# Market Commentary Monday, February 2, 2025

February 3, 2025

## EXECUTIVE SUMMARY

Week in Review – Big Headlines Make for Volatile 5 Trading Days

Sentiment – Traders Often Zig When They Should Have Zagged

Historical Evidence – Markets Overcame Trump 45 Tariffs…and Everything Else in the Fullness of Time

Valuations – Value Stocks Remain Reasonably Priced

Econ Outlook – Solid Real U.S. GDP Growth Projected for 2025

Fed Meeting – Fed Funds Rate Holds Steady; Powell & Co. Still Data-Dependent

Inflation – PCE Numbers as Expected

Staying the Course – Value has Produced Handsome Returns Over the Past Two Decades

Stock News – Updates on META, AAPL, LRCX, IBM, ETN, GEN, CAH, CAT, GD, WHR, WM, CVX & PPG

**Market Review**

From DeepSeek to the Fed to a Deadly Air Collision to Tariffs, it was an extraordinary week of news that made for a more-wild-than-usual equity market roller-coaster ride,…


THE WALL STREET JOURNAL.

DeepSeek Flips Script on AI

Market Plunges As China Firm Stirs Worries

Eighty Years Later, Death Camp Survivors Return

No Plan B for Broken

INSIDE

DOJ Fires Lawyers

# NEWSIEST MARKET WEEK EVER?


THE WALL STREET JOURNAL.

Air Collision Over Potomac Kills 67

Washington's Jam-Packed Airspace Has Prompted Warnings for Years


THE WALL STREET JOURNAL.

Fed Holds Steady on Rates

White House Rescinds Funding Freeze

Around World, the Year of the Snake Slithers In

RFK Jr. Says He Backs Vaccines, Will Defer to President's Orders

Gabbard Tried To Mask Sect Ties

The major headlines just kept coming last week as market players had to contend with DeepSeek leading to a drubbing of many A.I.-related hardware stocks, a relatively uneventful first FOMC Meeting and Chair Powell Press Conference of 2025, the worst air disaster in the U.S. since 2001 happening some five miles from the White House and President Trump initiating tariffs on goods from Canada, Mexico and China.


WSJ

THE WALL STREET JOURNAL WEEKEND

Crash Victims Mourned Amid Search for Answers

President Threatens To Widen Trade War

'Can't Wait to Be Home': Final Moments of Flight 5342

...with the major market averages giving back a portion of the gains posted over the preceding two weeks, though they still turned in a terrific month of January and reminded again that while downside volatility is always part of the investment equation, handsome rewards have accrued to those who remember that the secret to success in stocks is not to get scared out of them.

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% | 13.5% | 72 | 106 | 0.3 | 1/10/2025 | 1/23/2025 |

### 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% | -14.1% | 54 | 52 | 0.6 | 11/29/2024 | 1/10/2025 |
| -5.0% | -10.0% | 30 | 105 | 0.3 | 11/29/2024 | 1/10/2025 |

From 10.19.95 through 01.23.25. 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 | 14.1% | 18.0% |
| Growth Stocks | 11.3% | 18.9% |
| Dividend Paying Stocks | 12.6% | 14.6% |
| Non-Dividend Paying Stocks | 12.4% | 22.3% |
| Large-Company Stocks | 12.0% | 15.1% |
| Small-Company Stocks | 13.2% | 20.4% |
| Long-Term Corporate Bonds | 7.6% | 10.3% |
| Long-Term Gov't Bonds | 7.2% | 11.5% |
| Intermediate Gov't Bonds | 6.2% | 5.3% |
| Treasury Bills | 4.2% | 1.0% |
| Inflation | 3.6% | 1.3% |

From 03.31.1977 through 11.30.2024. 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

Keeping on an even keel is easier said than done as folks were pessimistic heading into the middle-of-January's big advance and optimistic prior to last week's downturn,...

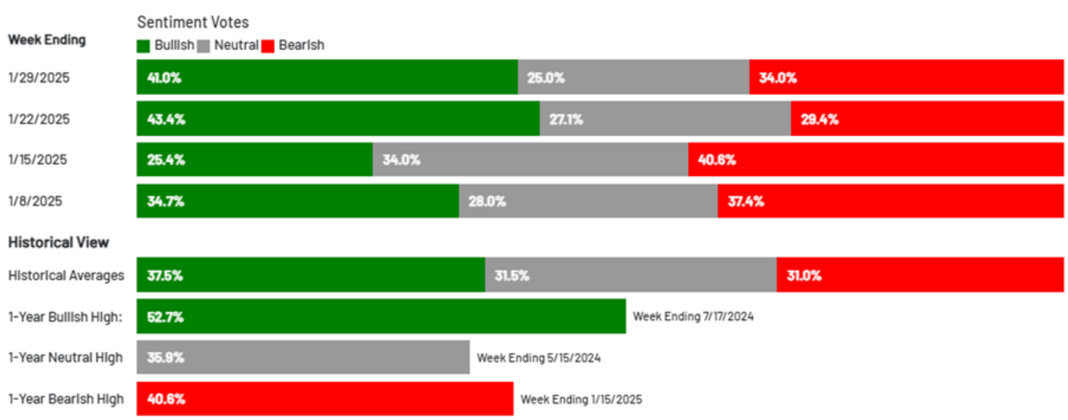
## The AAII Investor Sentiment Survey

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?**

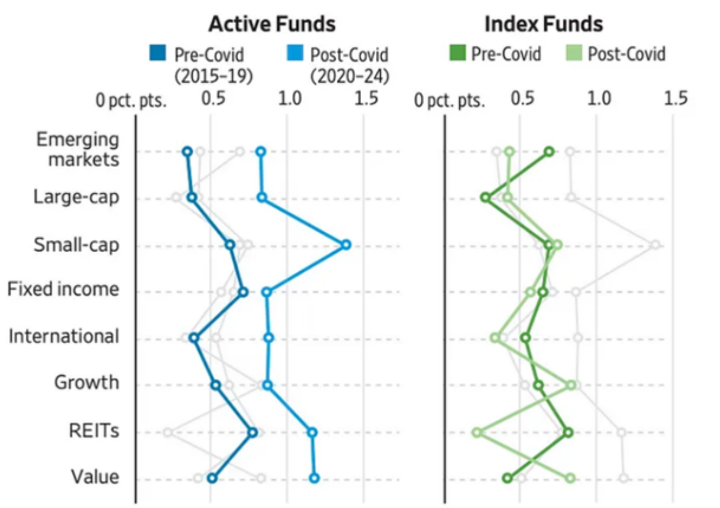



…illustrating why we say the only problem with market timing is getting the timing right.

## Market Timing Has Picked Up Since Covid. It Has Cost Investors Dearly

### Poor Timing

Average return gap between reported and actual returns in various mutual-fund categories. Results are separated by index funds and active funds




Source: Derek Horstmeyer, George Mason University

The Covid-19 pandemic wreaked havoc on more than just public health — it also disrupted the trading behavior of individual investors.

Between 2020 and 2024, such investors have exhibited more detrimental trading behavior than before Covid, taking riskier bets and trading more inefficiently by trying to time market tops and bottoms. The upshot: Billions of dollars in lost portfolio value annually.

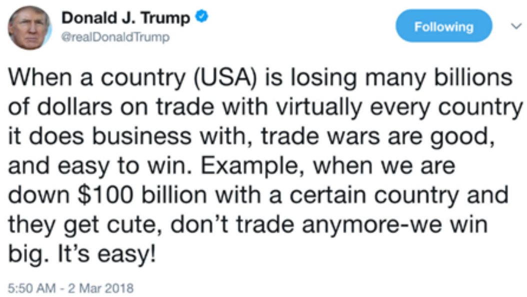
Over a variety of actively traded mutual-fund styles from 2015 to 2019, my research assistants (Ali Alhassan and Brian Gaydos) and I estimate poor market timing cost investors 0.53 percentage point a year in value to their portfolios.

By comparison, from 2020 through Oct. 31, 2024, the average value destruction to one's portfolio from poor market timing nearly doubled, to just over 1.01 percentage points a year in actively managed holdings.

*****

We will have more to say on DeepSeek in the February edition of *The Prudent Speculator*, but it does not alter our favorable long-term view of our A.I.-exposed companies, such as data center plays **Digital Realty** (DLR – $163.86) and **Eaton Corp** (ETN – $326.44), service and solutions providers **Hewlett Packard Enterprise** (HPE – $21.19) and **Oracle** (ORCL – $170.06) and chipmakers **Broadcom** (AVGO – $221.27) and **Micron Tech** (MU – $91.24), all of which were hit hard last week.

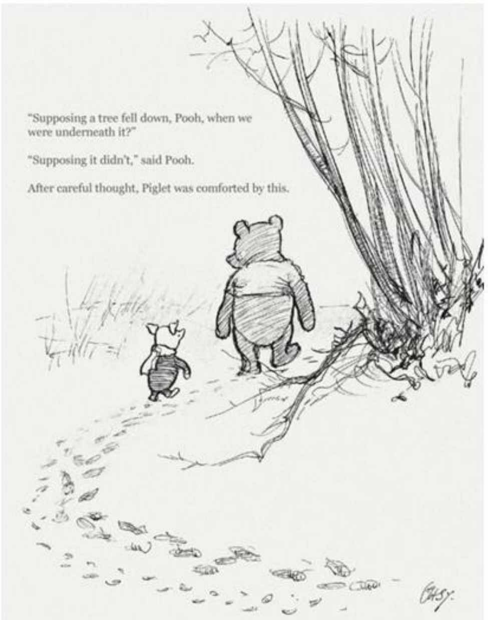
Still, we understand that there is plenty of near-term uncertainty in Tech Land, especially with China also being slapped with tariffs. Of course, we have been down the Trump tariff road before, and the right course of action then was to stick with our broadly diversified portfolios of what we believe to be undervalued stocks,...




There is plenty of uncertainty about how Trump 47's tariffs will impact the equity markets, but stocks persevered and went on to significantly higher levels in the ensuing years despite Trump 45 initiating a Trade War in March 2018.


...as has been the case for every disconcerting event over the last 15 years, with near-term weakness always overcome in the fullness of time,...

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% | 359% |
| Japan Tsunami | 3/11/2011 | 3,750.43 | -2% | -14% | 4% | 51% | 62% | 294% |
| S&P Downgrade | 8/5/2011 | 3,381.64 | 4% | 14% | 17% | 74% | 97% | 337% |
| Hurricane Sandy | 10/22/2012 | 4,185.93 | 7% | 12% | 27% | 47% | 88% | 253% |
| Fiscal Cliff | 1/1/2013 | 4,220.00 | 12% | 16% | 33% | 43% | 92% | 250% |
| Taper Tantrum | 5/22/2013 | 4,985.13 | 1% | 10% | 16% | 25% | 63% | 196% |
| Russia and Ukraine | 2/20/2014 | 5,572.22 | 3% | 9% | 15% | 33% | 49% | 165% |
| Ebola Scare | 9/4/2014 | 6,129.40 | 3% | 3% | -6% | 22% | 38% | 141% |
| Charlie Hebdo | 1/7/2015 | 6,203.98 | 2% | 2% | -7% | 33% | 50% | 138% |
| Greek Default | 6/30/2015 | 6,278.14 | -9% | -3% | 2% | 28% | 24% | 135% |
| China Devalues Yuan | 8/10/2015 | 6,308.00 | -2% | -13% | 5% | 32% | 33% | 134% |
| Paris Bataclan | 12/13/2015 | 5,936.25 | 2% | 7% | 22% | 32% | 60% | 149% |
| U.S. Interest Rate Hike | 12/16/2015 | 6,113.89 | -1% | 4% | 18% | 26% | 56% | 142% |
| China GDP Slowing | 1/19/2016 | 5,530.34 | 14% | 20% | 29% | 43% | 80% | 167% |
| Brexit Vote | 6/23/2016 | 6,483.87 | 3% | 12% | 15% | 32% | 73% | 128% |
| Trump Victory | 11/8/2016 | 6,613.60 | 9% | 12% | 18% | 37% | 82% | 123% |
| Trump Trade War | 3/2/2018 | 7,966.57 | 1% | 6% | 4% | 30% | 43% | 85% |
| COVID-19 Pandemic | 3/11/2020 | 7,398.95 | 4% | 12% | 45% | 47% | | 100% |
| Biden Victory | 11/3/2020 | 8,447.17 | 17% | 33% | 42% | 34% | | 75% |
| Georgia Runoff | 1/5/2021 | 9,590.35 | 14% | 19% | 26% | 29% | | 54% |
| | | **Averages:** | **4%** | **8%** | **17%** | **37%** | **64%** | **171%** |

*Source: Kovitz using data from Bloomberg. As of 1.31.25*

…validating the historical evidence that shows the longer stocks are held, the less the chance of losing money.

While equities are a volatile asset class, most care far more about losing money than short-term fluctuations or the classic measure of risk, the standard deviation of monthly returns. Happily, nearly a century of market history reveals that the longer the holding period the less the chance of loss, illustrating that time is a terrific risk mitigation tool.

## PATIENCE IS VIRTUOUS

### VALUE STOCKS

| | Count >0% | Count <=0% | Percent >0% |
|---|---|---|---|
| 1 Month | 736 | 433 | 63.0% |
| 3 Months | 791 | 376 | 67.8% |
| 6 Months | 824 | 340 | 70.8% |
| 1 Year | 847 | 311 | 73.1% |
| 2 Year | 959 | 187 | 83.7% |
| 3 Year | 995 | 139 | 87.7% |
| 5 Year | 997 | 113 | 89.8% |
| 7 Year | 1050 | 36 | 96.7% |
| 10 Year | 1016 | 34 | 96.8% |
| 15 Year | 990 | 0 | 100.0% |
| 20 Year | 930 | 0 | 100.0% |

### DIVIDEND PAYERS

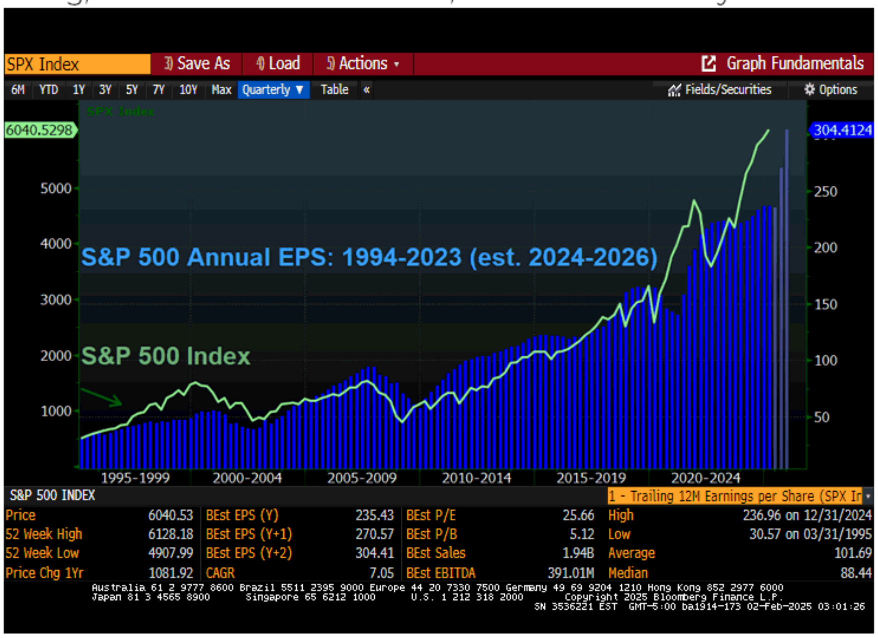
| | Count >0% | Count <=0% | Percent >0% |
|---|---|---|---|
| 1 Month | 740 | 429 | 63.3% |
| 3 Months | 814 | 353 | 69.8% |
| 6 Months | 844 | 320 | 72.5% |
| 1 Year | 880 | 278 | 76.0% |
| 2 Year | 983 | 163 | 85.8% |
| 3 Year | 976 | 158 | 86.1% |
| 5 Year | 1024 | 86 | 92.3% |
| 7 Year | 1046 | 40 | 96.3% |
| 10 Year | 1016 | 34 | 96.8% |
| 15 Year | 990 | 0 | 100.0% |
| 20 Year | 930 | 0 | 100.0% |

From 07.31.1927 through 11.30.24. 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

*****

Certainly, we have to be braced for a continuation of the selling in the near term, as currently robust estimates for corporate profit growth are likely to come down on tariff worries,...

Q3 report cards generally were favorable with 75.7% of companies in the S&P 500 topping bottom-line expectations and Q4 is off to a better start thus far with 77.7% beating the Street. Year-over-year EPS growth remains solid and the outlook for 2025 corporate profits is healthy, which is a good thing, as if a business does well, its stock eventually follows.

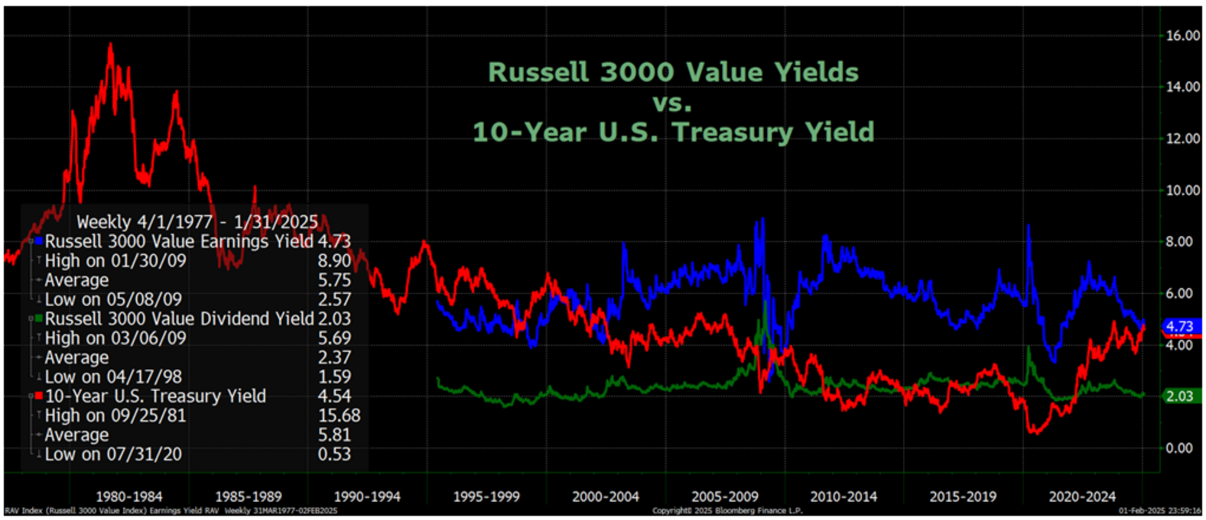



| S&P 500 Earnings Per Share | | |
|---|---|---|
| Quarter Ended | Bottom Up Operating EPS 3 Month | Bottom Up Operating EPS 12 Month |
| ESTIMATES | | |
| 12/31/2025 | $72.12 | $271.09 |
| 9/30/2025 | $70.53 | $260.13 |
| 6/30/2025 | $66.47 | $248.76 |
| 3/31/2025 | $61.97 | $240.65 |
| 12/31/2024 | $61.16 | $233.31 |
| | | |
| ACTUAL | | |
| 9/30/2024 | $59.16 | $226.05 |
| 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 1.23.25*

...but we remain very comfortable with the reasonable valuations for Value stocks in general,...

While the Earnings Yield, which is the inverse of the P/E ratio, on the S&P 500 (3.68%) is still reasonable relative to the current (and well below average) 4.54% 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 (4.73%) AND a generous dividend yield (2.03%), both of which are not too far from the historical norms for those measures dating back to 1995.



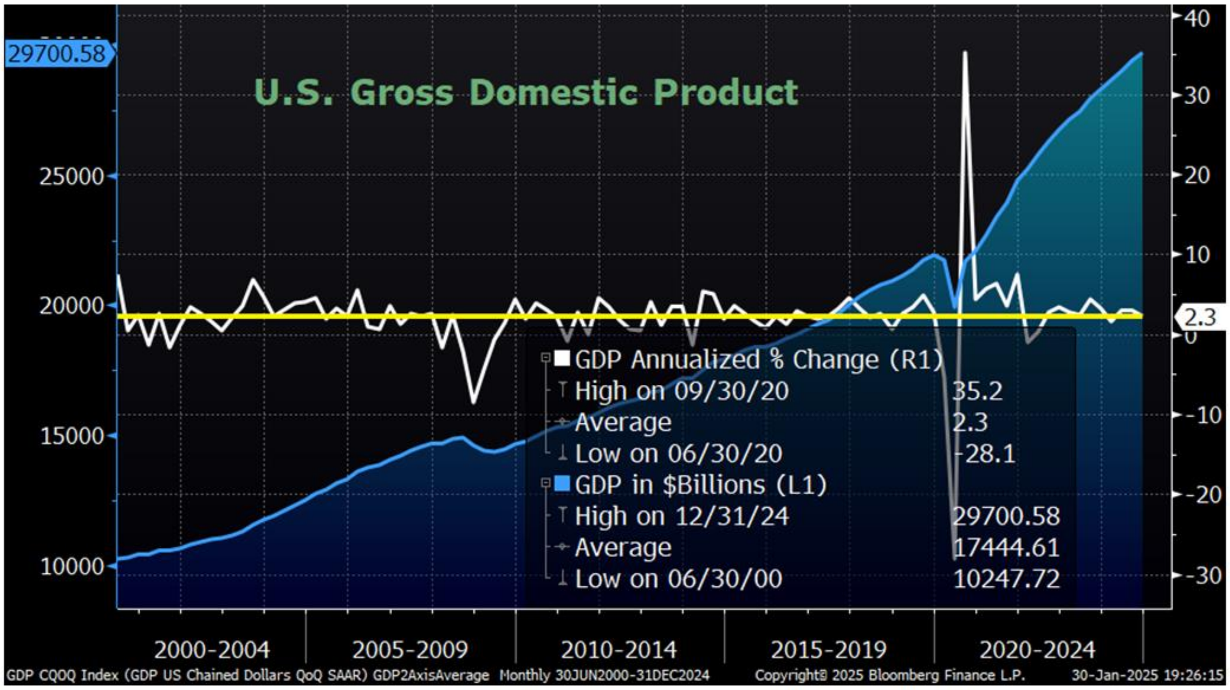

...and the even-more inexpensive price metrics and higher dividend yields for our portfolios.

## CURRENT PORTFOLIO AND INDEX VALUATIONS

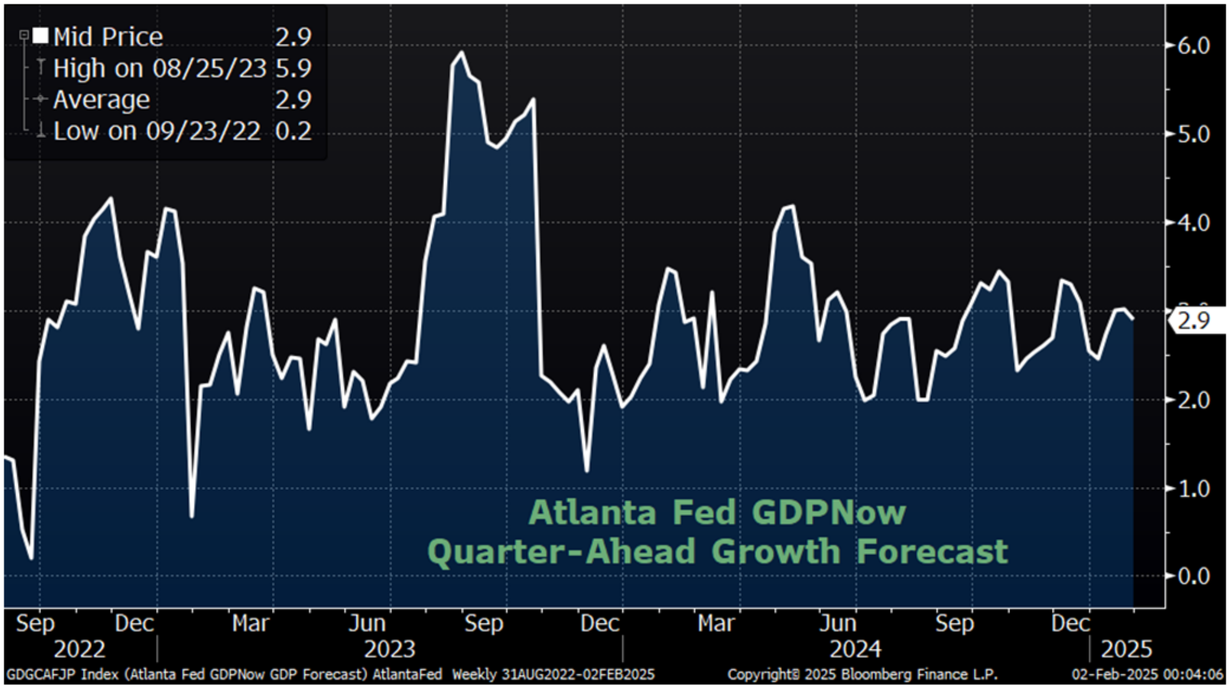
| Name | Price to Earnings Ratio | Price to Fwd. Earnings Ratio | Price to Sales Ratio | Price to Book Ratio | Dividend Yield |
|---|---|---|---|---|---|
| TPS Portfolio | 17.8 | 14.5 | 0.9 | 2.3 | 2.4 |
| ValuePlus | 18.7 | 15.2 | 1.2 | 2.4 | 2.2 |
| Dividend Income | 18.3 | 15.1 | 0.9 | 2.3 | 2.6 |
| Focused Dividend Income | 17.2 | 13.8 | 1.1 | 2.3 | 2.8 |
| Focused ValuePlus | 17.9 | 14.9 | 1.1 | 2.4 | 2.5 |
| Small-Mid Dividend Value | 13.5 | 12.4 | 0.5 | 1.5 | 2.8 |
| Russell 3000 | 28.1 | 26.2 | 2.8 | 4.7 | 1.2 |
| Russell 3000 Growth | 39.2 | 35.5 | 5.6 | 12.9 | 0.6 |
| Russell 3000 Value | 21.1 | 20.1 | 1.8 | 2.7 | 2.0 |
| Russell 1000 | 27.5 | 25.7 | 2.9 | 5.0 | 1.2 |
| Russell 1000 Growth | 38.0 | 34.6 | 6.1 | 14.0 | 0.6 |
| Russell 1000 Value | 20.7 | 19.8 | 1.8 | 2.8 | 2.0 |
| S&P 500 Index | 27.2 | 25.7 | 3.1 | 5.2 | 1.2 |
| S&P 500 Growth Index | 36.3 | 32.6 | 6.7 | 12.1 | 0.6 |
| S&P 500 Value Index | 20.1 | 21.1 | 1.8 | 2.9 | 1.9 |
| S&P 500 Pure Value Index | 11.2 | 11.4 | 0.5 | 1.3 | 2.8 |

As of 02.02.2025. 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.

We also note that the U.S. economy is on solid footing today, with the first estimate last week for Q4 2024 real (inflation-adjusted) GDP growth coming in at 2.3%,...




...the latest projection for Q1 2025 real GDP growth from the Atlanta Fed standing at 2.9%,...




...and Jerome H. Powell sounding relatively upbeat in his economic assessment this past Wednesday.

**Chair Powell's Press Conference – January 29, 2025**

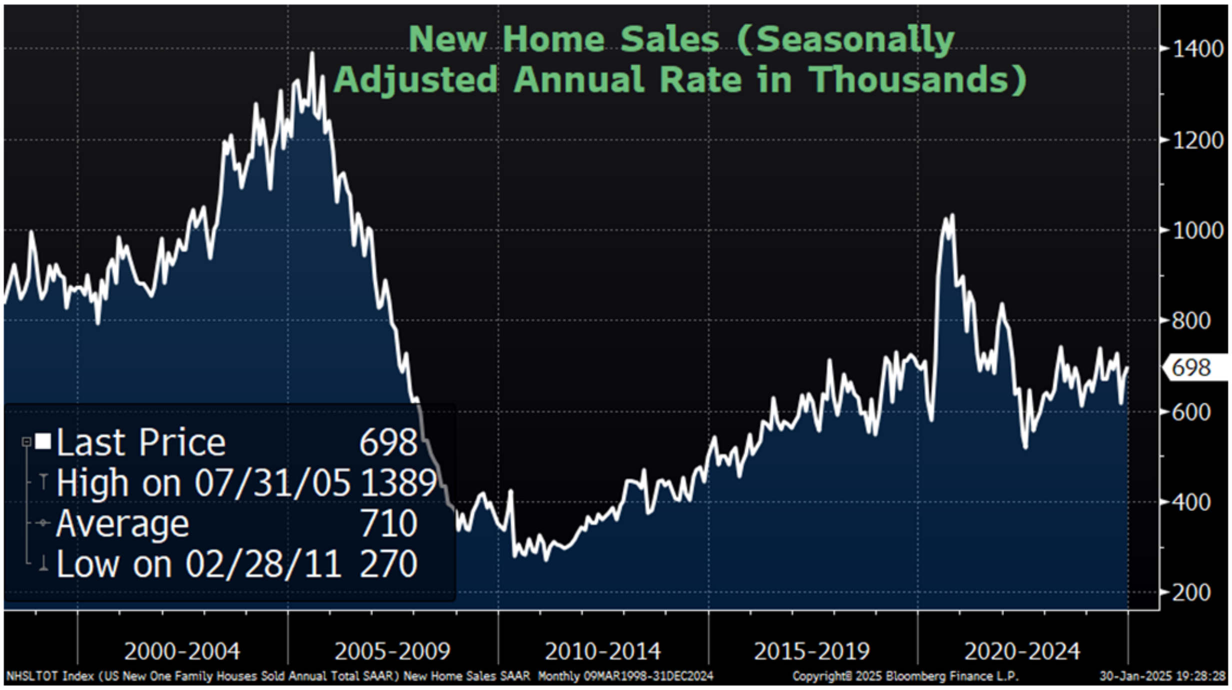
Recent indicators suggest that economic activity has continued to expand at a solid pace. For 2024 as a whole, GDP looks to have risen above 2 percent, bolstered by resilient consumer spending. Investment in equipment and intangibles appears to have slowed in the fourth quarter but was strong for the year overall. Following weakness in the middle of last year, activity in the housing sector seems to have stabilized.

In the labor market, conditions remain solid. Payroll job gains averaged 170 thousand per month over the past three months. Following earlier increases, the unemployment rate has stabilized since the middle of last year, and at 4.1 percent in December, remains low. Nominal wage growth has eased over the past year, and the jobs-to-workers gap has narrowed. Overall, a wide set of indicators suggests that conditions in the labor market are broadly in balance. The labor market is not a source of significant inflationary pressures.

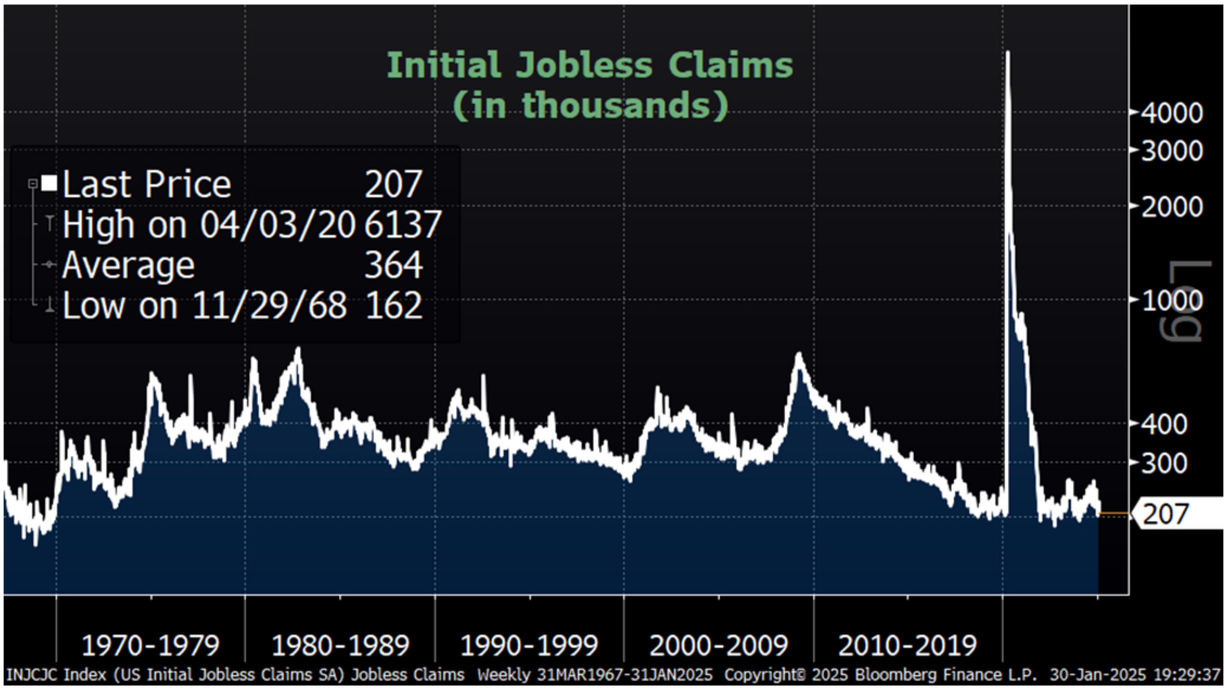
Inflation has eased significantly over the past two years but remains somewhat elevated relative to our 2 percent longer-run goal. Estimates based on the Consumer Price Index and other data indicate that total PCE prices rose 2.6 percent over the 12 months ending in December and that, excluding the volatile food and energy categories, core PCE prices rose 2.8 percent. 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.

Our monetary policy actions are guided by our dual mandate to promote maximum employment and stable prices for the American people. We see the risks to achieving our employment and inflation goals as being roughly in balance, and we are attentive to the risks on both sides of our mandate.

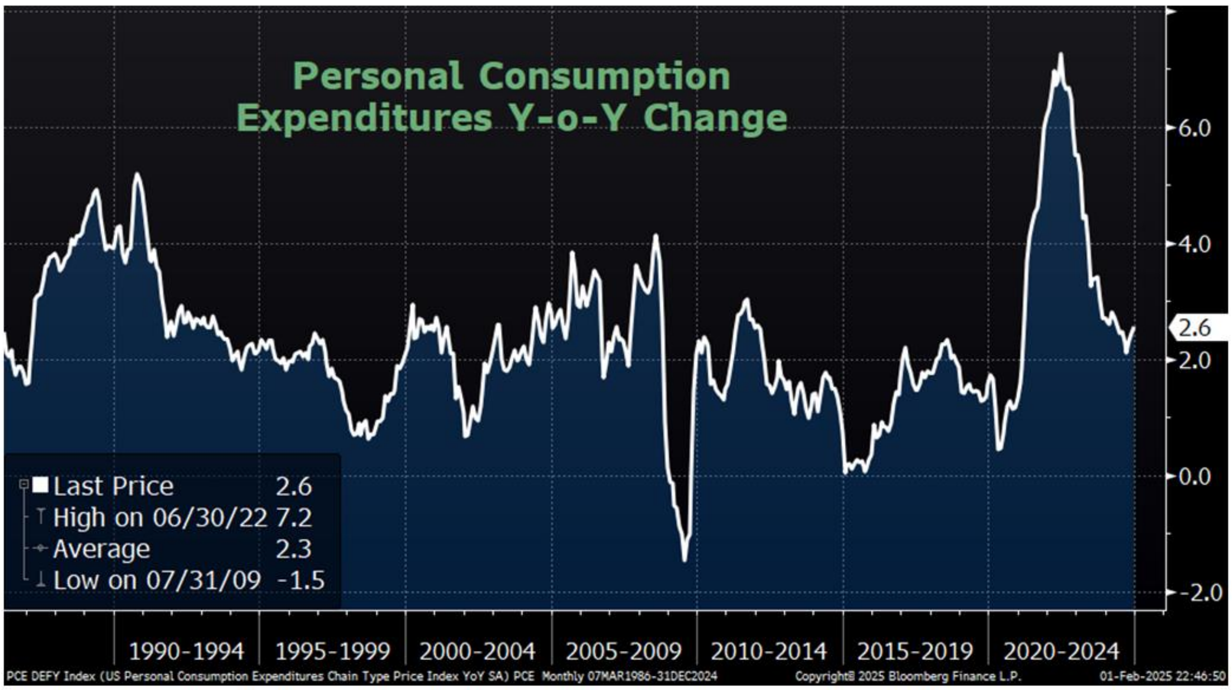
The Federal Reserve Chair's comments about stability in the housing market were seemingly supported by a better-than-expected read in December on new home sales,...



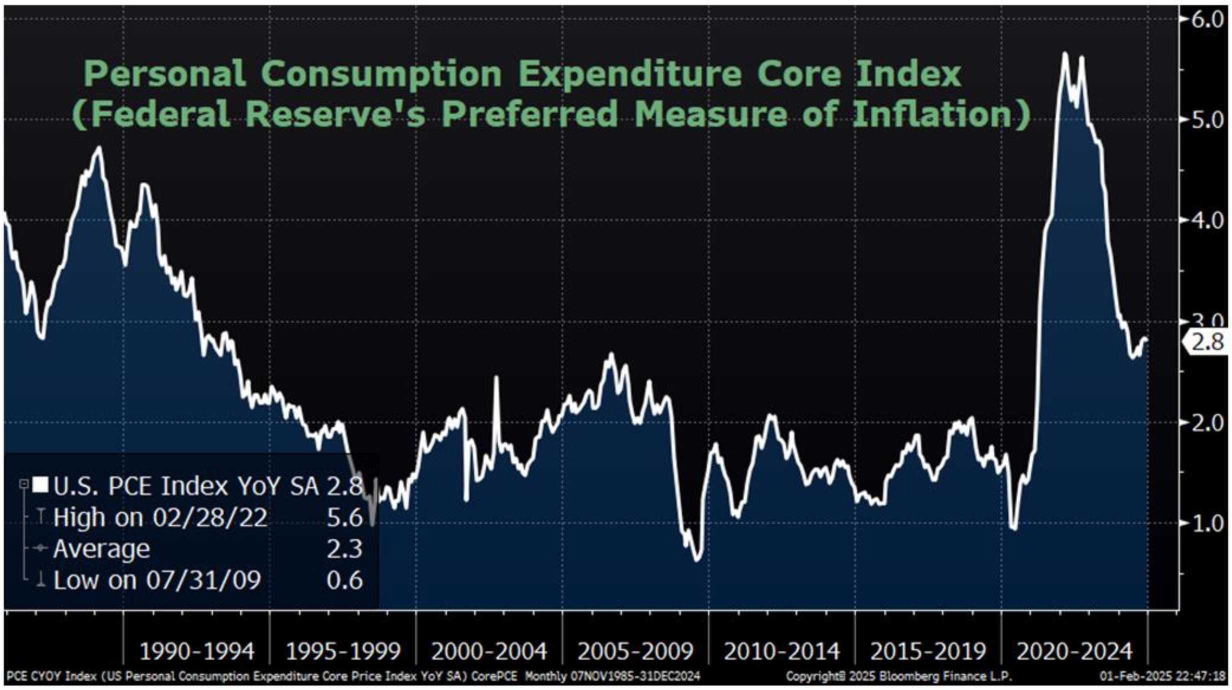

...and his positivity on the labor situation was bolstered by a drop in weekly first-time filings for unemployment benefits to a very low 207,000.



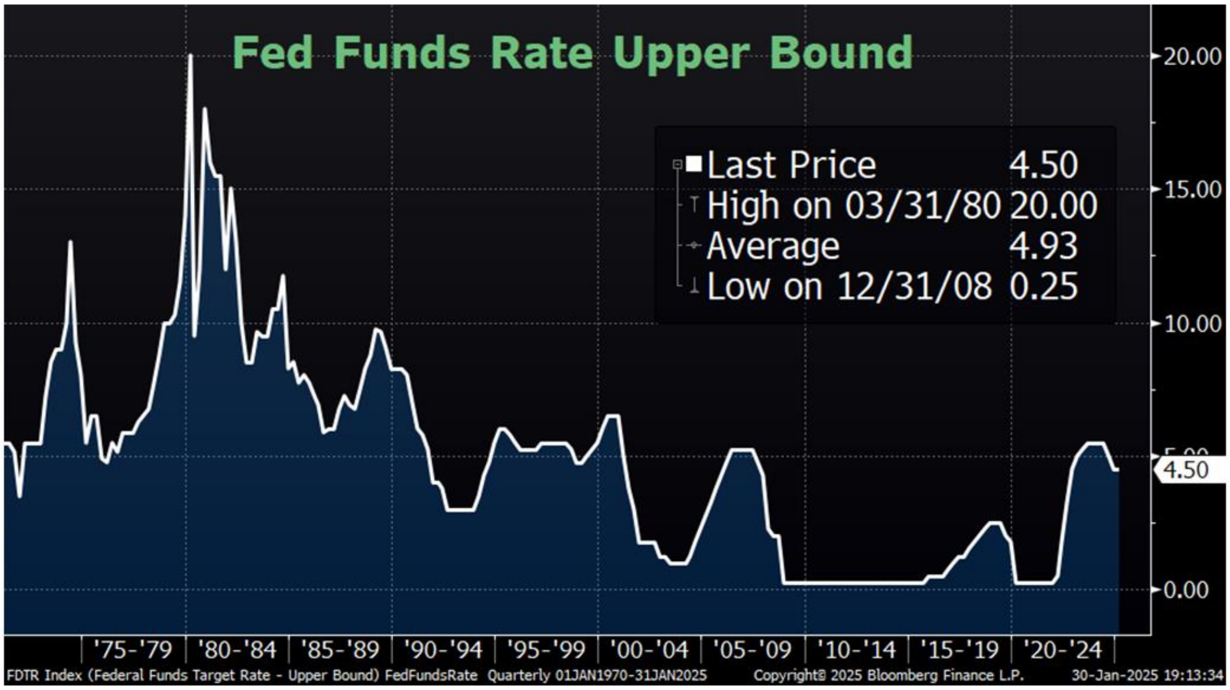

To be sure, the Fed is equally focused on the inflation equation, and numbers out late last week matched expectations, with the personal consumption expenditure index (PCE) rising 2.6% on a year-over-year basis in December,...




…and the Fed's preferred measure, the Core PCE, which includes volatile food and energy prices, climbing 2.8%, also on a year-over-year basis.




The Fed has a dual mandate of maximizing employment while maintaining price stability, so we shall see how tariffs might impact both sides, but Powell & Co. chose to leave the target for the Fed Funds rate unchanged at a range of 4.25% to 4.5% last week,...




...while suggesting that risks to its employment and inflation goals are "roughly in balance,"...

**FOMC Statement – January 29, 2025**

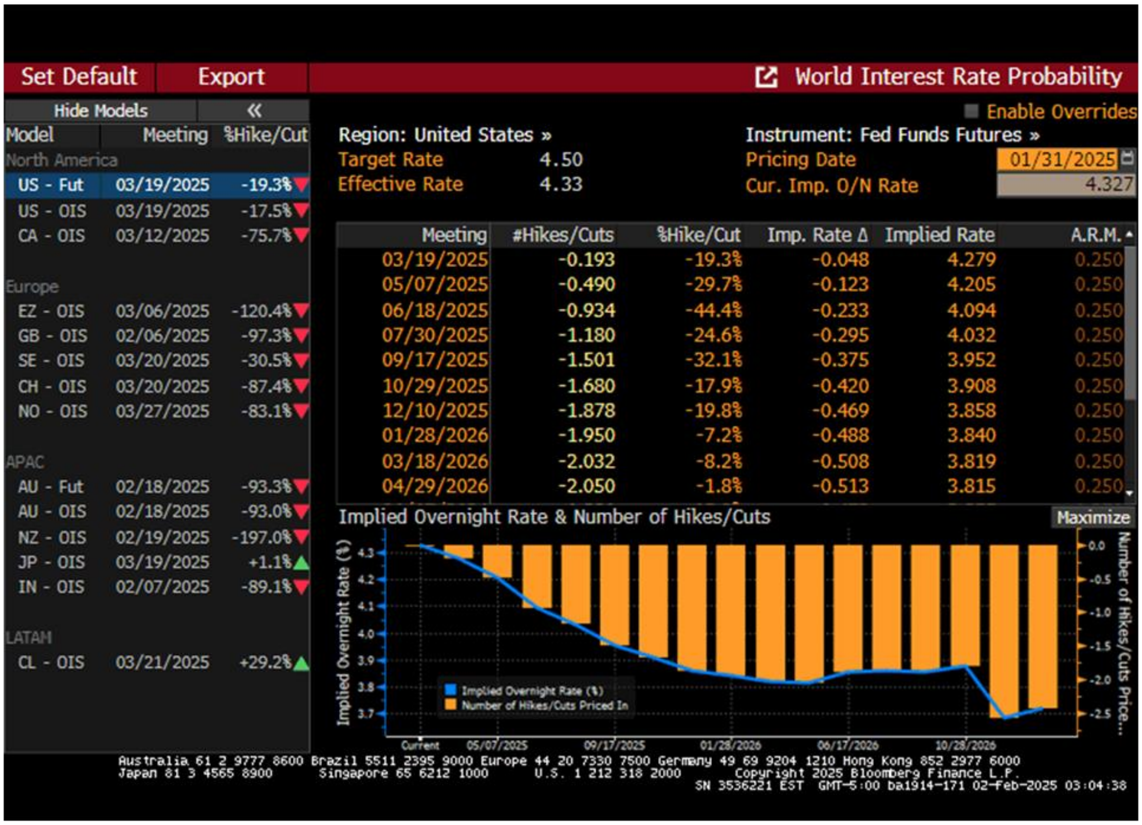
Recent indicators suggest that economic activity has continued to expand at a solid pace. The unemployment rate has stabilized at a low level in recent months, and labor market conditions remain solid. Inflation remains somewhat elevated.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. The Committee judges that the risks to achieving its employment and inflation goals are roughly in balance. The economic outlook is uncertain, and the Committee is attentive to the risks to both sides of its dual mandate.

In support of its goals, the Committee decided to maintain the target range for the federal funds rate at 4-1/4 to 4-1/2 percent. In considering the extent and timing of additional 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 will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent 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.

…with market expectations for the year-end-2025 Fed Funds rate of 3.86%,…




...still in line with the projections offered in December by Federal Reserve 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, December 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 | 2.5 | 2.1 | 2.0 | 1.9 | 1.8 | 2.4–2.5 | 1.8–2.2 | 1.9–2.1 | 1.8–2.0 | 1.7–2.0 | 2.3–2.7 | 1.6–2.5 | 1.4–2.5 | 1.5–2.5 | 1.7–2.5 |
| September projection | 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 |
| Unemployment rate | 4.2 | 4.3 | 4.3 | 4.3 | 4.2 | 4.2 | 4.2–4.5 | 4.1–4.4 | 4.0–4.4 | 3.9–4.3 | 4.2 | 4.2–4.5 | 3.9–4.6 | 3.8–4.5 | 3.5–4.5 |
| September projection | 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 |
| PCE inflation | 2.4 | 2.5 | 2.1 | 2.0 | 2.0 | 2.4–2.5 | 2.3–2.6 | 2.0–2.2 | 2.0 | 2.0 | 2.4–2.7 | 2.1–2.9 | 2.0–2.6 | 2.0–2.4 | 2.0 |
| September projection | 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 |
| Core PCE inflation[4] | 2.8 | 2.5 | 2.2 | 2.0 | | 2.8–2.9 | 2.5–2.7 | 2.0–2.3 | 2.0 | | 2.8–2.9 | 2.1–3.2 | 2.0–2.7 | 2.0–2.6 | |
| September projection | 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 | |
| Memo: Projected appropriate policy path | | | | | | | | | | | | | | | |
| Federal funds rate | 4.4 | 3.9 | 3.4 | 3.1 | 3.0 | 4.4–4.6 | 3.6–4.1 | 3.1–3.6 | 2.9–3.6 | 2.8–3.6 | 4.4–4.6 | 3.1–4.4 | 2.4–3.9 | 2.4–3.9 | 2.4–3.9 |
| September projection | 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 |

NOTE: Projections of change in real gross domestic product (GDP) and projections for both measures of inflation are percent changes from the fourth quarter of the previous year to the fourth quarter of the year indicated. PCE inflation and core PCE inflation are the percentage rates of change in, respectively, the price index for personal consumption expenditures (PCE) and the price index for PCE excluding food and energy. Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of the year indicated. Each participant's projections are based on his or her assessment of appropriate monetary policy. Longer-run projections represent each participant's assessment of the rate to which each variable would be expected to converge under appropriate monetary policy and in the absence of further shocks to the economy. The projections for the federal funds rate are the value of the midpoint of the projected appropriate target range for the federal funds rate or the projected appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run. The September projections were made in conjunction with the meeting of the Federal Open Market Committee on September 17–18, 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.

True, lower interest rates, all things equal, should make stocks even more attractive, but equities have performed fine, on average, over the last seven decades whether the Fed Funds rate has been falling or rising.

**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**

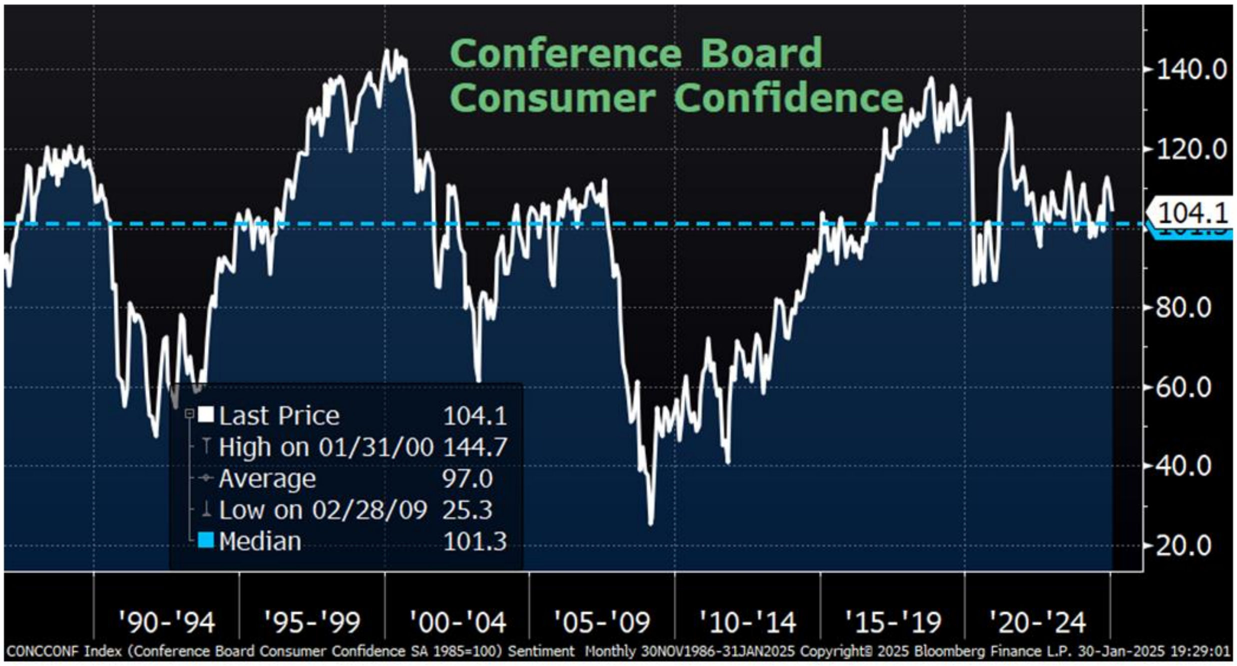
| | Count | Value | Growth | Payers | Non-Payers |
|---|---|---|---|---|---|
| Less than 4.245% | 420 | 12.2% | 10.2% | 10.6% | 10.1% |
| More than 4.245% | 420 | 15.5% | 9.6% | 12.1% | 9.1% |
| 3-Month Drop | 383 | 13.8% | 10.3% | 11.1% | 10.2% |
| 3-Month Rise | 442 | 13.6% | 9.4% | 11.3% | 8.8% |
| 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 has been cutting rates, stocks have performed even better, historically speaking, in a falling rate environment.

*****

So, while we realize that consumer confidence retreated in January to a weaker-than-expected level of 104.1,…




...and the equity futures are suggesting equities are in for rough sledding when trading resumes today, we continue to believe that inexpensively priced stocks will provide solid returns as has been the case across the last two decades.

| Handsome Annualized Long-Term Returns for Value: Absolute & Relative | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Name** | **Index** | **1-Year** | **3 Year** | **5 Year** | **7 Year** | **10-Year** | **20-Year** |
| | **Value Stocks** | | | | | | |
| Russell 3000 Value Index | **Russell 3000 Value** | **19.2%** | **7.8%** | **10.0%** | **8.4%** | **9.3%** | **8.1%** |
| Russell 2000 Value Index | **Russell 2000 Value** | **15.5%** | **4.7%** | **8.9%** | **6.2%** | **7.8%** | **7.3%** |
| Russell 1000 Value Index | **Russell 1000 Value** | **19.5%** | **8.0%** | **10.1%** | **8.5%** | **9.4%** | **8.2%** |
| S&P 500 Value Index | **S&P 500 Value** | **15.1%** | **10.8%** | **11.7%** | **10.0%** | **10.8%** | **8.6%** |
| S&P 500 Pure Value Index | **S&P 500 Pure Value** | **17.2%** | **6.9%** | **10.3%** | **7.1%** | **8.8%** | **9.3%** |
| MSCI USA Value Net Total Return USD Index | **MSCI USA Value** | **17.9%** | **7.0%** | **9.1%** | **7.6%** | **8.8%** | **7.3%** |
| MSCI World Value Index | **MSCI World Value** | **17.0%** | **8.0%** | **9.4%** | **7.1%** | **8.3%** | **7.1%** |
| | **Global Equities** | | | | | | |
| MSCI ACWI Excluding United States Index | MSCI ACWI excluding United States | 11.5% | 4.0% | 6.1% | 3.9% | 5.8% | 5.8% |
| MSCI EAFE Index | MSCI EAFE (Europe, Australasia, Far East) | 9.3% | 5.7% | 6.9% | 4.7% | 6.3% | 5.8% |
| MSCI Europe Index | MSCI Europe | 9.9% | 5.8% | 7.5% | 5.2% | 6.3% | 5.8% |
| MSCI Emerging Markets Index | MSCI Emerging Markets | 15.2% | -0.3% | 3.4% | 0.8% | 4.1% | 6.4% |
| CAC 40 | CAC 40 Index - France | 2.8% | 4.9% | 8.1% | 5.8% | 7.9% | 5.9% |
| Deutsche Boerse AG German Stock Index DAX | Deutsche Boerse - Germany | 23.4% | 9.3% | 9.5% | 4.7% | 6.5% | 7.3% |
| FTSE 100 Index | FTSE 100 Index - United Kingdom | 15.4% | 6.3% | 6.1% | 4.0% | 4.5% | 4.7% |
| S&P/ASX 200 | S&P/ASX 200 - Australia | 10.5% | 8.5% | 7.8% | 6.7% | 7.7% | 8.5% |
| Hang Seng Index | Hang Seng - Hong Kong | 37.3% | -1.4% | -1.8% | -3.3% | 1.6% | 5.6% |
| Ibovespa Brasil Sao Paulo Stock Exchange Index | Ibovespa - Brazil | -16.5% | 0.7% | -4.1% | -3.0% | 2.1% | 4.3% |
| Shanghai Stock Exchange Composite Index | Shanghai - China | 19.3% | -2.5% | 3.5% | -0.4% | 1.0% | 8.2% |
| BSE SENSEX TR | Sensex - India | 4.9% | 6.2% | 10.8% | 8.1% | 8.0% | 10.8% |
| Nikkei 225 | Nikkei 225 - Japan | 4.9% | 5.0% | 5.6% | 4.8% | 7.5% | 6.2% |
| Korea Stock Exchange KOSPI Index | KOSPI - Korea | -6.1% | -6.0% | 1.5% | -2.6% | 1.7% | 5.1% |
| | **Other Assets** | | | | | | |
| S&P GSCI Index Spot | S&P GSCI Commodities | 1.2% | -3.4% | 7.6% | 3.0% | 3.7% | 2.7% |
| Philadelphia Stock Exchange Gold and Silver Index | Gold & Silver Index | 37.6% | 9.2% | 9.9% | 9.9% | 8.1% | 3.9% |
| Bloomberg US Agg Total Return Value Unhedged USD | Bloomberg Barclays U.S. Agg Bond | 2.1% | -1.5% | -0.6% | 1.2% | 1.2% | 3.0% |
| Bloomberg Global-Aggregate Total Return Index Value Unhedged USD | Bloomberg Barclays Global Agg Bond | 0.3% | -3.7% | -2.1% | -0.7% | 0.2% | 1.9% |
| ICE U.S. Treasury 7 - 10 Year TR Index | ICE U.S. Treasury 7 - 10 Year | 0.1% | -3.4% | -1.9% | 0.7% | 0.4% | 3.2% |
| ICE U.S. Treasury 3 -7 Year TR Index | ICE U.S. Treasury 3 -7 Year | 2.2% | -0.5% | -0.1% | 1.4% | 1.1% | 2.8% |
| ICE U.S Treasury 1 - 3 Year TR Index | ICE U.S Treasury 1 - 3 Year | 4.1% | 1.8% | 1.3% | 1.8% | 1.4% | 2.0% |

*As of 1.31.25. Source: Bloomberg. In U.S. Dollars*

### 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…

**Meta Platforms** (META – $689.18) turned in a strong Q4, reflecting strength across its advertising and A.I. platforms. META posted earnings of $8.02 per share for the quarter, well above analyst expectations, with revenue reaching $48.4 billion, a 21% year-over-year increase. Expenses grew 5% year-over-year to $25.0 billion, driven by higher infrastructure and R&D costs, as well as higher employee compensation. META said it has been hiring in "priority areas of monetization" including infrastructure, A.I. and Reality Labs. Thankfully, spending on Reality Labs has stayed scaled back from CEO Mark Zuckerberg's initial cash burn rates and had an operating loss of "only" $5.0 billion.

The company, despite the DeepSeek news, did not back off on Mr. Zuckerberg's proclamation the week prior that META will have capital expenditures this year in the $60 billion to $65 billion range. One could argue that this was a bit of a surprise, given that the stock bucked the carnage in A.I.-land next week, gaining more than 6%.

Of course, CFO Susan Li in terms of A.I. infrastructure noted, "Our expectation going forward is that we'll be able to use both our non-AI and AI servers for a longer period of time before replacing them, which we estimate will be approximately five-and-a-half years. This will deliver savings in annual CapEx and resulting depreciation expense, which is already included in our guidance."

Looking to the current period, Ms. Li explained, "We expect first quarter total revenue to be in the range of $39.5 billion to $41.8 billion. This reflects 8% to 15% year-over-year growth, or 11% to 18% growth on a constant-currency basis, as our guidance assumes foreign currency is an approximately 3% headwind to year-over-year total revenue growth based on current exchange rates. This also reflects the effect of lapping leap day in the first quarter of 2024. While we are not providing a full year 2025 revenue outlook, we expect the investments we're making in our core business this year will give us an opportunity to continue delivering strong revenue growth throughout 2025."

META shares have gained 18% this year and the valuation is somewhat expensive, but Meta keeps growing its top and bottom lines, and it has also improved the balance sheet (about $30 billion of net cash). Thus far, it seems like META has stayed out of the Trump Administration's line of fire, with Mr. Zuckerberg even sitting directly behind the President at the indoor inauguration.

We aren't sure what the ultimate outcome for TikTok will be, though we do think there are legitimate security concerns related to the Chinese government harvesting large amounts of data on Americans. We've seen **Microsoft** (MSFT – $415.06) floated as a potential buyer, while a total shut-down for the app would probably benefit Meta the most. META continues to benefit from A.I. utilization, particularly when it comes to ads and ad targeting, and we see few signs of the technology's impact slowing. While we could be tempted to soon trim our positions by a few shares, we have increased our Target Price for META to $744.

**Apple** (AAPL – $236.00) earned $2.40 per share in its latest quarter (vs. 2.35 est.), up 10% year-over-year, as the iPhone maker reported record comparable-quarter revenue of $124.3 billion, up 4% year-over-year. The growth was broad-based across markets, with Products revenue climbing 1.6% to $98.0 billion, driven by iPhone and iPad sales cycles. Services revenue also hit an all-time record of $26.3 billion, up 14% year-over-year. Apple did see a slowdown in Greater China, which contracted 11% year-over-year to $18.5 billion, but the ding was not enough to cause a major pullback in AAPL shares due to Tim Cook's comments that the decline was due in part to inventory issues.

CFO Kevan Parekh said, "As the dollar is strengthened significantly, we expect foreign exchange to be a headwind and to have a negative impact on revenue of about 2.5 percentage points on a year-over-year basis. Despite that headwind, we expect our March quarter total company revenue to grow low to mid-single digits year-over-year. We expect services revenue to grow low double digits year-over-year. When you remove the negative impact of the foreign exchange headwinds I described earlier, the year-over-year growth rate would be comparable to that of the December quarter. We expect gross margin to be between 46.5% and 47.5%. We expect operating expenses to be between $15.1 billion and $15.3 billion. We expect OI&E to be around negative $300 million, excluding any potential impact from the mark-to-market of minority investments and our tax rate to be around 16%."

Asked about iPhone devices selling better in markets with Apple Intelligence, CEO Tim Cook said, "We did see that the markets where we had rolled out Apple Intelligence, that the year-over-year performance on the iPhone 16 family was stronger than those where Apple Intelligence was not available. In terms of the features that people are using, they're using writing tools to Image Playground and Genmoji to Visual Intelligence and more. The Clean Up is another one that is popular, and people love seeing that one demoed in the stores as well."

We like the overall trends for Apple, even as the company has not pushed as hard into the A.I. space as some competitors. The commentary about inventory causing part of the issue in China was a relief, especially as investors are fairly touchy these days when it comes to the future of global trade and supply chains. It will be interesting to see how the continued rollout of A.I. in other markets impacts demand for new devices. The forward P/E ratio is 31x, but analysts project EPS growth between 11% and 20% over the next three years, which pushes the 2027 P/E down near 26 (assuming Apple is able to match the consensus estimate). The quarterly dividend will remain $0.25 per share. Our Target Price for AAPL has been hiked to $261.

Despite the drubbing in the chip space, shares of **Lam Research** (LRCX – $81.05) managed to gain nearly 2% last week, thanks to the company reporting a top- and bottom-line beat in its latest reported quarterly financial results. For its fiscal Q2, the semiconductor capital equipment maker earned an adjusted $0.91 per share (vs. $0.88 est.) with revenue of $4.38 billion (vs. $4.30 billion est.). December quarter sales rose 16% year-over-year and 5% sequentially. Management noted that NAND spending was at "muted levels," but that did not stop shipments for gate-all-around nodes and advanced packaging from exceeding $1 billion of revenue in 2024.

LRCX CEO Tim Archer commented, "In calendar 2025, we see WFE spending rising slightly to approximately $100 billion. Again, we expect technology inflections to lead to faster growth for Lam as AI applications demand greater device and package-level performance. In 2025, Lam shipments to gate-all-around nodes and advanced packaging combined should be well over $3 billion. Customer migration towards backside power distribution and dry resist processing technologies will add further opportunity in the coming year…To wrap up, Lam is in a strong position as we enter the new year. Deposition and etch are becoming increasingly vital to semiconductor manufacturing, and we have made key investments to strengthen Lam's product portfolio."

In the upcoming quarter, LRCX expects adjusted earnings per share between $0.90 and $1.10, with revenue between $4.35 billion and $4.95 billion. Analysts expect EPS and revenue precisely at the midpoints of those ranges, and they think fiscal 2027 EPS will approach $5.00 per share, which would put the P/E around 16. Management says export controls, specifically related to China, don't have a major impact on lead times and regulations have prevented about $700 million of shipments from heading out the door.

Lam's business has historically been lumpy (its share price too), with revenue tending to see big jumps and steep drops, even as the overall trajectory has been in the direction of healthy growth. We continue to see a recovery in NAND being a driver, along with rising chip complexity from new transistor architectures and advanced packaging. Global trade issues, tariffs and other spats remain a risk for Lam, especially as more than 90% of annual revenue comes from outside of the United States. LRCX pays a $0.23 per share quarterly dividend, resulting in a 1.1% yield. Our Target Price has been bumped up to $115.

Shares of **International Business Machines** (IBM – $255.70) soared more than 13% after the tech giant generated $3.92 of earnings per share (vs. $3.74 est.) on $17.6 billion in revenue (1% growth year-over-year) in the third quarter. Software revenue was $7.92 billion (+10% y/y), Consulting revenue was $5.18 billion (-2% y/y), Infrastructure revenue was $4.26 billion (-8% y/y) and Financing revenue was $170 million (-2.9% y/y). Management said there was a one-time, non-cash pension settlement charge for $2.7 billion in the U.S. and $0.5 billion internationally. IBM's generative A.I. business has grown to $5.0 billion and $14.8 billion of cash is on the balance sheet.

CEO Arvind Krishna said of A.I., "Our AI portfolio is tailored to meet the diverse needs of enterprise clients, enabling them to leverage a mix of models, IBMs, their own, open models from Hugging Face, Meta and Mistral. IBM's Granite models designed for specific purposes are 90% more cost-efficient than larger alternatives. Additionally, RHEL AI and OpenShift AI provide clients with a consistent and scalable AI foundation built on open-source technology. This quarter, we saw strong traction in our watsonx middleware solutions and AI assistance, including, watsonx.gov, watsonx code assistant for Z, watsonx Orchestrate, as well as products embedding AI such as Concert, and consulting remains key to designing and implementing AI use cases driving watsonx deployment. Through the year, we introduced key innovations that are resonating with clients. This quarter, we launched OpenShift Virtualization Engine to meet growing virtualization demand."

Mr. Krishna said IBM expects 5% revenue growth in 2025 with about $13.5 billion of free cash flow.

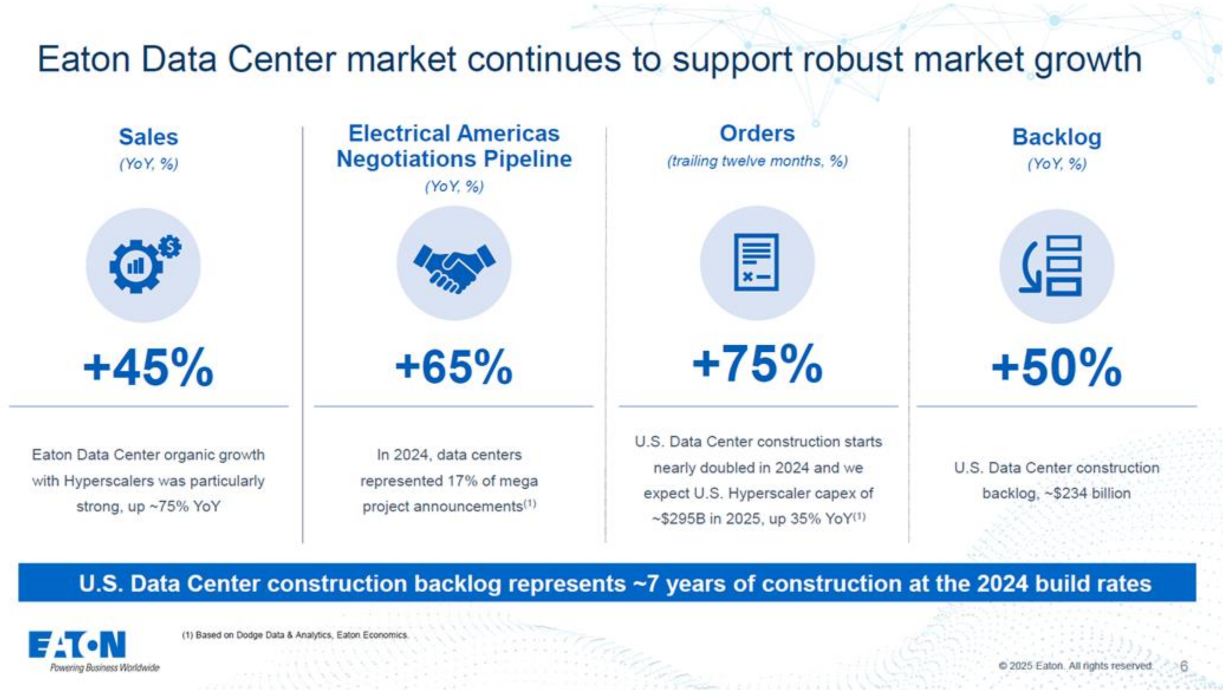
Two data points do not constitute a trend, and we were hesitant to believe that CEO Arvind Krishna could really change IBM when he came on board in 2021. Things could hardly have been worse at the time, with outgoing CEO Ginny Rometty having kept IBM in neutral while competitors thumped the company. Of course, IBM's struggles weren't limited to the recent past. It has been struggling off and on since the 1980's, unable to find a firm footing for long enough to actually be considered competition to others.

Mr. Krishna's approach was to dump all the IBM corporate-y nonsense straight into the trash can. We're sure that insiders might say some still exists, but overall, the direction of IBM was to be the Hybrid Cloud and A.I. The changes have taken hold, and IBM has sustainably reversed more than a decade of falling net income, grown EPS (not simply because of share repurchases) and has a path to continued success. Mostly stable Consulting and Infrastructure revenue is being replaced –and then some— by Software, much of which has recurring licenses, and renewal rates are solid.

We would not consider IBM's results as spectacular or otherwise impressive, but Mr. Krishna & Co. deserve praise for having pulled off a turn-around of monster proportions. Whether the momentum continues is anyone's guess and there certainly could be some blips in the future, but we feel that IBM is on a much stronger competitive foundation, and we are pleased that our long-time patience in sticking with an inexpensive stock has been handsomely rewarded. We expect to see IBM's earnings grow and maybe, just maybe, receive multiples closer to its peers. In the interim, we like the 2.6% dividend yield, and our Target Price has ramped up to $276.

It was a miserable week for A.I.-play **Eaton** (ETN – $326.44), shares of which retreated more than 11%, even as the industrial concern reported a decent Q4. ETN earned $2.83 per share ($0.02 better than the consensus estimate) and had $6.24 billion of revenue (vs. $6.33 billion est.). The results were mixed, and analysts at JPMorgan said the report wasn't "needle moving."

CEO Craig Arnold said, "Any notion that this market will slow down is simply not consistent with any of the data that we're seeing. The industry will no doubt continue to see innovation and technology developments that reduce costs. And if judged by history, this will be good for the industry and an accelerator of growth. For 2025 and for years to come, we expect data centers to be our strongest market and stand by our previous forecast, which assumed strong double-digit growth."




Mr. Arnold concluded, “We’re in the right markets, and the identified megatrends are creating some of the biggest opportunities that we’ll see in our lifetime. The growth opportunities are everywhere. Our negotiations pipeline, record orders, and strong backlogs are evidence of our ability to convert on the opportunities, and we now have the capacity in place, or coming soon, to support even faster growth. And we have the Eaton Business System, we call it EBS, that keeps everyone focused on getting better, running better functions, better factories, and better businesses. It’s how we improve our efficiency and expand margins. So, now is our time, and I couldn’t be more pleased with the team leading the next stage of Eaton’s transformation.”

Despite the fairly expensive valuation (27x forward P/E, 22x 2027 P/E) and some stagnation in the share price this year, analysts expect ETN to continue to excel, growing earnings between 9% and 11% in each of the next three years with revenue growth somewhere between flat and growing in the high-single-digit range. 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. Our Target Price for ETN is now $398.

Shares of **Gen Digital** (GEN – $26.91) retreated almost 2% last week (and are now off their December high by more than 15%) as the cyber security concern reported fiscal Q3 2025 financial results. GEN posted consensus-estimate-beating results on both the top- and bottom-lines. Revenue for the period came in at $986 million with adjusted EPS of $0.56. Direct retention ticked down 0.5% in the quarter (year-over-year) but GEN reported an impressive 371,000 direct sequential customer net adds in the period.

Last quarter was an identity-heavy quarter related to a national public data breach, directionally translating to higher average revenue per user (ARPU) given a higher dollar value associated with LifeLock. With the benefit of the breach beginning to taper off, the fact that ARPU continues to see sequential improvement is a positive. In addition, the outsized net adds count was well above the Street's 217,000 expectation, mostly supported by growth of international and mobile customer count. Management now expects full-year fiscal 2025 adjusted EPS to be between $2.20 and $2.22, with revenue of better than $3.92 billion.

CEO Vincent Pilette commented, "Sophisticated scams and financial fraud are everywhere. People need comprehensive solutions to address both the evolving threat landscape while also protecting their personal information. Millions of customers trust us to deliver practical solutions built with the best technology to address today's challenges and anticipate tomorrow's. We're dedicated to building upon that trust to not only protect their data and assets, but to also help them manage and grow their digital and financial life."

CFO Natalie Derse added, "Our Q3 results highlight another quarter of solid execution, keeping us on track to achieve our 2025 plan and deliver long-term and profitable growth. This quarter's results are a testament to both the continued demand for comprehensive consumer Cyber Safety, and the dedication of the entire Gen team to deliver on those needs. By making strategic investments and maintaining disciplined execution, we are well-positioned to sustain this momentum and drive future success."

The balance sheet showed an ending cash balance of $883 million, but management noted it did not use any cash towards debt paydown or share repurchases in the quarter, outside of a mandatory $59 million debt payment, because of the pending acquisition of MoneyLion. GEN has maturing debt in 2025, but the rates we would expect it to have to pay don't seem egregious and shouldn't have a material impact on profits and cashflow.

We continue to like the company's strong cashflow generation ability, opportunity to upsell customers and strong growth potential across the underpenetrated consumer cyber safety market as awareness continues to grow about the need and importance of GEN's solutions. GEN also has solid potential for further international expansion. GEN shares yield 1.9% and trade at just 11.3 times NTM consensus expectations and our Target Price continues to reside at $35.

Healthcare supply chain concern **Cardinal Health** (CAH – $123.66) grew EPS in fiscal Q2 by 2% to $1.93 (vs. $1.77 est.) and adjusted revenue rose 16% to $55 billion. The Pharmaceutical segment revenue grew a solid 17%, driven by brand and specialty pharmaceutical sales growth from existing and new customers. Specialty performance was particularly strong, supported by investments in GI Alliance and ION acquisitions, which enhance Cardinal's specialty services portfolio. However, the GMPD segment reported softer-than-expected performance due to weaker respiratory product demand and a $15 million WaveMark write-off of uncollected receivables.

CEO Jason Hollar said, "We delivered strong second quarter financial results while taking significant strategic and operational actions to position us for future growth. Led by robust demand across our Pharmaceutical and Specialty Solutions segment, we are again pleased to raise our fiscal 2025 enterprise guidance."

Mr. Hollar added, "We are also pleased to announce the closing of our acquisition of a majority position in GI Alliance. GI Alliance, along with our recently completed Integrated Oncology Network transaction in support of our Navista oncology platform, enables our continued specialty growth and delivers a greater value proposition for providers and patients."

Cardinal now forecasts non-GAAP diluted EPS of $7.85-$8.00, reflecting the impacts of acquisitions like Integrated Oncology Network (ION) and its majority stake in GI Alliance. The Pharmaceutical and Specialty Solutions segment's profit growth projection increased to a range of 10% to 12%, driven by stronger organic growth, while the GMPD segment profit guidance was adjusted lower by about 10% from the mid-point of previous guidance to $130 million to $150 million due to the WaveMark write-off.

CAH has been a standout performer among our HealthCare sector holdings, bolstered by what we believe to be favorable demographic trends in the U.S. Still, the valuation is not excessive even as the P/E is a few turns higher than the long run average, and we are pleased that the company is finding success during Mr. Holler's early years as CEO. The dividend yield is 1.6% and our Target Price has been boosted to $137.

High-flying shares of **Caterpillar** (CAT – $371.44) skidded 9% last week after the heavy equipment maker reported Q4 2024 adjusted earnings per share of $5.14 (vs. 5.05 est.), down 2% from last year, on sales of $16.2 billion, a 5% year-over-year decline, primarily due to lower sales volume and an unfavorable product mix. Adjusted operating profit margin decreased to 18.3%, impacted by lower volumes across Construction Industries (CI) and Resource Industries (RI), despite flat performance in Machinery, Energy and Transportation (ME&T). For the full year, revenue decreased 3% to $64.8 billion, but record services revenue grew 4% to $24 billion and VP of Financial Products Dave Walton said CAT "ended the year with the lowest past due percentage since 2005." Caterpillar returned $10.3 billion to shareholders through dividends and share repurchases. Backlog rose by $1.3 billion in Q4 to $30 billion, driven by strong demand in ME&T.

CEO Dave Umpleby added, "I'm proud of our global team's strong performance in 2024 as they delivered record adjusted profit per share and strong ME&T free cash flow. As we kick off our centennial year, we remain committed to serving our customers, executing our strategy and continuing to invest for long-term profitable growth."

Looking ahead, Caterpillar expects 2025 revenue to decline slightly, with growth in ME&T offsetting declines in CI and RI, while margins remain in the top half of the target range. Services revenue is anticipated to grow, supported by initiatives leveraging digital tools and customer value agreements. ME&T free cash flow is projected in the upper half of the $5 billion to $10 billion range.

Earnings growth over the past three years has been tremendous, bringing anticipated profit for 2025 to nearly double the pre-pandemic figure. While we continue to expect to see Caterpillar equipment littered about highways, farms and mines for the foreseeable future, it is only natural for growth to slow at some point. Caterpillar has maintained its edge through the incorporation of technology and software into its products to improve both performance and total cost of customer ownership. We expect the company's dominance in the U.S. to continue. Our Target Price for CAT now stands at $435.

Aviation and defense titan **General Dynamics** (GD – $256.98) reported Q4 earnings per share of $4.15 on revenue of $13.34 billion, up 14.3% year-over-year. Aerospace led with a 36.4% revenue increase to $3.7 billion, driven by strong Gulfstream demand and 47 aircraft deliveries, including 15 G700s, though supply chain and certification delays impacted margins. Combat Systems grew 8.8% to $2.4 billion, supported by strong munitions and vehicle demand, while Marine Systems rose 16.2% to $4.0 billion, fueled by Columbia- and Virginia-class programs despite supply chain cost pressures. Technologies increased 2.8% to $3.24 billion with improved margins and record orders. Management forecasts 2025 growth of 5.5%, led by Aerospace and sustained defense strength.

CEO Phebe N. Novakovic reflected on the fits and starts for the G700 program, "We did not deliver as many 700s as planned. We did, however, deliver 15 in the quarter and 30 for the year. You will recall that I told you that we expected to deliver 50 to 52 G700s this year and that the deliveries would be more or less evenly divided over the last three quarters of the year. Well, we planned 15 for Q2 and delivered 11. We planned 15 to 16 for Q3 and delivered 4. In the fourth quarter, we believed that we could deliver 27 but delivered 15."

Ms. Novakovic assured that problems causing aircraft delivery delays were largely behind the company. The management team now forecasts full-year revenue up about $2 billion to between $47.8 billion and $48.2 billion and EPS of $14.40 to $14.50, up $0.05 over prior guidance.

The most recent issues aside, Gulfstream continues to be a bright area for GD, with the segment projected to grow the top line by 20% and expand margin by 200 basis points over the next two years. We cannot foresee the world becoming a less dangerous place in the near term and shares trade at a reasonable 17 times forward EPS estimates with a dividend yield of 2.2%. Our Target Price for GD is now $347.

Shares of **Whirlpool** (WHR – $105.01) were hammered last week even as the major appliance maker generated $4.57 per share of "ongoing earnings" adjusted for the impairment of the company's Maytag brand and associated tax adjustments. Management called attention to retailer destocking and soft discretionary demand in North America, offset by strength in Latin America and Asia. However, the destocking was labeled as a one-time inventory adjustment normalizing from inflated post-COVID levels. The company also emphasized confidence in its 2025 outlook, underscoring pricing discipline, cost-cutting efforts and a robust pipeline of new product launches to drive margin expansion and growth.

CEO Marc Bitzer commented, "In 2024, we continued to make progress in our operations and delivered on our cost take out commitment of $300 million while achieving the closure of the Europe transaction, supporting our ongoing portfolio transformation. In 2025, we expect to deliver more than $200 million of cost take out and position our business for the eventual U.S. housing recovery."

Without accounting for any potential impacts from tariffs, Whirlpool's 2025 outlook forecasts net sales of approximately $15.8 billion, reflecting 3% growth on a like-for-like basis, and free cash flow between $500 million to $600 million on $1 billion of operating cash flow. The company expects to generate $10.00 per diluted share of ongoing earnings, supported by ongoing EBIT margin expansion to approximately 6.8%. Capital allocation priorities include $700 million of debt reduction and $550 million to $600 million in net proceeds from an anticipated India transaction.

The $10.00 EPS projection was much lower than in recent years, but we would not blame management for being a bit conservative given the ever-changing landscape for durable consumer goods. We appreciate that Whirlpool has endeavored to exit lower margin/return markets in recent years and note that some 80% of the company's products sold in the U.S. are also produced domestically. We have cut our Target Price to $166, but we think the forward multiple of 10 times arguably trough earnings and 6.7% dividend yield make the stock a big bargain.

**Waste Management** (WM – $220.26) reported $1.70 of adjusted EPS in Q4 (vs. $1.79 est.) and delivered EPS of $7.03 for the trailing twelve months. Revenue growth was bolstered by 15% projected operating EBITDA growth and incremental contributions from sustainability investments. The company continues to execute on disciplined pricing, cost management and strategic acquisitions, including the integration of Stericycle, which is expected to contribute $100 million in synergies in 2025.

CEO Jim Fish explained, “The WM team achieved another year of exceptional results by continuously improving our core business, expanding our sustainability platforms, and adding medical waste and secure information destruction solutions for our customers. We delivered over 11% growth in adjusted operating EBITDA for the year as we advanced cost optimization efforts across our operations and executed on disciplined pricing programs in the collection and disposal business. The year also saw the advancement of our sustainability growth investments, expansion of our solid waste business through tuck-in acquisitions, and the acquisition of Stericycle, the largest provider of medical waste services in North America. The momentum across all of these areas is WM’s foundation for success in 2025.”

Mr. Fish continued, “We expect to deliver a second consecutive year of double-digit growth in adjusted operating EBITDA in 2025. This year has started off strong and we are confident in our ability to maintain this trajectory as we continue to focus on strong operational performance and service delivery, strategic investments in growth, and delivering superior value to our shareholders.”

WM’s 2025 financial outlook projects revenue growth of 16.4%, driven by 5.7% organic growth, 10.7% acquisition growth and contributions from WM Healthcare Solutions. Adjusted operating EBITDA is expected to increase by 15% to a range of $7.45 billion to $7.65 billion, with an EBITDA margin of 29.2% to 29.7%. With an expected capital expenditure forecast of $2.575 billion to $2.625 billion, free cash flow is projected to total $2.675 billion to $2.775 billion.

WM continues to make significant steps in transforming itself, bringing annualized driver turnover as of December to its lowest ever at 15%, marking an improvement of over 300 basis points from 2023, and finding savings through route automation. We acknowledge that WM isn't the cheapest stock in our broadly diversified portfolios with shares trading for 28.6 times analysts' NTM EPS projection, but the P/E drops to 22.7 times the 2027 EPS forecast. And, we continue to think the durability of waste hauling and disposal make it a tremendous business, with Waste Management a leading operator. The dividend is a modest 1.4% and our Target Price has been elevated to $252.

Shares of **Chevron** (CVX – $149.19) fell more than 4% last week after the global energy giant reported Q4 financial results that saw bottom-line results miss the consensus analyst estimate. For the quarter, CVX said revenue was $52.2 billion with resulting adjusted EPS of $2.06, versus the $2.11 expectation. Weaker U.S. chemicals, timing effects in international downstream and higher-than-expected upstream writedowns impacted bottom-line results.

CEO Mike Wirth commented, "In 2024, we delivered record production, returned record cash to shareholders and started up key growth projects. Worldwide and U.S. net oil-equivalent production increased 7% and 19%, respectively, from last year. The company started up several key projects in the Gulf of America, including the industry-first, high-pressure Anchor project. In Kazakhstan, Tengizchevroil completed the Wellhead Pressure Management Project and recently started up the Future Growth Project."

He continued, "Chevron also repurchased over $15 billion of its shares in 2024, extending its track record of repurchasing shares in 17 out of the last 21 years. We strengthened our portfolio and committed to reduce costs and maintain capital discipline, positioning us for significant free cash flow growth. The company recently closed asset sales in Canada, the Republic of Congo and Alaska, progressed on the acquisition of Hess Corporation, and announced a target of $2-3 billion of structural cost reductions by the end of 2026."

Despite plans to reduce capital spending in the Permian Basin, CVX plans to increase oil production there by as much as 10% over the 2024 average. While that is an impressive target, it marks a slowdown from the 16% compound annual growth rate over the past five years. That said, there is no denying the strength of CVX's Permian franchise.

Chevron shares have trailed their integrated oil brethren as investor concerns over the potential Hess deal getting done, including arbitration with Exxon over Hess' Guyana assets, as well as debt that will be needed to close the deal, have been a weight on the upside. At the end of the day the “Hess mess” will clear itself one way or the other. Outside of that, we are quite constructive on the near-term starts of multiple growth projects for the company, and CVX’s go-forward free-cash-flow generation potential.

The high-quality shares trade for slightly less than 14 times NTM EPS estimates and offer a 4.6% dividend yield. Our Target Prices for CVX has been trimmed to $184.

**PPG Industries** (PPG – $115.38) fell below its *TPS 699* initial recommendation price last week on the specialty chemical producer’s release of its Q4 financial results, and probably felt some extra pressure from the new Administration’s move forward on implementing tariffs on China, Mexico and Canada. For the quarter, PPG reported revenue of $3.73 billion and adjusted EPS of $1.61, both below consensus analyst estimates.

Q4 sales fell 2% year-over-year on lower volumes, unfavorable FX translation and the divestiture of a couple of underperforming businesses. While short-term results were overall underwhelming in a challenging operating environment, adjusted operating margins expanded on growth in Performance Coatings (PC) due to value pricing and volume growth.

CEO Tim Knavish, commented on the year and quarter, “Throughout 2024, we demonstrated resilience in a challenging macro environment by growing our adjusted EPS by 6%, improving aggregate segment margins and generating $1.4 billion in operating cash flow which we returned to shareholders. During the quarter, we repurchased approximately $250 million of stock, and about $750 million for the full year, which represented approximately 3% of our outstanding shares. Combined with our dividend, we have returned $1.4 billion to our shareholders throughout the year.”

He continued, “In 2024, we took significant steps to optimize our business portfolio through the divestitures of both our silica products and our architectural coatings U.S. and Canada businesses. These divestitures strengthen our financial profile, including an improvement in our adjusted EBITDA margin to 18.1%, and results in a more focused organization which positions the company to deliver sustainable organic growth. In both the fourth quarter and full-year 2024, organic sales declined a low single-digit percentage year over year with growth in Mexico, China and India as well as growth in the aerospace, protective and marine, and traffic solutions businesses offset by declines in the automotive original equipment manufacturer (OEM), industrial and architectural EMEA coatings businesses. Despite lower organic sales, adjusted EPS and aggregate segment EBITDA margin improved in both comparison periods driven by sales of our technology-advantaged products, moderated input costs and structural cost actions."

Mr. Knavish concluded, "Looking ahead, I am excited about 2025 and beyond. We anticipate a slow start to 2025 as demand in Europe and in global industrial end-use markets remains challenged. Despite the macroeconomic environment, we expect to deliver organic sales growth of a low single-digit percentage for the year, with first quarter organic growth flat to slightly down and stronger results in the second half of the year driven by share gains. As we announced in October, we are taking decisive actions to reduce costs, including global structural costs and European manufacturing consolidations. Our balance sheet remains strong, which continues to provide us with financial flexibility, and we remain committed to driving shareholder value creation. Thus, we are deploying about $400 million toward share repurchases during the first quarter of 2025."

We think PPG offers attractive long-term upside with appealing organic growth opportunities, especially internationally in emerging and developing countries. Despite the ongoing headwinds in residential and do-it-yourself markets amid higher mortgage rates, we think there is opportunity given the average age of U.S. housing supply. We are also constructive on the potential for aerospace and protective marine coatings. PPG shares trade at 13.7 times NTM adjusted EPS, well below the historical average P/E ratio that is north of 20, and sport a dividend yield of 2.4%. Our Target Price has been reduced to $194.