Market Commentary Monday, April 8, 2024

April 8, 2024

EXECUTIVE SUMMARY

Newsletter Trades – 7 Purchases Across 4 Portfolios

Week in Review – Stocks Retreat

Volatility – Normal Part of the Equity Process

Sentiment – AAII Optimism Pulls Back a Touch

Interest Rates – 10-Year Yield Jumps

Econ News – Solid Numbers

Valuations – Value Stocks Still Attractively Priced

Fed Speak – Kashkari vs. Powell

Stock News – Updates on CAT, MU, AYI, GBX, INTC, ELV, CVS, SOLV & MMM

Market Review

As discussed in the April edition of *The Prudent Speculator*, we made the following trades last week in our two real money newsletter portfolios:

TPS Portfolio
04.04.24 Buy 105 **Nutrien** (NTR – $56.76) at $56.6417

Buckingham Portfolio
04.04.24 Buy 212 **Bristol Myers** (BMY – $51.32) at $51.8041
04.04.24 Buy 292 **Healthpeak Properties** (DOC – $18.63) at $18.605

In our two hypothetical accounts we added the following stocks:

Millennium Portfolio
04.04.24 Buy 183 **Citizens Financial** (CFG – $33.98) at $35.46
04.04.24 Buy 188 **Hasbro** (HAS – $56.42) at $56.09

PruFolio
04.04.24 Buy 221 **Tyson Foods** (TSN – $59.05) at $58.37
04.04.24 Buy 293 **Verizon** (VZ – $42.12) at $42.99

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With the major market averages all retreating over the first week of April, we were again reminded that equity prices move in both directions, even as the long-term trend has been markedly higher.

THE PRUDENT SPECULATOR

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.

Advancing Markets

Minimum Rise %	Average Gain	Average # Days	Count	Frequency (in Years)	Last Start	Last End
20.0%	74.3%	825	8	2.9	9/30/2022	3/28/2024
17.5%	53.8%	534	13	2.0	9/30/2022	3/28/2024
15.0%	48.4%	454	15	1.7	9/30/2022	3/28/2024
12.5%	46.3%	429	16	1.6	9/30/2022	3/28/2024
10.0%	29.5%	234	30	0.9	10/27/2023	3/28/2024
7.5%	21.3%	145	51	0.5	10/27/2023	3/28/2024
5.0%	13.6%	72	104	0.3	10/27/2023	3/28/2024

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 03.28.24. 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.

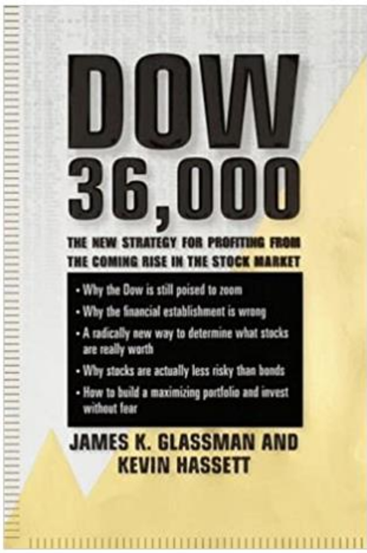
LONG-TERM RETURNS

	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

The Dow Jones Industrial Average failed in its effort to break the psychologically important 40,000 level, instead dropping below 39,000, but that popular benchmark still sits some 35% higher than the recent Bear Market low set on September 30, 2022. What's more, the gauge has returned 536% on a total-return basis, or 7.83% per annum, since James K. Glassman published his supposedly wildly Bullish *Dow 36,000* tome back in 1999.

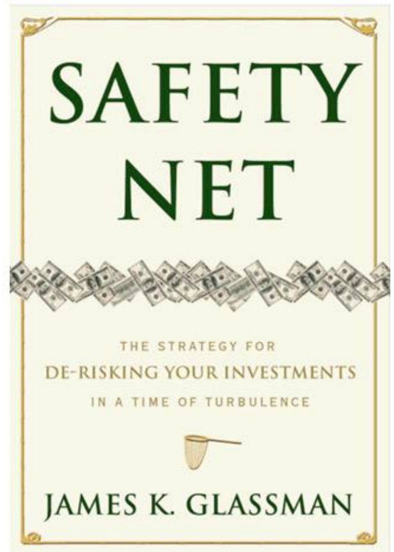
There is no assurance that the Dow Jones Industrial Average will hold above the 36,000 level, but James K. Glassman's famous Dow projection was eclipsed in 2021. Alas, he advised loading up on stocks at Dow 10,000 in 1999 and de-risking portfolios at Dow 12,000 in 2011...the only problem with market timing is getting the timing right.



September 20, 1999

"In theory, historical averages show that stocks are a good buy if you can hang on through the miserable periods. But most investors find that excruciatingly difficult to do—a fact that I never fully appreciated in my 30 years of writing about investing."

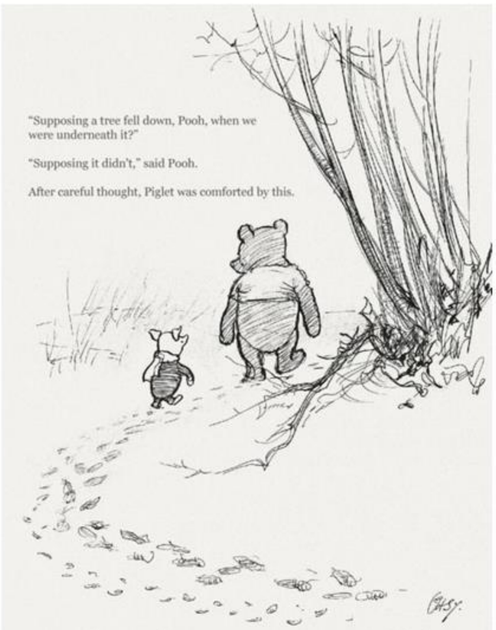
— James K. Glassman, February 24, 2011



February 22, 2011

No doubt, the ride has not been smooth and there have been plenty of events on the geopolitical stage with which to contend, but such seemingly is always the case,...

There is usually something about which to worry, yet equities have proved very rewarding through the years for those who remember that the secret to success in stocks is not to get scared out of them.



Event	Reaction Dates		S&P Start Value	S&P End Value	Event Gain/Loss	12 Months Later	36 Months Later	60 Months Later	Event End thru Present
Pearl Harbor	12/6/1941	12/10/1941	9.32	8.68	-7%	8%	51%	76%	59858%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	34596%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	31082%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	12114%
Suez Canal Crisis	10/30/1956	10/31/1956	46.37	45.58	-2%	-10%	26%	51%	11318%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	13251%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	9630%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	7376%
MLK Assassination	4/3/1968	4/5/1968	93.47	93.29	0%	8%	8%	16%	5479%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	6799%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	5547%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	7336%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	4846%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	5199%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	4256%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	3114%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	2026%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	2215%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	1546%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	1282%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	1164%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	1074%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	1039%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	930%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	493%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	442%
Clinton Impeachment	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	323%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	288%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	439%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	468%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	377%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	334%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	669%
Price Changes Only - Does Not Include Dividends				**Averages:**	**-7%**	**18%**	**39%**	**66%**	**7179%**

As of 4.5.24. Source: Kovitz using Bloomberg and Ned Davis Research Events & Reaction Dates

...yet equities have proved rewarding in the fullness of time for those who remember that the secret to success in stocks is not to get scared out of them.

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 4.40% yield on the 10-year U.S. Treasury increase markedly as the level of patience rises.

PATIENCE IS VIRTUOUS

VALUE STOCKS

	Count >4.4%	Count <=4.4%	Percent >4.4%
1 Month	703	457	60.6%
3 Months	733	425	63.3%
6 Months	757	398	65.5%
1 Year	772	377	67.2%
2 Year	849	288	74.7%
3 Year	915	210	81.3%
5 Year	934	167	84.8%
7 Year	956	121	88.8%
10 Year	979	62	94.0%
15 Year	953	28	97.1%
20 Year	921	0	100.0%

DIVIDEND PAYERS

	Count >4.4%	Count <=4.4%	Percent >4.4%
1 Month	696	464	60.0%
3 Months	732	426	63.2%
6 Months	767	388	66.4%
1 Year	785	364	68.3%
2 Year	873	264	76.8%
3 Year	891	234	79.2%
5 Year	902	199	81.9%
7 Year	936	141	86.9%
10 Year	931	110	89.4%
15 Year	944	37	96.2%
20 Year	908	13	98.6%

From 07.31.27 through 02.29.24. 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

Given that the latest sentiment reading from the American Association of Individual Investors shows a preponderance of Bulls,...

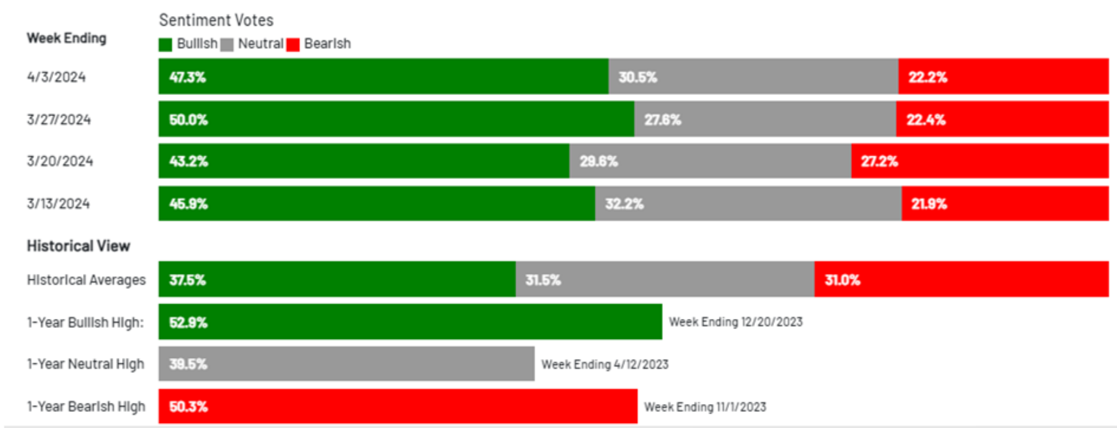
The AAII Investor Sentiment Survey

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?



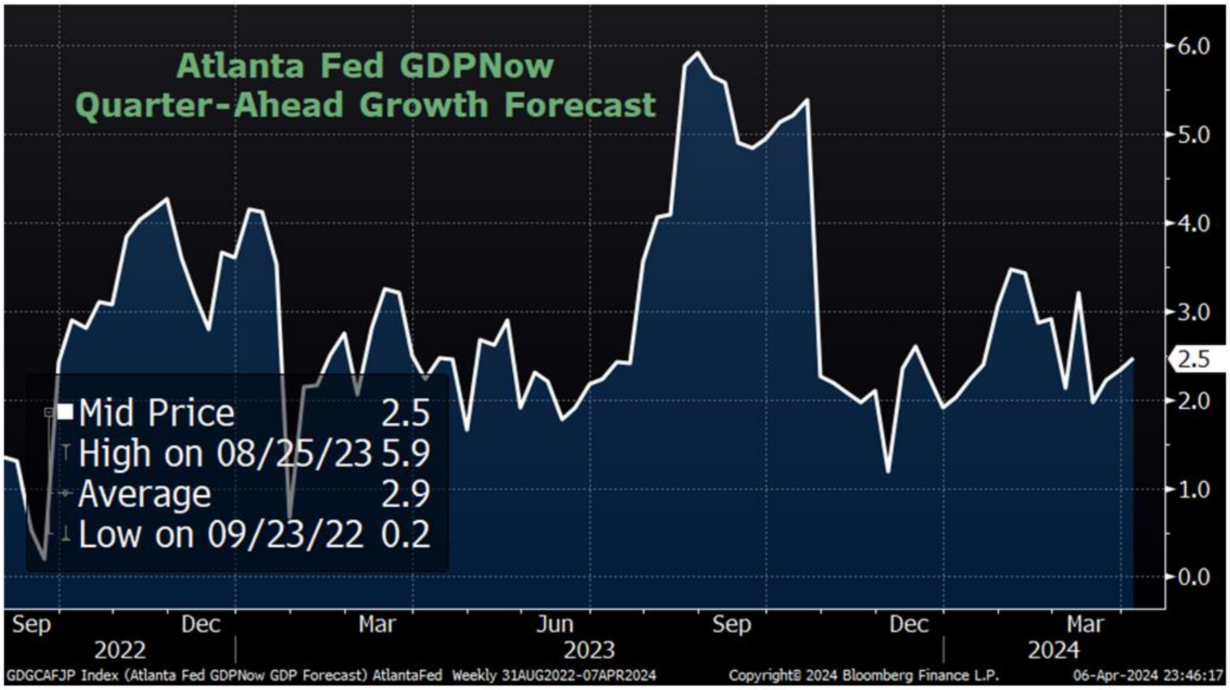
…it is difficult to assert that folks are nervous, and AAII optimism is not a reason for long-term-oriented investors to alter their commitment to stocks,…

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 = 7.24										
BELOW	-54.0	7.2	956	0.24%	0.20%	1.16%	1.02%	3.46%	3.07%	6.69%	5.93%
ABOVE	7.3	62.9	956	0.19%	0.17%	0.60%	0.51%	2.01%	1.76%	4.62%	4.15%
	Ten Groupings of 1912 Data Points										
1	-54.0	-16.9	192	0.41%	0.35%	2.19%	1.96%	4.85%	4.33%	9.01%	7.86%
2	-16.9	-8.9	191	0.25%	0.21%	1.01%	0.87%	3.72%	3.35%	6.24%	5.46%
3	-8.7	-2.6	191	0.34%	0.31%	0.98%	0.87%	3.50%	3.10%	7.74%	7.02%
4	-2.5	2.7	191	0.17%	0.14%	1.04%	0.95%	2.51%	2.13%	5.43%	4.89%
5	2.7	7.2	191	0.01%	-0.02%	0.58%	0.48%	2.74%	2.47%	5.01%	4.46%
6	7.3	11.9	191	0.10%	0.08%	0.48%	0.37%	1.86%	1.62%	4.82%	4.39%
7	12.0	16.1	191	0.29%	0.27%	0.82%	0.73%	2.60%	2.36%	5.34%	4.84%
8	16.1	22.0	191	0.17%	0.15%	0.90%	0.83%	2.30%	2.05%	5.75%	5.34%
9	22.0	29.0	193	0.15%	0.13%	0.47%	0.39%	1.72%	1.43%	4.61%	4.06%
10	29.0	62.9	190	0.24%	0.22%	0.31%	0.24%	1.59%	1.36%	2.57%	2.13%

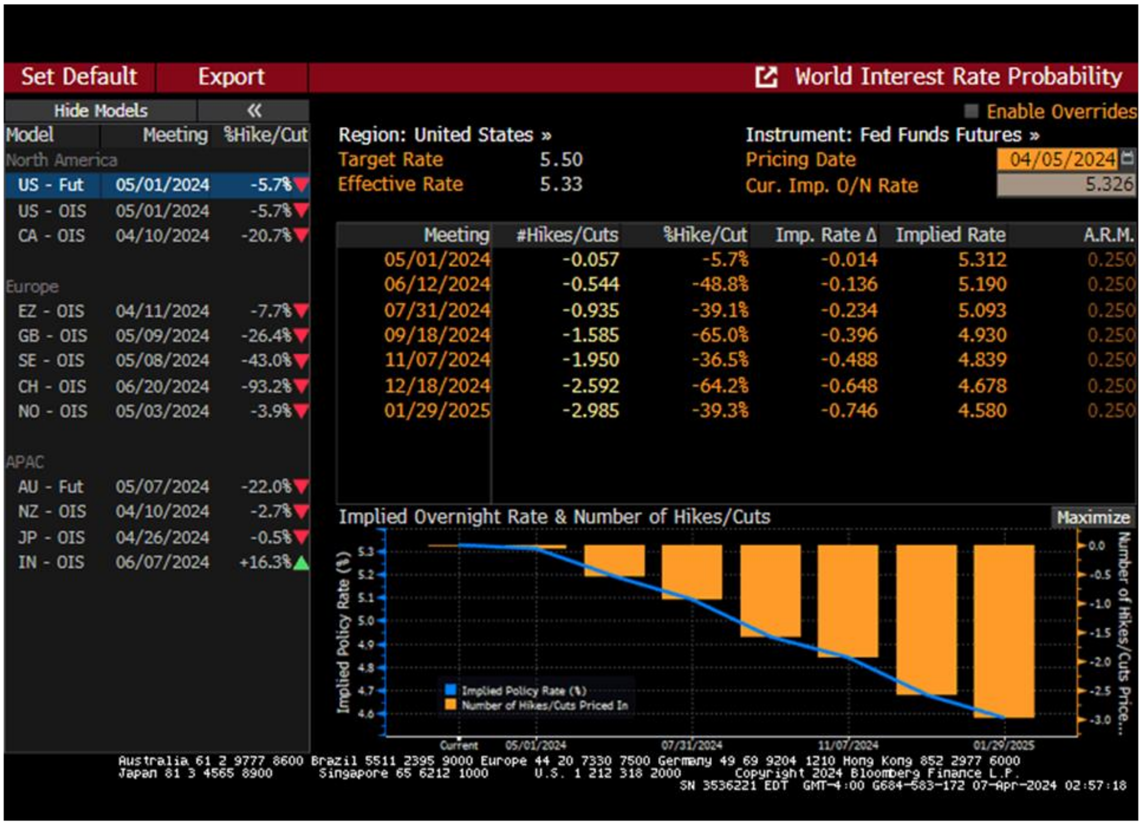
From 07.31.87 through 4.4.24. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

…but it isn't always easy to make sense of the short-term equity market gyrations, especially when last week's downturn came with virtually no change in the outlook for 2.5% Q1 real (inflation-adjusted) U.S. GDP growth,…

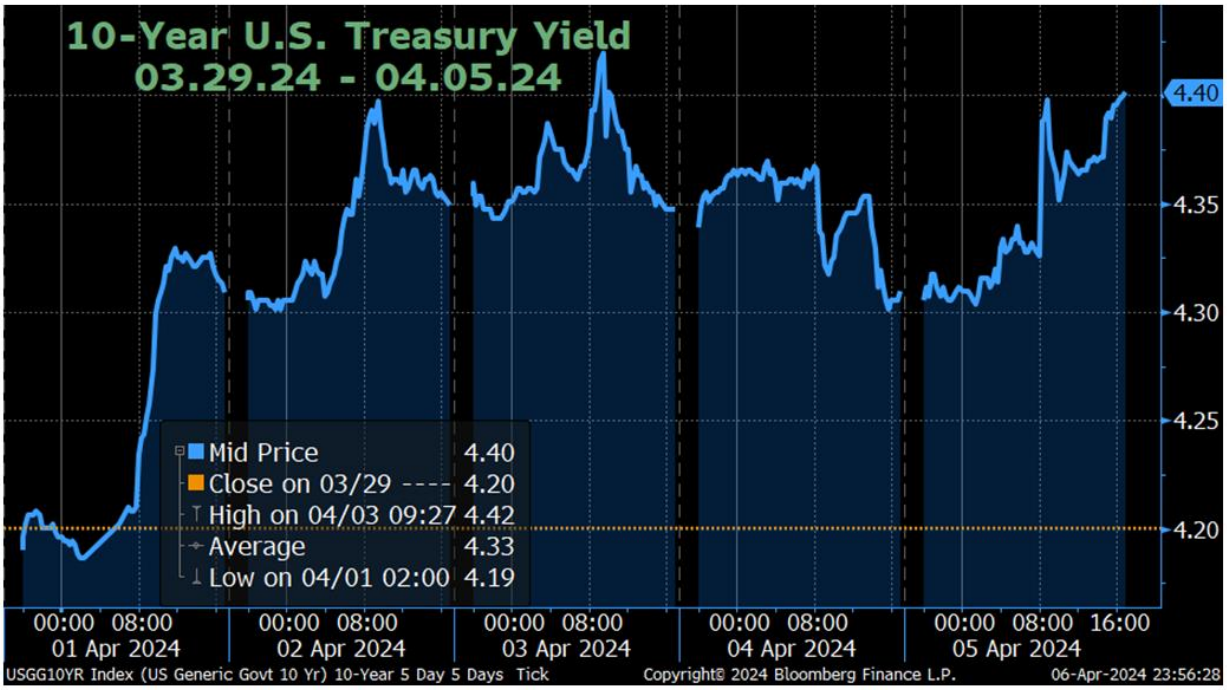


...and the chance of recession in the next 12 months, as tabulated by *Bloomberg*, remained at 35%,...

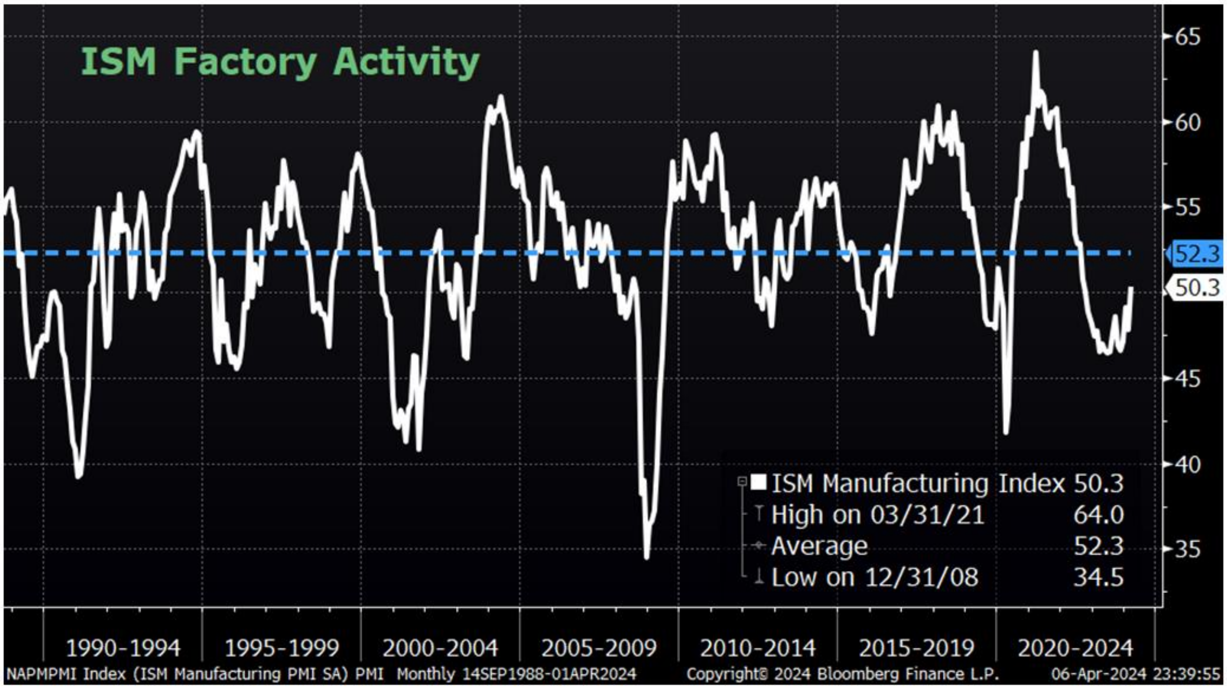
...and the futures market targeted a year-end Fed Funds futures rate of 4.68%, similar to the 4.66% tally at the end of the prior week.



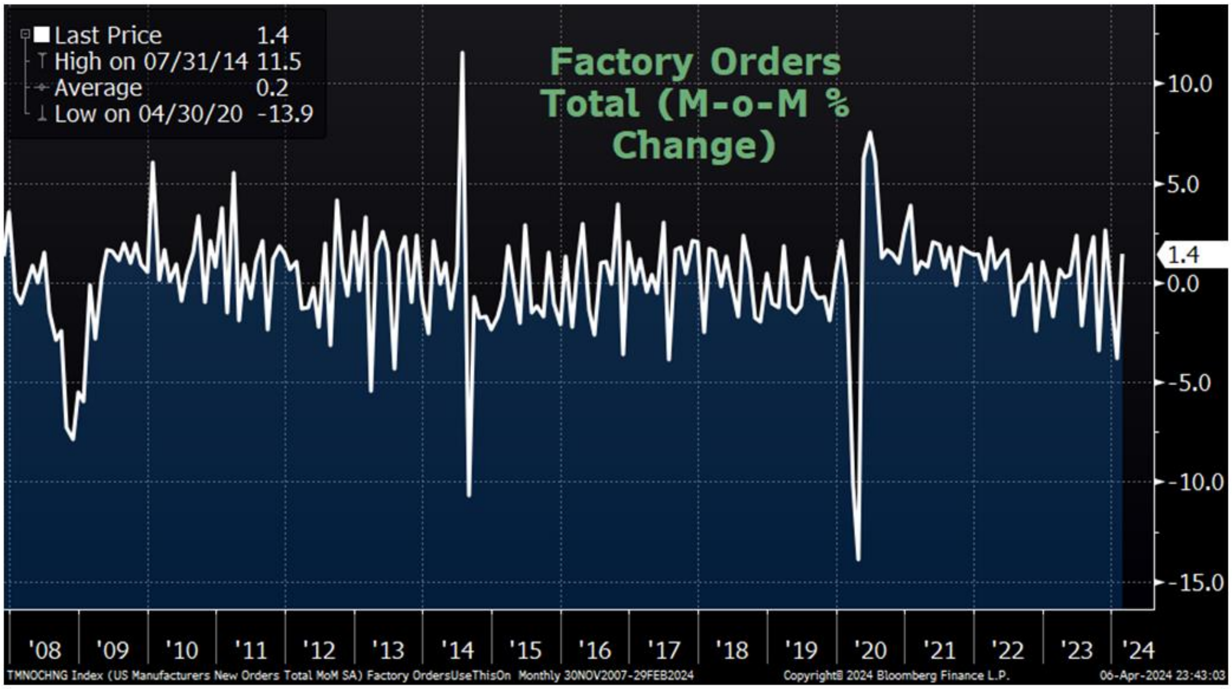
Of course, there was a big jump in market interest rates as the yield on the benchmark U.S. Treasury climbed to 4.40%, up from 4.20% a week ago, due in large part to the release of better-than-expected economic data.



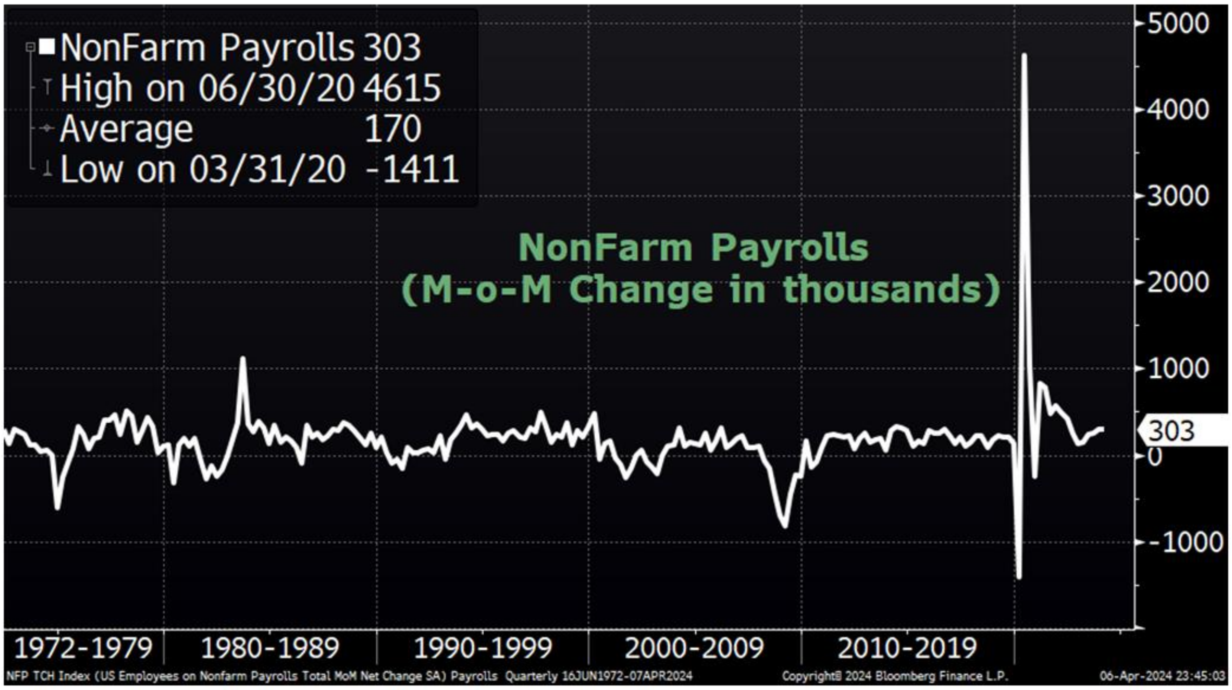
Indeed, the ISM Manufacturing index climbed to 50.3 in March, versus estimates of 48.3 and a 47.8 reading in February, with the latest measure of factory activity corresponding to a 2.2% increase in real GDP on an annual basis,...



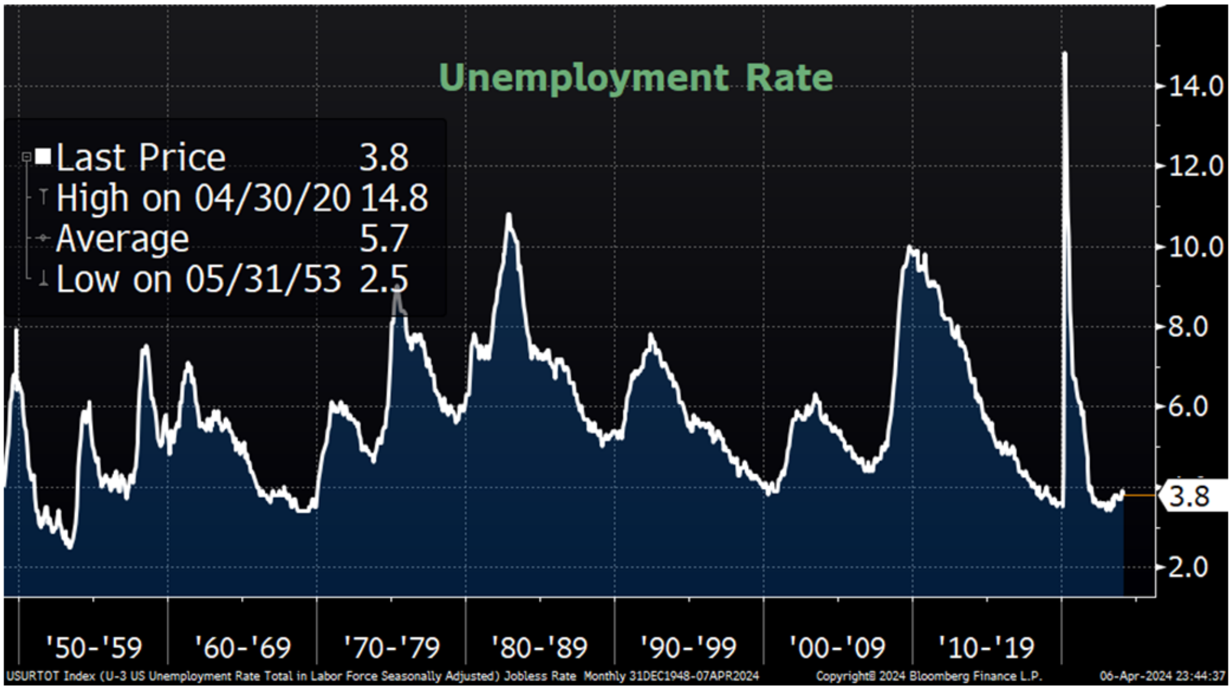
...while factory orders for February rose 1.4%, ahead of the 1.0% consensus and a sharp rebound from a revised 3.8% dip in January.



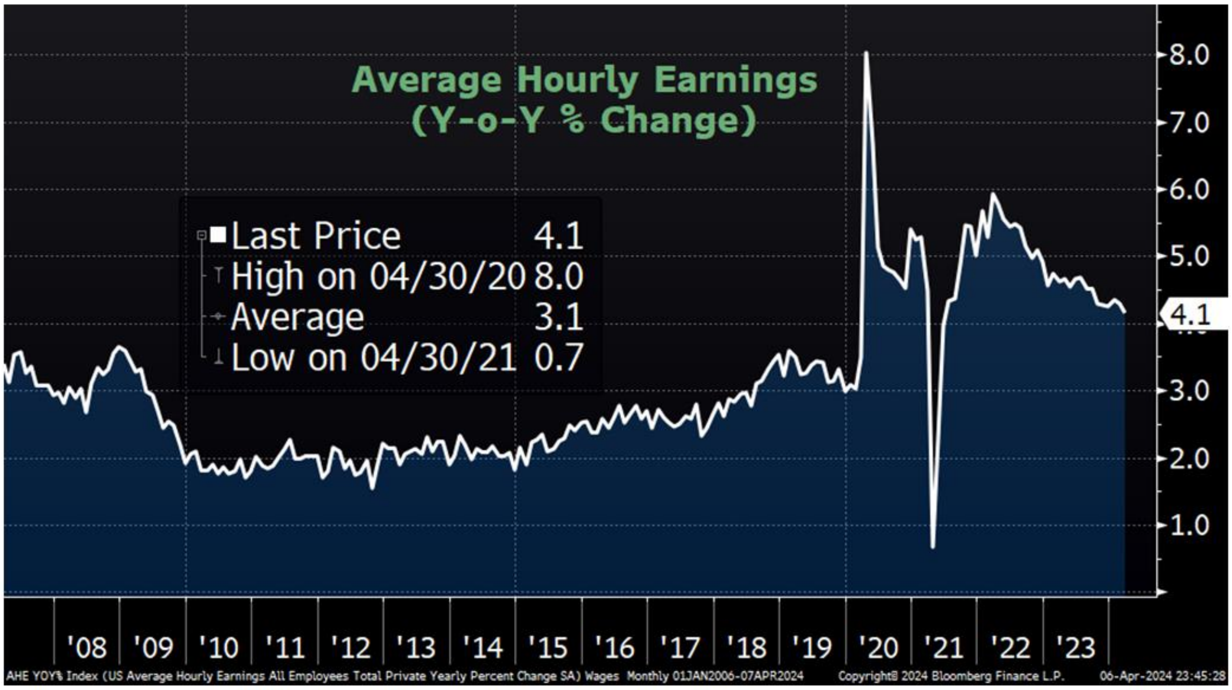
More importantly, the monthly jobs numbers for March also saw more new payrolls created than forecast at 303,000,...



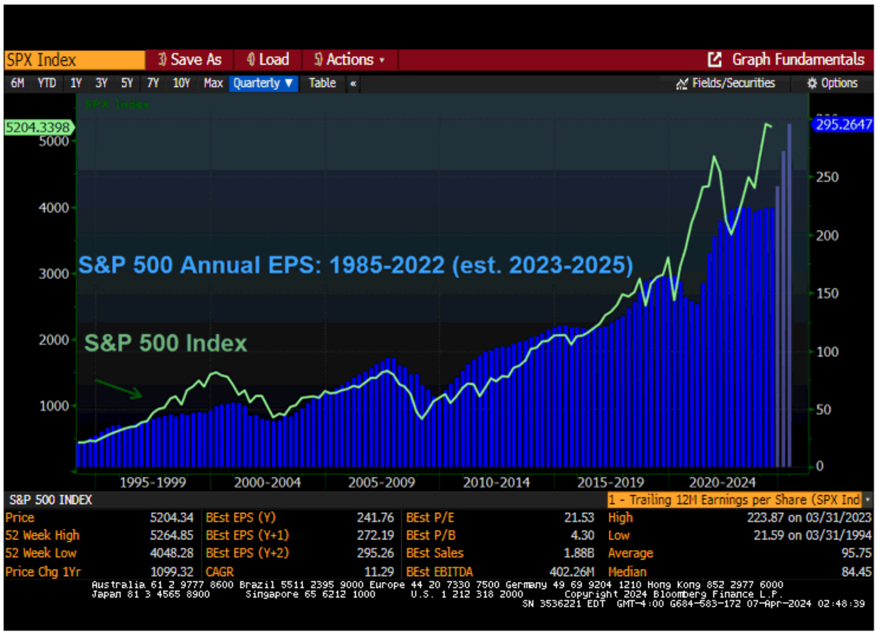
...while the unemployment held steady at a very low 3.8%,...



...and average hourly earnings rose 4.1%, in line with projections.



A solid economy doesn't sound like bad news to us, given that we are investing in businesses that generally grow their profits over time,...

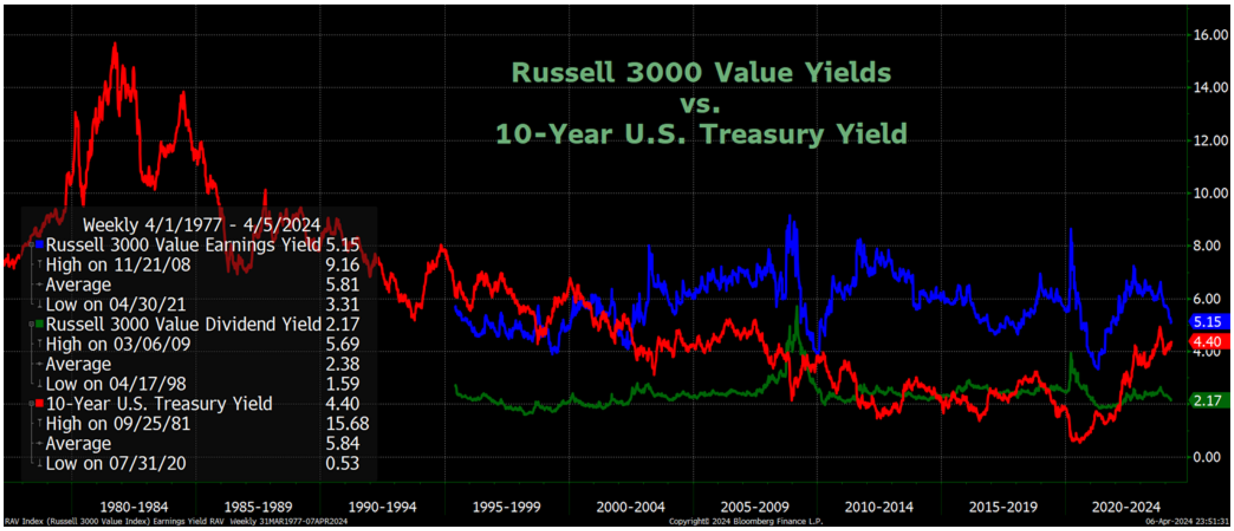


S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2025	$72.52	$273.92
9/30/2025	$71.09	$265.95
6/30/2025	$67.20	$257.69
3/31/2025	$63.11	$249.19
12/31/2024	$64.55	$240.67
9/30/2024	$62.83	$230.02
6/30/2024	$58.70	$219.44
3/31/2024	$54.59	$215.58
ACTUAL		
12/31/2023	$53.90	$213.53
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 4.4.24

...and the valuations for the type of stocks we have long championed are reasonable,...

While the Earnings Yield, which is the inverse of the P/E ratio, on the S&P 500 (4.01%) is still reasonable relative to the current (and well below average) 4.40% 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 (5.15%) AND dividend yield (2.17%) near the historical norms for those measures dating back to 1995.



...with our broadly diversified portfolios of what we believe are undervalued stocks sporting even more attractive metrics.

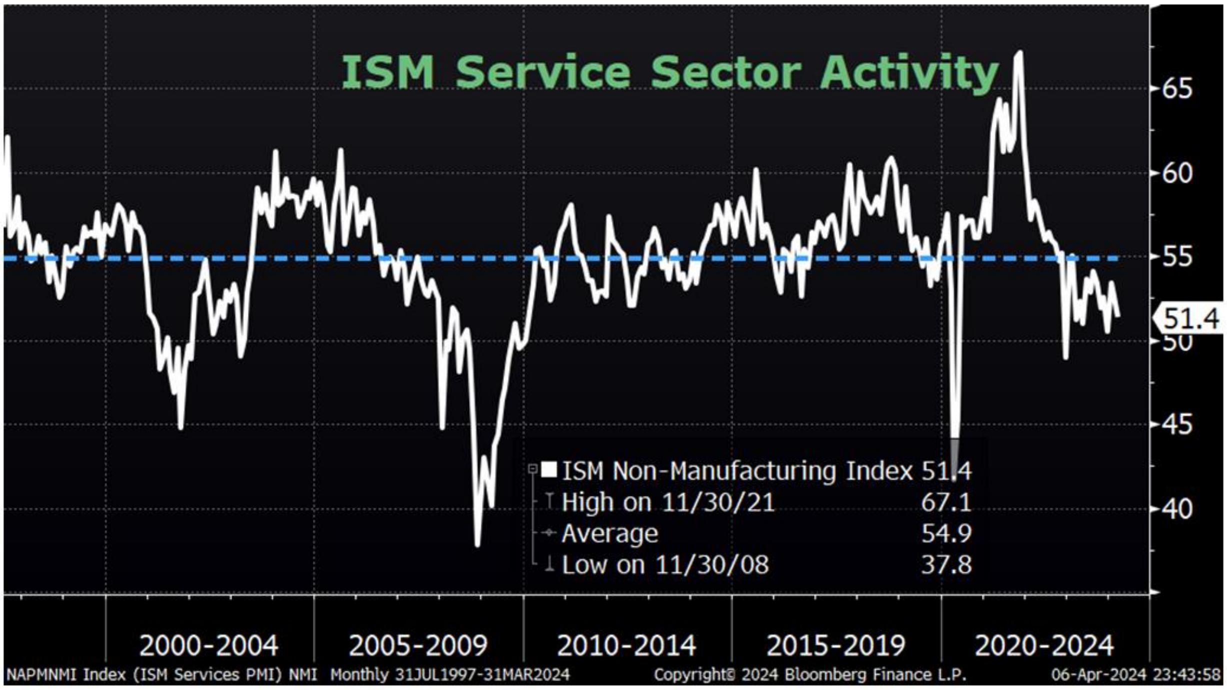
CURRENT PORTFOLIO AND INDEX VALUATIONS

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	16.9	14.8	1.2	2.4	2.3
Dividend Income	17.2	14.6	0.9	2.2	2.9
Focused Dividend Income	17.7	14.1	1.1	2.4	3.0
Focused ValuePlus	18.1	14.9	1.3	2.7	2.5
Small-Mid Dividend Value	12.9	11.7	0.5	1.5	2.9
Russell 3000	25.8	21.7	2.5	4.3	1.4
Russell 3000 Growth	35.4	28.8	4.4	11.5	0.7
Russell 3000 Value	19.4	16.7	1.7	2.5	2.2
Russell 1000	25.3	21.5	2.7	4.6	1.4
Russell 1000 Growth	34.5	28.4	4.7	12.4	0.7
Russell 1000 Value	19.2	16.7	1.7	2.6	2.2
S&P 500 Index	24.9	21.5	2.8	4.8	1.4
S&P 500 Growth Index	33.3	27.6	5.7	10.6	0.6
S&P 500 Value Index	18.8	16.7	1.7	2.8	2.3
S&P 500 Pure Value Index	11.5	10.3	0.5	1.3	2.6

As of 04.06.2024. 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.

To be sure, plenty of attention was paid to comments from Federal Reserve officials last week, with stocks making a major U-turn in the southernly direction on Thursday after Minneapolis Fed President Neel Kashkari, who sees two cuts in the Fed Funds rate this year, said that if there is no additional progress on inflation, “that would make me question whether we needed to those rate cuts at all.”

Those remarks took the steam and then some out of an early rally that day that arguably stemmed from a weaker-than-expected report on the health of the important services sector when the ISM Non-Manufacturing Index dropped to 51.4 in March, down from 52.6 in February and below estimates of 52.8.



Not sure we buy that bad news is good news…in the long run…but we think Fed Chair Jerome H. Powell's statement earlier in the week is most germane, "The recent data do not…materially change the overall picture, which continues to be one of solid growth, a strong but rebalancing labor market, and inflation moving down to 2% on a sometimes bumpy path," and that Fed economic projections from last month are hardly uneasonable.

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

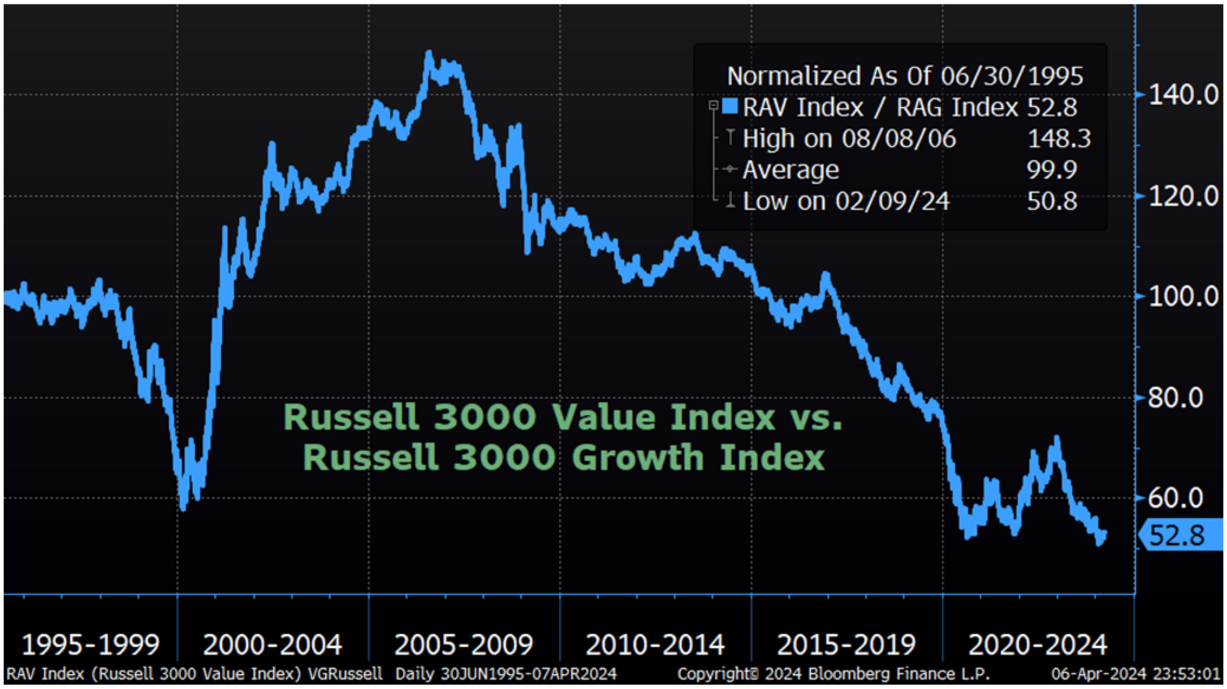
Percent

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.

So, we are braced, as is always the case, for additional downside volatility, but we still think Value stocks are the place to be for those who share our long-term investment time horizon.



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.

Caterpillar (CAT – $379.30) was among more than a few stocks in the S&P 500 that set a record high last week. Even as we might lament that we did not fetch current prices for our prior trims of the heavy equipment maker, we view our actions as a prudent risk mitigation tool, while the pared weighting has emboldened us to ride the stock a fair amount higher and strengthened our stomachs for potential near-term bumps along the way.

We appreciate the dominance of CAT's brand in the markets it serves, and continue to expect highways, farms and mines will be littered with Caterpillar equipment for the foreseeable future. Caterpillar's incorporation of technology and software into its products improves product performance and total cost of customer ownership.

We remind that every stock continually fights for a place in our portfolios. For the time being, we have edged up our Target Price for CAT to $397.

Micron Tech (MU – $123.58) challenged its most recently published Target Price last week, which we have now hiked to $132.

The memory maker has been a major beneficiary of the A.I. wave, and analysts have become a lot more optimistic about the company's earnings prospects. At the end of February, the 2024 analyst consensus was a loss of $0.42 per share, which has now climbed to a gain of $0.60. The 2026 EPS estimate has climbed from $7.53 to $9.14 over the same period.

We have trimmed our Micron stake recently and presently have a better-than-full position, so we won't hesitate to take more winnings off the table if we think the share price gets too far ahead of itself.

Lighting equipment and controls maker **Acuity Brands** (AYI – $271.89) earned an adjusted $3.38 per share in fiscal Q2 that ended February, an 11% increase from the prior year even as net sales fell 4% to $906 million. A 5% sales decline for the larger ABL segment was partially offset by 17% growth in the ISG business. Despite the decrease in net sales, adjusted operating profit grew by $8 million to a 15.5% margin. Acuity said the margin improvements continue to be a result of its cost control, productivity enhancements and efforts to revitalize the portfolio (what it deems product vitality).

Acuity closed on the purchase of Arize horticulture lighting assets in the quarter, increased the dividend per share by 15%, and repurchased over 370,000 shares, amounting to approximately $68 million (about $184 per share). Management has bought back about 24% of shares outstanding since the beginning of Q4 2020, and the board recently authorized the buyback of up to 3 million additional shares.

CEO Neil Ashe said, “We are performing well. We are satisfying customers, expanding margins, and generating strong free cash flow. The order rates in both our Lighting business and our Spaces business are growing year-over-year. In our Lighting business, we are back to typical lead times, and absent the impact of sales from excess backlog last year, we would be experiencing sales growth. In our Lighting and Lighting Controls business, our strategy drives strong execution, and we are focused on returning the business to growth in a normalized environment, while leveraging our fixed costs and generating strong cash flow.”

Management boosted its full-year expectations for adjusted diluted earnings per share to a range between $14.75 and $15.50.

We still appreciate the improvement efforts under Mr. Ashe & Co. throughout his early tenure and still think the expansion toward building controls is a growth opportunity. Shares have rallied another 4% since our latest sale last month, and although the valuation isn’t egregious, we are mindful that the forward P/E multiple near 18 is up 40% since mid-2020. Our Target Price has been boosted to $293.

Shares of **Greenbrier Cos** (GBX – $53.16) were up some 10% in very early trading Friday on the announcement of financial results for Q2 fiscal 2024 but gave back most of the gain throughout the day. The railcar maker earned $1.03 per share on deliveries of 5,700 units and grew its lease fleet by 500 units to 14,600, which further improved its utilization from 98.2% at the end of last quarter to 98.5%. New railcar orders for 5,900 units brings the backlog to 29,200 units with an estimated value of $3.6 billion.

CEO Lorie Tekorius said, “Greenbrier achieved consolidated gross margin in the mid-teens for the second consecutive quarter as strong momentum continued across our business. Greenbrier’s broad product lineup, extensive market relationships, supportive customer experience, and deep commercial origination capabilities combine to create our unique leadership position and enable ongoing success. These factors provide revenue visibility while supporting our profitable leasing business, which is growing through the disciplined investment in our leased railcar fleet and robust lease renewals. We remain pleased with the pace of progress on our strategic goals. As a result, we expect sustained financial performance during periods of healthy market demand and more stable performance at higher levels when markets are less favorable.”

The company expects to generate between $3.5 billion and $3.7 billion of revenue on 23,000 to 25,000 delivery units for the full fiscal year, a slight improvement from the $3.4 billion to $3.7 billion range forecast last quarter.

Years of following this industry have led us to expect some cyclicality, and while the top-line may ebb and flow, we appreciate that management appears intent on reducing cyclicality through its leasing operation, which could improve margins through the cycle. Shares have rallied over 50% since Halloween but we still find enough upside potential in the name to warrant additional patience. The dividend yield is 2.3% while our Target Price for GBX has been raised to $64.

Intel (INTC – $38.71) skidded more than 12% last week after reporting losses in its Intel Foundry business and cautioning that the chipmaker won't achieve break-even operating margins in the segment until midway between now and the end of 2030. Intel also shook up its reporting structure, which will include six main segments: Client Computing Group (CCG); Data Center and AI (DCAI); Network and Edge (NEX); Intel Foundry; Altera, an Intel Company (formerly Intel's Programmable Solutions Group); Mobileye; and Other.

Intel's press release highlighted two segment updates:

Intel Foundry: Operating margin improvement is expected through shifting volume mix to leading-edge extreme ultraviolet (EUV) nodes as the company achieves process parity and leadership. Intel Foundry expects to drive further operating margin expansion by manufacturing a larger percentage of Intel's products, growing its high-margin advanced packaging business, continuing to expand its external foundry business, and further focusing on capital utilization, cost efficiency and growing scale. Intel Foundry's operating losses are expected to peak in 2024 as Intel completes its five-nodes-in-four-years journey, and the company is driving for Intel Foundry to achieve break-even operating margins midway between now and the end of 2030, when it targets 40% non-GAAP gross margins and 30% non-GAAP operating margins. Intel Foundry currently has an expected lifetime deal value with external customers of more than $15 billion and remains focused on its goal of becoming the world's second-largest foundry by 2030.

Intel Products: Intel Products already exhibits healthy operating margins today, which are expected to improve as the product operating segments *benefit from the new operating model. In this model, product operating segments will have increased visibility into and be accountable for the financial drivers for their businesses. Instead of recognizing manufacturing costs that were previously allocated to the product operating segments, they will be charged a market-based price by Intel Foundry. Continued operating margin improvement is expected as the product segments build on their execution momentum with leadership products and improved pricing, drive cost optimizations in design and roadmap decisions, and realize improved costs in package, assembly and test. Intel Products targets 60% non-GAAP gross margin and 40% non-GAAP operating margin by the end of 2030.*

We think the reporting better reflects Intel's corporate segmentation, but it otherwise does little to improve underlying earnings. Intel reports fiscal Q1 2024 results on April 25. The turnaround has had breakthroughs and setbacks, and we are patiently holding our shares for what we think will be success in the fullness of time. Shares yield 1.3% and our Target Price is $54.

Health insurers including **CVS Health** (CVS – $74.58) and **Elevance** (ELV – $507.35) slid last Monday as the Centers for Medicare & Medicaid Services (CMS) broke recent precedent in leaving its preliminary payment proposal for Medicare Advantage plans unchanged. CMS proposed in January to increase benchmark payments to insurers by 3.7%, below the risk score trend of 3.86%, leading many to expect an upward adjustment by the finalization deadline in April.

CVS CEO Karen Lynch said, "We do not believe it covers overall cost trends that have been emerging in Medicare Advantage…We also know that there's complexity around the risk model, so we'll be contemplating that as we think about our [2025] bids."

The government suggested that private Medicare insurers would remain healthy despite the risk projections and that the transition from ICD-9 to ICD-10 billing codes would make payments more transparent and reduce overpayments prevalent in previous years. In the announcement, CMS also responded to claims by Medicare Advantage providers that rising utilization demanded a higher payment bump. The agency noted that while utilization trends since 2020 has been higher (on account of the precipitous drop in utilization during the pandemic), 2023 utilization was below pre-pandemic forecasts for the same year.

The news likely will trigger analysts and management teams to revise their earnings forecasts lower for the coming years, as Medicare Advantage had been a solid growth opportunity in the recent past. But we view these developments to be less consequential for CVS and ELV, as each of these companies have relied less on Part C plans to drive growth than some peers.

Indeed, a pharmacy and benefit manager, health insurer and growing primary care segment serve different areas of the value chain for health care delivery at CVS. Elevance has also launched a pharmacy benefit management platform and boasts deep penetration of local markets throughout the 14 states in which it is an exclusive licensee of the Blue Cross Blue Shield brand.

CVS trades for less than 10 times EPS projections over the next few years and offers a 3.6% dividend yield. The P/E for ELV is a touch higher at 13.7 times the NTM EPS forecast, but with 12% growth predicted in each of the next three years. Our respective Target Prices for CVS and ELV are $124 and $651, respectively.

Shares of **Solventum Corp** (SOLV – $70.06) landed in accounts of **3M Co** (MMM – $91.03) shareholders last week. Shareholders received one share of the new entity, which is the spinoff of 3M's health care business, for every 4 shares of MMM they owned.

We find the independent entity intriguing given its suite of medical products with uses like advanced wound care, sterilization and I.V. site management, along with dental solutions that include bonding agents, restorative cements and other orthodontic needs. 3M's healthcare segment had also been its lone unit to find meaningful top-line growth versus pre-pandemic hurdles.

But as has often been the case with other spinoffs in recent years, Solventum was saddled with $8.4 billion of debt. This is backed by $13.9 billion of assets, nearly all of which are intangible, and with patents that mostly expire over the next decade. 3M will be the sole source of supply for certain chemical materials and inputs used in products of the health care business that accounted for approximately $3 billion of revenue in fiscal 2023.

The continued effort by the industrial conglomerate to break apart its various divisions is generating cash it might use to meet financial liabilities arising out of litigation over PFAS and Combat Arms ear plugs. Indeed, MMM will receive a $7.7 billion payment from Solventum, and will retain a nearly 20%

stake which the company has said will be monetized within five years following the spin-off.

3M's settlement agreement with U.S. public water suppliers that was announced last June received final approval from the U.S. District Court in Charleston, South Carolina. A pretax, present value commitment of up to $10.3 billion will be paid out over 13 years.

Of course, 3M still faces PFAS-related lawsuits filed by individuals with personal injury and property damage claims, as well as by U.S. states over damages to natural resources such as rivers and lakes that were not part of the settlement.

We note that shares of SOLV have lost roughly a quarter of their value since when-issued trading began last month while MMM has gained 4% over the same period. Still, we are generally averse to the high leverage at Solventum which will likely rule out a dividend for the foreseeable future.

For the moment, we are holding both SOLV and MMM, but our grip on each is not tight, especially the former, given the very small position size. Our Target Price for MMM is now $132.