MARKET COMMENTARY MONDAY, MARCH 12, 2018

EXECUTIVE SUMMARY

Week #10 – Big Rebound as Pessimism Rises
40% Correction? – Perspective on the JPMorgan Co-President Call
Bull Market Birth – Many Say Nine Years Ago; We Say February 2016
History Lesson – North Korea Saber Rattling & Equity Returns
Econ Data – Terrific Jobs Report
Interest Rate Perspective – Rates Likely to Remain Low by Historical Standards; Treasury Yields More than Double & Stocks Enjoy Big Rally
Stock News – Updates on QCOM, INTC, DPSGY, AXAHY, MRVL, TGT, AEO & KR

Market Review

We again witnessed last week why Warren Buffett states that investors should be fearful when others are greedy and greedy when others are fearful. Indeed, with the ink barely dry on stories about how February was an awful and volatile month (believe it or not, the 3.9% drop in the S&P 500 was even worse in 161 of the 1081 months dating back to the late-1920s), the S&P 500 advanced 3.59% while the Russell 3000 index rebounded 3.63% during the five trading days just completed. Growth stocks again topped Value as the Russell 3000 Growth index jumped 3.99%, versus a 3.24% gain for the Russell 3000 Value index.

And the rally came despite (because of?) a big 10.9 percentage point drop to 26.4% in the number of Bulls in the latest weekly American Association of Individual Investors Sentiment Survey, the lowest level of optimism since August 31, 2017. Also, there was plenty of media attention provided to "perma-bears" like Ron Paul and David Stockman last week. Not surprisingly, many in the media chose to accentuate the negative, especially given that a "credible" naysayer was added to the mix, even as one of my favorite columnists at *The Wall Street Journal*, Spencer Jakab, provided more color on this fellow's "warning":

Any aspiring market pundit worth his or her salt grasps that predicting a market upheaval is a way to get attention. It is a moderate-risk, high-reward strategy since actually getting such a call right pays off handsomely.

It is rarer for an established figure, and especially one whose livelihood depends on public optimism about markets, to ring alarm bells. No wonder many observers took notice, then, that JP Morgan Chase's co-president Daniel Pinto predicted "a possible 40% correction" in stocks on Thursday according to a headline on Bloomberg News.

The story got plenty of attention, but the actual content of Mr. Pinto's interview was pretty hum-drum. He said a 20% to 40% drop is possible in the next two to three years. Given the fact that a bear market with an average decline of 35% has occurred on average every three-and-a-half years since the 1920s, his prediction is that typical market behavior could repeat itself.

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THE PRUDENT SPECULATOR
Volatility is Normal: Stocks Win the Race

Selloffs, downturns, pullbacks, corrections and even Bear Markets are events that equity investors always have had to endure on their way to the best long-term performance of any of the financial asset classes.

Advancing Markets

Minimum Rise %	Average Gain	Average # Days	Count	Frequency (in Years)	Last Start	Last End
20.0%	107.6%	907	26	3.5	3/9/2009	1/26/2018
17.5%	67.4%	579	37	2.4	10/3/2011	1/26/2018
15.0%	67.1%	562	43	2.1	10/3/2011	1/26/2018
12.5%	44.0%	331	70	1.3	2/11/2016	1/26/2018
10.0%	35.2%	249	103	0.9	2/11/2016	1/26/2018
7.5%	23.3%	146	153	0.6	2/8/2018	3/9/2018
5.0%	14.7%	72	295	0.3	2/8/2018	3/9/2018

Declining Markets

Minimum Decline %	Average Loss	Average # Days	Count	Frequency (in Years)	Last Start	Last End
-20.0%	-34.3%	371	25	3.5	1/6/2009	3/9/2009
-17.5%	-30.6%	225	36	2.5	4/29/2011	10/3/2011
-15.0%	-28.5%	195	42	2.1	4/29/2011	10/3/2011
-12.5%	-22.7%	140	69	1.3	5/21/2015	2/11/2016
-10.0%	-19.2%	102	103	0.9	1/26/2018	2/8/2018
-7.5%	-15.4%	65	152	0.6	1/26/2018	2/8/2018
-5.0%	-10.9%	37	294	0.4	1/26/2018	2/8/2018

From 02.20.28 through 3.9.18. 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: Al Frank using data from Bloomberg, Morningstar and Ibbotson Associates

LONG-TERM RETURNS

	Annualized Return	Standard Deviation
Value Stocks	13.4%	26.0%
Growth Stocks	9.4%	21.4%
Dividend Paying Stocks	10.6%	18.1%
Non-Dividend Paying Stocks	8.8%	29.6%
Long-Term Corporate Bonds	6.1%	7.5%
Long-Term Gov't Bonds	5.5%	8.5%
Intermediate Gov't Bonds	5.1%	4.4%
Treasury Bills	3.4%	0.9%
Inflation	3.0%	1.8%

From 06.30.27 through 12.31.17. Growth stocks = 50% small growth and 50% large growth returns rebalanced monthly. Value stocks = 50% small value and 50% large value returns rebalanced monthly. 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. 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: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

I think I received five different market summary emails that referenced Mr. Pinto's alarm, with all of them citing the "40% correction" superlatives. 'Twas ever thus, especially as the nine-year anniversary of the March 2009 Financial Crisis lows in the equity markets provided plenty of reason for editors to focus on fear, rather than on the terrific returns enjoyed by patient and disciplined investors over the long term.

Of course, most of the "Anniversary" articles were centered on the Bull Market being long in the tooth, as the supposed experts (who we sometimes think do not actually invest in individual stocks) continue to insist that the last Bear Market ended March 9, 2009, even as plenty of data suggest otherwise in regard to 2011…

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Market of Stocks — 2011 Bear Market

2011 Bear Market

Start	End	Perf	Instrument	Start	End	Perf	Instrument
4/29/2011	10/3/2011	-26.6%	Russell 3000 Average Stock	4/29/2011	10/3/2011	-28.8%	NASDAQ Composite Average Stock
2/28/2011	9/22/2011	-23.8%	Berkshire Hathaway	7/7/2011	10/3/2011	-18.6%	S&P 500 Consumer Discretionary
4/29/2011	10/3/2011	-22.2%	Buckingham Portfolio	4/29/2011	10/3/2011	-28.4%	S&P 500 Energy
4/29/2011	10/3/2011	-16.8%	Dow Jones Industrial Average	2/18/2011	10/3/2011	-34.3%	S&P 500 Financials
7/7/2011	10/3/2011	-19.5%	iShares Core US Growth ETF	7/7/2011	10/3/2011	-16.8%	S&P 500 Growth Index
4/29/2011	10/3/2011	-22.9%	iShares Core US Value ETF	5/18/2011	8/10/2011	-17.6%	S&P 500 Health Care
5/2/2011	10/4/2011	-28.5%	MSCI ACWI Excluding U.S.	4/29/2011	10/3/2011	-19.4%	S&P 500 Index
4/29/2011	10/3/2011	-18.7%	NASDAQ Composite Index	4/29/2011	10/3/2011	-26.8%	S&P 500 Industrials
7/7/2011	10/3/2011	-18.5%	Russell 1000 Growth Index	2/17/2011	8/19/2011	-18.5%	S&P 500 Information Technology
4/29/2011	10/3/2011	-20.3%	Russell 1000 Index	4/5/2011	10/3/2011	-29.4%	S&P 500 Materials
4/29/2011	10/3/2011	-22.3%	Russell 1000 Value Index	7/7/2011	10/3/2011	-22.4%	S&P 500 Pure Growth Index
4/29/2011	10/3/2011	-29.7%	Russell 2000 Growth Index	4/29/2011	10/3/2011	-25.2%	S&P 500 Pure Value Index
4/29/2011	10/3/2011	-29.6%	Russell 2000 Index	5/31/2011	8/8/2011	-15.5%	S&P 500 Telecommunication
4/29/2011	10/3/2011	-29.5%	Russell 2000 Value Index	5/17/2011	8/8/2011	-11.5%	S&P 500 Utilities
7/7/2011	10/3/2011	-19.4%	Russell 3000 Growth Index	4/29/2011	10/3/2011	-22.9%	S&P 500 Value Index
4/29/2011	10/3/2011	-21.1%	Russell 3000 Index	8/4/2009	12/27/2011	-37.6%	Shanghai Stock Exchange
4/29/2011	10/3/2011	-22.9%	Russell 3000 Value Index	4/29/2011	10/3/2011	-20.9%	Wilshire 5000

…and even 2015/2016.

THE PRUDENT SPECULATOR
Market of Stocks – 2015/2016 Bear

Last Bear Market Ended 2016

Start	End	Perf	Instrument	Start	End	Perf	Instrument
6/23/2015	2/11/2016	-23.6%	Russell 3000 Average Stock	7/20/2015	2/11/2016	-23.7%	NASDAQ Composite Average Stock
12/18/2014	1/25/2016	-18.4%	Berkshire Hathaway	11/25/2015	2/11/2016	-16.1%	S&P 500 Consumer Discretionary
8/29/2014	2/11/2016	-21.2%	Buckingham Portfolio	6/23/2014	1/20/2016	-47.3%	S&P 500 Energy
5/19/2015	2/11/2016	-14.5%	Dow Jones Industrial Average	7/22/2015	2/11/2016	-23.1%	S&P 500 Financials
7/20/2015	2/11/2016	-15.3%	iShares Core US Growth ETF	11/3/2015	2/11/2016	-13.6%	S&P 500 Growth Index
6/23/2015	2/11/2016	-18.2%	iShares Core US Value ETF	7/20/2015	2/11/2016	-17.9%	S&P 500 Health Care
7/3/2014	2/11/2016	-27.8%	MSCI ACWI Excluding U.S.	5/21/2015	2/11/2016	-14.2%	S&P 500 Index
7/20/2015	2/11/2016	-18.2%	NASDAQ Composite Index	2/20/2015	1/20/2016	-15.9%	S&P 500 Industrials
7/20/2015	2/11/2016	-14.5%	Russell 1000 Growth Index	12/4/2015	2/9/2016	-15.2%	S&P 500 Information Technology
5/21/2015	2/11/2016	-15.4%	Russell 1000 Index	2/24/2015	1/25/2016	-28.1%	S&P 500 Materials
12/29/2014	2/11/2016	-17.6%	Russell 1000 Value Index	3/20/2015	2/8/2016	-19.7%	S&P 500 Pure Growth Index
6/23/2015	2/11/2016	-29.1%	Russell 2000 Growth Index	2/17/2015	2/11/2016	-24.0%	S&P 500 Pure Value Index
6/23/2015	2/11/2016	-26.4%	Russell 2000 Index	4/23/2013	8/25/2015	-17.4%	S&P 500 Telecommunication
6/23/2015	2/11/2016	-23.6%	Russell 2000 Value Index	1/29/2015	9/4/2015	-17.9%	S&P 500 Utilities
7/20/2015	2/11/2016	-15.6%	Russell 3000 Growth Index	5/21/2015	2/11/2016	-16.5%	S&P 500 Value Index
6/23/2015	2/11/2016	-16.2%	Russell 3000 Index	6/12/2015	1/28/2016	-48.6%	Shanghai Stock Exchange
12/29/2014	2/11/2016	-18.0%	Russell 3000 Value Index	6/23/2015	2/11/2016	-17.1%	Wilshire 5000

While our constant attempts to educate journalists on the subject of the age of the Bull Market generally fall on deaf ears, we are pleased that arguably the country's brightest scribe, Mark Hulbert, sees it our way. Last week, in an article on recessions and Bear Markets, Mark wrote:

The two most recent bear markets on the Ned Davis calendar were each false positives: the one that lasted from April to October 2011 and the one that ran from May 2015 through February 2016. To be sure, some may not consider these two declines as genuine bear markets, since the Dow Jones Industrial Average and the S&P 500 didn't drop 20% based on their daily closing levels.

That may be splitting hairs, however. In the first of those markets, the S&P 500 did fall by more than 20% on an intraday basis. And the Russell 2000 index, a widely used proxy for the small-cap sector, dropped 25% in the 2011 bear market and 24% in the more recent one.

To be sure, while we might like to credit investor and media pessimism for last week's rally, the real reasons for the handsome move higher were a ratcheting back of President Trump's tough tariff talk, a surprise proposed meeting between the Commander in Chief and North Korean leader Kim Jong Un and, most importantly, a favorably received monthly employment report.

While there is no doubt plenty of drama still left to play out in regard to the first two issues,…

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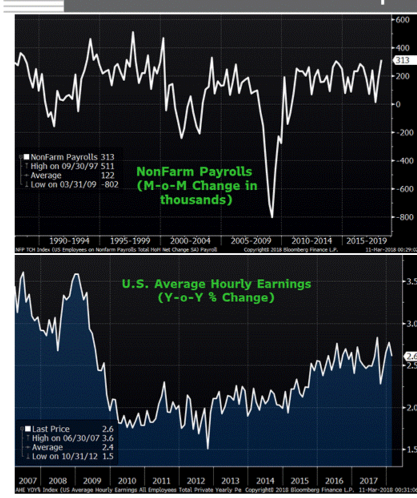
North Korean Saber Rattling

Disconcerting North Korean Events		Date	S&P 500 Value	6 Months Later	12 Months Later	36 Months Later	60 Months Later	Event thru Present
Korean War Begins	6/15/1950	Jun-50	18.93	2%	16%	25%	111%	14620%
Capture of USS Pueblo	1/15/1968	Jan-68	96.42	6%	5%	-4%	23%	2790%
Yongbyon Nuclear Reactor Goes Operational	6/30/1986	Jun-86	250.84	-3%	21%	27%	48%	1011%
Test-Fires Medium-Range Rodong Ballistic Missile	6/30/1993	Jun-93	450.53	4%	-1%	49%	152%	519%
Troops Enter the Demiliatarized Zone	4/15/1996	Apr-96	642.49	9%	17%	106%	84%	334%
Submarine Battle near Gangneung South Korea	9/15/1996	Sep-96	680.54	17%	35%	94%	61%	309%
Fires Multistage Long-Range Rocket Over Japan	8/15/1998	Aug-98	1,062.75	16%	25%	11%	-7%	162%
George W. Bush Labels North Korea an Axis of Evil	1/15/2002	Jan-02	1,146.19	-20%	-20%	3%	25%	143%
Yellow Sea Gun Battle with South Korea	6/15/2002	Jun-02	1,007.27	-12%	-2%	20%	52%	177%
Withdraws from the Nuclear Non-Proliferation Treaty	1/15/2003	Jan-03	918.22	9%	23%	40%	50%	203%
Admits that is has Nuclear Weapons for "Self Defense"	2/15/2005	Feb-05	1,210.12	2%	6%	12%	-11%	130%
Fires 7 Missiles, Including Long-Range Taepodong-2	7/15/2006	Jul-06	1,236.20	16%	26%	-25%	6%	125%
First Nuclear Weapons Test at Underground Facility	10/15/2006	Oct-06	1,365.62	6%	13%	-20%	-10%	104%
Scraps All Military and Political Deals with South Korea	1/15/2009	Jan-09	843.74	11%	35%	53%	119%	230%
Sinks South Korean Warship Cheonan	1/15/2010	Mar-10	1,136.03	-3%	14%	30%	75%	145%
Claims it has Missiles that Can Hit the U.S. Mainland	10/15/2012	Oct-12	1,440.13	8%	18%	41%	77%	93%
Fires Two Medium-Range Rodong Ballistic Missiles	3/15/2014	Mar-14	1,841.13	8%	12%	30%		51%
Announces First Hydrogen Bomb Test	1/15/2016	Jan-16	1,880.33	15%	21%			48%
Kim Jong-Un's Half Brother Murdered in Malaysia	2/15/2017	Feb-17	2,349.25	5%	16%			19%
North Korean threat to fire ballistic missiles near Guam	8/8/2017	Aug-17	2,473.92	4%				13%
Price Changes Only - Does Not Include Dividends			**Averages:**	**5%**	**15%**	**29%**	**53%**	**1061%**

As of 3.9.18. Source: Al Frank using Bloomberg and BBC.com

…we see no reason to alter our enthusiasm for the multi-year prospects of our broadly diversified portfolios of undervalued stocks, especially as the jobs report was stronger than expected in terms of what it suggests about domestic economic growth and weaker-than-expected in terms of concerns about inflation.

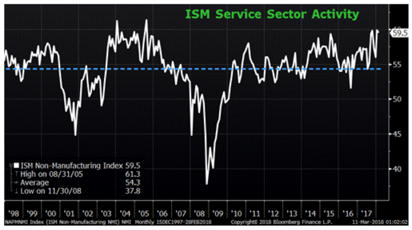
THE PRUDENT SPECULATOR
Goldilocks Employment Situation

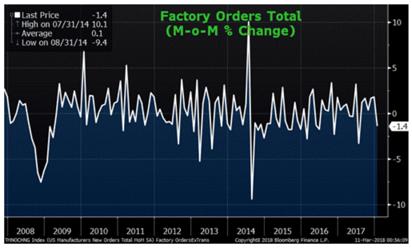


The Labor Department said that the unemployment rate remained at a 17-year low of 4.1% in February, even as a better-than-expected 313,000 new jobs were created, the best monthly tally since July 2016. Meanwhile, helping to alleviate worries about higher inflation, wages rose 2.6% on a year-over-year basis, down from the 2.8% increase in January that caused plenty of bond and equity market consternation last month.

That does not mean that an “all-clear” sign has been given as other economic statistics have been mixed…

THE PRUDENT SPECULATOR
Good and Not-So-Good Stats





The Institute or Supply Management's gauge of activity in the service sector for February came in at a robust 59.5, down a tad from the 59.9 posted in January, even as the tally was better-than-expected. On the other hand, Uncle Sam said that factory orders fell a weaker-than-expected 1.4% in January, while orders excluding volatile transportation equipment also dipped 0.3%, reversing gains seen in the prior two months.

…but economic conditions would seemingly support a favorable outlook for corporate profit growth, with the Tax Cuts and Jobs Act obviously helping,…

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Significant EPS Growth Estimated

S&P 500 Earnings Per Share

Quanter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2019	$46.23	$172.49
9/30/2019	$44.23	$168.15
6/30/2019	$42.41	$164.09
3/31/2019	$39.62	$160.24
12/31/2018	$41.89	$156.43
9/30/2018	$40.17	$148.52
6/30/2018	$38.56	$139.68
3/31/2018	$35.81	$131.63
12/31/2017	$33.98	$124.64
ACTUAL		
9/30/2017	$31.33	$118.56
6/30/2017	$30.51	$115.92
3/31/2017	$28.82	$111.11
12/31/2016	$27.90	$106.26
9/30/2016	$28.69	$101.42
6/30/2016	$25.70	$98.17
3/31/2016	$23.97	$98.61
12/31/2015	$23.06	$100.45
9/30/2015	$25.44	$104.14
6/30/2015	$26.14	$108.30
3/31/2015	$25.81	$111.50
12/31/2014	$26.75	$113.01

Source: Standard & Poor's. As of 3.8.18

History shows that stock prices generally have followed earnings, so it is nice to see actual and projected EPS moving up, even as earnings forecasts often turn out to be too optimistic. Happily, the number of companies exceeding expectations in 2017 was nicely better than the average earnings-beat rate over the prior 5 years.

S&P 500 Quarterly Earnings Comparisons

	BEAT	MISSED	MET		BEAT	MISSED	MET
Q4 2017	73.4%	18.3%	8.3%	Q1 2015	67.7%	22.9%	9.4%
Q3 2017	72.4%	19.3%	8.2%	Q4 2014	68.6%	21.0%	10.4%
Q2 2017	70.2%	20.1%	9.7%	Q3 2014	73.7%	17.2%	9.0%
Q1 2017	74.0%	18.9%	7.2%	Q2 2014	65.7%	21.2%	13.0%
Q4 2016	67.3%	22.0%	10.8%	Q1 2014	67.1%	22.6%	10.2%
Q3 2016	70.5%	21.1%	8.4%	Q4 2013	63.9%	25.3%	10.8%
Q2 2016	70.2%	20.9%	8.9%	Q3 2013	66.1%	23.2%	10.6%
Q1 2016	72.3%	20.6%	7.0%	Q2 2013	65.4%	26.8%	7.8%
Q4 2015	68.8%	21.6%	9.7%	Q1 2013	65.9%	25.9%	8.2%
Q3 2015	67.9%	23.0%	9.0%	Q4 2012	64.8%	24.8%	10.4%
Q2 2015	69.8%	22.0%	8.3%	AVERAGE	68.8%	21.8%	9.3%

Source: Standard & Poor's and Bloomberg

…and the Federal Reserve remaining of the mind that "economic conditions will evolve in a manner that will warrant further gradual increases in the federal funds rate."

THE PRUDENT SPECULATOR
Futures: Two, Three of Four Hikes in 2018

99) Export Data — World Interest Rate Probability
United States — Instrument: Futures: Fed Funds - Midpoint — Fed Effective Rate 1.42
1) Overview — 2) Future Implied Probability
Current Implied Probabilities — 3) Add/Remove Rates
Dates: Meeting / Calculation — Calculated 03/09/2018 — Based on rate 1.25-1.50

Meeting	Hike Prob	Cut Prob	1.5-1.75	1.75-2	2-2.25	2.25-2.5	2.5-2.75	2.75-3	3-3.25
03/21/2018	100.0%	0.0%	86.0%	14.0%	0.0%	0.0%	0.0%	0.0%	0.0%
05/02/2018	100.0%	0.0%	82.3%	17.1%	0.6%	0.0%	0.0%	0.0%	0.0%
06/13/2018	100.0%	0.0%	21.6%	65.2%	12.7%	0.4%	0.0%	0.0%	0.0%
08/01/2018	100.0%	0.0%	18.9%	59.8%	19.2%	2.0%	0.1%	0.0%	0.0%
09/26/2018	100.0%	0.0%	8.4%	37.1%	41.8%	11.6%	1.1%	0.0%	0.0%
11/08/2018	100.0%	0.0%	7.3%	33.2%	41.1%	15.7%	2.5%	0.2%	0.0%
12/19/2018	100.0%	0.0%	4.3%	22.7%	37.9%	26.0%	7.9%	1.1%	0.1%
01/30/2019	100.0%	0.0%	4.0%	21.2%	36.7%	26.9%	9.3%	1.7%	0.2%

99) Export Data — World Interest Rate Probability
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Meeting	Hike Prob	Cut Prob	1.5-1.75	1.75-2	2-2.25	2.25-2.5	2.5-2.75	2.75-3	3-3.25
03/21/2018	100.0%	0.0%	90.0%	10.0%	0.0%	0.0%	0.0%	0.0%	0.0%
05/02/2018	100.0%	0.0%	86.2%	13.4%	0.4%	0.0%	0.0%	0.0%	0.0%
06/13/2018	100.0%	0.0%	20.9%	68.5%	10.3%	0.3%	0.0%	0.0%	0.0%
08/01/2018	100.0%	0.0%	19.2%	64.6%	15.1%	1.1%	0.0%	0.0%	0.0%
09/26/2018	100.0%	0.0%	7.7%	37.5%	44.6%	9.5%	0.7%	0.0%	0.0%
11/08/2018	100.0%	0.0%	6.9%	34.2%	43.9%	13.3%	1.7%	0.1%	0.0%
12/19/2018	100.0%	0.0%	4.3%	24.1%	40.3%	24.6%	6.0%	0.7%	0.0%
01/30/2019	100.0%	0.0%	4.0%	22.5%	39.0%	25.9%	7.5%	1.1%	0.1%

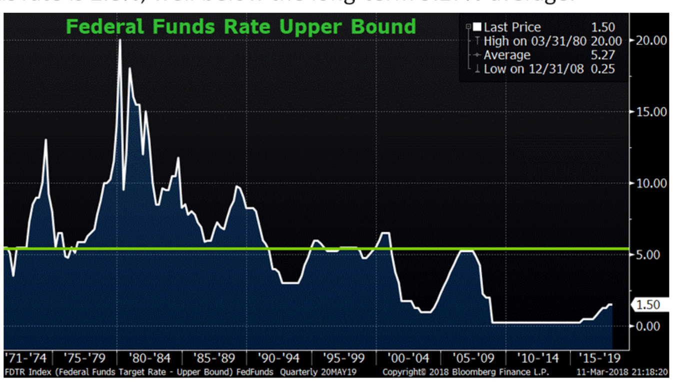
Source: Bloomberg

Despite less-worrisome growth in wages, the healthy February jobs numbers have the futures suggesting a 35.1% chance of four or more rate hikes this year, up from 31.3% a week ago.

Certainly, we understand that many have great consternation about higher interest rates, but as the Fed's last official statement concluded, "The federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run,"…

THE PRUDENT SPECULATOR
Lots Of Hikes Needed To Reach "Normal"

Folks should not be too worried about additional interest rate hikes, given that the Fed presently projects that the long-run target for the Fed Funds rate is 2.8%, well below the long-term 5.27% average.



…and plenty of historical evidence suggests that stocks have performed just fine during periods of rising bond yields.

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THE PRUDENT SPECULATOR
Rising Interest Rates are Bad for Stocks?

Stocks ran into turbulence as the yield on the 10-Year U.S. Treasury neared 3%, but the S&P 500 has still soared from 2130 on July 8, 2016, despite a more-than-doubling over the same period in the benchmark bond yield from its record low level of 1.36%.

Stock Updates

Chris Quigley and Jason Clark take a look at eight companies in the news last week…

The (proverbial) ink on last week's Market Commentary was barely dry before more **Qualcomm** (QCOM – $63.03)/Broadcom news hit the wires. Late Sunday night, a rarely discussed U.S. government regulator called the Committee on Foreign Investment in the United States (CFIUS) ordered Qualcomm to delay its March 6 shareholder meeting. The U.S. Treasury Department said via press release, "The Committee on Foreign Investment in the United States (CFIUS) issued an interim order to Qualcomm directing it to postpone its annual stockholders meeting and election of directors by 30 days. This measure will afford CFIUS the ability to investigate fully Broadcom's proposed acquisition of Qualcomm." The committee will review whether or not the Broadcom deal should be blocked on U.S. national security grounds.

Of the CFIUS, *The Economist* said, "CFIUS has considerable power. It is chaired by the treasury secretary, and its members include the secretaries of defence and of homeland security. It can block deals or insist on remedies to mitigate national-security risks; in rare cases it passes decisions on to the president. It has tended in the past to block only a small number of deals but many worry this could change under President Donald Trump. In January the committee blocked the acquisition of Moneygram, an American money-transfer firm, by Ant Financial, an online-payments affiliate of Alibaba, a Chinese e-commerce giant. At its recommendation, Mr. Trump blocked the takeover of Lattice Semiconductor by a consortium of Chinese investors in 2017. (Concerns about Chinese acquisitions are not new: in 2016, Barack Obama blocked the takeover of the American unit of a German robotics firm, Aixtron, by a Chinese firm.)"

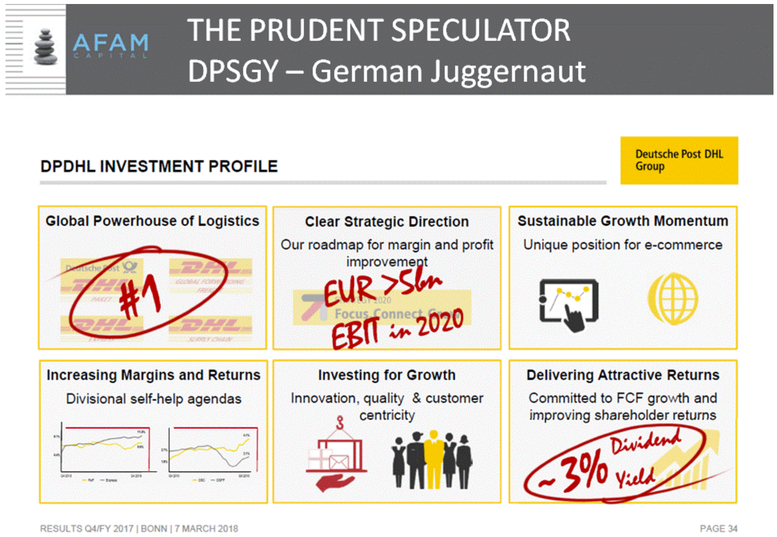
In response, Broadcom pledged to continue to invest in 5G technology and "ensure that America's lead in future wireless technology" will be preserved. While we trust management to continue to invest, we would expect them to only invest where it's most profitable. It's true that Broadcom's headquarters is expected to move by May from Singapore to the U.S., but we think that even a major move might not be enough to assuage regulators who care less about shareholders and more about this country. With the NXP Semiconductor acquisition on track and Broadcom's advances currently on hold, we certainly have plenty to watch in the upcoming weeks. We think that Broadcom's $79/$82 per share offer is not sufficient, and it was nice to see QCOM boost its dividend last week to an annual rate of $2.48, but we would be very pleased with the $90 or so Qualcomm thinks it deserves (assuming that national security interests are not harmed).

And after the market close on Friday, giant chipmaker **Intel** (INTC – $52.19) indicated that it could be interested in acquiring Broadcom should it complete a QCOM acquisition. Such a purchase would be enormous, given that the current market cap of Broadcom is $104 billion, while Qualcomm weighs in at $93 billion and NXP at $43 billion, but Intel appears to have plenty to fear competition-wise from a combined Broadcom/Qualcomm/NXP. Hard to believe that the antitrust folks would let such a union occur, but it will be very interesting to see how the drama plays out. For now, our Target Price for INTC is $57.

German mail and package carrier **Deutsche Post AG** (DPSGY – $45.82) earned $0.75 per share in Q4 2017 (vs. $0.94 est.). DPSGY had sales of $19.0 billion (vs. $20.2 billion est.). Shares climbed 1% following the announcement, despite the seemingly disappointing results.

CEO Frank Appel said, "Looking forward, we are well-positioned in all divisions to capture the potential of e-commerce. We still can improve our margins, particularly in DGFF (Global Forwarding and Freight Division) as we believe and, of course, to support that, we will continue to invest. We also proposed today increase by €0.10 of our dividend to €1.15. And we are now committed to deliver more than €5 billion (roughly 6.2 billion USD at current rates) EBIT by 2020."

Mr. Appel continued, "Parcel revenue and volume, very well development as well, top line growth and volume growth. In 2017, if we look into our preliminary assessment of the market, has not been different and we believe we gained another time market share in Germany. So the reason is because we have the broadest portfolio of services, we have the best product overall, we have invested in our sorting capacity, and the result is that we've continued to grow above market. Our investments in Parcel Europe and eCommerce are getting traction and that there is a flow that operations are going first into the negatives of course. We can't walk on water either, but after a certain time period, the countries are turning into the black numbers. And we see already the first countries which are in a range between 5% and 8% return on sales with pretty healthy margins and we believe other countries will follow. So while our footprint has enlarged in Europe now to 26 countries, we also continue to invest into the eCommerce, the outside Europe activities, not only in delivery, but also in fulfillment. And we have no doubt that we will see more successes in these parts of the world as well."



We believe that DPSGY (which sports a net yield of 2.5%, before the proposed increase) can benefit from the Amazon style online shopping that hasn't taken over Europe yet, as well as its leading position in more profitable European express and parcel mail (most other carriers haven't diversified yet in Europe). While online shopping might not reach the level it has in the U.S., primarily because of different consumer behavior, a global marketplace of goods available at the click of a button is incredibly enticing. Our Target Price for DPSGY now stands at $60.

Financial services giant **AXA SA** (AXAHY – $27.72) announced plans to buy insurer XL Group for $15.3 billion. AXA estimates that the all-cash transaction will generate a return on equity above 10%. AXA will finance using €3.5 billion of cash at hand, €6 billion from the planned IPO of its U.S. life and annuity business and related transactions and €3 billion of subordinated debt.

AXA CEO Thomas Buberl said, "For AXA, it's a compelling opportunity because we can create the number one P&C commercial line insurer in the world with a strong presence, in particular, in the U.S. where we were hardly present with the P&C business. We are getting a very strong underwriting franchise, and when you think about XL, it is not a franchise that is only in one line of business. They are in 40 lines of business, very specialized, and a very good underwriting expertise. It is a perfect fit with AXA's strategy."

Mr. Buberl continued, "In terms of the financing and the timing, We want to acquire XL Group 100% in cash. The transaction for us is very important and very valuable because it has a 10 – 11 times P/E, cost synergies, and the financing will happen through a combination of cash in hand, the U.S. IPO and some sub debt. So a capital increase is excluded."

Mr. Buberl concluded, "The more you want to lose in insurance, the more you will lose. It's a question of your risk appetite. And I can clearly tell you I, we, will be running that business with a very different risk appetite, i.e. a smaller risk appetite than XL has done it. When you look at the combination of insurance and reinsurance, about 70% insurance, about 30% reinsurance. I want to stress again, extremely diversified. They are not in the commodity business of large programs. They are not in the business of just being follower. More than 50% of their accounts, they are leader. They are cashing in fees."

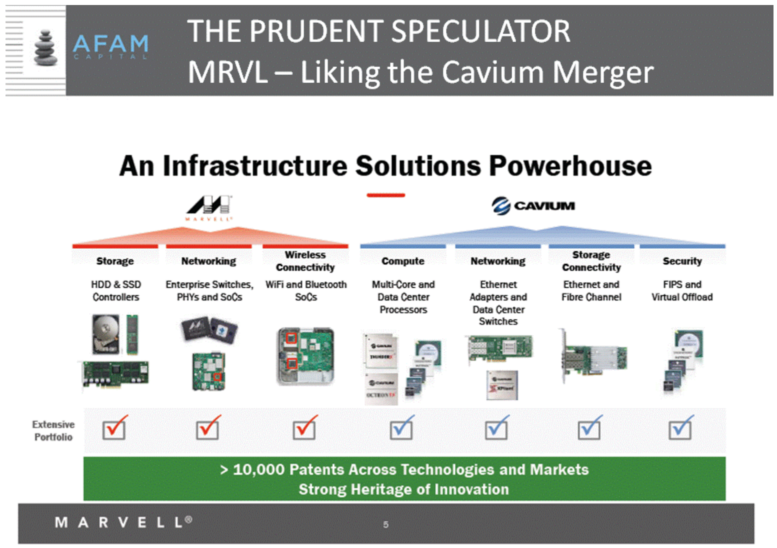
With management expecting $2 billion of synergies and a strong post-transaction balance sheet given that they are getting a first-class insurer with XL, we think that this is a solid deal, although we might argue that AXA didn't buy a dollar bill for fifty cents (AXA paid about a third above XL's uninfluenced closing price, which is on top of XL's surge since January). We like that that XL is a leader in multiple business segments and has revenue diversification. Plus, bolting on XL's higher growth trajectory gives the combined company a stronger long-term outlook in our view. After the transaction closes and gains necessary regulatory approvals, the targeted dividend payout ratio will be between 45% and 55%.

All that said, we understand that investors were hoping for a big share buyback with the proceeds of the U.S. IPO, while XL did suffer losses in 2017 due to a larger number and greater severity of natural disasters around the world. As such, we have decided to trim our Target Price for AXAHY to $44, though we note that the stock remains very undervalued, trading for 10.2 times trailing-12-month earnings and yielding a net 3.7%.

Semiconductor firm **Marvell Technology Group** (MRVL – $24.34) earned $0.32 per share in fiscal Q4 2018 (vs. $0.31 est.). MRVL had revenue of $615.0 million, versus the $611.0 million estimate. Shares were volatile following the announcement, climbing as high as $25.18, trading as low as $23.85 and closing essentially flat on the day. Of course, they have risen nearly 14% year to date and are up more than 50% over the last 12 months.

CEO Matt Murphy commented, "Since I joined Marvell 19 months ago, we have increased our focus on our three core markets: storage, networking and connectivity. We've also added greater discipline into our product development process, retooled and reinvested in our sales force and go-to-market strategies and continued to drive efficiencies in our new business model. Our fiscal 2018 results clearly show that these actions are paying off. Fiscal 2018 year-over-year revenue from our core businesses grew 7%. A year ago our stated goal was to grow faster than our core end-markets, which at that time were estimated to grow 6%. I'm proud to report that we exceeded that goal. I'm also pleased that this growth was broad-based with storage growing 8%, networking growing 1% and connectivity growing 14%. It is worth noting that our networking business excluding legacy grew 7%."

Mr. Murphy continued, "I want to give a quick update on the Cavium acquisition. Since announcing the Marvell-Cavium transaction on November 20, both companies have been actively working on integration planning. We've launched an integration team comprised of representatives from both companies, set up a steering team to ensure strong governance, implemented a robust project management process and kept employees at both companies updated on our progress. Regulatory approval is progressing, with the HSR antitrust process complete and MOFCOM and CFIUS reviews underway. Shareholder meetings for both companies are scheduled for March 16. We continue to anticipate this transaction will close in mid-calendar 2018. Our planning progress to-date has been laser-focused on developing detailed plans on synergies, both COGS and OpEx. I'm extremely confident we can achieve our previously-announced synergy targets of $150 million to $175 million within 18 months of closing and $200 million beyond 18 months."



While the Cavium acquisition requires MRVL to take on about $1.75 billion of debt, we think that the balance sheet hit is justified, given the diversification that the maker of highly integrated multi-core SoC products offers. With the synergies and Marvell firing on all cylinders, we are glad we kept the faith as Marvel worked through its accounting challenges. Shares have more than tripled from the $7.77 per share low in 2016. Our Target Price has been bumped up to $28.

Target (TGT – $70.49) saw its shares fall more than 6% last week as investors digested the general merchandise discount store chain's latest quarterly financial release that included a softer outlook than some were expecting. For the previous quarter, TGT reported adjusted earnings per share of $1.37, in line with consensus analyst estimates. Revenue for the three months came in at $22.77 billion, versus forecasts that were calling for $22.52 billion. We liked that the company realized 3.6% same store sales growth. While online sales growth dipped to 29% in the quarter, TGT enjoyed digital sales growth of 34% during the full year.

"Our fourth quarter results demonstrate the power of the significant investments we've made in our team and our business throughout 2017. Our team's outstanding execution of Target's strategic initiatives during the year delivered strong fourth quarter traffic growth in our stores and digital channels, which drove healthy comparable sales in every one of our five core merchandise categories," said Target CEO Brian Cornell. "At our Financial Community Meeting later this morning, we will outline our plans to continue investing in our team and make 2018 a year of acceleration in the areas that set Target apart- our stores, exclusive brands, and rapidly-growing suite of fulfillment options. While we have a lot left to accomplish, our progress in 2017 gives us confidence that we are making the right long-term investments to best position Target for profitable growth in a rapidly changing consumer and retail environment."

For Q1, Target said it expects a low-single digit increase in comparable sales, and adjusted EPS of $1.25 to $1.45. For full-year 2018, Target expects a low-single digit increase in comparable sales, and both GAAP EPS from continuing operations and adjusted EPS of $5.15 to $5.45.

The retailer returned $591 million to shareholders in the quarter via share repurchases and dividends, and that figure reached $2.4 billion for full-year 2017. Target still has $3.7 billion remaining on its currently authorized share repurchase program. While we expect there to be no shortage of competitive headwinds in the coming year, we think that Target's strong balance sheet and large investments in its multi-channel sales network should help solidify its foundation for the future. TGT shares trade for 13.4 times forward earnings and offer a dividend yield of 3.5%. Our Target Price now stands at $85.

Shares of **American Eagle Outfitters** (AEO – $19.54) fell more than 9% on Thursday after reporting Q4 results following the close on Wednesday that were largely in line with expectations. While some were not impressed with the apparel retailer's results nor its outlook, we thought AEO turned in a solid quarter and are constructive on the actions that have been taking to improve operations and the overall direction the firm is heading. Needless to say, we were pleased to see shares bounce back almost 5% on Friday.

For fiscal Q4, AEO announced that it had $0.44 of adjusted earnings per share on revenue of $1.23 billion. CEO Jay Schottenstein, commented, "I'm pleased that we ended 2017 with a strong quarter, achieving record sales and an EPS increase over last year. In the fourth quarter we saw an acceleration in sales, continued sequential margin improvement and EPS growth that was on the high end of our guidance. The digital business continued its exceptional growth, rising over 20% in the quarter, and we were encouraged with improved brick and mortar trends, delivering positive sales comps in both American Eagle and Aerie stores."

As the calendar turns, Mr. Schottenstein added, "Looking ahead to 2018, our brands are well-positioned for growth. American Eagle is a true leader in specialty apparel, with one of the strongest jeans brands in the market, and Aerie is one of the fastest growing lifestyle brands. We started the spring season with positive momentum, positioning us well for strong results in 2018. The dividend increase we announced today reflects confidence in our business, strong free cash flow and our continued commitment to delivering returns to shareholders."

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AEO – Lots of Cash on the Balance Sheet

Balance Sheet Summary
(unaudited)

($ in thousands)	February 3, 2018	January 28, 2017
ASSETS		
Cash and cash equivalents	$ 413,613	$ 378,613
Merchandise inventory	398,213	358,446
Total other current assets	156,704	164,170
Total current assets	968,530	901,229
Property and equipment, net	724,239	707,797
Intangible assets, net	46,666	49,373
Total other long-term assets	76,878	124,261
Total Assets	$ **1,816,313**	$ **1,782,660**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 236,703	$ 246,204
Total other current liabilities	248,518	247,579
Total current liabilities	485,221	493,783
Total non-current liabilities	84,301	84,308
Total stockholders' equity	1,246,791	1,204,569
Total Liabilities and Stockholders' Equity	$ **1,816,313**	$ **1,782,660**
Total Cash and Cash Equivalents	$ 413,613	$ 378,613
Total Working Capital	$ 483,309	$ 407,446
Current Ratio	2.00	1.83
Trailing Twelve Month ROIC (1)	16.7%	18.8%

(1)- Trailing twelve month return on invested capital is calculated as the total trailing twelve month reported GAAP net income divided by the straight average of the beginning and ending stockholders' equity balances from the consolidated balance sheets.

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AEO

The company said that as a result of its solid free cash flow generation, strong cash position and the benefits gained from recent tax law changes, it raised its quarterly dividend 10%, to $0.1375 per share, pushing the yield to 2.8%. While the retail environment continues to rapidly change and fashion trends are always very fickle, we continue to like that the AEO balance sheet carries no long-term debt (though there are lease obligations) and that its investment in its online sales presence is paying off. We continue to believe that the company is doing the right things to drive traffic and remain popular and relevant with younger consumers, always a tough demographic. AEO currently trades for less than 14 times forward earnings estimates and we have inched up our Target price to $23.

Despite a sizable bounce back on Friday, shares of **Kroger** (KR – $24.08) fell about 12% last week as investors discarded the stock following the grocer's most recent quarterly financial release. While Kroger reported revenue and adjusted earnings that were both slightly ahead of consensus estimates for Q4 ($31 billion and $0.63, respectively), investors were seemingly disappointed by the company's forward guidance, margin compression and the unmet desire for an increase to share buybacks and dividend payouts.

CEO Rodney McMullen commented on the quarter, "We launched Restock Kroger in the fall of 2017 and finished the year with positive momentum in our sales and overall business. Customers are letting us know that they see, feel and appreciate our efforts to redefine the customer experience – and they are rewarding us with growing loyalty. This is the cycle that creates long-term value for shareholders…The Tax Cuts and Jobs Act is a catalyst that is enabling us to accelerate investments in Restock Kroger. We are taking a balanced approach to ensure tax reform benefits our associates, customers and shareholders. What we've previously said is that sharing the benefits with our associates and customers will create a more sustainable and stronger business model for the future. This balanced approach is also consistent with our values and Kroger's purpose, to Feed the Human Spirit….As we embark on our first full year of Restock Kroger, we are encouraged at the start of 2018 and confident in our ability to deliver on both our plan for the year and our long-term vision to serve America through food inspiration and uplift."

Management said its financial strategy is to use its free cash flow to drive growth while also maintaining its current investment grade debt rating and returning capital to shareholders. During calendar 2017, KR contributed an incremental $1.2 billion pre-tax to company-sponsored pension plans, repurchased 61 million common shares, paid $444 million in dividends and spent $3 billion on capital investments. Kroger said its net total debt to adjusted EBITDA ratio increased to 2.65, on a 52-week basis, and the company updated its target range to 2.30 to 2.50, but management still expects to use proceeds from the sale of its convenience stores to buy back stock, in addition to paying down debt. The company expects net earnings to range from $1.95 to $2.15 per diluted share for 2018, with a tax rate of 22%.

CFO Mike Scholtman told CNBC that Kroger's use of the money it will save from cuts to the corporate tax rate likely concerned some investors. Mr. Scholtman said the company would realize a benefit of about $400 million, but noted that analysts must not have been listening as the company has been saying for some time that it would take a balanced approach to using the savings between investors, workers and business investments. "I know there are some analysts out there that put way more than that in their initial estimates for our next fiscal year, and I'm sure that's causing a little bit of consternation as they look at the numbers," he stated.

Kroger will use some of the money to speed up its Restock Kroger plans that involved items such as investing in optimizing use of its store space. "Some of what we're going to do in 2018 is take advantage of the fact we have this bottom line benefit from the tax savings and actually accelerate some of those plans. We aren't increasing our investments in some of those categories over the three years, we're merely moving them into 2018. It's going to be offset by lower taxes and allow us to start enjoying the benefits of those investments a little faster," concluded Mr. Scholtman.

While there is little doubt that competitive headwinds will continue to blow briskly as Kroger battles the likes of Amazon/Whole Foods, Walmart, Target, Aldi and numerous other grocers, we like the strides the company has been making and its focus on online services and investments designed to engage its customers on inventory and store offerings. We think the sell off last week was overdone and note that KR shares are now trading at 11.5 times NTM adjusted earnings expectations and have a dividend yield of 2.1%. We have adjusted our Target Price on KR down a buck to $35.