Cabot
VALUE INVESTOR
Wealth Building Opportunities for the Active Value Investor

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Santa Claus Arrives Early for Investors. Or at Least Jerome Powell Does

The bull market is back!

Actually, it never went anywhere. But the investing environment certainly swung dramatically from risk-on to risk-off in November. And while damage to the major indexes was moderate – the S&P 500 pulled back 5.1% from its late-October highs, though the Nasdaq tumbled a more meaningful 7.9% from peak to trough – under the surface, there were major blowups among growth stocks, many of which collapsed by more than 20%.

But pullbacks are normal, especially when they come on the heels of a six-month run-up. Given all the valuation concerns and talks of an artificial intelligence (AI) bubble, you could argue that the market needed the reset. And boy has it reset!

Stocks rose every day over the Thanksgiving-shortened week (maybe I should take a week off more often?!), and again this Tuesday and Wednesday, to get back within, as my colleague Tom Hutchinson is fond of saying, "bad-breath distance" of all-time highs. Why the abrupt turnaround? As usual, it has a lot to do with the Fed.

Thanks to some dovish comments from Fed members the last couple weeks, there is now an 88% chance the Fed will slash rates by another 25 basis points next week, according to the CME Group's FedWatch tool. A couple weeks ago, that number had dipped well below 50%. Rate cuts are always good for the market and helped propel stocks to new highs in September and October. Perhaps another cut next week will do the same.

Value stocks, meanwhile, were among the least-damaged asset classes during the worst of last month's selling. The **Vanguard Value Index Fund ETF (VTV)** pulled back less than 3.5% and reached new 52-week highs last week. With the market's valuation still quite elevated – the S&P is back above a forward price-to-earnings ratio of 23 – I expect investors to continue to rotate into undervalued plays as a hedge against the AI bubble bursting or the Fed throwing the brakes on rate cuts.

Consumer defensive stocks as a group fall into the "undervalued" category. They trade at 20x forward earnings, which is middle-of-the-pack among S&P sectors, but at a mere 1.4x sales – the second-cheapest on a price-to-sales basis behind the energy sector. Today, we add an even cheaper play from the consumer defensive sector to our Buy Low Opportunities Portfolio – one that was a market darling as recently as this past spring …

New Recommendation - Sprouts Farmers Market (SFM)

There's a scene in the new Apple TV+ show *Pluribus* – a post-apocalyptic-ish drama set in New Mexico and made by the creators of *Breaking Bad* and *Better Call Saul* (I highly recommend it) – in which the main character shows up to her local grocery store only to find out that all the food has been taken off the shelves. She throws a tantrum and places an urgent call to the, uh, entities who now control things, demanding that they re-stock her favorite grocery store.

The store is a Sprouts Farmers Market.

It’s great product placement for the health-conscious grocery store chain, which is headquartered in Phoenix and has 464 locations (and counting) in 24 states. Sprouts prides itself on selling healthy, organic food and beverage items that are “true to our farm-stand heritage.” That heritage dates back to 1943, but Sprouts didn’t open its first store until 2002 – at a time when healthy and organic meant “expensive.”

By contrast, Sprouts wanted to sell those items at more affordable prices, making natural food items “accessible to everyone,” according to their website. In today’s high-priced, inflation-weary economy, the words “affordable” and “accessible” are music to grocery shoppers’ ears. And Sprouts’ sales have surged accordingly.

Since 2021, Sprouts’ revenues have accelerated every year – from 5% growth in 2022, to 6.7% growth in 2023, to 13% growth last year. This year, sales are expected to improve 14.1%, to $8.8 billion. Accelerating revenues are an extremely bullish “tell” for stocks, and that’s mostly been true for SFM shares. The stock is up 322% in the last five years, with the lion’s share of those gains coming in 2023 and 2024, when the stock zoomed from just over 30 a share to as high as 177 a share at its peak this February.

Since then? The bottom fell out. A combination of a bad market and a worsened environment for farmers, thanks to tariffs, conspired to send SFM shares spiraling downward by more than 56%, with the stock bottoming at 77 a share on Halloween on the heels of a mostly positive third-quarter earnings report. And yet, the company never stopped growing. In Q3, sales improved 13% year over year, with 34% EPS growth and a 5.9% bump in same-store sales. The company also opened nine new stores, putting it on track for 37 new openings this year, which would exceed its target of 35 new store openings. Looking out to next year and beyond, Sprouts has a pipeline of 140 approved locations for potential buildouts.

So why the post-earnings selloff, when shares cratered from 104 to 77 literally overnight? The 5.9% comp-store sales growth was barely more than half what it was in the second quarter (10.2%) and its worst mark since the first quarter of 2024 (4%). CEO Jack Sinclair blamed it on “signs of a softening consumer,” which caused investors to freak out. But the company never lowered its growth projections much – in fact, it plans to open more stores next year than this year. Plus, the company is in the process of setting up its own distribution network to combat ongoing supply-chain issues; it should be ready to go by the second quarter of 2026. Also, a new loyalty program rewards returning customers and is already producing results in the few locations the company has added it, with plans to introduce the program at all its stores.

Meanwhile, earnings are on track for 40% growth this year and another 9.5% growth next year. Yes, that’s a significant slowing in EPS growth. But for a stock that has lost more than 50% of its value since February (it currently trades at 85 and is showing signs of life after bottoming at 77 at the end of October) and sports a forward P/E of just 15 and a price-to-sales ratio of 0.98, I like the upside … a lot.

As I’ve mentioned all too frequently in this space, growth at value prices is our sweet spot. And Sprouts is growing quite well despite the slowing comp-store sales, and the stock hasn’t been this cheap in nearly two years. Can the stock claw its way all the way back to its February highs above 177? I’m not going to be quite that bold. But a run-up to 125 would bring shares in line with their five-year average valuation of 21x forward earnings estimates. That gives the stock 47% upside from here.

Therefore, let’s add SFM to our Buy Low Opportunities Portfolio with a price target of 125. **BUY**

Note to new subscribers: You can find additional commentary on past earnings reports and other news on recommended companies in prior editions and weekly updates of the *Cabot Value Investor* on the Cabot website. Send questions and comments to chris@cabotwealth.com.

Also, please join me and my colleague Brad Simmerman on our weekly investment podcast, Cabot Street Check. You can find it wherever you get your podcasts, or you can watch us on the Cabot Wealth Network YouTube channel.

This Week's Portfolio Changes
Buy **Sprouts Farmers Market (SFM)**, with a price target of 125
Cinemark Holdings (CNK) Moves from Buy to Hold

Last Week's Portfolio Changes
None

Upcoming Earnings Reports
None

Growth & Income Portfolio

Growth & Income Portfolio stocks are generally higher-quality, larger-cap companies that have fallen out of favor. They usually have some combination of attractive earnings growth and an above-average dividend yield. Risk levels tend to be relatively moderate, with reasonable debt levels and modest share valuations.

Stock (Symbol)	Date Added	Price Added	12/3/25	Capital Gain/Loss	Current Dividend Yield	Price Target	Rating
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
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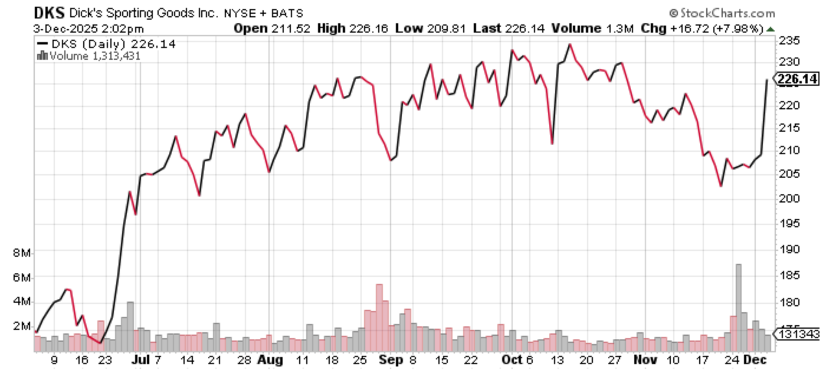
Bank of America (BAC) *is perhaps the most resilient large U.S. bank. It bounced back from the Great Recession of 2007-08, when BAC shares lost 93% of their value. The stock has rebounded after losing half its value from the 2022 bear market and subsequent implosion of Silicon Valley and Signature banks in March 2023. Now, the bank has never been more profitable or generated more revenue. And at 12.4x forward earnings estimates, it's cheap.*

Warren Buffett has long seen value in BofA; it's still the third-largest position in the Berkshire Hathaway portfolio, despite some recent trimming. So, we're not breaking any new ground here. But sometimes the obvious choice is the right one. The combination of growth, value (BAC also trades at just 1.4x book, cheaper than all but Citigroup among the big banks), and history of resilience makes for an enticing formula.

BAC shares are up more than 3% since we last wrote. There's been no company-specific news of late, so the rebound higher is likely in sympathy with the market and improving rate-cut forecast. The stock is now within 6% of our 57 price target, and we have a 15% gain on it. Keeping at Buy for now, as it's possible I could raise our price target depending on how things go. **BUY**

Dick's Sporting Goods (DKS) *has been growing steadily for years.*



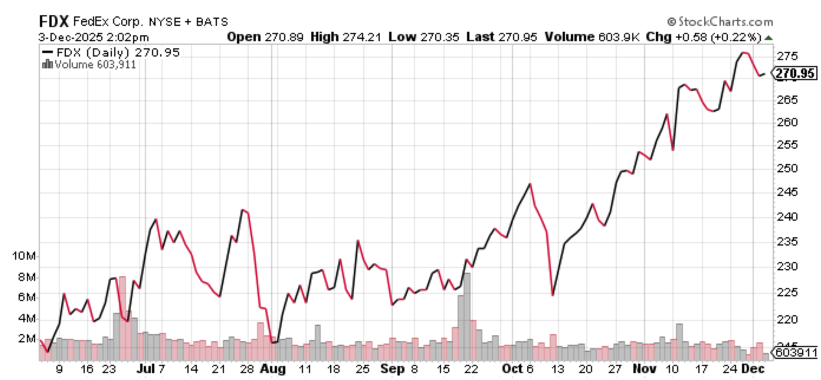
From 2016 to 2023, the sporting goods chain's revenues have improved 64%, from just under $8 billion to just under $13 billion. In 2024, topped $13 billion for the first time. It's on track for close to $14 billion this year.

Dick's, in fact, has grown sales in each of the last seven years – including in 2020 and 2021, when most other retailers saw sales nosedive due to Covid restrictions. But Dick's all-weather ability to keep growing no matter what's happening in the world or the economy speaks to its versatility. Since Covid ended, however, Dick's sales have entered another stratosphere. As youth sports returned in 2021, Dick's revenues jumped from $9.58 billion to $12.29 billion. They've been rising steadily each year since and are expected to do so again this year.

But Dick's isn't purely a growth stock—it's also undervalued. DKS shares currently trade at 13.7x forward earnings estimates and at 1.16x sales.

DKS shares are up 6% in the last two weeks, thanks in large part to another earnings beat on November 25. Adjusted EPS of $2.78 beat the $2.71 analyst estimate, while revenue of $4.17 billion zoomed past the $3.59 billion forecast. Also, same-store sales improved 5.7% – well ahead of the 3.6% estimate. The strong quarter convinced management to nudge its full-year EPS and comparable-store sales guidance up slightly. In the wake of its Foot Locker buyout being finalized, Dick's is also shuttering some underperforming Foot Locker stores to cut down on costs. As Executive Chairman Ed Stack put it, "We need to clean out the garage." While that may put temporary pressure on comp-store sales and margins, overall, the Foot Locker addition should be a massive net positive for the company. Investors appeared to wake up to that fact on Wednesday, pushing DKS shares higher by more than 5%. They have 13% to go to reach our 250 price target. **BUY**

FedEx Corp. (FDX) *needs no introduction. It's the third-largest package courier in the world with a 17% global market share, behind only DHL (39%) and UPS (24%). In America, it's second banana, behind only UPS, accounting for roughly a third of courier and local delivery revenue and 19% of total parcel volume.*

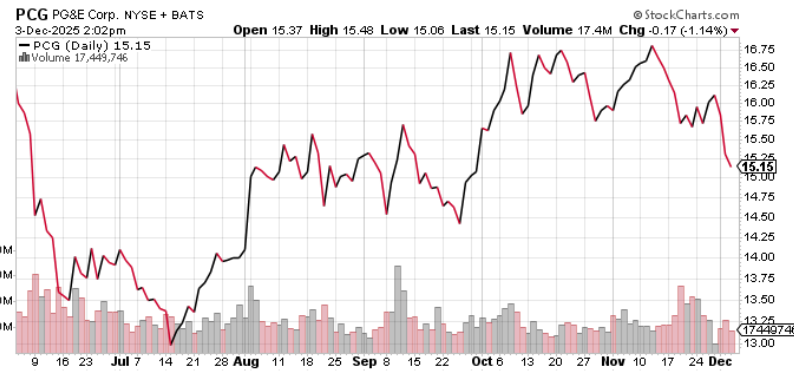


Like every package delivery company, FedEx's sales and earnings peaked during Covid, when people around the world did virtually all of their shopping online, and packages were zooming around the world like never before. In Fiscal 2021, which for FedEx ended in May 2021, the company's revenue reached a then-record $83.8 billion, 20% better than any previous year. EPS came in at $19.77 that year, 15.6% higher than the previous (FY 2018) high. In Fiscal 2022, which essentially coincided with year two of the (roughly) two-year-long global pandemic, revenues swelled to $93.5 billion, though the company was less profitable ($14.52).

While there hasn't been a big dropoff from those two Covid-enhanced years, sales have yet to eclipse that FY '22 peak, while earnings haven't come close to the FY '21 apex. This year (FedEx's Fiscal 2026 began in June) is on track to come closest to hitting those Covid highs, with analysts forecasting more than $89 billion in revenue and $18.53 in EPS. Next year, those numbers are expected to rise to more than $92 billion and a record $21.23 in EPS. These are projections, of course, but they're reflective of a healthy and, in fact, incrementally improving global economy.

And yet the stock is quite cheap on a price-to-earnings (15x forward estimates), price-to-sales (0.7x) and price-to-book-value (2.2x) basis. The stock is well shy of its five-year averages in all three valuation metrics.

FDX shares are up more than 2% since we last wrote but are still hovering in the 265 to 275 range that they've been in since early November. A break above that 275 level would be bullish. This week's advance comes despite (or perhaps because of) the company's announcement that it's laying off 856 employees and closing a logistics center in Coppell, Texas. It's unknown what impact the shuttered center will have on package deliveries during the always-busy holiday shopping season. The fact that the stock continues to advance suggests investors aren't concerned. Still, it's something to keep an eye on. We bought this stock based on the premise that the global economy remains healthy and that shares are undervalued at 0.75x sales. We already have a 20% gain in three months, with another 11% to go before it reaches our price target. **BUY**



PG&E Corp. (PCG), *shorthand for Pacific Gas & Electric, is one of the largest utility companies in the U.S., serving 16 million customers in northern and central California. The 120-year-old company has primarily been a provider of natural gas and electricity; now, nuclear energy is making it more of a growth story.*

Revenues have improved by more than 42% since 2019. Meanwhile, the company has become profitable, swinging to a profit for the first time in 2022 and seeing those profits improve by double digits in the two full years since. It's on track to do so again this year, with analysts estimating 10% EPS growth and record revenue of $24.5 billion, which would be a 2.4% improvement over 2024. Next year, revenue is expected to accelerate to 5.4% growth.

Nuclear is responsible for a lot of PG&E's recent growth. It operates California's only nuclear power plant, Diablo Canyon, which supplies energy for 3 million Californians. Last year, Diablo Canyon played host to the first on-site generative AI deployment at a U.S. nuclear facility. Built on Nvidia's AI platform, Diablo Canyon's Neutron Enterprise solution (supplied by California startup Atomic Canyon) shortens digital document retrieval from hours to seconds. Diablo Canyon is a 40-year-old nuclear plant that was slated to close just a few years ago; now it has a license to stay open for another 20 years.

Because it's not a pure play on nuclear growth the way ***Constellation Energy (CEG)*** *or* ***Talen Energy (TLN)*** *are viewed thanks to recent mega-deals with big-tech partners, PCG shares haven't gotten the same kind of boost the other two have. But that could be changing, as the stock is up 22% since mid-July; still, it trades at less than 10x forward earnings and is 25% below its late-2024 peak. If Nvidia's presence in Diablo Canyon was a test drive for a much bigger deal down the road, that 2024 high could be closer to a floor than a ceiling.*

PCG shares pulled back 5% in the last two weeks on no news. It's not entirely clear why the stock has remained dormant during the recent market resurgence, especially after outperforming the indexes so thoroughly through the first half of November, when the stock peaked in the high 16s. Right now, it has dipped merely to its late-September levels, so perhaps it will find bottom soon. Regardless, with shares trading at a pittance (less than 10x earnings), I still have a price target of 22, giving us 46% upside from here. **BUY**

Buy Low Opportunities Portfolio

Buy Low Opportunities Portfolio stocks include a wide range of value opportunities. These stocks carry higher risk than our Growth & Income stocks yet also offer more potential upside. This group may include stocks across the quality and market cap spectrum, including those with relatively high levels of debt and a less clear earnings outlook. The stocks may not pay a dividend. In all cases, the shares will trade at meaningful discounts to our estimate of fair value.

Stock (Symbol)	Date Added	Price Added	12/3/25	Capital Gain/Loss	Current Dividend Yield	Price Target	Rating
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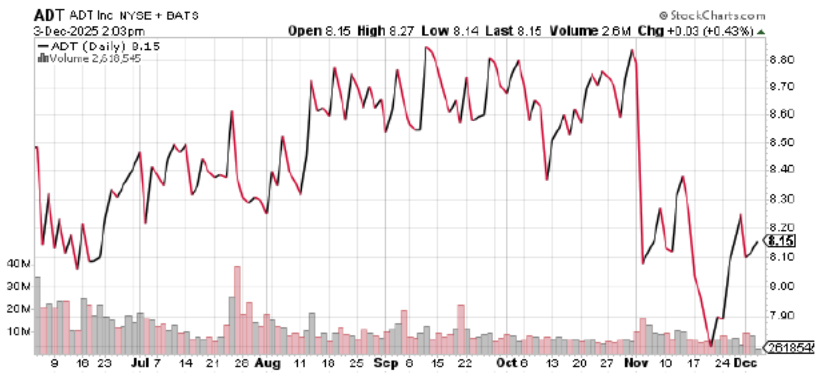


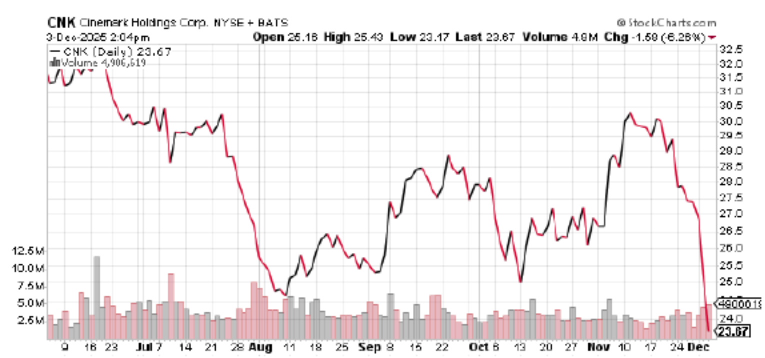
***ADT Inc. (ADT)** is literally a household name.*

It's a 150-year-old home security company whose octagon-shaped blue signs with white lettering that say "Secured by ADT" are ever-present in neighborhoods across the country. ADT provides security to millions of American homes and businesses, with products ranging from security cameras, alarms and smoke & CO detectors, to door/window/glass break sensors and more, all of which can alert one of ADT's industry-best six 24/7 monitoring centers if any one of those security systems is breached.

Business has been fairly stable, with annual revenues hovering in the $5 billion range for four of the last five years (2021 was an exception, with a dip down to $4.2 billion during Covid) and is on track to do it again both this year and next. But where the century-and-a-half-old company has really improved of late is profitability. The last three years marked the first time the company has been in the black in consecutive years, with earnings per share going from 15 cents in 2022 to 51 cents in 2023 to 69 cents a share in 2024. EPS is expected to improve to 85 cents in 2025. All of that EPS growth makes the share price look quite cheap. ADT shares currently trade at just 8.8x earnings estimates and at just 1.4x sales. A solid dividend (2.7%) adds to the appeal of this mid-cap stock.

ADT shares are up nearly 4% since we last wrote, pushing back into their customary 8 range after a brief dip into the 7s. There was no news – there rarely is with ADT. The company is coming off a solid but unspectacular earnings report in early November. EPS of 23 cents edged out the 22-cent estimate and marked a 15% improvement over the 20 cents it earned in the third quarter a year ago. Revenues were slightly ahead of estimates at $1.3 billion and improved 4.8% from $1.24 billion last year. What scared a few investors away, at least temporarily, was that the full-year revenue estimate of $5.13 billion was shy of expectations.

We have a double-digit gain on ADT, and the stock still has 22% upside to our 10 price target. **BUY**



Cinemark Holdings (CNK) *is the third-largest movie theater chain in the U.S., behind only former meme stock **AMC Entertainment (AMC)** and Regal Cinemas, which is privately held. It's also the largest movie theater chain in Brazil, with a 30% market share. In addition to its flagship Cinemark, which began operation in 1977, the company owns Century Theatres, Tinseltown, CineArts and Rave Cinemas.*

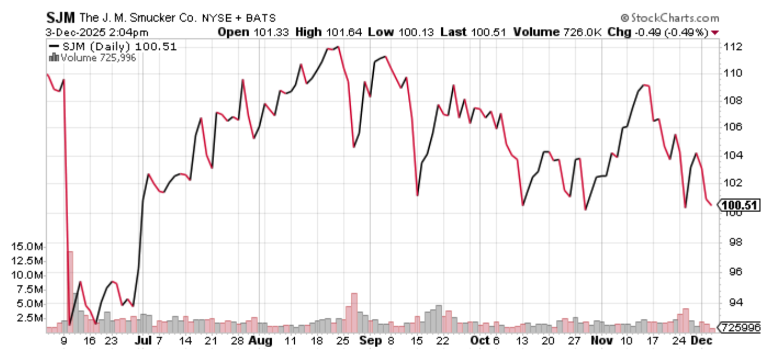
Business peaked in 2019, when the firm raked in a record $2.97 billion in revenue. It cratered to a mere $587 million the following year, thanks to Covid, but by 2022 it was back above the $2 billion mark, swelling to more than $2.7 billion in each of the last two years. This year, the company expects to top $3 billion in sales for the first time, which would mark an 8.5% uptick from last year.

And yet, despite sales being on track for a record year and earnings per share likely to trail only last year, the share price is more than 35% below its 2015 apex above 45 and about 30% below its pre-Covid, 2019 highs above 42. As we did with great success in both the airline industry and the cruise industry, I like finding sectors that were essentially wiped out during Covid, only to come roaring back to new heights due to pent-up demand.

CNK shares have turned south in a hurry, erasing all their post-earnings gains last month and dipping all the way near their March lows after a big drawdown Wednesday. It's unclear what's causing the pullback. It's possible the looming specter of Netflix buying out Warner Bros. (Paramount and Comcast are the other two bidders) is spooking investors, even though Netflix has insisted it will continue to release the film studio's movies in theaters and won't just put them on all its streaming service. But Cinemark's rival, AMC Entertainment, isn't seeing quite the same level of retreat in its shares, so I doubt the Netflix factor is the only reason CNK has fallen so sharply of late. What's particularly confounding is that movie theaters as a whole are coming off a spectacular Thanksgiving week, in which new releases *Wicked: For Good* and *Zootopia 2* both blew past $100 million at the domestic box office, and *Now You See Me 3* tacked on another $50 million. With more potential blockbusters forthcoming in December (the third Avatar movie, a SpongeBob SquarePants movie, etc.), movie theaters have a chance at their best year since before Covid. But CNK needs to find a bottom first before that starts to matter.

Let's downgrade the stock to Hold until it stabilizes. **MOVE FROM BUY TO HOLD**

J.M. Smucker (SJM) *makes a lot of products that have been in almost every American's pantry and pet food box for years: Smucker's jelly, Jif peanut butter, Folger's and Dunkin' coffee, Hostess cupcakes, "Donettes" and mini muffins, Meow Mix and Milk Bones. Those generational hand-me-downs are why this family-run (currently run by Mark Smucker) company is still thriving 128 years removed from its 1897 founding. The stock has been equally reliable since it came public in 1994 but just dipped to a five-year low in June – which spells opportunity.*



Despite finishing its 2025 fiscal year on a down note, Smucker's is growing just fine, posting record sales ($8.73 billion) last year. Analysts expect the company to achieve a new sales record in FY '26 ($8.98 billion) and to top the $9 billion mark in FY '27. Earnings per share have been all over the place but are expected to swell from $9.13 in FY '26 to $9.83 in FY '27. So, the company is growing about as well as it ever does … and yet shares are a third off of their 2023 highs.
SJM shares are off about 4% in the past couple weeks after earnings came in rather "meh." EPS of $2.10 was roughly in line with estimates and trailed last year's $2.76 mark, while sales of $2.33 billion narrowly topped estimates and rose about 2.5% from $2.27 billion last year. The company did say it no longer plans to raise coffee prices on its Folgers and Café Bustelo brands after President Trump rolled back coffee tariffs, which bodes well for the coming months. But by not doing so, the company downgraded full-year earnings guidance a tad, from a range $8.75 to $9.25 a share to $8.50 to $9.00. None of those results were terribly damning, but they weren't exactly inspiring. Still, trading at a mere 11.5x forward earnings and 1.25x sales, I like SJM's upside from here. It has 30% to go to reach our 130 price target. **BUY**

Shift4 Payments (FOUR) *bills itself as the leader in secure payment processing solutions. Its fintech offerings are available in more than 75 countries and process more than 5 billion annual transactions, using over 100 payment methods. Based in Allentown, Pennsylvania, Shift4 was founded in 1999 by a 16-year-old named Jared Isaacman in his parents' basement in New Jersey. Called United Bank Card at the time, it shortened the time it took for businesses to set up payment systems from a month to a day and offered free credit card readers – a rarity at the time. Today, after several rebrandings, Shift4 Payments (it took on the name of a payment gateway provider it acquired in 2017) processes payments for more than 200,000 businesses worldwide in the retail, hospitality, leisure and restaurant industries.*

The company came public in June 2020 – one of the few IPOs on U.S. exchanges in the months after the onset of the pandemic. After debuting at 23 per share, the stock more than quadrupled to 101 a share by the following April. Then, the bear market arrived in 2022, and FOUR retreated all the way back to the low 30s by the middle of that year. It has since recovered, rising to new heights above 125 this February. But the tariff scare in early April took shares all the way back to the low 70s. They've recovered slightly since, but not much, trading at 80 as of this writing.

But the company never stopped growing. What was a $766 million (in revenue) company in 2020 now does more than $3 billion in revenue and is well on its way to topping the $4 billion mark this year. While not growing revenues as fast as it did in 2021 (+81%) or 2022 (+43%), Shift4 is on track to top 28% revenue growth for a third straight year. Sales are expected to expand by another 26% this year. Meanwhile, the company is now steadily profitable, with EPS expected to grow another 40% this year and 24% next year. And yet, the stock trades at 11.3x forward earnings – the cheapest it's ever been aside from when it traded at the same valuation this April – and 1.7x sales, well below its 2.6x average P/S ratio.

Fintech has become an off-Broadway term, swallowed whole by the AI tidal wave. But the industry never stopped growing, even if it's not quite at the breakneck speed of a few years ago. And Shift4 is certainly one of the sector's leaders.

FOUR shares bounced back nicely, up 6% since we last wrote. They're now up roughly 4% since an encouraging earnings report in early November. EPS were in line with estimates at $1.47 but improved 41% from $1.04 a year ago. Revenues improved 61% year over year, while payment volume was up 25.7%. After a slow start for us in October, FOUR finally seems headed in the right direction. But it has a long way (55%) to go to reach our 110 price target. **BUY**

The next *Cabot Value Investor* issue will be published on January 2, 2026.

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