Market Commentary Monday, December 2, 2024

December 1, 2024

EXECUTIVE SUMMARY

Week In Review – Stocks Advance in Holiday-Shortened Trading

Rates – Yields Drop; Stocks Have Performed Fine, on Average, whether 10-Year Yield is Rising/Falling

Econ Data – Mixed Numbers; Solid GDP Growth Still the Forecast

Inflation – PCE Readings in Line with Expectations

Fed – Odds of Fed Rate Cuts Rise; Stocks have Performed Well, on Average, whether Fed is Tightening/Easing

Seasonality – Most Wonderful Time of the Year

Valuations – Value Stocks Reasonably Priced

Sentiment – More Bears than Bulls

Stock News – Updates on ETN, DLR, SNA, LMT, GM, AMGN, DKS, KSS & JWN

Market Review

We hope our readers had a great Thanksgiving!

The equity markets in the holiday-shortened trading week continued to provide much about which to be thankful despite a bit of downside volatility. Further illustrating the rewards available to investors who sticks with stocks through thick and thin, many of the broad-based market averages, including the Russell 3000 Value index, closed out the week at all-time highs,...

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%	76.1%	856	8	2.9	9/30/2022	11/29/2024
17.5%	54.9%	553	13	2.0	9/30/2022	11/29/2024
15.0%	49.4%	470	15	1.8	9/30/2022	11/29/2024
12.5%	47.2%	444	16	1.7	9/30/2022	11/29/2024
10.0%	30.0%	242	30	0.9	10/27/2023	11/29/2024
7.5%	21.6%	150	51	0.6	10/27/2023	11/29/2024
5.0%	13.6%	73	105	0.3	4/17/2024	11/29/2024

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	1.7	8/16/2022	9/30/2022
-12.5%	-24.0%	163	16	1.7	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	0.6	7/26/2023	10/27/2023
-5.0%	-10.0%	30	104	0.3	3/28/2024	4/17/2024

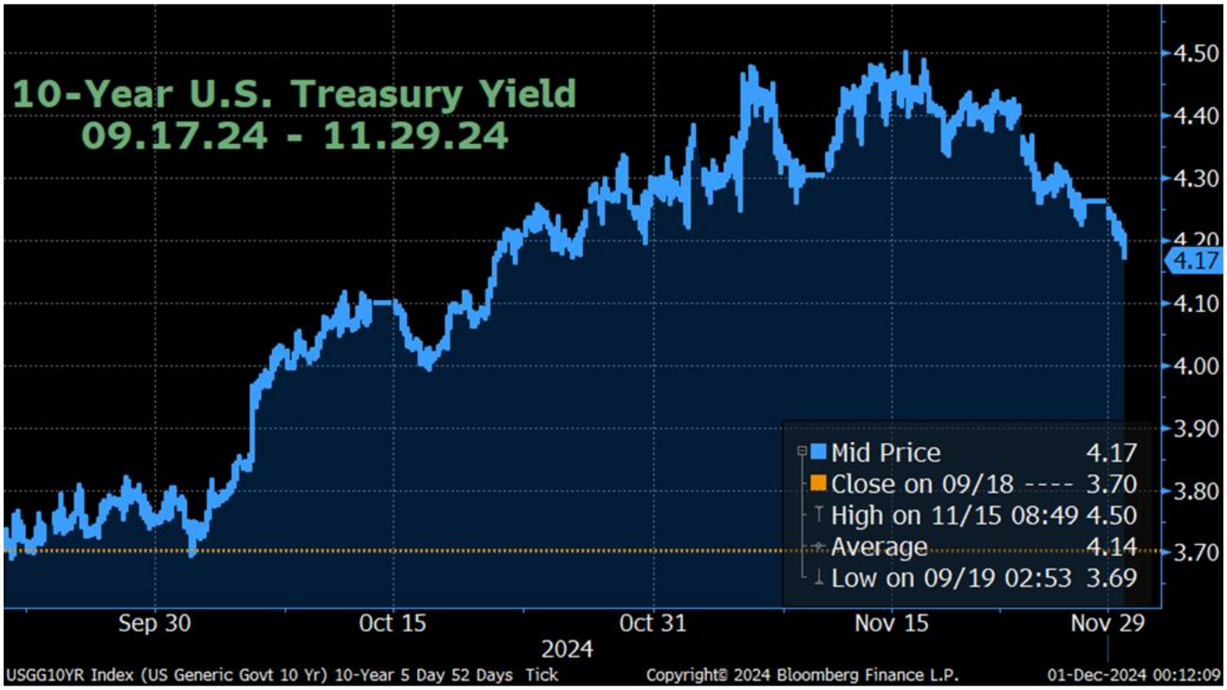
From 10.19.95 through 11.29.24. Price return series. We defined a Declining Market as an instance when stocks dropped the specified percentage or more without a recovery of equal magnitude, and an Advancing Market as in instance when stocks appreciated the specified percentage or more without a decline of equal magnitude. SOURCE: Kovitz using data from Bloomberg.

LONG-TERM RETURNS

	Annualized Return	Standard Deviation
Value Stocks	13.9%	18.0%
Growth Stocks	11.1%	18.9%
Dividend Paying Stocks	12.6%	14.6%
Non-Dividend Paying Stocks	12.1%	22.2%
Large-Company Stocks	11.9%	15.1%
Small-Company Stocks	13.0%	20.4%
Long-Term Corporate Bonds	7.7%	10.3%
Long-Term Gov't Bonds	7.2%	11.4%
Intermediate Gov't Bonds	6.2%	5.3%
Treasury Bills	4.2%	1.0%
Inflation	3.6%	1.3%

From 03.31.1977 through 09.30.2024. Growth stocks = 50% Fama-French small growth and 50% Fama-French large gr 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 dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. Non-dividend payers = stocks that do not pay a dividend. Small company stocks, via Ibbotson Associates, are the bottom twenty percent of the New York Stock Exchange. Large company stocks, via Ibbotson Associates, are represented by the S&P 500 index. 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

…while the bond market also joined the party with the yield on the benchmark 10-Year U.S. Treasury dropping to 4.17% from 4.40% the week prior.

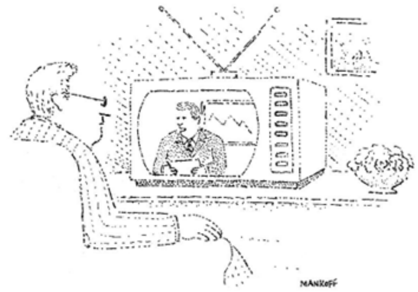


Of course, stocks have done well whether the benchmark government bond yield is rising or falling,...

Concurrent Stock Performance & Change in 10-Year Treasury Rate

	Count	Value	Growth	Payers	Non-Payers
Less than 3.92%	585	10.9%	9.9%	9.8%	9.2%
More than 3.92%	578	15.4%	9.4%	11.7%	9.1%
3-Month Drop	577	13.9%	12.0%	13.9%	11.5%
3-Month Rise	582	12.3%	7.2%	7.6%	6.7%
6-Month Drop	561	13.7%	11.1%	12.9%	10.9%
6-Month Rise	592	12.5%	8.1%	8.5%	7.3%
12-Month Drop	561	11.5%	9.8%	11.2%	7.7%
12-Month Rise	580	14.5%	9.1%	9.9%	10.0%

From 06.30.1927 through 06.30.2024. Concurrent annualized 12-month returns. SOURCE: Kovitz using data from Professor Robert J. Shiller and Professors Eugene F. Fama and Kenneth R. French



"On Wall Street today, news of lower interest rates sent the stock market up, but then the expectation that these rates would be inflationary sent the market down, until the realization that lower rates might stimulate the sluggish economy pushed the market up, before it ultimately went down on fears that an overheated economy would lead to a reimposition of higher interest rates."

Subsequent Stock Performance & Change in 10-Year Treasury Rate

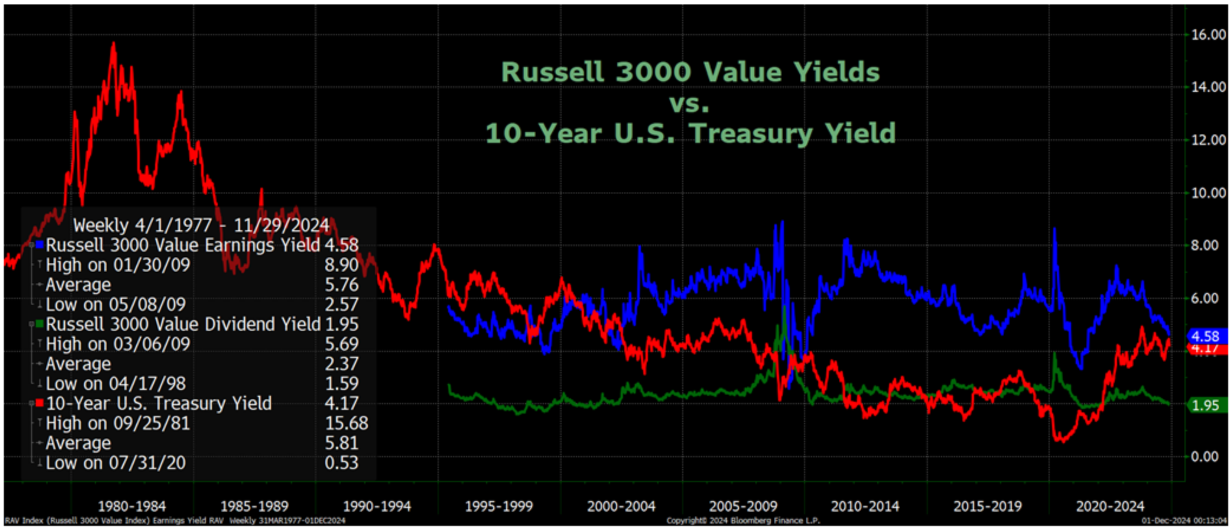
	Count	Value	Growth	Payers	Non-Payers
Less than 3.92%	586	11.8%	10.4%	10.5%	9.7%
More than 3.92%	579	14.3%	8.4%	10.5%	8.0%
3-Month Drop	574	16.7%	13.7%	13.7%	13.5%
3-Month Rise	576	9.4%	5.2%	7.4%	4.4%
6-Month Drop	561	15.1%	12.5%	12.5%	11.5%
6-Month Rise	586	10.9%	6.3%	8.5%	6.2%
12-Month Drop	561	12.8%	10.9%	10.8%	9.9%
12-Month Rise	580	12.9%	7.4%	9.9%	7.3%

From 06.30.1927 through 06.30.2024. 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, and vice versa, but more than nine decades of returns figures show that stocks in general have performed admirably, ON AVERAGE, with Value Stocks leading the charge no matter the direction of interest rates.

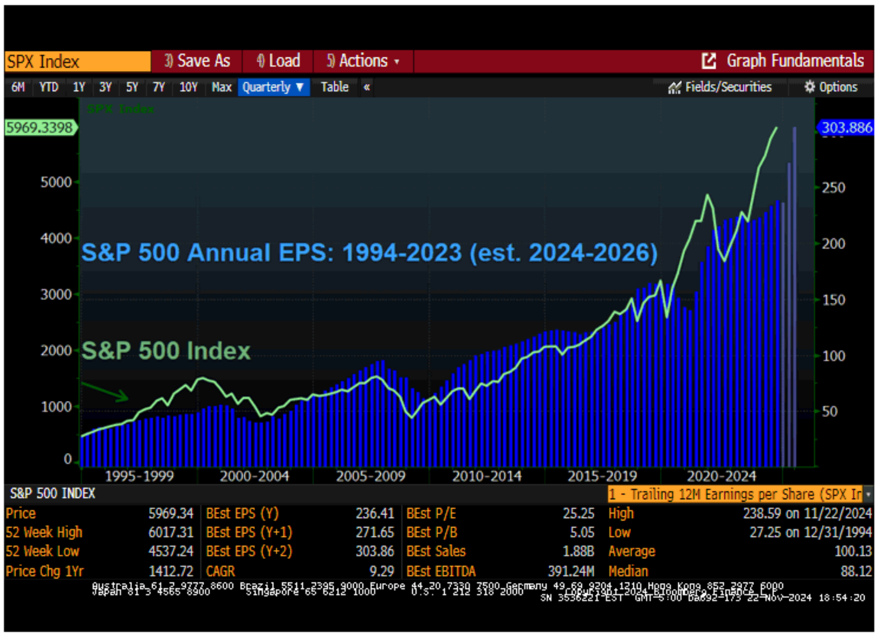
...but lower yields on competing investments add to the appeal of equities from a valuation perspective,...

While the Earnings Yield, which is the inverse of the P/E ratio, on the S&P 500 (3.71%) is still reasonable relative to the current (and well below average) 4.17% yield on the 10-Year U.S. Treasury, we like that Value stocks, as measured by the Russell 3000 Value index, boast a much higher Earnings Yield (4.58%) AND a generous dividend yield (1.95%), both of which are not too far from the historical norms for those measures dating back to 1995.



…especially considering that the E part of the Earnings Yield and P/E ratios is likely to continue to show solid growth.

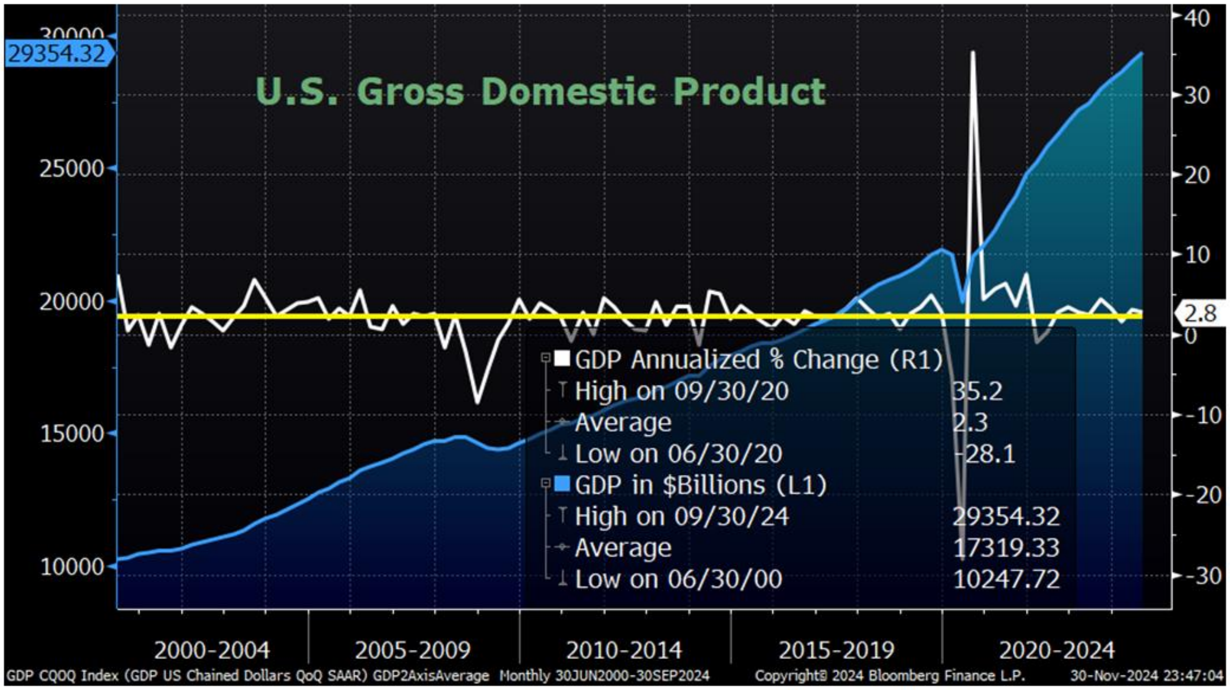
Q3 report cards generally have been favorable with 75.8% of companies in the S&P 500 topping bottom-line expectations though only 52.6% have exceeded top-line estimates. Year-over-year EPS growth remained solid and the outlook for the balance of this year and 2025 is healthy, which is a good thing as if a business does well, its stock eventually follows.



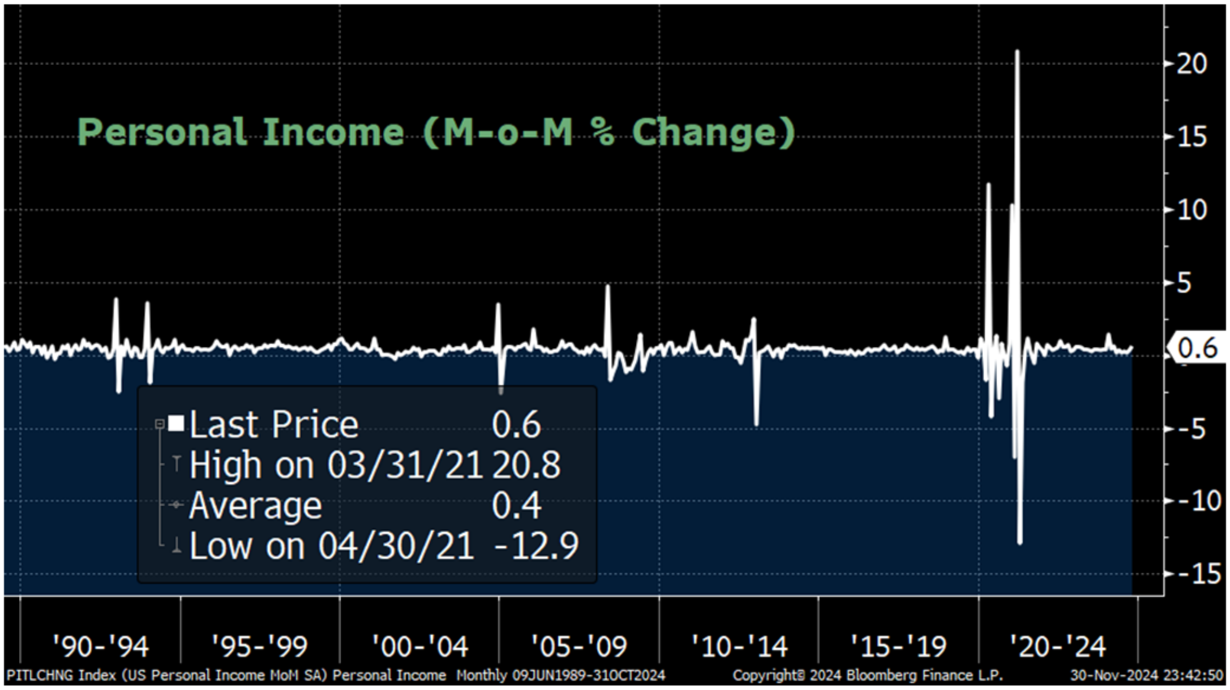
S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2025	$72.42	$272.82
9/30/2025	$70.56	$261.88
6/30/2025	$66.97	$250.87
3/31/2025	$62.87	$242.26
12/31/2024	$61.48	$234.02
9/30/2024	$59.55	$226.44
ACTUAL		
6/30/2024	$58.36	$219.14
3/31/2024	$54.62	$215.62
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 11.20.24

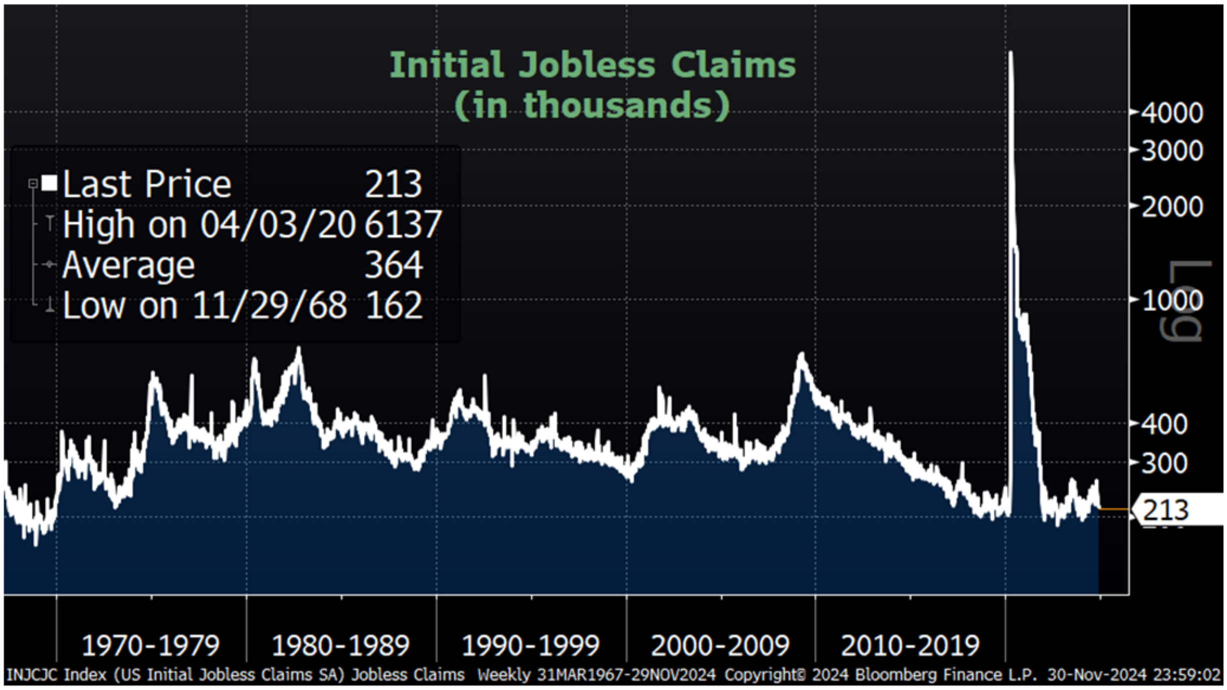
And speaking of growth, the second estimate of Q3 real (inflation-adjusted) GDP expansion came in last week as expected at 2.8%,...



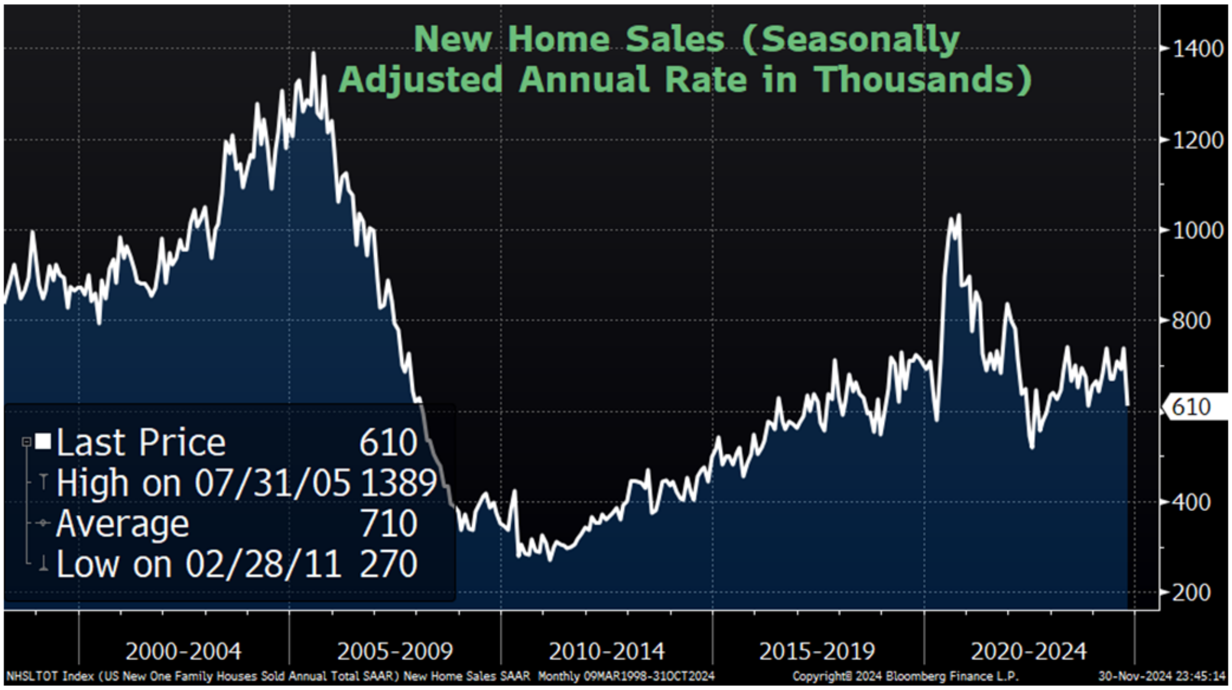
...personal income for October advanced a better-than-expected 0.6%,...



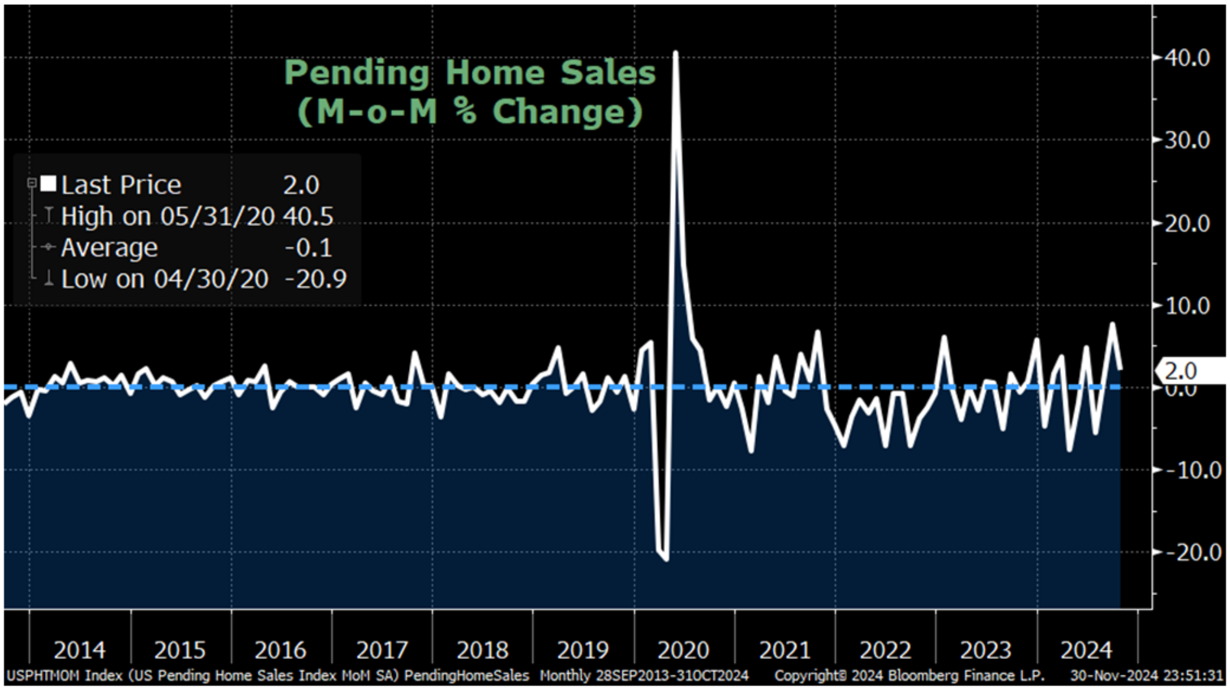
...and first-time filings for unemployment benefits dipped to 213,000 in the latest week, down from a revised 215,000 the week prior and continuing to reside near multi-generational lows.



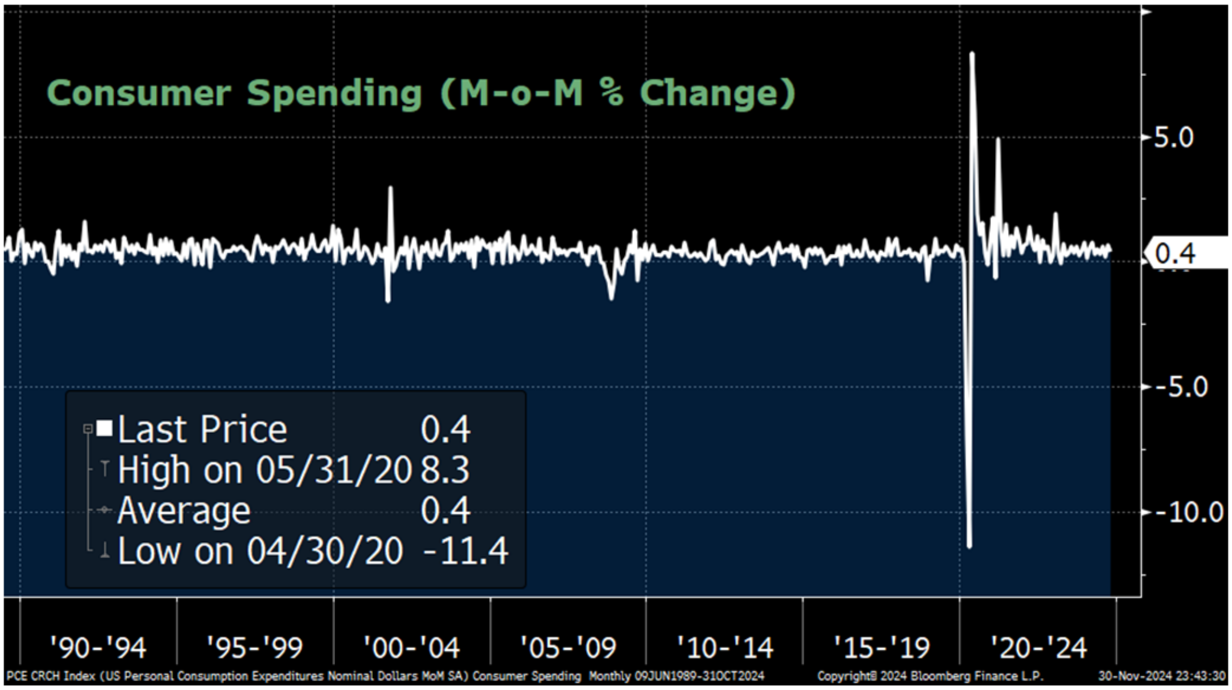
As is often the case, the economic data last week were mixed, as sales of new homes in October tallied just 610,000, well below estimates of 725,000,...



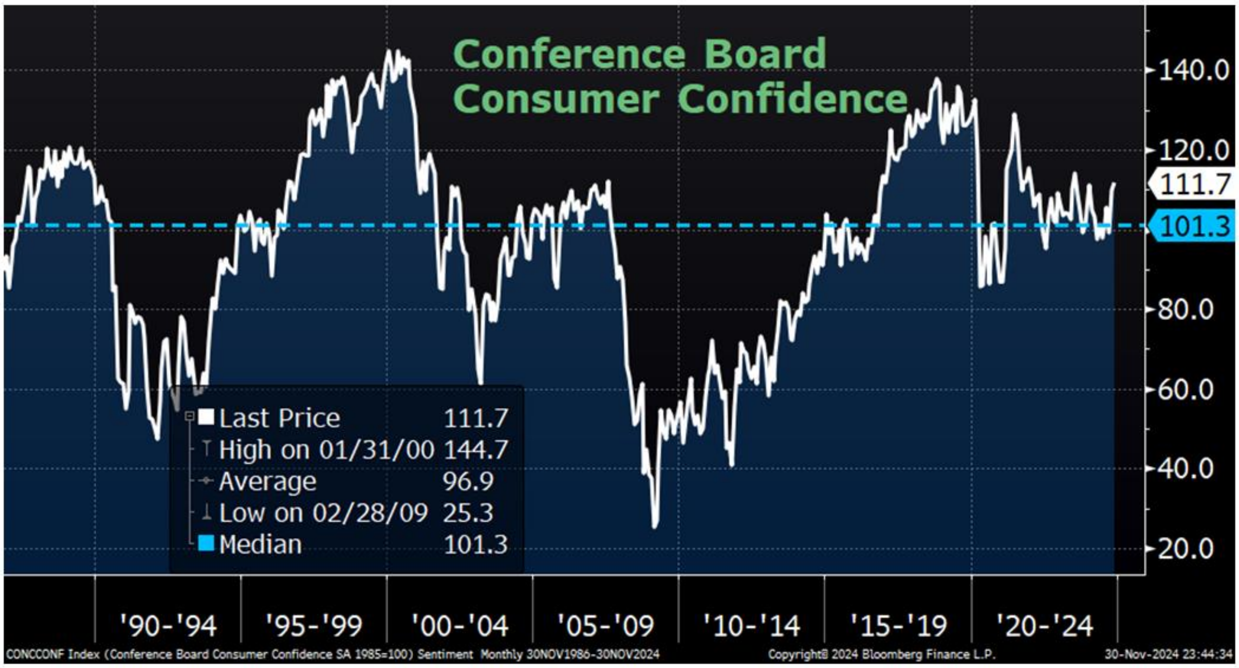
...but pending home sales that month rose a better-than-forecast 2.0% on a month-over-month basis.



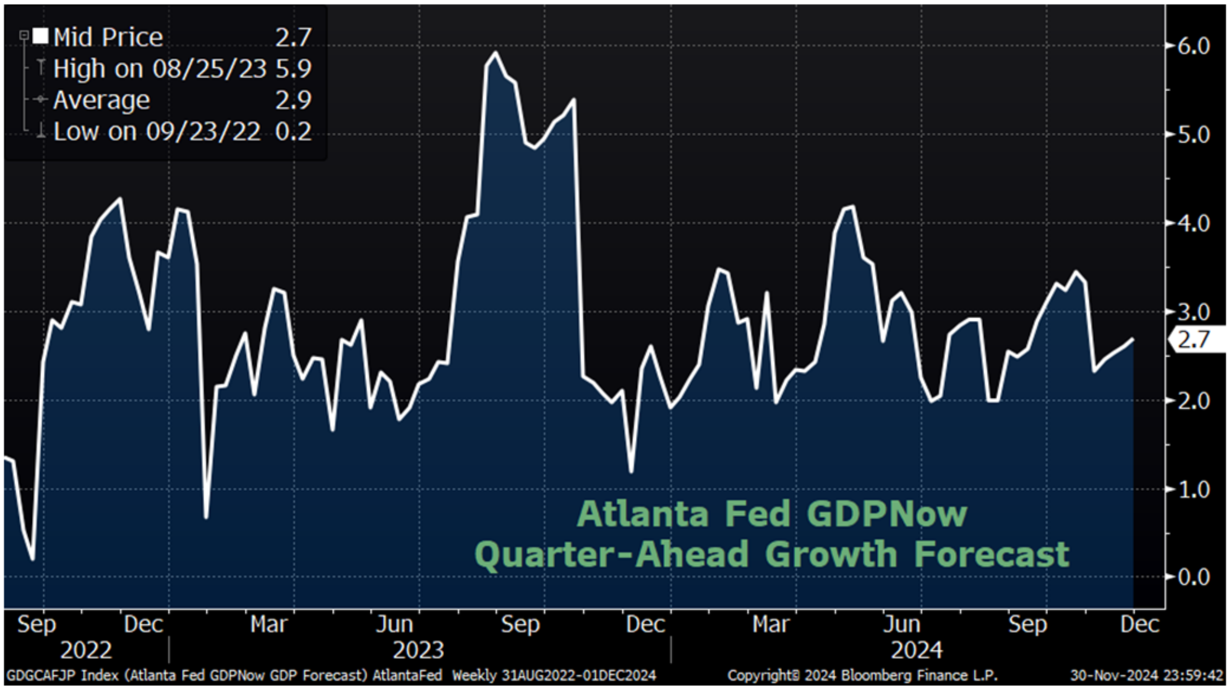
Consumer spending for October advanced 0.4%, which was in line with expectations, but it was down from a revised 0.6% increase in September,...



...and consumer confidence, per the Conference Board, rose to a robust reading of 111.7 in October, up from a revised 109.6 the month prior, but the figure was a tick below the consensus projection of 111.8.



The latest estimate for real Q4 GDP growth from the Atlanta Fed inched up to 2.7% last week,...



...which would be better than the most recent year-end 2024 projection from the Federal Reserve.

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

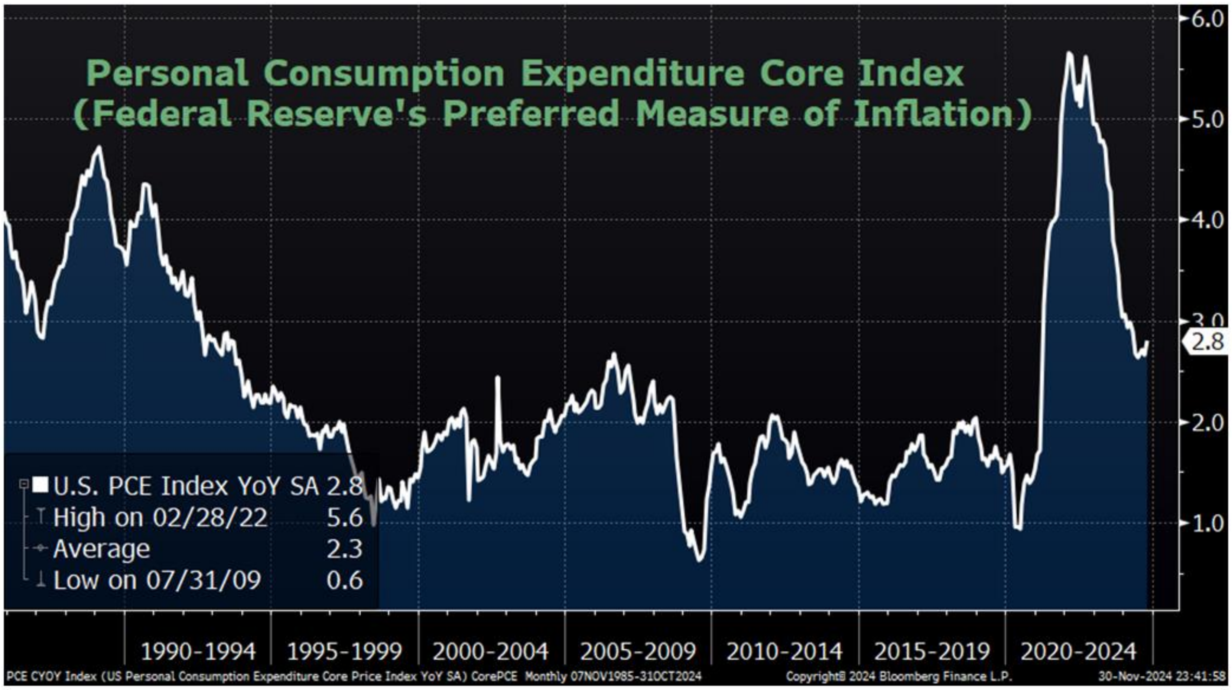
Percent

Variable	Median[1]					Central Tendency[2]					Range[3]				
	2024	2025	2026	2027	Longer run	2024	2025	2026	2027	Longer run	2024	2025	2026	2027	Longer run
Change in real GDP	2.0	2.0	2.0	2.0	1.8	1.9–2.1	1.8–2.2	1.9–2.3	1.8–2.1	1.7–2.0	1.8–2.6	1.3–2.5	1.7–2.5	1.7–2.5	1.7–2.5
June projection	2.1	2.0	2.0		1.8	1.9–2.3	1.8–2.2	1.8–2.1		1.7–2.0	1.4–2.7	1.5–2.5	1.7–2.5		1.6–2.5
Unemployment rate	4.4	4.4	4.3	4.2	4.2	4.3–4.4	4.2–4.5	4.0–4.4	4.0–4.4	3.9–4.3	4.2–4.5	4.2–4.7	3.9–4.5	3.8–4.5	3.5–4.5
June projection	4.0	4.2	4.1		4.2	4.0–4.1	3.9–4.2	3.9–4.3		3.9–4.3	3.8–4.4	3.8–4.3	3.8–4.3		3.5–4.5
PCE inflation	2.3	2.1	2.0	2.0	2.0	2.2–2.4	2.1–2.2	2.0	2.0	2.0	2.1–2.7	2.1–2.4	2.0–2.2	2.0–2.1	2.0
June projection	2.6	2.3	2.0		2.0	2.5–2.9	2.2–2.4	2.0–2.1		2.0	2.5–3.0	2.2–2.5	2.0–2.3		2.0
Core PCE inflation[4]	2.6	2.2	2.0	2.0		2.6–2.7	2.1–2.3	2.0	2.0		2.4–2.9	2.1–2.5	2.0–2.2	2.0–2.2	
June projection	2.8	2.3	2.0			2.8–3.0	2.3–2.4	2.0–2.1			2.7–3.2	2.2–2.6	2.0–2.3		
Memo: Projected appropriate policy path															
Federal funds rate	4.4	3.4	2.9	2.9	2.9	4.4–4.6	3.1–3.6	2.6–3.6	2.6–3.6	2.5–3.5	4.1–4.9	2.9–4.1	2.4–3.9	2.4–3.9	2.4–3.8
June projection	5.1	4.1	3.1		2.8	4.9–5.4	3.9–4.4	2.9–3.6		2.5–3.5	4.9–5.4	2.9–5.4	2.4–4.9		2.4–3.8

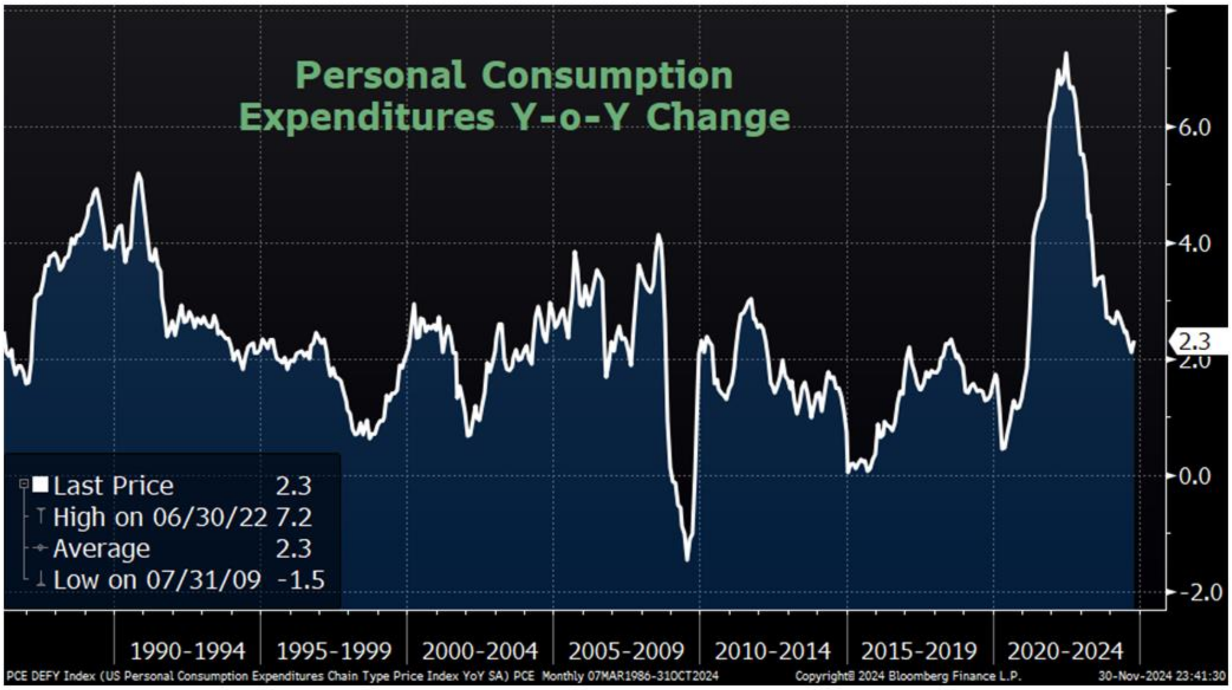
NOTE: Projections of change in real gross domestic product (GDP) and projections for both measures of inflation are percent changes from the fourth quarter of the previous year to the fourth quarter of the year indicated. PCE inflation and core PCE inflation are the percentage rates of change in, respectively, 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 June projections were made in conjunction with the meeting of the Federal Open Market Committee on June 11–12, 2024.

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.

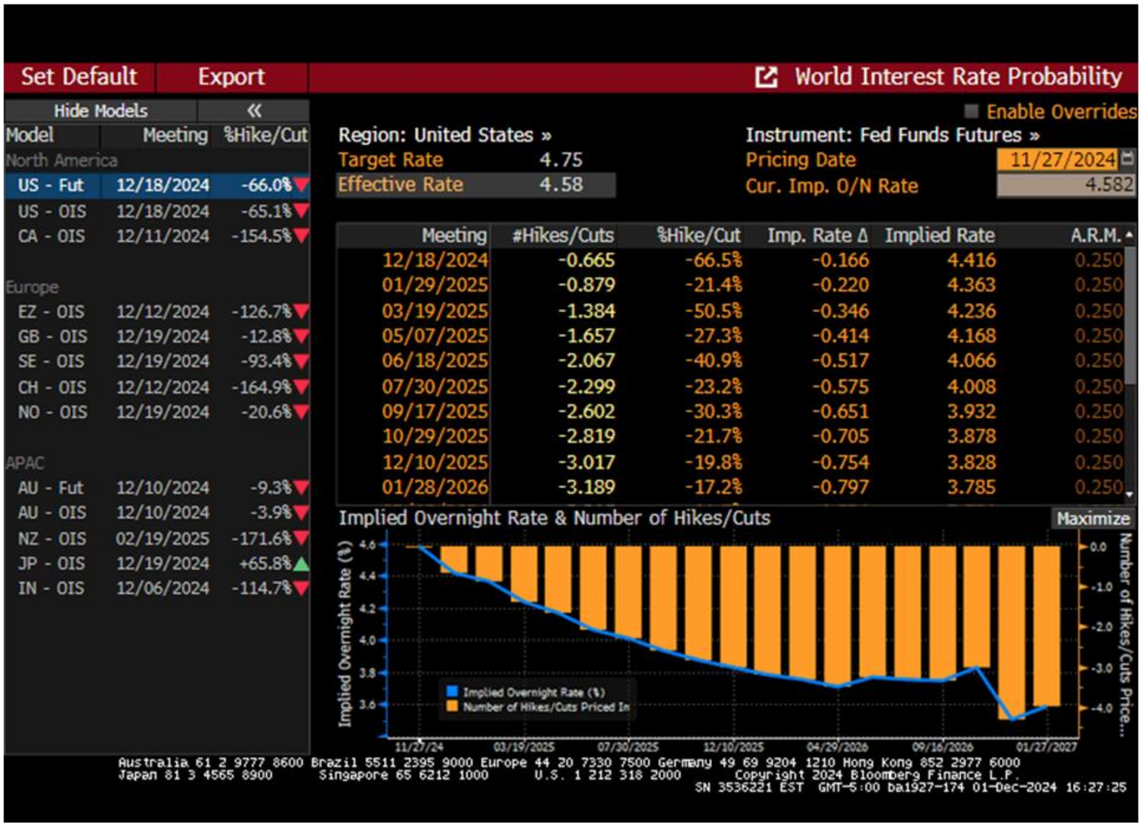
The Fed is a bit closer in its published estimates for inflation as the Core PCE (Personal Consumption Expenditure) price index for October rose 2.8%,...



...and the full PCE price index (includes the volatile food and energy components) climbed 2.3%.



When all was said and done, the betting odds in the Fed Funds futures market last week saw a reduction in the expected year-end '24 and '25 rate to 4.42% and 3.83%, respectively, down from 4.45% and 3.93%, respectively, at the end of the prior week.



Of course, stocks have performed well, on average, even if America's central bank has been raising interest rates, but we do not mind that equity returns have been stronger, again on average, when the Federal Reserve has been accommodative.

Concurrent Stock Performance & Change in Federal Funds Eff. Rate

	Count	Value	Growth	Payers	Non-Payers
Less than 4.245%	419	13.6%	10.6%	10.8%	10.7%
More than 4.245%	419	14.6%	9.7%	12.4%	9.3%
3-Month Drop	388	17.8%	12.3%	14.3%	10.9%
3-Month Rise	446	11.0%	8.2%	9.2%	9.1%
6-Month Drop	366	16.4%	12.7%	14.3%	11.0%
6-Month Rise	462	12.1%	8.0%	9.4%	8.9%
12-Month Drop	371	14.4%	11.7%	12.8%	9.6%
12-Month Rise	445	13.3%	8.5%	10.2%	9.5%

From 07.31.1954 through 06.30.2024. Concurrent annualized 12-month returns. SOURCE: Kovitz using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French

Subsequent Stock Performance & Change in Federal Funds Eff. Rate

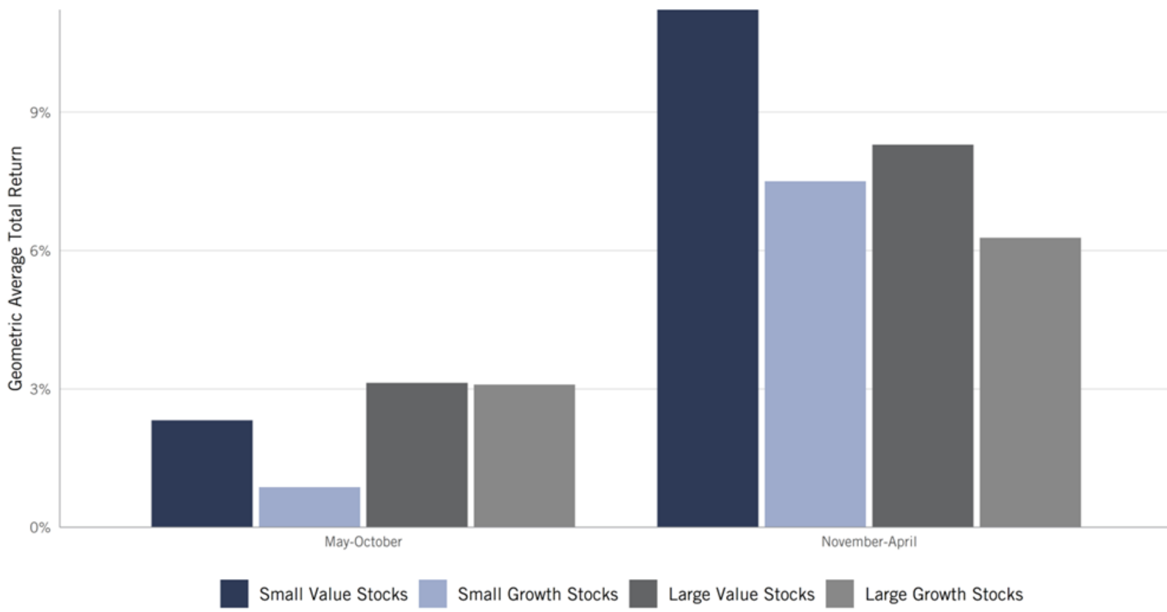
	Count	Value	Growth	Payers	Non-Payers
Less than 4.245%	420	12.2%	10.2%	10.6%	10.1%
More than 4.245%	420	15.5%	9.6%	12.1%	9.1%
3-Month Drop	383	13.8%	10.3%	11.1%	10.2%
3-Month Rise	442	13.6%	9.4%	11.3%	8.8%
6-Month Drop	366	15.4%	11.8%	12.2%	12.0%
6-Month Rise	456	12.2%	8.2%	10.4%	7.4%
12-Month Drop	371	16.9%	11.8%	12.3%	11.9%
12-Month Rise	445	10.9%	8.0%	10.1%	7.3%

From 07.31.1954 through 06.30.2024. Subsequent 12-month return. SOURCE: Kovitz using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French

Many thought the Federal Reserve hiking the Fed Funds would be a big headwind for equities, but such was again not the case. Anything could have happened, of course, but seven decades of annualized data showed that equities performed admirably, ON AVERAGE, both concurrent with and subsequent to increases in the Fed Funds rate over 3-, 6-, and 12-month time spans. More importantly today, given that the Fed appears poised to now cut rates, stocks have performed even better, historically speaking, in a falling rate environment.

We also like that we continue to reside in the seasonally more favorable six months of the year,…

SEASONALITY
VALUE / GROWTH / SMALL / LARGE

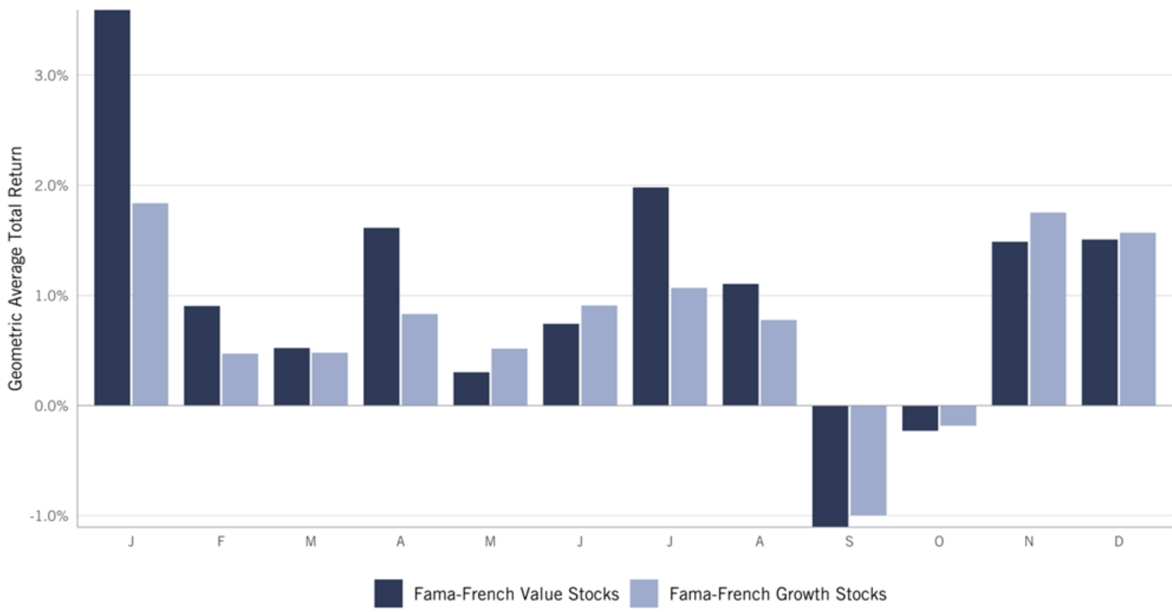


From 04.30.1928 through 04.30.2024. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Geometric average. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

…with November, December and January the most wonderful three months on average.

THE PRUDENT SPECULATOR

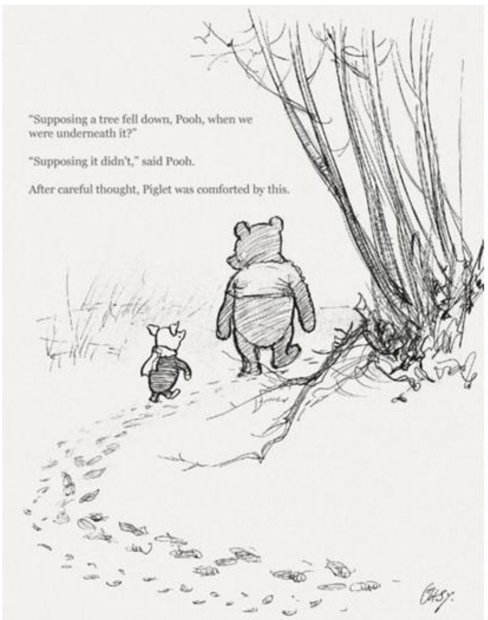
AVERAGE MONTHLY TOTAL RETURNS
VALUE / GROWTH



From 12.31.1927 through 12.31.2023. Geometric average. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stoc = 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. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

Not surprisingly, while we realize that disconcerting headlines are always a wildcard,...

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.



Russell 3000 Value Total Return

Event	Date	Starting Value	3 Months Later	6 Months Later	1 Year Later	3 Years Later	5 Years Later	Event to Present
Flash Crash	5/6/2010	3,220.32	-1%	8%	20%	51%	96%	372%
Japan Tsunami	3/11/2011	3,750.43	-2%	-14%	4%	51%	62%	305%
S&P Downgrade	8/5/2011	3,381.64	4%	14%	17%	74%	97%	349%
Hurricane Sandy	10/22/2012	4,185.93	7%	12%	27%	47%	88%	263%
Fiscal Cliff	1/1/2013	4,220.00	12%	16%	33%	43%	92%	260%
Taper Tantrum	5/22/2013	4,985.13	1%	10%	16%	25%	63%	205%
Russia and Ukraine	2/20/2014	5,572.22	3%	9%	15%	33%	49%	173%
Ebola Scare	9/4/2014	6,129.40	3%	3%	-6%	22%	38%	148%
Charlie Hebdo	1/7/2015	6,203.98	2%	2%	-7%	33%	50%	145%
Greek Default	6/30/2015	6,278.14	-9%	-3%	2%	28%	24%	142%
China Devalues Yuan	8/10/2015	6,308.00	-2%	-13%	5%	32%	33%	141%
Paris Bataclan	12/13/2015	5,936.25	2%	7%	22%	32%	60%	156%
U.S. Interest Rate Hike	12/16/2015	6,113.89	-1%	4%	18%	26%	56%	148%
China GDP Slowing	1/19/2016	5,530.34	14%	20%	29%	43%	80%	175%
Brexit Vote	6/23/2016	6,483.87	3%	12%	15%	32%	73%	134%
Trump Victory	11/8/2016	6,613.60	9%	12%	18%	37%	82%	130%
Trump Trade War	3/2/2018	7,966.57	1%	6%	4%	30%	43%	91%
COVID-19 Pandemic	3/11/2020	7,398.95	4%	12%	45%	47%		105%
Biden Victory	11/3/2020	8,447.17	17%	33%	42%	34%		80%
Georgia Runoff	1/5/2021	9,590.35	14%	19%	26%	29%		58%
		Averages:	**4%**	**8%**	**17%**	**37%**	**64%**	**179%**

Source: Kovitz using data from Bloomberg. As of 11.29.24

...we remain optimistic about the long-term prospects for 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	18.8	15.0	1.0	2.4	2.4
ValuePlus	19.9	15.8	1.2	2.4	2.1
Dividend Income	19.1	15.4	0.9	2.2	2.6
Focused Dividend Income	17.9	13.9	1.1	2.2	2.8
Focused ValuePlus	18.3	15.1	1.1	2.4	2.4
Small-Mid Dividend Value	14.3	13.2	0.5	1.6	2.6
Russell 3000	27.9	26.1	2.8	4.7	1.2
Russell 3000 Growth	37.6	34.5	5.0	12.7	0.6
Russell 3000 Value	21.8	20.5	1.8	2.8	2.0
Russell 1000	27.2	25.5	2.9	5.0	1.2
Russell 1000 Growth	36.6	33.6	5.3	13.7	0.6
Russell 1000 Value	21.3	20.2	1.9	2.9	1.9
S&P 500 Index	26.8	25.4	3.1	5.2	1.2
S&P 500 Growth Index	34.1	32.3	6.4	11.6	0.6
S&P 500 Value Index	20.9	19.8	1.8	3.0	2.1
S&P 500 Pure Value Index	11.4	12.5	0.5	1.4	2.4

As of 11.29.2024. 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.

…and we can add that the contrarian in us liked that the latest gauge of investor sentiment on Main Street saw more Bears than Bulls.

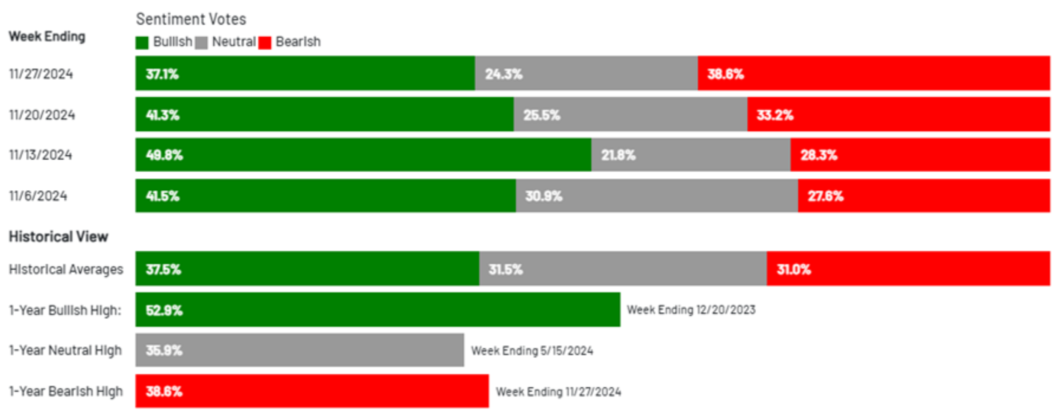
The AAII Investor Sentiment Survey

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?



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 *Sales Alerts*.

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

Shares of industrial concern **Eaton** (ETN – $375.42) have continued to climb higher, up more than 55% year-to-date, and increasing more than 13% since the 2024 U.S. presidential election.

Eaton's valuation metrics definitely are stretched, especially for our Value souls, but we have chosen to continue to ride the momentum, having previously trimmed positions on a couple of occasions. Now trading at 36 times trailing and 32 times NTM estimated EPS, the advancement in the share price cannot be ignored, but it can be argued that those metrics are not out of this world relative to other A.I.-exposed stocks, and we believe that the company's ongoing execution and organic growth continues to be impressive. We note that the EPS figure was $7.57 in 2022 versus an estimated $10.79 this year and an estimated $13.58 in 2026, so it is hardly unreasonable to think that the shares won't continue to grow into their premium valuation.

We like that ETN has optimized its portfolio and has delivered improved growth metrics since its Hydraulics divestiture, and while its Electrical sector has been booming, some of its more cyclical segments like residential, industrial and truck are still waiting for recovery. Expense increases will likely continue, but we are constructive that many of these dollars are spent on investments in capacity additions, largely in Electrical Americas, which includes product areas like transformers, switchgears and voltage regulators.

Supply chain constraints in some of these areas seem to be supporting current pricing and profitability, and some believe a turn in the more cyclical businesses could mesh nicely with increased supply in electricals come 2026. While ETN shares are always on the table for a source of additional funds for new or increased opportunities in our portfolios, we have bumped up our Target Price to $389.

Shares of **Digital Realty** (DLR – $195.69) have continued their robust recovery, climbing 45% this year on optimism surrounding the data infrastructure REIT's growth trajectory.

At the end of Q3, stronger leasing, improved renewal spreads and robust pricing led management to boost core FFO guidance to $6.65 to $6.75 per share. Management highlighted strong demand across both hyperscale and enterprise segments, supported by the REIT's extensive global footprint and ability to scale its development pipeline of over 3 gigawatts, and further bolstered by a strong balance sheet.

Even with the tremendous rebound since mid-2023, we think the stock remains a compelling play on the expanding global data center market. We have boosted our Target Price to $201 given the company's operational momentum, industry tailwinds and the seemingly insatiable appetite for digital infrastructure from the proliferation of Artificial Intelligence.

Shares of **Snap-On** (SNA – $369.69) have continued their march higher, climbing another 13% since releasing a solid Q3 financial report in October. We appreciate that the developer, manufacturer and distributor of tools and equipment solutions is one of the best-known brands in the auto-repair space, with a conservative fiscal posture under the capable leadership of long-time CEO Nicholas T. Pinchuk.

We also think the company will continue to benefit from an increasing lifespan and repair/maintenance complexity for traditional ICE-powered vehicles. While not egregiously priced and inexpensive relative to the market, the present NTM P/E multiple of 18.5 is above the stock's long-run average with marginal bottom-line growth expected in each of the next few years. So, readers shouldn't be surprised if we soon decide to take some of our chips off the table for this holding. For the time being, our Target Price for SNA has been lifted to $380.

The ceasefire between Israel and Lebanon along with comments from Elon Musk targeted at defense contractor Lockheed Martin's (LMT – $529.41) F-35 program weighed on shares last week. The entrepreneur and co-lead of the Department of Government Efficiency (DOGE) announced by President-elect Donald Trump took aim at the defense contractor's jet program, citing waste, and arguing that drones would be a more effective war implement versus manned aerial vehicles.

We too have marveled at some of the delays that have plagued the program over the years. However, any genuine drone vs. manned vehicle argument will be loaded with nuance. And we find it a tall order for the DOGE duo to materially impact the Defense Budget, which stands at about a half of U.S. discretionary government spending according to CBO data. Considering the various conflicts around the globe and defense spending relative to the country's GDP near a multi-decade low, we find Lockheed relatively insulated from any immediate impacts from the new administration.

Indeed, should there be a preference for drones going forward, we would suspect Lockheed to live at the forefront of that conversation. Even as the F-35 program represents about a quarter of overall sales and some two-thirds of revenue from the company's Aeronautics segment, Lockheed has a suite of unmanned and autonomous machines already in deployment. Shares trade a touch above the long-run median P/E ratio but still appear reasonably priced in our view, especially given the 2.5% dividend yield. Our Target Price is presently $614.

President-elect Donald J. Trump proposed new 25% tariffs on imports from Mexico and Canada, which, if more than a bargaining chip, could significantly impact **General Motors** (GM – $55.59). As the leading importer of vehicles from Mexico to the U.S., the proposed tariffs could raise production costs and/or weigh on demand for popular models like the Chevy Silverado, GMC Sierra and electric vehicles such as the Equinox and Blazer.

During Mr. Trump's previous term, tariffs on steel and aluminum imports were imposed, which had a notable impact on GM and other automakers. The 25% tariff on steel imports increased raw material costs and added about $1 billion of higher production expenses for GM. In response to these increased costs and shifting market demands, GM announced in November 2018 the closure of several plants and a reduction of over 14,000 jobs.

Although GM would prefer not to operate under a stiffer tariff regime, we expect management to navigate the territory in a similar fashion to protect margins. Of course, the bottom line could be impacted, but we think the company's solid balance sheet gives it wiggle room to compete in a variety of environments, while the stock's single-digit P/E ratio compensates for a significant amount of pessimism in our view. Our Target Price for GM is now $71.

Despite taking a hit earlier this month after some concerns were stoked by an analyst around bone mineral density loss from its in-trial obesity drug (GLP-1) MariTide, shares of **Amgen** (AMGN – $282.87) once again lost some ground following the company's announcement of results from a double-blind, dose-ranging phase 2 study of MariTide. Despite some data from the phase 2 trial seemingly easing some of those fears around bone mineral density and heat rate effects from the treatment, traders didn't think the phase 2 results differentiated themselves enough from Eli Lilly and Novo Nordisk's rockstar GLP-1 drugs.

We question the reaction with the study showing that MariTide demonstrated up to 20% average weight loss at 52 weeks without a weight loss plateau in people with obesity or who were overweight. In people with the same conditions but also living with Type 2 diabetes, MariTide demonstrated up to 17% average weight loss without a plateau, and it also showed an average reduction of the participants HbA1c by up to 2.2%. Additionally, MariTide delivered substantial improvements across cardiometabolic parameters.

In fact, Jay Bradner, M.D., executive vice president of Research and Development and chief scientific officer at Amgen, stated, "We are very excited by MariTide's differentiated profile, with clinically meaningful attributes of substantial and progressive weight loss, monthly or less frequent dosing, significant improvements in cardiometabolic parameters and strong reduction of HbA1C. These results provide us confidence to initiate MARITIME, a Phase 3 program across obesity and a number of related conditions, providing a unique potential new treatment option for patients."

With a massive addressable market believed to be at least $100 billion for these types of obesity medications, the company's once-per-month (or potentially even less frequent) injectable version remains central to Amgen's growth strategy as it continues to work to fend off competition and generics for some of its leading drugs.

The more than 12% plunge since November 8 seems overdone to us and has pushed the forward P/E ratio down below 14, well below the 3-, 5- and 10-year averages, while analysts still expect EPS to grow this year and in each of the next three years. Still, we are prepared for a bumpy ride in the near term as many will be watching to see how the Phase 3 MariTide trial results stack up versus the already popular and growing usage competition.

All considered, it seems to us that MariTide offers a differentiated profile even if it is limited to dosage, though we also note that Amgen offers a potential for reliable manufacturing in this limited supply GLP-1 market. The dividend yield is 3.2% and our Target Price for AMGN stands at $367.

Giving up a large mid-week gain, shares of **Dick's Sporting Goods** (DKS – $207.24) fell 1.4% last week even as the sporting goods retailer reported quarterly results that beat on the top and bottom line, and management said it was quite constructive on the current holiday shopping season. Despite the unfavorable impact from a calendar shift, DKS produced a strong quarter that saw same store sales rise 4.2%, as ticket size increased, overcoming a slight decline in transactions. Revenue for the period was $3.06 billion, versus the consensus analyst estimate of $3.03 billion, and adjusted EPS was $2.75 (vs. the $2.70 est.).

Executive Chairman Ed Stack commented, "Our strong third quarter results demonstrate the significant momentum we have in our business. We continue to make strategic investments such as our House of Sport and DICK'S Field House concepts, where we are redefining sports retail and creating strong engagement with our athletes, brand partners and communities, that will fuel our long-term growth. Sport continues to have a strong influence on culture, and culture on sport, and our House of Sport concept is uniquely positioned to meet the needs of athletes as they look for the best of performance as well as the lifestyle of sport."

CEO Lauren Hobart added, "We are very proud of our Q3 results and our performance year-to-date. Our third quarter comp sales grew 4.2%, driven by a continued focus on our strategic pillars and great execution from our team. We had an excellent back-to-school season and continued to gain market share. As a result of our strong performance in the quarter and the continued confidence we have in our business, we are again raising our full year outlook. We believe our differentiated product, quality service and powerful omni-channel experience will resonate well with our athletes this holiday season"

Management now expects full-year revenue in the range of $13.2 billion to $13.3 billion and sees adjusted EPS to be in the range of $13.65 to $13.95, up from $13.55 to $13.90, while the company also raised its forecast for 2024 same store comparable sales growth to a range of 3.6% to 4.2%, up from a range of 2.5% to 3.5%.

Dick's is the largest pure sporting goods chain in the U.S., with limited competition at present in many of its markets. Even as nearly all the major brick and mortar competitors have gone bust in the past, Dick's has found a way to excel, perhaps owing to improved omnichannel execution and growing its digital sales while providing a differentiated set of offerings across brands, price points and categories. While there are expenses associated with renovating some current locations, or moving said locations, to repurpose as specialty stores or the House of Sport and Fieldhouse store concepts, the P/E ratio is still reasonable at 14.3 times NTM EPS expectations, while the dividend yield is now 2.1%. Our Target Price has been hiked to $258.

Already battered shares of **Kohl's** (KSS – $14.97) skidded another 12% last week after the retailer announced the replacement of its current CEO Tom Kingsbury with retail veteran and current Michael's CEO Ashley Buchanan and disclosed Q3 financial results that missed Street expectations. Mr. Buchanan will take over in his new role at the top of 2025, while Mr. Kingsbury will move into an advisory role and remain on the board until retirement in May 2025.

For Q3, Kohl's earned $0.20 per share (vs. $0.27 est.) on an 8.8% decline in sales to $3.5 billion. Through the first nine months, net sales decreased 6.1% to $10.2 billion and net income was $61 million ($0.55 per share), down from $131 million ($1.18 per share).

Full-year 2024 projections have been adjusted downward for the third time this year. The company is now calling for a 7% to 8% decline for net sales and diluted EPS to come in between $1.20 and $1.50, with $500 million allocated to store investments and the Sephora partnership.

Regarding the latest quarter, Mr. Kingsbury said, "Our third quarter results did not meet our expectations as sales remained soft in our apparel and footwear businesses. Although we had a strong collective performance across our key growth areas, including Sephora, home decor, gifting, and impulse, and also benefited from the opening of Babies "R" Us shops in 200 of our stores, these were unable to offset the declines in our core business. Importantly, we delivered gross margin expansion and managed expenses tightly in the quarter. We are not satisfied with our performance in 2024 and are taking aggressive action to reverse the sales declines. We must execute at a higher level and ensure we are putting the customer first in everything we do. We are approaching our financial outlook for the year more conservatively given the third quarter underperformance and our expectation for a highly competitive holiday season."

While we have found our share of successes with retail stocks over the years, our Kohl's experience reminds us of the difficulty of investing in the space. Subject to loads of competition, operating within a niche or with a unique twist on a certain segment is often paramount, while having shrewd management doesn't hurt. The lack of a differentiation strategy is a pain point for Kohl's as it continues to struggle to regain footing since the pandemic drastically shifted supply and demand and disrupted procurement patterns.

Given his previous experience at Michael's and Walmart, we think Mr. Ashley will have some productive ideas to bring to the table. Still, execution will be key, and he will be without the benefit of such a differentiated category as arts and crafts. Moreover, improvements to the online channel will likely take several years to materialize. We continue to find value in the company's real estate, although higher interest rates have impacted that landscape somewhat and any monetization efforts are also a wildcard.

Shares may be worthy of a speculation, for those with the stomach for the story to potentially worsen before it improves, given the nearly 50% decline for the stock year-to-date. Given the reduced guidance, we have to think the massive 13% dividend yield is in jeopardy, so we would caution against buying directly for the income as capital allocation priorities under the new management team could be in flux. As we continue to debate and discuss our strategy for the position internally, our Target Price has been cut to $22.

Shares of **Nordstrom** (JWN – $22.71) retreated 2.3% last week, though some might have expected a positive movement following the company's quarterly top- and bottom-line beat that was reported after market close on Tuesday. The upscale retailer posted adjusted EPS of $0.33 (vs. a $0.22 consensus estimate) on net sales of $3.35 billion, which was better than the $3.28 billion forecast. Traders seemed to be hesitant to celebrate the quarter because the company did not lift its full-year outlook for adjusted operating margin and EPS ranges of 3.6% to 4.0% and $1.75 to $2.05, respectively, and management indicated that sales saw some slowing in the latter part of the quarter.

We saw JWN's sales numbers as encouraging considering the hit they took from the timing of the Anniversary Sale, the unfavorable warm weather and the fact that other department stores declined in the period. We also were encouraged to see the Nordstrom Rack concept realize 11% sales growth.

CEO Erik Nordstrom commented, “The continued sales growth across the company and strong gross margin in the third quarter indicate our team’s focus and efforts are working. Our customers have a lot of choices, and our results give us encouragement that we’re on the right path. Looking ahead, we’ll continue to improve our shopping experience as we strive to maintain the positive momentum we’ve worked towards all year.”

Chief Brand Officer Pete Nordstrom added, “Our third quarter results demonstrate that our strategic focus on curating a compelling brand assortment is resonating with customers. Our actions throughout this year have led to this moment, and we feel well-positioned for a successful holiday season and look forward to helping our customers celebrate the moments that matter. I’m grateful to our dedicated team for consistently delivering the high level of service our customers have come to expect from Nordstrom.”

We continue to view JWN as an above average clothing retailer and appreciate the quality-at-a-discount offering afforded by Rack. There was no additional discussion from management on the Nordstrom family led potential buyout at $23 per share, though we do not see this as an appealing price with shares trading for less than 12 times NTM adjusted EPS estimates. JWN shares boast a 3.3% dividend yield and our Target Price has been increased to $27.