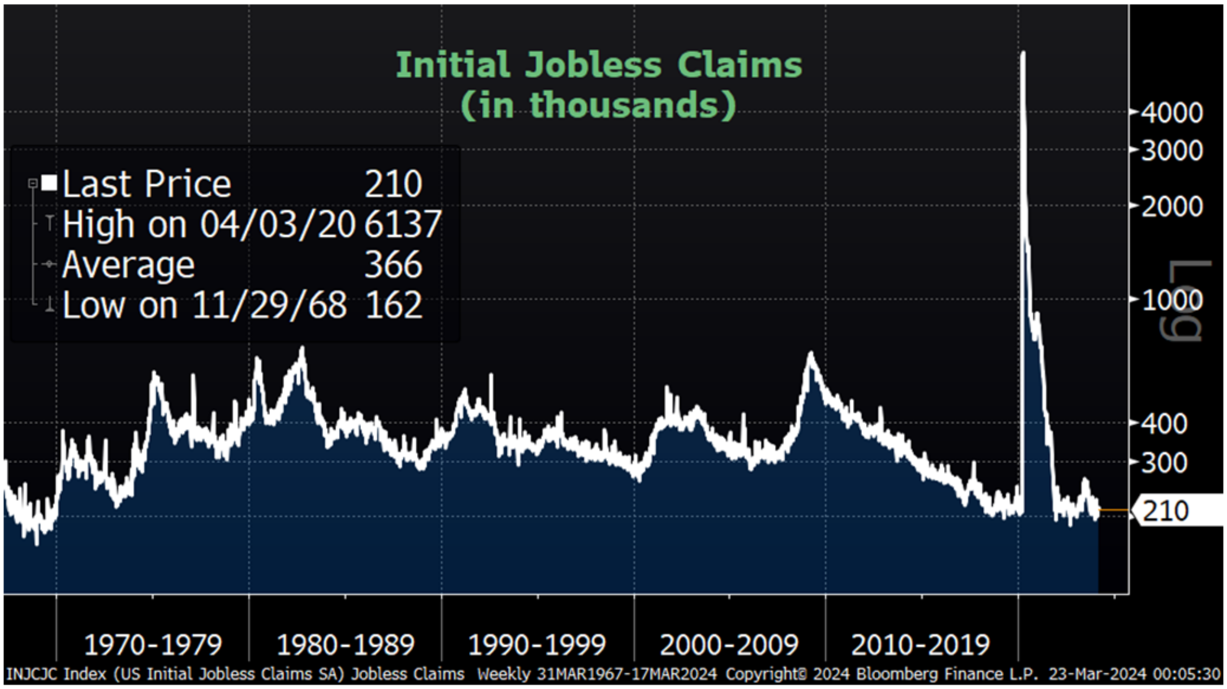
...housing starts last month jumping 10.7%, versus estimates of an 8.2% advance,...



…the Philadelphia Fed's gauge of East Coast manufacturing activity for March coming at in 3.2 vs. a -2.5 estimate,…

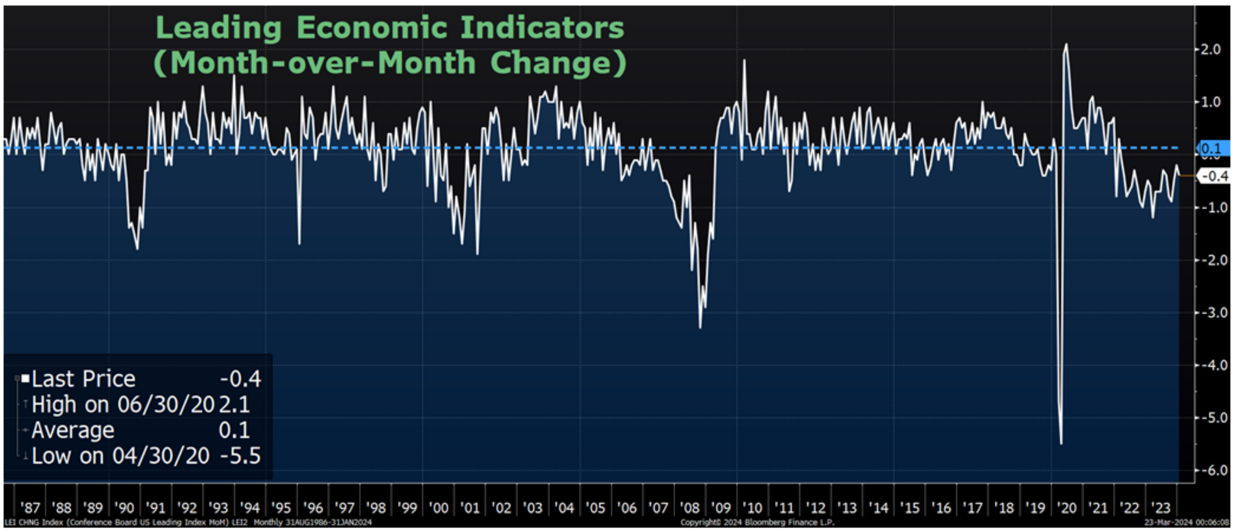


...first-time filings for unemployment benefits holding steady in the latest week at 210,000,...

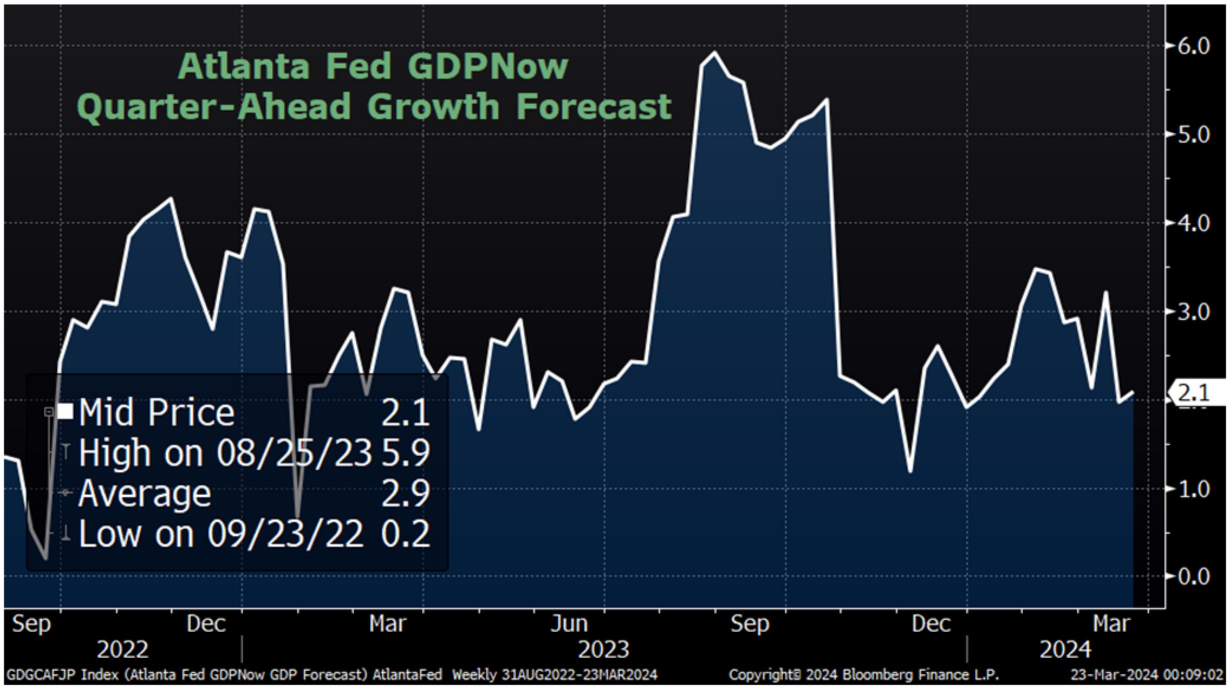


…or the Leading Economic Indicators in February topping expectations,…

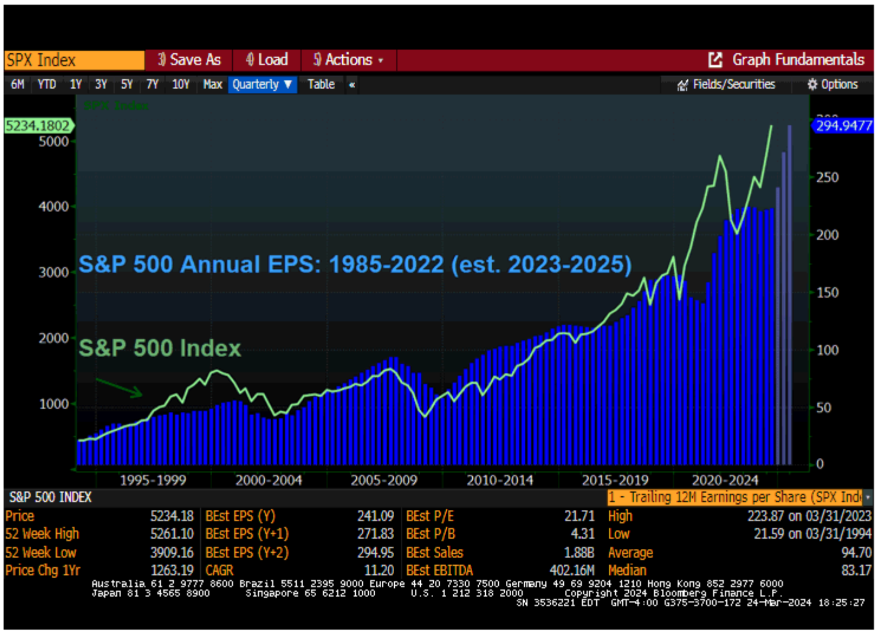
"The U.S. LEI rose in February 2024 for the first time since February 2022," said Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators, at The Conference Board. "Strength in weekly hours worked in manufacturing, stock prices, the Leading Credit Index™, and residential construction drove the LEI's first monthly increase in two years. However, consumers' expectations and the ISM® Index of New Orders have yet to recover, and the six- and twelve-month growth rates of the LEI remain negative. Despite February's increase, the Index still suggests some headwinds to growth going forward. The Conference Board expects annualized US GDP growth to slow over the Q2 to Q3 2024 period, as rising consumer debt and elevated interest rates weigh on consumer spending."



...solid U.S. economic growth remains likely,...



...which should support a continued expansion of corporate profits.



S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2025	$72.60	$273.99
9/30/2025	$71.12	$265.94
6/30/2025	$67.15	$257.62
3/31/2025	$63.12	$249.07
12/31/2024	$64.55	$240.23
9/30/2024	$62.80	$229.57
6/30/2024	$58.60	$219.02
3/31/2024	$54.28	$215.26
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 3.21.24

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Certainly, we understand that downturns, corrections and even Bear Markets are always part of the investment equation, so we constantly are braced for downside volatility, but we continue to believe that time in the market trumps market timing,...

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%	74.1%	825	8	2.9	9/30/2022	3/21/2024
17.5%	53.7%	533	13	2.0	9/30/2022	3/21/2024
15.0%	48.3%	453	15	1.7	9/30/2022	3/21/2024
12.5%	46.2%	429	16	1.6	9/30/2022	3/21/2024
10.0%	29.5%	234	30	0.9	10/27/2023	3/21/2024
7.5%	21.3%	145	51	0.5	10/27/2023	3/21/2024
5.0%	13.6%	71	104	0.3	10/27/2023	3/21/2024

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%	-24.2%	170	16	1.6	8/16/2022	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 03.21.24. 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

...and we were not unhappy to see enthusiasm for stocks on Main Street pull back a bit last week with the American Association of Individual Investors Sentiment Survey showing a drop of 2.7 percentage points in the number of Bulls and a 5.3 percentage-point rise in the tally of Bears,...

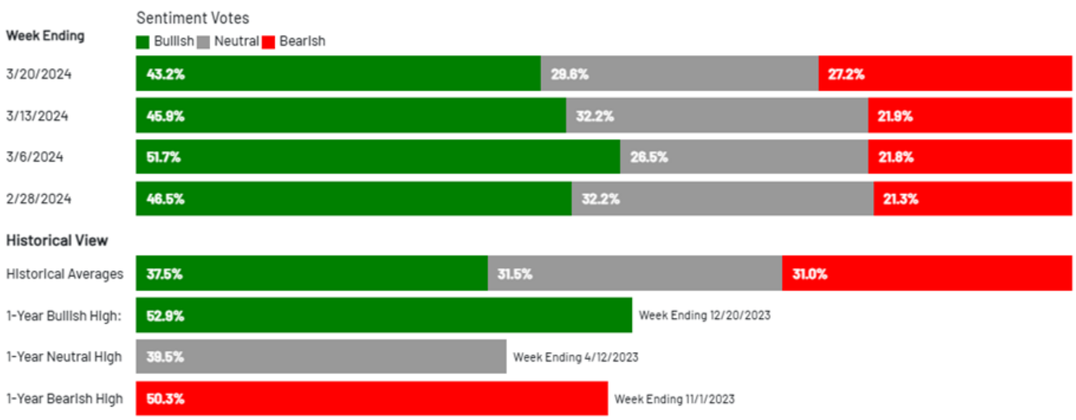
The AAII Investor Sentiment Survey

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?



…even as 37 years of market history supports sticking with stocks no matter the read on this contrarian indicator.

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 = 7.22										
BELOW	-54.0	7.2	955	0.24%	0.20%	1.17%	1.03%	3.47%	3.08%	6.67%	5.92%
ABOVE	7.2	62.9	955	0.19%	0.17%	0.58%	0.50%	1.99%	1.74%	4.62%	4.15%
	Ten Groupings of 1910 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%	7.71%	6.99%
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	191	0.01%	-0.01%	0.62%	0.52%	2.72%	2.46%	5.04%	4.50%
6	7.2	11.9	191	0.11%	0.09%	0.47%	0.36%	1.89%	1.65%	4.83%	4.39%
7	11.9	16.1	191	0.27%	0.25%	0.79%	0.69%	2.49%	2.25%	5.24%	4.74%
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	0.18%	0.16%	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%	1.59%	1.36%	2.57%	2.13%

From 07.31.87 through 3.21.24. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

Stock Updates

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

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

The Department of Justice (DOJ) along with 16 state Attorneys General filed a lawsuit against **Apple** (AAPL – $172.28) over what the DOJ said was a case about "about freeing smartphone markets from Apple's anticompetitive and exclusionary conduct and restoring competition to lower smartphone prices for consumers, reducing fees for developers and preserving innovation for the future." At face value, we are neither surprised nor bothered by the suit. Apple makes a boatload of money each year from the App Store, and it maintains tight control over all parts of the customer experience, from the supply chain to the products themselves and in the software embedded on Apple devices.

The Complaint is 88 pages long including signatures, and we read through the entire thing. There are many good points in the filing and we believe that Apple could play nicer with software developers, content owners and apply the rules more fairly than it presently does. However, there were huge chunks that were fundamentally wrong or applied a revisionist history that flatly ignores the actual reasons for Apple's success.

Take this part, for example: *Apple's fortunes changed around the time it launched the iPod in 2001. Innovative design and savvy marketing had not been enough to drive a successful business strategy. This time, the confluence of several factors made it a smash success. Apple's iTunes application allowed iPod users to organize their song library and update their iPod. A path clearing antitrust enforcement case, brought by the United States and state attorneys general, against Microsoft opened the market and constrained Microsoft's ability to prohibit companies like Apple from offering iTunes on Windows PCs. Licensing agreements with the major music labels allowed Apple to offer iPod/iTunes users a wide selection of music for a fee-per download. The iPod experience gave Apple a recipe for the future: a high-end device, a large number of platform participants (i.e., music labels and consumers), and a digital storefront. More importantly, it gave Apple a playbook: drive as many consumers and third-party participants to the platform as possible and offer a wide selection of content, products, and services created by those third parties to consumers. This structure put Apple in the driver's seat to generate substantial revenues through device sales in the first instance and subsequently the ancillary fees that it derives from sitting between consumers on the one hand and the products and services they love on the other.*

To pick this paragraph apart, it's rich to argue that Apple's iPod succeeded because **Microsoft** (MSFT – $428.74) was forced to end its own monopoly. Microsoft's Zune was an inferior product, full stop. It lacked a functional ease of use, was clunky and had no supporting content warehouse. It's true that a major step towards broad adoption came when iTunes was released for Windows, but that was in October 2003, nearly two years after the first iPod launched. Plus, Apple was no awful operation in 2000 and 2001 (we first recommended it in *TPS 410* in December 2000 and it has been open since). Certainly, iPod was a new direction for the personal computer-maker, and many folks were suspicious that it would work. With the benefit of hindsight, Apple nailed it. As the DOJ observed above, "The iPod experience gave Apple a recipe for the future: a high-end device, a large number of platform participants (i.e., music labels and consumers), and a digital storefront." Yes, exactly. That is a recipe for success, and it should be. The recipe that is so painfully obvious in hindsight is actually an enormous gamble standing in 2001 and looking forward into the unknown.

There were many sections of the DOJ's filing that did an equally solid job of revising the history and we suspect Apple's army of lawyers is hard at work picking it apart. The court system is always an unknown quantity when it comes to outcomes and we don't think that the States and DOJ are going to be looking quickly for a settlement, meaning we don't think Apple can simply pay a fine and have this go away. It does seem likely that Apple will have to make some concessions and we can't reliably estimate what those might be at this point. In Apple's previous spats, it has been able to reach agreements that allow the company to maintain its business model. We expect a similar resolution, where Apple will have to make changes, but they won't have an enormous impact on the Apple ecosystem, nor will it do much to dampen enthusiasm for users. Still, our AAPL Target Price is now $196.

The oversupply environment changed quickly at **Micron Tech** (MU – $110.21), which reported a fiscal Q2 that was much better than analysts were expecting. The memory chip maker earned $0.42 per share, which is far above the $0.24 expected loss. Revenue was $5.82 billion, 9% ahead of the consensus and 45% ahead of last year's $3.69 billion figure. Shares soared 18% last week. In the upcoming fiscal third quarter, Micron expects revenue between $6.4 billion and $6.8 billion (vs. $5.99 billion est.) and adjusted earnings per share between $0.38 and $0.52 (vs. $0.24 est.). The adjusted gross margin is expected to come in between 25% and 28% (vs. 20.9% est.).

CEO Sanjay Mehrotra explained, "Micron drove robust price increases as the supply-demand balance tightened. This improvement in market conditions was due to a confluence of factors, including strong AI server demand, a healthier demand environment in most end markets, and supply reductions across the industry. AI server demand is driving rapid growth in HBM, DDR5, and data center SSDs, which is tightening leading-edge supply availability for DRAM and NAND. This is resulting in a positive ripple effect on pricing across all memory and storage end markets. We expect DRAM and NAND pricing levels to increase further throughout calendar year 2024 and expect record revenue and much improved profitability now in fiscal year 2025."

On the topic of end markets, Mr. Mehrotra said, "Inventories for memory and storage have improved significantly in the data center, and we continue to expect normalization in the first half of calendar 2024. In PC and smartphone, there were some strategic purchases in calendar Q4 in anticipation of a return to unit growth. Inventories remain near normal levels for auto, industrial, and other markets. We are in the very early innings of a multiyear growth phase driven by AI as this disruptive technology will transform every aspect of business and society. The race is on to create artificial general intelligence, or AGI, which will require ever-increasing model sizes with trillions of parameters. On the other end of the spectrum, there is considerable progress being made on improving AI models, so that they can run on edge devices, like PCs and smartphones, and create new and compelling capabilities. As AI training workloads remain a driver of technology and innovation, inference growth is also rapidly accelerating."

Mr. Mehrotra offered Micron's general market outlook, "Calendar 2023 DRAM bit demand growth was in the low double-digit percentage range, and NAND bit demand growth was in the low-20s percentage range, both a few percentage points higher than previous expectations. We forecast calendar 2024 bit demand growth for the industry to be near the long-term CAGR for DRAM and around the mid-teens for NAND… The supply outlook remains roughly the same as last quarter. We expect calendar 2024 industry supply to be below demand for both DRAM and NAND. Micron's bit supply growth in fiscal 2024 remains below our demand growth for both DRAM and NAND, and we expect to decrease our days of inventory in fiscal year 2024… Significant supply reductions across the industry have enabled the pricing recovery that is now underway. Although our financial performance has improved, our current profitability levels are still well below our long-term targets, and significantly improved profitability is required to support the R&D and CapEx investments needed for long-term innovation and supply growth. Micron will continue to exercise supply and CapEx discipline and focus on restoring improved profitability while maintaining our bit market share for DRAM and NAND."

CFO Mark Murphy added, "With a significantly improved supply-demand balance in the industry coupled with excellent execution, Micron is driving a strong inflection in pricing and a richer mix of high-value solutions. We remain disciplined with our investments and supply growth and focused on driving efficiency across the company. We expect positive free cash flow for the second half of fiscal 2024 and project record revenue in fiscal 2025."

We, apparently along with other investors, were surprised that an excess supply environment pivoted so quickly to an environment where MU is able to raise prices. Of course, much of that demand is driven by developments in the A.I. space and we think Micron stands to benefit from the gold rush. Few have figured out how to monetize A.I. at this point, except Microsoft, and the latest Apple and **Alphabet** (GOOG – $151.77) union demonstrates that the battle is heating up. We trimmed our Micron stake earlier this month but retained a full position and we are holding those remaining shares for an upwardly revised $126 Target Price, given the massive increase in expected top- and bottom-line numbers.

Intel (INTC – $42.57) announced last week a "landmark agreement" with the U.S. government to expand manufacturing of critical chips in America. The announcement had been telegraphed for some time and Intel's share price didn't budge much, but the details are interesting nonetheless. President Biden said, "I'm thrilled to announce the latest public-private partnership and one of the largest investments in semiconductors in the United States ever: a new landmark agreement under the CHIPS and Science Act between my administration and Intel for up to $8.5 billion. It's a smart investment that's being paired with over $100 billion from Intel, including $30 billion in Arizona and $30 billion in Ohio. It's among the largest private-sector investments ever in the history of Ohio and in Arizona. This historic funding will be used to build new semiconductor fab facilities and modernize — modernize and expand existing ones in Arizona, Ohio, New Mexico, and Oregon. Combined, it will create nearly 20,000 construction jobs, many of which will be union jobs."

Intel CEO Pat Gelsinger said, "Today is a defining moment for the U.S. and Intel as we work to power the next great chapter of American semiconductor innovation. A.I. is supercharging the digital revolution and everything digital needs semiconductors. CHIPS Act support will help to ensure that Intel and the U.S. stay at the forefront of the A.I. era as we build a resilient and sustainable semiconductor supply chain to power our nation's future."

Intel listed the deal highlights on its website:

- U.S. Department of Commerce has proposed up to $8.5 billion in direct funding through the CHIPS and Science Act to advance Intel's commercial semiconductor projects in Arizona, New Mexico, Ohio and Oregon.
- Intel also expects to benefit from a U.S. Treasury Department Investment Tax Credit (ITC) of up to 25% on more than $100 billion in qualified investments and eligibility for federal loans up to $11 billion.
- Proposed funding supports Intel's previously announced plans to invest more than $100 billion in the U.S. over five years to expand U.S. chipmaking capacity and capabilities critical to economic and national security and acceleration of emerging technologies, such as AI.
- Intel's investments are expected to create more than 10,000 company jobs and nearly 20,000 construction jobs, and to support more than 50,000 indirect jobs with suppliers and supporting industries.

Intel shares have pulled back around 15% this year, after nearly doubling in price last year. Analysts expect EPS of about $1.30 this year, which should grow to $2.75 or more by 2026. Shares yield 1.2% and liking the U.S. production, given long-playing geopolitical issues in Southeast Asia, our Target Price has edged up to $55.

Shares of upscale retailer **Nordstrom** (JWN – $19.04) rebounded 10% last week after *Reuters* reported the Nordstrom family was in talks to take the company private. The article credited unnamed sources with saying, "Nordstrom has asked investment banks Morgan Stanley and Centerview Partners to reach out to private equity firms and gauge their interest for a potential deal." Naturally, the retailer and Morgan Stanley declined to comment.

Nordstrom buyout rumors have circulated before, with little in the way of substance ensuing so we will take this one with a few grains of salt. Of course, we think the stock is reasonably priced, trading for a forward P/E of 11 and offering a 4.0% dividend yield, so it would make sense that others would see a bargain. With few details to go on, we will see what happens. Our Target Price remains $23.

Shares of **Siemens AG** (SIEGY – $94.82) retreated 6% last week as CFO Ralf Thomas told analysts at a Bank of America Industrials conference that revenue for its Digital Industries division will be down by a mid-single-digit rate in Q2 on a roughly 10% decline for orders. The division is among the diversified German industrial concern's higher margin and faster growing segments, which has been impacted by a slower recovery in China than anticipated and as higher interest rates weigh on customers' appetite to invest, according to Mr. Thomas.

He added, "But important to us is that we — whatever the top line momentum allows for — we are winning market shares and staying relevant for our customer industries, the structural demand is intact and will continue. So, if there is a delay or a shift of a quarter or two, that wouldn't worry me as we do have contingencies implemented and on their way to be effective in the second half of the fiscal year. So, margin, I think is safeguarded, best possible way in top line is what it is. But I think it would be naive to believe that we will be in the higher end of 43%."

The CFO also suggested that he expected Digital Industries to hit its annual operating margin targets (20% to 23%) despite the current macroeconomic headwinds, and that a pathway still existed through the back half of the year to allow the firm to keep company-wide earnings guidance provided in Q1 intact.

Shares had set a fresh 52-week high the week prior and were not too far from our previously set Target Price before the latest drop. Still, the P/E ratio of 16 is well below the peer median near 22, while the stock's weighting in our broadly diversified portfolio is not burdensome. We continue to like that Siemens is aligned with the demands and growth opportunities in electrification, automation, digitalization and sustainability. With a net dividend yield of 2.0%, our Target Price now resides at $103.

Shares of **International Paper** (IP – $39.53) caught a bid last week rising nearly 9% on the announcement that former KKR advisor Andrew Silvernail would take over the CEO slot from Mark Sutton, who had been in the seat since 2014. The optimism surrounding the change ties to expectations that Mr. Silvernail might drive addition through subtraction of non-core assets in IP's portfolio given his experience as both an investor and an executive.

Prior to his time at KKR, he served as Chairman and CEO of IDEX Corporation for much of the past decade and has previously held executive positions at Rexnord Industries, Newell Rubbermaid and Danaher Corporation.

Lead Director at IP Chris Connor said, “Andy is an experienced CEO with an extensive track record for creating value. His strategic agility, core values and drive for results align with and will enhance IP’s outstanding leadership team. We are confident that he is the right person to build on the success achieved under Mark Sutton’s leadership.”

We are enthusiastic about the move, with IPs Q4 financial results capping off a tough year as full-year EPS fell by a third versus 2022, which management pinned on a variety of headwinds such as a pull forward of goods during the pandemic from shifting consumer preferences driven by changes in the macroeconomic landscape. Even as the stock is in the green on the year, we hope that a fresh face at the top can help to make strides in closing IP’s performance gap between peers like Graphic Packaging and **Westrock** (WRK – $48.22). IP trades for 12 times EPS projections a few years out and has a 4.7% dividend yield. Our Target Price is $51.

Investors apparently did not appreciate the CFO change at **Benchmark Electronics** (BHE – $29.00), as the stock fell a few percentage points as a result. Roop Lakkaraju, who joined the electronic manufacturing services concern in 2018, will head to Bio-Rad next month. The interim CFO will be Arvind Kamal, the company’s VP of Finance.

We don’t have a reason to believe the transition will be difficult, even as Mr. Lakkaraju had been at his post for some time and weathered some significant headwinds, including the pandemic. The company did choose to reiterate its prior expectations for the March 2024 fiscal quarter, including revenue within a range of $625 million to $665 million and non-GAAP EPS between $0.42 and $0.48.

We like that Benchmark continues to invest in growth projects, while paying out a 2.3% yield to shareholders and maintaining a solid balance sheet. Our Target Price for BHE is presently $36.

Shares of **FedEx** (FDX – $284.32) were boosted 7% on Friday after the company said that Q3 earnings grew 13% year-over-year, the bottom line coming in 11.5% higher than the Street’s consensus.

The shipper instituted cost saving initiatives that included a significant reduction in workforce and strategic alterations in procurement and technology approaches. The measures boosted operating profits for Express and Ground segments, where operating margin expanded 130 basis points and 140 basis points, respectively. However, the Freight segment was negatively impacted by reduced weight per shipment, and lower shipment volumes, despite the benefit of an extra operating day. FedEx is working to renew its contract with the USPS that expires September 29.

CEO Raj Subramaniam said, “FedEx delivered another quarter of improved profitability in what remains a difficult demand environment, reflecting outstanding service and continued benefits from DRIVE. We are making meaningful progress on our transformation, while strengthening our value proposition and improving the customer experience. I’ve never been more confident in our path ahead as we build a more flexible, efficient, and intelligent network.”

Management reaffirmed its fiscal year outlook, narrowing the range of adjusted EPS guidance while maintaining a cautious stance amidst global demand dynamics, inventory restocking, inflation and e-commerce trends. Earnings per share is now projected to be $17.25 to $18.25.

We continue to appreciate the company’s large, difficult-to-replace network and think shares are still reasonably priced, despite the latest rally. The P/E ratio is now just 14 with EPS expected to grow more than 50% over the next couple of years. The board recently authorized a new $5 billion share repurchase program and the dividend yield is 1.7%. Our Target Price has been lifted to $349.